Sales and Distribution Management

MBA Mark.- 403

DIRECTORATE OF DISTANCE EDUCATION

SWAMI VIVEKANAND
SUBHARTI UNIVERSITY
Meerut (National Capital Region Delhi)

Contents

SYLLABUS

SALES AND DISTRIBUTION MANAGEMENT

Course Code: MBA MK 304		
Course Credit: 03	**Lecture: 03**	
Course Type:	**Discipline Elective**	
Lectures delivered:	**30**	

End Semester Examination System

Maximum Marks Allotted	Minimum Pass Marks	Time Allowed
70	**28**	**3 Hours**

Continuous Comprehensive Assessment (CCA) Pattern

Tests	Assignment/ Tutorial/ Presentation/class test	Attendance	Total
15	**5**	**10**	**30**

Course Objective: To develop understanding and appreciation of the Sales & Distribution processes in organizations. The course includes the familiarization of concepts, approaches and the practical aspects of the key decision making variables in sales force and distribution channel management.

UNIT	Course Content	Hours
I	Introduction: Selling as a Part of Marketing, Sales Management Process, Role of Sales Manager, Concept of Personal Selling, Sales Management and Salesmanship, The Ones of Personal Selling, Process of Personal Selling, Qualities of a Successful Salesman. Goals in Sales Management: Goal Setting Process in Sales Management, Analyzing Market Demand and Sales Potential, Techniques of Sales Forecasting, Preparation of Sales Budget, Formulating Selling Strategies, Designing Sales Territories and Sales Quota.	4
II	Sales Force Management: Organising the Sales Force, Designing the Structure and Size of Sales Force, Recruitment and Selection of Sales Force, Leading and Motivating the Sales Force, Training and Compensating the Sales Force, Sales Contests, Evaluation and Analysis.	8
III	Introduction to Distribution Management: Concept of Distribution Channel, Importance of a Channel, Reverse Distribution, Types of Channels, Primary Distributors, Specialized Distributors and Participants, Distributors: Policies and Strategies.	6
IV	Channel Management: Forces of Distributing Systems, Distributors Selection and Appointment, Channel Conflicts and their Resolutions, Training the Distributors Sales Team.	8
V	Emerging of marketing channels-An overview in context of 21st Century: Distribution Services for online marketing, Logistics and Supply Chain Management for Online Retailing. Distribution in Freight, Courier and Postal services: Spoke and Hub Distribution paradigm, Distribution in FMCG sector, Distribution in Apparel Industry, Confectionary Distribution. Global Distribution and channel management.	6

Text and Reference Books

1. Marketing Channels by Louis W. Stern, Adel I. El-Ansary & Anne T. Coughlan (to be given as text book).
2. Marketing Channel Management by Pingali & Venugopal.
3. Sales Management by Richard R. Still, Edward W. Cundiff & Norman A.P. Govoni.
4. Sales and Distribution Management: An Indian Perspective, Pingali & Venugopal, SAGE Publications, 2008
5. Field Sales Management – Principles & Practices by S.Ramachandran, Allied Publications
6. Marketing & Sales Management by Acharya & Govekar – HPH (1985 Edition)
7. Sales Management Decisions, Strategies and Cases, 5th edition by Still, Richard R et al. Prentice-Hall, India
8. Sales and Distribution Management–Text & Cases by Havaldar and Cavale Tata McGraw-Hill, 2007.
9. Confectionery sales and distribution, United States. Business and Defense Services Administration. Food Industries Division.

UNIT-1

INTRODUCTION TO SALE MANAGEMENT

Notes

(Structure)

1.1 Learning Objectives
1.2 Introduction
1.3 Sales Management
1.4 Functional Elements
1.5 Sales Management Operations
1.6 Sales Management Cycle
1.7 Strategic Sales Management
1.8 Sales Professionals
1.9 Sales Plan and Promotion
1.10 Customer Relationship Management (CRM)
1.11 Principles of Sales Organization
1.12 Developing a Sales Organization
1.13 Sales Organization Design
1.14 Sales Organization Structure
1.15 Line Sales Organization Structure
1.16 Line and Staff Sales Organization Structure
1.17 Functional Sales Organization Structure
1.18 Geographic Sales Organization
1.19 Product Sales Organization
1.20 Customer Sales Organization Structure
1.21 Committee Sales Organization
1.22 Combination or Hybrid Sales Organization
1.23 New Forms of Sales Organization
1.24 Key Account Planning
1.25 Conceptual Framework
1.26 Hurdles for Personal Selling
1.27 Types of Personal Selling
1.28 Personal Selling Process
1.29 Professional Selling over last 100 years
1.30 Changing Patterns in Personal Selling
1.31 Sales Planning - Conceptual Framework
1.32 Sales Budgeting
1.33 Preparing Sales Budget
1.34 Sales Budget Implementation and Feedback

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1.1 Learning Objectives

After studying the chapter, students will be able to:

- Identify the relationship between the functions of marketing and sales;
- Describe Customer Relationship Management;
- Explain the need for sales organization;
- Know the newer forms of organizations;
- Understand the types and barriers to sales planning;
- Describe various budget-setting methods;
- Learn the methods of setting Sales Volume Quotas;
- Understand Sales Control and Analysis.

1.2 Introduction

"Everyone lives by selling something". This statement is just as true today as when Robert Louis Stevenson said it over 100 years ago. Personal selling occurs in nearly each and every human interaction. It is involved when a student buys a Hero Motor Cycle; a store sells a dress to a woman, a preacher talks to a group of students to encourage them to attend church services, and also when a political leader addresses a rally before elections. Personal Selling is an ancient art, which has spawned a large literature and many principles. Selling today is a profession that involves mastering and using a whole set of principles and techniques. In the absence of personal selling, organisations will find it difficult to dispose off their products and services. It is the most important component of promotion mix in attaining the goal of all marketing efforts, i.e. to increase profitable sales by offering want satisfaction to consumers over the long run. This lesson is all about personal selling. It is focused on the definition, nature, scope, importance, and process of personal selling.

The world and the markets are undergoing a change at an unprecedented speed. We have reached today in the world of supermarkets, internet sales, with highly competitive products coming out in the markets on a continuous basis. In such a scenario, establishing a strong market presence is not an easy task. Companies are continuously involved in taking decisions regarding product planning, resource planning, financial and operational planning. Sales forecasting provides an important input for such decision making. It is an integral part of business management. Without predicting the sales for the future, one can't manage, sustain and plan for the future growth. Intelligent business decisions can be made only through accurate sales forecasting. Although, sales forecasting has become very complex and difficult because of various dynamic factors which affect the market, yet on the other hand, the availability of a number of techniques and software has facilitated forecasting and its widespread use. Companies, big or small, domestic or multinationals, single product or multi-products are all trying to use this tool to their maximum advantage and, thereby, create a strong market space for themselves.

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

Appropriate designed and skillfully implemented control mechanisms increase the chances that the sales organizations will focus upon achieving selling and profit objectives. Sales budgets and sales quotas, if set properly and administered well can stimulate sales personnel to achieve the sales and profit objectives set. Further, setting up sales territories makes the control of sales operation more effective. While, controlling sales force expenses and transportation costs helps the company to achieve its profit objectives, control mechanisms such as sales audit, sales analysis and cost analysis can contribute to effectiveness of personal selling effort. These control mechanisms helps sales executives to monitor profitability of the operation.

1.3 Sales Management

Concept

The attainments of sales force goals in an effective and efficient manner through planning, staffing, training, directing, and evaluating organizational resources. The Definitions Committee of the American marketing association defined sales management as 'the planning, direction and control of personal selling, including recruiting, selecting, equipping, assigning, routing, supervising, paying and motivating as these tasks apply to the personal sales force'.

The above definitions cover two important ideas:

- The five functions of planning, staffing, training, leading, and controlling, and
- The attainment of organizational goals in an effective and efficient manner.

The art of meeting the sales targets effectively through meticulous planning and budgeting refers to sales management and is one of the most important elements of success of modern organizations. It helps to extract the best out of employees and achieve the sales goals of the organization in the most effective ways.

It is a socio-scientific process, involving group-effort in the pursuit of common goals or objectives, which are predetermined. It helps the organization in demand forecasting, territorial redesigning and collecting competitor's information. Although it is a system of authority with co-ordination as its key; harmony is emphasized instead of conflict. Management of the sales force is one of the most important executive responsibilities. In the present scenario sales executives are professionals. The professional approach demands the ability to install, operate, and use control procedures appropriate to the firm's situation and its objectives. The sphere of Sales Management operations include: Managing Sales Force, Managing Sales Targets, Offering Sales Training, Managing Direct sales, Managing Sales Territories, Managing Channel partners, and Managing Sales Promotion.

Nature, Scope and Importance

Sales Management forms a part of Marketing Management. A significantly broader meaning is assigned to Sales Management and it encompasses the following two broader areas: Managing the Sales Functions, and Managing the Sales Force.

The nature and role of sales management has become more professional. The emphasis is on the word 'management'. The duties of the sales manager in the modern company have both broadened and changed in emphasis. Nowadays the sales manager is expected to play a much more strategic role in the company and is required to make a key input into the formulation of company plans. There is thus a need to be familiar with the techniques associated with planning, including sales forecasting and budgeting. The sales manager also needs to be familiar with the concept of marketing to ensure that sales and marketing activities are integrated. The sales manager needs to be able to analyze and direct the activities of the sales force towards more profitable business. In dealing with a sales force, the sales manager must be aware of modern developments in human resource management.

Due to the changing nature of sales management, the job of a sales manager has taken the mixed form of an accountant, a planner, a personnel manager and a marketer. However, the prime responsibility is to ensure that the sales function makes the most effective contribution to the achievement of company objectives and goals.

To help understand the scope of the sales management task, sales management is understood as all activities, processes, and decisions involved in managing the sales function in an organization. Managing a sales force well involves understanding the complexity of selling activities as well as the decisions involved in managing those activities.

The importance and/or benefits of sales management are as follows:

1. **To the Society**: If jobs are to be made available for all those, who want and expect them, the economy must continuously expand its production of goods and services, which can only be done by adopting sound government-policies and efficient use of people. Equally important here is the fact, that an economy needs individuals, to sell what is produced. Through their persistent efforts to create and stimulate demand, salespeople could be said to be the life and blood of a productive economic-system.
2. **To the Consumers:** Professional people know their product or service, its major uses, limitations and benefits; which helps them to serve their customers, quite effectively. For example, an insurance agent can analyze the hazards and risks that confront a client's business or home-situation, examine existing coverage and offer helpful advice, in order to eliminate the gaps or overlaps in coverage, in addition to saving the client's money. The

sales-engineers are qualified to analyze technical-problems, which may be confronting a particular organization and they can give the right recommendations for developing efficient operations.

3. **To the Business Firms:** A business firm can be profitable only if its revenues exceed its costs. The prime responsibility of the salespersons is to sell the goods, produced by the organization, at a profit. Companies, salespeople and customers are different levels in the marketing chain; and these stand to benefit by sales- activities. The creative salesperson, tries to penetrate his territory, and adopts suitable means and techniques of profitable-selling of goods and/or services. The salesperson, in the field, is an ideal person, to keep the company abreast, or ahead of competition. He, thus, becomes an important source of field-intelligence by providing important (and sometimes very crucial) information, about the nature of competitive-activities, and also about the changing needs of customers. The sales-force has the additional responsibility of serving the needs of customers that buy the firm's product(s). Most firms cannot survive, only on the basis of one- time sales; repeat-sales are necessary. This is possible only if the customers are served in a professional manner. It is the only function or department in a company that is involved in generating revenue or income for the organization. The financial results of a firm depend on the performance of the sales department. Many sales people are among the best paid people in business. It is one of the fastest and surest routes to enter into the top management bracket.

Marketing and Sales Management

Marketing and sales are very different, but have the same goal. Therefore, it is essential, that sales and marketing be fully integrated. When the marketing plan is written, specific strategies are set, such as achieving a certain profit margin or reaching a specific target audience. A sales plan will use tactics to affect these strategies. For example, if the marketing strategy is to enter the marketplace with a lower price, the company will need high-volume sales because there are lower profits per unit. This will guide the sales department as it determines where and how to sell.

Figure 1.1: Company Organization Chart: Sales-Oriented Company

Table 1.1: Difference in Sales and Marketing

Sales	Marketing
Sales starts with seller & is preoccupied all the time with the needs of the seller	Marketing starts with the buyer and focuses constantly on the needs of the buyer
Emphasizes on saleable surplus available with the company	Emphasizes on identification of market opportunity
Seeks to convert products in to cash	Seeks to convert customer needs in to products

Views business as – goods producing process	Sales views the customer as the last link in the business
Views business as – a customer satisfying process	Marketing views the customer as the very purpose of business

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The adoption of the marketing concept has in many companies been accompanied by changes in organizational structure, together with changes in the view of what constitutes the nature of selling. Example of the possible organizational implications in a market oriented and a sales oriented company is shown in the figure depicting the organization charts below:

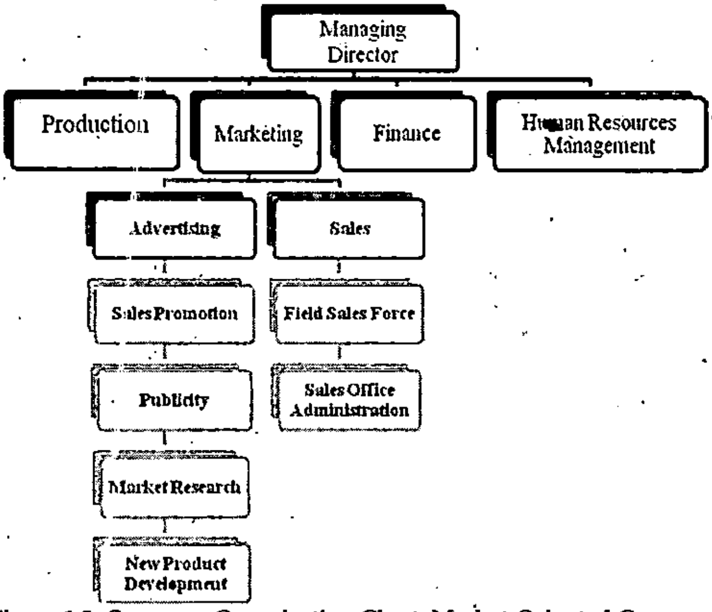

Figure 1.2: Company Organization Chart: Market-Oriented Company

Perhaps the most notable difference between the pre and post marketing-oriented company is the fact that sales in later are seen to be a part of the activity of the marketing function. In the marketing: oriented company, the marketing function takes on a much wider controlling and coordinating role across the range of company activities. The marketing concept, however, does not imply that sales activities are any less important. In addition to changes in organizational structure, the influence of the marketing function and the increased professional approach taken to sales has meant that the nature and role of this activity has changed.

Selling and sales management are now concerned with the analysis of customers' needs and wants and, through the company's total marketing efforts, with the provision to satisfy these needs and wants.

1.4 Functional Elements

Although, sales management consists of separate functions and activities as depicted in the above diagram, they are viewed as having a systematic relationship with each other. All functions and activities are considered as a dynamic process, composed of numerous interrelated parts, aiming to achieve the organizational sales objectives. The following are the different functional elements of Sales Management:

(A) Managerial Functions

1. Planning:
   - Forecasting demand,
   - Sales territory planning,

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- Personal selling, and
- Promotional efforts.

2. Organizing:
    - Structure,
    - Resource allocation,
    - Responsibility assignment, and
    - Delegation of authority etc.
3. Direction:
    - Leadership,
    - Motivation,
    - Communication, and
    - Promotional steps including personal selling.
4. Control:
    - Delegation,
    - Quota fixing,
    - Performance evaluation,
    - Incentives, and
    - Budgets.
5. Co-ordination:
    - Liaison,
    - Integration of various elements internally,
    - Public Relations, and
    - Creating goodwill by contact with customer/general public

(B) Staff Functions

This is related to staff functions of sales force such as the following:

- Recruitment and selection.
- Deployment and evaluation of performance
- Training and development.
- Career development.
- Compensation and incentives.
- Motivation and empowerment.

(C) Advisory Functions:

- Product attributes/quality aspects.
- Pricing policies.
- Promotional steps and personal selling aspects.
- Distribution policies and channel selection criteria.
- Advertisement policies such as media selection and target audience.
- Transportation and warehousing aspects.

(D) Liaison Functions

Liaison with departments such as the following:

- Production department.

- Finance department.
- Marketing department.
- R & D department.
- Distribution network and After Sales Service department

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1.5 Sales Management Operations

Sales Operation refers to various activities, which help in the timely achievement of sales targets for the successful functioning of an organization. Sales Operation activities help the sales professionals to meet the sales targets in a systematic and the best possible way. In simpler words sales operation activities help in generating revenues for the organization through meticulous planning, better budgeting and adopting a methodical approach.

Sales Management Model

Described below is the model of sales management:

The 1st step – "Describing the personal selling function"

Deals with understanding the job activities and the sales process involved in personal selling.

The 2nd step – "Defining the strategic role of sales function"

Deals with the corporate, business, and marketing level strategic decisions. These typically provide guidelines within which the sales manager and salespeople must operate.

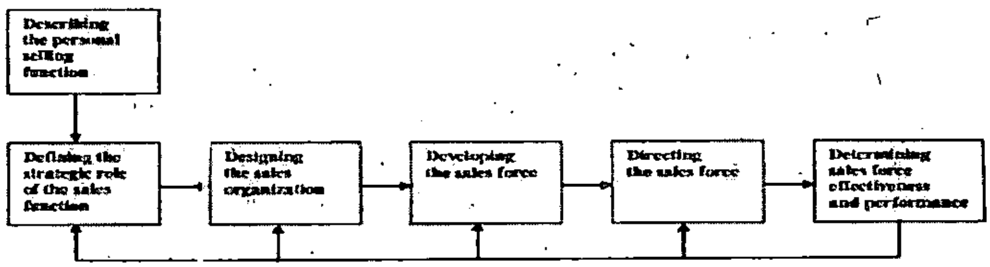

Figure 1.3: Sales Management Model

The 3rd step – "Designing the sales organization"

Deals with the importance of designing an effective sales organization necessary to implement the strategies successfully.

The 4th step – "Developing the sales force"

Highlights the importance of right recruitment and selection methods and the need for proper training of the sales force personnel.

The 5th step – "Directing the sales force"

Hiring the best people for sales is one thing and directing their efforts to meet the sales organization goals and objectives is another. Sales managers spend a great deal of time in motivating, supervising and leading members of the sales force.

The 6th step – "Determining sales force effectiveness and performance"

Deals with monitoring the progress of sales force to determine the effectiveness and performance. Developing forecasts, assigning quotas and budgets provide necessary information for the performance evaluation.

1.3.2 The Sales Management Process

The sales management process involves three interrelated sets of decisions or processes:

1. The **formulation** of a sales program. The sales program should consider the environmental factors faced by the firm. It is essential to do a SWOT analysis of the organization to know its strengths, weaknesses, threats and opportunities. Sales executives organize and plan

the company's overall personal selling efforts and integrate these with the other elements of the firm's marketing strategy.

2. The **implementation** of the sales program. The implementation phase involves selecting appropriate sales personnel and designing and implementing approaches that will direct their efforts toward the desired objectives. Identify the target market. Selling techniques and strategies can't be same for all individuals. Each audience has different needs, interests and requirements. Hire the right individual for the sales team. The sales professionals have a major role in the success and failure of organizations. Those individuals, who are aggressive, out of the box thinkers and nurture the dream of making it big in the corporate world, should be recruited. The sales representatives should be very clear about their roles and responsibilities in the team. Develop a lucrative incentive plan for them. Incentives and monetary benefits go a long way in motivating the sales team.
3. The **evaluation and control** of the sales program. The evaluation phase involves developing methods for monitoring and evaluating sales force performance through appropriate metrics. Evaluation and control allows for adjustment of the sales program or the way it is implemented when performance is unsatisfactory. The management must conduct frequent meetings with the sales team to review their performances and keep a track on their daily activities. The sales team must prepare Daily Sales Reports (DSR) for the superiors to know what they are up to. Besides, one must assess his own performance by recalling the interactions with the clients and analyze the areas of failure, thus, improving for the future.

1.6 Sales Management Cycle

Customers go through a sequence of activities before the product finally reaches them. Such activities are a part of the sales cycle. The sales process yields increased sales if it is broken down into steps or stages. The major stages are similar across the product or service spectrum. This allows the management of the sales staff. It also ensures that the right steps are taken to maximize the chance to turn every prospect into a sale. The entire sales process is nothing but a 'game of patience'.

(A) Interest creation among the prospective consumers: Prospecting & Fact Finding

- A company cannot sell its products until it has someone to sell to: the prospects. Depending on the business, prospects might walk in the door or sales might require visits or calls to potential customers in their homes or businesses. Identifying prospects or prospecting can be the least pleasant stage for the sales staff. The business organizations need to have systems in place to generate a steady flow of prospects through application of different tools like advertising or website etc. In this activity, creating awareness about the brand or product should be the main aim than pushing for sales.
- Sales representatives should prepare their own database. There should be a long list of potential customers. The sales representatives need to go out to visit markets, shopping malls, restaurants to meet potential customers, map them and collect as much information as they can. Interaction with as many individuals as possible helps in meeting sales targets. Questionnaires should be distributed amongst the potential customers to know them better. It really helps if you know something about the client before the meeting. Gaining relevant information about the client definitely helps in preparing the sales pitch.
- The next step is to segregate the data according to demographics (i.e. age, sex, income etc.). Classifying the data under various sub heads like working/non working, middle class/upper class, and employed/unemployed help to understand the customers better and identify the target audience.

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- Once there is a prospective customer, the sales person needs to understand the customer in this phase and identify his/her problem and provide the necessary information or documents which the customer may request. The customer needs to be educated about the product/service being offered. It is the job of the sales person to be prepared with the necessary literature, brochures and/or presentations. If the product is technical in nature, the aim of the sales person should be to explain the benefits of the product to the customer and not its technical features. The customer's needs and expectations from the product need to be understood. The buying potential of the customer regarding a particular product needs to be checked;
- The fact-finding stage should also build rapport and trust between the salesperson and the prospective customer. Depending on the type of product, fact finding might involve a few questions or multiple visits to a customer's place of business to determine what features the customer must have from your product.

(B) Pre-purchase Activities – Appointment and Presentations

- Having created interest in the brand/ product in the first activity, it is time for moving on to the next activity by the sales person. The sales people should get in touch with the prospects and seek an appointment at their convenience.
- In this process we assume that the customer is actively considering various product offerings and comparing them. The aim is to describe the product or service features to the extent possible. Much emphasis is laid on demonstrating the capabilities of the company and or the product.
- The sales presentation is the "selling" stage of the whole sales process. The presentation may be a sales pitch that demonstrates the features and benefits of a product. Or it could be a written proposal, listing the features and benefits of the product along with the price. The presentation stage is when a prospective client is shown how the product meets his needs, wants and desires. This stage is considered the most enjoyable for salespeople.

(C) Purchase Activities: Determine Client's Solution/ Written Proposal/ Negotiation/Closing the deal

- Having presented a solution to the customer problems, it is time for the sales person to push for closing. Here a lot of activities happen both, from the sales person's end and the customer's end.
- Sales person's role lies in negotiating, bidding, finalizing the terms and condition of the sale. The customer evaluates various proposals, negotiates and finalizes the payment.
- A sales representative must never lie to the customers. The customer should be suggested the right option and never prompted to purchase what is not right for him. Details about what the product actually offers should be given. It is unprofessional to make false commitments. It is important to maintain transparency. The salesperson should not always think about own targets and incentives, rather care should be taken to think from the customer's perspective as well.
- The needs and expectations of the customers must be understood. The customer needs to understand how the product would benefit him. He should realize how the product is better than the competitor's. The customers should be aware of even the minutest details. He should be given the best deal so that the customer comes back again to the organization. But, care should be taken not to oversell.
- There should always be room for negotiation in deals. Negotiations should be done with an open mind. Too much rigidity on price and other terms and conditions should be avoided. For higher customer satisfaction, give him the best deal.

- In many types of sales, closing is a separate stage, requiring another set of sales skills. At its simplest, the close is asking the customer to buy your product. Closing also involves taking extra steps or asking more questions to turn a no into a yes when the customer is asked to buy. A sales professional should always aim to close the deal as soon as both the parties accept the terms and conditions. Once the customer decides on the product, he should be presented a proposal with the description of the product, model no, date of purchase, warranty details and other necessary terms and conditions. Some organizations also give bills to the customers. Bills are required when the customer comes for an exchange.

(D) Post-purchase Activities – Delivery After-sales service/Follow-up stage

- After a sale is successfully closed, post purchase activity begins. This phase includes delivery of the product/ service, installation (if required), using or maintaining the products, providing more information about the features and finally collecting the payment. This phase can also include after-sales service and the follow-up process. A process of continual feedback is must.
- The delivery stage is the opportunity to cement relationship with a new customer and turn him into a repeat customer. It is important to make sure that the products are delivered in good and working condition to the customer. The customer should be sent with a positive feeling about the purchase.
- Some functions in this stage like providing information, delivery of product and installation can be done by the company itself or with the help of a reseller.
- After sales service plays an important role in creating the customer loyalty. It can be as simple as addressing the customer problem on the telephone line or may be a personally visiting the customer premises to resolve an issue. In B2B deals, post-purchase activities can include installing the product or service and then providing training for the uses of the product/service of the company until they understand the new product/service.
- Understanding the post-purchase behavior by the sales team is an important task if the company looks for repeated business for a long-term relationship with customer. One should be in touch with the clients even after the deal for higher customer satisfaction, higher customer retention and eventually higher revenues.

1.7 Strategic Sales Management

Planning a sales strategy requires that the sales manager begin with a mastery of the firm's marketing strategy. Then specific strategies for sales management of the selling organization must follow. Sales managers have the knowledge of defined markets, product mix, what new products are proposed or are in pipeline, what new additions to the business are planned, and what the policies for channels, distribution, pricing, and marketing information will be. These are the questions, the answers to which have to be found out before starting the field sales management strategies.

A well thought-out sales strategy is needed in order to be successful in today's competitive market-place. The following three areas of sales strategy are required:

- A clear picture of the present situation, including the strengths, weaknesses, and problems of the sales and managerial staff, as well as the threats, risks, and opportunities that exist in the marketplace.
- Well-defined strategies covering every major aspect of the selling units or departments, including territory, account, and call-management strategies by product line; this involves developing one year and multiyear plans.

- Income and expense budgets and a profit plan based on sound sales forecasts and knowledge of pricing policy.

Preparation of the Multilayer Strategic Plan

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The important step is to develop a long-run, multiyear strategic plan for the sales force. A sales strategic plan includes the following four major questions:

1. What is the sales department's present condition? This is a final summary of the earlier statements of condition. The summary should not be an essay or a tome but a series of one-line statements of the major internal and external conditions important enough to be included in action plans for the coming years.
2. What trends are apparent? Here the sales manager looks at the situation and tries to project it into the future. If nothing is done differently, where would the sales force and the organization be in one year? Two years? Five years?
3. What are the most important objectives? These are missions over the next three to five years, not just next year. They might include such things as increasing salespeople's training, redesigning the compensation program, and developing computer software for field sales managers, plus providing them advanced educational programs.
4. What are the strategies for getting these objectives accomplished? This might require:
   (i) Increasing the budget and personnel for the sales training department
   (ii) Having an outside consulting firm overhaul the compensation plan
   (iii) Hiring one or more persons to develop software or contracting an outside vendor

Each strategic statement should then be turned into an operational plan and put into the hands of responsible people who will make commitments to execute the plan. In the competitive times, if the sales department does not adapt, ultimately the company will be a follower instead of a leader.

Financial Planning as part of the Sales Strategy

The sales department cannot do much about certain aspects of profit planning. It has no control, for example, over the cost of goods sold. Manufacturing cost accounting will define that element. It has no direct responsibility for general, administrative, and overhead expenses. Costs of materials and labor for producing the product are accountable elsewhere. Thus, most sales departments have two principal concerns:

- Revenue produced
- Selling expense

The difference between these two is the contribution to the organization's profit from the sales effort. These calculations should be projected into the future, not only for a year ahead at budget time but also for several years in advance as part of the strategic field sales plan.

The accurate forecasting of sales and of the costs, or expenses, required to generate the sales is a major part of the sales strategy plan. The sales manager has to think strategically for the field sales organization and that too in long term, hence, the projection of these revenues and expenses beyond the first year should incorporate the manager's best estimates about the effect of changes in strategy, market plans, product innovations, enlargement in geographic markets, and sales forecasts etc.

When the sales managers begin operational planning for field sales, they should define these in shorter terms, including monthly and quarterly estimates and forecasts for the single year ahead. They should not be unduly worried about the precise accuracy of future years. Managers will do a forecast of three to five years ahead every year and can adjust it on the basis of their learning and experiences in the current year. These multilayer figures will help the firm find its best operating objectives.

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Process of Strategic Sales Management

Through strategic sales management, the organization structures its sales mechanism with a view to increasing revenue. The reason why it is necessary for a company to develop a strategic sales management model is because businesses must adapt to the ever-changing requirements of consumers ~~to~~ remain relevant in a competitive market.

1. The first step includes identifying the product/ service. The product/ service is developed as per the company goals and the market needs.
2. The next step towards conducting an effective strategic sales management is analyzing the market. This is where we begin to identify the customer for the product/service.

   An analysis of the market includes an evaluation of the target customers and the market environment. Target customers are those in the demographic that is most likely to buy the product or obtain the service offered by the company. The sales strategy will be formulated with those people in mind. For example, company that makes purses or cosmetics knows that its main consumer base will be women and therefore will target its sales efforts toward women.

   Another part of strategic sales management is an analysis of the market environment. The company must find out how many competitors it has, what their sales plans are like and how their marketing activities affect the success of the company. When the company has this information, it will assess its own business model to determine its areas of strengths and weaknesses in relation to its competitors.
3. Part of an effective sales process is good advertising management to make the presence in the market. This includes taking out television advertisements and other types of promotion that will appeal to the target demographic while ensuring that it reaches the audience. This includes making decisions about whether to take out expensive spots during prime time, the length of the commercial and the frequency with which the advertisement will run. Another advertising consideration that is related to sales is the manner of presentation of the product or service. The company will have to make decisions about the packaging of the products. The firm also has to provide the support material to the sales people in terms of brochures, literature etc
4. Distribution channels also are important in the development of strategic sales management. This is because the company must have a good distribution network that will ensure that its products reach the target consumer base in an expeditious manner.
5. The sales team must be carefully selected, and it must include driven and highly motivated, result-oriented people.
6. Setting financial targets for the members of the sales team gives them a purpose and can help the organization meets its financial projections for each business cycle.

Sales Strategy vs. Tactics

A sales strategy, in simplest terms, represents an idea or general approach to achieving a particular business goal. A business might set a general goal of capturing more female buyers. If the business operates in an industry historically dominated by male buyers, a possible sales strategy would go something like this: de-masculine or feminize the product or service. A sales strategy often includes the content of marketing messages.

By contrast, sales tactics refer to the specific actions a business takes to carry out the sales strategy. Everything from running a series of TV ads and putting up fliers around the neighborhood to talking to a customer face to face about the benefits of a product constitute sales tactics. These tactics should, on the whole, reflect the overall sales strategy.

Sales strategies differ from sales tactics in that strategies are broad-based "what to do" methods, while tactics are more targeted "how to do it" efforts. Strategies for selling include reviewing your target audience, setting pricing and determining distribution methods. Once you choose your strategies, your sales department can recommend tactics for achieving your goals.

No matter how well trained the salesperson or sales staff, in the absence of a clear sales strategy, the sales tactics they employ will likely result in mediocre sales. The sales strategy offers the people on the ground a clear starting place, as well as a clear message, they can direct at potential buyers. The main components of planning in a company are objectives, strategies and tactics. Their relationship is shown below:

Figure 1.4: Relation between Sales Objectives, Strategies and Tactics

1.8 Sales Professionals

Sales management requires constant practice and learning just like any professional sport; practice makes a manager perfect. Sales Professionals are the face and interface of an organization. Management of sales personnel is both an art and a science. It is an art because many skills cannot be learnt from a textbook. It is also a science, because a growing body of knowledge and objective facts describes sales management and how to attain sales goals. Becoming a successful sales manager requires a blend of formal course learning and practice. There are two opinions regarding the sales abilities:

1. Inborn qualities like gift of gab, pleasing manner, extrovert nature are inborn.
2. Developed qualities like analytical ability, negotiation skills, leadership, can be learnt and developed.

Areas of Coordination – Field Sales Manager

The Field Sales Manager has to coordinate in the following areas:

- **Strategy:** The globalized and competitive world environment changes fast, opportunities and threats appear and disappear very frequently. Top managers engage continuously to scan the environment and suitably amend and modify existing strategies.
- **Planning:** Various activities are listed in terms of "time frame" and "cost frame" Their milestones are prepared along with PERT so that proper sequencing of such activities, along with quantification of resources are determined. Information obtained based on sales forecast, assists market segmentation, territory planning, outlay on other marketing efforts like advertisement, personal selling and promotional steps.
- **Marketing Programme:** Many sales activities are required to be coordinated with other activities of marketing such as advertisement and sales promotion.
- **Sales Force Efforts:** Efforts of sales force must be properly coordinated to avoid functional overlapping/ duplication / gap. Depending on the market conditions, competitors' actions and individual performance, it may be necessary to shuttle around salesmen, re-organize territories & regions or supplement the salesmen.
- **Distribution Network:** Liaison and co-ordination between distributors and retailers becomes very important for timely availability and after sales service. Complaints of transit damages, non-settlement of warranty/guaranty claims by customers etc. needs extensive co-ordination. Sharing advertisement/promotion expenses is another area requiring co-ordination between organization and distribution.
- **Manufacturing:** Very often customers complain against quality, reliability, maintenance and operational problems. Such matters require prompt action by manufacturing divisions. They in turn solicit the services of R & D engineers, if need be, for incorporating modification or re-drafting "Operating and Maintenance Instructions." Many times,

distributors complain on non- availability of spares or replacement of item returned for repair. Salesmen efforts with manufacturing divisions to solve many such problems will yield customer satisfaction and goodwill.

Roles and Responsibilities of Sales Manager

A sales manager plays a key role in the success and failure of an organization. He is the one who plays a pivotal role in achieving the sales targets and eventually generates revenue for the organization. A sales manager must be very clear about his role in the organization. He should know what he is supposed to do at the workplace. Let us understand the roles and responsibilities of a sales manager:

- A sales manager is responsible for meeting the sales targets of the organization through effective planning and budgeting.
- A sales manager can't work alone. He needs the support of his sales team where each one contributes in his best possible way and works towards the goals and objectives of the organization. He is the one who sets the targets for the sales executives and other sales representatives. A sales manager must ensure the targets are realistic and achievable.
- The duties must not be imposed on anyone, instead should be delegated as per interests and specializations of the individuals. A sales manager must understand who can perform a particular task in the most effective way. It is his role to extract the best out of each employee.
- A sales manager devises strategies and techniques necessary for achieving the sales targets. He is the one who decides the future course of action for his team members.
- It is the sales manager's duty to map potential customers and generate leads for the organization. He should look forward to generating new opportunities for the organization.
- A sales manager is also responsible for brand promotion. He must make the product popular amongst the consumers. A banner at a wrong place is of no use. Canopies must be placed at strategic locations; hoardings should be installed at important places for the best results.
- Motivating team members is one of the most important duties of a sales manager. He needs to make his team work as a single unit working towards a common objective. He must ensure team members don't fight amongst themselves and share cordial relationship with each other. Develop lucrative incentive schemes and introduce monetary benefits to encourage them to deliver their level best. Appreciate whenever they do good work.
- It is the sales manager's duty to ensure his team is delivering desired results.

Supervision is essential. Track their performances. Make sure each one is living up to the expectations of the organization. Ask them to submit a report of what all they have done throughout the week or month. The performers must be encouraged while the non performers must be dealt with utmost patience and care.

- He is the one who takes major decisions for his team. He should act as a pillar of support for them and stand by their side at the hours of crisis.
- A sales manager should set an example for his team members. He should be a source of inspiration for his team members.
- A sales manager is responsible for not only selling but also maintaining and improving relationships with the client. Client relationship management is also his KRA (Key Responsibility Area).

- As a sales manager, one should maintain necessary data and records for future reference.

1.9 Sales Plan and Promotion

Notes

A sales plan sets the direction, objectives and expectations for the sales force.

1. **Components of a sales plan:** The following are the key components of a sales plan:
   - *(i)* *Objectives:* The sales plan sets objectives for the sales force. If a company wants to increase revenue and profit, it can either focus on winning new customers or expanding the business with existing customers. The plan must give the preferred strategy for growth and assign responsibility for developing new or existing business to different members of the team. The plan must also identify any competitive threats to existing business so the sales team can act to protect vulnerable accounts.
   - *(ii)* *Targets:* A sales plan sets targets and quotas for individuals and the team.

     The targets must be specific, such as increasing revenue by 5 percent. Sales plans also include quotas for sales activities, such as making 50 new business phone calls each week, visiting six customers per week or making presentations to three prospects per week.
   - *(iii)* *Territories:* For companies that structure their sales force geographically, the sales plan allocates territories to each representative and sets objectives for each territory. Companies that have strengths in specific markets, such as engineering, financial services or health care etc., may structure their sales force according to market sector, appointing representatives with specialized knowledge to deal with key accounts.
   - *(iv)* *Products:* The sales plan describes the targets for sales of specific products and outlines any product-related incentives available to the sales force. The plan also provides details of new products that the company aims to launch in the next financial year and indicates the type of customers and prospects they may appeal to.
   - *(v)* *Marketing Support:* The plan outlines how marketing activities are going to support the sales force objectives. An advertising campaign, for example, can generate leads for the sales force to follow up.
   - *(vi)* *Training:* To ensure that the sales force has the skills to meet its objectives, the sales plan should include information on training programs that are available. If a company is planning to enter new market sectors or launch new products, training programs should cover essential market and product knowledge. If the company wants to increase business from existing customers, it should offer training in customer relationship management.
2. **Sales Promotions:** Sales promotions are a common component of a company's promotional strategy. Sales promotions involve a wide variety of sales strategies, including contests, product giveaways, catalogs, coupons, discounts and more. Marketing events, such as trade shows, also fall under the category of sales promotions. Sales promotions often target either consumers or wholesalers and retailers. These are short-term strategies that 'pull' shoppers with incentives to 'buy now'. A major trait of sales promotions is their short-term orientation. The purpose is to attract customers and create higher levels of sales than would be achieved at regular price points. In comparison, long-term brand advertising is used to gradually generate a sense of worth for the company's products.

   Companies use sales promotions for a variety of reasons like attract a new customer base; disrupt competitor promotions, increase revenue and cash flow quickly and to clear out excess inventory.

   Sales promotion strategies and tactics should be carefully planned, along with advertising and other promotional efforts. Overuse of sales promotions instills a low-price orientation in customers, making it difficult to ever get them to pay a higher price. One also suffers missed revenue and profit if those products are discounted that customers would pay regular prices for in the near future. Additionally, errors in marking down prices or in signage, as well as confusing the details of deals, can alienate customers.

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A few types of Sales Promotion tools are discussed below:

(i) ***Discounts:*** The most simple sales promotion format is a percentage or rupee-off discount. The offer may be a product for something like 20 percent off or ₹ 10 off the original price. A customer may perceive the product as more worthwhile at the reduced price. The use of eye-catching colors on the shelves to clearly designate a product as on sale can psychologically convey a better deal.

(ii) ***Coupons:*** Coupons are similar to discounts in that a customer is offered a reduced price for redeeming the coupon. The biggest difference is that only coupon holders have access to the discount opportunity. This particular promotional tool is most useful when you have a large base of customers willing to pay a premium regular price, yet you also want to attract customers who are more price-sensitive with a coupon. This tool is also used to motivate a customer to try your product or switch from another brand.

(iii) ***Loyalty Programs:*** Loyalty or frequency programs are a very unique type of sales promotion in that they have a long-term focus. Loyalty programs are ongoing incentives to loyal customers who purchase at certain levels. Typically, customers receive points or bonus coupons when they reach certain spending increments.

(iv) ***Free Stuff/Trial:*** A number of sales promotional programs include a mix of free promotional inducements. One type is a product premium. This is where you get a free gift or additional item with a purchase. Buying a pack of coffee and getting a coffee mug free is an example. Free product samples and trial offers are used to take the risk out of trying a new product. These garner exposure for the product or service.

(v) ***Rebates:*** Rebates are a unique promotional tool where a customer receives a check or payment from a manufacturer or reseller after a purchase. Electronics retailers, for instance, often offer big-ticket items that come up with manufacturer or retailer rebates. Normally, you have to submit a receipt, and application, and the rebate takes several weeks to process and pay out. Redemption rates overall are low, because customers don't always redeem small offers.

(vi) ***Contests and Sweepstakes:*** These are the prize giveaways used to build interest of customers regarding any product or service.

(vii) ***Business and Trade Market:*** Business and trade market promotions are deals offered to business buyers and trade resellers. Businesses receive many of the same types of promotional offers as consumers with the objective of luring them into buying. Trade resellers are offered promotional incentives so manufacturers and wholesalers can get their immediate customer to buy and carry products. Simple discounts, promotional allowances and refunds are examples of trade promotions.

1.10 Customer Relationship Management (CRM)

It refers to the study of needs and expectations of the customers and providing them the right solution. CRM originated in early 1970s. Customer relationship management, or CRM, is a systematic approach to marketing that relies on database technology for more targeted marketing and effective sales and service. From a sales perspective, sales companies and employees use CRM for the following:

- **Pipeline Management:** This is sequential status updates on leads as they move from prospects to customers. During the sales process, a prospect's status commonly moves

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from lead to initial contact, to presentation, to sale and, finally, to follow up. Salespeople normally can create reports that show what customers are in each stage at any given point.

- **Suggestion Selling:** Part of the point of CRM is to enable salespeople to get more business from top customers. They do this by identifying those customers that purchase significant amounts consistently. Customer profiles and recommendation tools help salespeople know when to offer additional products, accessories and services related to a single purchase, and when to recommend unrelated purchases to a key buyer.
- **Relationship Building:** Salespeople want to build long-term relationships with customers that allow for ongoing and building business over time. They also can optimize relationships by asking for referral business.

Discussed below are a few benefits of CRM for various activities or departments:

1. **Sales Department:** Improved sales planning and management, automating lead system, managing sales opportunities effectively, streamlining account management, boosting sales productivity, enhancing sales pipeline management, simplifying workflow processes, mobility in accessing real- time customer data, analytics for improved decision making.
2. **Customer Care:** Improved account handling, managing customer cases efficiently, simplifying contract management, knowledge management(storing staff experiences as repository), streamlining schedules, automating workflows, mobility features for data, analytics for customer service.
3. **Marketing Department:** Streamlining campaign planning, managing events efficiently, improved response management, automating workflows, analytics for marketing, instantly segmenting prospects, managing data effectively, user – friendly.

Need for Sales Organization

Execution of the sales plan largely depends upon the nature of the sales organization. Sales organizations vary widely over firms because every enterprise has its own objectives, resources, and corporate plans to achieve those objectives. The structure of the sales organization reflects this diversity. Sales organization is essential for many reasons. Some of them include the following:

1. **Defines line of authority:** It is important to define and identify the flow of authority, indicate where responsibility lies and specify who is to be held accountable to whom.
2. **Determining span of control:** At a time, there may be a large number of employees working in the sales department. It is very important to enforce proper supervision of the sales force. Hence, there is a need for determining which employee is under the control of which manager.
3. **Defines the decision making process:** Sales organization also helps in identifying who can take the decisions related to the sales and the customer accounts. There are two main ways of assigning the power to make decisions regarding the sales and the customer accounts. They are centralized decision making and de-centralized decision making.
4. **Assigning specialties:** A set of activities are put under a role which the sales representative is expected to specialize in. This is needed to establish a sales routine in the business unit. For an entry level, middle level and the top level position, the set of activities and specialties are defined by the sales organization.
5. **Making a career path:** The personnel in the sales department look at the organizational structures as one of the indications of the direction in which their future careers may grow. Sales field has been a remarkable career maker for innumerable people in the past and has even more potential to do so in the time to come.
6. **Motivating the employees:** Since the career path is well known to all the employees, they try to work hard and with dedication to reach higher levels according to the organization structure. This helps in integrating the individual in the organization.

7. **Coordination and balance:** By clearly delineating formal relation between different positions in the sales department; the sales organization reduces confusion about the individual's role and responsibility in the organization.
8. **Economizes on executive time:** As operations and activities in the sales department increase in number and complexity, delegation of authority becomes imperative. A sound organization design allows effective use of specialization so that executives may spend less time in operations and more on planning.

1.11 Principles of Sales Organization

The main principles of a sales organization can be summarized as below:

1. **Degree of Specialization:** The degree to which individuals perform some of the required tasks to the exclusion of others is known as degree of specialization. Individuals can become experts on certain tasks, leading to better performance for the entire organization.

   With regard to specialization, the continuum of responsibilities for members of the sales force runs from a generalist at one end to a specialist at the other end. An absolute generalist would be allowed and expected to engage in all types of sales activities for all of the company's products and to sell to all of the company's customers. On the other hand, an absolute specialist would have a much narrower focus and would be restricted to engaging in a limited set of selling activities for only a portion of the company's products and would be constrained to selling only to a certain group of customers.
2. **Degree of Centralization and Decentralization:** One of the key decisions in sales management is related to the degree of centralization or decentralization of the various sales functions. The degree to which important decisions and tasks performed at higher levels in the management hierarchy is called centralization or in other words, centralization is said to be a process where the concentration of decision making is in a few hands or the degree of centralization and decentralization will depend upon the amount of authority delegated to the lowest level. Centralization is the systematic and consistent reservation of authority at central points in the organization. Under centralization, the important and key decisions are taken by the top management and the other levels are into implementations as per the directions of top level. Authority and responsibility are placed at higher management levels.

   The top management may or may not consult the respective sales team and the managers before taking the decision. All the important decision and actions at the lower level, all subjects and actions at the lower level are subject to the approval of top management. This type of centralized decision making organization works well when the size of the company is small. A recent development, which has affected the centralization/decentralization choice, is the increased use of computers to process and handle sales data. As computers can process vast amounts of sales information at lower costs and speedily, this has encouraged centralized decision-making.

   Decentralization refers to the systematic effort to delegate to the lowest level of authority except that which can be controlled and exercised at central points. Decentralized means field sales managers are empowered, enabled and held responsibility for performing these activities. Decentralization is a systematic delegation of authority at all levels of management and in all of the organization. In a decentralization concern, authority in retained by the top management for taking major decisions and framing policies concerning the whole concern. Rest of the authority may be delegated to the middle level and lower level of management.

   Decentralization is not the same as delegation. In fact, decentralization is all extension of delegation. Decentralization pattern is wider is scope and the authorities are diffused to the lowest most level of management. Delegation of authority is a complete process and takes place from one person to another, while, decentralization is complete only when fullest possible delegation has taken place.

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The degree of centralization or decentralization in sales organization may depend on:

- Size of operation costs,
- Managerial philosophy towards control and delegation
- Trend towards computerization
- Effectiveness, and
- Competitive necessity

A number of other factors must be considered in determining the appropriate degree of specialization and centralization in the organizational structure for sales activities. Three considerations are useful:

- Level of uncertainty in the business environment in which the selling activities will occur,
- Degree to which the tasks performed by salespersons are routine or repetitive, and
- Whether the performance objective for salespersons is adaptability or effectiveness.

In general, when salespersons are working under high environmental uncertainty the appropriate organizational structure should be more flexible since tasks tend to be non-routine and salespersons need the latitude to adapt to the circumstances in front of them and make decisions based on their specialized expertise and experience. On the other hand, when the business environment is relatively stable the activities of salespersons become somewhat repetitive and the focus of the organizational structure will be on ensuring that salespersons discharge their duties efficiently, which means that a centralized structure: with authority at the top of the hierarchy and minimal discretion at the lower levels – will be the preferred organizational approach.

Two additional factors especially relevant in determining the appropriate levels of specialization for salespersons are:

- Complexity of the products, and
- Variability of customer requirements.

Assuming that a salesperson is working with a relatively simple product and that the requirements of each customer are similar it is appropriate for salespersons to be organized geographically (i.e., geography-driven specialization); however, the sale of simple products to the customer universe that may have different needs calls for organization against market lines (i.e., market-driven specialization). On the other hand the sale of complex products to customers with similar requirements should be done using product specialists (i.e., product-driven specialization) while the sale of those type of products to customers with different needs will require the highest level of specialization with salespersons being segmented along both product and market dimensions.

3. **Span of Control:** It is the number of subordinates who are supervised by each individual manager. Typically this involves assigning 1-10 people to each manager. The optimal span of control at a particular level in the organizational hierarchy will depend on a variety of factors and two managers with similar or identical titles may have different responsibilities with respect to the number and type of salespeople reporting to them. For example, if a sales organization has divided its customer base into commercial and government accounts it may have district sales managers that oversee the activities of salespersons selling to commercial and government accounts in defined geographic areas. The span of control for district sales manager for commercial accounts may be narrower than for the district sales manager for government accounts because commercial accounts require more frequent decisions regarding terms of transactions and the manager will need to schedule more visits to customers to assist salespersons in the sales activities. In contrast, the government accounts may have a longer sales cycles and the manager in that area can easily monitor a

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large number of salespersons. As a result, the average number of salespersons reporting to district sales manager for commercial accounts may be only five or six while district sales manager for government accounts will usually have eight to twelve salespersons reporting to them.

4. **Unity of objectives:** This principle states that within an organization there needs to be a unity of objectives. An organization may have several sales sub- organizations depending upon the product and the selling method. Every sale sub-organization has a set of objectives that it wants to achieve for the organization. Hence there would be several sales objectives within an organization. The principle states that all the objectives of the sales sub- organization must be linked to the main objective of the organization. If the main objective of the organization is to grow at least by 12% every year, then all the objectives of different sales sub-organization has to work to attain the main objective.
5. **Coordination:** In an organization, the sales organization structure should provide a framework where it can easily integrate itself to various other departments within the organization. This ensures the timely delivery of products/ services to the customer.
6. **Parity of authority and responsibility:** This principle states that if an employee is given a set of tasks to perform, he/she must be given the required level of authority to perform those tasks. For example, if a pre-sales executive is asked to prepare the company competitive advantages presentation for the client to present in the sales meetings, and then he/she should be given the access to the knowledge management system of the company. Every company has the Knowledge Management systems which are the repository of all the previous projects executed successfully by the company. Hence the authority has to be given that is required for the task to be completed.
7. **Flexibility:** This principle states that there can be many external and internal factors which might affect the organizational operations. Hence the sales organization structure should be flexible enough to accommodate any required changes in future.

1.12 Developing a Sales Organization

In order to convert formulated sales plans into operations there has to be a sales organization. Primary to the development of a sales organization is the identification of the expectations that the top management has in respect of the sales function and the place of the sales department in the total organizational structure. The steps of developing a sales organization are as under:

1. Defining the sales organizational objective in the light of the main corporate objectives.
2. Set both quantitative(short-run) objectives as well as qualitative(long-run) objectives
3. Qualitative objectives are indispensable for long-range planning, thus, kept in mind in short range planning also.
4. Quantitative objectives are required as operating guides posts.
5. Delineating the necessary activities.
6. Determining the necessary activities & their volume of performance is based on qualitative & quantitative objectives.
7. Also helps in determining which activities to be performed in what volume. The analysis of the type and volume of activities needed to be performed will lead to an assessment of how many executive and operating positions would be required, and their inter-relations. Though the general sales activities to be performed may be similar in most companies, the relative volume and the emphasis that a firm may put on a particular group of activities will differ.
8. Grouping activities into 'jobs' or 'positions':
   - Activities identified are allocated to different positions.
   - Activities are grouped so that closely related tasks are assigned to same positions.
   - Each position must also contain some variations.

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Each position should have adequate, challenging and motivating tasks to perform. The number of the different types of activities assigned to a single position would depend upon the degree of specialization associated with each position. The place of an activity in the hierarchy would depend upon the relative importance of that activity for the sales department. The higher the money involved and risk associated, the more the decision power lies with higher levels.

9. **Assigning personnel to positions:** Once the different positions and the activities associated with them have been decided upon, the positions have to be assigned to personnel. The organization may get the required personnel by:
   - Building positions around individuals, to take advantage of the special capabilities of a particular individual, or
   - Recruiting individuals specifically to fill in the identified positions.
   - Organizations generally prefer to let individuals adapt to, or acquire skills for particular position rather than build positions around individuals.
10. **Providing for coordination and control:**
    - Sales executives require means to control their subordinates
    - To coordinate their efforts they should not be overburdened nor should have too many subordinates.
    - Coordination & control is obtained through both formal & informal means.
    - Formal instruments of organizational control include:
    - ritten job description, job objectives, duties & responsibilities.
    - Reporting relationships in the form of Organizational Chart (clarifying hierarchy). Reduces confusion about an individual's role and delineates formal relationship
    - Performance measurement methods
    - Organizational manuals are extension of organization chart which contain detailed working procedures for both the company & the various departments.

1.13 Sales Organization Design

Organizational design is the process by which managers make specific organizing choices that result in the construction of a particular organizational structure. It refers to the formal, coordinated process of communication, authority and responsibility for sales groups and individuals. Organizational Design is the process of consciously defining and aligning structures, processes, management systems and cultures with a well-articulated strategy: It can significantly impact competitive advantage and is a powerful way to position organizations for sustainability. In other words, effective organization design helps build strategic capability.

According to contingency theory, managers design organizational structures to fit the factors or circumstances that are affecting the company and causing them the greatest uncertainty. Thus, there is no one best way to design an organization. Sales force organization structures tend to be left alone during stable economic times, when the companies are doing well. They are more apt to come under scrutiny when times are not good or the company is facing some significant change.

Strategy Driven Organization Design

Some key benefits of strategy- driven organization design are as below:

- It provided greater ability to carefully allocate resources (people and money) to specific areas to drive strategy.
- It ensured that the right information was reaching right people at the right time.
- It provided greater transparency in the financial performance of its key products and technologies that in turn enabled it to track the effectiveness of its strategy.

- It enables the development of a high performance culture.
- There are several situations in which creating a new design or restructuring is self evident. These include:
- Startup of a new business, subsidiary, or venture.
- Significant growth, or conversely contraction in the business.
- Shift from a domestic to global company.
- Merger or acquisition.
- Spin-off or divestiture of products and businesses.

However, organization redesign is often needed during the normal course of implementing business strategy. Existing organization designs can lose relevance as market conditions change, leadership changes, and processes change to increase efficiency. These changes can occur slowly, and accumulate to the point where a redesign is needed. The main problem lies in timely recognition of the need by the leaders. Some typical signs that necessitate an organizational redesign include:

- Slowdown/difficulty in meeting business plan targets.
- Disconnects in key processes as they flow across different departments.

High levels of conflict within and between organizational units.

- Difficulty obtaining and sharing resources across the organization.
- Lengthy, cumbersome decision-making processes.
- Role confusion.
- Metrics are hard to define or overly complex.
- Productivity declines.
- Starting to lose chief or major clients.
- Continue to suffer revenue declines associated with recession.
- Struggling to return to previous levels of profitability.
- Face disruptive changes.

Key Design Principles

Sales activities are an essential concern of senior management and great care must be taken in designing the appropriate organizational structure to support the activities of the sales group. The key design principles when designing the sales organization structure include the following:

- The structure should be built around the most strategically appropriate marketing dimension such as geography, products, market, types of sales activities or specific large customer accounts.
- The skill set and allocation of human resources within the organizational structure should be driven by the necessary activities and the level of sales effort need to achieve success with the target accounts.
- The structure should reflect the proper balance between the need for centralized authority and providing managers and salespersons at lower levels with sufficient latitude to make decisions needed to close sales transactions within acceptable parameters.
- Spans of control within the organizational structure should be reasonable and allow for adequate managerial support.
- The structure should include processes for coordinating activities among different sales groups working on common projects or types of accounts.
- The structure should be stable and transparent yet provide for flexibility that allows the sales organization to quickly adapt to changes in the market place.

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Factors Affecting Organizational Design

The following five factors are the most common. They are as follows:

1. **Organizational size:** The larger an organization becomes, the more complicated it becomes. If the organization is very small, it may not even have a formal structure. Small organizations are usually organic systems. Large organizations develop formal structures as tasks are highly specialized and detailed rules and guidelines dictate work procedures. That is the reason larger organizations are often mechanistic.
2. **Organization life cycle:** Organizations, tend to progress through stages known as a life cycle having four stages: birth, youth, midlife, and maturity. The older the organization and the larger the organization is, the greater the need for more structure, more specialization of tasks, and more set procedures and rules.
3. **Strategy:** How an organization is going to position itself in the market in terms of its product is considered its strategy. A company may decide to adopt a differentiation strategy, or it may decide to follow cost-leadership strategy. Each of these strategies requires a structure that helps the organization reach its objectives
4. **Environment:** It can be either stable or dynamic. In former, the customers' desires are well understood and probably will remain consistent for a relatively long time. In a dynamic environment, the customers' desires are continuously changing. Organizations operating in stable external environments find mechanistic structures to be advantageous while those operating in volatile and frequently changing environments are more likely to find an organic structure.
5. **Technology:** Advances in technology are the most frequent cause of change in organizations since they generally result in greater efficiency and lower costs for the firm.

1.14 Sales Organization Structure

Nowadays all companies are trying to find ways to make the entire organization customer oriented. This approach allows more flexibility and responsiveness in today's competitive global environment. Every company wrestles with the problem of organization. Reorganization is often a necessity in order to reflect new strategies, changing market conditions, or innovative production technologies. Organizing is important because it develops from strategy. Strategy defines what to do; organizing defines how to do it. Organizational structure is a tool managers use to harness resources for getting things done. The right organizational structure does not guarantee results but the wrong structure can definitely worsen the results. The structure of sales organization differs from company to company. The structure of the sales-organization usually depends upon the following factors:

- Nature and size of the firm
- Departmental functions and strengths
- Organization related factor
- Marketing mix(product, price, place, promotion, packaging) related factor
- External factor
- Selling-policies of the firm
- Financial conditions of the firm
- Personalities & abilities of various sales personnel
- The customers
- The practices of competitors

Organizational structure is the relatively fixed, formally defined relationship among jobs within the firm. A strategy's success is often determined by the strategy's fit with organizational

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structure. Structure is reflected in an organizational chart. Thomas (2009) defined two types of sales organization structures depending upon the span of control and the number of management levels. They are as below:

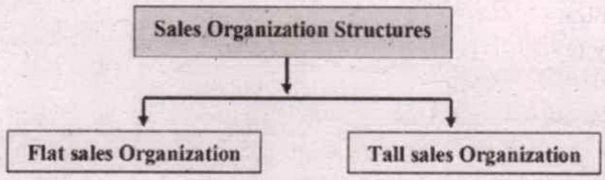

Figure 1.5: Organizational Structures, Thomas (2009)

Let us understand them in detail:

1. **Flat sales organization:** In a flat sales organization structure the number of management levels tend to be less while compared to the tall sales organization structure. The organization structure is explained by the following diagram:

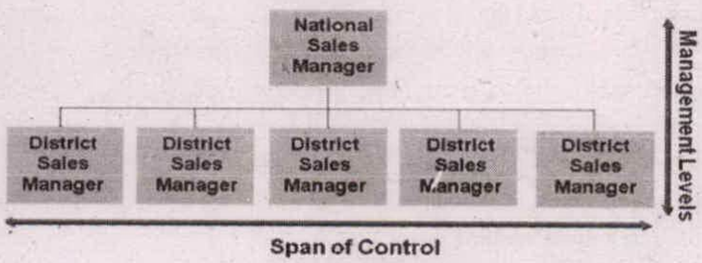

Figure 1.6: Flat Sales Organization

In such a structure the span of control is large for each sales manager thereby creating a de-centralized system. Since the management levels are less, the reporting structure is also less complicated. Lot of companies try to have a flat sales organization structure where they can decentralize the system and give more authority to the employees at the lowest level to take most of the decisions without the influence of the higher authorities at the head office. There are several advantages and disadvantages of this sales organizational structure. Some of the advantages include:

- **Increased speed of operations:** Since most of the decisions can be taken at the branch level and doesn't require the higher authority permission, the day to day activities can be done efficiently.
- **Better communication channels:** Since the number of levels between the top management and the middle management are less, this leads to a better and faster way of communicating the information in the organization
- **Decreased costs:** Since the number of levels is reduced, the number of employees to manage the organization also decreases. This leads to the lower wages to be paid and fewer resources like office space, computers etc. would be required.

Some of the disadvantages include:

- **Lesser control over employees:** Due to decentralization, lesser control would be there on the decision making process which may affect the entire organization.
- **Lesser promotion levels:** Due to the decreased number of levels, the employees at the bottom level have to work hard to earn a promotion. Several employees work hard and stay in their current positions as there are no vacancies in the higher posts. This might become a de-motivating factor for the employees at work place.

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2. **Tall sales organization:** In a tall sales organization structure, the number of management levels tends to be more while compared to the flat sales organization structure. The organization structure is explained by the following diagram:

A tall sales organization has more levels, a centralized control of decision making and takes a longer time carrying out daily operations due to more hierarchy. Some of the advantages of the tall sales organization are:

- **More promotion levels:** Due to more management levels the employees can have a clear idea of which level they will be promoted next. This leads to greater satisfaction levels and motivates the employees to work effectively and efficiently.
- **Increased responsibility and control:** Due to lower span of control each employee knows clearly the manager and the manager knows clearly which employees or sales representatives they have to take care of and control. The tasks are defined clearly to the employees who will be responsible for the outcomes.

Some of the disadvantages include:

- **Increased costs:** Due to the more management levels, more employees need to be hired and hence more costs would be incurred to the organization.
- **Decreased speed of operations:** Since the decisions have to approved by the higher authority due to centralized decision making process, the operation might take place slowly when compared to the flat organizational structures
- **More supervision for employees:** From the employee point of view more supervision may become a de-motivating factor.

Defining Roles: Generalists or Specialists: The first step is to determine the organization's current placement on the organizational life cycle. Generalists are typically deployed in organizations that are either in their infancy, or trying to cut costs in the decline phase of their life cycle. Specialists are initially deployed to increase revenue during the growth phase and are typically more effective. Sales forces specialize in three different ways:

- By product,
- Selling activity, and
- Industry vertical.

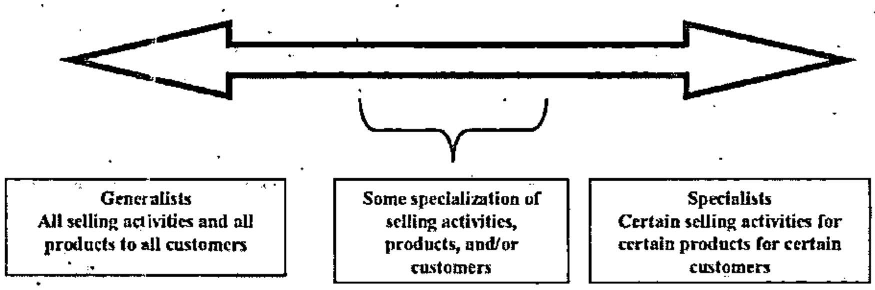

Figure 1.7: Sales Force Specialization Continuum

Product specialization is most effective when vast knowledge is required to sell the product or service in the market; for example in High-tech and medical fields. Specialization by selling activity is found in many industries. It takes place in two ways – first is focusing on new client acquisition and second is cultivation of current customer relationships to drive revenue growth. Specialization by industry vertical is recommended when a sales professional with deep industry knowledge represents a competitive advantage over a generalist representative with similar offerings. Generalists sell every offering to all the customers and prospects in a given geographic area.

Notes

Table 1.1: Specialization V/s Generalization

Specialization	
Advantages: • Typically more effective • Knowledge of a product, activity, or vertical • Strategic Focus • Clarity of role • Strong customer Focus	Disadvantages: • More costly • Increase travel time • Customer confusion
Generalization	
Advantages: • Geographic knowledge • Limited travel costs • No duplication of effort • Sales rep owns market	**Disadvantages:** • Less effective • Risk of misplaced focus

The grouping of activities into positions and the charting of relationships of positions causes the organization to take on structural form. No two firms would have identical sales organization as their needs and expectations, markets, products, company size and marketing mix elements differ from each other. There are many forms of sales organization structure and to find the right one can be both difficult and challenging. The main characteristics, advantages, and disadvantages of each type of sales organization shall be discussed in subsequent sections.

1.15 Line Sales Organization Structure

The main characteristics of a pure line sales organizational structure are as following:

- The line sales organization is the oldest, simplest and most basic of all the sales organizational structures.
- It is widely used in firms that are smaller in size or with small numbers of selling personnel or cover a limited geographic area, or sell a narrow product line.
- The chain of command and lines of authority run vertically down through the structure.
- All executives have line authority over their subordinates who in turn are accountable only to their immediate superior.
- This is the reason for calling this organization as scalar organization which means scalar chain of command is a part and parcel of this type of administrative organization.
- Responsibility is definitely fixed, and those charged with it also make decisions and take action.
- Theoretically, there is no cross communication between persons on the same level.
- Contacts between persons on the same level are indirect and are affected through the next higher level.
- Since lines of authority run vertically in this structure, executives at each level are generally independent of all others at the same level.
- The line sales organization sees its greatest use in companies where all sales personnel report directly to the chief sales executive.

Notes

- In these companies this executive often is preoccupied with active supervision and seldom has much time to devote to planning or to work with other top executives.
- Specialized and supportive services do not take place in these organizations.
- Unified control by the line officers can be maintained since they can independently take decisions in their areas and spheres.
- In this type of organization, the line of command flows on an even basis, bringing efficiency in communication and resulting in co-ordination and stability to a concern.
- The figure below shows the hierarchical structure of a typical line sales organization structure:

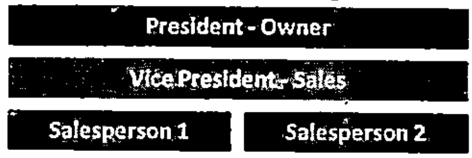

Figure 1.8: Line Sales Organization

The merits and demerits can be outlined as below:

Table 1.2: Merits and Demerits of line Sales Organization

Merits	Demerits
Lines of authority and responsibility are fixed, logical and clearly delineated	It place great demands on the time and abilities of the top sales executive.
Difficult for individuals to shift or evade responsibilities. Definite placement of authority and responsibility saves time in making policy changes, in deciding new plans, and in converting plans into action. Decisions are made rapidly and communicated quickly	With all the field reporting finally coming to him/her through his/her subordinates/area sales manager, most of the time would be taken up by the task of sales supervision and direction leaving him/ her with little time for planning and policy making.
Executives who come up through a line organization are frequently strong leaders. As the typical line sales department has few organi-zational levels, administrative expenses are low.	The chief executive is sometimes forced to take decisions on issues without adequate planning which yields unsatisfactory results.
The control is unified and concentrates on one person and therefore, decisions can be taken independently, thus, discipline and control are better	As the line organization has no support from subordinates who have specialized knowledge / skills, the top sales executive needs to be a person with outstanding ability and all round knowledge of every facet of the sales function.
Simplicity makes it easy for executives to develop close relations with salespersons.	Since, everyone is jack-of-alltrades; lack of specialization can hinder the firm's growth.
There is unity of command as superior-subordinate relationship is maintained and scalar chain of command flows from top to bottom.	In this type of organization the key people are difficult to replace

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There is a co-ordination between the top most authority and bottom line authority.	Line organization becomes inappropriate in case of rapidly growing organizations or those with large sales staffs, as growing departments necessitate additional layers of executives to be added.
Since the authority relationships are clear, line officials are independent and can flexibly take the decision. This flexibility gives satisfaction to line executives.	Sound organizational practice dictates that trained under studies be ready to step into the shoes of their superiors. But more often than not, chief sale executive in line sales organizations fail to groom their own replacements.
Salespeople tend to feel they make a major individual contribution to the firm.	Offers little opportunity to subordinates to acquire management skills

1.16 Line and Staff Sales Organization Structure

The main characteristics of a line and staff sales organizational structure are as following:

- Line and staff sales organization structure usually results as the size of the operations grow.
- Line and staff organization is a modification of line organization and it is more complex than line organization. It is more complex than line concern.
- There are two lines of authority which flow at one time in a concern:

  (a) Line Authority, (b) Staff Authority
- It is characteristically found in medium and large firms with sizeable staff selling diversified product lines.
- According to this administrative organization, specialized and supportive activities are attached to the line of command by appointing staff supervisors and staff specialists who are attached to the line authority.
- These specialists are experts in their own fields which could be sales training, service, sales analysis and planning, dealer relations, sales promotion, and sales personnel development and so on.
- While staff executives and assistants do not have the line authority to command, they advise the line executives through recommendations and provide the benefit of specialization in the organization.
- The inclusion of the staff component frees the line executives from the burden of detail.
- By delegating problems involving in depth study or detailed analysis to staff specialists, the top executive gets more time for strategizing, policy making and planning.
- A pool of experts becomes available for providing advice and assistance in specialized fields. The activity of planning can also be subdivided and assigned to staff specialists.
- More information is also made available for better decision making.

The figure below shows the hierarchical structure of a line and staff sales organization structure.

Table 1.3: Merits and demerits of Line and Staff sales organization Structure

Merits	Demerits
• The line executives can concentrate on the execution of plans and they get relieved of dividing their attention to many areas.	• The staff executives tend to overstep their advisory authority and try to, and sometimes succeed in assuming the authority to issue orders and directions. This presents the

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• The line and staff organization facilitates expert advice to the line executive at the time of need. • There is benefit of specialization in the form of staff specialists in diverse areas of organizational concern.	difficulties of dual subordination and may create confusion. It has been observed that to a large extent these problems can be minimized if all areas in which line and staff executives have to share authority and responsibility are specifically written down as components of the job description.
• Line and staff organization through specialization is able to provide better decision making and concentration remains in few hands. This feature helps in bringing better co-ordination in work as every official is concentrating in their own area.	• The line official gets used to the expertise advice of the staff. At times the staff specialist also provides wrong decisions which the line executive has to consider. This can affect the efficient running of the enterprise.
• Due to the advice of specialized staff, the line executives get a wide scope to bring innovations and go for research work in those areas. Thus, the benefits of research and development are reaped. • The presence of staff specialists and their expert advice serves as ground for training to line officials. • The relationship between line and staff automatically makes the line official to take better and balanced decision. • Due to better and detailed analysis of a problem, there is scope of better marketing decisions resulting into superior sales performance	• The problem that arises with line and staff organization is basically one of coordination. The work of the staff needs to be actively coordinated with the operations of the line department and generally a lag develops as reports and recommendations take time to compile. • Line and staff organization also sometimes generate problems of interpersonal relations. • The fact that staff executives do not share direct responsibility for results is also resented by some line executives. • The organizations have to maintain the high remuneration of staff specialist. This proves to be costly for a concern with limited resources. • The higher returns may be considered to be a product of staff advice and counseling which results in the line officials feeing dissatisfied.

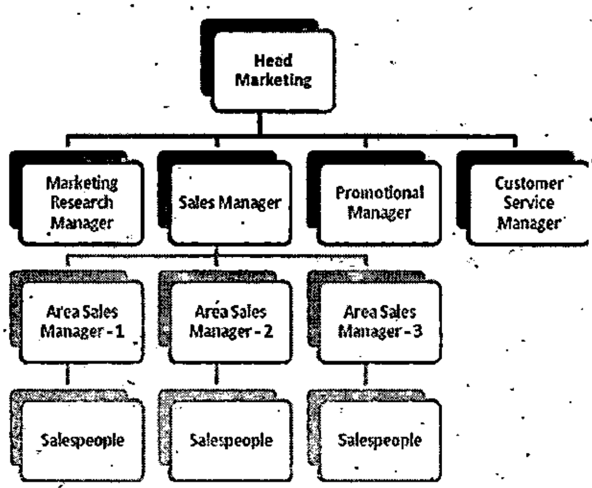

Figure 1.9: Line and Staff Sales Organization Structure

The merits and demerits can be outlined as below:

1.17 Functional Sales Organization Structure

Notes

The main characteristics of functional sales organizational structure are as following:

- The concept of Functional organization was suggested by F.W. Taylor who recommended the appointment of specialists at important positions.
- It is a complex form of organization compared to the first two detailed above.
- The entire organizational activities are divided into specific functions such as operations, finance, marketing, personal relations etc. Each functional area is put under the charge of functional specialists and he has got the authority to give all decisions regarding the function whenever the function is performed throughout the enterprise.
- A functional sales organization divides managers and salespeople into groups based on specific and distinguishable categories of sales activities.
- Functional sales organization is aimed at using the principle of specialization to the fullest extent.
- The functional organizational structure gives all executives, each a specialist in his or her own field, a direct authority to command and issue orders; at a time, there are three authorities existing: line, staff and function.
- It simply means that at any given time, a salesperson could be under instructions from a number of executives and are accountable to different executives, on different aspects of their work.
  - Principle of unity of command does not apply to such organization.
  - The top sales executive has the coordinating responsibilities in respect of the action of functional heads.

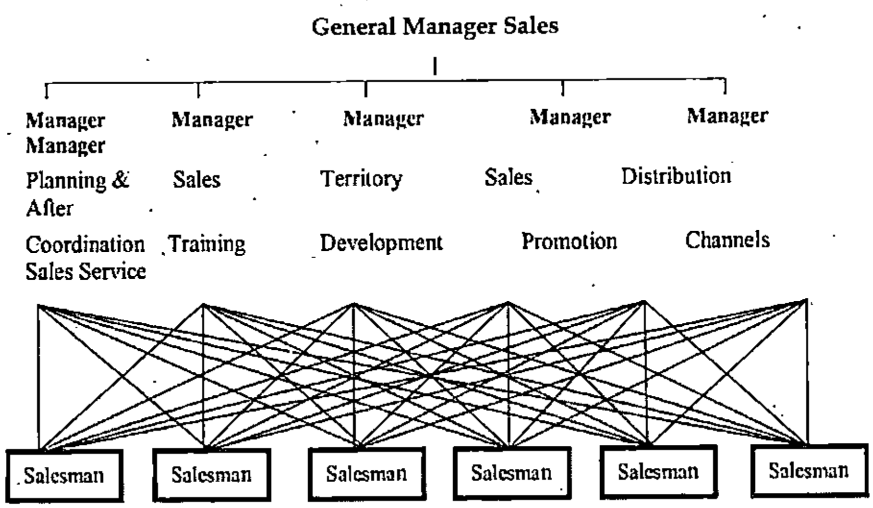

Figure 1.10: Functional Sales Organizational Structure

- Functional organization is suitable for large firms with stable operations and with opportunity for considerable division of labor
- A functional organizational structure is best suited to the situation where the company is active in only one small territory and has a narrowly defined group of relatively similar accounts.

Notes

The merits and demerits can be outlined as below:

Table 1.4: Merits and demerits of Functional Sales Organization Structure

Merits	Demerits
• The outstanding advantage claimed for the functional sales department is improved performance as this allows companies to be more efficient with respect to performance of specific activities relating to the sales process.	• In larger firms where the size of the sales force is substantial, the degree of centralization necessitated by the functional organizational structure renders the operation inefficient.
• Better division of labor takes place	• Smaller and medium sized firms on the other hand find the system expensive because of the high degree of specialization.
• Specialized activities are assigned to experts, whose guidance should help in increasing the effectiveness of the sales force.	• Managers in different functions may find it more difficult to communicate and coordinate with one another.
• Management control is simplified as the mental functions are separated from manual functions.	• Functional managers may become so preoccupied with supervising their own specified departments that they lose sight of organizational goals.
• Checks and balances keep the authority within certain limits.	• Disciplinary control becomes weak as a worker is commanded not by one person but a large number of people. Thus, there is no unity of command.
• Specialists may be asked to judge the performance of various sections.	• Due to multiple authorities, it is difficult to fix responsibility.
• Greater efficiency is achieved because of every function performing a limited number of functions.	• There may be conflicts among the supervisory staff of equal ranks. They may not agree on certain issues.
• Specialization compiled with standardization facilitates maximum production and economical costs in case of large firms.	• Maintenance of specialist's staff of the highest order is expensive for a concern.
• Expert knowledge of functional manager facilitates better control and supervision.	• Another weakness of the structure is that burden of coordinating the activities of highly diverse specialists is placed on a single individual. In case that individual is not capable enough in this regard, the whole structure is likely to become cumbersome and ineffective.

As the company grows however the amount of potential geographic and customer duplication increases significantly.

1.18 Geographic Sales Organization

The main characteristics of a geographic sales organizational structure are as following:

- Many large corporations are organized by geographic territory.
- With this structure, each territorial unit can be treated virtually as a separate company or profit center.

- The sales manager of a given territory often has complete responsibility for meeting that unit's sales objectives.
- The unit can be called a division, region, branch, or district.
- Salespersons assigned to a specified geographic area responsible for all types of accounts in a particular geographic territory (e.g., a town, city or country) and generally are permitted and expected to promote and sell all of the company's products to those accounts.
- Sales personnel are, and will sell only to customers in that area.
- When the sales organization is organized geographically the responsibilities of the managers and salespersons will be defined by reference to particular geographic areas. For example, the leader of a geographic sales organization may be the national sales manager and he or she may have regional sales managers for two or more parts of the country, each of whom report to the national sales manager. Each regional sales manager may divide his or her territory into two or more zones, each of which has a zone sales manager reporting to the regional sales manager. These zones may be further subdivided into districts that are overseen by district sales managers accountable to the applicable zone sales manager. At the bottom of the hierarchy would be the non-managerial salespeople who are given their goals and objectives by, and report to, one of the district sales managers.
- It is possible to create a generic sales training program that can be used with all salespeople regardless of where they are located and thus the appropriate placement for the leader of the sales training initiative is near the top of the organizational hierarchy where training activities can be easily be coordinated with the national sales manager and then mandated downward to the various regions, zones and districts.
- The marketing plans are adjusted to local needs.
- Each geographical unit is given the same support by the home office, and each has its own performance goals passed down from higher management.
- Geographically-based sales allow salespeople to know their markets and develop appropriate approaches to an area.
- It also can prevent salespeople from bumping into each other if their maps and territories are well defined.
- Industries that use this approach include direct cosmetic sales, telecommunications; print advertising etc.
- Geographic organization is generally more effective when the product line is not too wide or consists of relatively simple, non-technical products and the requirements of each customer are similar.
- Geographic organization is often combined with other methods of organization.

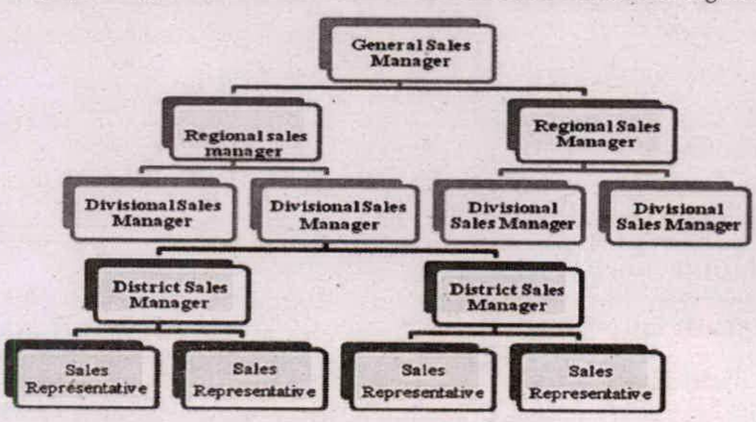

Figure 1.11: Geographic Sales Organization Structure

Notes

The merits and demerits can be outlined as below:

Table 1.5: Merits and demerits of Geographic Sales Organization Structure

Merits	Demerits
• A major advantage which characterizes the geographic organization is that the sales personnel usually have a smaller area of operation than in the other organizational schemes and over a period of time get to know their customers and markets intimately which can lead to intensive market cultivation.	• On the other hand, geographic organizational structures limit access to the advantages of other specialization structures
• The organization becomes equipped to quickly sensitize local needs and give timely response to local conditions and competition.	• Make it difficult to for senior management to emphasize investment of resources in particular products or types of customer accounts.
• The geographic organization is generally a flat rather than tall organization and the shorter lines of communication make for greater effectiveness of supervision and control.	• The disadvantage with geographic specialization is that the sales persons need to be responsible for the entire product line in their territory and they may not be equally knowledge about all products, hence, there are limited or few real experts in the field.
• The travel time and expenses can be reduced if call patterns are properly devised.	• Each salesperson must understand how to sell every product in his assigned region and if product line requires specialized knowledge, training the salespeople could get expensive.
• A geographic structure is generally considered to be cost effective and avoids the duplication of resources since a single salesperson is responsible for communicating with an account rather than a different salesperson for each major product line.	• On the other hand, because multiple offices are set up, administrative expenses and the burden of coordinating the sales activities of a widespread organization become heavy.
• The use of such a structure also avoids the need for supporting multiple salespersons in each territory. • Allow for more rapid and efficient decision processes.	• Further within the territory, salespeople may choose to concentrate on products and customers that are easy prospects.
• There is better market coverage and customer service. • It is possible to have more control over sales force.	• This structure does not provide any benefits from the division and specialization of labor.

1.19 Product Sales Organization

The main characteristics of a product sales organizational structure are as following:

- When the sale organization is organized by product the responsibilities of the managers and salespersons will be defined by reference to a particular product or a related group

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of products. For example, a consumer electronics products company might have product groups for laptop computers, desktop computers, monitors and mobile communication devices.

- The entire company may be organized by product with separate sales, advertising, marketing, a separate support staff created for each product and so on; though some functional units may remain centralized (for example advertising).
- These sales divisions are treated as a separate company or profit center, just like geographic divisions are.
- Large companies quite commonly use a combination of product and geographic departmentalization.
- In fact, it is difficult to find medium to large companies organized solely by product.

Product specialization is necessary or at least useful when: The products are very technical or of a complex nature. A large number of similar but separate products exist. Products are relatively simple but completely different. Product lines are distributed through entirely different trade channels. Different products are sold to similar markets. When any combination of these factors is present, a company needs to explore the possibility of product specialization of the sales force. This is especially true with products that are highly technical or which are sold to professionals. Medical device and equipment sales, for example, require a salesperson to have an in-depth understanding of his product.

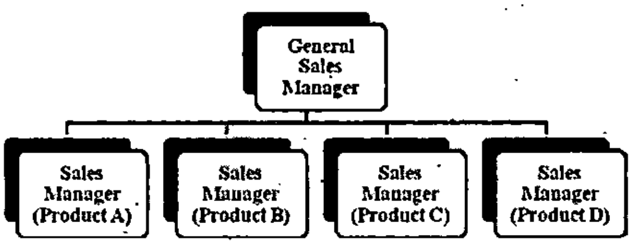

Figure 1.12: Product Sales Organization Structure

The merits and demerits can be outlined as below:

Table 1.6: Merits and demerits of Product Sales Organization Structure

Merits	Demerits
• The obvious advantage associated with a product organizational structure is the opportunity for product-based specialization where salespersons acquire and dispense expertise in particular product applications. It leads to development of product experts.	• This type of structure tends to be more costly than a geographic structure since there needs to be product specialists in each territory.
• Having salespeople become experts in a specific product or product line can make them stronger sellers. • It is consistent with market driven strategy. • The advantage of product specialization is that each product receives close attention from the salesperson responsible for selling it. In case of complex products, the salesperson can master the necessary information to sell the product effectively.	• In addition, efficient servicing of particular customer accounts becomes more problematic, especially for larger customers purchasing different groups of products, since two or more product specialists will be calling on those accounts and there may be confusion within the customer's buying function as to who they should be dealing with inside the company's sales function.

• The advantages of an organization based on geographic specialization also apply. • It puts divisional managers close to their customers and lets them respond quickly and appropriately.	• A company organized by product specialization will often have different sales personnel calling on the same customers trying to sell them different products. This costs for the company time for repeated calls by the sales people and costs the customer time spent with each salesperson resulting in higher cost and customer dissatisfaction.
• By organizing the sales force so that each salesperson is responsible for selling only the products she knows best, the effectiveness of the whole sales force is increased.	• The disadvantage of this approach is the potential for redundancy and scarcity. As consumer demand shifts from one product to another, one might end up with too many specialized salespeople in one area and too few in another.
• It enables closer cooperation between sales and production. • This structure enables sales management to control the selling effort across the company's various products.	• The drawbacks of product specialization are also similar to those of geographic specialization.

1.20 Customer Sales Organization Structure

The main characteristics of a market or customer sales organizational structure are as following:

- A market structure (also called customer structure) is an organizational structure in which each kind of customer is served by a self-contained division.
- In this case, the manager group sales force according to the type of customer buying the product.
- When the sales organization is organized by markets or customers, the responsibilities of the managers and salespersons will be defined by reference to a particular group of customers. For example, to oversee sales activities to identifiable groups of customers, such as commercial, government and retail accounts.
- It allows managers to be responsive to the needs of customers and allows them to tailor an organization's products to each customer's unique and changing needs.
- It is desirable when customers are classified by type, user industry, or channel.
- Salespeople carry out all activities for all products only for specific customer groups
- As is the case with a product sales organization, each market-based manager may divide his or her area of responsibility into geographically based areas.
- Each market based manager should be given some latitude regarding how he or she organizes the various levels of the hierarchical structure that the manager oversees. For example, when one of the markets is much larger than the others there may be more levels in the organizational structure for that market. In this way the market based manager can increase or reduce the number of reporting relationships that he or she needs to handle to a manageable number.
- It is clear that different sales strategies are required when dealing with different customers or markets.
- Companies with several separate and distinct markets accounting for major portions of their sales often organize based on these markets or customers.
- Further sub divisions within market orientation are structures such as major/ named or national account management (NAM) or global (GAM) account management

- Firms frequently shift from the product organizational structure to a structure based on customers. Markets then become the major sales emphasis. This seems to be the best specialization method for firms today.
- Sales people are more effective when they become experts in a particular type of client and can develop sales techniques which fit a particular type of target.
- Market or customer specialization enables the sales persons to become more knowledgeable about the unique problems and needs of each group of Customers.
- A Customer oriented sales force is consistent with the marketing concept with its increased emphasis on consumer satisfaction.

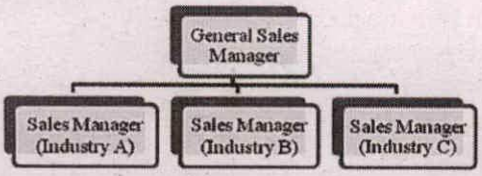

Figure 1.13: Organization structure by type of Industry

Figure 1.14: Organization structure by type of Customer

The figure below shows the hierarchical structure of a customer sales organization structure:

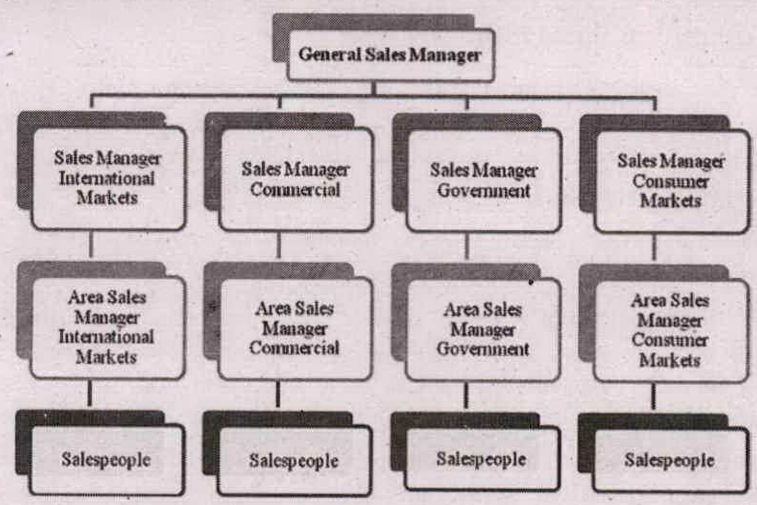

Figure 1.15: Market (Customer) Sales Organization Structure

The merits and demerits can be outlined as below:

Table 1.7: Merits and demerits of Market/Customer Sales Organization Structure

Merits	Demerits
• Give a better understanding and an ability to meet the needs of specific customer groups.	• Each section of the sales force needs broad knowledge to sell the product properly.

Notes

• Implements customer-centered philosophy of the company. • One major advantage to this structure is having industry/solutions experts. • Another advantage to a client-based approach is that clients often feel like they have more of a relationship with their sales representative and get the sense of greater customer service since the sales effort is designed around them. • The greater market specialization developed as a result of constantly working with the same set of consumers imparts a degree of professionalism to the sales task and has been found to result in lower turnover of sales personnel. • Market organizational structures promote great understanding of the unique customer requirements and allow companies to efficiently allocate managerial resources among customer markets. • Easier to train for different selling approaches for different markets. • Leads to new and innovative product/ service ideas. • Better ability to control selling effort across different markets.	• The main disadvantage of this form of specialization is that geographical territories may typically overlap. • There may be a number of the company's representatives covering the same geographical area, but serving different customers, often resulting in higher costs.

1.21 Committee Sales Organization

The main characteristics of a committee sales organizational structure are as following:

- It is a method of organizing the executive group for planning and policy formulation while leaving actual operations, including implementation of plans and policies, to individual executives.
- In committee sales organization the committee is never the sole basis for organizing a sales department.
- Thus, many firms have a sales training committee (comprised of the general sales manager, his or her assistants, the sale training manager, and perhaps representative divisional or regional sales managers) that meets periodically to draft training plans and formulate sales training policies.
- Implementation of these plans and polices, however is the responsibility of the sales training manger, if the company has one, or of the line and or staff executives responsible for sales training in their own jurisdictions.
- Other committees found in sales organization include customer relations, operations, personnel, merchandising, new products etc.
- Co – ordination is of utmost importance in committee sales organization.
- For committees to operate effectively, other precautions are necessary.
- The agents must be planned and controlled to avoid wasting time of executives not directly interested in the topics considered.
- The chairperson should not dominate. Chairpersons should guide discussion within specified bounds, but they should not force their opinions on others.

The merits and demerits can be outlined as below:

Notes

Table 1.8: Merits and demerits of Committee Sales Organization Structure

Merits	Demerits
• The use of committees in the sales department is advantageous since before policies are made and action is taken, important problems are deliberated by committee members and are measured against varied viewpoints.	• However, unless decision- making and policy formulation are left to specific individuals, it is impossible to fix responsibility.
• Committee meetings, where ideas are interchanged and diverse opinions are present, promote coordination among members of the executive team.	• Committees render their most important service in providing focal points for discussion and for the making of suggestions; so many companies prohibit committees from making decision or formulating policies.
• When problems are aired in the give and take of committee meetings, cooperation is likely to be better than under any other organization plan.	• There is a risk of a committee developing in to a vehicle for the evasion of responsibility.

1.22 Combination or Hybrid Sales Organization

The main characteristics of a combination or hybrid sales organizational structure are as following:

- One way to minimize disadvantages and maximize advantages of specialization organizations overcome the disadvantages associated with a particular form of sales organizational structure is to implement some version of a hybrid structure that uses two or more of the basic structural dimensions.

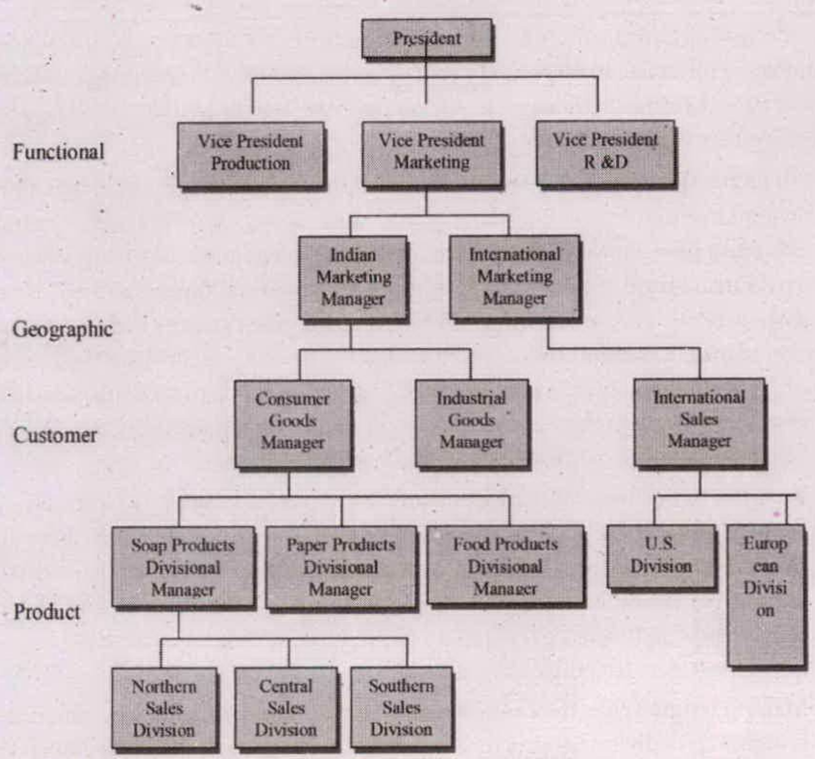

Figure 1.16: Multiple Design Factors

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- Large companies commonly begin with a functional structure, develop geographic departments, split along product division lines, and end with a customer focused structure. Typically, a combination of these structural methods is used.
- The figure given below depicts the multiple design factors. It illustrates a company with production, marketing and engineering functional specialists; the firm sells both consumer and industrial goods in both India and Foreign markets. The consumer goods division sells three categories of products through three geographically organized sales force divisions.

Figure below shows combination of geographic and market specializations:

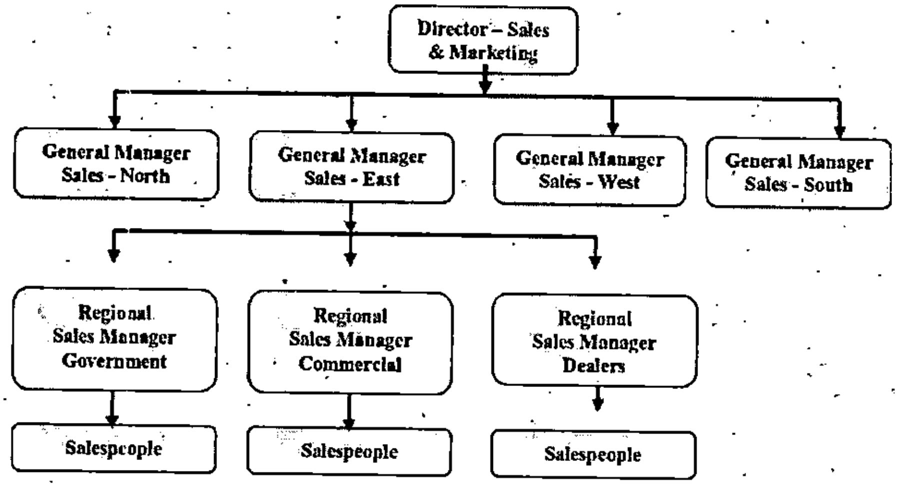

Figure 1.17: Combination Sales Organization

1.23 New Forms of Sales Organization

Recently, increasing globalization and the use of new IT has brought about innovations in organizational architecture. In response to changing demands and new strategic requirements, new organizational forms are emerging. All represent efforts to become more responsive to customers. The new concepts include:

- **Strategic Alliances:** A strategic alliance is a formal relationship created with the purpose of joint pursuit of mutual goals. In a strategic alliance, individual organizations share administrative authority, form social links, and accept joint ownership. Such alliances are blurring firms' boundaries. They occur between companies and their competitors, governments, and universities. Such partnering often crosses national and cultural boundaries. It commits two or more companies to exchange or share their resources in order to produce and market a product. Companies form strategic alliances to develop new technologies, enter new markets, and reduce manufacturing costs. Alliances are often the fastest, most efficient way to achieve objectives.
- **Business to business network structure:** A business to business network structure is a series of global strategic alliances that one or several organizations create with suppliers, manufacturers, and/or distributors to produce and market a product. Network structures allow an organization to manage its global value chain in order to find new ways to reduce costs and increase the quality of products, without incurring the high costs of hiring managers to complete these tasks.
- **Matrix Design:** When the environment is dynamic, changing rapidly, and uncertainty is high, even a divisional structure may not provide enough flexibility. Matrix design is one of the most flexible types of organization structures. In a matrix structure, managers

group people in two ways simultaneously: By function, and By product. The result is a complex network of reporting relationships that makes the matrix structure very flexible. Each person in a product team reports to two bosses: a functional boss, who assigns individuals to a team and evaluates performance, and the boss of the product team, who evaluates their performance on the team. Teams are empowered and team members are responsible for making important decisions, to keep the matrix structure flexible. Matrix structures have been successfully used for years at high-tech companies where new product development takes place frequently and the need to innovate quickly is vital to the organization's survival.

- **Product Team Structure:** The dual reporting relationships of a matrix structure have always been difficult for managers and employees to deal with. To avoid these problems, managers have devised another way of organizing people and resources in the form of a product team structure. The product team structure differs from a matrix in that: It does away with dual reporting relationships and two-boss managers, and Functional employees are permanently assigned to a cross-functional team. In this, a group of managers brought together from different departments to perform organizational tasks. They report only to the product team manager. Increasingly, organizations are making empowered teams an essential part of their organizational architecture to help them gain a competitive advantage in fast-changing organizational environments.
- **Team-Based Organizations:** Many organizations are more responsive to their environment because they use work teams as their basic building blocks; that is they are team based organizations. Teams are made of different functional units, such as manufacturing, technical support, marketing, and sales. These cross-functional teams are composed of a defined group of individuals bringing together expertise from different parts of the supplier organization to capture, retain, and increase business with customers. Cross- functional teams operate separately from traditional, vertical lines of authority. Moreover, cross-functional teams often are short lived. Teams form, complete their tasks, disband, and then new teams form. People may be members of more than one cross-functional team simultaneously.

1.24 Key Account Planning

Companies do realize the need to pay special attention to and take extra care of their major customers. Most of the organizations have about 60-80 percent of sales coming from their major customers. Companies refer to these major customers with different terms such as house accounts, corporate accounts, headquarter accounts, key accounts, or national accounts. Irrespective of their names, the loss of such customers would substantially affect a company's sales and profits. It is far easier to sell to an existing account than it is to open a new account. A company's customers are their most critical asset and planning for their successful retention is critical. Revenue concentration, whereby a small number of accounts contribute the majority of the revenue, is the norm in today's marketplace. These key account revenue streams need to be defended and expanded. Key accounts need more service than smaller accounts (80/20 Rule). As a result, some organizations have special organizational structures set up specifically to deal with key accounts.

Identification and Staffing of Major Accounts: Companies should establish criteria for identifying major accounts that might warrant special accommodation in the sales organizational structure. One simple method is to evaluate two dimensions:

An account that is small and simple is likely to be categorized as a regular account while an account that is large and simple would be categorized as a large account. An account that is small yet complex would be classified as a complex account. Finally an account that is large and complex which generally means it will require substantial returns on any required investment would presumably meet the criteria for designation as a major account. Once the company has

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an idea of which accounts qualify as 'major', they need to decide how those accounts will be serviced. Key Account Planning is focused on:

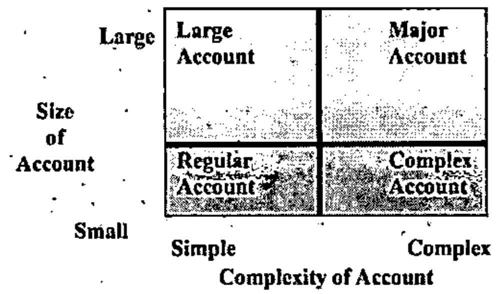

Figure 1.18: Identifying Major Accounts

- Determining an account's attractiveness score,
- Performing an account opportunity assessment,
- Recruiting the identified customers into a key account program, and
- Growing the revenue, profits, and satisfaction levels with this set of customers.

Key Account Programs Produce the following Benefits:

- Higher customer loyalty
- An increase in revenue from key accounts
- Lower customer churn
- Better product mix

Generally, companies use four basic methods to organize their sales forces to serve key accounts shown in the figure below:

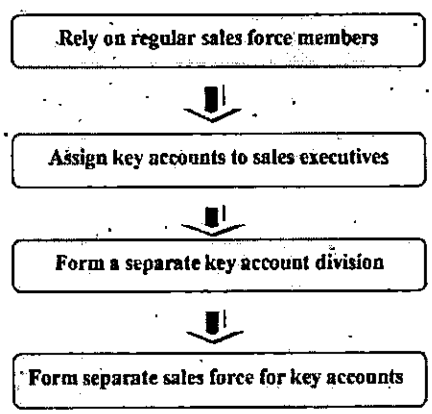

Figure 1.19: Ways to serve key accounts

Rely on regular sales force members: The advantage is that there is no additional administrative or selling expense. While the disadvantage is that the major accounts often require more detailed and sophisticated treatment than smaller customers.

Assign key accounts to sales executives: The advantage lies in here that important customers are serviced by people high in the organization who have authority to make important decisions. On the other hand, the disadvantage is that:

- Managers sometimes allocate too much of the firm's resources to their own accounts to the detriment of smaller, but still profitable customers.
- Assigning selling tasks to managers takes time away from their management activities.

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- **Separate key account division** – The advantage is that it allows for the close integration of functional areas, while, the disadvantage is that there is:
- Duplication of effort, Tremendous additional expense and Risky

Separate sales force for major accounts: The advantages are as follows:

- Account managers can become familiar with their customers' needs and provide a high level of service to them
- The firm can select its most competent sales people to become members of the national account sales force
- Provides an internal benefit to the selling company (i.e., motivation mechanism)

1.25 Conceptual Framework

Let us first clarify a few important terms and concepts associated with personal selling. Sales management, management of sale force, sales force management, personal selling, salesmanship, well an outright confusion, unless and until we examine all, one by one. Once getting started, things become simpler and same is the case here. Sales management is the broadest term. It is divided into two broader concepts, management of sales force and personal selling. Sales management directs the personnel-selling effort which, in tern, is implemented largely through salesmanship.

Sales management, originally referred exclusively to the direction of sales force personnel. Later, the term look on broader significance – in addition to the management of personal selling, "Sales management" meant management of all marketing activities, including advertising, sales promotion, marketing research, physical distribution, pricing and product merchandising. Then definition committee of American Marketing Association defined sales management as "the planning, direction and control of personnel selling, including recruiting, selecting, equipping, assigning, routing, supervising, paying and motivating as these tasks apply to the personal sales force".

Management of sales force or sales force management refers to recruitment and selection, training and development, administration, motivation, and control of field sales force. In a way it is the application of personal management concepts to the sales personnel.

Personal selling is defined as the oral presentation in a conversation with one or more prospective purchasers for the purpose of making sales. Salesmanship is the art of successfully persuading prospects or customers to buy products or services from which they can derive suitable benefits, thereby increasing their total satisfactions. Personal selling requires salesmanship or the art of successful persuasion. Besides salesmanship, it includes negotiation and relationship building. In managing personnel selling, the sales executive must understand the many activities comprising the sales person's job, know the problems sales personnel face and suggest solutions. The executive also has to negotiate with the prospective customer to clinch the deal and also has to make good relations that are very important for repeat purchase.

1.26 Hurdles for Personal Selling

Effective personal selling is sine-qua-non for success for every organization. However, there are lots of hurdles for in this field. Importance and hurdles for personal selling are discussed below:

Personal selling is useful for almost every product or service. It is particularly important when:

- The market is concentrated either geographically or in a few industries, or in a few large customers.
- The produce has a high unit value, is quite technical in nature, or requires a demonstration.
- The product requires to be fitted to an individual customer's need, as in the case of securities or insurance.

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- The product is in the introductory stage of its life cycle.
- The organization does not have enough money for an adequate advertising campaign.
- Personal selling is the individual, personnel communication of information, in contrast to the mass, impersonal communication of advertising, sales promotion and other; promotional tools. This means personal selling is more flexible than other tools.
- Sales people can tailor their presentations to fit the needs and behaviour of individual customers.
- Personal Selling can usually be focused or pinpointed on prospective customers, thus, minimising wasted effort.

Hurdles for Personal Selling

Although personal selling is essential for any company but there are certain limitations like:

- A high cost involvement is a major limitation even though personal selling can minimise wasted effort, the cost of developing and operating a sales force is high.
- The company is often unable to attract the quality of people needed to do the job. At the retail level, many firms have abandoned their sales forces and shifted to self-service selling for this very reason.

1.27 Types of Personal Selling

Discussed below are different types of personal selling and sales jobs:

Types of Personal Selling

There are two major kinds of Personal Selling:

Across the counter selling is one where the customers come to the sales people. It primarily involves retail - store selling. In this kind of selling, those sales people are also included who are with catalogue retailers or who take telephone orders. The other kind of Personal Selling is where sales people go to the customers. These people sell in person at a customer's place of business or home. These are termed as outside sales force.

Types of Sales Jobs

The types of selling jobs and the activities involved in them cover a wide range. People who sell are called by various names: salesmen, sales representatives, salespersons, account executives, sales consultants, sales engineers, field representatives, agents, and marketing representatives. Given below is the classification of sales jobs by Robert Mcmurry:

1. **Driver sales person (Deliverer):** In this job the sales person primarily delivers the product. For example, soft drinks, bread and milk salesman who deliver the respective products to retailers and/ or other customers. In these types of jobs, selling responsibilities are secondary. Actually, few of these salesmen originate sales.
2. **Inside order taker:** This is a position in which the sales person takes orders at the seller's place of business. Most of the sales persons visit grocery shops and general stores to take orders for various items.
3. **Outside order taker:** In this position the sales person goes to the customer in the field and accepts an order. Most of the sales person who takes orders by visiting various colonies and residential localities falls in this type of category.
4. **Missionary sales person:** This type of sales job is extended to build goodwill, perform promotional activities, and provide information and other services for the customers. This sales person is not expected to solicit an order. Medical representatives calling on doctors fall in this category.

5. **Sales engineer (Technician):** In this position the major emphasis is on the sales person's ability to explain the product to a prospective customer, and also to adapt the product to the customer's particular needs. The products involved here are complex, technically sophisticated items. A sales engineer usually provides technical support, and works with another sales representative who calls regularly on a given account.
6. **Creative sales person:** an order getter: This involves creative selling of goods and intangibles – primarily services, but also social causes and ideas (do not use drugs, stop smoking, and obey speed limits). This category contains the most complex, difficult selling jobs – especially the creative selling of intangibles, because you can not see, touch, taste, or smell, then customers often are not aware of their need for a seller's product, or they may not realize, how that product can satisfy their wants better than the product they are now using. Creative selling often involves designing a system to fit the needs of a particular customer.

   The above six types of sales jobs fall into three groups:

   (i) Order taker – (Categories 1,2 & 3)

   (ii) Sales support personnel (Categories 4 & 5)

   (iii) Order getter (Category 6)

1.28 Personal Selling Process

Many persons have developed models for personal selling. Some say that it is nothing but SPANCO (finding SUSPECTS, reaching PROSPECTS, APPROACH, NEGOTIATION, CLOSE, AND ORDER TAKING) other say that it is SPIN (SUSPECT, PROSPECT, INTERVIEW, and NEGOTIATION). Research studies, summarized by Schuster and Danes (1986) have shown that successful selling is associated with:

1. Asking questions.
2. Providing product information, making comparisons and offering evidence to support claims.
3. Acknowledging the viewpoint of the customer.
4. Agreeing with the customer's perception.
5. Supporting the customer.
6. Releasing tension.

However, in order to understand personal selling process we will distinguish nine phases. First two phases may be executed in the office itself and may be called the homework. Next seven phases are executed in the field and are termed as field work. Let us try to understand each one of these phases:

(i) ***Suspecting:*** This phase calls for preparing the list of existing as well as prospective customers. This is a kind of homework where you collect the names, addresses, and phone numbers etc. of all probable customers. Actually, a salesman has to prepare himself first. He has to locate the customers. For this, he has to decide the profile of prospects which is the next phase of selling process. List of suspects can be prepared after discussions with existing customers, retailers, wholesalers, suppliers etc. Computer data bases and websites may also be scanned for this purpose. Yellow pages, directories etc. may also help in this phase.

(ii) ***Prospecting:*** The probability of selling an item increases if you approach the right kind of prospect or customer. This phase calls for zeroing on those prospects or customers to whom probability of selling a product is more. List prepared as a result of suspecting is reduced and customers or prospects, to which it is easier to sell, are considered first. Phone calls may help in zeroing on the potential customers.

(iii) ***The Approach and the Opening:*** This is the first phase of field work. Salesmen approach the prospect and start selling work. Initial impressions can cloud later perceptions, and

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so it is important to consider the ways in which a favourable initial response can be achieved. There is a saying that first impression is the last impression you get. Buyers expect sales people to be business – like in their personal appearance and behaviour. Untidy hair and a sloppy manner of dress can create a lack of confidence picture. Further the sales person who do not respect the fact that the buyer is likely to be a busy person, may cause irritation on the part of the buyer. Sales people should open the sales call with a smile, a handshake and, in situations where they are not known to the buyer, introduce themselves and the company they represent.

(iv) ***Need and problem identification:*** Most salespeople have a range of products to sell. A car salesman has many models ranging from small economy cars to super luxury top-of-the range models. The computer salesperson will have a number of systems to suit the needs of different customers. In each case, the sellers' first objective will be to discover the problems and needs of the customer. Before a car salesperson can sell a car, he or she needs to understand the customer's circumstances. What size of car is required? Is the customer looking for high fuel economy or performance? What kind of price range being considered? Having obtained this information the salesperson is in a position to sell the model which best suits the needs of the buyer.

This "need analysis" approach suggests that early in the sales process the salesperson should adopt a question-and-listen posture. In order to encourage the buyer to discuss his/her problems and needs, salespeople tend to use 'open' rather than 'closed' questions. An open question is one which requires more than a one-word or one-phrase answer. For example, "Why do you believe that a computer system is inappropriate for your business?" A closed question on the other hand, invites a one-word, a one-phrase answer. In practice, a wide variety of questions may be used during a selling process. Salesperson should avoid the temptation of making a sales presentation without finding out the needs of their customers.

(v) ***The presentation and demonstration:*** Once the problems and needs of the buyer have been identified, the presentation follows as a natural consequence. A given product may have a range of potential features that confer benefits to customers, but different customers place different priorities on them. Having identified the needs and problems of the buyer, the presentation provides the opportunity for the salesperson to convince the buyer that he/she can supply the solution. For example, a car salesman may claim that 'this model is equipped with overdrive (product feature) which enables you to reduce petrol consumption on motor ways' (customer benefit).

(vi) Many sales situations involve risk to the buyer. No matter what benefits the sales person discusses, the buyer may be reluctant to change from the present supplier or change the present model because to do so may give rise to unforeseen problems – delivery may be unpredictable or the new model may be unreliable. Risk is the hidden reason behind many failures to sell. How can a salesperson reduce risk? There are four major ways:

- ***Reference selling:*** It involves the use of satisfied customers, in order to convince the buyer of the effectiveness of the sales person's products. During the preparation stage a list of satisfied customers, arranged by product type, should be drawn up. Letters from satisfied customers should also be kept and used in the sales presentation in order to build confidence. This technique can be highly effective in selling, moving a buyer from being merely interested in the product to being convinced that it is the solution to his/her problem.

- ***Demonstrations:*** There is a Chinese proverb – "Tell me and I'll forget; show me and I may remember, involve me and I shall understand." This proverb is very important in a sales call. Demonstrations reduce risk because they prove the benefits of the product. Car salespeople allow customers to test drive cars. For all but the most simple of products, it is advisable to divide the demonstration into two stages. The first stage involves a brief description of the features and benefits of the product and an explanation of how it works. The second stage entails the actual demonstration itself. There are several advantages of demonstrations. They add realism to the sales routine in that they utilize more human senses than mere verbal descriptions or visual presentation. When a potential customer is participating in a demonstration, it is easier for the salesperson to ask questions in order to ascertain buying behaviour. Customer objections can be more easily overcome if they can be persuaded to take part in the demonstration process. There are advantages to customers in that it is easier for them to ask questions in a more reliable way in order to ascertain the product's utility more clearly and quickly. Purchasing inhibitions are quickly overcome and buyers declare their purchasing interest sooner than in face-to-face selling/buying situations.

- *Guarantees:* Guarantees of product reliability, after sales service and delivery supported by penalty clauses can build confidence towards the salesperson's claims and lessen the costs to the buyer should something go wrong. Their establishment is a matter of company policy rather than the salesperson's discretion but, where offered, the salesperson should not under estimate their importance in the sales presentation.
- *Trial orders:* The final strategy for risk reduction is to encourage trial order, even though they may be uneconomic in company terms and in terms of salespeople's time. Buyers who habitually purchase supplies from one supplier may recognise that change involves unwarranted risk. It may be that the only way for a new supplier to break through this impasse is to secure a small order which, in effect, permits the demonstration of the company's capability to provide consistently high quality products promptly. The confidence thus, built, may lead to a higher percentage of the customer's business in the longer term.

(vii) ***Dealing with objections:*** Objections should not always be viewed with dismay by salespeople. Many objections are simply expressions of interest by the buyer when the buyer is asking for further information because he or she is interested in what the salesperson is saying. The problem is that the buyer is not yet convinced. Objections highlight the issues which are important to the buyer. The effective approach for dealing with objections involves two areas: the preparation of convincing answer, and the development of a range of techniques for answering objection in a manner which permits the acceptance of these answers without loss of face on the part of the buyer. Some of the suggestions while dealing with objections are as follows:

- *Listen and do not interrupt:* Interruption denies the buyer the kind of respect he/she is entitled to receive and may lead to a misunderstanding of the real substance behind the objection. The correct approach is to listen carefully, attentively and respectfully. The buyer will appreciate the fact that the salesperson is taking the problem seriously and the salesperson will gain clear and full understanding of what the problem is.
- *Agree and counter:* This approach maintains the respect salesperson shows to the buyer. The salesperson first agrees that what the buyer is saying is sensible and reasonable, before putting forward an alternative point of view. It, therefore, takes the edge off the objection and creates a climate of agreement rather than conflict. The use of reference selling technique can be combined with agree and counter method to provide a powerful counter to an objection.

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- *The straight denial:* This method has to be handled with a great deal of care since the danger is that it will result in exactly the kind of antagonism which the salesperson is wishing to avoid. However, it can be used when the buyer is clearly seeking factual information.
- *Question the objections:* Sometimes an objection is raised which is so general but difficult to counter. For example, a customer might say he/she does not like the appearance of the product, or that the product is not of good quality. In this situation the salesperson should question the nature of the objection in order to clarify the specific problem at hand. Another benefit of questioning is that, in trying to explain the exact nature of objections, buyer may themselves realise these are really quiet trivial.
- *Forestall the objection:* With this method the salesperson not only anticipates an objection and plans its counter, but actually raises the objection as part of his or her sales presentation. There are two advantages of doing this. First, the timing of the objection is controlled by the salesperson. Second, the buyer is not placed in a position where, having raised a problem, he/she feels that it must be defended. The danger of using this method, however, is that the salesperson may highlight a problem the buyer had not thought of.
- *Turn the objection into a trial close:* A trial close is where a salesperson attempts to conclude the sale without prejudicing the chances of continuing the selling process with the buyer. The ability of a sales person to turn the objection into a trial close is dependent upon perfect timing and considerable judgment. Usually it will be attempted after the selling process is well under way, and the salesperson judges that only one objection remains. When dealing with objections the salesperson should remember that heated arguments are unlikely to win sales as buyers buy from their friends, not their enemies.

Not all prospects, however, state their objections. They may prefer to say nothing because to raise an objection may cause offence or may prolong the sales interaction. Such people may believe that staying on in friendly terms with the salesperson and at the end of the sales call stating that they will think over the proposal, is the best tactic in a no-buy situation. If a salesperson believes that a buyer is unwilling to reveal his/her true objection, he/she should ask specific questions.

(viii) *Negotiation:* In some selling situations, the salesperson or sales team have a degree of discretion with regard to terms of the sale. Negotiation may, therefore, enter into the sales process. Sellers may negotiate price, credit terms, delivery times, trade-in values and other aspects of the commercial transaction. The deal that is arrived at will be dependent upon the balance of power and the negotiating skills of the respective parties. The buyer's needs, the competition that the supplier faces, knowledge about the buyer's business, and the pressures upon him/her should be estimated. However, there are a number of guidelines to aid the salespeople actually engaged in the negotiation process.

- *Start high but be realistic:* There are several good reasons for making the opening stance high. First the buyer might agree to it. Second, it provides room for negotiation. A buyer may come to expect concessions from a seller in return for purchasing. This situation is prevalent in the many industries especially those. It is unusual for salespersons in these industries not to reduce the advertised price to cash purchaser when considering how low to go, the limiting factor must be to keep within the buyer's realistic expectations, otherwise he/she may not to willing to talk to the seller in the first place.

- Attempt to trade concessions for concession: Sometime it may be necessary to give a concession simply to secure the sale. A buyer might say that he/she is willing to buy if the seller drops the price by some amount. If the seller has left himself negotiating room, then this may be perfectly acceptable.

Buyers also have a number of techniques that they use in negotiation. Sellers should be aware of their existence, otherwise sometimes their effect can be devastating.

It is important in all situations to know when to negotiate, Lee and Dobler have listed following circumstance where negotiation is an appropriate procedure for concluding a sale.

- When many factors bear not only on price, but also on quality and service.
- When business risks cannot be accurately predetermined.
- When a long period of time is required to produce the items purchased.
- When production is interrupted frequently because of numerous change orders.

The above discussion about negotiation leads us to conclude that negotiation involves preparing a strategic plan before meeting the other party and making good tactical decisions during negotiation session.

(ix) ***Closing the sales:*** The skills and techniques discussed so far are not, in themselves, sufficient for consistent sales success. A final ingredient necessary to complete the process is the ability to close the sale. A major consideration at the closing is timing. A general role is to attempt to close the sale when the buyer displays heightened interest or a clear intention to purchase the product. Salespeople should look out for such buying signals and respond accordingly. Purchase intentions are unlikely to grow continuously throughout the sales presentation, they are more likely to rise and fall as the presentation progresses. The salesperson should attempt to close at a peak and which peak is to be chosen comes with experience. There are a number of closing techniques which the salesperson can use.

- ***Simply ask for the order:*** The key for using this technique is to keep silent after you have asked for the order. The salesperson has asked a closed question implying a yes or no answer. To break the silence effectively lets the buyer off the book. The buyer will forget the first question and reply to the salesperson's later comment.
- ***Summarise and then ask for the order:*** This technique allows the salesperson to remind the buyer of the main points in the sales argument in a manner which implies that the moment for decision has come and that buying is the natural extension of the proceedings.
- *The alternative close:* This closing technique assumes that the buyer is willing to purchase but moves the decision to whether the colour should be red or blue, the delivery should be Tuesday or Friday, the payment in cash or credit etc. In such circumstances the salesperson suggests two alternatives, the agreement to either results in closing the sale:
- 'Would you like the red one or blue one.'
- 'Would you like it delivered on Tuesday or Friday.'
- ***The objection close:*** It involves the use of an objection as a stimulus to buy. If the salesperson is convinced that the objection is the major stumbling block to the sale, he/she can gain commitment from the buyer by saying. 'If I can convince you that this model is the most economical in its close, will you buy it?' A positive response from the buyer and reference to an objective statistical comparison by the seller effectively seals the sale.

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- *Action agreement:* In some situations it is inappropriate to attempt to close the sale. For many industrial goods the sales cycle is long and a salesperson who attempts to close the sale at early meeting may cause annoyance. In selling pharmaceutical products, for example, salespeople do not try to close a sale but instead attempt to achieve 'action agreement' whereby either the salesperson or the doctor agrees to do something before their next meeting. This technique has the effect of helping the doctor – salesperson relationship to develop and continue.
- *The concession close:* This involves keeping one concession in reserve to use as the final push towards agreement. 'If you are willing to place an order now, I am willing to offer an extra 5% discount".
- *Follow-up:* This final stage in the sales process is necessary to ensure that the customer is satisfied with the purchase and that no problems with such factors as delivery, installation, product use and training have arisen. Salespeople may put- off the follow up call because it does not result in an immediate order. However, for most companies repeat business is the hallmark of success and follow–up call can play a major role in showing that a salesperson really cares about the customer rather than only being interested in making sales. The follow-up call can also be used to provide reassurance that the purchase was right one.

The phases of personal selling process are not watertight compartments and need not occur in the order. Objections may be raised during presentation or during negotiation, or a trial close may be attempted at any point during the presentation if buyer interest is high. Furthermore, negotiation may or may not take place and may occur during any of the stages.

1.29 Professional Selling over last 100 years

Prior to industrial revolution, organizations were small and selling was not a complex activity. Owner himself used to sell what he was producing. Post industrial revolution, selling has come a long way. We have seen tremendous development in this field in the last hundred years or so.

We can divide the past 100 years into 3 distinct eras. During the 1920s and 30s, the world was in a production mode. Industry was focused on making things. The sales culture during this period is perhaps best characterized by Henry Ford's statement, "You can have any color car you want, as long as it's black." When people want a product that's in short supply, you don't have to be "customer sensitive" to make a sale, and the Ford Company's success proves itFrom the late 30s to the early 50s, production began catching up with demand. The biggest problem companies had was getting their products to customers. As a result, the traveling salesman was born, and the era has become known as the Sales era. To be successful during this era, a salesperson needed only transportation and some motivation to get products in front of people who wanted them. Follow-up or service after the sale was not concerns for the salesperson of the Sales era. They just moved on to the next town. Sales training consisted of memorizing a pat script that was to be delivered to as many people as possible. The assumption being that upon hearing these same persuasive words, some percentage of people would buy. Brushes, pans, vacuum cleaners and encyclopedias were some of the most popular products pitched during the sales era. The Advertising era began in the mid-50s with the proliferation of television sets. Distribution networks taking products to customers were becoming well established. Now, a company could create huge demand for their product by simply running a commercial on television. The fast-talking salesman still existed in niche and specialty markets, but their time had gone past.

The Marketing era was started in the 70s-80s. This era is characterized by an over-abundance of products and services from which customers could choose. This era has given birth to the consultative salesperson. A salesperson can truly make a difference, differentiating one offering from another and matching customer needs to product features. They must have a good knowledge of what they sell, and must understand customer needs, but most important, they must create customer confidence and trust.

In last few years, many companies have changed their sales people's titles to "Account Executive" or "Customer Service Specialist" to distance them from the past. But no matter what you call them, the most successful sales people today are professional, respected and most of all, trusted. They are experts at listening to customers, uncovering their needs and solving their problems.

1.30 Changing Patterns in Personal Selling

Traditionally, personal selling was a face-to-face, one-to-one situation between a sales person and a buyer. This situation existed both in retail sales involving ultimate consumers and also in business-to-business transactions. In recent years, however, many different selling patterns have emerged. These new patterns reflect a growing purchasing expertise among consumers and business buyers, which, in turn, has fostered a growing professionalism in personal selling. Let's discuss four of these emerging patterns:

1. **Selling centers–Team Selling:** To match the expertise on the buying side, especially in business markets, a growing number of firms on the selling side have adopted the organizational concept of a selling center. This is sometimes called a sales team or team selling. A selling center is a group of people representing a sales department as well as other functional areas in a firm such as finance, production, and research and development (R&D). Procter & Gambler, for example, has selling teams comprised of sales people plus representatives from finance, distribution, and manufacturing. Each team is assigned to cover large retailers. When AT&T sells to a large multinational firm then AT&T will send a separate selling team to deal with each of other companies' major divisions. Team selling is expensive and is used only when there is a potential for high sales volume and profit.

2. **Systems Selling:** The concept of system selling means selling a total package of related goods and services, a system, to solve a customer's problem. The idea is that the system, the total package of goods and services, will satisfy the buyer's needs more effectively than selling individual products separately. Xerox, for example, originally sold individual products, using a separate sales force for each major product line. Today, using a systems-selling approach, Xerox studies a customer's office information and operating problems. Then Xerox provides a total automated system of machines and accompanying services to solve that customer's office problems.

3. **Relationship Selling:** Developing a mutually beneficial relationship with selected customers over time is relationship selling. It may be an extension of team selling, or it may be developed by individual sales representatives in their dealings with customers. In relationship selling, a seller discontinues the usual territorial practice of covering many accounts. Instead seller attempts to develop a deeper, longer-lasting relationship built on trust with key customers, usually larger accounts. Unfortunately, often there is not much trust found in buyer-seller relationships, neither in retailer–consumer selling nor in business-to-business selling.

   How do you build this trust? The following behavioral traits in selling can be effective trust builders:

   - **Candor** - truthful in what you say.
   - **Dependability** - behave in a reliable manner.
   - **Competence** - display your ability, knowledge, and resources.
   - **Customer orientation** - place your customers' needs and interests on a par with your own.
   - **Likability** - seek a similarity of personality between you and the customers, and a commodity of interests and goals.

4. **Telemarketing:** Telemarketing is the innovative use of telecommunications equipment and systems as part of the "going to the customer" category of personal selling. Telemarketing

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is growing because: (i) many buyers prefer it over personal sales calls in certain selling situations, and (ii) many marketers find that it increases selling efficiency. Buyers placing routine reorders or new orders for standardized products by telephone or computer use less of their time than in- person sales calls. (iii) Sellers face increasingly high costs keeping sales people on the road; selling by telemarketing reduces that expense. (iv) Also, routine selling by telemarketing allows the field sales force to devote more time to creative selling, major account selling, and other more profitable selling activities. Here are examples of selling activities that lend themselves nicely to a telemarketing program:

- Seeking leads to new accounts and identifying potentially good customers that sales rep's can follow up with in-person calls.
- Processing orders for standardized products
- Dealing with small-order customers, especially where the seller would lose money if field sales calls were used.
- Improving relations with middlemen
- Improving communications with middlemen in foreign countries and competing better against manufacturers in those countries. In Europe, for example, the auto, chemical, steel, and shipbuilding industries have developed electronic communication systems involving manufacturers, suppliers, and even customs and shipping agents.

1.31 Sales Planning – Conceptual Framework

Planning not only provides direction and a unity of purpose for organizations, it also answers six basic questions in regard to any activity (including sales):

- What needs to be accomplished?
- When is the deadline?
- Where will this be done?
- Who will be responsible for it?
- How will it get done?
- How much time, energy, and resources are required to accomplish this goal?

Need for Sales Planning

Sales' planning is needed because:

- Without a plan to provide directions, decision making is aimless and disconnected
- Sales managers must make their decisions within an environment where change is continuous
- Planning helps minimize environmental shocks.
- It is important to improve morale of the employees
- Through planning, there is an improvement in cooperation and coordination
- It helps in developing individual and collective standards
- Increases the sales organization's flexibility towards the dynamic business environment
- Planning improves the quality of decision making
- Focuses attention on organizational objectives and results
- Establishes a basis for teamwork
- Helps anticipate problems and cope with changes
- Provides guidelines for decision making
- Serves as a foundation and a prerequisite to employing all other management functions

Elements of Sales Planning

The main elements of sales planning include the following:

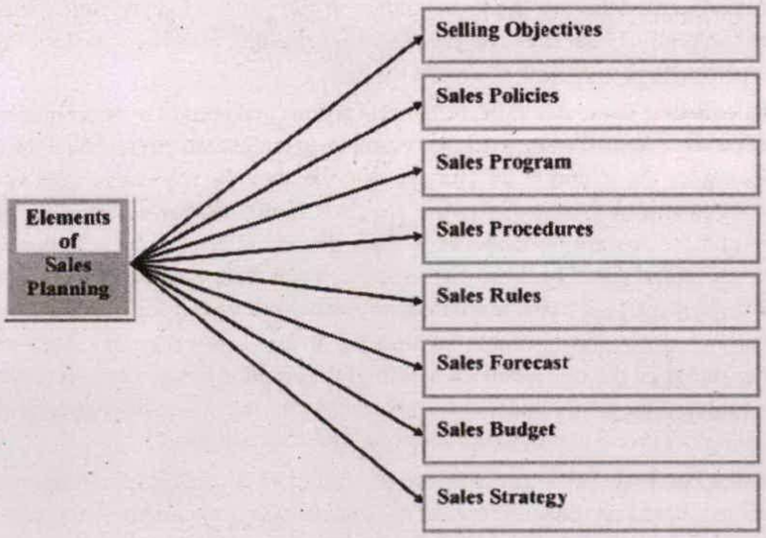

Figure 1.20: Elements of Sales Planning

- **Selling objectives:** This includes the list of objectives that need to be attained after the completion of the sales planning process. The objectives should be realistic and attainable. For example, if the sales representative is selling financial products to the customer, a target of 20 to 30 products per month is mostly an achievable target. If the sales planning document sets the objective as 100 financial products, then it might not be achievable most of the times. Hence the objectives must be achievable and be completed in time. The objectives may be short term (to be achieved in about one year) or long term (to be achieved in 2-3 years time period) in nature.
- **Sales Policies:** They provide the guidelines to the sales staff to help them in performing the sales activities. Policies help the sales representatives in achieving their targets. For example, when a sale gets returned by the customer, the refund policy will guide the sales representatives how to deal with the situation effectively, so that the customer will be handled with care rather than getting into an uncomfortable situation. The sales policies also help in clearly identifying the right pricing for the customer depending upon the relationship the customer shares with the company. For example, if the customer is loyal to the company and is doing sales from several years, the policy would inform the sales representative about the maximum discounts that can be given to such customers.
- **Sales Program:** Sales programs help to develop the necessary skill set in achieving the sales objectives effectively and in given time period. They are essential to ensure the sales representative can handle any sales situation which they are entitled to perform. Sales planning should clearly mention the required skill set needed in handling the sales and the program appropriate to instill those skills in the sales representative. Sales program may be necessary whenever a new product/ service are introduced by the company or when the sales representatives handle sales from new territories. Cross-cultural training would be given most of the times, when the sales include the customers other than the native country.
- **Sales Procedures:** Sales procedure is the sequence of various activities that need to be performed for different sales functions. They vary from sale to sale and from market to market. Sales procedure for a business to consumer sales varies greatly from business to

business sales. The sales procedure may include meeting the customer, explaining the product/service through slides, use closing techniques, take the order and following up. The procedure for B2B sales may indicate to take a complete team from various departments who are the stakeholders in the project to carry out the explanation of the product/ service. The procedure for the B2C sales may indicate that a single representative is enough to handle the task.

- **Sales Rules:** Sales rules indicate the set of actions that need to be performed or otherwise depending upon the situation. For example, in credit card payments, if the customer is asking for the refund of the late payment fee, then the rule says clearly not to refund if the amount is received after the due date. Hence, the sales staff is not permitted to refund the amount no matter how loyal the customer is with the company. In some cases, refund could be done. For example, when there is some genuine reason for the late payment, such as the due date is on a non-working day for the bank due to festival, curfews or any other natural disasters etc. In such cases the sales staff would refund the amount if the rule mentions to refund the amount. Even in personal sales, the sales representative would be given rules regarding the maximum discount or the maximum amount of credit that the sales staff can offer the customer.
- **Sales Forecast:** Sales forecast lays the foundation of sales planning and objective setting. Based on the sales forecast the sales manager would know the sales that could be attainable for the coming period (next quarter or year). Various time series analysis tools such as trend estimation, moving average, weighted moving average, exponential smoothing etc. may be used to forecast. Forecast can be also done based on the predictions done by the industry experts. Methods can be many but the aim of forecasting is to clearly identify the demand and plan the sales activities to generate more leads to the business. Sales forecast also help in identifying the strategies to gain or maintain the market share. For example, if the forecast turns out to be negative i.e. the industry sales are going to dip, then the company may execute their operations effectively to retain the existing customers and attract the new customers.
- **Sales Budget:** Sales budget identifies the necessary expenditure that is occurred in making the sales. The sales budget estimates the revenue based on sales that would be generated and identifies the profit for the organization after subtracting the operational costs of the sales staff. The sales budget sets the standards for the sales team in terms of the expenditure that is permitted to incur upon the sale. For example, when the sales staff goes for selling the product, the maximum expenses that can be incurred would be mentioned and the sales representative has to maintain his travel expenditure and other costs within that limit. Maintaining the operations within the budget becomes a complex task in B2B sales where the sales team had to travel to the customer site many times before the sale happens. Hence the sales manager has to see that the operational costs are under control and provide some mechanisms like video conferencing to reduce the travelling costs. To attain a desired profitable level in sales, it is very important to curtail and control the operational costs.
- **Sales Strategy:** Sales strategy involves how the company is going to act in the market place with the proposed products/ services. The market is dynamic and competitive in nature which makes the companies alert all the times with their strategies regarding all the marketing mix elements. The company, who can handle the sales strategies in the market place, is likely to be the winner.

Types of Sales Planning

The following are the various types of sales plans in an organization:

- **Sales plan on the basis of market area:** Whenever the sales are done in the entire country, then the entire region would be divided into several areas depending upon certain characteristics. A simple segregation would be dividing the entire country sales into different states and assigning a head for each state. For example, in the telecommunication business, the telecom plans varies from state to state and within the state it remains the same. There are some services which are applicable for the entire country too. Even the promotional offers vary from state to state depending upon the nature of the business in these states. Some products in FMCG sector are very strong in south and have a little presence in North and hence the companies may introduce special promotional campaigns which are available only to the northern states to improve leads. Hence the sales plan would vary from region to region.

- **Sales plan on the basis of selling functions:** Sales team performs several functions such as promotions; follow up activities, presales and sales activities etc. Hence the company lays out various sales plans for each activity if necessary.
- **Sales plan based on type of customers:** The 80-20 rule (80 percent of the business comes from 20 percent of the key customers) is followed by most of the companies. Although each and every customer is important to the company, the survival of the company depends on those 20 percent. Hence following the same sales plan for all the customers wouldn't be practical since the key customer have to be handled more effectively. Hence the companies may have different sales plan for the key customers. Also the company may have different sales plan for customer depending upon the markets like B2B or B2C.
- **Sales plan based on the type of products:** Every product/ service may not have the same selling activities. Hence having different sales plan is essential to handle the sales effectively. For example, if the company produces technical products, services, FMCG goods etc. it needs to have separate sales plan for the FMCG goods and the technical products and services.
- **Sales plan based on the time period:** There are different sales plan for long term and short term objectives of the company. For example, it would not be feasible to have the same sales plan for increased sales in existing territory and getting sales in new territories. Acquiring the new territory would be a long term objective where as increasing the sales in existing territory would be a short term objective which would be a one year time period. Hence, in both cases, strategies would be different and the operational costs would be different.

Sales Planning Process

The sales planning process is very important for an organization. It can be carried out only when the company has a strategic marketing plan in place. The first thing that an organization does is make a strategic marketing plan. Once the strategic marketing plan is made, the organization knows the segment that has to be targeted, and also, the consumer buying behavior for that segment. Accordingly a sales planning is done, the stages of which are given below:

1. **Setting objectives:** The sales planning is going to start only when the objectives for the sales team have been defined. For example – The objective of an air conditioning company might be to increase the market share of the company. For this, it may decide to penetrate a new geographic market.
2. **Determine the actions necessary:** Once the objectives of the sales plan are known, the actions and operations needed in effect before implementing the sales plan have to be determined. This is a crucial step in the sales planning process because if the correct operations strategy is not made, then in future the company will face a lot of operational difficulties resulting in failure to meet sales objectives. For example –

   The air conditioning company needs to penetrate a new geographic territory to increase market share. Thus it needs Sales as well as service operations backup in this territory. The

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marketing department should also know the new territory so that they can come up with aggressive marketing tactics to target that territory.

3. **Organize the actions:** Once the necessary operations have been charted out, there is a need to organize the sales planning. For example, the first priority of the air conditioning company in new territory will be to have a sale and service setup and the necessary channel in place. This shall be followed by using aggressive marketing tactics in the new sales territory. Thus an organized action plan needs to be made during the sales planning process.
4. **Implement:** After the actions have been planned and organized, implementing them is the next step. Many problems may have to be faced while implementing a sales plan. For example, the customers of the new territory might not respond to the new air conditioners entering the market. On the other hand, the product might be picked up readily by the customers and the company might not be able to adapt with the unexpected demand.
5. **Measure results:** As in any planning process, the fifth and very important step in the sales planning process is to measure the results. Unlike advertising, sales results are very easy to measure because everything is documented and recorded. For example, the air conditioning company will measure the total sales of the geographic territory in study, along with the competitors' sales as well for record keeping.
6. **Re evaluate:** When there are sales records in hand, it has to be ensured that they are properly analyzed to know whether or not the sales planning process has succeeded. This critical analysis is important ~~to know~~ as to which strategy worked and which strategy failed. This stage helps ~~to set~~ objectives for the next year.

Sales Strategy

Discussed below are different sales strategies useful in B2B and B2C situations:

Table 1.9: Sales Strategies

Components of Sales Strategy	
Classifying market segments and individual customers within a target segment	• Each firm should first decide on target market segments and if possible, to classify customers into high, medium, low sales & profit potentials • Sales strategy is developed accordingly
Relationship strategy	• Whether a selling firm should use transactional, value-added, or collaborative relationship depends on both the seller and the customer • Each selling firm to decide which segments and individual customers respond profitably to collaborative relationship
Selling Methods	• These are: -Stimulus response, -Formula based, -Need-satisfaction, -Team selling, -Consultative selling • Selection of appropriate selling method depends on relationship strategy
Channel Strategy	• There are many sales/ marketing channels. For example: company sales force, distributors, franchisees, agents, the internet, brokers, discount stores • Selection of a suitable channel depends on both the buyer and the seller, products/ services, and markets

Sales planning and strategies would be different for B2B (Business to Business) and B2C (Business to Consumer) markets most of the times. The following are the main considerations in B2B markets:

1. It deals with the business to business deals where the time management is a critical factor for the customer satisfaction.
2. Since the sales process takes place for months, maintaining the progress in sales is very important.
3. The sales staff has to stick with the timings given by the customer and ensure that all the team members are present at the right time.
4. The sales team has to deal with customers and plan the activities.
5. There is no standardization of activities which can be applied to several customers. Since the requirements differ from customer to customer, the B2B sale plan has to deal with a flexible plan and plan the resources accordingly.
6. The customer health in financial terms is very important and hence the customer business trend is observed time to time. Most of the times the sales are on credit basis with timely payments in regular intervals.
7. Forecasting plays a very important role in preparing a sales plan for B2B customers. Monitoring the forecast of the customer business will give a clear picture of the company future sales. For example, if the company is selling product 'A' to the customer who in turn sells it to its customers after some value addition, and if the customer business in future sees a down trend for the product 'A' then it clearly indicates that the leads in future will take a downturn. In such case the company has to use appropriate sales strategies to sustain in the market place.

The following are the main considerations in B2C markets:

1. It refers to the business to the customer deals.
2. The product/ service is used for his/her own benefit.
3. Sales plan in B2C market has to deal with several issues related to the warehousing, distribution channels and retail.

   (i) ***Handling warehouse effectively:***

   - The sales plan has to take care that the stock of goods are ensured at all the times to handle the demand. Thus, the right forecasting of the demand and coordination with the manufacturing department at regular intervals is very important. Problems may occur when the goods are produced more or less than the required quantities by the market. In case of over production, goods lie in inventories there by adding up the inventory costs. In case of low production, companies may lose the customer to their competitors if the goods are not available.
   - Knowledge of the tax structure is very important to avoid double taxation for selling idle stocks in other states. Due to this the profit on the product may go down to such a level where a loss is incurred to the company. Having the knowledge about the no tax zones also helps in decreasing the costs.

   (ii) ***Handling distribution channels:***

   - The sales plan has to ensure that the products may not end up lying with the distributors due to less demand.
   - Sales plan has to take care that the goods are distributed in necessary quantities only and are not pushed excessively into the market when the demand is less. Excessive distribution of good may damage the relationship between the distributors and the company.

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- This process is very critical in case of perishable goods like fruits, vegetables etc. If they lie for more time in the distribution channels then the chances of them being sold to the end customer decreases due to getting spoiled. It is the task of the sales plan to ensure that proper checks are done to remove excessive stock of perishable goods from the distribution channel and store them appropriately in inventories and sell them when the demand rises.

(iii) Handling retail stores:

- It has to be ensured that the sales staff visits retail outlet on monthly basis and check for the stock of goods. Products that are lying for more time means that more costs have to be incurred for the shelf space. In organized retail, the shelf space comes at a cost and in case of unorganized retail; excessive stock means the company might enter into credit situation with the retailer as he/she will not be able to pay. More credit in retail may lead to untimely payments and bad relationships.
- Hence the sales plan has to deal with such situations and ensure that the stock is sold properly and any excessive stock has to be removed from the retailer place. Sales plan also has to ensure that the stocks are made available all the times in case of a hiked demand.

(iv) Handling the price changes:

- The interest rates or tax rates may go up intermittently, and there is also the factor of inflation, due to which the cost of the product shoots up due to a rise in the operating costs. As a result, the profit margins shrink. Hence the sales plan has to handle any such situations where the price needs to be 4increased and necessary sales activities have to be performed to deal with the price changes in the market place.

Barriers to Planning

Various barriers can inhibit successful planning. In order for plans to be effective and to yield the desired results, managers must identify any potential barriers and work to overcome them. The common barriers that inhibit successful planning are as follows:

1. **Inability to plan or inadequate planning:** Managers who are not successful planners due to lack of experience, education, and/or ability may not know how to conduct planning as a process. It is very critical to have a responsible person or persons as planners.
2. **Lack of commitment to the planning process:** The development of a plan requires hard work and proper time management. Another possible reason for lack of commitment can be fear of failure. As a result, non- committed managers may do little or nothing to help in the planning process.
3. **Inferior information:** Facts that are out-of-date, of poor quality, or of insufficient quantity can be major barriers to planning. No matter how well managers plan, if they are basing their planning on inferior information, their plans will probably fail.
4. **Focusing on the present at the expense of the future:** Failure to consider the long-term effects of a plan because of emphasis on short-term problems may lead to trouble in preparing for the future. Managers should try to keep the big picture i.e. their long-term goals, in mind when developing their plans.
5. **Too much reliance on the organization's planning department:** Many companies have a planning department or a planning and development team. These departments conduct studies, do research, build models, and project probable results, but they do not implement plans. Planning department results are aids in planning and should be used only as such. Formulating the plan is still the manager's responsibility since he or she has a thorough knowledge of the actual working conditions.

6. **Concentrating on controllable variables:** Managers often concentrate more on the things and events that are controllable and not paying much attention to the various uncontrollable factors like economy, politico-legal or technological factors etc. this may be due to the reason that managers tend to demonstrate a decided preference for the known and an aversion to the unknown.

1.32 Sales Budgeting

A sales budget is a spreadsheet which documents monthly, quarterly and annual budgets as well as financial goals, expressed in currency and units of production. A sales *budget* is a financial tool of control that a manager uses to plan for profits by giving a detailed break-down of estimates of sales revenue and selling expenditure. It is the most important element of sales. It is an instrument of planning that shows how to spend money to achieve the targeted sales. This is the key budget. A sales budget is a necessary component in every company's corporate backbone in order to predict accurate sales forecast and a particular level of profit. It's crucial to the business that the sales budget is maintained and is accurate because if information is missing, this negatively affects the rest of the budgeting process. It states what and how much each salesperson will sell. It also spells out what and how much will be sold to the different classes of customers. Once the budget is accepted in terms of estimated sales, expenses and profit figures, the actual results are measured, and compared against the budgeted figures; managers estimate the sales of each product and often make separate forecasts for each class of customer and each territorial division.

The marketing department would get more budgets for advertising and sales promotions if the sales forecast predicts higher sales in the next year. Similarly the budget allocation for the sales department also depends upon the sales forecast. Sales budgeting have to deal with several issues like identifying the right budget allocation according to region wise, dealing with NPA accounts, developing new territories, identifying and analyzing the variances, creating new revised budgets etc. Hence understanding these issues is an important task and the analysis should be done at regular intervals. Budget funds must be appropriated wisely in order to properly support selling activities that allow sales personnel and the total marketing group to reach their performance goals. If a company has a large number of products, it usually aggregates its expected sales into a smaller number of product categories or geographic regions; otherwise, it becomes too difficult to generate sales estimates for this budget. The sales budget is usually presented in either a monthly or quarterly format.

Budgets are commonly created for yearly, bi-annual, and quarterly periods. Some firms prepare budgets for all three periods; others prefer to operate on an annual basis, thereby reducing the amount of paperwork.

The quarterly budget forces a reappraisal of the firm's position four times a year, thereby decreasing the likelihood of the operations getting out of control. Many companies find a quarterly system advisable because it coordinates roughly with their operations conversion cycle. Garment makers usually have four conversion cycles per year. That is, they put out four different lines of goods, one for each season, and find it convenient to budget for each selling season. The main advantage of a short planning period is that it is more likely to be accurate than a long one. The shorter the forecasting period, the less likely is the estimate getting disturbed by unforeseen developments. In deciding which period to use, a firm must balance the degree of control with the costs of compiling the budgets.

All the budgets are interrelated, and begin with the sales budget. In essence, a sales budget sets the stage and controls the finances every step of the way and allows the company to achieve its financial targets:

- Most of the detail for existing products comes from those personnel who deal with them on a day-to-day basis.
- The marketing manager contributes sales promotion information, which can alter the timing and amount of sales.

- The engineering and marketing managers may also contribute information about the introduction date of new products, as well as the retirement date of old products.
- The chief executive officer may revise these figures for the sales of any subsidiaries or product lines that the company plans to terminate or sell during the budget period. It is generally a good practice, not to include in the sales budget any estimates for sales related to prospective acquisitions of other companies, since the timing and amounts of these sales are too difficult to estimate. Instead, revision of the sales budget may be resorted to after an acquisition has been finalized.
- The projected unit sales information in the sales budget feeds directly into the production budget, from which the direct materials and direct labor budgets are created. Thus, the production budget is prepared after the sales budget.
- The production budget in turn is used to determine the budgets for manufacturing costs including the direct materials budget, the direct labor budget, and the manufacturing overhead budget.
- The sales budget is also used to give managers a general sense of the scale of operations, from which they create the overhead budget and the sales and administrative expenses budget.
- The total net sales rupees listed in the sales budget are carried forward into the line item in the master budget.
- The selling and administrative expenses budget is both dependent on and a determinant of the sales budget. This reciprocal relationship arises because sales will in part be determined by the funds committed for advertising and sales promotion.
- These budgets are then combined with data from the sales budget and the selling and administrative expenses budget to determine the cash budget.
- Sales Budget influences the other components of master budget either directly or indirectly. This is due to the reason that the total sales figure provided by sales budget is used as a base figure in other component budgets. For example the schedule of receipts from customers, pro forma income statement, etc.

In essence, the sales budget triggers a chain reaction that leads to the development of the other budgets. All other items in the master budget including production, purchase, inventories, and expenses, depend on it in some way. Sales budget is the first and basic component of master budget and it shows the expected number of sales units of a period and the expected price per unit. It also shows total sales which are simply the product of expected sales units and expected price per unit.

Purpose of Budgeting

The primary purpose of having a sales budget is to effectively and accurately determine the number of units that will need to be produced. Units can be used to refer to a physical product, or service. The budget is very important for the successful operation of the sales force. It serves several purposes as briefed below:

1. **Planning:** Corporations and their functional units develop objectives for future periods, and budgets determine how these objectives will be met. For example, alternative marketing plans, the probable profit from each plan and the individual budget for each will be considered before management is able to decide on future marketing programs.

   In order to achieve goals and objectives of the sales department, a sales manager must outline essential tasks to be performed and compute the estimated costs required for their performance. A sale budgeting therefore helps overall costing and profit planning and provides a guide for action towards achieving the organizational objectives. It is through a detailed breakdown of the sales budget among products, territories, and customers that sales representatives learn what management expects of them.

2. **Coordination:** The budget is a major management tool for coordinating the activities of all functional areas and subgroups within the entire organization. For example, sales must be coordinated with production to ensure that enough products are available to meet the demand. The production manager can use sales forecasts and the sales department's marketing plans to determine the firm's revenues and expenses (for example, accounts receivable, inventory, and raw material, labor) and have enough capital to finance all business operations. However, some flexibility must be built into the budget so that plans may be changed in response to market conditions. Many companies allocate an amount lump sum to their sales managers, allowing the managers to invest in the selling activities dictated by the sales and marketing plans. Thus each sales group (for example, division, region, and district) has a budget. The process of developing realistic sales budget draws upon forward and backward linkages of selling with marketing and in turn brings about necessary integration within the various selling and marketing functions. It also establishes coordination between sales, finance, production and purchase functions. Thus, the budget enables sales executives to coordinate expenses with sales and with the budgets of the other departments.

3. **Evaluation or Control:** Allocation of budgeted funds gives management control over their use. Sales managers estimate their budget needs, are given funds to operate their units, and then are held responsible for reaching their stated goals by using their budgets effectively. As the sales program is implemented and income and expenses are actually generated, manager access results against the amount budgeted and determine whether they are meeting objectives.

   The budget also restricts the sales executives from spending more than their share of the funds available for the purchase of revenues. In sum, the budget helps to prevent expenses from getting out of control. The sales department budgets become tools to evaluate the department's performance. By meeting the sales and cost goals set forth in the budget, a sales manager gives a dependable evidence of his or her success as an executive. The sales budget on adoption becomes the mark against which actual results are compared and performance evaluated. For example in the table below:

Table 1.10: Sales Variance and Analysis

			Variance	
	Budget (₹)	Actual (₹)	Favorable	Unfavorable
Sales	7000	8900	₹ 1900	
Expenses				
Direct Selling	2500	2375		
Sales Promotion	1500	1650	125	
Advertising	997	1075		₹ 150
Administrative	875	775	100	78
Total expenses	5872	5875		03
Profit (before tax)	1128	3025	₹ 1897	

As is evident from the table above, the analysis of the factors causing variance enables the Sales Manager to quickly spot potential problem areas and plan for unexpected outcomes. The budget variance analysis approach thus helps in improving insights of sales manager and enables him or her to refine and develop realistic sales budgets in future with minimal variance.

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Uses of Sales Budget

This is a very important document for a number of reasons. The sales budget has multiple advantageous uses and some of them are as below:

- The sales budget is the starting point in preparing the master budget.
- It is the basis of all operating activities in the sales department and in the production and finance areas.
- Having an effective financial plan in place helps management decide on inventory, pricing and allows them to set future goals to promote profitability.
- It is a benchmark for actual results. An effective sales budget is used to compare actual sales volume to revenue for a specific period. The result informs the organization which estimates missed the mark, and helps it to improve its accuracy in writing future sales budgets.
- It forms the basis for unit price increase and business campaigns. The sales budget can also offer insight as to how to manage price increases, and when to conduct marketing campaigns and promotions. An increase in demand for a product can be an opportunity for a price increase, after management's review and analysis of the sales budget.
- It is extremely important to do the best possible job of forecasting, since the information in the sales budget is used by most of the other budgets (such as the production budget and the direct materials budget). Thus, if the sales budget is inaccurate, then so too will be the other budgets that use it as source material.
- A sales budget helps in attaining the sales forecasts and controls the expenditure of resources.
- It helps to monitor sales performance.
- They also help to maintain and improve the efficiency of sales operations.
- Sales budgets are developed for the smooth functioning of the sales function.

Budget Planning in Sales

The following are the major considerations for it:

- To create a sales budget, some assumptions have to be made about the future. If the business is running for few years, the sales and expense forecasts can be made on the performance in previous years. Projections are less predictable when the business is new. In this case, the company has to rely on the business plan and research into the state of the concerned industry to develop a realistic forecast.
- Various details should be included in the budget. Particulars like pay of all employees (sales staff) and management, advertising and marketing cost, and cost of goods, office overhead and transportation need to be included when assembling the expenses. Besides, the costs of any business loans to be taken in the coming year to finance company growth are also included. In order to develop a realistic income side to the budget, how much can be charged for the products or services and how much volume can be realistically sold in the current marketplace should be properly evaluated.
- Budget planning in sales should be performed for immediate use as well as for long-term planning. A one-year plan that drives the marketing projects and advertising campaigns in the short-term can be devised along with creating a longer-term, five-year budget to plan larger expenditures, such as taking on new lines of products, opening another location, going for consolidation or increasing the profits through staff expansion. A long-term budget plan helps to prepare for future expenditures and growth while

continuing to increase revenues. At the same time, both the short- and long-term budgets should remain flexible enough to respond to changes. Part of the planning should include timelines and benchmarks or baselines upon which the progress can be audited in comparison to the budget and leave enough room to make adjustments as needed.

- It's usually a wise step to underestimate the income when creating a budget as it is not easy to deal with shortages at the end of the year. It is better to include the financial staff in budget preparations rather than relying only on the estimates of sales force. Besides, the final budget may be cross checked by the accountant to ensure that it's realistic enough.
- Companies typically create an operational plan to increase sales. These activities may need more money than accounted for in previous budgets. Sales managers may need to review this plan with accountants during the budget process to ensure the expenditures are sufficient, in comparison with sales forecasts.
- Sales managers should submit a list of potential large-scale expenditures to owners and executive managers. Large organizations often set aside funds for items such as marketing campaigns, promotions or other sales events. Owners and executive managers spend these funds at their discretion, based on submissions from sales managers.

Types of Sales Budget

Sales executives are responsible for formulating three basic budgets namely:

1. **Sales budget:** A sales budget gives a plan showing the expected sales for a specified period in the future. This budget is kept for sales activities and is a detailed plan. It is developed based on expected revenue (sales forecast). It gives sales according to the geographic location or the product/service offering or salespeople or customers. Generally the first part of the master budget, it usually forms the basis for other operational budgets like finance and production.
2. **Selling expense budget:** Selling expense budgets details the schedule of expenses that may be incurred by the sales department to achieve planned sales. These are the salaries, commissions, and expenses for the sales force. This is not a difficult budget to develop. If the salespeople are on a straight commission, the amount of the revenue allotted for compensation expense will be determined by the commission rate. Experience usually indicates how much money must be set aside for expenses. If sales representatives are paid a salary, the process merely requires compiling the amounts, taking into consideration any raises or promotions to be made during the coming period. Any plans for sales force expansion also should be anticipated in this budget.

   The selling-expense budget must be closely coordinated with the sales budget. Suppose the sales budget calls for the introduction of a new product line that requires considerable retraining of the sales force and the addition of a new service department. The expense budgets must reflect those needs. What will it cost to accomplish each line in the sales budget? That is essentially the question the sales manager must answer in preparing the selling-expense budgets that will accompany the sales budget.
3. **Sales department administrative budget:** This budget is designed for expenses related to administrative purposes. In addition to having direct control over management of the sales force, the typical sales executive is also an office manager. Ordinarily, the staff includes sales department secretaries and office workers; the total staff can be large. There may be several assistant sales managers, sales supervisors, and sales trainers under the sales manager. Managers must make budgetary provisions for their salaries and their staff. They also must budget for such operating expenses as supplies, rent, heat, power and light, office equipment, and general overhead. These costs constitute the administrative budget.

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Limitations of Budget

Discussed below are a few limitations of budgets:

- Due to the fact that many components of master budget rely on sales budget, the estimated sales volume and price must be forecasted with sufficient care and only reliable forecast techniques should be employed.

  Otherwise the master budget will be rendered ineffective for planning and control.
- While having a sales budget is necessary, it also has its own set of limitations.
- It is unable to effectively forecast the future trends of events and thus cannot take this into consideration when making the budget.
- Additionally, preparing a sales budget is very time consuming, something not all managers will agree with.

1.33 Preparing Sales Budget

A sales budget is used as a guide in the overall business planning process to discern how much in sales is expected and what kinds of profits will be garnered from those sales. The sales budget is typically the first stage in preparing a master budget for a company. A sales budget should focus on the goals of the company while presenting a realistic picture of the financial impact of the sales. Creating a sales budget requires thinking about the current situation and where the company would like to be in the years to come. Some questions to take into consideration include:

- How much can the company realistically sell next year?
- How much will be charged for the goods or services?
- How much will it cost to produce the product?
- How much are the operating expenses?
- Is it required to hire employees? If so, how many, and how much will be paid to them?
- How much will be paid to self?
- How much tax will be paid?
- How much money is needed to be borrowed, and how much will the monthly loan payments be?

The key to answering these questions will be to reflect on the past performance so realistic figures can be used. It may even be wise to be conservative in the numbers so that a financial padding is available in the event something unexpected happens that may affect the business. The answers to these questions will guide the direction of the business and allow the formation of a realistic budget, forecast and expected expenses.

District sales managers prepare their district budget and submit it to the regional or divisional office where they are added to and included in the divisional or regional budget. In turn, these budgets are submitted to sales managers for the particular product or market groups. At the end of the chain of subordinate budgets, the top executives in the sales department scan and prepare a final sales budget for the company.

Resources have to be allocated to products, customers and territories. The budget should be realistic in order to maximize its favorable impact on the firm. An analysis of SLEPT (an acronym for social, legal, economic, political and technological factors) is undertaken before setting the budget. These factors are present in the environment and help in scanning the environment. Every budget proposal submitted to top management must remain in competition with proposals submitted by heads of other divisions Actual budget control features go into operation as soon as the approved budget has been distributed to all units of the firm. Each item in the budget serves as a quota or standard against which performance is measured.

Example of the Sales Budget: 'XYZ' Company plans to produce an array of plastic rolls during the upcoming budget year, all of which fall into a single product category. Its sales forecast is outlined as follows:

Table 1.11: XYZ Company's Sales Budget For the Year Ended December 31, 2012

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Forecasted unit sales	5,500	6,000	7,000	8,000
x Price per unit (₹)	10	10	11	11
Total gross sales (₹)	55,000	60,000	77,000	88,000
-Salesdiscounts& allowances (₹)	1,100	1,200	1,540	1,760
= Total net sales ₹)	53,900	58,800	75,460	86,240

XYZ's sales manager expects that increased demand in the second half of the year will allow it to increase its unit price from ₹ 10 to ₹ 11. Also, the sales manager expects that the company's historical sales discounts and allowances percentage of 2% of gross sales will continue through the budget period.

This example of the sales budget is simplistic, since it assumes that the company only sells in one product category.

Table 1.12: Format of a Sales Budget (Quarterly)

Budgeted March	*Actual*	*January*	*February*
Expenses Salaries Commissions Bonus Medical Retirement			
Travel			
Lodging			
Food (Boarding) Entertaining			
Office expenses			
Mail Telephone Miscellaneous			
Promotions Samples Catalogues Pricelists Visuals Advertising			

Source: Professional Sales Management by Anderson, Hair and Bush

Strategies for Creating a Sales Budget

Sales teams employ a variety of strategies when creating their budget. They are:

Table 1.13: Strategies for Sales Budget

1.	Historical Base Strategy	• Some budget teams create a new budget by starting with the previous budget. • They may approach this budget by determining an anticipated percentage increase in sales during the budget period. • They apply this percentage to all of the sales from the previous budget by multiplying each sales amount by the percentage. • This determines the increase in sales.

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		• Adding this increase amount to the original budgeted amount determines the total sales for the budget period. • This strategy is easy; however, the numbers created mean little in regard to the unforeseen events that may occur in the future.
2.	Sales Target Strategy	• Using a sales target strategy means that senior management determines what the total sales budget must be. • Under this approach, senior management states that the sales team must earn a targeted level of sales in the budget period.
		• The sales team divides this amount among the different product lines and then spreads it over the months in the budget period. • This strategy ensures that the sales represented in the budget meet the targeted sales level required by senior management. • However, it does not consider any economic or industry factors that may impact sales in the budget period.
3.	Product Push Strategy	• When company management plans to launch a new product line, they anticipate a specific level of sales for that product line. • Managers direct the sales team working on the budget to include this anticipated level of sales in the budget and direct resources toward reaching this level of sales, often at the expense of other products sold by the company. • When the sales team spends its resources on the product line being pushed by management, little time exists to focus on other areas. • Without adequate time invested in budgeting the sales for the other product lines, these product lines will lack realistic numbers. • This reduces the credibility of the entire budget.
4.	Industry Comparison Strategy	• Some companies approach sales budgeting by evaluating the events occurring in the industry. • The company acquires sales numbers from industry trade groups and government publications and uses this information to evaluate the potential sales of its own product lines. • This approach incorporates a perspective beyond the activities and goals of the company and also considers external factors. • Some information may not be readily available or detailed enough to use in this approach.

Methods of Sales Budgeting

A variety of methods ranging from the Sales Manager's gut feeling to the application of management science models are used for determining the sales budgets. These methods can be described as:

1. **Affordable Method:** Many companies set the promotion budget at what they think the companies can afford. This method is adopted by the firms dealing in capital industrial goods. Also, companies giving less emphasis to sales and marketing function or having small size operations make use of this judgmental method. So, the management develops sales budget depending on the ability to spend on sales function; such an estimate usually fall short of sales department's requirements.
2. **Rule of Thumb (percentage of sales) Method:** Most companies set their sales budget as a specified percentage of sales (either current or anticipated). Mass-selling goods and companies dominated by finance are major users of this method. In this method, the sales

revenue is multiplied by a given %; Sales revenue = Past revenue / forecasted figure/ weighted average of both

3. **Competitor's Parity Method:** This method is adopted by large-sized companies whose products face tough competition and need effective marketing to maintain profits make use of this method. The knowledge of competitor's activities and resource allocation is important if an organization wants to pursue this method. It is based on budgeted figure of competitors or industry average and the competitor who is comparable in size and revenue is chosen

4. **Objective and Task Method:** The above methods do not take cognizance of the following organization's objectives in developing budget:
   - Identify objective with employees
   - Identify tasks for achieving objective
   - Expenditure required
   - Form budget

   Being a systematic method it helps in the determination of the sales budget by identifying the objective of sales function, and then ascertaining the selling and related tasks required to achieve each objective. Later, the cost of each task or activity is calculated to arrive at the total budget. The finalization of the budget may require adjustment both in the objectives as well as in the way the task may be performed.

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

In practice, companies make use of a combination of the above methods and depending upon the experience gained, sales budgeting approach stands refined. The status of the sales and marketing function within the organization determines the extent of sophistication used in the approach to sales budgeting. Whichever method is chosen, the actual amount budgeted will be based on the organization's sales forecast, marketing plans, projected profits, top management's perception of the sales force's importance in reaching corporate objectives, and the sales manager's skill in negotiating with superiors. Budgets are often modified several times before the final figures are determined.

Budgeting Process

An effective sales management budget process is critical for achieving sales goals. If the process isn't designed properly, sales budgeting will only be a futile exercise as opposed to a process that enables the sales team and related department to achieve their goals.

1. **Business Plan:** The sales management budget process should not begin until a draft of the business plan and supporting financials has been developed. Without understanding the overall plan for the business and available financial resources to support the plan, a good sales budget will be difficult to develop.
2. **Staffing:** A company or sales department should assemble a team to develop the sales management budget. The team should be led by the senior sales management executive from a top-down-direction leading perspective but should also include the lowest level in a sales organization such as a new salesperson. Those people should be involved who are in the front lines out in the field, calling on prospects, provides a real-life perspective of the budget creation process.
3. **Segmentation:** The team should prepare a sales management budget from multiple perspectives with all the numbers adding up for the same total. For example, the budget should be prepared by product, territory and salesperson. Each perspective should be

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validated. For example, in examining sales by salesperson, the team should examine a review of the past year's performance by salesperson to decide how realistic goals are for each individual. When examining budgeted sales by product, product availability should be examined.

4. **Contribution:** A sales management budget must also translate the forecasted sales into contribution to company overhead and profits. This helps assure that the right mix of products with the right profit margin is sold.

5. **Expenses :** The sales management budget process also includes budgeting expenses. One common approach for budgeting expenses is to review last year's expenses and adjust those expenses based on the coming year's forecasted sales and any additional expenses not incurred in the previous year. Another approach is zero based budgeting, which does not examine previous year's expenses but develops expenses with no assumptions. Such an approach often results in unnecessary expenses being eliminated and expenses being incurred where they can have the biggest impact.

1.34 Sales Budget Implementation and Feedback

Actual budgetary control features go into operation as soon as the approved budgets have been distributed to all units of the firm. Each item in the budget serves as quotas or standards against which management measures the unit's performance. In case of the actual performance showing the variance from the budgeted performance, two courses of actions are available to the organization.

To ascertain whether the variance is a result of poor performance by the sales group. In this case necessary steps should be taken to ensure that salespersons organize their selling efforts more carefully, so that budgeted performance can be brought back into line. To revise the sales budget by incorporating the changed allocation of the item. For example, if it is discovered that travel expenses have increased because of the necessity of calling on new customers not previously covered action should be taken to revise the budget to reflect changed conditions.

Salespersons are generally trained to be budget conscious. It is the responsibility of the sales manager to ensure that the sales revenue and cost ratios remain within reasonable budget limit.

Experience brings out the following main items on which variance between budgeted and actual costs often arise:

- Salaries and fringe benefits
- Direct selling expenses
- Maintenance of company vehicles
- Sales and other product/business promotional costs, and
- Promotional allowances including discounts, rebates, etc.

The sales manager must give attention in varying degree to each of the above and other items. It is wise to tighten control over expenses especially under circumstances when sales forecasts are not being met or sales budgets are being exceeded. A general attitude of caution before incurring an expense is considered prudent. For example, a leading FMCG company may have a norm that not more than forty percent of sales expenses budget will be spent unless more than fifty percent of the forecasted sales have been realized.

All shortfalls in budgeted sales that affect gross profit contribution must at least make a case for a thorough review of the sales and marketing programs of the firm. Researches reveal the causes of shortfalls as:

- Distribution problems
- Shift in market mood
- Competitive activity
- Wrong pricing

- Under-manning of sales staff or inexperienced sales staff
- Delays in new product launch, etc.

1.35 Strengths and Weaknesses of a Sales Budget

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A sales budget is only as good as its assumptions, as it is difficult to forecast future trends and event. A sales budget takes the components of the selling process of a business to forecast sales, which ultimately determines the company's bottom line or operating profit. By its very nature, a sales budget requires management to make assumptions regarding various expenditures to achieve its targeted sales objectives. Developing a realistic sales budget is critical for management to properly allocate the company's resources, such as capital, staff and indirect labor. Before implementing the sales budget, the strengths and weaknesses should be analyzed and modify the budget as a result of the analysis.

- **Sound Logic:** There must be sound strategic reasons for expenditures, based on a clear understanding of how to reach target customers. It's not sufficient, for example, to say that advertising spending will be increased five percent over last year because that's the percentage increase always used. The cause and effect analysis has to be done. Post analysis it should be clear which marketing methods were most effective in generating new business.
- **Completeness:** A weakness in a company's sales budget could be that it underestimates the actual funds required to implement the chosen strategies and action plans. Adopting an underfunded budget may result in a profit shortfall because more money than forecast will have to be spent to implement the required action plans. The result could also be there won't be sufficient funds to implement all the action plans, which could have a negative impact on future sales. If a new strategy is being implemented for which there is no prior cost history, extra funds may be included to meet the possibility of underestimation of the cost of implementation.
- **Efficient Resource Allocation:** One of the most difficult parts of sales budgeting is determining which categories are the most important and should receive the most funding. This needs to be discussed in an open forum with inputs coming from all concerned people. This discussion allows everyone to contribute views and perspectives. The result should be a better-informed allocation of human and financial resources.
- **Sufficient Expenditures:** Another important test of the sales budget's strength is whether it is adequate to accomplish the strategic objectives. Advertising, for example, is more effective if done on a consistent basis. The consumer needs to see the ad several times in order to remember the message. For many firms, an increase in the sales budget can mean lower profits in the short term as marketing initiatives take time to gain a hold in the marketplace. But marketing expenditures fuel the growth of the business and help build a competitive advantage. Data from industry trade organizations about what the competitors in the industry spend on marketing can be studied to make sure that the expenditures are comparable.

1.36 Issues in Sales Budgeting

There are several issues in budgeting and allocation which needs to be analyzed. Sales budgeting are mainly done at the macro level but the actions take place at the micro level. The top management allocates the budgets and may take the feedback from the local sales managers which again depend upon whether the organization follows a centralized or decentralized decision making process. There can be many other issues which the sales budgeting process has to look at. Some of them are:

- **Establishing the need for budget:** The budget would be established for different regions depending upon the need. Hence the sales manager should be able to establish the need

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for budgets. The sales managers at a branch level would best know the real activities of the sales process happens at the micro level i.e. at the branch level and the expenses in incurring the sales. The exact need of budget should be established by taking into account for all the expenses such as travel expenses, office rents and bills for electricity, phone lines etc. The budgets should be allocated at the local level by taking the feedback from the sales managers.

- **Having multiple views of the sales budget:** The sales budget created should clearly identify the sales from various dimensions such as:
  - Sales by the region/ territory
  - Sales by the product or service
  - Sales by the sales representative

  Having multiple views will help in guiding if the expectations are not as per the sales forecast.
- **Identifying NPA's and planning the events:** Having created the sales budgeting from many angles like stated above enables the sales manager to identify the NPAs in his region/ territory. In sales non-performing assets are termed as NPT which stands for Non-performing territories. For example, the overall sales figure for the city is increasing but due to multiple views the sales manager can easily see that one of the territories in his region is showing a down trend in sales figures. Hence necessary action can be taken to improve the sales figure. It is understood in business world that a market leader will work to develop new territories and may leave the territories which are under performing whereas a market follower would safe guard existing underperforming territories and strive for development. The NPA can be the sales representative too if they are not able to attain their sales quotas. Hence, the sales manager can identify such representatives and take necessary action to improve their productive levels.
- **Monitoring the forecasted figures to the actual sales:** Most of the companies divide the yearly forecast figures into monthly sales which could be attained by the sales representatives if they achieve their assigned quotas. But there would be chances that the forecast may go wrong and the quotas set were not realistic. In such cases it is always important to monitor the actual sales figures with the forecasted sales figures at regular intervals. Sales manager may use the variance analysis technique like ANOVA to check the variance.
- **Time interval for monitoring sales budgets:** The time interval to check for variance and sales budgeting depends upon the sales manager and may be done daily or weekly or monthly or quarterly or half yearly or yearly. However one must understand that too frequent monitoring may result in wastage of time and money on trivial or uncontrollable factors. On the other hand, too loose monitoring process may result in lower performance levels.

1.37 Meaning and Definition

Before we take up sales forecasting for discussion, it is important that we understand the meaning of two important terms namely market potential, and Sales potential

Market potential is an estimate of the:

- **Maximum** possible sales opportunities present in a particulars market segment.
- Open to all sellers of good/service.
- During a **stated future period.**

For example, sales of low priced cameras that might be sold in India during the calendar year 2014 by all sellers irrespective of a particular brand would represent market potential.

Sales Potential is an estimate of the:

- Maximum possible sales opportunities present in particular market segment.
- Open to a **specified company** selling a good or service.
- During a **future stated period**.

For example, sales of low priced cameras that might be sold in India during the calendar year 2014 by Eastman Kodak Co. would represent sales potential of the above company.

Now we define **Sales Forecast**. Sales forecast is an estimate of sales:

- in physical units
- in a future period
- under a particular marketing program
- and an assumed set of economic and other factors outside the unit for which the forecast is male.

Hence, we see that sales forecast are often viewed within the context of total market potential. Whereas, market potential relates to the total capacity of the market to absorb the entire output of a specific industry, sales potential, on the other hand, is the ability of the market to absorb or purchase the output from a single firm.

In very simple words - Sales forecasting is the process of estimating what will be the business's sales in the future.

In the words of **Henry Fayol:** "To foresee means both to assess the future and make provision for it. According to **Robert Albanese** - The sales forecast is one of the major planning premises in business organizations. It is the result of numerous assumptions made about the external and internal environments of the firm. In the words of **Philip Kotler** - Sales forecast is the expected level of company sales based on chosen marketing plan and assumed marketing environment.

Sales forecasting of an established business is easier than that for a new business. For an established business, the past sales combined with present economic and market scenario work well for predicting a business sale in future. Whereas, a new business has no past sales baseline. Hence, it requires researching the target markets, trading area and the state of competition to guesstimate future sales.

Need for Forecasting

There is often a debate about the accuracy of forecasts. And on that premise some might feel that there is no need of forecasting as it is time consuming, doesn't add value to the product directly and of course, the most important reason being that they are wrong. It is absolutely OK for companies **to not take to** forecasting if

- They have enough time to buy material, make the product and ship it after the procurement of customer orders.
- They can add or reduce capacity very economically.
- The owners of the business do not require forward financial planning. The above three conditions are not found in practical world and hence, companies cannot do away with forecasting. Hence, every kind of company needs to forecast. And the above reasons are strong enough to prove the need of forecasting in all kinds of companies.

Table 1.14: Need for Sales Forecasting

1. Meeting customer demand such that there is neither excessive inventory, nor stock out situations.	• Producing for stock - Forecasts about purchase of raw material made formally or informally based on past history.
	• Producing for order - Predict future sales and undertake production, planning and scheduling.

2. Change capacity which requires that equipments and workforce are efficient and effective enough for smooth and cost effective functioning of the organization.	• When labour is key factor – Forecasting is essential to hire and train people in the lead time. • When equipment is key factor – Forecasts are essential for equipment upgrading replacement etc.
3. Financial Planning is essential to attract investors, acquire loans.	• Projections regarding income, expenses, benefits investments, cash flow, asset levels and so on, are important.

1.38 Importance of Sales Forecasting

Sales forecasting is important due to the following implications:

1. It helps in evaluation of past and current sales levels and annual growth.
2. Comparison of one's own company to industry benchmarks is possible.
3. It helps in establishing policies to monitor prices and operating costs.
4. It also enables a company to detect minor problems before they become major problems.

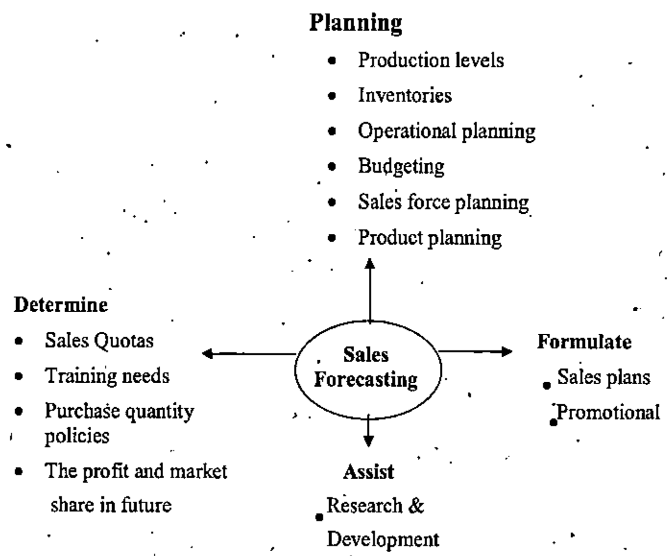

Figure 1.21: Importance of Sales Forecasting

5. Companies that implement accurate sales forecasting processes realize important benefits such as:
   - Optimized cash flow
   - Knowing when and how much to buy.
   - In – depth knowledge of customers and the products they order.
   - The ability to plan for production and capacity.
   - The ability to identify the pattern or trend of sales.
   - Determine the value of a business above the value of its current assets.
   - Ability to determine the expected return on investment.

1.39 Factors Affecting Sales Forecasting

Sales forecasting is the basis for a number of decisions ranging from tactical ones to strategic decisions. A host of factors & affect sales forecasting – both internal, as well as External. For forecasting to be more precise and accurate, a company needs to consider all of the following factors;

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1. **Internal factors:** The factors internal to the organization which can have a bearing on the volume of expected sales in future can be discussed as follows:
   - ***Labour problems:*** It can have an adverse impact on the production levels and thereby affect future sales.

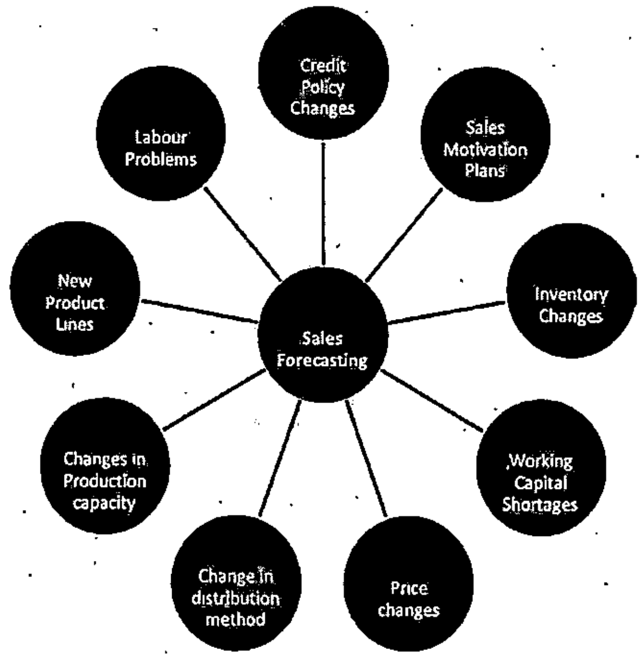

Figure 1.22: Internal factors affecting Sales Forecasting

   - ***Credit policy changes:*** If the credit policy is made liberal sales can be affected positively and vice-versa.
   - ***Sales motivation plans:*** Sales force of any company has a direct relationship with its sales. Hence, a motivated sales force can add up to sales and market share.
   - ***Inventory changes:*** The position of inventory also has an impact on sales of a company. Over stocking and under stocking, both affect the sales adversely.
   - ***Working Capital shortages:*** Can again lead to irregular and fluctuating production, which in turn affect sales.
   - ***Price changes:*** in raw material and other inputs lead to cost escalations which can again have an impact on sales.
   - ***Changes in distribution method:*** Every channel of distribution has its own advantages and disadvantages changes in distribution system can affect sales and the state of competition.
   - ***Changes in production capacity:*** When production capacity increases/ decreases, sales will be affected because of production volumes and costs. Hence forecasting becomes difficult.
   - ***New Product lines:*** When new product lines are added, sales might not be easily predicted.

   Internal factors are controllable factors and hence organizations can have a bearing on them and can use them to not only predict sales but also impact sales.
2. **External factors:** Just as internal factors affect sales forecasting, external factors also have an impact on sales forecasting. They are as follows:
   - ***Seasonality of business:*** When business is of a seasonal basis, sales are also irregular and hence forecasting is more difficult.

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- *State of the economy:* Sales have a direct co-relation with the state of economy. When the economy is in depression, sales do not pick up so easily.
- *Direct and Indirect Competition:* When the competition is direct, sales can be forecasted easily in comparison to when it is indirect.
- *Political events:* In case of political uncertainly sales forecast is a difficult task.

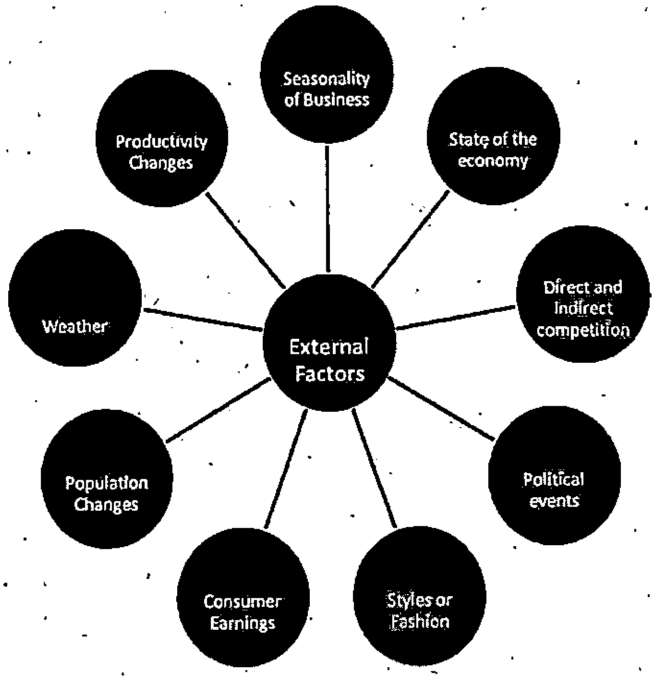

Figure 1.23: External Factors Affecting Sales Forecasting

- *Styles/Fashion:* If the product is a stylish or a fashionable product, its life cycle is much shorter and hence sales forecasting is more complex and difficult.
- *Consumer earnings:* When the income of consumers increases, sales also increase.
- *Population changes:* The changes in demographic pattern of the population has a direct relation with sales. When the population has a geographical shift (from rural to urban) or younger population is higher in percentage, sales rise proportionately.
- *Weather:* Sales forecasting is also affected by trends due to change in weather conditions.
- *Productivity changes:* Increase/ Decrease in productively of the organization also impact sales forecasting.

1.40 Process of Sales Forecasting

Sales forecasting is a process – but not a physical one, such as building a product or packaging and shipping it. It is an informational and decision making process.

Processes have inputs, a conversion phase and outputs. When talking about forecasting the three elements in the forecasting process can be studied as follows:

Inputs Conversion Forecasts

1. People
2. Forecasting Software
3. Structured Steps

INPUTS → CONVERSION → FORECASTS

1. People
2. Forecasting Software
3. Structured Steps

Figure 1.24: Process of Sales Forecasting

Let us look at these three elements in the forecasting process:

1. **People:** The people involved in forecasting process have to take some important decisions by which the magnitude and direction of the forecasting is clearly defined. These decisions are:
   - ***Forecast frequency:*** Depending on the purpose of forecast, frequency of forecast varies. For formal review and update, the most commonly used frequency is once per month. When demand changes more frequently, then even mind forecasts have to be done. Some companies, on the other hand, who excel at Continuous Replenishment (CR) update their 'forecasts' a number of times per week.
   - ***Forecast interval:*** The gap between two consecutive forecasts is its interval. Companies can use weekly forecasts to monthly ones to project future sales.
   - ***Forecast horizon:*** Although companies are involved in 12 monthly projections, they should prefer 15 months time horizon for making the budgeting process a lot easier and more routine.

   Although for some companies like aerospace or chemicals go out for three years because they require longer lead times for facilities, equipment, materials and highly trained people. Some might need even more longer projections than this.

2. **Forecasting software:** The second component of the forecasting process is software. The ABC approach applies to the forecasting process:

   The C item is the computer software and hardware

   Essential, but not critically important item. Used for statistical projections & handling data.

   The B item is the data

   The validity and utility of the input data is of more significance than the computer.

   The A item is the people

   The success of a forecasting improvement initiative will depend almost totally on the people: their dedication, their willingness, their knowledge.

3. **Structured steps:** The third element, structured steps in the forecasting process is important, because, these steps are the vehicle for the people - An item - to do their jobs. The sales forecasting process contains the following steps:

   (i) ***Determination of Goals:*** The sales manager should decide the goals for sales forecasts. These objects may include:
   - Determination of sales publicity programme,
   - Marketing methods,
   - Sales quota determination,
   - Estimation of working capital requirements, and
   - Estimation of income and expenditure, etc.
   - Clarity in goals set the right direction for sales forecasting process.

   (ii) ***Determining the factors affecting sales:*** Identifying and analyzing the controllable and uncontrollable factors scientifically will help in assessing their impact on future sales. The controllable factors are basically internal to the organization, whereas, the uncontrollable ones are mostly external.

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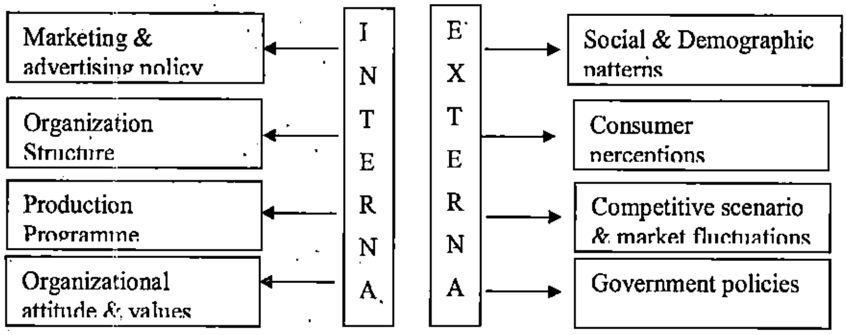

Figure 1.25: Determination of factors affecting Sales

4. **Selection of Techniques:** Suitable methods for forecasting sales must be selected keeping in view the sales objectives, time intervals, resources of the firm and the nature of the product. The manager should ensure that the informations gathered are sufficient and collected from reliable sources.
5. **Collection of Data :** Field research and motivation research are conducted to obtain relevant information for estimating future demand. A study of consumer behaviour as to know about the consumer profile – that is who the present consumers are, who can be in the future, what they buy, why they buy, when and from where they buy, is of utmost importance. On this basis, market potential can be determined. This is the next step in the process.
6. **Analysis of Market Potential:** Analysis of market potential requires a two-step process.
   (i) Select the market factors associated with product's demand.
   (ii) Eliminate those target segments that do not contain prospective buyers of the product. The sales manager should ensure that the information gathered is sufficient, before doing analysis.
7. **Forecasting of Future Sales:** Sales projections should be made on the basic of analysis done. A company may make a forecast for an entire product line or for individual items within the line. Sales may be forecasted for a company's total market or for individual market segments. After determining the market or sales potential for a product or service, management can make a sales forecast.
8. **Converting Industry Forecast to Company Sales Forecast:** Many companies forecast both their own sales and sales of the industry. The general practice is to forecast industry sales early in the procedure and from it derive a company sales forecast for use as a check against forecasts arrived at through other methods. Deriving a company sales forecast from an industry sales forecast requires an appraisal of company strengths and weaknesses against those of competitors. The result is an estimate of expected market share that results in a forecast of company sales.
9. **Making Operational Programme and the Budget:** After the sales forecasts have been made, budgets are made. The requirements of various operational activities such as production, purchasing, marketing, capital assets, work forces etc. are met with if the budget estimations are correct. If the sales forecasts have large deviations from actual sales, then the budgets might need revisions.
10. **Deriving Sales Volume Objective:** A sales forecast (1) contains an estimate of sales tied to a proposed marketing plan or programme and (2) assumes a particular set of economic and other forces outside the unit for which the forecast is made. The sales forecast estimate does not necessarily become the company's sales volume objective, but it provides an orientation point for management's thinking. Further adjustments in the sales forecast estimate are necessary whenever management decides to alter its marketing plan or programme or changes occur in competitor's marketing strategies.

11. **Evaluation and Revision of Forecasts :** Every forecast contains elements of uncertainty. All are based on assumptions. So a first step is evaluating a sales forecast is to examine the assumptions on which it is based. The company should review the forecasting process periodically. The first step in the review is to determine the accuracy of past forecasts to learn if changes are needed in the way forecasts are made. If the company finds that sales forecasts are significantly different from actual sales in the period, it should undertake a review of the sales forecasting process before making any more forecasts.

The evaluation process then should review the data used in sales forecasting Poor data collection methods can decrease the quality of the data used for forecasting, or the data may be inappropriate for forecasting sales of the product. Forecasts should be checked against actual results, differences explained, and indicated adjustments made for the remainder of the period. When the period's sales results are all recorded, all variations should be explained and stored for future use in improving forecasting accuracy.

1.41 Approaches to Sales Forecasting

William J. Stanton, Etzel and Walker have described two types of approaches to sales forecasting. These are a follows:

1. **Top-down Approach:** A company can forecast sales by using top-down approach. Using this approach, management needs to:
   (i) Develop a forecast of general economic conditions. (b) Determine the market potential for a product.
   (ii) Measure the share of this market the firm is currently getting or plans to capture.
   (iii) Forecast the firm's sales of its brand of the product.
2. **Bottom-up Approach:** In bottom-up forecasting, management follows a two-step procedure :
   (i) Generate estimates of future demand by acquiring information from segments of the market or from organizational units (salespeople or branches) in the company.
   (ii) Add the individual estimates to get one total forecast.

1.42 Techniques of Sales Forecasting

Sales forecasting method is a procedure for estimating how much of a given product can be sold if a given marketing programme is implemented. No sales forecasting method is full-proof. Well-managed companies do not rely upon a single sales forecasting method but use several. The methods can be placed in three general categories and the ones that are more widely used are discussed as under:

These are discussed below:

I. Survey Methods

Survey methods rely on the opinions of expert, such as salespeople, sales executives, and the customers who will be making purchase decisions.

1. **Executive Opinion:** It consists of obtaining the views of top executives regarding future sales – views that may or may not be supported by facts.

   Some executives may have used forecasting methods to arrive at their opinions. Others may have formed their estimates largely by observation, experience, and institution. The forecasts made by the executives are averaged to yield one forecast for all executives, or the differences are reconciled through discussions among executives. If these are informed opinions, based on valid measures such as market-factor analysis, then executive judgment can produce accurate forecasts.
2. **Delphi Method:** This is specialized form of 'executive opinion'. According to William Stanton the Delphi method begins with a group of knowledgeable individuals anonymously

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estimating future sales. Each person makes a prediction without knowing how others in the group have responded. These estimates are summarized, and the resulting average and range of forecasts are fed back to the participants. Now, knowing how the group responded, they are asked to make another prediction on the same issue. Participants may change or stick with their original estimates. This process of estimates and feedback is continued for several rounds. In some cases – and usually in sales forecasting – the final round involves face-to-face discussions among the participants to produce a sales forecast consensus.

3. **Sales – Force Composite:** This method is based on collecting an estimate from each salesperson of the products they expect to sell in the forecast period. The estimate may be made in consultation with sales executives and customers and based on the salesperson's intuition and experience. The individual forecasts are then aggregated to yield an overall forecast for the firm. This method is sometimes termed as 'grass- root' approach.

4. **Surveys of Buyer Intentions:** This method consists of contacting potential customers and questioning them about whether or not they would purchase the product at the price asked. Sometimes this is referred to as the market research method. For industrial products, where there are fewer customers, such research is often carried out by the sales-force on face-to-face basis.

   Some firms maintain panels of consumers for use in such surveys. Sales people may be asked to survey customers regarding their future buying intentions.

   This method is probably most accurate in forecasting demand when (1) there are relatively few buyers in the target market, (2) these buyers are willing to express their buying intentions, and (3) their past record shows a consistent relationship between their actual buying behaviour and their stated intentions.

5. **Product Testing and Test Marketing:** This technique is of value for new or modified products for which no previous sales figures exist and where it is difficult to estimate likely demand. It is therefore prudent to estimate likely demand for the product by testing it on a sample of the market beforehand. It involves the limited launch of a product in a closely defined geographical test area. Test market results can be grossed up to predict the national launch outcome.

II. Mathematical Methods

Mathematical methods apply mathematical and statistical techniques to historical data to forecast sales. These include the following:

1. **Moving Average Technique:** The simplest way to forecast sales is to predict that sales in the coming period will be equal to sales in the last period and it assumes that the conditions in the last period will be the same as the conditions in the coming period. It is likely, however, that the factors affecting sales change from period to period. Hence, it makes sense to take an average of sales from several periods to construct the sales forecast for the coming period. In the moving average technique the sales of the designated periods are summed and then divided by the number of periods to yield the average.

2. **Exponential Smoothing Models:** This is a statistical technique for short- range sales forecasting. It is a type of moving average that represents a weighted sum of all past numbers in a time series, with the heaviest weight placed on the most recent data.

3. **Regression Analysis:** This technique is often used to project sales trends into the future. In this method, sales totals are plotted for each past time period: This technique is a statistical process. It determines and measures the association between company sales and other variables. There are three major steps in forecasting sales through regression analysis:

   (i) Identify variables casually related to company sales.

   (ii) Determine or esumate the values of these variables related to sales. (3) Derive the sales forecast from these estimates.

Where sales are influenced by two or more independent variables acting together, multiple regression analysis techniques are applied. Computers make it easy to use regression analysis for sales forecasting.

4. **Projection of Past Sales:** The projection of past sales method of sales forecasting takes a variety of forms :
   (i) One is to set the sales forecast for the coming year at the same figure as the current year's actual, sales or
   (ii) The forecast may be made by adding a set percentage to last year's sales, or
   (iii) It may be a moving average of the sales figures for several past years.

   Time series Analysis, Market Factor Analysis, Correlation Analysis, and Z charts are other few techniques which can be used to forecast sale depending upon the purpose of the forecasts.

III. Operational Methods

Operational methods take information about the company's capacity and financial requirements to derive sales forecast. A few operational techniques which are used are – 'Must do' calculation, capacity based forecasts, Econometric model building, simulation, diffusions models etc. The choice of the technique will depend on the **purpose**, **cost**, **time** and **urgency** of the forecast.

1.43 Principles of Sales Forecasting

Sales forecasting is undoubtedly a difficult and challenging task. A few guiding principles that can enhance the accuracy of sales forecast are as follows:

- **Choose the right method and basis:** Forecasts can be either based on products or geographical location. Depending on the nature of product and competition, right forecast method and basis should be chose.
- **Use more than one method:** Using more than one method can improve the accuracy of a sales forecast.
- **Minimize the number of market factors:** Including greater number of market factors result in confused sales forecast, because it becomes difficult to determine exactly what affects the demand for a product.
- **Recognize the limitations of forecasting:** For some products – say innovative and highly competitive products, forecasts are difficult; similarly, for products which have variable demand, forecasting becomes more complex.
- **Use the minimum / maximum techniques:** Sound research strategy dictates the use of both minimum and maximum estimates in all computations in order to obtain a range of variations.
- **Understand Mathematics and Statistics:** Sales forecasting makes wide use of mathematics and statistics hence understanding of statistical and mathematical techniques is important to avoid any errors.

1.44 Limitations of Sales Forecasting

Despite the use of statistical and mathematical techniques used in sales forecasting which makes it quite accurate, sales forecasting has its own limitations:

- **Lack of Sales History:** For new products there is lack of past sales data; hence it limits the accuracy of the forecast.
- **Change in Business Environment:** Changes in business environmental factors like income, price, demand, supply etc. brings about changes in sales forecasts and if these changes are fluctuating, forecasting becomes difficult.

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- **Change in Consumer Behaviour:** Similarly, change in consumer preferences, habits, consumption patterns, attitudes and needs, also impact sales forecasting and its degree of accuracy.
- **Lack of Facts and Data:** Inaccurate data and incomplete facts hinder the process of sales forecasting and can have incorrect forecasts.
- **Based on Assumption:** Sales forecasting is based on certain assumptions, and if these assumptions are over or under optimistic, it can lead to inaccurate sales forecasting.
- **Availability of Substitute Products:** When the substitute products are available in plenty, sales forecasting becomes complex and difficult.
- **Uncertain growth rate:** Since the business environment has become very dynamic and complex, resulting in fluctuating demand, investments, and income levels. Hence, correct sales forecasting has become difficult.
- **Higher Cost:** For smaller firms it is not viable to use sales forecasting techniques due to high cost of statistical and mathematical techniques.
- **Changing demand and changes in consumer** preferences, consuming habits leads to lot of changes in demand, hence making sales forecasting difficult.
- **Influence of Psychological factors:** Psychological factors such as attitudes, perceptions, personality, life styles, self concept etc. are difficult to assess and measure. And since these form an important input to sales forecasting, reliable and accurate forecasting becomes difficult.
- **Complex Techniques:** The techniques used in sales forecasting are complex and difficult making the process of sales forecasting a tedious and complex one.
- **Lack of trained forecasters:** Lack of efficient, trained and experienced forecasters can have adverse impact on sales forecasting.

If these limitations are taken care of, the chances of occurrence of errors in forecasting can be minimized.

1.45 Sales Quotas

Sales quota is the estimated value or volume of sales expected to be achieved by the sales personnel over a given period of time. Sales quotas are set for salesmen, marketing unit or territory. According to **Paul H. Nystrom**, "A sales quota is a part of a company's total estimates sales assigned to a salesmen, a territory, a branch, a distributor or dealer or to some other selling unit, as a goal to be attained in a designated future period of time." According to **Still, Cundiff and Govoni**, "Sales quotas are quantitative objectives assigned to sales personnel and other units of the selling organization." According to **Philips Kotler**, "A sales quota is the sales goal set for a product, company, division or sales representative." According to **Stanton, Spiro**, "A sales quota is a performance goal assigned to a marketing unit for a specific period of time." It is evident from these definitions that quotas are quantitative goals assigned to sales force in a particular territory during a specific period of time.

Purposes of Sales Quotas

Well-established sales quotas help in effective implementation of the strategic plans. According to **Stanton and Spiro** they are significant and serve many valuable purposes as shown in Figure 1.26

- **To indicate strong or weak spots in the selling structure:** The extent of territorial development can be gauged by whether the quota has been achieved or not. Sales performance varies product by product, sales personnel by sales personnel, territory by territory and quotas help identify the strong and weak points but further analysis of performance data is required for uncovering reasons for performance differentials. If

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sales significantly exceed the pre-determined targets, companies analyze the reasons for variance and similarly, if sales fail to meet the quota, firms analyze what went wrong. Reasons for failure and success can be evaluated. The failure to meet the quotas, must have happened because of competition, over-estimation of market potential or under-performance by sales force.

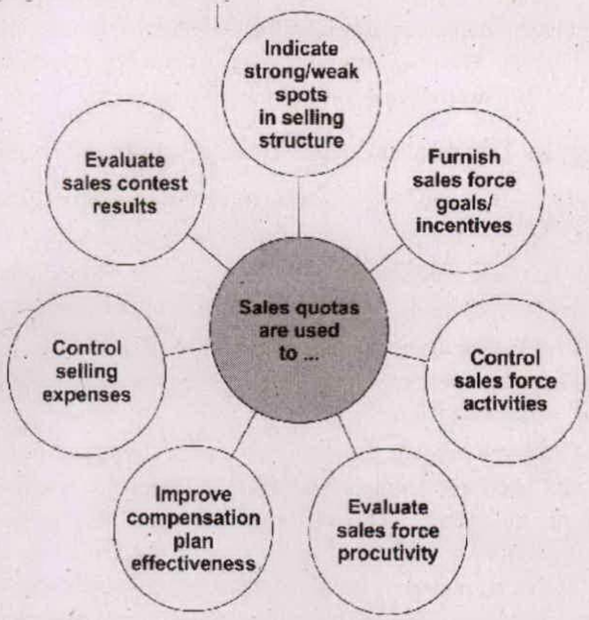

Figure 1.26: Purposes of Sales Quotas

- **To furnish goals and incentives for the sales force:** Sales relative to quotas is the most prevalent performance criterion for judging salesperson performance. With a measurement standard, sales representatives are better guided to perform their activities and achieve goals. **Dalrymple and Cron** state, "Achievement-oriented people want specific and challenging goals, with regular feedback on their performance. Sales quotas perform this function."
- **To control salespeople's activities:** Quotas help firms manage sales force performance more effectively as with the assistance of appropriate type of quota, sales managers can motivate sales force to undertake certain activities such as calling on new accounts, building displays, selling high ticket items, etc The sales representative sometimes maybe unclear about which activity to focus on unless stressed by management.
- **To evaluate productivity of salespeople:** Quotas act as a tool to measure the performance of the salesperson as it provides targets to the salesperson. Quotas provide a yardstick, against which the actual performance is compared to comprehend whether the sales representative is performing well or not. Quotas also provide a means for deciding which retail outlet or units/branches of the sales organization are contributing above-average or below-average.
- **To improve effectiveness of compensation plans**: Quotas play an important role in sales compensation system. Quotas bring in incentives for salespeople who are remunerated through straight salary. Sales representatives are well aware that a worthwhile performance in quota achievement reflects favorably on appraisal and salary reviews.
- **To control selling expenses:** Profitability and expenses are more tightly controlled through quotas. Organizations many times encourage expense control by establishing expense quotas alone, without clubbing them to the remuneration plan. Sometimes

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companies set rupee expense quota and appraise salesman partially by their accomplishment in staying within assigned expense limits.

- **To evaluate sales contest results:** Organizations usually use performance against quota as the core basis for rewarding in sales contests. With all the participants feeling they have an almost equal chance of winning, these contests serve as a powerful incentive tool. Common denominator feature is built into contests by basing rewards on percentage of quota fulfillment. However, attempts are also made for adjusting differences among territories and differences among sales force.

Factors Affecting the Determination of Sales Quotas

There are various factors which affect the determination of sales quotas. Some of the important factors are as follows:

1. **Sales quotas of last year:** Sales quota for the next year can be set on the basis of past year sales after undertaking necessary modifications in lieu of changed circumstances.
2. **Sales forecasts for future:** If the management and channel intermediaries predict bright sales prospects in future for a particular territory then they will fix higher sales quota for that territory.
3. **Market potentialities:** Potentialities of the market is a significant factor in deciding sales quota. Macro and micro-environmental factors like, consumer's taste, liking, purchasing power, extent of competition, political, legal factors etc. are dimensions which affect sales possibilities to a great extent and analysis of these factors help calculate marketing possibilities of the entire industry succeeded by fixing total sales target of the firm. Finally, this sales target is distributed among different sales territories established by the enterprise.
4. **Product modification and improvement:** If a firm carries out product improvement at a large scale it can increase its quota to that extent.
5. **Advertising and Sales Promotion:** If a firm adopts aggressive promotion policy in a particular territory then it can fix a higher sales quota for that territory.
6. **Production Capacity:** Production capacity of the firm is kept in mind while setting sales quota. If the company intends to enhance its production capacity then sales quota is raised accordingly.
7. **Ability of salesmen:** If the enterprise has experienced and professional sales team it can establish higher quotas.
8. **Level of Competition:** Fixation of quota largely depends on the intensity of competition. If the company is facing intense competition along with the entry of fresh, new competitors, sales are expected to be adversely affected and hence a lower sales quota may be fixed. On the other side, if the company is a market leader then a higher sales quota may be fixed.
9. **Changes in the marketing policy and strategy of the enterprise:** The firm's strategies largely govern the setting of quotas. Suppose the firm plans to follow penetration pricing strategy then it will set higher quotas.
10. **Changes in the marketing policies and strategies of competitors:** All business enterprises are directly affected by competitors. In situations where competition is aggressive and competitors change their marketing strategies and bring in price cuts or launch cost-effective new models, the firm will have to set lower quotas.
11. **Changes in the purchasing power of customers:** Higher buying capacity of target market results in setting of higher quotas.

Types of Sales Quotas

Sales quotas are goals established by managers to measure and compare the performance of their individual employees and to help determine their compensation. The different types of sales quotas include volume-based quotas, budget quotas, activity quotas and combination quotas.

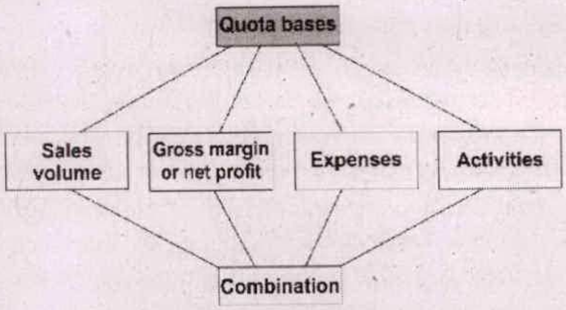

Figure 1.27: Types of Sales Quotas

1. **Sales Volume Quotas:** This is easy to compute, oldest and most common type of sales quota and under it, quotas may be expressed either in rupees or in number of units. Under this method of deciding sales quota, the quantity of product to be sold is determined for a particular salesman or specific sales territory. The quota indicates "How much and for what period?" If a sales personnel has to sell 10,000 units of a product from January to March, it is his quota for three months. Sales volume quotas can be broken down into quotas for individual products, brands or lines, which can help sales head ensure that all offerings get appropriate attention. For appraising the performance of individual salesman, retail outlet, and any other units of the sales organization sales volume quota serves as a significant standard of evaluation.

   The three ways in which sales volume quota is set includes:

   - *Rupees sales volume:* The cases in which sales personnel are required to sell multiple products it is beneficial to set quotas in rupees. This type of quota because of the rupee terminology permits an analysis of selling expenses to sales, through ratio or percentages. Further, in case of products with no fixed prices and sales personnel empowered to cut prices, rupee volume quota ensures that salesman do not cut prices too strongly to meet unit volume quota. Rupee-based quotas may at times encourage salespeople to focus on items that are expensive but do not yield the highest profits.
   - *Unit sales volume:* This quota is set under three situations. First case is when salespeople are engaged in selling few products. The second case is when product prices are highly fluctuating and in such a situation sales force is able to easily achieve rupee sales volume quota on account of increase in prices. If a product is currently priced at ₹ 80 a unit, 500 units sold transforms into 40,000 rupees in sales, but in case the price is hiked by 25 percent to ₹ 100 a unit, only selling 400 units will bring in the same rupee volume. In third situation when the price of product is very high unit sales quota is more manageable. For psychological reasons sales man considers a ₹ 100000 quota as a bigger challenge than selling forty unit quota for bikes priced at ₹ 25,000 each.
   - *Point sales volume:* This quota is more appropriate in the situation in which the company desires to improve its profitability, by motivating salespeople to sell more of those products that contribute to the profits comparatively more. For example, an organization had two products X and Y. Product X's contribution to profits was two times higher than product Y. In order to improve profitability, the company considered ₹ 1000 sales as worth one point and valued unit sales of product X at 3 points and of producty at 1 point. In this situation in appraising performance, management will regard a 160 percent total point volume attainment with 3 bonus points as less deserving than a 120 percent point volume accomplishment with 6 bonus points. Thus, it can be inferred that point sales volume quota leads to a more profitable sales assortment.

2. **Budget Quotas:** Budget quotas are established to control expenses, net profit or, gross margin. The objective of these quotas is to orient sales personnel towards cost consciousness and

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higher profitability than merely attaining sales volume. Budget quotas are of two types:

(i) Gross margin or net profit quotas and

(ii) Expense quotas. Main objective of using budget quotas is to raise the profits of the enterprise by controlling selling overheads. Expense quotas and gross margin or net profit quotas are linked to each other because having expenses in alignment with sales volume automatically indirectly controls gross margin and net profit contributions.

(i) ***Gross Margin or Net Profit Quotas***: Organizations not opting for sales volume quotas set gross margin or net profit quotas, shifting the focus on gross margin (net sales minus cost of goods sold) or profit contributions (gross margin minus direct selling expenses). The logic is salesman operate more efficiently if they realize that sales increase, expense decrease, or both, are significant only if raised margins and profits result. Table 1.15 compares profit contribution of two salespersons. Profit contribution of 35% by second salesperson is better than the first salesperson. Profit based quotas are more beneficial when salespersons decisions significantly affect the profits of the company.

Table 1.15: Net Profit Comparison of Salespersons

	Ravi	Rahul
Sales	₹ 4,50,00,000	₹ 5,50,00,000
Cost of Sales	₹ 3,00,00,000	₹ 3,50,00,000
Gross Margin (75%)	**₹ 1,50,00,000**	**₹ 2,00,00,000**
Salary	₹ 1,50,000	₹ 2,00,000
Other Selling Expenses	₹ 3,00,000	₹ 3,50,000
Total Selling Expenses	**₹ 4,50,000**	**₹ 5,50,000**
Profit Contribution	₹ 1,45,50,000	₹ 1,94,50,000
Profit/Sales Percentage	**32%**	**35%**

(ii) ***Expense Quotas:*** Many organizations tend to encourage profit consciousness among its sales force by setting quotas based on executive's travel and other expenses. According to **Still and Cundiff** "Control over expenses and profitability is tightened through quotas." Expense quotas are mostly used as a supplement to other types of quota. Many a time companies provide sales persons with financial incentives to keep their expenses in check. This is done by tying performance against expense quotas directly to the remuneration plan or by offering special expense bonuses for expenses lower than the allotted quota.

3. **Activity Quotas:** This method of determining sales quotas is different from other methods as under this method, the quotas are set for the activity of salesmen for a particular period. Organizations interested in using activity quotas begin by defining the important activities sales person perform and afterwards setting target performance frequencies. The examples of activities for which sales quotas are fixed include (1) product demonstrations made, (2) total number of sales calls, (3) orders from new accounts, (4) maintaining the quantity of sales of previous year; (5) maintaining the amount of sales of previous year, (6) establishing contacts with new customers or distributors, (7) displays built, (8) participation in events etc. Activity quotas are apt when sales people are engaged in important non-selling activities. For example, activity quota is relevant in case of Pharmaceutical marketing, where medical representative call on doctors and hospitals to explain new product formulations and

applications. Table 1.16 shows how a sales company determines activity quotas for its salespersons.

Table 1.16: Activity Quotas for a Sales Company

Activities of a salesperson	Time required (minutes/hours)	Priority	Quotas (frequency)
Calling on exzisting customers, classified into A,B,C	For A=60 mins B=30 mins C= 15/20 mins	1 4 7	4 calls per month 2 calls per month 1 call per month
Calling on Prospects	30-45 mins	3	2 calls per month
Visiting and servicing retailers	30 mins	2	Average 2 calls per month
Payment collection from payment overdue customers	15 mins	5	Average 1 call per month
Participation in events	20 hrs	6	Once in three months

A well set activity quota contributes effectively in a completely balanced sales job. The rationale is logical because for effective sales outcomes the sale force has to be engaged in doing many related jobs like, making calls on the potential customers, opening new accounts, building displays, recommending new or improved products, giving demonstrations. Thus, if the objective is to strengthen sales volume, the management has to co-operate with the salesmen, encourage them to undertake the strategic initiatives that result in sales and assist in achieving sales quotas.

Combination Quotas: If the marketing objective is to raise market share, then sales volume quota is appropriate and if the objective is to enhance a company's net profit as a percentage of sales or return on investment, then quota based on gross margin, or expense quota, is more beneficial. Sometimes for better results firms combine two or more quotas. For instance, as shown in Table 1.17 a company established a gross margin quota along with a quota based on three activities and following are the outcomes for one sales executive for the April- June quarter with his average performance score being 106%.

Table 1.17: Evaluation of Salesperson with Combination Quota

	Quota	Actual	Percent of Quota obtained
Gross margin, all products	₹ 30,000	₹ 25,000	83
New customers called on	15	20	133
Product demonstrations done	120	130	108
Window displays built	20	20	100
			Average = 106%

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Procedures for Setting Sales Volume Quotas

Various methods are used by companies in setting sales quotas. The quotas are established based on territory sale potential, complete market estimates, executive judgment, sales force's estimates and compensation plans. The sales volume quota depicts quota-setting procedures well as it is the most commonly used type however, at the same time the same method can be extended for the other types as well. Popular procedures used to set volume quotas include:

- **Quotas based on Territorial Sales Potential:** The most prevalent practice in quota setting is to relate quotas directly to the sales potential of the territory. This approach is apt when territorial potentials are decided in relation with territorial design, or bottom-up planning procedures are utilized in calculating estimated sales in the sales forecast. For example, if the sales potential in territory X is ₹ 3,00,000, or 5 percent of the total firm potential, then management may decide to allot this amount as a salesperson's quota for his assigned territory. The sum total of all territorial quotas then would be equal to the firm's sales potential.
- **Quotas derived from Total Market Estimates:** Sometimes organizations neither have statistics nor sales force estimates of territorial sales potentials to base their quota upon. In such cases, companies use top-down planning and forecasting to arrive at the sales estimate for the whole company. To determine quota, the sales head may either breakdown the total company sales estimate, calculated by various indexes of relative sales opportunities in each territory, and then make adjustments or translate the company sales estimate into an organization sales quota (by considering projected changes in marketing-mix variables like, product, price, promotion and other policies) and then break down the company volume quota, by involving an index of relative sales opportunities in each territory.
- **Sales quotas determined by Executive Judgment:** Management judgment is vital ingredient in sound quotas establishment, but relying solely on it is not recommended. Executives may set quotas purely on judgment in case limited information exists like, no sales forecast is available, or the product is new and thus its market acceptance unknown or there exists no practical procedure to decide territorial sales potential. The executive may be very experienced still too much risk is involved in relying on this factor alone without using quantitative market measures.
- **Sales Volume Quotas related to Compensation plan:** Management sometimes set sales volume quotas purely upon the projected remuneration that companies wish to offer to the sales personnel rather than basing it on potential. In the situation where a firm prefers to pay its sales representatives by straight commission but realizes that the sales personnel prefer salary-plus-commission plan, the firm adopts a combination plan. Under it, with a salary of ₹ 5,000 per month and a commission of 10 percent on total sales over ₹ 50,000 a month, by using the quota, management attains its preference for a straight commission as no commission is paid until the salary is recouped (10 percent of ₹ 50,000 equals ₹ 5000).
- **Quotas based on past Sales Experience:** Few firms work on the principle of exceeding last year sales figure as a consequence sales volume quotas are established purely on the last year's sales or in some cases on an average of sales over a period of three or five years. The advantage of this method is estimation simplicity and low-cost administration but the method has many limitations. This method does not take into account probable changes in the territorial sales potential, does not uncovers poor performance in a given territory and also tends to discourage sales representative morale by sending the message that the more they sell, the more they are supposed to sell.
- • **Allowing sales personnel to set their own sales volume quotas:** This is an uncommon method and is primarily used by firms expanding into new geographic territories. In

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situations where it is difficult to project sales, companies engage their sales force to set quotas for initial one or two years. This way, sales men become responsible for determining their own performance standards. The company officials are of the opinion that sales personnel being closest to their territories will set more realistic quotas, will complain less and work harder towards attaining them. Limitations arise when sales force is uninterested in setting their own quotas or they overestimate or underestimate their capabilities and set unrealistic high or low quotas. Quotas established unrealistically high or low by sales force causes dissatisfaction and affects sales force morale.

Requisites of Successful Quota System

Given below are a few requisites of successful quota systems:

- **Accurate, Fair and Attainable Quotas:** Sales quotas set in synergy with the territory market potential are considered as realistic and salespeople in such situations feel motivated to work and accomplish their quotas. **According to Still and Cundiff,** "Accurate quotas result from skillful blending of planning and operating information with sound judgment" while **John P. Steinbrink** states, " Setting unrealistic quotas that cannot be met only results in a morale problem and serves no useful purpose. Too often, management is guilty of fooling itself in putting down figures that are no more than wishful thinking." In practice, whether quotas are realistic and attainable depends not only upon the quality of management's judgment but also on the capabilities and efforts of sales force.
- **Securing and Maintaining Sales Force Acceptance:** Organizations should ensure that sales force understand quotas and quota setting procedure. It is crucial that sales representatives understand the significance of quotas as communicators of "how much to be sold in what period", as well as also consider their quotas fair and achievable. Thus the quota-setting procedures should be simple enough for sales person to understand and at the same time be sophisticated to permit acceptable accuracy.
- **Participating in Quota Setting:** Sales people participation in quota setting ensures the ease in understanding and attaining quotas. When sales people set their own quotas they are more convinced about its fairness. However, it is not advisable to handover the complete quota-setting job to the sales staff, but certain amount of involvement by sales force can provide more realistic and accurate quotas.
- **Keeping the Sales-force updated on quota attainment:** For efficient sales management it is important to keep sales personnel informed about their progress related to quotas. Usually, sales people receive frequent reports detailing their performance till date which helps them in analyzing their strengths and weaknesses and taking corrective action. Frequent personal contacts with supervisor as well as detailed regular reports on sales person performance provide advice, encouragement and occasional warnings to sales people to take measures to improve their performance.
- **Continuous Managerial Control:** There is requirement of continuous monitoring of performance in administering quota system. Proper record needs to be in place for collecting and analyzing performance statistics without delay. Individual sales person performance is properly documented against quota on a monthly basis, or sometimes weekly basis to facilitate analysis. An efficient management continuously reviews and appraises the operation of the system and makes the needed changes. Flexibility in quota administration is required, if a quota is proving unrealistic, it should be adjusted.

1.46 Sales Territory

A sales territory is the economic unit which is set with an objective of planning and controlling sales efforts. Setting up of sales territories facilitates matching sales opportunities with firm's

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selling efforts. Establishing or modifying sales territories and managing their efficient and effective coverage are an important part of sales management's strategic planning component. Identifying and organizing sales territories helps management to bring other dimensions of planning such as sales budgeting and forecasting down to limited geographical areas. **According to Still, Cundiff and Govoni,** "Operationally a sales territory is a particular grouping of customers and prospects assigned to an individual sales person." **According to Maynard and Davis,** "Sales territory is a basic unit of sales planning and sales control." **According to B.R. Confield** "A sales territory is a geographical area containing present and potential customers who can be effectively and economically served by a single salesman, branch dealer or distributor." Target market of a business enterprise is quite large and is generally divided into a number of segments so that the activities of distributors, dealers, retailers and salesmen etc., may be clearly checked and controlled. Division of a market into various segments is referred to as determination of sales territories.

Objectives of Establishing or Revising Sales Territories

Some of the important objectives of establishing sales territories include providing efficient services to the customers, preparing sound plans for different territories according to the needs and requirements of individual territory, planning and implementing separate marketing programs for different territories, enhancing the market share of the enterprise, monitoring repetition of marketing efforts in a particular territory, managing sales expenditure prudently and enhancing salespeople's morale and effectiveness. More specifically, there are following six factors contributing towards establishment of sales territories:

1. **Provide proper market coverage:** Well-designed sales territory permits salespeople to spend sufficient time with present and prospective customers, which improves the coverage of the market economically and adequately. Proper market coverage is ensured if company intelligently sets up the territories and carefully assigns its salespeople.
2. **Control selling expenses:** Lower selling expenses and higher sales volumes are ensured through well-designed territorial plans clubbed with prudent salesperson assignment. The careful establishment or revising of sales territories is one decision management takes to ensure that selling expense rupees are spent to the best advantage. Good territorial design ensures sales personnel spending fewer nights away from home, eliminates lodging and food expenses, reduces transportation expenses and results in increased productive selling time.
3. **Assist in better evaluation of sales personnel performance:** The intensity of competition and sales problems varies geographically. By analyzing markets territory wise and assigning sales and cost responsibility to individual sales person, management seeks the information required to set quotas and to evaluate individual sales personnel's performance against it.
4. **Contribute to sales force effectiveness:** Properly designed sales territories result in reasonable workload allocation to salespersons with reduction in conflicts as specific customers are assigned to them. Good territorial design combined with well- planned territorial assignments results in sales force spending minimum time on road which in turn enhances sales force morale.
5. **Improve co-ordination of personal-selling and advertising efforts:** By combining advertising and personal selling, management takes benefit of a synergistic effect and gets a positive outcome greater than the sum of its parts. Sales person plays a significant role in capitalizing upon synergistic advantages. For instance, before a new product launch sales force calls upon retailers to outline the launch plan's objectives, provide them with tie-in display material, and make sure that sufficient supplies of the product are available in the retail outlets. Under territorial arrangements every retailer is assigned under some salesperson and proper routing and scheduling ensures that sales person is in touch with retailers at opportune times thus, the outcomes are more satisfactory when the work is allotted on a territory-by-territory basis.

6. **Improve customer relations:** Relationship between customers and salespeople is strengthened when salespeople spend adequate time with customers understanding and satisfying their needs effectively.

Factors Determining Sales Territories

The following factors affect the establishment of sales territories:

- **Size of Business:** A major factor in establishing sales territories is the size of business. Larger business size results in bigger sales force and higher number of sales territories.
- **Methods of Distribution:** Distribution method also affects the setting of sales territories. The firm may sell their products directly, or by establishing its own shops or through the chain of distributors and retailers.
- **Ability of the Salesmen:** If a firm has team of efficient salesperson, then the size of planned territory can be comparatively larger compared to a situation where a firm has inexperienced sales team.
- **Level of Competition:** Territory with more competitors will require more time and efforts of salesperson and in such cases the size of the territory will be comparatively smaller allowing the salesperson to concentrate his efforts efficiently and fight competition. On the contrary, territory in which less or no competition exist the salesperson is in a position to cover bigger area and thus the size of sales territory will be larger.
- **Means of Advertisement and Sales Promotion:** When the firms use diverse means of promotion on a wider scale, the size of the sales territory will be large.
- **Density of Population:** Population density affects the setting up of sales territories. Thickly populated areas with greater buying potential of customers require smaller sales territory to cover them more effectively while, for thinly populated areas with low buying potential firms opt for larger sales territory.
- **Market Potentialities:** If the market has huge sales potentialities then it will have small sales territory compared to a situation in which the market possesses less sales possibilities then it will have larger sales territory.
- **Product Demand:** In case of higher demand of product, the size of sales territory is smaller contrary to the situation in which demand for the product is low the territory size is larger. **Company Policies:** Policy of the organization deeply affects sales territories. If the firm has a policy of mass production, low prices and maximizing sales then smaller size sales territories are preferred. The size of sales territory is large when the firm has an objective of low production, high prices with profit maximization.

Methods of Establishing Sales Territories

Many different methods of establishing sales territories exist and a firm may choose any of these methods as per its requirements. While selecting a particular method of setting sales territories, several dimensions must be considered, such as number and type of customers, location of customers, nature of products, competitors policies and firm's own strategies to manage and control different territories. According to **Stanton, Spiro** plan for establishing, modifying or redesigning territories involves the following six steps, as exhibited in Figure 1.28.

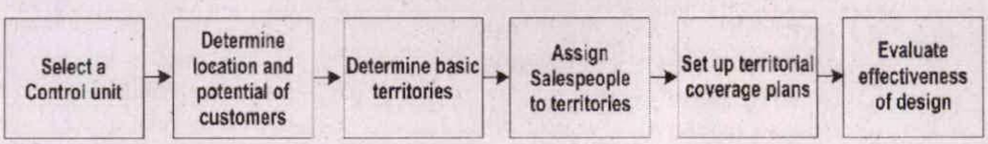

Figure 1.28: Procedure for designing sales territories

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(i) Decide Control Unit for Territorial Boundaries: The designing of territories begins with the selection of a control unit as a territorial base. Some methods of establishing basic control unit for sales territorial boundaries commonly adopted by enterprises are explained here in Figure 1.29.

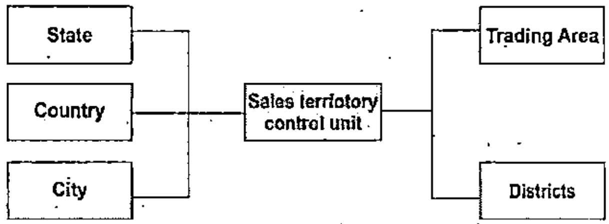

Figure 1.29: Territorial Control Units

1. **Country Unit:** Business enterprises operating in international markets, adopt this method. Under this method, individual country in which the products/services of the organization are marketed, is considered as a separate sales territory and sales teams are appointed for every such territory which are responsible for sales related activities in their territory.
2. **State Unit:** Organizations with business operations at national level, adopt this method under which every state in which the products of the company are sold, is treated as a separate sales territory. Building territorial boundaries around states is a convenient and simple method deployed by firms which have small sales force covering national markets and adopting selective distribution policy.
3. **District Unit:** Some enterprises establish their sales territories at district level. Under this method, every district in which the products of the firm are sold, is treated as a separate sales territory. Individual sales representative is appointed for every territory and is held responsible for all the selling activities in his territory.
4. **Trading Area Unit:** Some firms select some specific areas in which their products are sold at a higher rate and every such area is established as a different sales territory.
5. **Other Methods:** There may be some other methods of establishing sales territories also. For example, some firms establish their sales territories on the basis of direction, such as North, South, East and West or Zip code.

   (i) **Determine location and potential of customers:** Management needs to identify the location and potential of both existing and prospective customers within the selected control units. Sales record assist in finding the location of existing customers in each control unit while, prospective customers can be determined with the help of company's sales representatives and external sources such as, trade directories, trade journals subscription lists, classified telephone directories, credit rating firms, etc.

   After customer identification, management needs to assess the expected business from each account followed by classification of these accounts into various categories based on their potential profitability to the marketer.

   (ii) **Determine Basic Territories:** The third step in finalizing sales districts include establishing a basic territory based on statistical methods which involves the buildup or the breakdown method. In the buildup method territories are designed by adding small geographical regions decided on the basis of number of calls a salesperson is expected to make. Under this method the workload of salespeople is equalized. This method is mostly employed by organizations desirous of intensive distribution and dealing in consumer products. Under the breakdown method of territorial design the whole market is divided into approximately equal segments based on sales potential. In this method the sales potential is equalized and it is more popular among companies which want selective distribution and are engaged in manufacturing of industrial products.

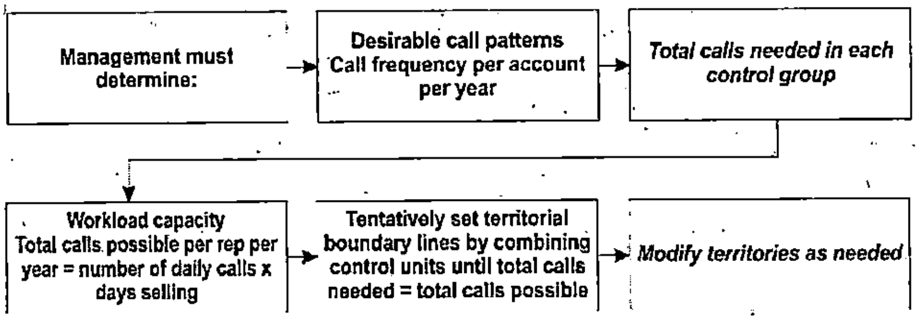

Figure 1.30: Buildup method of territorial design

1. **Decide optimal call frequencies:** Organizations have to determine optimal call frequencies for its customer which implies that it must establish the number of times an account should be called upon in a year. The frequency of call is influenced by the sales potential, type of product, consumer buying behavior, number of competitors, and the expenditure involved in calling on customers. Thus frequency of call is decided by the account's profitability. Table 6.4 exemplifies the manner in which the management classifies its customers into three classes based on profitability. Platinum accounts are the most profitable and are called on twice a month. Gold customers are visited monthly and lead customers are called upon bimonthly.
2. **Decide the total number of calls required in each control unit:** The total number of calls required in each control unit can be calculated by multiplying the number of each type of account in the control unit by the number of calls that type of account needs. Assuming that districts are the control unit, and using the call frequencies exhibited in Table 1.18, it can be determined that control unit X requires 660 calls per year and requires 630.

Table 1.18: Call Frequency for different customer classes

		District X		District Y	
Customer Class	Call Frequency	No. of accounts	No. of Calls per Year	No. of accounts	No. of Calls per Year
Platinum	2 per month	15	360	10	240
Gold	1 per month	20	240	25	300
Lead	1 every two months	10	60	15	90
		45	660	50	630

3. **Estimate workload capacity of an individual salesperson:** A salesperson's workload capacity is estimated by multiplying the average number of calls a salesperson can make in a working day by the number of working days in a year. The number of calls a sales person can effectively make in a day relies on the average time length required for a call, the number of people to be called upon and the amount of travel time required between customers. For instance, if a salesperson works for 8 hours per day with one hour being the average length of a call and the average travel time being 30 minutes per call, then the person can make five calls per day. If the number of working days in a year is 250 (excluding Sundays and national holidays), then the estimated workload capacity for the sales person per year works out to 1250 calls (Number of working days i.e. 250 × 5 i.e. number of calls possible per day)

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4. **Make tentative territories:** In this step, the company groups adjoining control units until the number of calls required in a year in those control units equals the total number of calls a salesperson can make which is the workload capacity of the salesperson. Continuing with the example depicted in Table 1.19, districts X and together require (660 + 630) 1290 calls per year, which is almost equivalent to 1250 calls of normal workload capacity of a salesperson.
5. **Develop final territories:** In situations where workload capacity of salesperson is not equalized, modification of tentative territories is done by adding or subtracting control units.
6. The prime focus being to equalize the workload for each salesperson. Before finalization of the sales territory, sales manager discusses with salespeople and also make necessary adjustments giving due considerations to particular territory.
   - **Breakdown Method:** Companies selling industrial products usually opt for breakdown method of territorial design. The steps involved under this method are depicted in Figure 1.31.

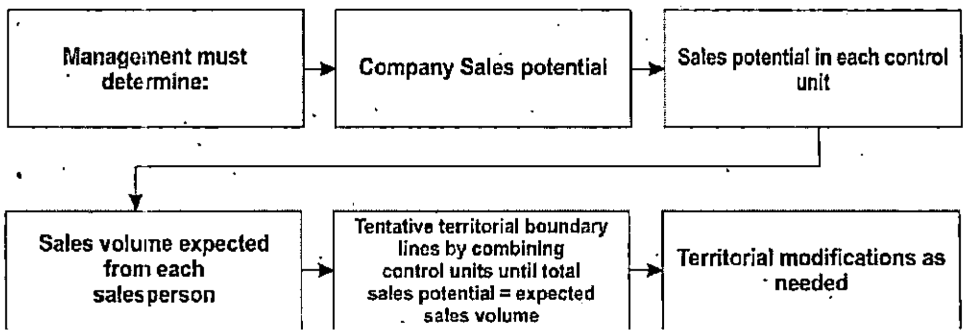

Figure 1.31: Breakdown method of territorial design

The breakdown method comprises:

1. **Establish sales potential:** The management in the beginning has to decide the sales potential it expects in the whole market.
2. Decide sales potential in each control unit. In order to obtain the sales potential in each control unit, total sale potential is multiplied by a market index to assign it among the several control units.
3. Settle on the sales volume expected from each salesperson: In this step sales manager evaluates the amount of sales to be done by each sales man in order to ensure profitable operation. Often a study of cost analysis and past sales experience is done to determine this information. For example, if the cost of goods sold and cost of distribution is estimated to equal 70 percent of sales, direct selling costs are ₹ 30000 and management desires to earn a profit of around 10 percent of sales then, it is estimated that each salesperson must sell a minimum of ₹ 150000. At times management decides that each salesperson should sell twice of this amount then, the expected sales volume is set at ₹ 300000.
4. **Establish tentative territorial boundaries:** In this the sales manager draws tentative territories by clubbing adjoining control units (sharing a border) until the potential of each territory is equal to or higher than the expected sales volume from each salesperson. In continuation with the above example, the sales potential of each territory should be equal to or greater than ₹ 300000.
5. **Modify and develop final territories:** As in the buildup method, the tentative territories need to be adjusted on account of unequal sales potential of some territories or geographical locations of customers in which the modifications are done by moving selected customers or control units from one territory to another with the prime objective to achieve equal sales potential of territories.

6. **Assign salespeople to territories:** In assigning salespeople to territory, the sales manager considers the relative ability of sales people, and salesperson's effectiveness in a territory.

Relative Ability of Sales People: Sales manager need to assess the relative abilities of sales persons based on strategic factors, such as product and market knowledge, past sales performance, communication and negotiation skills. By assigning weightages, the sales manager evaluates each salesman on relative ability and determines an ability index with a maximum score of 1, as depicted in Table 1.19. Sales people relative abilities are then related to the business potentials of various territories. In the current table, the ability index of the salesperson is 0.920. Similarly, ability index of other sales persons may be calculated. However, evaluation factors and weightages assigned to evaluation parameters may differ from company to company based on product and customer characteristics.

Table 1.19: Evaluation of Relative Ability of a Salesperson

Evaluation Parameters	**Weightage** (A)	**Evaluation** (B)	**Salesperson score** (A) x (B)
Product Knowledge	0.15	0.8	0.120
Market knowledge	0.10	0.9	0.09
PastSales Performance	0.50	1.0	0.50
Presentation & Communic ation skills	0.10	0.9	0.09
Negotiation and Selling skills	0.15	0.8	0.120
	1.00		0.920

Sales People effectiveness in a territory: While assigning salesperson to territory the sales manager has to judge the effectiveness of the salesperson by comparing the concerned person's social, cultural and personal characteristics with those of the territory. For example, a salesperson who belongs to a metro like, Delhi, Mumbai will find it very difficult to adjust in rural territories and interact with rural consumers. The objective of the sales manager in matching salespeople to territories is to ensure maximization of sales and profit potential of territories. This objective is accomplished by making both the salesperson and the customers comfortable with each other in the territory. Thus the decision on assigning salesperson to territories is based on salesperson's considerations which include relationship between salesperson and customers and between sales manager and the salesperson. The existing relationship between the salesperson and customers is not disturbed by the sales manager while assigning salespeople to territories.

Using Computers in Territory Design: For designing and revising sales territories, sophisticated computer-based mathematical models have been developed. The advantage of utilizing information technology is to allocate sales effort across customers in such a way as to maximize sales or profits for the firm. Geographic Information Systems is a technology that facilitates a framework to analyze and circulate geographical knowledge. Number of software such as Arc GIS, Arc Editor, and Arc GIS Data Models are available which are capable of running simulations and aid in optimizing territorial design.

Establish territorial coverage plans for the sales force: Once sales territories are designed and sales representatives are assigned to them, the next step involves the management of territorial coverage by determining how the assigned salesperson covers his territory. This consists of three

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main tasks (1) efficient route planning for salespeople, (2) scheduling the salesperson's time, and (3) deploying time management tools.

Routing the Sales Force: Planning of efficient routes for salespeople is a managerial task that sets a formal travel plan or pattern for sales person to follow as they go through their territories. The main benefits of routing are: (1) reduction in travel time and cost by avoiding back-tracking by salespeople in their territory, (2) effective and orderly territory coverage, as salespeople reduce their travel time and increase selling time with customers. There are some objections to routing as some sales executives are of the opinion that it reduces salesperson's initiative specifically when market conditions vary and customers' needs change. This objection can be addressed by using computers for formulating the route plans.

The procedure used for establishing a route plan includes identification of the present and prospective customers on a territory map and classifying them into high, medium and low potential customers. After this the desired call rates and call frequency for each class of customers is decided. This information has already been determined during the territory design process. With all the information available the route plan is built around locations of high potential customers. Some of the commonly used routing patterns include circular, straight line, clover leaf and hopscotch. The circular pattern is appropriate when accounts are evenly distributed throughout the area and in this case, the salesperson starts from his base, and travels in a circle, making sales calls and coming back at the base. The cloverleaf pattern is followed when accounts are located randomly throughout a territory and in this, the salesperson first trip covers a part of the territory while the next route covers the adjoining circle and this continues until the entire territory is covered. In straight line pattern, the salesperson begins from home or office base and makes sales calls in single direction, combining this with hopscotch pattern we have a salesperson starting from the farthest point from home or office base and making sales calls on customers on the way back to home/office. This process is repetitive in different directions. Nowadays computerized mathematical models have been developed to maximize selling time and minimize the travel cost.

Scheduling: It involves planning a salesperson's specific time of visits per sales call to the customers. Research has proven that best salesperson's are those who manage their time effectively. Sales manager first determine and then allocate major duties of the salesperson along with the amount of time to be allocated to each activity. Although the activities vary from organization to organization but Table 1.20 highlight the major activities of salesperson along with the time spent.

Table 1.20: Evaluation of Relative Ability of a Salesperson

Salespeople's Tasks	Time Spent (in percentage)
Administrative Activities	15
Service calls	13
Face-to-Face/Personal Selling	32
Waiting/Traveling time	21
Selling on telephone	19
Total	100

The tool that is used mostly to assist the salesperson to understand the time spent on various tasks is referred to as "time and activity analysis." The salesperson records the time spent on various activities, discusses with the sales manager and decide how to increase the time spent on major activities.

Time management Tools: Many supports are available to assist salesperson in managing their time more productively. These include use of computers, mobile communication and other high-tech equipments like, laptops, automatic dialers, fax machines, videophones, air phones etc. To reduce time demands on their outside sales force many firms are increasingly employing inside salesperson such as sales assistants who provide clerical support to the outside salespersons, technical support persons to give technical information and telemarketers to find new prospects, qualify them and refer them to outside salespersons. Outside salesperson that travel outside the firm then get more time to spend on selling to existing customers, getting orders from prospects and strengthening relationships with customers.

Evaluate effectiveness of Territorial Design: The final step involves analyzing effectiveness of territorial designs by conducting territorial sales and cost studies on a continuing basis which helps in identifying strong and weak territories in relation to potential. Revision of sales territories is also a continuious process on the basis of which the sales manager re-plans the existing sales territory and makes necessary adjustments as and when required. Territory performance is calculated in terms of total sales during the evaluation period. After evaluation necessary revisions are done.

1.47 Essential Requirements of a Good Sales Territory

In assigning territories following points need to be taken care of:

1. An inexperienced salesperson should not be assigned an independent territory in the beginning. Initially he is expected to assist the senior sales person in the specific territory to comprehend the working procedure.
2. To an extent transfers of sales persons from one territory to other should be avoided as it adversely affects the customer and dealer relations with them. However, sometimes because of lack of performance or other attitude problem this may become inevitable.
3. For exclusive goods or heavy machines territories are created by classifying customers or class of business.
4. Territories should be set in such a way that they can be effectively covered by a salesperson. Too big and too small territory size is undesirable.
5. Territorial design as far as possible should equalize sales potential and work-load of salesperson.
6. Territorial coverage plan should ensure control on expenses with coverage in a cost effective manner.
7. Territorial plans should be flexible.

1.48 Sales Manager's Responsibility to Ensure Profits

Sales managers are responsible for organizing the sales effort, both within and outside their companies. Within the company, the sales manager builds formal and informal organizational structures that ensure effective communication not only inside the sales department but also in its relations with other organisational units. Outside the company, the sales manager serves as a key contact with customers and other external public and is responsible for building and maintaining an effective distribution network.

Sales managers have still other responsibilities. They are responsible for participating in the preparation of information critical to the making of key marketing decisions, such as those on budgeting, quotas, and territories. They participate- to an extent that varies with the company- in decisions on products, marketing channels and distribution policies, advertising and other promotion and pricing.

Controlling the sales efforts of the sales force forms a critical part of managerial tasks. The sales manager's control function involves evaluating the performance of the sales force and identifying weakness, if any, in their sales efforts before these weaknesses become liabilities to the firm.

The sales control function involves sales and cost analysis of the company. This function has undergone a lot of changes over the past. Initially, the responsibility of a sales manager was to ensure that the sales team achieved its sales targets given by the company. Later on, companies realized that achieving high sales volume did not by itself, assure the firm of high profitability. Sometimes, high sales volumes brought in undesired results for the organisation, such as unprofitable operations, customer dissatisfaction etc. The techniques, that some of the companies adopted to increase their sales volume also attracted a lot of criticism. Many companies expanded their plan capacities and achieved high sales volume through forceful selling sometimes, which actually increase customer satisfaction.

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

A typical sales analysis involves deciding on the purpose of evaluation, comparing the sales figures with set standards and processing the data to generate reports. A sales analysis can be most informative when the sales data is broken down hierarchically. An analysis of volume of sales by categories is very helpful in identifying the root causes of the problems in the sales activities of the firm.

A cost analysis involves spreading the natural costs, allocating them to functional units, studying the profitability of the units and implementing appropriate action depending on the findings of the analysis. Sales managers use profitability analysis to relate the sales revenues to marketing costs. This helps sales manager to take necessary measures to ensure higher profitability of the firm's sales transactions. A number of principles such as the iceberg principle, the 80/20 principle and cross-classifications guide sales managers in conducting effective sales and cost analysis. These principles reveal the behaviour of sales data and the actual reasons underlying them. They fore warn sales managers of impending dangers and help them to take measures to counter them in future.

1.49 Meaning and Nature of Sales Control

Control is a function of management to ensure that operations are being carried out as per the plan to achieve the objectives. Sales coordination is essential to ensure proper conduct of sales operations by different functionaries in the field. The Sales manager has to produce tangible results and for this to happen he has to have a clear view of his job specification and responsibility. His position is unique in the sense that he represents the company in the market that treats him as the company. Sales control is a tool for ensuring that the marketing activities of a company are directed towards the marketing objectives. The various types of sales control with their prime responsibility, purpose and approaches are as follows:

Table 1.21: Types of Sales Control

S. No.	Type of Control	Prime Responsibility	Purpose of Control	Approaches
1	Annual Plan Control	Top level managers	To examine whether the planned results are being achieved	• Sales analysis • Market share analysis • Marketing expenses to sales ratio

2	Profitability Control	Sales Controller	To examine where the company is making or losing money.	Customer attitude tracking profitability by:- • Product territory • Market Share • Trade • Channel • Order Size • Sales Audit

Objectives of Sales Control

The sales control function ensures that the company's sales efforts are in tune with its sales plan by taking necessary measures in case of deviations The objectives of a sales control are as following :

1. **Performance Measurement:** The first step in the effective sales control is measuring the performance of the sales force working in the organisation. The objective of evaluation of various sales efforts is critical in ensuring that company's growth is progressive as planned. It helps the company to identify the difference between actual and standard performance and enables sales managers to take corrective action before irrevocable damage takes place. During these days, managers have started giving more emphasis on performance ratios than the traditional time -to-time increase in sales, to measure sales performance. The ratios used to measure sales team performance include Sales/Quota ratio, Sales/Budget ratio etc.
2. **Problem Identification:** Sales control helps managers to identify problems in sales, before they become liabilities to the firm. In many businesses, sales problems are difficult to fix because they associate to sales effectiveness and improving sales effectiveness requires ensuring the right mix of skills, supervision, strategy, and systems. Inability of sales personnel to bring in adequate business, in accurate sales forecasts, difficulty in increasing profit margins, and the inability of the sales management to capitalize on revenues from existing customers. Constant feedback can help in identify problems at the budding stage itself. Continuous feedback from field sales personnel allow sales managers to identify the problems, both with the system as well those pertaining to the resources involved in selling process.
3. **Identify Opportunities**: Identify sales opportunities before the competitors do and thus helping the firm gain a competitive advantage is another objective of sales control. This objective comprises the most dynamic activity of sales efforts and involves a thorough and careful analysis of the market and the competitors. The sales control system helps a manager to diagnose problems in their initial stages and take necessary actions.

Exhibit 1.1: Sales Planning by Objectives at GE

Many sales plans tend to overlook sales objectives. At GE, however, sales objectives form an important component of the sales plan. The sales persons formulate a sequence of steps that will help them to achieve the objectives they set for themselves.

Suppose, a sales man's objective is to obtain \$5000 from a certain company for mechanical repair work. The salesman will design a sequence of steps, with each step serving as a subordinate goal. The fulfillment of one-step will take him to the next. The sequence of steps for achieving the salesman's objective would involve:

1. Identifying the key persons involved in decision making at the company.
2. Studying the repair work being currently done at the company.
3. Identifying the competition.
4. Making a presentation to the decision - makers at the company describing GE's way of undertaking the repair work and the benefits involved.
5. Getting the contact from the company for the mechanical repair work.

The salesmen do this kind of planning and submit it to the sales managers, along with the dates by which they expect to accomplish the objectives. This procedure has helped the GE salesmen to become more effective at their job.

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Sales Control Process

The sales control process essentially involve following steps:

1. **Setting goals:** Sales managers direct the sales force by setting goals and framing objectives. They design the course of action by which the sales force can achieve these objectives and they measure the sales force's performance against the pre-determined goals. Sales planning guides the sales force in their performance and gives them a direction along with the work. It sets targets in the form of sales quotas. Therefore, it forms a critical component of the sales control function. For a sales strategy to be successful there should be careful and efficient sales planning. It provides the necessary framework for all sales activities. The strengths and weakness of the sales team and individual sales persons have to be taken into consideration when sales planning is done so that training requirements can be suggested to improve the sales team's overall performance. This will, in turn facilitate the fulfillment of the sales objectives. Exhibit 1.1 explains the sales planning at General Electric. Sales budgets set targets for the costs associated with various sales activities. They help to compare actual spending with the budgeted allowance and enable firms to confine their spending to the limited resources available to them.
2. **Comparing actual with targets:** This step explains comparing the actual with the set goals. The costs incurred on sales related activities are compared with the budgeting allowances set during the sales budgeting process. An analysis of the deviations between actual and budgeted costs helps the sales management take corrective action, if actual spending exceeds the budgeted cost significantly. An analysis of the deviations indicates either an inaccuracy in setting goals or a need to improve performance and efficiency in order to meet the targets. Inaccuracy in setting goals is evident if the sales achieved exceed the targeted sales at a substantially low cost. The need to improve performance and efficiency arises when there is an under achievement of sales accompanied by heavy expenditure.
3. **Taking necessary measures:** Once the causes for the gaps between the actual and the budgeted values are established, there is a need to take corrective action. This can be done by modifying the sales plan and budget. If the major cause for the deviation is under performance of the sales force, the reasons for under performance have to be analyzed and remedial measures taken to improve the sales productivity.

Difficulties in Sales Control: There are certain problems that come in the way of effective sales control. External factors (which are uncontrollable), such as the regulatory, legal, political and economic environment play an important role in the process of sales control. This process is further complicated by the inability of sales managers to obtain information about which variable in the marketing mix has contributed to the increase/decrease in sales.

Another problem that sales managers encounter pertains to the type of information that can be obtained. Although, there are several information systems that center to their needs by providing vital information pertaining to sales activities, information's pertaining to buyer's purchase plans and purchase intentions cannot be captured.

1.50 Sales Audit

In sale organisations, the sales audit is a systematic and comprehensive appraisal of the total selling operations. Sales audit appraises integration of the individual inputs to the personal selling effort, identifies, and evaluates assumptions underlying the sales operation. It is a systematic, critical, and unbiased review field appraisal of the basic objectives and policies of the selling function and of the organization, methods, procedures, and personnel employed to implement those policies and achieve those objectives; which are predetermined by the sales organisation. Proponents of the sales audit stress the importance of focusing on overall selling strategy and methods for implementing it rather than examining individual components piecemeal. It uncovers opportunities for improving the effectiveness of the sales organization. An audit identifies strengths and weaknesses: strengths have potential for exploitation; weaknesses have potential for improvements. While audit implies an after the fact evaluation or a backward approach (a carry-over from financial usage), a sales audit provides information useful for planning sales strategy. Infact, sales audit have no standardized formats. Each company designs a sales audit to fit its needs. Generally, six main aspects of selling operations come under the purview of sales audit examination, which are as following:

1. **Objectives:** Each selling input should have clearly defined objectives, related to desired outputs. For example, a firm might have the objective of raising its market share from 10 to 15 percent without reducing per unit profit in the organisation.
2. **Policies:** In case of policies, both explicit and implicit are appraised for their consistency in achieving the selling objectives.
3. **Organization:** In this aspect, it is seen that does the organization possess the capabilities for achieving the objectives? Are the planning and the control systems appropriate for achieving the predetermined targets? If an organization is understaffed, or staffed with incompetent persons, there is a least probability of achieving predetermined objectives or ensuring proper control.
4. **Methods:** In this step; it is felt that the individual strategies for carrying out policies are appropriate or not. Because, it is vain to attempt upgrading quality and price if the company has already established a strong consumer image for low quality and price.
5. **Procedures:** The steps in implementing individual strategies should be logical, well designed, and chosen to fit the situation. The procedures should allocate responsibility for implementation to particular individuals and explain how the goals are to be achieved.
6. **Personnel:** All executives playing key roles in planning sales operations and strategy, as well as those responsible for implementation of sales programmes are evaluated as to their effectiveness relative to stated objectives, policies, and other aspects of sales operations. Too often, an executive is evaluated in terms of ability to increase sales or profit rather than success in reaching pre- determined objectives, such as increased market share.

In total, it can be observed that a company examines both its markets and its products in sales audit.

1.51 Sales Analysis

Always, it is treated that the sales analysis is a detailed study of sales volume performance to detect strengths and weaknesses. If sales management-depends solely on summary of sales data it has no way to evaluate its own activities and those of the sales force. The fact that sales increased by two percent over last year but profit decreased by one percent would be a cause for concern but of no help in determining how to reverse the profit decline. Through sales analyses, management seeks insights on strong and weak territories, high-volume and low- volume products, and the types of customers providing satisfactory and unsatisfactory sales volume. Sales analysis uncovers details that otherwise lie hidden in the sales records. It provides information that management needs to allocate sales efforts effectively. These aspects are discussed below considerably:

Allocation of Sales Efforts

A small percentage of the territories, customers, products, or orders bring in a high percentage of the sales in many businesses and vice-versa. In most of the companies eighty percent of the customers accounted for only fifteen percent of the sales. Comparable situations exist in most companies. This is an example of the 'iceberg principle'; only a small part of the total situation

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is above the surface and known while the submerged part is less than the surface and unknown. Sales analysis detects such situations, alerting management to opportunities for improving the operations in the organisation. Sales efforts and selling expenses ordinarily are divided on the basis of customers, territories, orders, and so forth, rather than on the basis of sales potentials or actual sales. It usually costs as much to maintain sales personnel in poor territories as in good ones, almost as much to promote a slow-selling product as one that sells. It costs as much to have sales personnel call on customers who give small orders as on those who place large orders. Normally, a large proportion of the total spending for personal-selling efforts brings in a small proportion of the total sales and profits. Sales analysis detects these situations.

Data for Sales Analysis

Data availability for sales analysis varies in all companies. At one extreme, some have no data other than the accounting system records as sales are made, and, of course, copies of sales invoices. On the other hand, some maintain detailed sales records and have data readily available for use in making all types of analyses. The original sources of data for sales analysis are the sales invoices. In a company with a good information system, detailed data from sales invoices are transferred to computer tapes or data-processing cards. The information on each transaction identifies the customer in terms of name, geographical location, and so on; the salesperson in terms of name, territory, etc.; and includes such sales data as order date, products sold and quantities, price per unit, total dollar sales per product, and total order amount. With information stored by the sales organisation, sales analyses are performed quickly and at low cost.

Purposes of Sales Analysis

The sales analyses portray strengths and weaknesses of a sales organization in terms of sales, and each type of sales analysis glimpses different aspect. The sales territories analysis depicts about that the particular product where it can be sold. Analysis of sales by products answers how much of what is being sold. Analysis of sales by customers' answers who is buying how much: All sales analyses relate to how much is being sold, but each answers the question in a different way. Sales analyses identify different aspects of sales strengths and weaknesses, but they cannot explain why strengths and weaknesses exist. In addition to above, sales analysis answered four questions of sales manager: (i) it revealed the sales territories with good and poor performances; (ii) it showed that whom so ever salespersons are above; at par and below the quota given to them; (iii) it indicated that Edwards' performance improved as accounts got smaller, but was unsatisfactory with all sizes of accounts; and (iv) where sales were weak and strong, which salespersons were performing above or below quota, which classes of accounts were buying, and which products were being sold.

Elements of Sales Analysis

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

1. **Purpose of Evaluation:** A sales manager should decide on the purpose of evaluation before starting the analysis. A simple sales analysis only lists the current sales variables and their values where as a comparative analysis is required when sales performances from many territories or pertaining to different time periods have to be compared. In addition to identifying the purpose of the sales analysis, the sales manager has to take various other decisions such as determining the information needed from the analysis, identifying the sales variables that have to be analyzed like the total sales volume, sales by territory, sales by product line, performance of sales personnel etc. Determining the information needs before a sales analysis can be tedious because the strength and weaknesses in the sales function are not known unless an analysis of the sales activities is carried out. Other reason

for determining information needs is that there are varying information requirements at different organizational levels and it is up to the sales manager to decide on the source of data and the type of reports that need to be generated.

2. **Comparison Standards:** A simple sales analysis simply states facts where as a comparative sales analysis compares the sales figures with some standards. Standards are the yardsticks to evaluate the effectiveness of a system. There are different standards that sales managers can use to determine the efficiency of the sales function in the organization. The effectiveness of the sales function can be measured in an absolute or relative sense. An absolute measure is an expected or an ideal measure. The performance of the sales function can also be measured in relative terms. The average sales volume is an example of an average or relative standard of measurement.

3. **Reporting and Control System:** Most companies use sales information systems to store and process data to generate reports. A sales information system uses mathematical and statistical procedures to generate reports that depict trends, seasonal patterns, regression analysis, etc. Managers use these reports both for evaluation of the sales force as well as for sales forecasts. A key concern of sales managers is the type of reports that need to be generated and the information that should be contained in these reports. It would be useful for them if the reports focus on exceptions in the form of significantly high or low sales figures. The sales managers should also decide on the type of source inputs necessary for report generation and the way in which the inputs need to be processed. The most commonly used source for sales information is the sales invoice. Other sources include cash register receipts, sales person's call reports and expense reports, financial records, warranties, etc. Another critical decision in sales analysis is the aggregation of sales variables. Without the aggregation, sales managers would be required to analyze individual transactions or focus on aggregate sales, neither of which serves the purpose of sales analysis.

4. **Hierarchical Sales analysis:** It involves studying the sales performance at a micro level by investigating and analyzing its components. This helps sales managers to pinpoint any weakness and the cause for it. This will help identify if there are any fundamental reasons adversely affecting the performance of sale personnel in a particular area, such as poor economic conditions, high unemployment, fierce competition, low sales morale, etc.

Steps in Sales Analysis

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

1. **Determining the source of sales information:** The most critical element in sales analysis is sales information. There are many sources of sales information that include data from the marketing information system, company records, customers, sales personnel's, field visits and insights of the manager as well as external sources as newspaper and magazine reports, trade, journals etc.

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

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

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

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Bases for Analysing Sales Volume

Following are a few bases of analyzing sales volume:

1. **Total sales volume:** It is a combined sale of all products in all territories for all customers. The study of total sales volume requires the following data (a) the annual sales figures for the company over the past several years, and (b) the annual industry sales in the geographic market covered by the firm. From these figures, the company's share of the market can be determined.
2. **Sales by territories:** Analysis of sales volume by territories helps management to identify which territories are strong and which are weak in relation to sales potential.
3. **Sales by products:** A few products may bring most of the sales volume (80-20 rule). There is no relation between volume and profit. Products having high volume of sales may not contribute a high percentage of net profits. Types of sales volume analysis by products that may be helpful to sales management are:
   (i) A summary of present and past total sales divided into individual products or groups of products, which helps sales managers to study the sales trend for each individual product/group of products.
   (ii) Sales of each product-line in each territory, which can be used to determine the geographical market in which each product is strong or weak.

   As a part of sales volume analysis by products, sales managers must decide what to do about low-volume products and products that did not meet their goals.
4. **Sales by customer classifications:** 80-20 principles is applicable to sale analysis by customers. A small percentage of customers account for a major share of total sales volume. In addition, a firm may sell to many accounts on a marginal or even unprofitable basis.
5. Sales volume by customer groups is analysed in the following ways:
   (i) Accounts on an industry basis
   (ii) By channel of distribution
   (iii) On the basis of accounts (e.g., key accounts)
   (iv) Combination basis

Any of these customer classifications usually should be analysed for each territory and for each line of products. A sales volume analysis alone usually does not furnish enough information to the sales department. The rupee sales volume does not provide any data regarding gross-margin. Hence, a marketing profitability analysis is ideal. Therefore, sales performance measures include marketing -cost analysis and profitability analysis in addition to sales volume analysis. When the sales volume analysis includes the cost of merchandise sold, the sales management can do gross margin analysis by territories, products or customer groups.

Problems in Sales Analysis

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

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

1.52 Marketing Cost Analysis

In the Marketing cost analysis; the sales volume and the selling expenses are analyzed to determine the relative profitability of particular aspects of sales operations within a specified period of time.

The first step in marketing cost analysis is sales analysis by territories, sales personnel, products, class of account, size of order, marketing channels, and other categories. The outcome indicates relative profitability of the sales territories. Marketing cost analysis searches for ways to improve profit performance through exposing relative strengths and weakness of the sales organization and its sales people.

Purpose of Marketing Cost Analysis

The analysis in terms marketing cost determines the relative profitability of particular aspects of sales operations. By this analysis, various issues can be answered like: (i) which sales territories are profitable and which are unprofitable; (ii) what are the profit contributions of individual sales personnel; (iii) what is the profitability of the different products; (iv) what is the minimum size of a profitable account; (v) how small can an order be and still be profitable; and (vi) which marketing channels provide the most profit for a given sales volume? Further, the marketing cost analyses indicate aspects possibly requiring managerial action, but not the nature of the action. If the expenses of selling different products, for instance, are cross-analyzed with the expenses incurred by individual sales personnel, insights are gained on how sales time should be allocated among products. Nevertheless, the point related to improvement in sales time allocation among products requires consideration of other factors among them, sales potentials for each product in each sales territory. The marketing cost analysis also discusses about the price discrimination among the products. Especially, a marketing cost analysis performed for this purpose would aim to show that the difference in prices was no greater than the difference in selling expenses incurred in servicing the two customers.

Marketing Cost (Profitability) Analysis Procedure

Steps involved are:

1. **Specify the purpose:** The sales managers must decide the purpose to determine the profitability of sales territories, sales representatives, customers, product-lines or organisational units such as district or branch office. Some costs may be direct to one segment but indirect to another. Only by specifying the precise purpose, the analysis is the sales manager able to classify costs as direct or indirect or fixed or variable.
2. **Identifying functional cost-centers:** Functional cost centers for sales organisations can be broadly categorised as (a) order-getting costs, and (b) order -filling costs. Order- getting costs pertain to activities that obtain sales orders, such as direct selling and advertising expenditures. Order-filling costs relate to activities that follow sales (such as order processing, packing, shipping and delivery).
3. **Converting natural expenses into functional accounts:** The accounting statements are used and the accounting expenses must be reassigned based on the purpose of expenditure. For example, profit and loss statement is used in the basis form:
   (i) Sales- Cost of goods sold = Gross margin
   (ii) Gross margin-Expenses = Net profit or loss

   Traditional income statements do not reveal the specific purpose of expenditures, i.e., the costs of performing different marketing activities.
4. **Allocating functional costs to segments:** To determine the profitability of separate market segments, the functional costs must be allocated based on the costs incurred in the process of serving the segment. In making the cost allocations, the bases used are: selling time and number of sales calls or actual floor space occupied.
5. **Determining profit contributions of segments:** Professional sales managers want to identify unprofitable customer accounts, products or territories that can be serviced less frequently or dropped for increased overall profitability. The 'concentration principle' implies that

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often one third of products, customers, orders, sales territories and sales people accountant for two third of profits.

Profit contributions of segments can be examined in two basic ways: (i) by individual segments, or (ii) by cross-classification of segments, when studied individually, segment categories are examined sequentially. Analysis determines the profitability of one segment category such as product class, and then moves to territory or customer type and so on until all segments are investigated.

Marketing Cost Analysis Techniques

1. **Selling expenses classification:** Marketing cost analysis requires the classification of selling expenses as either separable (direct) or common (indirect). A separable expense is one traceable to individual sales personnel, sales territories, customers, marketing channels, products, or the like. A common expense is one that is not traceable to specific sales personnel, sales territories, customers, marketing channels, products, or the like. Whether a given expense is a separable or common expense may depend on company policies or aspects of the operation under study. If sales personnel are paid salaries, for example, the outlay for salaries is a common expense as far as selling individual products is concerned. But if sales personnel are paid commissions, sales commissions are a separable expense of selling individual products and of selling particular categories of account or individual customers.
2. **Alteration of accounting expense data and activity expense groups:** Conventional accounting systems record expenses according to their immediate purpose. In marketing cost analysis, accounting expense data are converted into activity expense groups all the expenses related to field sales operations are grouped together i.e. sales salaries, sales commissions, sales travel expense, and branch sales office rent to determine total expense for this activity.
3. **Allocation bases for common expenses:** Selection of bases for allocating common expenses is troublesome. In contrast to the analysis of production costs, where a single allocation basis, such as number of machine hours, is used for allocating all manufacturing expenses, some forms of marketing cost analysis require the allocation of selling and marketing expenses on several bases. Allocation bases are factors that measure variability in the activities for which specific expenses are incurred. Allocation bases permit logical assignment of portions of common expense items to particular aspects of sales operations. Some expenses, such as credit and collection expenses, can be allocated according to a logical basis in any type of marketing cost analysis. However, other expenses, such as sales salaries, can be allocated to sales territories or to customers but not usually to products, unless available data show the allocation of sales time among different products. For most marketing cost analyses, no attempt is made to allocate all common expenses, only those that can be allocated on logical bases. Marketing cost analyses determine relative profitability, not net profitability, of particular aspects of sales operations. Therefore, there is no need to allocate all common costs in the sales organization.
4. **Contribution:** Marketing cost analyses focus upon separable expenses and those common expenses available for allocation on logical bases, relative profitability is measured as a contribution margin. Contribution = Net Sales: Cost of Goods Sold: (separable expenses + common expenses allocatable on logical bases).

1.53 Marketing Audit

Marketing audit is an efficient tool for evaluating and improving the marketing operations of a firm. It involves studying the effectiveness of a firm's marketing strategies, policies, and practices, considering the opportunities and resources available to it. It can be either an internal audit or an external audit depending on who is conducting the audit. In an internal audit, a person from with in the firm who is not in any way connected to the operation that is being evaluated, conducts areas. It comprises six components audits, which may be conducted individually and partially interdependently if the company does not want a comprehensive audit.

1. **Marketing Environment Audit:** A marketing environment audit involves a study of macroeconomic factors like the economic, demographic, political, legal, technological, and socio cultural forces over which the firm has no control. The marketing audit involves a study of the firm's suppliers, customers, dealers, competitors, markets, etc. It identifies the trends in the marketing environment and forms a framework for planning the marketing action.
2. **Marketing strategy audit:** The audit looks into consistency of the firm's marketing strategy considering the opportunities and threats it is exposed to. The audit starts with a study of the firm's overall business goals and objectives, followed by a study of its marketing objectives and strategies to ensure that they are in agreement with the company's overall business objectives. The audit checks whether the marketing objectives are properly stated and are appropriate to the company's resources and opportunities.
3. **Marketing organization audit:** The audit studies the effectiveness and efficiency of the marketing and sales organization and also the interaction of the marketing department with other departments within the organization. It studies the capability of marketing executives and personnel. It aims to make the organization more market responsive.
4. **Marketing systems audit:** The marketing function of organizations involves collecting information, planning and controlling the marketing activities like sales forecasting, marketing planning and control, inventory control, etc. A marketing systems audit involves the study of the procedures that are used to perform the activities involved in the marketing function. The audit assesses whether the marketing function is being carried out with adequate systems that facilitate planning, implementation and control, or not.
5. **Marketing productivity audit:** A marketing productivity audit involves studying the accounting data of the firm to identify the profitable areas of the firm. It also examines the marketing costs and expenses to identify areas in which marketing costs can be reduced or eliminated.
6. **Marketing function audit:** It involves an evaluation of one or more key marketing functions like sales force, pricing, advertising, etc. to identify peripheral problems associated with the marketing function.

1.54 Principles of Sales Analysis

The sales cost, and profitability analyses are based on the principle that not every factor affecting the sales and the marketing function is revealed completely unless the details are probed.

Iceberg Principle

The iceberg principle suggests that aggregating the total sales figures of a firm and comparing it with past performance may reveal a positive picture of sales even though there may be a larger problem concealed. When individual sales figures are aggregated into totals, values that are too high or too low offset each other and so lose their significance. All strengths and weakness may not be revealed when aggregates are used for analysis. The same rule applies to marketing costs as well. Total costs may not reveal all aspects of the costs incurred or all the details that are necessary for efficient cost control.

This is like the visible portion of an iceberg being only a minute fraction of what is underneath and thus the term 'iceberg principle'. Therefore, in order to obtain accurate and complete information about the sales figures, the sales data should be broken down into individual sales segments.

80-20 Principle

The 80-20 principle, also called the Pareto principle. The 80-20 rule states that 20% of the elements are responsible for 80% of the results. This rule can be applied to all areas of business and helps management to focus on the real problem or issues. In sales analysis, this principle states that 80% of a firm's sales volume comes from 20% of its customers. Thus, not all business units of firm contribute equally to profitability. Firms facing the 80/20 situation can adopt certain strategies to alter the ratio and increase their profits. This rule has a similar implication for the costs and expenses as well. Cost analysis of firms shows that about 15% of expense categories account for about 80 % of all the expenses. Therefore, management should focus its attention on designing measures that address the 15% category of costs that contribute to the bulk of expenses of the firm.

Cross-classification

It can be used when the sales data has to be analyzed on the basis of more than one category. If sales managers require information on both customer and product categories, either they can opt for two separate analyses, one by product and the other by customer, or they can go for one analysis, by customer cross classified by product. It helps the sales managers to arrive at the same information but with the product-customer detail added. It involves more than two categories complicate the information.

1.55 Summary

Sales manager/director is the key person to plan, co-ordinate, and control and motivates all the selling-activities of a business-concern. His job is multi-purpose and he has to face, all the odds and difficult situations. A sale is the pinnacle activity involved in selling products or services in return for money or other compensation. It is an act of completion of a commercial activity. The quality of selling is referred to as salesmanship. Sales management is defined as the planning, direction and control of personal selling, including recruiting, selecting, equipping, assigning, routing, supervising, paying and motivating as these tasks apply to the personal sales force. The art of meeting the sales targets effectively through meticulous planning and budgeting refers to sales management and is one of the most important elements of success of modern organizations. It is a socio-scientific process, involving group-effort in the pursuit of common goals or objectives, which are predetermined. It helps the organization in demand forecasting, territorial redesigning and collecting competitor's information. Sales Operation refers to various activities, which help in the timely achievement of sales targets for the successful functioning of an organization. Customers go through a sequence of activities before the product finally reaches them. Such activities are a part of the sales cycle. The sales process yields increased sales if it is broken down into steps or stages. Sales promotions involve a wide variety of sales strategies, including contests, product giveaways, catalogs, coupons, discounts and more. Marketing events, such as trade shows, also fall under the category of sales promotions. Sales promotions often target either consumers or wholesalers and retailers. These are short-term strategies that 'pull' shoppers with incentives to 'buy now'.

Sales management performance depends upon the effectiveness of the sales force organization. The organizing process seeks to accomplish three basic tasks, namely: Identifying sales force goals and objectives; Assignment of specific tasks and responsibilities; and Integration and coordination of these activities with other functions. Organizing is the process by which managers establish the structure of working relationships among employees to allow them to achieve stated organizational goals or objectives efficiently and effectively.

Organizational design is the process by which managers make specific organizing choices that result in the construction of a particular organizational structure. It refers to the formal, coordinated process of communication, authority and responsibility for sales groups and individuals. Nowadays all companies are trying to find ways to make the entire organization customer oriented. This approach allows more flexibility and responsiveness in today's competitive global environment. Reorganization is often a necessity in order to reflect new strategies, changing market conditions, or innovative production technologies.

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4. Explain the importance of CRM in creating a customer centric organization.
5. Provide a detailed account of sales plan and promotion.
6. Explain various sales organization structures highlighting their respective advantages and limitations.
7. Discuss a few principles of sales organization.
8. Discuss the factors that affect sales organization design.
9. What are the relative advantages of a line sales organization and line and staff sales organization?
10. Discuss the process of developing a sales organization.
11. Discuss why some firms are beginning to organize around their key or major accounts.
12. Strategy and structure go hand in hand. Elaborate.
13. What do you understand by personal selling? How it is different from salesmanship? Discuss with the help of suitable examples.
14. Discuss the stages of personal selling process.
15. "Everyone lives by selling something". Do you agree with the statement?
16. Elaborate your viewpoint giving suitable examples.
17. What is personal selling? Discuss the process and advantages of personal selling.
18. Discuss, how personal selling changed over years.
19. Write short notes on the following: (a) Negotiation (b) Relationship building
20. What is a sales budget?
21. Identify various issues in sales budgeting
22. Illustrate the importance of sales policies, program and rules in the sales planning process.
23. What is the need of having a flexible sales budget?
24. What is the role of budget-setting in achieving the actual sales target?
25. What are the components of sales strategy?
26. How is sales planning different in B2B and B2C markets? Discuss in detail.
27. Write short notes on the following:
    (i) Methods of sales budgeting
    (ii) Types of sales budgets
    (iii) Determination of strengths and weaknesses of a sales budget
    (iv) Implementation and feedback mechanism
    (v) Uses of budget
28. Write a short note on the following:
    (i) Barriers to planning
    (ii) Limitations of budgeting
29. Define Sales forecasting. What are its major characteristics and significance?
30. What do you understand by short-term forecast? How does it differ from long-term forecast?
31. Identify and examine the factors that generally influence sales forecasting in contemporary business.
32. What is the process used for sales forecasting. Write a step by step procedure.
33. Write a short note on:
    (a) Approaches to Sales forecasting: (b) Limitations of Sales forecasting
34. What are the major sales forecasting techniques? Write a descriptive note commenting on their merits and limitations.

35. Explain Delphi method of sales forecasting. How does it differ from executive opinion?
36. What are the guiding principles that should be kept in mind while forecasting?
37. What are sales quotas and why is it significant for sales managers to set quotas for sales personnel?
38. Elaborate on the methods utilized by organizations for setting sales quotas.
39. What is a sales territory and why is it important for organizations to establish sales territories?
40. Discuss the methods for designing sales territories.
41. Highlight the major differences between build-up and break-down methods, of designing sales territories.
42. Mention some of the signals that indicate that a company's territorial structure may need revision.
43. Define Sales-analysis? Explain with suitable example.
44. What are the steps in designing a sales control system?
45. How the sales analysis techniques have become so important in success of firm?
46. Discuss the objectives of a sales audit and sales analysis?
47. Discuss the various steps involved in marketing cost analysis.
48. Describe the various types of marketing cost analysis.

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What Kind of Job is to be Filled?

This question has a wide spectrum of answers. Hence, to answer this question in totality following sub-questions are to be answered.

1. What is the main role for this job?
2. What does the job description include?
3. Whether the job description includes the following?
   (i) The name of the job;
   (ii) Who is the Boss;
   (iii) Why this job exists – its objectives;
   (iv) How far the job holder is personally responsible for achieving results?
   (v) Control and use of people, materials and money.
4. Is this principally a job dealing with buyers in commercial organisation, dealing with retailers or dealing with end users?
5. Is the company looking for a future area or sales manager or is it looking only for someone to fill this specific job for a period of time?
6. What is the remuneration package for the job? What is the mix of salary?
7. What commissions and other benefits are going to be offered?

It is only when all these questions have been answered that it is possible to move on to think about the kind of person that is needed and the answers of other questions of the chronological sequence.

What Sort of Person would do the Job Successfully?

To find out the right person for the right job a "Person Specification Form" should be made depending upon the job specifications and organisational needs. The person specification form is a checklist of abilities separating those aspects which are essential (the job cannot be effectively done without them) and those which are desirable (it would be nice to have them but could manage without). By using the two categories of essential and desirable, a minimum candidate and an ideal candidate can be identified.

The following broad areas have been tried and tested in drawing up specifications for sales appointments.

Intellectual Abilities

It includes the requirement of the job in terms of general intelligence, judgement required (common sense) and the creativity necessary to recognise, introduce and adapt new ideas.

Motivation

Under this specification it has to be determined what things interest or motivate the sales persons towards the job. Is money the driving force, or progress, recognition, achievement are also important?

Specific Attainments

Does the job really require technical/professional knowledge or qualification? Is there a genuine need for some specific previous experience?

People Skills

It is essential in selling to be able to deal with people. Whether the sales person, to be recruited, has communication and leadership skills?

What impact can he bring in customers' mind through his communication skills?

Table 2.1: Person Specification Form

Characteristics to be assessed/measured	Essential	Desirable
1. Intellectual abilities		
(a) Creativity		
(b) Judgement		
(c) General Intelligence		
2. Motivation		
(a) Interests		
(b) Drive		
3. Specific Attainments		
(a) Technical/Professional knowledge or qualification		
(b) Specific experience		
4. People Skills		
(a) Impact		
(b) Communication		
(c) Leadership		
5. Working Conditions		
(a) Location		
(b) Hours		

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Working Conditions

Finally, it is important to remember whether there are any specific conditions relating to mobility, hours of work, etc., which could effect the recruitment or selection of sales person.

Thus, the person specification form is used as the base for the selection process. A figure representing a person specification form is shown here. The first column is headed 'Characteristics to be assessed' the second and third column categories the 'Essential' and 'Desirable' characteristics.

Where will this Person be Found?

Now, we know what the job is and what kind of person is required for the job-only we need to find this person.

The person specification can help in looking at employees in other areas who may have no previous sales experience but whole profile in terms of their skills, their motivation, etc. could well make them excellent sales people. The various recruitment sources like advertisements, employment agencies, educational institutions, internal transfers, etc., will also help in this context.

The choice will depend on the nature of the job and on how many potential candidates there are.

If a highly specialised salesman in a narrow market segment is required and there are only a few dozen likely contenders then the choice maker has to go spear fishing. A 'search' is undertaken

Notes

2.4 Selection

The process of selection of sales personnel differs from company to company depending upon the requirements. The applicant goes through various stages and the chances of selection get better as more and more stages are cleared. It is important for the company to find the suitable candidate, how he would be an asset to the company as well as fit well so that his requirements are also met.

Selection Process

As shown in the Figure 2.1, a commonly used selection process consists of seven steps. These are:

1. Preliminary Interview
2. Formal Application
3. Interview
4. Reference Check
5. Testing
6. Physical Examination
7. Employment Offer

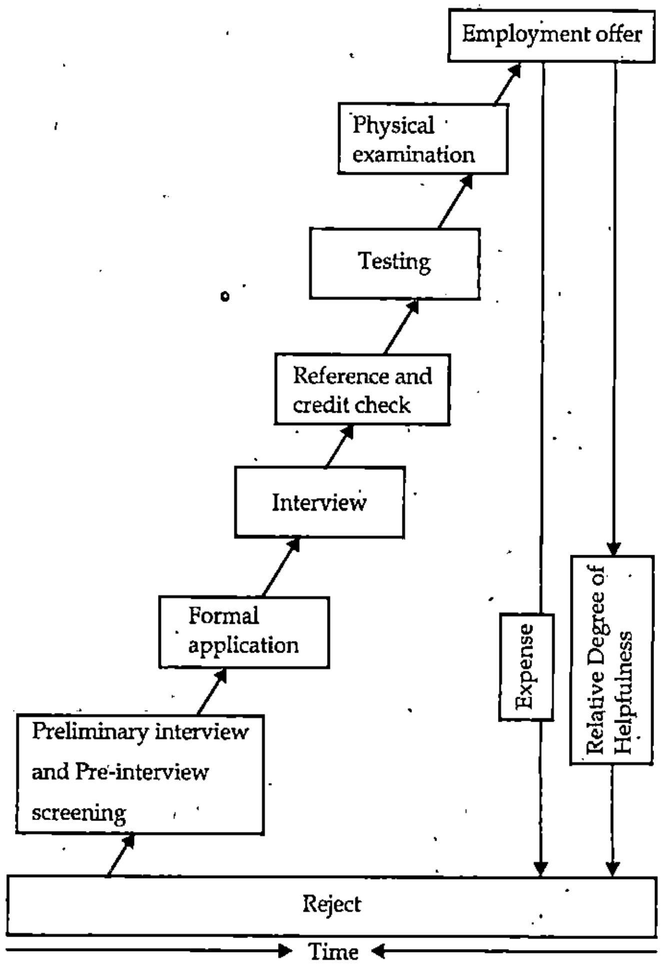

Figure 2.1: A Seven Step Selection System

Preliminary Interview

The initial screening is usually undertaken by the receptionist in the employment office. This interview is essentially a sorting process in which perspective applicants are given the necessary information about the nature of the jobs in the organisation. The necessary information then is elicited from the candidates relating to their education, experience, skill, salary demanded, the reasons for leaving the present job, their job interest, physical appearance, age and facility of speech. If a candidate meets with the requirements of the organisation he may be selected for further action. If not, he is eliminated at this preliminary stage.

Notes

Formal Application Blank

An application blank is a brief history sheet of an employee's background and can be useful for future reference in case of need. An application blank is a traditional, widely accepted device for getting information from a prospective applicant which will enable the management to make a proper selection.

The blank provides preliminary information and helps in interview by indicating the areas of interest and discussion. It is a useful device for collecting historical data from the candidate as well as storing information for later reference.

Ideally each company should prepare its own formal application form as per its information requirements. But to save the time and cost of preparing its own application form it can follow a standard application form. Categories of information used in standard application forms on usual terms are:

1. **Personal**
   - (i) name
   - (ii) address
   - (iii) sex
   - (iv) date of birth and age
   - (v) marital status
   - (vi) children/dependents.
2. **Education**
   - (i) schooling : primary/secondary
   - (ii) higher education: institutions
   - (iii) qualifications
   - (iv) specified training, e.g., apprenticeships, sales
   - (v) membership of professional bodies.
3. **Employment History**
   - (i) number of jobs held
   - (ii) name of companies worked for
   - (iii) duration and dates of employment
   - (iv) positions, duties and responsibility.
4. **Other Interests**
   - (i) sports
   - (ii) hobbies
   - (iii) membership of societies/clubs.

Interview

An interview can be defined as an attempt at gathering information from the candidate concerning his suitability for the job under consideration. No method other than interview is quite as satisfactory in judging an individuals' ability in oral communication, personal appearance and attitude towards selling and personal impact on others which are most important for the person involved in selling.

Psychological Testing

"Tests are the most misused, the least understood, yet the most valuable sources of information about the applicants".

Notes

A psychological test can be defined both in a broad as well as narrow manner. Broadly, it has been defined as a "Systematic approach for comparing the behaviour of two or more persons".

In narrow sense, "It is a sample of an aspect of an individual's behaviour, performance or attitude".

Thus, we may define it as a systematic procedure for sampling human behaviour. Psychological testing is gaining greater importance as a selection tool of sales personnel because of sales management becoming more formalised and rising cost of selection and training. The major purpose of testing is to identify the various aspects of a persons' behaviour such as intelligence, achievements, interests, aptitude, personality traits, etc.

Different Types of Psychological Tests

Psychological tests are divided into four categories on the basis of human behaviour. But mostly, the three categories: Aptitude Test, Personality Test and Achievement Test are used in selection procedure of sales personnel.

1. **Aptitude or Ability Test:** These are used to measure the talent/ability of a candidate to learn the job or skill. They detect peculiarities or defects in a person's sensory or intellectual capacity. They focus attention on a particular type of talent, e.g., learning, reasoning or a mechanical bend of mind. Such tests may be of the following types:

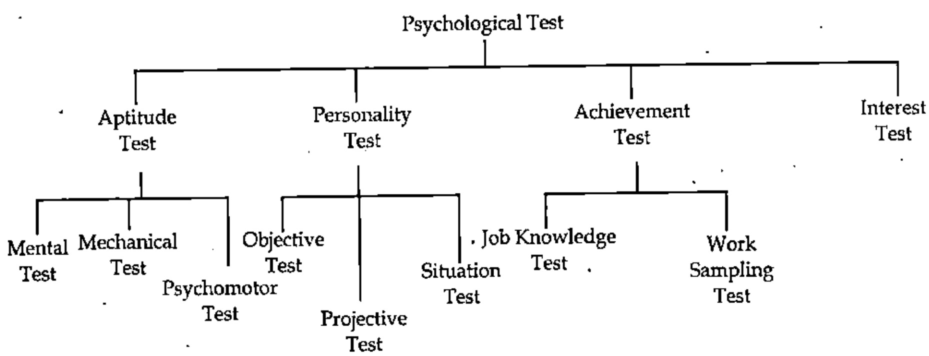

Figure 2.2: Classification of Ability Test

(i) ***Mental or Intelligence Test:*** They measure the overall intellectual activity or the Intelligence Quotient (IQ) of the candidate. They also determine the candidate's word fluency, memory, inductive reasoning, speed of perception and spatial visualisation.

(ii) ***Mechanical Aptitude Test:*** These measure the capacity of a person to learn a particular type of mechanical work as they measure a person's visual-motor coordination or integration.

(iii) ***Psychomotor or Skill Test:*** These tests measure a person's ability to do a specific job. They are administered to determine mental dexterity or mental ability and similar attributes involving muscular movement, control and coordination.

2. **Personality Tests:** These tests try to find out an individual's value system, his emotional reactions and maturity and his characteristic mood. Their major motive is to measure the basic make up or characteristics of individuals which are non-intellectual in nature.

These tests can be categorised into the following types:

(iv) ***Objective Test:*** They measure neurotic tendencies, self-sufficiency, dominance-submission and self-confidence. These are scored objectively.

Notes

(v) *Project Tests:* In this the candidate is asked to project his own interpretation into certain standard stimulus situations which reflects his own values, motives and personality.

(vi) *Situation Test:* This reveals the ability of a candidate to undergo stress and his demonstration of ingenuity under pressure. In short, we can say that it is a measure of applicant's reaction when he is placed in a particular situation.

3. **Tests (Proficiency Tests):** Achievement tests seek to determine how much the individual knows about a subject. They determine the admission feasibility of the candidate and measure what he is capable of doing.

   (i) *Tests for measuring job knowledge:* They are administered to determine degree of their qualification and feasibility to perform the job.

   (ii) *Work sample tests:* They demand the administration of the actual job as a test.

4. **Interest Test:** It is assumed in the use of interest tests that a relationship exists between test and motivation. Hence, if two persons have equal ability, the one with a greater interest in a particular job is more successful. These tests aim at finding out the types of work in which the candidate is interested.

However, these are not used much in the selection procedure of sales personnel as significant variation has been found in the interest test scores of successful and unsuccessful sales persons.

Physical Examination

Sales persons' job requires unusual stamina, strength or tolerance of hard working conditions. The presence or absence of these qualities in the candidate is revealed by physical examination. The major purpose of physical examination in the selection procedure of sales persons is that:

1. It gives a clear indication whether candidate is physically able to perform the sales person's job in the company.
2. It prevents selection of people who suffer from some contagious diseases.
3. It discovers the existing disabilities of the candidate and a record of the same is maintained so that the question of company's responsibilities would be settled in the event of a workman's compensation claim.

Rating of Interviewee

Having studied all the factors related to selection process, these should now be rated on the placement summary. The various facts should be compared with the requirements of the main profile and a score noted in the appropriate box. He should be rated 1 for a perfect match, 2 for an average match, 3 for below average and 4 for totally unsatisfactory. Comments should be made in the appropriate column to explain apparent discrepancies. Overall comments can be made in the space provided.

The scores should not be totaled or averaged in arriving at the final recommendation, as the weighing of the various factors will vary. What the manager must do is to consider each candidate as a mixture of factors and by identifying strong and weak points, come to a recommendation and scores the man on the four-category scale. Category 1 men will normally be offered jobs immediately. Category 2 are not qualified in all respects and failing the appearance of anyone better, are worth employing. Only in dire circumstances, when it is imperative that someone be employed, should category 3 men be taken on. Category 4 staff should never be employed however desperate the manager might feel, for they can only create worse problems rather than solving them.

Two further considerations that the manager must take into account in arriving at his decision are the compatibility of the man with his future colleagues and superiors and the future management needs of the company.

How well a man fits into a team can often determine his success. It is usually fatal to put a dynamic, aggressive, ambitious twenty six year old into a sales force consisting of security minded senior citizens hanging on for their pensions. It is likewise dangerous to have a man who is over-compatible with his superior. This often comes about by "mirror-image" selection, a common fault of many inexperienced managers. Because a candidate happens to have a similar background to the manager, that is, comes from the same part of the country, went to the same school, shares an interest in water-polo and the like, it may be tempting to assume that he possesses similar business abilities but if a manager is prone to such temptations, it is better for him to ask a colleague to take over the interviewing.

Notes

2.5 Training of Sales Force

Training of salesmen is essential to make them skilled. Just as a gifted athlete needs coaching and practice to perform at his best, similarly a sales person also requires proper training and development. After selection, personnel should be given formal training which includes planned programmes complete with schedules, lesson plans, visual aids, other teaching devices and systematic reviews and evaluation.

Informal training involves the continuous development of sales people. It is a prime responsibility of the supervisor and includes working with sales people, finding their activities and advising them on improvements that should be made. It is also known as field coaching.

Training varies with the sales person's career cycle Sales persons have varied backgrounds, experience levels, learning abilities, etc. and therefore have their own training needs. Another factor deciding the type of training is the stage of the career of the sales person.

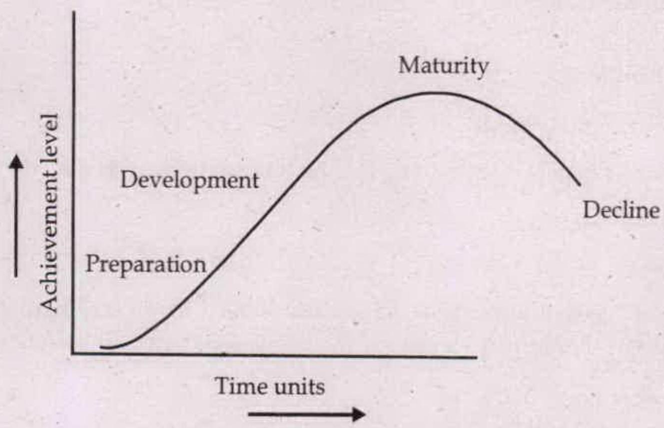

Figure 2.3: Sales Person's Career Cycle

Sales person's career cycle is a conceptual framework which describes the stages through which a sales person passes in his career cycle. There are four basic stages of this cycle.

1. Preparation
2. Development
3. Maturity
4. Decline

Preparation

For the sales person the emphasis should be on orientation and training. He should know about the environment in which he has to function and given information about the company and the products he has to sell. Selling instructions and basic selling techniques are all important at this stage. Sometimes experienced sales persons new to the company must also be acquainted with the policies and practices of the company.

Notes

Development

This is the second stage when the salesman becomes productive. He should be supervised and provided field coaching. He should be able to identify the problems and be kept away from acquiring bad habits.

Maturity

In maturity stage, the productivity of the sales person levels off. He works "smarter than harder". Sometimes refresher training is required to be given to him to retrain and acquaint him with new concepts and techniques. They can also be given new challenges and transferred to new areas, new territories or can be promoted to more responsible positions. Sometimes due to inadequate training career plateauing takes place. Lack of relevant training hampers growth and development.

Decline

In this stage the sales person is a problem for the management. A lot of motivational retraining is required. The productivity of the salesman decreases considerably and is difficult to avert.

Training imparted at proper time develops right working habits and offsets the effect of detraining.

Aim of Training

Defining the specific and general aims of a training programme is the first step in training. General aims are translated into specific aims phrased in operational terms. These can be defined in two ways:

1. Identify initial training needs.
2. Continuing sales training programmes.

Identifying Initial Training Needs

The initial training needs of sales training programme can be identified by the analysis of three main factors.

Job Specification

The qualifications needed to perform the job are detailed in job specification. The set of job specifications needs scrutinising for clues to the points on which new personnel are most likely to need training.

Trainee's Background and Experience

The gap between the qualifications in the job specifications and those a trainee already has represents the nature and amount of training needed. But it is not always practical to adjust training precisely to individual differences and time and money are saved by putting all recruits through identical programmes.

In all organisations' determination of the recruits real training needs is essential to developing initial training programmes of optimum benefit to company and trainee alike.

Sales-related Marketing Policies

The analysis of sales related marketing policies is also necessary to determine initial sales training needs because the differences in products, markets and their selling practices and policies determines the differences in training programmes.

Example: Selling of highly technical goods involves training with lot of product information while selling of non-technical goods involves only initial sales training programmes.

Identifying Continuing Sales Training Programmes

The identification of continuing sales training needs means to identify training needs of experienced sales personnel which are felt due to changes in market, product, marketing policies, procedures, organisation and even in the sales personnel itself.

Notes

Methods of Training

The selection of appropriate training method for a training programme depends on the content of training. Few of the important and appropriate methods of sales training are: lecture, conference, demonstration, replaying, case-discussion, impromptu discussion, gaming, on-the-job training, programmed learning, correspondence courses.

The Lecture

Lecture is the method of learning through instructions from trainer to trainee. Trainees mainly watch and listen, although some versions of lecturing permit questions.

Advantages

1. It is more economical as compared to other methods.
2. It is the only method to cover the desired training content if initial sales training is brief.
3. It is the only practical way to handle instructions when the training group is too large but it can also provide training appropriately to smaller training groups through summary of major topics.

Disadvantages

1. Teaching is emphasised more than learning.
2. Only one-way communication between trainer and trainee prevails.

Personal Conference

The personal conference is an unstructured and informal method. It varies with the personalities of the trainer and the trainee and the topics discussed. The trainer and trainee jointly analyse problems such as effective use of selling time, route planning and call scheduling and also handling unusual selling problems.

Demonstration

The demonstration method of training is where sales managers plan and carry out a real selling call on a customer or prospect with the salesmen they are training present as silent observers. The method is most appropriately used for training new salesmen.

Role Playing

In this method first the trainer describes the situations and different personalities involved. Then the trainee is asked to play the role of those personalities in different situations. In the end both the trainer and trainee appraise each player's effectiveness and suggest how performance of each has been improved.

Thus, role playing can be defined as "a method of human interaction which involves realistic behaviour in an imaginary situation".

The merits of the role-playing method are:

1. Learning by doing is emphasised.
2. Human sensitivity and interactions are stressed.
3. The knowledge of results is immediate.

Notes

4. Trainee interest and involvement tend to be high.
5. Trainees learn to accept criticism from others and the group soon recognises that sound suggestions benefit everyone.
6. Role player's practice introspection through participating in the appraisal of their own performances.
7. Role playing provides chance to learn valuable tricks and gain acting experience.

Case Discussion (Learning by Doing)

The case is a set of data (real or fictional, written or oral). Miniature description and summary of such data presents issues and problems calling for solutions or action on the part of trainee.

Example: When the trainees are given cases to analyse, they are asked to identify the problem and to recommend tentative solutions through group discussions.

Gaming Simulation

This method is somewhat similar to role playing with a unique feature that it uses highly structured and contrived situations based on reality and players receive information feedback.

Advantages

1. Participants learn easily because they involve themselves in game play.
2. Players develop skills in identifying key factors influencing decisions.
3. Games have built-in information feedback features.

Limitations

1. Some minimum amount of time is required for playing, usually, three to four hours, which is not sufficient to provide desired learning experience.
2. Since the game designs are based on ordinary decision making process their rules often prevent play on unusual or novel approaches.
3. Poorly designed games may actually hinder instead of helping.

On-the-Job Training (Coach-and-pupil Method)

In this the salesmen are coached and instructed by skilled co-workers or by supervisors or by the special training instructor. They learn the job by personal observation and practice as well as occasionally handling it.

This method involves three steps. First, the coach who is an experienced sales person begins by describing particular selling situations, explaining various techniques and approaches. Next, accompanied by pupil, the coach makes actual sales call, discussing each with the trainee afterward.

Then, under coach supervision trainee makes sales calls, each one being followed by discussion and appraisal.

Programmed Learning (Teaching by Machine Method)

Programmed instruction involves a sequence of steps which are often set up through the central panel of an electronic computer as a guide in the performance of a desired operation or service of operation. It involves breaking down information into meaningful units and then arranging these in a proper way to form a logical and sequential learning programme or package for use with the machine.

But programmed instructions have not been widely adopted for sales training due to their high cost of operation and other constraints.

Notes

Correspondence Courses

Companies with highly technical products and small but widely deployed sales forces use correspondence courses to acquaint experienced sales people with new product development and applications.

It is most appropriate as an interim training method when trainees are scattered geographically but are assembled periodically for lectures, seminars, role playing and other instructions.

Execution of Sales Training

Execution is the fourth step of the A-C-M-E-E approach of sales training. It involves the following four key decisions:

1. Who will be the trainees?
2. Who will be the trainers?
3. When will the training take place?
4. Where will the training site be?

Who will be the Trainees?

The general criteria to identify trainees are:

1. Reward for good performance.
2. Punishment for poor performance.
3. Convenience of trainee and trainer.
4. Seniority: The greater the seniority, the greater opportunity for added training.

Who will be the Trainers?

The trainers who impart training during different training phases are:

1. **Initial Sales Training:** If the initial sales training is a line function then training is assigned to top sales executive but if it is a staff function then the responsibility of initial sales training is given to personnel director.
2. **Continuing Sales Training:** Responsibility for continuing sales training resides with the top sales executive. The top sales executive is in the best position to recognise the need and design and execute the sales training programme.
3. **Sales Training Staff:** In large organisations the sales training director reports to the top sale executive. The director conducts some training by himself and the rest is given on decentralised basis by district sales managers.

   In small organisations top sale executives have assistant sales managers or district managers to impart the training.
4. **Outside Experts:** Sometimes outside experts are also hired to conduct portions of sales training programmes relating to sales techniques like selling by telephone, prospecting, etc.

When will the Training take Place?

Generally the training programmes are held on adhoc basis. But a number of factors should be kept in mind while organising a training programme.

5. **Initial Sales Training Programmes:** Timing for initial sales training programmes depends upon the number of new personnel trained each year and this in turn depends upon the size of the sales force, sales personnel, turnover and management plans for changing sales force size.

Notes

Example: If a large number of sales persons are recruited, training programmes are scheduled several times a year whereas if a small number of sales persons are recruited, training programmes are infrequent.

6. **Continuing Sales Training Programme:** The principle of an effective sales training programme is that learning must be continuous-new information must be assimilated and other concepts modified in the light of new developments. This requires that each sales person's training should continue as long as he is on the job.

   Retraining helps in:

   (i) New refinements of selling techniques

   (ii) New product applications.

   (iii) New customer problem.

   (iv) New selling aids.

   (v) Overcoming the forgetting tendency of human brain.

Where will the Training Site be?

Training programmes are held either at centralised or decentralised points. The centralised programme generally provides better product training but higher costs are incurred in bringing trainees to the central point. But decentralised training has even more serious defects. It cannot be executed properly unless supervised by top management. Hence, an adhoc basis for centralised and decentralised training should be adopted by top management.

Evaluation of Training Programmes

This is the last but not the least step of the training programme. Evaluation involves the comparing of the training programme's aim with the results and measuring its impact on the sales person.

There is no direct method of measuring the impact of training but certain methods could provide indications whether the results are positive or not. These are:

1. Market share percentages
2. Written Tests
3. Observers which work with sales personnel.

2.6 Motivating the Sales Force

Motivation can be carried out through financial and non-financial incentives. It is a continuous process that carries on as the expectation of the sales person keep changing from time to time.

The main objectives of motivation are:

1. To stimulate the salesmen to improve their efficiency.
2. To establish cordial relationship between the managers and salesmen.
3. To maintain high morale among the salesmen.
4. To seek cooperation of the salesmen in achieving the sales target.

Need for Motivation

Motivation is specially required in sales management as the nature of job is different from the usual work that the other members of the organisation are engaged in:

1. The job has a lot of obstacles for the salesman, as most of the customers visited don't entertain the salesmen by giving orders.
2. The salesman has no family life as he is always enveloped in the market and the traders.
3. He has to face acute competition from competitive products. There is no fixed hour of working for a salesman.

4. The activities of a salesman are repetitive and he gets dissatisfied from repeating his work which becomes highly monotonous.
5. He is under pressure both from the customer (wholesaler, retailers and consumers) and his supervisor, as both want to get the best from the deal. The salesman is sandwiched between the two parties.
6. Too much of traveling and keeping away from home leads to health problems which affects the salesman in the long run.
7. By working in fields the salesman does not have contacts with his fellowmen or the members of the organisation and is posted at very distant places most of the year. Thus, he does not have any group relationship and feels alone most of the time.
8. He does not work to full capacity and does an average job to remain in the job. This can be overcome through proper motivation.
9. Most salesmen have a variety of needs including physiological and social needs and thus feel that they can't satisfy their needs by remaining in the sales job which gives them lesser opportunities to socialise with their kith and kin.
10. Motivation helps to build the morale of the salesman; it is a driving force for the salesman.

Motivation can overcome the lethargy and inactiveness of the salesman so that he can perform to the best of his ability.

Notes

Steps in Motivation

The salesmen can be motivated through logical steps which should be followed in a sequence.

Objectives

The objectives of motivation must be determined by the salesmen, the objectives could be different for different salesmen and for the different areas. However, the main aim of motivation is to encourage the salesman to give off his best.

Needs

The needs of the salesman must be satisfied and this can be done by joining into the depth of the expectation of salesmen, the position held by them, their mental attitude and differences between various salesmen.

Motivation of Salesmen

Salesmen can be motivated through financial or non-financial incentives or both; while deciding the same, financial condition of the organisation has to be taken into consideration. Salesmen can also be motivated by changing their territory or area of work. For no-financial incentives the salesmen can be given other prerequisites, like sending them for training along with their families, for a holiday trip in attractive locales.

Communication

It is necessary that the communication be already understood, it should be simple and should give special instructions to the salesmen. The interest of the company as well as that of the salesman must always be kept in mind so that both are mutually benefited.

Feedback

The result achieved from the motivation programme must be evaluated so that the effectiveness of the motivational programme can be assessed. The other points to be kept in mind is the development of the team spirit and development of satisfaction from the work, which is necessary for the success of the programme.

Notes

Maslow's Hierarchy of Needs

Maslow argued that needs form a hierarchy in the sense that, when no needs are fulfilled, a person concentrates upon his or her physiological needs. When these needs are fulfilled, safety needs become preponderant and become important determinants of behaviour. When these are satisfied, belongingness becomes important - and so on up the hierarchy.

Although Maslow's belief, that one set of needs only becomes important after lower order needs have been completely satisfied, has been criticised, the theory does have relevance to sales force motivation. First, it highlights the perhaps obvious point that a satisfied need is not a motivator of behaviour. Thus, for sales person who already receives a more than adequate level of remuneration, additional payments may have no effect on motivation. Second, the theory implies that what may act as a motivator for one sales person may not be effective with another. This follows from the likelihood that different salespeople will have different combinations of needs.

Effective motivation results from an accurate assessment of the needs of the individual salespeople under the manager's supervision. The overriding need of one sales person may be reassurance and the building of confidence; this may act to motivate him or her. For another who has great need for esteem but a problem regarding work rate, the sales manager may try to motivate by displaying to colleagues at a sales meeting his or her relatively poor sales performance.

Table 2.1: Maslow's Hierarchy of Needs

Category	Type	Characteristics
Physical	1. Physiological	The fundamentals of survival, e.g., hunger, thirst
	2. Safety	Protection from the unpredictable happenings in life, e.g., accidents, ill health
Social	3. Belongingness	Striving to be accepted by those to whom we feel close and love (especially one's family) and to be an important person to them
	4. Esteem and	Striving to achieve a high standing relative to status other people; a desire for prestige and a high reputation
Self	5. Self-actualise	The desire for self-fulfillment in achieving action what one is capable of for one's own sake – 'Actualised in what he is potentially' (Maslow)

Herzberg's Two Factor Theory

Herzberg's dual factor theory distinguished factors which can cause positive dissatisfaction but cannot motivate (hygiene factors) and factors which cannot cause positive motivation.

Example: Hygiene factors included physical working conditions, security, salary and interpersonal relationships.

Directing managerial attention to these factors, postulated Herzberg, would bring motivation up to a 'theoretical zero' but would not result in positive motivation. If this were to be achieved, attention would have to be given to true motivators. These included the nature of the work itself which allows the person to make some concrete achievement, recognition of achievement, the responsibility exercised by the person, and the interest value of the work itself.

The inclusion of salary as a hygiene factor rather than as a motivator was subject to criticisms from sales managers whose experience led them to believe that commission paid to their salespeople was a powerful motivator in practice. Herzberg accommodated their view to some extent by arguing that increased salary through higher commission was a motivator through the automatic recognition it gave to sales achievement.

The sales person is fortunate that achievement is directly observable in terms of higher sales (except in missionary selling, where orders are not taken, e.g., pharmaceuticals, beer and selling to specifiers). However, the degree of responsibility afforded to salespeople varies a great deal.

Notes

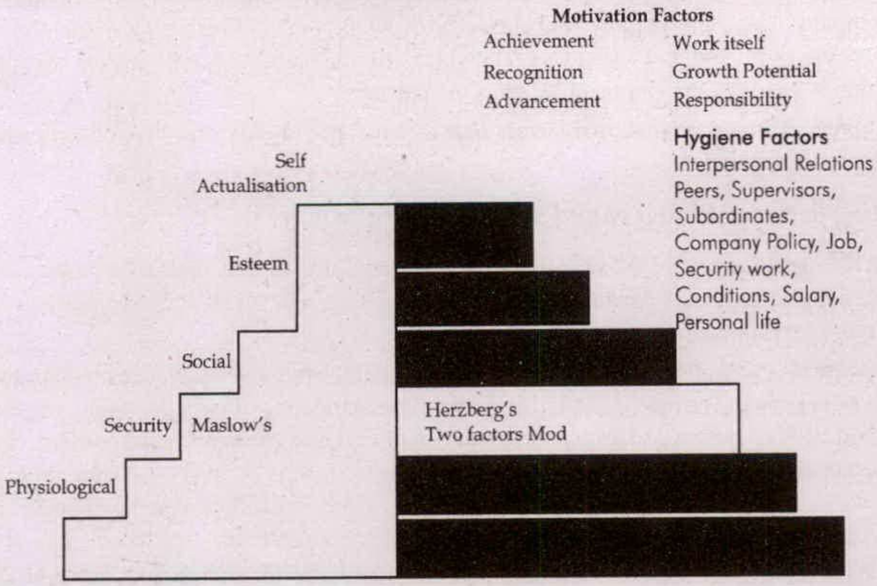

Figure 2.4

Source: Adapted form James H. Annely, Jr. James L.Gibson and John Mivancevich, Fundamentals of Management, Sixth Ed. (Plano, Texas; Business Publications Inc. 1987.

Opportunities for giving a greater degree of responsibility to (and hence motivating) salespeople include giving authority to grant credit (up to a certain value) discretion to the salespeople. The results of an experiment with a group of British sales people by Paul, Robertson and Herzberg (1969) showed that greater responsibility given to salespeople by such changes resulted in higher sales success.

Herzberg's theory has been well received, in general, by practitioners, although academics have criticised it in terms of methodology and oversimplification. The theory has undoubtedly made a substantial contribution to the understanding of motivation at work, particularly in extending Maslow's theory to the work situation and highlighting the importance of job content factors which had hither to been badly neglected.

Financial Motivation Techniques

Mot salesmen prefer the financial benefit because the need at the lower level of organisation is more of physiological and safety needs, rather than those of esteem and self actualisation. Social needs are also necessary at all levels. The financial incentives include:

1. Higher salary
2. More commission
3. Other monetary incentives
4. Profit sharing
5. Travelling allowance
6. Bonus, etc.

The financial incentives become less affective after some time and thereafter the salesman is looking to non-financial incentives which have been discussed at length.

Notes

Non-financial Motivation Techniques

The simple motivational tools of early years such as only financial benefits prove to be a poor method of motivation beyond physiological and safety needs satisfaction on account of the unique aspects of a sales person's job.

The non-financial incentives, thus, become an important component of the motivation mix of a company. These are specially relevant as Dawson has pointed, "Business is on the threshold of a new era of human and social concern, which will inevitably result in greater attention to total human resource development by sales management".

Some of the unconventional factors that make a special rank on sales force motivation are discussed hereunder:

Meeting between Manager and Sales Force

These are highly regarded by sales managers in the motivation of their sales teams as this provides opportunity to managers to meet their sales force in the field, at head office and at the sales meetings/conventions.

These meetings allow the sales manager to understand the personality, needs and problems of each sales person. The manager can then better understand the causes of demotion/frustration in individual sales person and respond in a manner which takes into account the needs, problems and personality of the sales person. Sales techniques can thus be improved and confidence boosted. According to Likert, when the sales manager encourages an "open" style of management, salesmen are encouraged to discuss their problems and opportunities so that the entire sales team benefits from the experience of each salesman. This results in a greater sense of group loyalty and improved performance.

Example: The success of the marketing team can be easily attributed to the open door policy adopted by companies in India. As one manager put it, "I know all my team of 166 sales representatives personally, by name and make it a point to keep in touch with all of them. They can walk in any time with their problems and they have got the confidence that most of their problems will be handled to their satisfaction".

Clarity of Job

Clarity of job and what is expected from the sales person is a great motivator. The objectives when duly quantified and well defined, properly connected and linked with the reward and recognition serve as a source of motivation to the sales person.

Sales Targets or Quotas

If a sales target or quota is to be effective in motivating a sales person, it must be regarded as fair and attainable and yet offer a challenge to him. Because the sales person should regard the quota as fair, it is usually sensible to allow him to participate in the setting of the quota. However, the establishment of the quotas is ultimately the sales manager's responsibility and he will inevitably be constrained by overall company objectives. If sales are planned to increase by 10 per cent, then salesmen's quotas must be altered in a manner consistent with this objective. Variations around this average figure will arise through the sales managers knowledge of individual sales person and changes in commercial activity within each territory; for e.g., the liquidation of a key customer in a territory may be reflected in a reduced quota. Quotas can be set on rupee sales, unit volume, margin, selling effort or activity and product type. The attainment of a sales target or quota usually results in some form of financial benefit to the sales person.

Sales Contest

The sales contest is an important tool to motivate sales persons. The purpose of sales contest varies widely. It may encourage a high level of sales in general to increase the sales of a slow-moving product or to reward the generation of new customers. It provides an incentive to show better performance and secure more satisfactory results. However, sales contest has a few disadvantages. One such disadvantage is that it can encourage cheating.

Example: In one company which used a sales contest to promote sales at a series of promotional events around the country with its dealers, sales persons "stored up" orders achieved prior to the event in order to increase the apparent number of orders taken at the event.

Also, contests, by pitching sales person against sales person, militate against the spirit of mutual help and cooperation which can improve salesforce performance.

Sales Conventions and Conferences

These are the devices of group motivation. They provide opportunities for sales persons to participate, gain social satisfaction and express their views on matters directly affecting their work. They promote team work, dissolve social barriers, inspire and raise sales person's morale. Most of the companies in India are now a days adopting this method to motivate their salesforce.

Positive Effect

The positive effect method is also an important technique for motivating the salesforce to their best.

The proper application of praise, positive feedback, and human warmth and understanding can impel others to perform up to their capabilities. This must be done in a genuine way and not be perceived as overtly self serving.

Another form of motivation through positive effect occurs via a small group and peer relations. Friendship, support and comradeship frequently serve as vehicles for creating positive feelings towards company and job.

Leadership Style of the Manager

Leadership style of the manager plays an important role in motivating the sales person. Inspirational leadership refers to influence through referent power. Identification of charismatic charm is an important tool in the motivational strategy of the management. It infuses the images and expectations for extremes of effort, sacrifice achievement and in general "the right stuff". It is practiced through the use of professional speakers' special audio tapes and video tapes designed to arouse and stimulate sales persons. It also tries to create and perpetuate certain corporate myths and success stories, which indirectly motivates sales person to perform at their best.

Freedom to Work

In order to perform his onerous duties and responsibilities, the sales person must be given a reasonable amount of freedom and discretion in performing his job. Likert, in his studies, has mentioned that lack of discretion has a negative impact on employees job satisfaction. Discretion and freedom may be accomplished by allowing sales person to develop their own call patterns, more control over the types of promotional packages that they offer to their customers, etc.

Freedom or autonomy satisfies the psychological needs and is like power pay (which is a reward), making the job of sales person more important in the organisation.

Reward and Recognition

Although the sales quotas, sales contests, convention and conferences have positive carry over effects, these are short lived techniques of motivating salesmen. On the other hand reward and recognition of sales persons accomplishments are more enduring and relatively economic methods of motivation. Some of the ways to extend recognition and honour to sales person include conferring the title of "salesman of the month/year" congratulation telegrams from members of top management, sales trophies, offering memberships of social clubs, mention in

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company's news letter, certificate etc. Recognition and honour satisfy sales persons need for self esteem and self respect. These are like status pay - a public acknowledgment of the value that management places upon an individual.

Persuasion

One of the common and recommended forms for inducing high levels of motivation is through persuasion. In this situation, managers use rational arguments to convince sales persons that it is in their own best interest to act in a preferred way. Persuasion has the advantage of getting people to conclude that their actions were performed out of their own free will. This leads to higher levels of self direction than reward or coercive modes of influence where one perceives he or she acts more out of external compulsion than internal volition.

Financial Incentives

Now we come to the financial aspects of the motivational technique. Financial incentives are definitely a motivating factor, but they vary at the hierarchical level of the sales person. The need is great at lower end of the hierarchy. A financial incentive not only keep sales person on the company rolls but also motivates them to contribute to the growth of the company and thereby get grown individually. It is also an important managerial tool to control and direct sales force to attain the sales objectives.

A poorly developed or administered financial plan may invite unions to organise sales force as happened in some of the pharmaceutical companies in India. Therefore in the management and motivation of sales force, a fairly reasonable financial incentive plan plays a very important role. A sales force cannot be considered soundly managed unless there is a well developed and well administered company plan".

2.7 Compensating the Sales Force

Sales compensation plans are aids to, rather than substitutes for, effective motivation. The basic appropriateness of a compensation plan is important and so is the way it is implemented and administered.

In established companies it is rarely necessary to design new sales compensation plans and sales executives concern themselves mainly with revising plans already in effect. Most changes are minor, instituted to bring the plan and marketing objectives into closer alignment. Major changes in the compensation plan are rare. Like most people sales personnel resist sweeping changes, particularly when this requires them to alter accustomed ways of doing things.

Requirements of a Good Compensation Plan

A good sales compensation plan fulfils seven requirements:

1. It provides a living wage in the form of a secured income.
2. The plan fits with the rest of the motivational programme.
3. The plan is fair - it does not penalise sales personnel because of factors beyond their control. Within the limits of security and other special circumstances, sales personnel receive equal pay for equal performance.
4. It is easy for sales personnel to understand - they are able to calculate their own earnings.
5. The plan adjusts pay to changes in performance.
6. It is economical to administer.
7. It helps in attaining the objectives of the sales organisation.

Designing a Compensation Package

A good compensation plan is built on solid foundation and therefore it requires a systematic approach to assure that no essential step is overlooked.

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Defining a Sales Job

1. Re-examine the nature of the sales job and revise it if it is outdated.
2. Analyse sales department objectives for their effect on the sales person's job.
3. Check out for sales volume objectives, for instance, whether in rupees, units of products, or number of dealers and distributors and translate them into what is expected of the sales personnel, as group and individually.
4. The impact of sales related marketing policies are determined (like, credit policies, price policies, etc.)
5. Consider the current and proposed advertising and sales promotional programmes as they assist in clarifying the nature of the sales person's goals, duties and activities.

Consider the Company's General Compensation Structure

Most companies use job evaluation systems to determine the relative value of individual jobs. Its purpose is to arrive at fair compensation relationships among jobs. There are four job evaluation methods. Two are non-quantitative - simple ranking and classification or grading. Other two are quantitative - the point system and the factor comparison method.

Non-quantitative

1. **Simple Ranking:** This is an inexpensive job evaluation method. No attempt is made to determine the critical factors inherent in the job, only overall appraisal of the relative worth of different jobs is made.
2. **Classification or Grading:** In this method jobs are graded in terms of job responsibility, skills required, supervision given and received, exposure to unfavourable and hazardous working conditions and similar characteristics. All jobs within a grade are treated alike for compensation.

Quantitative

1. **Point System:** It involves defining factors common to most jobs. The specific factors generally include mental and physical skills, responsibility, supervision received and given, personality requirements and minimum education required. Each factor is assigned a minimum and maximum number of points, different ranges being associated in line with the relative importance of the factors. The use of point values makes it possible to determine the gap or distance between job classes.
2. **Factor Comparison Method:** This method resembles the point system but is more complex.

It utilizes a scheme of ranking and cross comparisons to minimise error from faulty judgment. A selected number of key jobs typical of similar jobs throughout the company are evaluated. This is done by arranging them in rank order, from highest to lowest for each factor. As a check against this judgmental evaluation, the compensation money actually paid for each job is allocated to the factors, which automatically establishes the relationship among jobs for each factor. The judgmental ranking and the ranking by allocation of compensation are compared and differences are reconciled, or else the jobs are removed from the key list. On this basis, money amounts assigned to the several factors making up key jobs and additional jobs are evaluated and their monetary values for each factor interpolated into the scale. This procedure is repeated until all jobs are evaluated.

Consider the Compensation Patterns in Community and Industry

Because compensation levels for sales personnel are related to external supply and demand factors, it is important to consider the prevailing compensation patterns in the community and the industries. Management needs answers to five questions.

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3. What compensation systems are being used?
4. What is the average compensation for similar positions?
5. How are other companies doing with their plans?
6. What are the pros and cons of departing from industries or community patterns?
7. What calibre of salespersons is required to be effective as well as cost efficient?

Determining Compensation Level

Management must determine the amount of compensation a sales person should receive on the average. The compensation level might be set through individual bargaining or on an arbitrary judgment basis. Management should ascertain whether the caliber of the present sales force measures up to what the company would like to have. If it is too low, or if the company should have lower-grade people than those currently employed; management should determine the market value of the sales personnel of the desired grade.

Management weighs the worth of the individual person by estimating the sales and profit money that would be lost if particular sales people resigned. Another consideration is the compensation amount the company can afford to pay.

Provide for the Various Compensation Elements

A sales compensation plan has as many as four basic elements:

1. A fixed element, either a salary or a drawing account to provide some stability of income.
2. A variable element to serve as an incentive.
3. An element covering the fringe or plus factor such as paid vacations, sickness and accident benefits, life insurance, pensions.
4. An element providing for reimbursement of expenses or payment of expense allowances. Management selects the combination of elements that best fits the selling situation. The proportions that different elements bear to each other vary. However, most companies split the fixed and variable elements on a 60:40 or to 80:20 basis.

Special Company Needs and Problems

A sales compensation plan is no panacea for marketing ills, but it is often possible to construct a plan that increases marketing effectiveness. If a company's earnings are depressed because sales personnel overemphasize low margin items and neglect more profitable products, it may be possible, despite the existence of other managerial alternatives, to adjust the compensation plan to stimulate the selling of better balanced orders. Specifically, variable commission rates might be set on different products with higher rates applying to a neglected product.

Example: A firm might have a "small orders" problem. It is possible to design compensation plans that encourage sales personnel to write larger orders. Commission rates can be graduated so that higher rates apply to larger orders.

Consult the Present Sales Force

Management should consult the present sales personnel, in as much as many grievances have roots in the compensation plan. Management should encourage sales personnel to articulate their likes and dislikes about the current plan and to suggest changes in it. Criticism and suggestions are appraised relative to the plan or plans under consideration.

Reduce Tentative Plan to Writing and Pre-test it

For clarification and to eliminate inconsistencies the tentative plan is put in writing. Then it is pre-tested. The amount of testing required depends upon how much the new plan differs from the one in use. The greater the difference, the more thorough is the testing. Pre-tests of compensation plans are almost always mathematical and usually computerised. If the sales pattern has shown considerable fluctuations, speculations are made for period's representative of average, good and poor business.

Then a look is taken into the future. Utilising sales forecast data, new and old plans are applied to future periods. The plan is tested for the sales force as a group and for individuals faced with unique selling conditions. Analysis reveals whether the plan permits earnings in line with the desired compensation level. If deficiencies show up the plan may not be at fault; weaknesses can be traced to the way territorial assignments have been made or to inaccuracies in sales forecasts, budgets, or quotas.

To conduct a pilot test, several territories representative of different sets of selling conditions are selected. The proposed plan is applied in each one long enough to detect how it works under current conditions.

Revise the Plan

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

Implement the Plan and Provide for Follow up

At the time the new plan is implemented, it is explained to the sales personnel. Management should convince them of its basic fairness and logic. Details of changes from the old plan and their significance require explanation. All sales personnel should receive copies of the new plan, together with written examples of the method used for calculating earnings. If the plan is at all complex, special training sessions are held and aimed at teaching sales personnel how to compute their own earnings.

Provisions for follow up are made. From periodic check ups need for further adjustments is detected. Periodic checks provide evidence of the plans' accomplishment and they uncover weaknesses needing correction.

Types of Compensation Plans

There are only three basic type of compensation plans – straight salary, straight commission and a combination of salary and variable elements.

Straight Salary Plan

This is the simplest compensation plan. Under it, sales persons receive fixed sums at regular intervals (usually each week or month but sometimes every two weeks), representing total payments for their services. Only 17.5% used this method. It is more common among industrial goods companies than consumers' goods companies. Firms that previously used the straight salary plan have switched over to combined basic salary with a variable element.

Advantages

1. There is control and direction over the sales personnel.
2. There is flexibility in adjusting the work.
3. Sales persons cooperate more if paid straight salary rather than commissions.
4. It is simple and economical to administer.
5. More stability of income.
6. Sales persons are relieved of much burden of planning their own activities.

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Disadvantages

1. Since there is no direct monetary incentive many sales persons do only an average rather than an outstanding job.
2. There is tendency to under compensate productive sales persons and to over compensate poor performers.
3. If this exists for long, the turnover rate rises.
4. The morale of the sales persons is affected.
5. It is difficult to adjust to changing circumstances.

Straight Commission Plan

In this, sales persons are paid according to productivity. This method provides for progressive or regressive changes in commission rates as sales volume rises to different levels. Others provide for different commission rates for sale of different products, to different categories of customers, or during given seasons.

Straight commission plans fall into one of the two broad classifications:

1. Straight commission with sales persons paying their own expense. Advances may or may not be made against earned commissions.
2. Straight commission with the company paying expenses, with or without advances against earned commissions.

For this method non-selling duties are unimportant, rather getting order is the main objective.

Advantages

1. It provides maximum direct monetary incentives.
2. It provides means of cost control.
3. The straight commission plan is also characterised by great flexibility for revising commission rates for different products.

Weaknesses

1. Only customer orders are set by sales persons and they are careless about transmitting reports.
2. Sales persons neglect to follow up leads. They resist reduction in size of sales territories.
3. Sales persons push the easier to sell low margin items and neglect harder-to-sell high margin items.

Determine Commission Base

Important aspect of designing a straight commission system is to select the base on which to pay the commission.

1. If obtaining volume is the main concern then total sales is the base.
2. If sales personnel make collections on sales, then commissions are based on collections.
3. If a firm has excessive order cancellations, commissions can be based upon shipments, billings or payments.
4. To control price cutting by sales personnel, some companies base commissions on gross margin.
5. Some companies use net profits base, seeking simultaneously to control price cutting, selling expenses and net profits.

Salary Plus Commission

Most sales compensation plans are a combination of salary and commission plan. They develop as attempts to capture the advantages and offset the disadvantages of both the salary and commission systems.

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In commission plan, executive has weak control on non-selling activities while in salary method it is not so.

Advantages

1. Security of stable income and financial incentive.
2. Management has greater control and apparatus to motivate sales force.
3. A cooperative spirit develops between salesmen and the company.

Disadvantages

1. Clerical costs are high.
2. The split between fixed and variable component is 60:40 to 80:20.

Factors Influencing Compensation Scheme

Irrespective of the basic structure of compensation, some factors cannot be overlooked while designing a compensation plan for companies.

Relation with Product Life Cycle (PLC)

All products undergo various stages of introduction growth, maturity and decline. The selling effort is related to this (PLC) stage.

When the product is in the introductory stage it is difficult to sell the product. Therefore the sales force must be dynamic, enterprising, willing to travel, to be able to establish the product in the market. It should have good knowledge of the product, good communication skills and tremendous willingness and endurance to pursue the goals that are to be achieved. Therefore in the introductory stage direct salary will be on the higher side and indirect benefits may not be introduced.

Growth Stage

In this stage the motivation of the sales force has to be maintained. Indirect incentive schemes have to be introduced. Incentives can be linked with achieving targeted quarters. This will help in the growth of the product.

Maturity

When the product firmly establishes itself the sales force needs a break. The indirect benefits like training programmes in good environmental locales foreign trips, promotions, basic increase in salary are given. This increases their knowledge and motivates them and gives them a new direction to do the job.

Decline Stage

When the sales of the product starts declining then added incentives may be given to generate fresh interest in the product. Efficient product managers who may be concentrating on different products are given added incentive to service the sales of the declining product.

Compensation Related with Demographic Characteristics

Different compensation packages are preferred by different sales persons depending upon their demographic characteristics, i.e., age and family life cycle. A bachelor can take high risks, is more enterprising and with high risks high awards are also promised. He can work on a straight commission or incentive scheme only. As one gets married he prefers stability with high basic component. When one gets older one wants more stability and preferably a direct salary.

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Use of Bonus

A bonus is an amount paid for accomplishing a specific sales task. Bonuses are paid for reaching a sales quota, performing promotion activities, obtaining new accounts, following up leads, setting up displays or carrying out other assigned tasks.

Bonuses are never used alone – they always appear with one of the main sales compensation methods. If used with the straight salary, the plan resembles the combination plan. If used with the straight commission plan, the result is a commission plan to which an element of managerial control and direction has been added. If used with the combination salary and commission plan, the bonus becomes a portion of the incentive income that is calculated from the commission.

Fringe Benefits

Fringe benefits, which do not bear direct relationships to job performance, range from 25-40 per cent of the total sales compensation package. Fringe benefits, like monetary compensation, are not motivating factors. In Maslow's hierarchy, fringe benefits contribute to fulfillment of safety and security needs, although some (such as payment of country club dues) contribute to fulfillment of esteem and other higher order needs.

As the variety of fringes has expanded, individual fringes have been added that appeal more to some groups than others – people with bad teeth are the ones most interested in dental insurance while those with children are the ones most interested in plans for paying education and tuition fees for dependents.

An increasing number of companies offer a "cafeteria" approach to fringe benefits.

In this approach, the company offers a core of basic benefits - the benefits required by law plus other traditional benefits, including paid vacations, medical, disability, and death benefits and a retirement programme. Employees then use credits (based on age, pay, family status and years of company service) to obtain optional benefits not included in the core; this lets employees select those benefits that best fit their needs. Also, because of changing needs employees are given opportunity to change their choice. Companies using the cafeteria also have "awareness programmes" aimed at making employees aware of the benefits available.

Fringe benefits are now an important part of every sales persons income. These are dealt as under:

1. **Company Benefits:** These constitute 25 to 40% of the basic pay. Fringe benefits differ from company to company. Insurance, paid vacation, paid leaves, retirement plans and educational assistance are a part of company benefits.
2. **Insurance:** Life insurance, health insurance, accident and disability, insurance are provided by most companies. Sometimes a part of insurance is paid by the salesman. Dental and vision care are also popular benefits introduced by many companies.
3. **Paid Vacations:** These are provided to sales persons with a long standing, who have served the company for a long period of time.
4. **Paid Leaves:** Includes, sick leave, maternity leave and are enjoyed by confirmed salesman who have worked for a considerable period of time.
5. **Retirement Plans:** Many companies contribute to pension plan for its employees. The sales person also contribute a part of their income through payroll deductions.
6. **Educational Assistance:** Many sales persons take advantage of company sponsored educational programmes. They sponsor candidates to courses useful to the company. Employers also grant release time to employees to attend courses.

7. **Sales Force Benefits:** Personal use of a company car and membership to clubs/associations is also provided to sales people. This helps them to get in touch with a lot of people connected with business so that the sales could be increased.

Besides these fringe benefits there can be other types of incentives:

1. **Profit Sharing:** If the company's profit rises then a cash bonus can be given.
2. **Stock Purchase Plan:** Employees can buy shares of the company at a discounted price. They can become shareholders of the company. This increases the loyalty of the sales people towards the company.
3. **Credit Union:** A company supported credit union to save and borrow as and when desired.
4. **Employee Services:** These include subsidised meals, recreational facilities, discount on company's products, etc.
5. **Cafeteria Approach:** In this the employees choose the desired benefits. This is a new approach in which there is a basket of benefits and the employee opts for some of these which are more beneficial to him.

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2.8 Summary

Recruitment is a process to discover the source of manpower to meet the requirements of the staffing schedule and to employ effective measures for attracting that manpower in adequate numbers to facilitate effective selection of an efficient working force. A selection system is a set of successive 'screens' at any of which an applicant may be dropped from further consideration. Before an organisation begins recruiting applicants, it should form a checklist of questions which outline a chronological sequence for the recruitment and selection process. The person specification form is a checklist of abilities separating those aspects which are essential (the job cannot be effectively done without them) and those which are desirable (it would be nice to have them but could manage without).

The person specification can help in looking at employees in other areas who may have no previous sales experience but whole profile in terms of their skills, their motivation, etc. could well make them excellent sales people. The process of selection of sales personnel differs from company to company depending upon the requirements. The applicant goes through various stages and the chances of selection get better as more and more stages are cleared. The initial screening is usually undertaken by the receptionist in the employment office. This interview is essentially a sorting process in which perspective applicants are given the necessary information about the nature of the jobs in the organisation. An interview can be defined as an attempt at gathering information from the candidate concerning his suitability for the job under consideration.

After selection, personnel should be given formal training which includes planned programmes complete with schedules, lesson plans, visual aids, other teaching devices and systematic reviews and evaluation.

The qualifications needed to perform the job are detailed in job specification. The set of job specifications needs scrutinising for clues to the points on which new personnel are most likely to need training.

The primary purpose of motivation is to aid salesmen to satisfy their goals by stimulating them to improve the efficiency of their work. Motivation is specially required in sales management as the nature of job is different from the usual work that the other members of the organisation are engaged in. Maslow argued that needs form a hierarchy in the sense that, when no needs are fulfilled, a person concentrates upon his or her physiological needs. When these needs are fulfilled, safety needs become preponderant and become important determinants of behaviour and he moves so on up the hierarchy.

Herzberg's dual factor theory distinguished factors which can cause positive dissatisfaction but cannot motivate (hygiene factors) and factors which cannot cause positive motivation. Most

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salesmen prefer the financial benefit because the need at the lower level of organisation is more of physiological and safety needs, rather than those of esteem and self actualisation.

Sales compensation plans are aids to, rather than substitutes for, effective motivation. The basic appropriateness of a compensation plan is important and so is the way it is implemented and administered. Companies use mostly one of the following plans: Straight Salary Plan, Commission plan and Salary plus commission plan. Bonuses are paid for reaching a sales quota, performing promotion activities, obtaining new accounts, following up leads, setting up displays or carrying out other assigned task.

The variety of fringes has expanded, individual fringes have been added that appeal more to some groups than others people with bad teeth are the ones most interested in dental insurance. while those with children are the ones most interested in plans for paying education and tuition fees for dependents.

2.9 Glossary

- *Application Bank:* Contains brief history of employees, used for reference
- *Aptitude Test:* Used to judge ability to learn the job/skills
- *Internal Transfers:* Switching between departments in same company
- *Interview:* Attempt at gathering information from the candidate
- *Job Specification:* Qualifications needed for a job
- *Recruitment:* Process of discovering pool of manpower
- *Reference Check:* Confirming your candidature by talking to your references
- **Selection:** Process of eliminating unfit candidates and choosing fit ones Stress Interview: Interviewer takes a hostile role to frustrate candidates
- *Bonus:* An amount paid for accomplishing a specific sales task
- **Commission Plan:** Sales persons are paid according to productivity
- *Fringe Benefits:* Benefits other than monetary and incentives like insurance etc.
- *Hygiene Factors:* Factors that cause positive dissatisfaction but cant motivate
- *Motivation:* Psychological aspect and drives salesman behavior
- **Physiological Needs:** Basic needs of food, clothing, shelter etc.
- *Self-Actualization Needs:* Self-fulfillment and achievement needs
- *Straight Salary Plan:* Sales persons receive fixed sums at regular intervals

2.10 Review Questions

1. "The recruitment policy is concerned with quality and qualifications of manpower". Keeping this statement in mind, explain the concept of recruitment.
2. Suppose you are the HR of a sales organisation selling insurance policies. What will you do to ensure that you choose right person for the job?
3. Critically analyse the role of employment agencies and internal transferring.
4. Assume yourself to be the Sales Manager of a car showroom. How will you ensure that the selection procedure is smooth and you select right candidates for the job?
5. Do you believe in the concept of Stress interviews? Do you think they are a good way to judge a candidates' mental strength? Give reasons.
6. "Tests are the most misused the least understood". Comment
7. "Training varies with the sales person's career cycle". Substantiate.
8. "Role playing is a method of human interaction which involves realistic behaviour in an imaginary situation". Discuss.

9. Suppose you are a sales manager of the credit card division of a banking firm. Which sources would you use to advertise vacancies in your division? Which type of test would you use to evaluate candidates?
10. "Training and learning are one of the same things". Substantiate
11. Analyse the role training in shaping the career of a salesperson.
12. "Salespersons need that passion to sell and not qualification." Do you agree? Give reasons for your answer.
13. "The primary purpose of motivation is to aid salesmen to satisfy their goals by stimulating them to improve the efficiency of their work." Comment.
14. "Motivation is a continuous process that carries on as the expectation of the sales person keep changing from time to time". Discuss.
15. Suppose you are sales manager of a pharmaceutical company. What measures will you take to ensure that your salesmen are motivated?
16. Is Maslow's theory relevant in today's world? Compare and contrast between Maslow's and Herzberg's theories.
17. "Compensation plans are aids to, rather than substitutes for, effective motivation". Do you agree? Explain.
18. Suppose you are the Sales Head of a direct marketing cosmetics company. In order to make a sound compensation plan for your company, what all things you need to keep in mind?
19. Compare and contrast the different compensation plans. Which one is most attractive according to you?
20. "As life progresses, needs also progress". Explain this statement in relation to compensation.
21. How is the concept of fringe benefits related to Maslow's theory? Suppose you have to make a bonus and fringe benefit plan for two categories of employees- 1 year in service and 5 years in service. Make appropriate plans for both.
22. Examine the role of non-financial factors in salesmen motivation.
23. Do you think the salesmen can still do well if they are given only financial incentives and no other motivation? Justify your answer
24. Which type of compensation plan is most suitable for a FMCG sales organisation and why?

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2.11 Further Readings

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UNIT-3

INTRODUCTION TO DISTRIBUTION MANAGEMENT

(Structure)

3.1 Learning Objectives

After studying the chapter, students will be able to:

- Learn about various types of Channel Intermediaries;
- Understand the concept and elements of Channel Design;
- Define retailing and understand its current role and contribution in the economy;
- Understand various formats of retail store and their management;
- Know the latest trend in wholesaling;
- Describe the basic concepts of distribution system;
- Explain the role and functions of distribution in marketing mix.

3.2 Introduction

Distribution of goods takes place by means of channels, and the intermediaries are the independent groups or organizations within the channel that make the product available for consumption. Distribution intermediaries, or marketing intermediaries, or middlemen, are

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an extremely important parties involve in a company's product distribution strategy. Without intermediaries, it would be next to impossible for the business to function at all. This is because intermediaries are external groups, individuals, or businesses that make it possible for the company to deliver their products to the end user. They share the sales pressure and also help the company in meeting out customer demand and satisfaction. There are four generally recognized broad groups of intermediaries: agents, wholesalers, distributors, and retailers. The next section however discusses the various types of intermediaries available.

Distribution management has long been a business challenge. Raw goods can arrive too early and go bad before they are used. Or, finished products can arrive too late, allowing a competitor to seize the lion's portion of market share.

Effective distribution is so crucial that sub-discipline practices became an integral part of supply chain and inventory management, such as just in time inventory. Overall, successful distribution involves many moving parts and methods requiring a strong distribution management strategy fueled by real-time information.

Distribution management is the process used to oversee the movement of goods from supplier to manufacturer to wholesaler or retailer and finally to the end consumer. Numerous activities and processes are involved, including raw good vendor management, packaging, warehousing, inventory, supply chain, logistics and sometimes even blockchain.

A distributor is an entity that supplies products to retailers and other businesses that sell directly to consumers. Take, for example, a wholesale liquor distributor that supplies alcohol to restaurants, grocery stores and liquor stores.

Other examples include a produce distributor that supplies lettuce, tomatoes and other produce to restaurants; and a pharmaceutical distributor that supplies a variety of prescription-controlled drugs to pharmacies.

Distribution of goods and services plays an important role in the sales system. Distribution system varies from company to company and region to region. The distribution system gives strength to the company by helping to increase the reach of the product to various parts of the region, country or even in foreign markets. An effective distribution system helps in making available goods in the right quantity at the right time when they are required and giving a reasonable earning to those who are associated with the distribution system like wholesalers, retailers, departmental stores, etc.

We present a robust approach for reviewing distribution strategies across industries. This approach, summarised in the Andersen Consulting Distribution Strategy Pyramid, focuses on answering the following strategic questions

- Given the value proposition, who are the end customers and, therefore, what are the distribution objectives?
- What channel structure will achieve these distribution objectives at the lowest cost to serve?
- How do we manage our physical network to achieve objectives at lowest costs?
- What processes and organisation structure will help sustain the distribution network's performance?

This approach aims to:

- Ensure that a company's distribution strategy is based on zero-based distribution objectives derived from end customer needs,
- Ensures complete integration across channel structure and supporting processes with the zero based distribution objectives and
- Results in the lowest cost to serve across product markets.

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3.3 Distribution vs. Logistics

Logistics refers to the detailed planning and processes involved with the effective supply and transportation of goods. Logistics includes activities and processes such as supply management, bulk and shipping packaging, temperature controls, security, fleet management, delivery routing, shipment tracking and warehousing. It is perhaps easiest to think of logistics as physical distribution(opens in a new tab).

Distribution is a management system within logistics that is focused on order fulfillment throughout distribution channels. A distribution channel is the chain of agents and entities that a product or service moves through on its way from its point of origin to a consumer. Examples of distribution channels include ecommerce websites, wholesalers, retailers and 3rd party or independent distributors. Distribution includes activities and processes such as consumer or commercial packaging, order fulfillment and order shipping. In short, distribution is most easily understood as commercial or sales distribution(opens in a new tab).

Distribution management is first and foremost about organizing everything involved in getting goods to the buyer in a timely fashion and with the least amount of waste. Therefore, it has a direct impact on profits.

A distribution network is a connected group of storage facilities and transportation systems. It is formed in accordance with a distribution strategy designed to move goods from manufacturer to wholesalers, retailers or buyers.

3.4 Advantages of Distribution Management

Besides delivering higher profits, distribution management eliminates waste in a number of ways, ranging from reduced spoilage to reduced warehousing costs since products and goods can be delivered as needed ("just in time" inventory), rather than stored in bigger bulk ("just in case" inventory).

Distribution management leads to decreased shipping charges and faster delivery to customers, and it also makes things easier for buyers as it enables "one stop shopping" and other conveniences and rewards, such as customer loyalty rewards programs.

3.5 Distribution Management Challenges

Distribution challenges can arise from a variety of disruptions. Natural disruptions include severe weather events, raw material shortages (e.g. bad crop years), pest damages, and epidemics or pandemics. Human disruptions include riots, protests, wars and strikes.

Transportation disruptions include transport vehicle disrepair, maintenance downtimes and accidents, as well as delayed flights and restrictive or new transportation regulations such as those regularly seen in trucking.

Economic challenges include recessions, depressions, sudden drops or increases in consumer or market demands, new or changes in fees or compliance costs, changes in currency exchange values and payment issues.

Product disruptions include product recalls, packaging issues and quality control issues. Buyer disruptions include order changes, shipment address changes and product returns.

5 Factors That Influence Distribution Management

Many things can influence distribution management. The five most common are:

- **Unit perishability:** – if it's a perishable item then time is of the essence to prevent loss,
- **Buyer purchasing habits** – peaks and troughs in purchasing habits can influence distribution patterns and therefore varying distribution needs that can be predicted,

- **Buyer requirements** – e.g. changes in a retailer's or manufacturer's just in time inventory demands,
- **Product mix forecasting** – optimal product mixes vary according to seasons and weather or other factors and
- **Truckload optimization** – relies on logistics and fleet management software To ensure every truck is full to capacity and routed according to the most efficient path.

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3 Distribution Management Strategies

At the strategic level, there are three distribution management strategies:

- *Mass:* The mass strategy aims to distribute to the mass market, e.g. to those who sell to general consumers anywhere.
- *Selective:* The selective strategy aims to distribute to a select group of sellers, e.g. only to certain types of manufacturers or retail sectors such as pharmacies, hair salons, and high-end department stores
- **Exclusive:** The exclusive strategy aims to distribute to a highly limited group. For example, the manufacturers of Ford vehicles sell only to authorized Ford dealerships, and producers of Gucci-brand goods only sell to a narrow slice of luxury goods retailers.

Choosing a Distribution Management System

Choosing the right distribution management system for your organization depends a great deal on your organization's distribution goals and challenges, and the distribution models and channels your company uses. But as a general rule, companies should evaluate:

- Ease of integration and compatibility with legacy systems.
- Scalability and elasticity
- Security
- Data management and analytics, including real-time data streaming and ecosystem data-sharing
- Adaptability, whether the system is agile enough to accommodate the rapid changes needed to overcome obstacles or seize new opportunities

There were historically three distribution channels:

- *Wholesaler:* Goods are distributed from manufacturers to wholesalers in this channel. For example, liquor distillers distribute their brands of liquors to wholesalers.
- *Retailer:* Goods are distributed from manufacturer or wholesaler to retailers. For example, big name designer clothing and accessories are distributed to higher end retailing chains such as Neiman Marcus, Nordstrom and Macy's.
- *Distributor:* This channel moves goods from the source or manufacturer to an authorized distributor. For example, a Ford factory distributes various Ford makes and models to authorized Ford dealerships for sale to consumers or company fleets.
- *Ecommerce:* This is the newest and most disruptive distribution channel wherein goods and services are represented virtually online and then distributed directly to the buyer. Ecommerce as a fourth channel has led to rapid changes and makes distributors rethink their traditional strategies.

The elements of distribution management systems are the steps involved in getting the product from the manufacturer to the end customer and can include: supply chain, blockchain, logistics, a purchase order and invoicing system, vendor relationship management (VRM), customer relationship management (CRM), an inventory management system (IMS), a warehouse management system (WMS) and a transportation management system (TMS).

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3.6 Type of Intermediaries

Discussed below are a few types of intermediaries:

- **Agents/Brokers:** Agents or brokers are individuals or companies that act as an extension of the manufacturing company. Their main job is to represent the producer to the final user in selling a product. Thus, while they do not own the product directly, they take possession of the product in the distribution process. They make their profits through fees or commissions.
- **Wholesalers:** They simplify the product and information flows between the manufacturer and the end users. Maintain large inventories of the goods which are both uneconomical and impractical for Manufacturers. Unlike agents, wholesalers take title to the goods and services that they are intermediaries for. They are independently owned, and they own the products that they sell. Wholesalers do not work with small numbers of product: they buy in bulk, and store the products in their own warehouses and storage places until it is time to resell them. Wholesalers rarely sell to the final user; rather, they sell the products to other intermediaries such as retailers, for a higher price than they paid.
- **Distributors:** Distributors function similarly to wholesalers in that they take ownership of the product, store it, and sell it off at a profit to retailers or other intermediaries. However, the key difference is that distributors ally themselves to complementary products. For example, distributors of Coca Cola will not distribute Pepsi products, and vice versa. In this way, they can maintain a closer relationship with their suppliers than wholesalers do.
- **Retailers:** Retailers come in a variety of shapes and sizes: from the corner grocery store, to large chains like Wal-Mart and Target. Whatever their size, retailers purchase products from market intermediaries and sell them directly to the end user for a profit.
- **Franchisee:** A franchisee is an individual who purchases the rights to use a company's trademarked name and business model to do business. The franchisee purchases a franchise from the franchisor. The franchisee must follow certain rules and guidelines already established by the franchisor, and in most cases the franchisee must pay an ongoing franchise royalty fee to the franchisor.
- **Mail order:** Goods are ordered by catalogue, and delivered to the home by post or parcels carrier. The physical distribution channel is thus from manufacturer to mail order house as a conventional trunking (line-haul) operation, and then to the consumer's home by post or parcels carrier, bypassing the retail store.
- **Factory direct to home:** It can occur by direct selling methods, often as a result of newspaper advertising. It is also commonly used for one-off products that are specially made and do not need to be stocked in a warehouse to provide a particular level of service to the customer.
- **Internet and shopping from home:** Initial physical distribution channels were similar to those used by mail order operations - by post and parcels carrier. The move to internet shopping for grocery products has led to the introduction of specialist home delivery distribution operations. These are almost all run by third-party companies. In addition, it is now possible to distribute some products, such as music, software and films, directly, computer to computer.
- **Factory to factory/business to business:** The factory-to-factory or business-to-business channel is an extremely important one, as it includes all of the movement of industrial products, of which there are very many. This may cover raw materials, components, part-assembled products, etc. Options vary according to the type and size of product and order, may range from full loads to small parcels, and may be undertaken by the manufacturers themselves or by a third party.

3.7 Retailing

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Meaning and Concept

Retailing is the business where an organization directly sells its products and services to an end consumer and this is for his personal use. By definition whenever an organization be it a manufacturing or a whole seller sells directly to the end consumer it is actually operating in the Retail space. Retailing is one of the most common forms of small entrepreneurship that deals with all the activities involved in selling goods and services directly to the customers.

Effective retail marketing is vitally important for today's manufacturers. Without a presence in retail stores, businesses rarely achieve the high level of exposure or widespread product distribution that retail stores offer. Retailers can help small businesses by performing a wide range of marketing services, from promoting products directly to customers to giving customers a chance to view and test products

The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry.

There is a huge change in whole concept and idea of shopping in terms of format and consumer buying behavior has made a revolutionized shopping in India. Modern retailing has entered into the Retail market in India; it can be seen in the form of bustling shopping centers, multi-storied malls and the huge complexes that offer shopping, entertainment and food all under one roof.

Growth of the organized Retail sector in India has various key factors as large young working population with average age of 23 years, nuclear families in urban areas, along with increasing workingwomen population and emerging opportunities in the services sector. If new businessmen wants to enter in the Indian retail industry, it will be because of the growth pattern in organized retailing and in the consumption made by the Indian population will follow a rising graph.

In India the vast middle class and its almost untapped retail industry are the keen forces for global retail giants wanting to enter into newer markets, which in turn will help the India Retail Industry to grow faster. It is expected to grow by 25 per cent annually in Indian retail. Modern retail in India could be worth US$ 175-200 billion by 2016. The Food Retail Industry in India dominates the shopping basket. The Mobile phone Retail Industry in India is already a US$ 16.7 billion business, growing at over 20 per cent per year. Growing market ensures the very bright future of the India Retail Industry, with the emerging technologies facilitating operations and government policies will become more favorable in near future.

1. **Importance to Consumers:** Retailers act as buying agents for consumers. They add value to the distribution process by ensuring that the consumer gets the right product, at the right time and at the right place. As a buying agent, the retailer performs many useful activities for the consumer. These include – inventory management, providing value-added services and product variety, breaking bulk and disseminating information.
   - *Inventory management:* They bear the cost of storing products, so that customers do not have to stock essential products and incur resulting costs. Retailers do the stocking in their stores and the consumer can shop at convenience.
   - *Value-added services:* Apart from providing consumers this convenience, retailers provide value-added services that benefit them. Examples are free home delivery and facilitating transactions by allowing consumers to pay for products and

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services through credit cards and by installments. Retailers also provide loans to enable consumers to overcome temporary financial crunches.

- *Product variety:* Retailers have the advantage of selecting the best products from a range of manufacturers. This enables them to display a wide assortment to suit the needs and taste of different customers. At the same time, it gives customers an extensive choice in product selection.
- *Breaking bulk:* Another important function of retailers is that they make purchase easier by selling products in small quantities. Retailers purchase goods from manufacturer in bulk and convert them into smaller units to suit consumers. The retailers help by breaking bulk into smaller units. This also facilitates easier transportation of goods to the consumer.
- *Disseminating information:* Retailers disseminate information about different products in the market. Retail stores, through in-store displays and sales personnel, disseminate information about new products launched in the market.

2. **Importance to Other Channel Members:** Retailers not only make products available to consumers, who are geographically dispersed, but also act as a source of information to manufacturers about consumer requirements. Manufacturers seek retailer's help to gather information about consumer tastes and preferences. They also obtain information on product quality and usage. Manufacturers use this information to modify existing products and launch new products. This information is valuable because retailers enjoy the advantage of having direct contact with consumers. Further, retailers assist manufacturers to streamline and specialize production so that different products can be made available according to changing customer tastes. This helps manufacturers gain higher profits.
3. **Source of Employment:** Retailing is a labour- intensive activity and employs a large number of people. It accounts for 15-20 per cent of total workforce in developed nations. Retailing is also a major employment sector for women. In the European Union, approximately 55% of employees in the retail sector are women.

   The retail sector has significantly impacted employment in India as well. The organized retail business in India is worth about $3 billion and is expected to be a fast growing business sentiment. With increasing economic growth and improved standard of living, consumption levels are set to reach never-before levels. This will be a boon for the retail sector.

Functions Performed by Retailing

Discussed below are a few functions of retailing:

1. **Buying:** A retailer buys a wide variety of goods from different wholesalers after estimating customer demand. He selects the best merchandise from each wholesaler and brings all the goods under one roof. In this way, he performs the twin functions of buying and assembling of goods.
2. **Storage:** A retailer maintains a ready stock of goods and displays them in his shop.
3. **Selling:** The retailer sells goods in small quantities according to the demand and choice of consumers. He employs efficient methods of selling to increase his sales turnover.
4. **Grading and Packing:** The retailer grades the goods which are not graded by manufacturers and wholesalers. He packs goods in small lots for the convenience of consumers.
5. **Risk-bearing:** A retailer always keeps stock of goods in anticipation of demand. He bears the risk of loss due to fire, theft, spoilage, price fluctuations, etc.
6. **Transportation:** Retailers often carry goods from wholesalers and manufacturers to their shops.
7. **Financing:** Some retailers grant credit to customers and provide the facility of return or exchange of goods. In some cases, home delivery and after sale service are provided by retailers.

8. **Sales promotion:** A retailer displays goods. He carries out publicity through shop decoration, window display, etc. He maintains direct and personal contacts with consumers. He persuades consumers to buy goods through personal selling.
9. **Information:** Retailers provide knowledge to consumers about new products and uses of old products. They advise and guide consumers in better choice of goods. They also provide market information to wholesalers and manufacturers.

Classification and Types of Retailers

One way of making a distinction between different types of retailers is by looking at the organization in terms of ownership and control. Most retail organizations can be placed into one of four categories, the independent retailer, the small multiple retailer, the large multiple retailer and the retail conglomerate.

- **An Independent Retailer** is a small scale retail organization owned and managed by private individuals, with a network of less than 10 branch stores. Many independents are sole traders, or family-run business operation out of a single site. The store may offer a specialized product range, such as a butcher or a greengrocer, or a wide variety of product items as in a village store.
- **Small Multiple Retailer**: Most 'high-street' retailers fall into the category of the multiple retailer, which is the term applied to retail organizations that have a central operational headquarters and a collection of branch stores under common ownership. Most, although by no means all, multiple retailers are public limited companies and are therefore owned by a collection of share holders to whom the directors of the companies are responsible. Private multiple retailers are sometimes family-owned and run businesses, and allow for a greater degree of personal operational control than in a publicly owned business. The size of the business will be related to the number of branch stores and the size of those stores. A small multiple retailer is one which runs between 10 and 50 stores, after which is termed a large retailer.
- **Large Multiple Retailer**: One way in which independent retailers have been able to fight against the might of the multiple retailer is by becoming a member of a voluntary retail group. Such groups operate in a variety of ways, but the main objective is to gain some of the buying power advantages of multiple retailers by collating orders from a number of independent retailers and negotiating with suppliers through a central buying organization. Members pay a subscription that may also cover the provision of additional retail services such as marketing and training. Some voluntary groups have a strong brand identity brought about by the requirement of members to trade under a common fascia and to stock a range of own-label products.
- **The Retail Conglomerate**: As retailers become increasingly powerful corporations, there has been a growing amount of financial organizational activity in term of mergers, takeovers, alliances and joint ventures. In many cases companies have been amalgamated under one retail brand, but in others separate brands or fascias have been retained with the holding company trading as separate identity, giving rise to the retail conglomerate franchisee

Retailers can also be classified in different ways. The further classification is based on Types of Ownership, Store and Non Store based classification, and Non Traditional Retailers:

A. Classification based on Type of Ownership

Given below is the classification of retailer on the basis of type of owner ship:

1. **Independent Retailer:** An independent retailer is the one who builds his or her business from ground up. It starts from the business planning stage to the opening day; all things

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are carried out by the independent retailer. This can be done by hiring consultants, staff and other to assist in the business deals. The opportunities are vast and never ending.

Advantage of this is that no restrictions are created on who, how or where an entrepreneur should set up there business. It gives one freedom to do what he wants to do for taking advantage from the business. It is extremely rewarding.

Disadvantage is that as it can be started easily and with flexibility, it can create a lot of competition in a specific area for certain type of customer.

Every business rests on the owner. Branding is not done and there are no preset guidelines.

2. **Chains:** Many outlets are operated by a single retailer in a common manner.

   Under developed economies, there is almost a quarter of retail outlets and above 50 percent of retail sales. Retail chains can range from two stores to 1000 stores to retailers. Larger cooperation's or holding companies have many divisions of retail chains. There are large retail chains in shopper's stop and lifestyle in India.

   Advantage is that wholesalers are bypassed. There is direct buying from the manufacturers. Many of the suppliers service the orders from chains promptly and extend higher level of proper service and selling support. New brand can now reach their stores faster. Most of these chains are private. Chains can attain efficiency through the centralization of purchasing and warehousing and computerization. Geographic areas are widely covered in the market to allow chains to utilize many forms of media. Considerable time and resources is invented in long term planning, monitoring opportunities and threats.

   Disadvantage is that chain retailers suffer from limited flexibility, but they need to be consistent in terms of prices, products, promotions and product assortments. Chain retailers also invest in multiple leases, fixtures, products assortments and employees. As they are spread in most of the parts, these retailers have reduced control, lack of communication and time delays. Therefore, many retailers focus on managing a specific retail format for a better strategic advantage and increased profitability. Most of the retailers capitalize on their widely known image and they adopt flexibility to market changes.

3. **Franchisee:** Franchise is purchased with the right to use a name, product, concept and business plan. Franchisee will receive a proven business model from an established business. Advantages: These business processes are well established. Franchisee can receive help from a network and customers who are already familiar with this product. Marketing strategy is already put in place. Risks are taken into consideration when a retail business is started so that they van be reduced.

   Disadvantage is that Franchisees pay a fee or royalty based on sales every year. Startup costs relating to any franchisee is high. The biggest disadvantage of being a franchise is lack of flexibility and freedom.

4. **Leased Department Store:** Leased department means a department in a retail store rented by a manufacturer. In this case the lease is responsible for all the aspects of business and also pays the rent of the store. This store also provide with various restrictions for the leased department to ensure overall consistency. Leased departments can choose to operate in various categories that are mainly on the fringe of the stores major product lines i.e. in store beauty salons, banks, studios, food courts etc. these leased departments help the stores in generating greater traffic and providing one stop shopping. Personal management, merchandise displays, the recording of items are the benefit from expertise in a store personnel which may lack the merchandising ability to handle and sell the goods and services. Tesco, the UK based supermarket chain takes the help of the leased departments to sell its variety of products and reposition itself.

The operators of these leased departments benefit as the main store generates immediate sales for these departments. Thus, this arrangement reduces expenses through economies of scale (like pooled advertising) and shared facilities (like security equipment and display windows). Lease's images are aided by their relationships with the stores.

Disadvantage is that inflexibility may arise due to restrictions imposed by the operation on store. It can always have the threat that rent may raise or may not renew leases when they expire even if leases are successful.

5. **Consumer Co-operatives:** Consumer Cooperative is said to be a retail firm in which a group of consumers invest in the enterprise. In this the officers are selected.

   Advantage is that all the consumers and members share the profits and savings. These retailers are many in number but small in size and are very popular in food retailing. The process is started mainly to guard against the malpractice that many retailers indulge in and either charge higher prices or offer inconsistent quality of merchandise.

These consumer cooperatives' are limited because the consumers are not expert in buying, selling and handling goods and services and the cost savings and low selling prices have not been expected in many cases.

B. Store-Based Retailers

Retail organizations can be classified according to strategy and products handled. Store formats can be divided into food-based retailers and general merchandise retailers. With the advent of retail formats like hypermarkets, the traditional distinction between food and merchandise formats is disappeared. Hypermarkets can care for both the categories. However the various types of store formats that come under these categories are:

1. **Food retailers:** Foodstuffs are the products sold by food retailers. There are different types of food retailers like convenience stores, food-based superstores, combination stores, limited line stores and warehouse stores etc.
   - *Convenience store:* A convenience store is defined as the store which is kept open for long hours. It carries a limited addition of product assortment and occupies space around 3000-8000 square feet. These stores sell snack foods, soft drinks, car wash, lottery tickets, courier service, gasoline, ATM services and many more.
   - *Conventional supermarkets:* This type of market is self-service departmental store that sell a variety of food and non-food items. These stores are also called 'mom and pop-stores'. in the US. Dollar Tree, Family Dollar and '99 Cents Only'. are some examples in US.
   - *Food-based superstores:* Food based stores are larger than conventional supermarkets but smaller in size and product range than combination stores. Floor space covered by these stores is around 25,000-50,000 square feet and it carries a reasonable stock of non-food items like kitchen appliances, prescription drugs, flowers, video tape rentals and etc. over 50 percent of the products stocked by these superstores are their own brands. Tesco Plc. gets over 75 per cent of its profits from such 'conforming' super stores.
   - *Combination stores:* Combination store is defined as a mix of a conventional supermarket and a general merchandise store. They are very large and cover an area of 30,000-100,000 square feet. These stores have the advantage of economies of scale and operational efficiencies. This helps to reduce costs and improve profitability. Wal-Mart, Kmart and Meijer are among the successfully operating combination stores in the US.
   - *Limited-line stores:* They are known as limited assortment box stores and offer a short list of items. These stores should not be confused with other retailers like Wal-

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Mart, Costco and Home Depot. Limited-line stores are discount stores and offer less services, shorter store hours and selective national brands.

- *Warehouse stores* These stores are discount food retailers and offer a wide range of products in a simple environment. Unlike limited-line stores, these usually cater to national brands. Many of these retail formats are favored by one-stop food shoppers and customers seeking low prices so that they can provide services easily. They are also called super warehouse. Home Depot, the American retailer used the warehouse format to expand.

2. **General Merchandise Retailers:** Another major category of retail stores is the General Merchandise Retailers Which has experienced a study growth?

- Thedepartmentstoresarethemostsuccessfulamongthemass merchandisers. Argos and Woolworth are two of the biggest general merchandisers in the UK. A brief discussion on each type of general merchandiser's retailer follows.
- *Department Store:* Department store is defined as a large retail unit with a large assortment of goods and services that are organized into separate departments for purposes of buying, promotion, service and control. Selection of many general merchandise retailer and also offers as the anchor store in a shopping centre. These stores are very exclusive in terms of the shopping experience which they offer, the services they provide and the atmosphere of the store. Wide range of service is provided from altering clothes to home delivery. From many histories it is known as that the departmental stores are all about new innovations, including advertisement of prices, enacting a one-price policy, developing computerized checkouts, offering money back guarantee, adding branch stores and decentralized management. Departmental stores have increased in a very high speed in the past few years lagged behind with discount stores. Brand exclusivity is not big issue now for the sale of product; manufacturer brands are also available at discount outlets. Many brands have signed contract with the stores for selling their product in the store. This creates customer loyalty to the designers and brands but not the stores. Many price conscious consumers are there in the market and they are attracted to discount retailers. The popularity of shopping malls has aided specialty stores since consumers can accomplish one-stop shopping through several specialty stores in the same mall or shopping centre. Most of the department stores are very big and have unproductive selling space and low turnover of merchandise.
- *Full -line Discount Store:* These type of store targets the middle-class and lower middle-class shoppers who looking for good price. It also conveys an image of high-volume, low cost and fast turnover outlet. It is selling lot of commodities for less conventional prices. Products are normally sold via self- service with minimal assistance in any single department. Highly equipped checkout service is provided. Traditional department stores provide buildings, equipment and fixtures which are less expensive and operating cost is also lower. To respond to category specialists, full -line discount retailers are creating more attractive shopping environments, placing more emphasis on apparel, developing private label merchandise, and increasing store visits by offering easily accessible convenience store merchandise.
- *Speciality Stores:* This store basically concentrates on a limited number of complementary commodities and provides a high level of service. This store is smaller in size.
  - *Drugstores:* It is a specialty store that concentrates on health and personal grooming commodities. Pharmaceuticals often represent over 50 percent of sales in the drugstore and gain large profits. These stores have a quite considerable competition from the discount stores and supermarkets adding medicines. Therefore, the major

drugstore chains are building largest and- alone stores offering a wider range of products and more frequently purchased consumer products and drive through windows for picking prescriptions. Customer loyalty is build up and the chains are also changing the role of their pharmacists from dispensing pills to providing health care services. For example: Planet Health, Subhiksha

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- *Category Killers:* This concept was originated in U.S. as lot of cheap land was available and there was dominant car culture. Category specialist is a discount store that offers limited variety but large assortment commodities. These are basically discount specialty stores. Through offering a complete assortment in a category at low prices, category specialists can "kill" a category of merchandise for other retailers. They have a self-service approach. For negotiating low price, excellent terms and assured supply in a short span, they use buying power. They are facing lower profits as the competition is arising for prices. Many of they have difficulty differentiating themselves on other elements of retail mix. Mainly all the competitors provide similar assortments and same level of service. According to a report given in the European Retail Digest, there are some people who believe that the category killer format will burn out, leaving only a few hardened experts, as happened with the warehouse club sector. With its increasing competitive intensity, it concentrates mainly on reducing costs by increasing its proficiency. France, Germany, Spain and the UK provide attractive markets for expanding category killers. Interestingly, with the clampdown on out-of- town developments in the UK, homegrown category killers that are typically located in town centre will benefit from legislative changes in this area. Some out of town category killers are choosing to downsize their format to make it fit small towns.
- *DIY Store:* This centres if basically for home improvement and is a category specialist offering proper equipments and material used by do-it-yourselfers and contractors to make improvements in home. The focus is mainly on providing material and information that enables consumers to maintain and improve their homes. While merchandise in these stores, warehouse atmosphere lies. They are not facing the same level of competitive environment as other category specialists, because the commodities vary considerably across the country and there are opportunities for differentiation on customer service.

- ***Off-Price Stores*:** This chain offers brand-names and designer labels and sells them at lower price to the consumer making it effective and having a limited service environment. These stores buys the orders from retailers which were cancelled earlier, irregular's from manufacturer's and end of season items which they sell at a wholesale price. Due to this pattern of classified buying, the same type of commodities may not be in stock when customers visit the store. Typically, different bargains will be available on each visit. Their inventory turnover is quite higher as compared to that of departmental stores. Its most crucial aspect used in strategy planning is to maintain long term relationships with the customers and suppliers. There are three special types of off-price retailers are outlet, closeout, and single-price retail stores.
- **Factory Outlet Stores:** Factory outlets stores are off-price stores owned by manufacturers or by department or specialty store chains and thus are frequently referred to factory outlets. A factory outlet is a manufacturer– owned store selling manufacturer closeout product, irregulars, cancelled orders etc. they most of the times resemble to shopping centre's in terms of size and layout and providing manufacturing units on a single occupied site. Many of the additional amenities include car parking, restaurant and leisure facilities. They are located out of town in low development and operating costs and distribution of some channels is shortened for many commodities and having profits for all the retailers. It is useful as: It helps in the disposal of surplus

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stock due to untrustworthy accounts and cancelled orders. It allows a manufacturer to control where its discounted merchandise is sold. Therefore a manufacturer can decide on store visibility, set promotion policies, remove labels and be sure that the discontinued items are disposed properly.

- **Variety Stores:** These stores handles a variety of low and popularly priced goods and services, such as stationery products, gift items, women accessories, health and beauty aids, toys, house ware and etc. variety store do not carry full product lines and do not deliver products. Transactions carried out on cash basis. There are few salesman/ saleswomen.
- **Membership Club:** Membership club also known as 'Warehouse clubs' membership discount stores, 'wholesale cash and carry warehouse'. Consumers who shop here have to be members of the clubs and pay a monthly or annual membership fee. These buyers make up a majority of the members but buy less than the wholesale members. Membership Club have blurred distinction between large retailers and large wholesalers While many retailers now operate formats such as wholesale clubs and super-centers that perform many wholesale functions, many large wholesalers are setting up their own retailing operations.

  Sam's wholesale club is the biggest US –based operator in the category. Other major players are Costco Wholesale Club, Price Club, and Pace membership warehouse.
- *Flea Market:* This market has many retail vendors offering a wide range of products at discounted prices in an area. There is a trend of street selling- shoppers touch, sample and haggle over the price of goods. many consumers are price conscious who have found retail formats of commodities and serives for customers. These markets are mostly located in the non traditional areas where they are not associated with retailing; racetracks, stadiums and arenas. Others are at sites abandoned by supermarkets and department stores. It may be outdoor or indoor. Web based flea market such as eBay and Amazon are newest trend in the market. These markets easily avoid taxes and operating costs are quite low.

3. **Non-Store Based Retailers:** It is a form of retailing in which sales are made to consumers without physical stores. These retailers can be known from the way they communicate with their customers like direct marketing, direct selling and vending machines or e-tailing. These stores are time conscious and they provide 24 hours service seven days a week and providing delivery at location and time of their choice. Non-store sales are now growing at a much higher rate than sales in retail stores. This high growth rate is primarily due to the growth of e-retailing.

   - *Vending Machines:* It is a retailing format involving the coin or card operated dispensing of goods (such as beverages) and services (such as life insurance sales at airports), eliminating the use of sales personnel and allows for round the clock sales. Machines can be placed anywhere, they are most convenient to the consumers –inside or outside a store, in a hotel corridor, at a station, airport or a street corner. Hotels, restaurants and at train stations are highly visible spots for selling but they accommodate a small proportion of sales. Higher priced items have not sold well in vending machines because too many coins are required for the transaction and many vending machines are not equipped with currency note changers. Growth in employment has been limited.
   - *Direct and online marketing are the fastest-growing forms of marketing:* Many of the consumers are now having a broad array of non-store alternatives, including mail order and online shopping. People are increasingly avoiding the crowds at malls by doing more of their shopping by phone, mail or computer. Direct marketing has emerged as a powerful non store communication and distribution medium for selling a host

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of products to consumers. It is form of retailing where product selling is targeted to specific customers. Catalog retailing and direct mail are common form of s of direct marketing. Over the years, several new form of selling like tele-marketing, direct radio and TV and internet shopping have gained widespread acceptance.

- *World Wide Web:* Furthermore, in today's world there is advanced technology which is easier to use Web sites, improved online service; and the increasing sophistication of search technologies, online retailing is increasing.
- *Internet:* Internet retailing is a retail format in which the retailer and customer communicate which each other through an interactive electronic network. After an electronic dialogue between the retailer and customer, the customer can order commodities directly through the interactive network or by telephone. The commodity is then delivered to the customer's given address.
- *Direct Selling:* Direct selling is a method of marketing and retailing goods to the consumers. Though direct seller too use catalogues and some form of advertising, the personal interaction of the salesperson with the customer is the catalyst for the sale. The direct selling industry worldwide has shown tremendous growth in India, it has a steady 60 t0 65 percent growth rate in sales turnover. Over 200 direct selling companies operate in the country and 70 percent of them are regional operators. Eureka Forbes was the pioneer of direct selling in India.
- *Vide kiosks:* Video kiosks comprise stand mounted with a television monitors or a computer terminal, which use touch screen technology to display products and related information to customers. Video kiosks have a location advantage and have been widely used by retail giants like Wal-Mart and Kmart for the past decade. Home Depot, the second largest retailer in the US, uses video kiosks in its self checkout lanes, where customers can bill their products and make their payment without help. Video kiosk enables retailers to add value and enhance customer relationships while simultaneously providing an interactive forum to display products. Dell computers have established its kiosk in malls to sell its computer brands.

Table 3.1: Classification General Merchandise Store

Type	Location	Assortment	Services	Prices And Promotions
Traditional department Store	Business district shopping centre Or isolated store	Extensive width and depth of assortment; average to good quality	Good to excellent	Average to high Prices Heavy ad and catalogue use, direct mail; personal selling
Full -line discount store	Business district shopping centre Or isolated store power strip centres	Extensive width and depth of assortment; average to good quality	Slightly below average-to average	Low Prices; Heavy use of newspapers, price oriented, moderate sales force
Specialty store	Business district Or shopping centre Regional malls	Very narrow width of assortments; extensive depth of Assortments; average to gobd quality	Average to high excellent	High Prices, Heavy use of displays; extensive sales force
Hypermarkets	Stand-alone	Average L	Low	Low

Variety Store	Business district shopping centre Or isolated store	Good width and depth of assortment; below average to average quality	Below Average	Heavy use of newspapers, self service
Off-price Chain	Business district, suburban shopping strip or isolated store.	Moderate width, but poor depth of assortment; average to good quality, low continuity	Below Average	Use of newspapers, brands not advertised; limited sales force
Factory Outlet	Out-of -the -way site or discount mall	Moderate width but poor depth of assortment; some irregular merchandise; low continuity	Very low	Little; self-service
Membership Club	Isolated store or Secondary site	Moderate width but poor depth of assortment; low continuity	Very low	Little; some direct mail; limited sales force
Flea market I	Isolated site, race track Or arena	Extensive width, but poor depth of assortment; variable quality; low continuity	Very low	Limited ; self service
Drugstore	Stand alone, strip Centers	Very deep L	Average	Average to high

Retailing Strategies

Retailers have always been searching for new marketing strategies to attract and hold their customers. However, in the past decades, the retailers attracted consumers with unique product variety and better services. Today, retail variety and services are looking more and more comparable; it's now more difficult for any one retailer to offer exclusive products. Service differentiation among retailers has also eroded. Customers have become smarter and price conscious. They see no reason to pay more for identical brands, especially when service differences are shrinking. For many of these reasons, the retailers have adopted marketing strategies.

1. **First segmentation Targeting, Differentiation and Positioning Decisions:** Now the retailer must first understand there segment and define their target market stand and then decide how they will differentiate and position themselves in these markets. This focus can be on upscale, midscale, or downscale shoppers, the question arises. Do target shoppers want variety, depth of variety, convenience, or low prices? Unless they define and profile their markets, retailers cannot make unfailing decisions about product range, services, pricing, advertising, store decoration, or any of the other decisions that must support their positions.

   Many of the successful retailers define their target markets in a proper manner and position themselves strongly. Wal-Mart is a good example for positioning itself very strongly on low price supermarket. It promises that customers will "Save money. Live better." One more example is Whole Foods Market. When the large Wal-Mart owns the low-price position, Whole Foods Market targets a small select group of upscale customers and offers them "organic, natural, and gourmet foods, successfully positioning itself away from Wal-Mart.

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2. **Second. Product Assortment and Services Decision:** Retailers must decide on three major product variables: product assortment, services mix, and store atmosphere.

   (i) ***The Retailer's Product Assortment:*** This assortment should differentiate the retailer while matching with target shopper's expectations. There are three strategies for retailers to differentiate their product assortment.

   First strategy is to offer stock that no other competitor carries, such as store brands or national brands on which it holds exclusives. Like for example, Saks gets exclusive rights to carry a well-known designer's labels. It also offers its own private-label lines-the Saks Fifth Avenue Signature, Classic, and Sport Collections. At JC Penney, Private-label accounts for 52 percent of its sales turnover.

   Second strategy is to target blockbuster merchandising events. Bloomingdale's is known for running spectacular shows featuring goods from a specific country, such as India or China. Or the retailer can offer surprise merchandise while Costco offers surprise assortments of seconds, overstocks, and closeouts.

   Last strategy state that, the retailer can differentiate itself by offering a highly positioned product assortment: Lane Bryant carries plus-size clothing; Brookston offers an unusual assortment of gadgets and gifts, and Battery Depot.com offers about every imaginable kind of replacement battery.

   (ii) ***The Services Mix:*** It helps in setting up retailer apart from another. Like for example, some retailers invite consumers to ask questions or consult service representatives in a person or via phone. Nordstrom is a service that promises to 'take care of the customer, no matter what it takes.'

   (iii) ***The Store's Atmosphere:*** Under this head we can explain that retailers should create an ethnic environment in the store which can target as much customers it can. Most of the retailers practice 'experiencing retailing.' Like for example, at several REI stores, consumers can get hands-on experience with commodities before buying it through the store's mountain bike test trail, gear-testing stations, a huge rock climbing wall, or an in-store simulated rain shower.

Operational Issues in Managing Retail

Discussed below are a few operational issues in managing retail:

- **Supply Chain Management**: This chain emphasis on the flow of material from supplier's suppliers to the final target. Retailers need to maintain a grip on that whole chain in order to control the maintenance and delivery cost. This will help them to choose the right supplier for the commodity.
- **Pricing**: It is a key targeting factor which must be decided in relation to the target market competition. Strategic pricing has become an important strategic tool to the retailers.
  - Retail stores bring down their prices for few items to attract people, this is called traffic building. They also run storewide reduction sell.
  - It is observed that a shoe Retail outlet sells 50% of the product at normal root up, 25% of the product at 30% root up and remaining 25% at cost. It may also lead to lower advertising cost, greater pricing stability and higher retail profits. Wal-Mart uses this kind of pricing strategy.
- **Sales Channels**: Various new trends have emerged:
  - Internet and e-commerce are gaining popularity in the non retail stores. The consumers can purchase their goods by just clicking on one button from their drawing room.
  - Call centre or catalogue marketing is an emerging trend.

- For acquiring more customer centricity the retailers should choose different sales channel. The main goal is to offer a consumer a tailor made shopping experience and to provide more easy access to the product and service offered

The Future of Retailing

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Future of retailing seems bright. The arguments given below also support this viewpoint.

1. **New retail forms and Shortening Retail Life Cycles:** Many of the retail stores are appearing different but selling the same products at the same prices to the same consumers. Thus, through this merging of consumers, products, prices, and retailers is called retail convergence. This convergence means greater competition for retailers and greater difficulty in differentiating the product assortments of different types of retailers.

   There is new retail forms are emerging and competition may arise between customers. The emerging and growing on-line retailers are promoting this trend. For example, you can buy brand-name home appliances at department stores, discount stores, home improvement stores, off-price retailers and electronics superstore for the same customers. If you can't find the microwave oven at Sears, step across the street and find one for a better price at Lowe's or Best Buy or just order online from Amazon.com.

   Many of the new situations and consumer needs are rising at every point and so are the new retail forms to meet these brand new situations and consumer needs. Life cycle is becoming shorter due to this. For example, Department stores took about 100 years to reach the constant stage of the life cycle; more recent forms, as compared to warehouse stores who reached maturity in about 10 years. Therefore, in such an environment, seemingly solid retail positions can fall apart quickly.

2. **Growth of Non-store Retailing:** Direct and online marketing are the fastest- growing forms of marketing. Many of the consumers are now having a broad array of non-store alternatives, including mail order and online shopping. People are increasingly avoiding the crowds at malls by doing more of their shopping by phone, mail or computer.

   Furthermore, in today's world there is advanced technology which is easier to use Web sites, improved online service, and the increasing sophistication of search technologies, online retailing is increasing.

   Retailer online sites also influence a large amount of in-store buying. All types of retailers can now employ direct and online channels. The online sales of large brick-and-mortar retailers, such as Wal-Mart, Sears and Best Buy, are increasing rapidly. Most of the online-only retailers-Amazon.com, Zappos.com, online travel companies such as Travelocity.com and Expedia.com and others-are now making it big on the web. Much of the targeted growth in online sales will go to multichannel retailers, the click-and-brick marketers who can eventually merge the virtual and physical worlds. As acquired from the recent ranking of the top

   500 online retail sites, 58 percent were only multichannel retailers. Like many retailers, Macy's has discovered that its best customers shop both online and offline.

   E-Retailing opens up many doors for companies. E-Retailing provides a greater range of people to sell the products to. This can lead to increase in profits and a decrease in costs. The web site can also lead to opportunities of better and cheaper products to sell thought globalisation.

   There is range of benefits to the company: Lowered cost- there is a lowered cost due to not having to pay shop rent and wages of people working in the actual store. Less chances of stock being shop lifted when the physical store is running and also after hours.

   A greater range of custom... which can lead to greater profits. As shown by the table below there is increase assess to the internet

3. **Competition:** Over the years, the emergence of a number of stores has led to their fighting for the same turf. Competition between chain superstores and independently owned outlets has shot up. Superstores, with their better bargaining power, economics of scale and modern operations, woo the consumers by offering low price and better shopping experience. Retailers are ready to grab any opportunity in the market and any change introduced by one retailer is quickly replicated by others. For example, when Wal-Mart made it necessary for supplier to adopt the EDI (Electronic Data Interchange) system, other major players followed suit.

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4. **The Rise of Mega-Retailers:** Many of the huge-commodities and specialty superstores have risen, the formation of vertical marketing systems, and a hives of retail mergers and acquisitions have created a hub of superpower mega- retailers." In this stage there are superior information systems and buying power, these giant retailers can offer better commodity selections, good service, and normal price savings to consumers.

   Finally resulting at last, they grow even larger by squeezing out their smaller, weaker competitors. Therefore, small handful of retailers can now control access to enormous number of consumer, giving them the upper hand in their dealing with manufacture. Hopefully now the mega-retailers have shifted the balance of power between retailers and producers.

5. **Growing Importance of Retail Technology:** Retail technologies have become critically important as competitive tools. Progressive retailers are using new advanced It technology and software systems to produce further forecasts, control inventory costs, interact electronically with suppliers, send information between stores, and even sell to customers within stores. They have adopted automated systems for checkout scanning, RFID inventory tracking, merchandise handling, information sharing, and interacting with customers. The most startling advances in retail technology concern the ways in which retailers are connecting with their consumers. In today's scenario customers have gotten used to the speed and convenience of buying online and to the control that the Internet gives them over the buying process. Ever more, retailers are attempting to meet these new consumer expectations by bringing Web-style technologies into their stores. Many retailers now routinely use technologies ranging from touch-screen kiosks, mobile handheld shopping assistants, and customer-loyalty cards to self-scanning checkout systems and in-store access to store inventory databases.

6. **Global Operation:** Increasing competition and reduction of opportunities in domestic markets have forced many retailers to look abroad. The global expansion of retailers has also been made possible due to customer preference for non store retailing, which as partially reduced the concept of store location. Consumers are introduced to new products through TV; telephone, Internet, Catalogs, direct mail etc. This has enabled retailers to expand globally. Global operations increases profit levels of retailers and help establish credibility among consumers

Retailing in India some Highlights

Given below are some of the highlights and emerging trends of retailing in India:

- A very huge revamping exercise is witnessed in retailing in India.
- India is been rated the fifth most attractive emerging retail market: a potential goldmine.
- India has been ranked second in a Global Retail Development Index of 30 developing countries.
- Food and apparel retailing are key forces of growth
- Estimated to be US$ 200 billion, of which organized retailing (i.e. modern trade) makes up 3 percent or US$ 6.4 bill

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- Multiple drivers leading to a consumption boom:
  - Favorable demographics
  - Growth in income
  - Increasing population of women
  - Raising aspirations: Value added goods sales
- Organized retailing in India has been seen very largely as urban
- Phenomenon with affluent classes and growing number of double-income households.
- Differences in consumer buying behavior to cost of real estate and taxation laws is seen more successful in cities in the south and west of India.
- Rural marketing is emerging as a huge opportunity for retailers reflected in the share of the rural market across most categories of consumption
  - Mahamaza is leveraging technology and network marketing concepts to act as an aggregator and serve the rural markets
  - ITC is experimenting with retailing through its e-Choupal and Choupal Sagar rural hypermarkets.
  - HLL is using its Project Shakti initiative leveraging women self- help groups ï¿½ to explore the rural market.
- For changing buying behavior across the globe, IT is used as main tool that has been used by retailers ranging from Amazon.com to eBay.
- Online Retail sites recorded 37.5 million visitors in July 2012, up from 26.1 million in July 2011. Apparel is the fastest online retail category in the country, recording a 362% Year on Year growth and a total audience reach of 13.4%, followed by Consumer goods which recorded 119% Year on Year growth and has 2.9% audience reach, and sports/outdoor goods which recorded 100% Year on Year growth and has 2.8% audience reach.

Challenges and Opportunities

A huge transformation has been seen in retailing over the past decade that its very definition has undergone a universe change. A manufacturer no longer can rely on sales to take place by ensuring mere availability of his product. Today, retailing is about so much more than mere merchandising. Its about casting customers in a story, reflecting their desires and aspirations, and forging long- lasting relationships. An Indian consumer expects more and more at each and every time when they steps into a store. Retail today has been changed vastly from selling a product or a service to selling a hope, an aspiration and above all an experience that a consumer would like to repeat again in their lives.

Emerging opportunities in urban markets for manufacturers and service providers seem to lie in capturing and delivering better value to the customers through retail. Manufacturers and service providers face an exploding rural market yet only marginally tapped due to difficulties in rural retailing. In the test of time and investments, only innovative concepts and models may survive. However, manufacturers and service providers will also increasingly face a host of specialist retailers, who are characterized by use of modern management techniques, backed with seemingly unlimited financial resources. Organized retail appears inevitable.

Retailing in India is currently estimated to be a US$ 200 billion industry, of which organized retailing makes up a paltry 3 percent or US$ 6.3 billion. By 2016, organized retail is projected to reach US$ 23 billion. Things have never looked better and brighter for retail industry in India. Challenges to the manufacturers and service providers will increase, when market power shifts to organized retail.

3.8 Wholesaling

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They simplify the product and information flows between the manufacturer and the end users. Maintain large inventories of the goods which are both uneconomical and impractical for Manufacturers. Unlike agents, wholesalers take title to the goods and services that they are intermediaries for. They are independently owned, and they own the products that they sell

The Functions of Wholesaling

Discussed below are the functions of wholesaling:

- **Selling:** In order to provide retailers with products, the wholesaler must have a well-trained sales force to visit the retailers and potential buyers to establish business relationships. Wholesaler's sales representative - make regular visits to retail store buyers, industrial firms, schools, hospitals, etc. They carry samples, catalogs, and displays that show the wholesaler's complete line of products.
- **Providing Marketing Information:** Wholesalers are in contact with many retailers/ buyers and can be a valuable resource of information to the retail industry about trends in each industry
- **Buying:** To be able to stock the products that the retailers/buyers want, the wholesaler studies fashion trends, consumer demand, and retail prices. This research enables the wholesaler to buy the product that the retailer will most likely want and in the right quantities.
- **Warehousing:** This is the process of storing goods in one place. The wholesaler provides the service of warehousing the product that the retailer wants. The retailer does not have the space for storage and can order product from the wholesaler as needed.
- **Bulk-Breaking:** This is the process of dividing large shipments into smaller ones. This is a service provided by the wholesaler that is advantageous to the manufacturer and the retailer. Manufacturers don't want to deal with small deliveries, and retailers can't afford big orders. The wholesaler is the perfect middleman in this instance.
- **Transporting:** Large, frequent deliveries can be made to wholesalers from the manufacturers. If the manufacturer had to deliver to all surrounding retailers who purchased its goods, it would be very costly and the delivery would be unpredictable. Wholesalers pass along the savings of the transportation costs to retailers in smaller shipments.
- **Extending Credit:** Retailers may pay wholesalers for merchandise with the money earned from the sale of that same merchandise. An example of this would be a retailer ordering Easter decorations in January, and not paying for them until May. This is known as extending "terms" for payment, such as 2/10, net 30.
- **Providing Promotional Assistance:** A variety of promotional assistance ranging from help in designing the store layout to sharing in the costs of local advertising may be offered by the wholesaler. This is called cooperative advertising.

Types of Wholesalers

The evolution of distribution channels was accompanied by the introduction of several intermediaries in the distribution channel to make the products easily available to the end users. The period also saw an increase in the types of intermediaries to meet the growing needs of the customers as well as producers. Wholesalers can be divided into three broad categories - merchant wholesalers, agents wholesalers, and manufacturer's wholesalers.

Merchant Wholesalers - Merchant wholesalers take over the title of ownership to the goods from the producer and are responsible for the stock owned. They buy and assemble

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goods in large lots and resell them in small quantities to retail outlets, industrial, commercial or professional users through salesmen. They sell and buy in the domestic market on their own account and make payments to the manufacturer for the goods purchased. Merchant wholesalers perform various functions of wholesaling such as extending credit to customers, delivery and merchandise servicing, and rendering trade related advice.

Based on the range of services or functions they perform, merchant wholesalers can be further classified into full-service merchant wholesalers and limited- service merchant wholesalers.

1. **Full-service merchant wholesaler:** full-service wholesalers provide most of the services of a wholesaler like storing, delivery, providing credit facility, warehousing, taking title to goods etc.
   - ***General merchandise wholesalers:*** carry a wide range of products that are resold to retailers. They mostly cater to the needs of small retailers and carry almost all the products that customer need.
   - ***Limited line wholesalers:*** offer a narrow range of products to retailers.

They create an extensive assortment of products that are purchased from different producers and make them available to the retailers and other organizational customers.

- Specialty line wholesalers: carry a very specialized range of products, which is usually a single product or a few products from a product line. Examples of specially line wholesalers are tobacco wholesalers, hardware wholesalers, etc.

2. **Limited-service merchant wholesaler:** limited-service merchant wholesalers do not undertake all the functions of a wholesaler. They specialize and so offer only limited services to retailers. They include cash & carry wholesalers, drop shippers, rack jobbers, and truck jobbers.
   - Cash & carry wholesaler: maintains warehouse where retailers use their own trucks to pick up merchandise. Neither transportation nor credit is provided. Lower prices are offered because of the limited services.
   - Drop shipper: takes the order from retailers and arranges for delivery of goods directly from the producer. They take ownership but not possession. Freight costs are minimal. Sometimes they operate with a small office and phone. They deal with bulky items such as lumber and coal.
   - Rack jobber: sells specialized lines of merchandise to retailers. Common in the food industry, the rack jobber supplies non-food items, such as greeting cards. They assume ownership, order the merchandise, set up displays, remove old merchandise, and mark prices. Sometimes the retailer pays the rack jobber in cash for the items sold.
   - Truck jobber: uses trucks for storage, selling, delivery, and collection.

Both sales and delivery are made to the retailer on the same trip. The truck jobber sells for cash and limits stock to nationally advertised specialties and fast moving items, such as candy, cheese, and potato chips. Their costs are usually high.

Agent Wholesalers: Agent wholesalers do not take title to the goods. Their main function is to assist the manufacturers and the retailers in the buying and selling process.

1. **Broker:** can represent the buyer or seller. They do not physically handle the goods or take ownership. Only brings the buyer and seller together.
   - Usually specializes in one type of product such as real estate, securities, or some food items that are seasonal and don't have long before they spoil - the distribution must be fast and short.
   - They may not continue relationships with the buyer after a transaction.
2. **Selling agent:** product specialist of only one product from one manufacturer, such as sound systems for a sports complex.

- They have authority to make deals for the manufacturer and usually maintain an educated sales force regarding the product;
- The goods they sell usually are not kept in a warehouse but are shipped directly from the manufacturer to the final end customer.

3. **Manufacturer's agent:** handles part or all of the output of one or more manufacturers within a given sales territory. They do not have the authority like the selling agent to make deals to the customers. They are bound by prices and conditions set by the manufacturers.

Manufacturer's Wholesalers: Manufacturer's wholesalers perform the same set of functions as merchant wholesalers. These intermediaries are owned and operated by the manufacturers themselves. Manufacturers often undertake wholesaling operations through sales branches and sales offices in order to have control over inventory, selling, and promotion. Westinghouse Electric Supply Company and General Electric Supply Company are examples of manufacturer's sales branches in electrical equipment.

Strategic Issues in Wholesaling

The highly competitive market place, changing customer preferences, disintermediation, i.e., direct selling without intermediaries, and e-commerce have made it necessary for wholesalers to design innovative strategies to survive in the business.

- **Target Market Decision:** Like in any other business, there is a need for wholesalers also to identify their target market. The target market comprises an identified group of customers upon whom the wholesaler can focus for the bulk of his business transaction.

The target for a wholesaler can be identified on the basis of size (large, medium, or small retailer), type of customer (urban or rural), distance from the wholesaler's location (within city limits, within a radius of 100 miles, 300 miles, etc), income range of the customer (high income, or low income) or requirements to fulfill in terms of products and services offered

- **Marketing Mix Decisions:** Yet another key area that requires strategic decision-making by the wholesaler is that of the marketing mix. Wholesaler must decide on the products to offer, their pricing and positioning, the promotional activities required, and the means to reach the target market.
- **Product of offer:** A wholesaler must decide on the assortment of products to offer to his customer. Wholesaler should carefully analyze are profitable. Wholesalers should thus maintain a profitable assortment of products.
- **Product pricing:** The pricing activity involves calculating a break-even price. This requires computing the variable and fixed costs the wholesaler incurs on purchasing merchandise from the manufacture and storing it. The selling price can be calculated by dividing the sum of the variable and fixed costs by the number of units to be sold. Wholesalers add a standard markup to the cost of goods to cover the expenses incurred on transporting, packaging, assorting, etc.
- **Products positioning:** Wholesaler have to find ways to clearly differentiate their products from others available in the market.
- **Promotion:** Promotional activities aim at increasing the brand awareness of the customer and persuading them to buy the products. Promotional activities also help a customer become brand loyal in the case of high quality products.
- **Place:** The products have to be made available at places that are convenient to customer. Wholesaler have to take into consideration the transportation costs involved as well as the customer reach as criteria for taking the place decision.

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Trends Shaping Wholesaler Distribution

The wholesaler business has been moving upward for the past 20 years. The growth of wholesaling has been driven by changes in business investment, especially in the case of producer durable goods & equipment, and changes in household consumption, which influence the orders generated in the distribution channels. Manufacturer's attitude towards wholesaling has also contributed to the growth of the wholesale business. There has been a significant change in the mode of operation of the wholesalers. They have evolved from serving as mere warehousing points to exploring the profitability of potential markets. There has also been a shift in their focus from traditional markets to new markets. For example, many electrical and electronic distribution in the U.S., are now targeting new industrial and commercial markets in order to supplement their sales efforts in the established electrical-contractor markets. The basic trends that are responsible for bringing about a significant change in the business of wholesaling are discussed below.

- **Functional Overlap:** The dynamic nature of markets has caused an overlap of functions between the various levels as a result of which there is no longer a sharp demarcation between them in the present-day markets scenario. Wholesale-retail franchising, joint ventures, and conglomeration have given rise to horizontal and vertical market integration, which has further reduced the distinction among the intermediaries in the marketing channel.
- **Increased Services:** Wholesalers have re designed their services over time to suit customer requirements. A number of wholesale druggists in the U.S now handle the customer records of retail druggists. This service to bind the retailers to one wholesaler. In the grocery business, for instance, wholesalers have shifted their focus from providing basic services like extension of credit to offering more sophisticated services such as merchandising support, inventory management counseling, conducting profit analysis further retailers, etc.
- **Pricing and credit:** The pricing of a product or a service is a critical element as the price influences the customer's decision to buy. The wholesalers in keeping with this concept constantly work to arrive at a price that maximizes the value offered by the products. They are 'constantly on the lookout for better pricing mechanisms'; such as systems contracting that offer better services to customers at a lower cost. Another key factor in attracting customer is the credit terms that the wholesaler offers. The quest of wholesalers for new pricing mechanisms and credit alternatives has brought about a signification change in wholesaling over the years.
- **Regional Coverage:** Wholesalers use their subsidiaries to cater to the needs of the local markets segments by storing limited fast moving inventory. These outlets have access to a centralized warehouse to meet their inventory demands. This is a common practice among the distribution of plumbing, heating, and cooling equipment. Wholesalers are also making use of a leapfrogging strategy that involves implementing backfire tactics. Under this strategy of markets penetration, the wholesalers set up branches that are about 1000 miles away from the main office so that sales spread backward towards the home base.
- **Organizational Form and Size:** In the past, the wholesale market was dominated by sole proprietorships, partnership and family run businesses. The current trend among wholesaling establishments has been to grow in size and assume a corporate form. Wholesalers have moved towards assuming a corporate form through the options of public finance, takeovers, and mergers & acquisitions.
  - Wholesalers have an increasing interest in enhancing value for their shareholders. Favorable tax laws have made them more open to diluting their stake through public financing and employee stock options.

The trends just discussed show wholesalers' responsiveness to market forces and how they transformed themselves to meet the growing demands of both manufacturers and resellers for improved service at lower costs.

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Trends in Wholesaling

1. The distribution between large retailers and large wholesalers continues to blur. While many retailers now operate formats such as wholesale clubs and super-centers that perform many wholesale functions, many large wholesalers are setting up their own retailing operations. For example, with a majority of its business derived from supplying grocery products to independent grocery retailers, SuperValu has been classified as a food wholesalers at the same time becoming the nation's third-largest food retailer (behind Wal-Mart and Kroger) by starting or acquiring several retail food chains of its own. Thus, SuperValu is now classified as a retailer because 75 percent of its $33 billion in sales come from retailing, even though it remains the country's largest food wholesaler.
2. Wholesalers will continue to increase the services they provide to retailers:
   - retail pricing, cooperative advertising, marketing and management information reports, accounting services, online transactions, and others.
3. Both the recently sluggish economy and the demand for increased services have put the squeeze on wholesaler profits. However, the increased use of computerized, automated, and Web-based systems will help wholesalers contain the costs of ordering, shipping, and inventory holding, thus boosting their productivity. Wholesalers who do not find efficient way to deliver value to their customers will soon drop by the wayside

3.9 Franchisee

A franchise is a business system in which private entrepreneurs purchase the rights to open and run a location of a larger company. The franchising company, or franchisor, signs a contractual agreement with the franchisee, explaining in detail the company's rules for operating the franchise. In the United States, franchises are typically organized under state laws, although the Federal Trade Commission requires that franchisors provide full disclosure of franchise contracts in advance, to allow franchisees the opportunity to make a good business decision. Franchise businesses come with a number of pros and cons that franchisees must take into account before signing the contract.

When the franchisee signs the franchise agreements, he or she agrees to the terms of operating that franchise. The business owner is required to operate the business according to the franchisor's requirements. The specifics of these requirements are often dictated by the business itself and the expectations of the parent company. In general, though, the contract will include elements, such as location, advertising, owner and staff training, trademark and copyright obligations, renewal opportunities and termination.

Advantages: Benefits of owning a franchise include the familiarity of the company name and image and training from the parent company in operating the franchise successfully. Failure rates among franchises tends to lower than among other new businesses, largely because customers generally recognize the company name and know what to expect from the location. What is more, the training usually includes extended support from the parent company: they cannot prevent the franchise from failing completely, but they do provide a support system for the franchise owner.

Disadvantages: The primary disadvantage of owning a franchise is usually the initial cost of buying the rights to operate it. For instance, a McDonald's franchise can now cost between $1 million and $2 million. In addition, the franchise owner might be liable for ongoing expenses–including royalties for using the company's name–that can cut into profits. Franchise contracts are usually strict and can become restrictive for some business owners, but franchise owners must follow the contract to the letter or risk termination and losing the business.

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3.10 Distribution and Marketing Mix

One can plan a great marketing plan and develop highly intelligent marketing strategy, but the program will not succeed if the firm's distribution system can't provide the necessary support. A great product with good pricing and advertising strategy needs efficient and smooth flow of goods and services. The role of physical distribution is important as it can affect product design, pricing, and promotional activities.

Physical Distribution and Product Design

Distribution interacts with product design in three areas: physical product attributes, packaging and competitive differentiation. Physical product attributes that affect distribution include weight, size, value and risk. For instance, a product such as ready-mix concrete needs specialized delivery equipment (including trucks and pumps) because it is heavy and has a short life span. On the other hand, one can't spend a lot of money delivering cement because it is a product with low differentiation, and customers frequently look for the lowest price. Concrete suppliers usually specify a minimum order size such as four or eight cubic meters because it's too expensive to deliver smaller amounts.

Product packaging is an area that demands close co-operation between the marketing and shipping departments. Packaging often plays an important role in promotions, but it must not be at the expense of distribution. The packaging design has to provide adequate protection for the product, and it should be compatible with existing delivery systems. The size and shape of a package can affect the manager's ability to fill, stack or ship it.

Marketers can use delivery schedules to differentiate their products. The ability to deliver goods quickly or according to a customer-defined schedule is becoming an important means of establishing competitive advantage. Mail-order firms use fast, guaranteed delivery to attract last minute Deepawali shoppers. In past years, people who normally preferred to buy gifts from mail order firms would switch to retail stores as Deepawali approached, out of worry that gifts wouldn't arrive on time. By using an express delivery service, mail order sellers maintain their competitive advantage for many more days in the peak-shopping season of the year.

Physical Distribution and Pricing

Pricing takes into account two sets of variables: market conditions and the cost of providing products. To maximize profits, the manager does everything he can to minimize costs. In many industries, physical distribution is a big part of these costs. Companies that provide hospital supplies, for example, pay an average of 3.1 per cent of their revenues just to get the products to their customers. If a hospital supplier such as Max Health Care Corporation wants to lower its prices to gain competitive advantage, one of the first strings it might try to pull is lowering its distribution costs.

Physical Distribution and Promotion

Promotional programs affect physical distribution when they create unexpected or irregular demand. Similarly, if a manufacturer runs a trade promotion for its distributor or an incentive contest for its sales force, the company's marketing, manufacturing and distribution staffs need to work together to create adequate product supply during the period of increased demand.

On the other hand, marketers sometimes intentionally limit the physical distribution of products, perhaps to increase the prices they're able to charge or to build mystique or to do both. For example, to create an exclusive image for their products, perfume suppliers are increasingly limiting the availability of their products. When perfume makers launched Madhuri Brand of perfume, it made the product available only at few department store chains. Such a move increases the market value of Madhuri Brand because perfume buyers tend to seek out products that are more difficult to obtain.

3.11 Setting Distribution Objectives

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What are distribution objectives? For a product market, they are defined in terms of availability of the product (for example, percentage of total outlets reached). Most companies do not explicitly set distribution objectives. Of those that do, distribution objectives often have no linkage to end customer requirements. Often companies fail to ask questions like, "How many and what kind of outlets do I need, to be available to a given target audience and their buyer behaviour?"

There are also regional differences in category development to be taken into account. For instance, will extending distribution in a region with a low level of category development help me boost sales? Finally, the objectives should take note of the marketing initiatives planned for the year.

The Andersen Consulting Distribution Strategy Pyramid recommends explicit setting of distribution objectives based on end customer needs.

In most FMCG (fast moving consumer goods) categories, distribution objectives are heavily focused on retail availability - how many outlets and what kind of outlets. In prescription drugs, the objectives would include, apart from outlet availability, coverage for doctors. Agro chemicals, on the other hand, may require objectives in terms of share of tonnage by leading wholesalers.

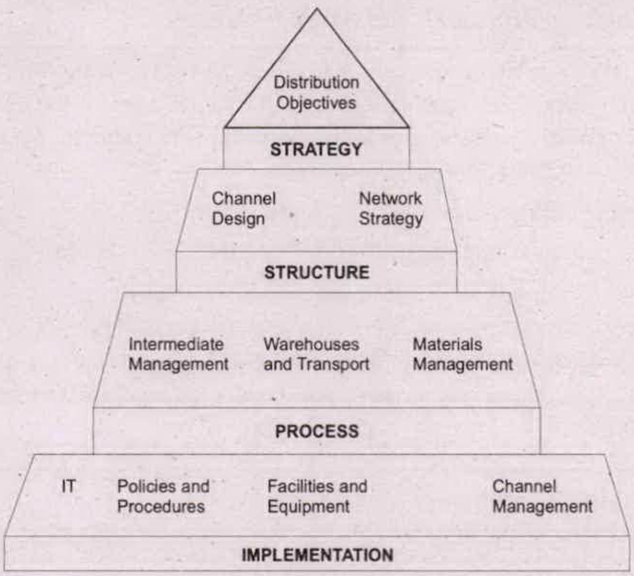

Figure 3.1: Andersen Consulting Distribution Strategy Pyramid

What is the basis for this difference? The difference lies in the definition of the end customer, which may be different from the end consumer. The end customer is the last entity in the supply chain who makes the brand decision. For FMCG industries, where the end customer is the consumer, retail availability becomes the distribution objective. In prescription drugs, however, the end customer is the prescribing doctor. Thus, the objectives need to ensure appropriate coverage of doctors, without which no amount of wholesale push will drive volumes.

In agro chemicals, distribution objectives depend largely on the land holding pattern in the market. Markets with large land holdings and geographic concentration require focus on a smaller number of large wholesalers whereas those with small land holdings and geographical fragmentation require availability to a large number of small traders.

Distribution extension decisions depend upon relative category development by the market. In a highly penetrated market, it is not possible to drive offtake merely by increasing availability beyond a point. Similarly, in a low penetration market, merely increasing availability without addressing the fundamental drivers of low penetration may not lead to volume growth.

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The Distribution Development Index (DDI) is defined as the availability of a brand/category in the market relative to that of a benchmark brand/category. The Category Development Index (CDI) is defined as the per capita consumption of the category in that market relative to the national per capita consumption of the category. The relative level of DDI and CDI will determine the extent of the opportunity to actually extend distribution (Figure 3.2).

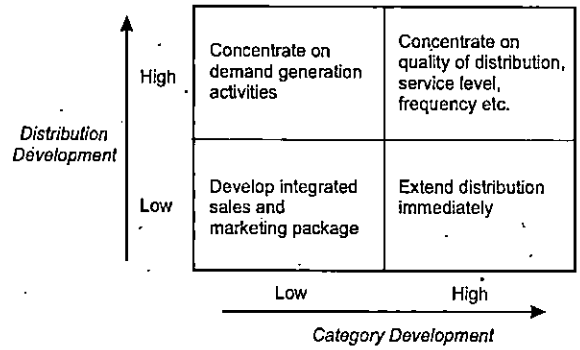

Figure 3.2

3.12 Developing Physical Network Strategy

Most companies take the location and capacities of their depots and manufacturing units as given. The Pyramid recommends a comprehensive optimisation exercise for the TDC of distribution. This requires the optimal channel design to be populated with a plan for the flow of goods and information in terms of the following:

- How many facilities (manufacturing units/depots/CFAs) are needed and where?
- Which customers/regions and which product lines should be served from each facility?
- How much inventory should be maintained in each facility?

The populated network needs to be optimised with respect to the total delivered cost of distribution. Using linear optimisation, several companies have managed to cut distribution costs by as much as 10-15%.

3.13 Reviewing Distribution Processes

Most companies do not monitor the ability of the distribution network to achieve distribution objectives, or the cost of distribution.

The Pyramid recommends continuous monitoring of the ability of the distribution network to achieve objectives at the lowest cost through robust action oriented monitoring processes. A two step approach is required to formalise these principles.

It is a one time exercise to bring the distribution system (strategy, structure, processes) in line with distribution objectives. Subsequently, annual reviews of the distribution system, as a part of the annual strategic planning process, should be undertaken.

3.14 Distribution Cost Control

Distribution is one of the basic functions of marketing. The marketing job remains incomplete until the product reaches the consumer's door for ultimate use or consumption. This process of distribution involving different kinds of products and services is achieved at some cost. The nature and dimensions of these costs may vary with the product, manufacturer, channel and area. Concomitantly, these costs are reflected in the price for the customers and the profit for the manufacturer.

A significant and increasing part of many companies' expenditure is that which is incurred in keeping their products on the move through the channels of distribution to the final consumer.

Physical distribution covers a broad range of activities concerned with this phase of corporate operations, such as transportation, warehousing, material handling, packaging, inventory control and administration.

It is at those points in the distribution flow where the products stop moving that they accumulate costs. But it is also found that physical production developments have not kept pace with developments in physical distribution management. Physical distribution is an important aid to marketing and must, therefore, be oriented towards meeting customers' requirements and securing the attainment of profit/market share objectives. This link adds great emphasis to the need for effective planning and control of distribution activities. However, distribution costs should be kept at a level that ensures an efficient system of operations. This follows from the inability of any distribution system to simultaneously maximise customer service and minimise distribution costs.

Analysis and Control of Distribution Costs

In essence, a manufacturer must be concerned with ensuring that his products are where the customer expects to buy them and when he wants them, at the lowest cost. The provision of a high level customer service (for example, availability in a high proportion of possible sales outlets, or speedy delivery to the customer involving perhaps greater stocks and more vehicles) may increase sales. However, the cost involved in dispatching small quantities of the products to retailers, who are widely dispersed geographically, together with costs of ensuring quick delivery from the manufacturer's plant or distribution depots, may exceed any marginal benefit involved. The manufacturer has to balance the marginal costs of increasing service against the marginal gains he obtains.

Method of Fixing a Budget for Distribution Expenses

The manager in charge of the distribution function must be provided with the cost data for a given level of distribution volume with respect to the past period. The cost data should clearly be classified into its basic characteristic as to whether the costs are fixed or variable. The actual cost incurred should be given before the distribution function starts its plan for the planning period in question.

Based on these past data, the distribution manager would be in a position to calculate his budget of expenses giving due allowance for variable factors depending on the level of performance expected in the planning period. This budget, when approved by the marketing manager and the board, would form the criteria for judging the actual distribution cost incurred in two ways: first, to control the actual distribution cost in relation to the budget; second, to evaluate the cost incurred in relation to the physical performance of the distribution function.

3.15 Summary

A distribution channel comprises various channel members like wholesalers, retailers, agents etc., who act as intermediaries in the distribution of goods and services from the producer to the end-consumer. Retailing is the business where an organization directly sells its products and services to an end consumer and this is for his personal use. Retiling is going a sea change. Growth of the organized Retail sector in India has various key factors as large young working population with average age of 23 years, nuclear families in urban areas, along with increasing workingwomen population and emerging opportunities in the services sector. The retail environment has evolved over the year. Retail stores are classified according to the kind of product and service, extent of ownership, type of store strategy etc. The unit discovers the latest market trends and uncovers sources of future market growth for the Retailing industry in India, the various formats of retails. The unit also discuss the crucial aspects Important in managing retail. However only innovative concepts and models may survive. However, manufacturers and service providers will also increasingly face a host of specialist retailers, who are characterized by use of modern management techniques, backed with seemingly unlimited financial resources. Organized retail appears inevitable. Wholesalers form a critical

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link in the distribution channel and help manufacturers in making their products available to the consumers in adequate quantity at the right time and place. A wholesaler's functions can be transactional, logistical, and facilitating in nature. These functions involve buying the products from the manufacturer, assorting, storing, and transporting them, extending credit to customers, grading the products according to quality, and making competitive marketing information available to suppliers and retailers.

Wholesalers have overcome various limitations of the past but they still have more challenges to overcome in the near future as elsewhere in the world, in India too, there has been a growth in the business of wholesaling. Changes in the business environment after the opening up of the economy have caused wholesalers to adapt to these changes and modify their operations. The future of wholesaling will be dominated by consolidations, and restructuring and will be strongly influenced by e-commerce and Internet technologies

The task of distribution is concerned with the exchange process and gears itself to matching the demand and supply within a given periphery.

It is important to assess how the distribution task is being performed in India. This task can be undertaken by measuring the number of functionaries in each class, their organisational structure and their capital structure. The profit margin charged by them would be a function of the quantum of goods moved. The population served by them and services rendered by them would also assist in the task of measuring their performance.

3.16 Glossary

- *Physical Distribution:* Physical distribution refers to the movement of goods from producers to customers. It encompasses order processing, inventory management, materials handling, warehousing and transporation.
- *Transporation:* It involves positioning of inventory geographically at different points in the pipeline.
- *Warehousing:* It involves storage, bulk breaking, consolidation and utilization of space in the distribution system.
- *Network Design:* It involves connection between manufacturing plants, warehouses and distributors and after sales service representative.

3.17 Review Questions

1. What is Distribution Management?
2. What is a Distributor?
3. Why is Distribution Management Important?
4. What is a Distribution Network and what are the Benefits?
5. Discuss the dynamic and strategic role played by channel Intermediaries in present business world.
6. What Are the 4 Channels of Distribution?
7. What Are the Elements of Distribution Management?
8. What are the factors that have contributed to the rise of retail in India?
9. Explain the challenge that global retail will face in India?
10. Explain the different type of Retail Formats.
11. Discuss the changing role of wholesaling in present scenario
12. Differentiate between wholesaling and retailing activities.
13. Discuss the various challenges of wholesaling in post recession era.
14. "Demographics decide the Indian distribution pattern." Discuss.

15. Design marketing channels for cellular phones showing channel levels.
16. An efficient dealer network plays a crucial role in marketing consumer durables. Discuss.
17. Explain the terms extensive, selective and exclusive distribution. What considerations would you keep in mind in deciding whether to have extensive or selective distribution?
18. Suggest the distribution system for a manufacturer of library furniture. Justify your answer.

Notes

3.18 Further Readings

- Anderson, R.E., J.F. Hair, and A.J. Bush, 'Professional Sales Management' McGraw Hill Publications, 3rd edition, 1999, New Delhi.
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- Churchill, G.A., N.M. Ford, and O.C. Walker, 'Sales Force Management', McGraw Hill Publications, 2009, New Delhi.
- Cundiff, E.W., R.R. Still, and N.A.P. Govoni, 'Sales Management - Decision, Strategies and Cases', Pearson Education, 5th edition, 2009, New Delhi.

Notes

UNIT-4

CHANNEL MANAGEMENT

(Structure)

4.1 Learning Objectives

After studying the chapter, students will be able to:

- Learn recruiting and selecting channel members;
- Understand how to evaluate channel performance;
- Understand the concept and tools for channel control;
- Know the models to diagnose channel profitability;
- Understand the source and types of channel conflict;
- Understand the importance and elements of Information System;
- Understand the impact of Information System on Channel Relationship.

4.2 Introduction

Marketing channels have traditionally been viewed as a bridge between producers and users. These are a set of interdependent organizations that ease the transfer of ownership as products move from producer to business user or consumer. Since the core of marketing is the exchange process, marketing channels can be viewed as exchange facilitators and can be defined as an array of exchange relationships that create customer value in the acquisition, consumption, or disposition of goods and services. Exchange relationships, and thus marketing channels themselves, emerge from market needs as a way of more efficiently serving market needs. Managing channel in such a competitive and demanding scenario is critical. Channel Management encompasses a number of activities right from designing the structure to Managing Channel Relationships.

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Value network and marketing channel decisions are among the most complex and challenging decisions facing the firm. Each channel system creates a different level of sales and costs. Once a particular marketing channel is chosen, the firm usually must adhere to it for a substantial period. The chosen value network or channel will significantly affect and be affected by the other elements in the marketing mix. Middlemen typically are able to perform channel functions more efficiently than the manufacturers. The most important channel functions and flows are information, promotion, negotiation, ordering, financing, risk taking, physical possession, payment and title. These marketing functions are more basic than the particular retail and wholesale institutions that may exist at any time, and when a channel member no longer provides value-added service it can and often is replaced by another channel member or a new means of distribution.

Manufacturers face many channel alternatives for reaching a market. They can choose selling direct or using one, two, three or more intermediary channel levels. Channel design calls for determining the service outputs (lot size, waiting time, spatial convenience, and product variety), establishing the channel objectives and constraints, identifying the major channel alternatives (types and number of intermediaries, specifically intensive, exclusive, or selective distribution), and the channel terms and responsibilities. Each channel alternative has to be evaluated according to economic, control, and adaptive criteria.

Channel management calls for selecting particular middlemen and motivating them with a cost-effective trade relations mix. The aim is to build a "partnership" feeling and joint distribution programming. Individual channel members must be periodically evaluated against their own past sales and other channel members' sales. Channel modification must be performed periodically because of the continuously changing marketing environment. The company has to evaluate adding or dropping individual middlemen or individual channels and possibly modifying the whole channel system.

Behind every product or service that reaches consumers, there are marketing channels in the background, which play a significant role. A marketing channel is a set of interdependent individuals and organizations involved in the process of making a product or service available to the end-user for use or consumption. Also known as distribution channels, these have evolved over time. The evolution has been influenced by market forces, which bring about institutional change, reallocation of functions and changes in relationships among channel intermediaries. These complex forces reshape marketing channels and play a dominant role in their growth.

Channel Control is the ability of the manufacturer to influence the behavior of channel intermediaries. It includes foreseeing actions that helps to check the intermediaries' actions and performance so that the mutual goals of the two organizations can be achieved in a desired manner. This can be exercised through effective leadership, exercising power, evaluating channel performance, managing channel conflict and with a proper information system.

4.3 Channel Decisions

Strategic marketing plan form a part of the product or service having the decisions relating to the channel distribution. The target market under the specified plan will have different target levels of market share, market coverage, customer service and so on. Organization uses different channels of distribution which are capable to achieve the targets. Thereafter the establishment of the distribution system can take a long time this may be years too; hence these decisions can't be taken lightly and should be considered for a longer term as it is not easy to switch between channels.

Distribution channel can be defined as: A collection or set of firms and individuals that take title, or assist in transferring title to a good or service as it moves from the producer to final consumer. Recognition of channel decision's importance is not always conducted. Product development takes place after the proper channels of distribution are carried out. Therefore, Bennett asserts that Global marketplace is increasing and creating competition, managers plan for their product distribution as they plan products. Bennett has also claimed that "Strategic planning has modern distribution systems considering the marketing concept, focusing on target markets and are always consistent and flexible."

The Value of Middlemen

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From moving product from producer to consumer many functions are taken in consideration. These functions require funding and expertise knowledge of a specialized person. There are few producers who have either the resources or the expertise knowledge to carry out all the necessary functions to get a product or service to the ultimate consumer. Remuneration of the middlemen depend on the number of marketing functions performed by a personnel and knowing the efficiency of performing the function.

The advantages of using middlemen as opposed to marketing direct to end users can be illustrated very easily. Efficiency of mist of the marketing systems can be improved and enhanced by the presence of effective intermediaries. This result can be illustrated in the figure given below. Hence, it shows that an intermediary between the number of consumers and producers can reduce the no of transactions and by this the selling and procurement cost are reduced

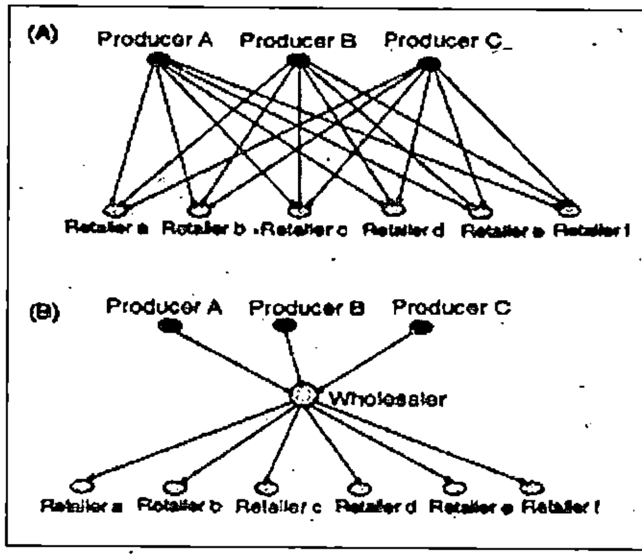

Figure 4.1: Direct marketing system and a marketing system with intermediaries

The advantages of using middlemen as opposed to marketing direct to end users can be illustrated very easily. Efficiency of mist of the marketing systems can be improved and enhanced by the presence of effective intermediaries. This result can be illustrated in the figure given below. Hence, it shows that an intermediary between the number of consumers and producers can reduce the no of transactions and by this the selling and procurement cost are reduced.

Channel Functions

Marketing channels ensure smooth flow of goods and services from manufacturers or producers to end users or customers. They reduce the gaps that arise in the flow of goods between channel members. The flow of products between producers, wholesalers, retailers, industrial and household consumers can be forward, backward or two-directional. The channel flows are as follows:

- **Possession:** Possession represents the flow of goods from the producer to the final consumers through intermediaries. The possession of goods gets transferred from the manufacturers to consumers. Possession flow consists of various activities pertaining to storage of goods and their transportation from one channel member to another.

- **Ownership:** Ownership flow takes place when the title to the goods passes from one channel member to another during their passage from the manufacturer to the consumer. Usually, possession flow and ownership flow take place simultaneously, as goods move through the channel. The two flows are not always in the same direction.
- **Promotion:** Promotional flows refer to activities that are aimed at making prospective buyers aware of the product features and to convert them into customers. These activities can be taken up by any channel intermediary and need not be confined to the producer or retailers.
- **Negotiation:** Negotiation flow occurs when terms of sale and after-sales relationships are discussed and agreed upon between channel members. The costs incurred are measured in terms of time spent on negotiation.
- **Financing:** Usually the seller grants some time to the buyer for making payment, even after the physical possession is transferred to the buyer. The costs incurred by the seller involve the loss of income that could have been earned by investing the money receivable, elsewhere. These costs can be incurred by any channel member or even by specialized external agencies like banks and credit card companies.
- **Risking:** Risks flow from one channel member to the other along with the flow of goods. Risks can arise because of the perishable nature of the products or adverse price changes in the market. Costs involved are those associated with risk transfer, i.e., insurance, maintenance costs for perishable goods, warranties, repairs etc.
- **Ordering and Payment:** ordering and payment flow involves activities pertaining to the purchase of goods and making payment. The costs associated with such flows are incurred for purchase of the products i.e. order processing costs, ordering costs etc. Payment flows are associated with collection costs and costs due to bad debts.

4.4 Managing Distribution Channels

In regard with operations and provision of special services, the distributors are becoming more organised and efficient to meet the growing expectations of the customers which can manage the channels efficiently. Channel management also helps companies in minimising their costs, reach the potential customers and to make profit. Convenience and service factors are not under the direct control in the key role of manufacturers as intermediaries provided to customers. Specialization of customers takes place to have an effective management and organization.

Some aspects should be kept in mind while consideration of managing channels and they are, the company should select and recruit the right channel. When this task is completed, it should focus on motivating channel members while increasing their profitability. Thereafter the company has to evaluate the channel member's performance to ensure that they remain competitive in market. Market changes should be properly settled and the managers should modify their channel arrangements effectively. Broadly the aspects that are considered in channel management are discussed in the following paragraphs.

4.5 Recruitment of Channel Members

Distribution channel members are the key area that are outsourced, and have to be selected carefully. The selection of channel members therefore is an important task and should ensure the selection of a deserving channel partners who will serve the right customer at the right time with right attitude. Thus a carefully designed recruitment and screening is essential.

Recruiting involves those plans and actions aimed at actively soliciting participation by a new channel member. Before active recruiting can begin, key personnel from the recruiting organization must consider and reach agreement on several important issues, including:

- The precise role of the prospective channel members.
- The specific qualifications necessary for success in this channel role.

- The precise products or channel assignments for which the prospective channel member will be responsible.
- The bounds of authority of the prospective channel member.
- The way in which the role might be expected to change over time.

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Key decisions in channel management: Appointment of intermediaries requires a lot of decision making processes to be carried out. This may include: price policy, term and condition of sale, territorial rights and definition of responsibilities. In addition, a choice has to be made between extensive and intensive coverage of market.

Price policy: Wholesale or retail margins, list of prices and a specified discount have to be developed. These may reflect the interest of the intermediary as well as the interest of the producer and supplier if they have to form a stage for channel members.

Terms and conditions of sale: With the addition of price schedules the producer/supplier must explicitly state payment terms, guarantees and restrictions on where and how the product is to be sold. If the product has a sizeable demand then the very producer/supplier may evaluate intermediaries on the basis of performance criteria such as the attainment of targets, inventory levels, customer delivery etc. The intermediaries whose performance is below the target decided may have the right to handle the product withdrawn.

Territorial rights: Some products and distributors will be given exclusive rights to market a product in a specified territory. It may happen with the agricultural equipment which is used to decide the boundaries of territories which the manager or supplier have to strike maintaining a balance between defining territories which are large enough to provide good sales to the distributors but are small enough to allow the distributors for providing better service to customers within the territory.

Definition of responsibilities: Duties and responsibilities of the supplier and the customer have to clearly define. For example, if the customer encounters some problem with the product and requires technical advice or repair of the product then it should be immediately clear to both the supplier and the distributor as to which the party is responsible for responding the consumer. As concluded, in the same way, the agreement between the producer and supplier and the distributor should clearly be specified stating that which party is responsible for the cost of product training when new employees join the distributor or new products are introduced.

Recruitment as a Continuous Process: For several reasons, the recruitment of new channel members should be viewed as a continuous process. One reason is that an organization's intermediaries sometimes withdraw from the channel relationship of their own accord, and the organization needs to be prepared to respond quickly. Another reason for viewing recruiting as a continuous process is that marketers may need to contract with new intermediaries to help launch new products.

Organizations, particularly producers, also may have to change intermediaries as their products pass through stages in their product life cycle, when buyer behaviour changes, or in response to changes in the distribution strategies of competitors.

Screening Channel Members

Screening involves the systematic consideration, evaluation, and, ultimately, rejection of most of a set of people, things, or ideas. Screening is inherently a negatively oriented process.

First, the organization should think about market segments. Too many marketers think primarily in terms of geographic coverage when screening intermediaries, rather than considering market or customer segments. Second, the selling and distribution requirements for a product change during its life cycle, yet marketers frequently fail to account for these changes in their distribution strategies. Third, manufacturers and retailers tend to recruit distributors that are already overloaded with products, while shying away from smaller, newer, or temporarily underfinanced intermediaries. The fourth criteria that should be weighed by channel members engaged in this screening process pertain to the level of support required by the various prospects. Clearly, this support may be financial in nature. It may involve the exchange of technical or marketing expertise between the recruiting firm and its prospective channel partner. Or, the support might merely involve some "hand-holding" or positive-reinforcement during an extended start-up period.

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The channel partners should be judge on the following points:

- Credit Reports.
- Business age of the candidate.
- Reputation among customers, other manufacturers the distributor currently represents, peers, trade publications, trade organizations and local community.
- Business and managerial stability.
- Financial strength.
- Sales revenue performance.
- Locations.
- Number of active customer accounts.
- Present territorial coverage.
- Complementary manufacturer value offer lines represented.
- Competitive value offer lines represented.
- Knowledge of existing Product Lines.
- Repair and service capabilities.
- Knowledge of local market conditions.
- Employee quality.
- Overall condition of facilities.
- Type of market coverage offered.
- Sales force compensation.
- Sales competency.
- Number and quality of salespeople.
- Technical competence of salespeople.
- Sales and marketing aggressiveness.
- Local marketing activities.
- Customer and order pursuit.
- Dealing with their competition.
- Internal sales and marketing support resources and capabilities.
- Ordering and payment policies.
- Price integrity.
- Ability to develop new markets.
- Distributor advertising and sales promotional programs.
- Training programs.
- Consent to sign a contract.
- Agreement to accept a sales quota.
- Willingness to share data and local market information.
- Willingness to participate in joint sales and marketing programs.
- Inventory management expertise.

- Adequate inventory commitment.
- Future growth prospects.
- "Coup de Grace" Factors That Indicate a Motivated Candidate.
- True desire for your value offer line.
- Willingness to share key customer list.
- Willingness to participate in strategic business planning with your organisation.

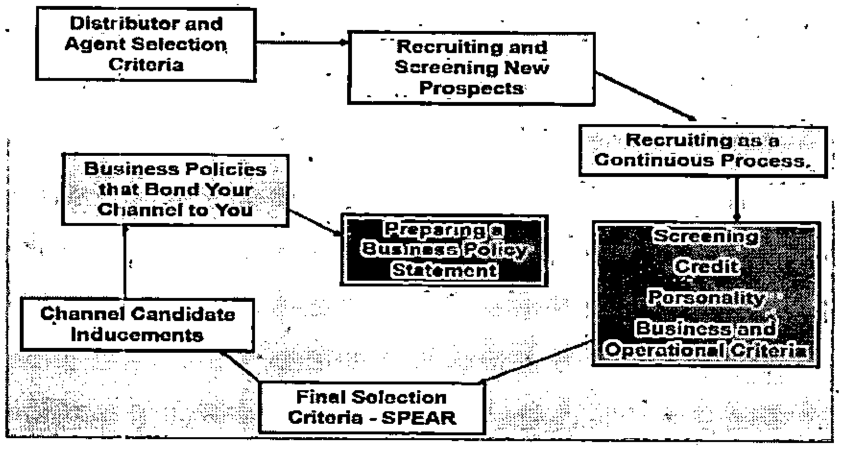

Figure 4.2: Key areas in managing Distribution Channel

Selecting the Right Channel Partners

The goal in channels development, as always, should be to find the best channel partner available from among a small pool. So the selection process continues and is now conducted at a more refined level.

Several selection criteria should be considered during this final evaluation of channel members. Recruiting channel members therefore might be described as seeking to *spear* the best channel partner from among of the remaining pool of prospects. Various Selection Criteria are as follows:

- **Sales factors:** The ultimate justification for using intermediaries is to improve market share, sales, and profitability. Thus, sales and market factors head the list of evaluative criteria.
- **Product factors:** Product factors include the intermediary's knowledge of the product and of its service or stocking requirements. The quality of the prospect's service staff should also be considered.
- **Experience factors:** Indicators of intermediary experience and expertise can be obtained by evaluating the prospect's previous customers' satisfaction, whether the prospect has worked successfully with similar products in the past, the prestige of its prior or current channel partners, and the prospect's current technology.
- **Administrative factors:** The administrative and contractual conformance of prospects can be evaluated by examining the prospect's workload and determining whether it is overworked.
- **Risk factors:** Considerations of risk include evaluations of a prospect's commitment to the relationship and of how much the proposed channel arrangement will cost the recruiting organization. The prospect's enthusiasm for the product should also be considered. Costs, the extent of a prospect's dealing with competitors, and the career histories of its key personnel should likewise be evaluated.

Recruiting organizations can exert only limited influence over the business conduct of their intermediaries. This is true even when recruiters enjoy dominant channel positions and are willing to exercise power in pursuit of their interests.

The business policy statement should describe policies regarding the presale, post-sale, and transaction phases of channel business, including:

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- Contracts and agreements
- Authorized primary area of sales and service responsibility
- Penalties for selling outside the authorized sales territory
- Organisation marketing plans, including space advertisements, public relations releases, direct mail, national and local exhibits, and cooperative advertising
- Pricing, pricing assistance, and price protection
- Value offer quality and warranties
- Required inventory levels
- Order size in units or total dollars
- National house or special accounts
- Major account support
- Value offer customization, private labels, and original equipment manufacturer (OEM)
- New value offer launches
- Discontinued Products
- Priority replacement
- Billing and payment terms, credit procedures
- Freight and shipment, including drop shipment
- Delivery guarantees
- How performance will be evaluated
- Grounds for termination

Designing a Channel System

Channels are not formed through an arbitrary process. Instead, an underlying structure shapes members' behaviors. This structure makes it possible to explain and predict how channel members will perform in market settings. This framework is termed as Channel Design.

Good channel design is often the key to market leadership and overall business success. Because they generally require years of continuous attention to develop, sound manufacturer-intermediary-end-users linkages are often barriers to competitive entry. Without the benefits that accrue from solid market channels, even marketers with superior products can fail in the marketplace. Channel design decisions are among the most critical facing marketing managers. The type of channel chosen directly influences each of the other marketing decisions

Components of Channel Design: The various channel structural alternatives available to a producer firm can be identified in terms of the following three dimensions:

1. The number of levels in the channel.
2. The number of intermediaries operating at the various levels.
3. The types of intermediaries used at each level.

Each intermediary that performs a function necessary to convey the market offering closer toward the final user represents a channel level. A channel's length is described by the number of its intermediary levels.

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Second, companies must determine the number of intermediaries to be used at each channel level within a given market area. Three basic designs are available: intensive, exclusive or selective distribution.

Finally, firms must identify the types of intermediaries that are available at each channel level. The following distribution alternatives are generally available: manufacturer's sales force, manufacturer's representatives or industrial suppliers. In most instances, producers will be able to identify several intermediary alternatives. The intermediary alternatives need to be evaluated against expected sales and costs, control and resources and flexibility criteria.

(A) Levels of Channels

A distribution channel can have several stages depending on how many organizations are involved in it:

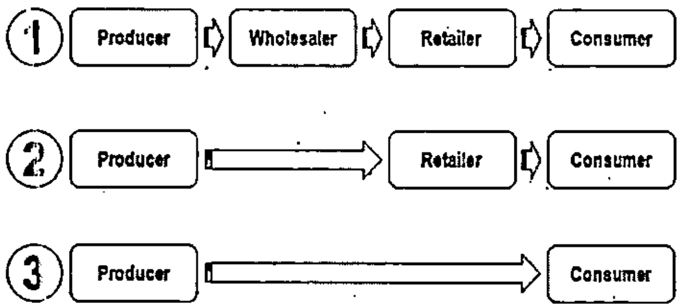

Figure 4.3: Level of Channels

1. Channel 1 contains two stages between producer and consumer - a **wholesaler** and a **retailer.** A wholesaler typically buys and stores large quantities of several producers' goods and then **breaks into bulk** deliveries to supply retailers with smaller quantities. For small retailers with limited order quantities, the use of wholesalers makes economic sense.
2. Channel 2 contains one intermediary. In consumer markets, this is typically a **retailer.** The consumer electrical goods market in the UK is typical of this arrangement whereby producers such as Sony, Panasonic, Canon etc. sell their goods directly to large retailers such as Comet, Tesco and Amazon which then sell onto the final consumers.
3. Channel 3 is called a **"direct-marketing" channel,** since it has no intermediary levels. In this case the manufacturer sells directly to customers. An example of a direct marketing channel would be a factory outlet store. Many holiday companies also market directly to consumers, bypassing a traditional retail intermediary - the travel

(B) Channel Intensity

The intensity of distribution i.e. the total proportion of the market covered will depend upon decisions made in the context of the overall marketing strategy. In simple terms there are two alternatives: skimming the market and market penetration. It will be remembered that a skimming strategy involves being highly selective in choosing target customers. Normally, these will be relatively affluent consumers willing and able to pay premium prices for better quality, sometimes highly differentiated products. It will also be recalled that a penetration strategy is one where the decision has been made to mass market and the object is to make the product available to as many people as possible. The decision as to which of these is adopted as with immediate implications for distribution strategy. Three principal strategies these being; intensive, selective and exclusive distribution.

Intensive distribution: An intensive distribution policy is driven by the belief that every exposure to a customer is an opportunity to buy. Those responsible for the marketing of FMCG and other low unit value products, are, typically, seek distribution. This is possible where the product is fairly well standardized and requires no particular expertise in its retailing. Mass marketing of this type will almost invariably involve a number of intermediaries because the costs of achieving extensive distribution are enormous. Where commercial organisations do opt for extensive distribution, channels are usually long and involve several levels of wholesaling as well as other middlemen.

Selective distribution: Suppliers, who appoint a limited number of retailers, or other middlemen, are chosen to handle a product line, have a policy of selective distribution. Limiting the number of intermediaries can help contain the supplier's own marketing costs and at the same time enables the grower/producer to develop closer working relations with intermediaries. The distribution channel is usually relatively short with few or no intermediaries between the producer and the organisation which retails the product to the end user. Selective distribution is common among new businesses with very limited resources. Their strategy is usually one of concentrating on gaining distribution in the larger cities and towns where the market potential can be exploited at an affordable level of marketing costs. As the company builds up its resource base, it is likely to steadily extend the range of its distribution up to the point where further increases in distribution intensity can no longer be economically justified.

Exclusive distribution: Exclusive distribution is an extreme form of selective distribution. That is, the producer grants exclusive right to a wholesaler or retailer to sell in a geographic region. Caterpillar Tractor Company, for example, appoints a single dealer to distribute its products within a given geographical area. Some market coverage may be lost through a policy of exclusive distribution, but this can be offset by the development and maintenance of the image of quality and prestige for the product and by the reduced marketing costs associated with a small number of accounts. In exclusive distribution producers and middlemen work closely in decisions concerning promotion, inventory to be carried by stockists and prices. The details of an exclusivity agreement can have important ramifications for both producer and distributor. Some involve tied-agreements where an enterprise wishing to become the exclusive dealer for a given product must also carry others within that product line.

The major types of channel partners which are commonly appointed are wholesaler, retailer, distributors etc. the detail explanation of various types of channel partners are discussed in chapter fourteen.

Thus we can conclude that designing a channel involves deciding on the following points.

1. Channel levels—zero to three levels, can be longer
2. Number of intermediaries
   - Exclusive distribution—one or a select few
   - Selective distribution—more than a few, less than all c) Intensive distribution—as many outlets as possible
3. Types of intermediaries

4.6 Motivating Channels

Motivating the management involves the actions taken by the manufacturers to foster channel member cooperation in implementing the manufacturer's distribution objectives.

Basic Framework involves in motivating the channel members is Finding Out Channel Member Needs & Problems, Offer support to the channel members that matches with their needs and problems, Provide leadership through the effective use of power.

Channel Members Needs and Problem can be identified through:

- Marketing research: A very less percent of manufacturers' research budgets is spent on channel member research. Outside Agencies/Professionals may be hired as manufacturer-initiated research can be useful because certain types of needs or problems may not be at all obvious. Research studies by outside parties, provide a

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higher assurance of objectivity and provide a level of expertise that the manufacturer may not possess

- Marketing channel audits: Gather data on how channel members perceive the manufacturer's marketing program and its component parts. Locate the strengths and weaknesses in the relationships. Learn what is expected of manufacturers to make the channel relationship viable and optimal. It must be conducted periodically so as to capture trends & patterns.
- Distributor advisory councils: Distributor advisory councils are necessary to determine the needs and problems of channel partners. They help in information exchange between channel partners and manufacturers so that both parties can understand the duties and responsibilities of one another. The role of the distributor advisory council is to encourage channel partners to contribute significantly to the planning process and improve channel performance. Thus, these councils give channel partners a sense of belonging, which motivates them to put in their best performance. Personal contact with channel partners also provides sufficient information to manufacturers about their needs and problems.

Means to Motivate Channel Members

- **Cooperative Arrangement:** Intermittent interactions between manufacturer and channel members. Focuses on identifying channel needs and Problem. Typical types of cooperative Programs provided by Manufacturers to channel members:
  - Cooperative advertising allowances
  - Payments for interior displays
  - Contests for buyers, salespeople, etc.
  - Allowances for warehousing functions
  - Payments for window display space
  - Detail men who check inventory
  - Demonstrators
  - Coupon-handling allowance
  - Free goods
- **Partnerships & Strategic Alliances:** Continuing & mutually supportive relationship. Focus on a continuing and mutually supportive relationship between the manufacturer and its channel members establish mainly for an Elite Group of Distributors:
  - The Process involves: Manufacturer should make explicit statement of policies in areas such as product availability, technical support, pricing, etc.
  - Manufacturer should assess all existing distributors as to their capabilities for fulfilling their roles
  - Manufacturer should continually appraise the appropriateness of the policies guiding his or her relationship with the channel members
- **Distribution Programming:** Deals with virtually all aspects of the channel relationship. It is a comprehensive set of policies for the promotion of a product through the channel
- **Developed as a joint effort** between the manufacturer and the channel members to incorporate the needs of both parties. The following Steps can be followed for developing a program:
  - Analysis of marketing objectives & the kinds of levels of support needed from channel members.
  - Formulate specific channel policies that offer price concessions to channel members, financial advice and ome kind of protection for channel members.

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Channel Integration:

Channel integration involves streamlining the distribution process in terms of physical and information efficiency by establishing channel partnerships and strategic alliances with channel partners at all levels of the channel hierarchy. Companies have now begun to place greater emphasis on channel integration in order to reduce transaction costs, gain better control over the distribution process, and ensure a reasonable return on investment. Channel integration, where all the members work together as a single entity for their collective success, has become a source of competitive advantage for companies operating in mature markets. The successful agreements and alliances that companies have entered into with different channel partners in recent time have made managers realize the potential of cannel integration to reduce costs and improve productivity

- **Conventional marketing channel** comprises an independent producer, wholesaler(s) & retailer(s). Each is a separate entity. No channel member has complete or substantial control over the other members.
- **Vertical Marketing Systems** (VMS) is one in which the main members of a distribution channel—producer, wholesaler, and retailer—work together as a unified group in order to meet consumer needs. In conventional marketing systems, producers, wholesalers, and retailers are separate businesses that are all trying to maximize their profits. When the effort of one channel member to maximize profits comes at the expense of other members, conflicts can arise that reduce profits for the entire channel. To address this problem, more and more companies are forming vertical marketing systems.

The concept behind vertical marketing systems is similar to vertical integration. In vertical integration, a company expands its operations by assuming the activities of the next link in the chain of distribution. For example, an auto parts supplier might practice forward integration by purchasing a retail outlet to sell its products. Similarly, the auto parts supplier might practice backward integration by purchasing a steel plant to obtain the raw materials needed to manufacture its products. Vertical marketing should not be confused with horizontal marketing, in which members at the same level in a channel of distribution band together in strategic alliances or joint ventures to exploit a new marketing opportunity. A VMS can hold both advantages and disadvantages for small businesses. The main advantage of VMS is that your company can control all of the elements of producing and selling a product. In this way, you are able to see the whole picture, anticipate problems, make changes as they become necessary, and thus increase your efficiency. However, being involved in all stages of distribution can make it difficult for a small business owner to keep track of what is happening. In addition, the arrangement can fail if the personalities managing of the different areas do not fit together well.

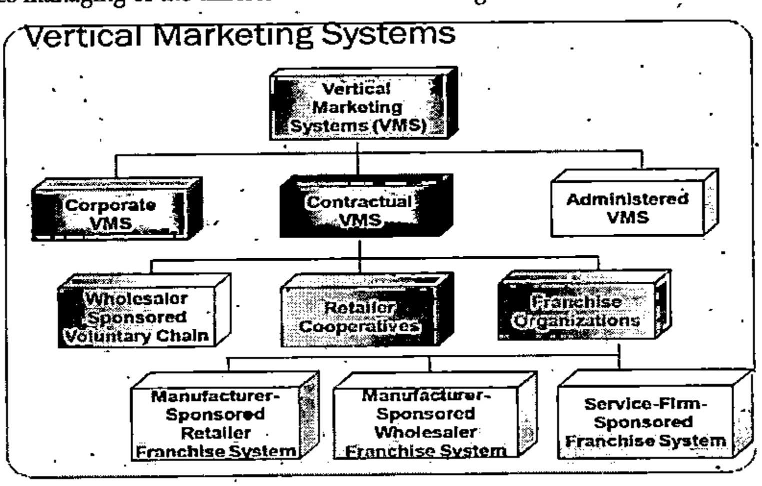

Figure 4.4: Types of VMS

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Thus the main feature can be summarized as follows:

1. Producer, wholesaler(s) & retailer(s) act as a unified system.
2. They all cooperate.
3. Can be dominated by any of the three members of the system.
4. It arose as a result of strong channel members' attempts to control channel behavior & eliminate the conflict that results when independent channel members pursue their own objectives.
5. Has become the dominant mode of distribution in the U.S. consumer marketplace.

Types of VMS: Vertical marketing systems can take several forms. In a corporate VMS, one member of the distribution channel owns the other members. Although they are owned jointly, each company in the chain continues to perform a separate task. In an administered VMS, one member of the channel is large and powerful enough to coordinate the activities of the other members without an ownership stake. Finally, a contractual VMS consists of independent firms joined together by contract for their mutual benefit. One type of contractual VMS is a retailer cooperative, in which a group of retailers buy from a jointly owned wholesaler. Another type of contractual VMS is a franchise organization, in which a producer licenses a wholesaler to distribute its products.

1. Corporate VMS – Combines successive stages of production & distribution under single ownership. (Sears).
2. Administered VMS – Coordinates successive stages of production & distribution through the size & power of one of members (Kodak, Gillette, P&G)
3. Contractual VMS – These are:-
   - Wholesaler-sponsored voluntary chains
   - Retailer cooperatives
   - Franchise organizations

Independent firms at different levels of production & distribution integrating their programs on a contractual basis to obtain more economies &/or sales impact than they could achieve alone. 3 types:

- **Horizontal Marketing Systems:** Two or more unrelated companies put together resources or programs to exploit an emerging marketing opportunity. A **horizontal marketing system** is a distribution channel arrangement whereby two or more organizations at the same level join together for marketing purposes to capitalize on a new opportunity. For example: a bank and a supermarket agree to have the bank's ATMs located at the supermarket's locations, two manufacturers combining to achieve economies of scale, otherwise not possible with each acting alone, in meeting the needs and demands of a very large retailer, or two wholesalers joining together to serve a particular region at a certain time of year.

According to business dictionary.com, Horizontal Marketing System is a merger of firms on the same level in order to pursue marketing opportunities. The firms combine their resources such as production capabilities and distribution in order to maximize their earnings potential

- **Multichannel Marketing Systems:** A single firm uses two or more marketing channels to reach one or more customer segments. By adding more channels, companies can gain 3 important benefits: increased market coverage, lower channel cost, more customized selling.

4.7 Evaluating Channel Performance

The importance of channel member performance equals that of employee evaluations within the firm. Except that they are the channel manager works with individual firms rather than with

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individual employees and the setting is inter- organizational rather than intra-organizational. Scope & Frequency of Evaluations Involves discussion on the following points:

1. **Degree of Control:** It implies the Control that a producer manufacturer, or franchisor has over members and is based on strong contractual agreements. Channel manager can demand a great deal of information on member operations. However Manufacturer lacks strong market acceptance for its products & strong channel control based on contractual commitments *Manufacturer can exert little control over channel members.* Evaluation of channel members is more comprehensive for manufacturers who sell all of their output through intermediaries than for manufacturers who rely less on intermediaries. Because the firm's success in the market is directly dependent on the channel members' performance.
   - **Nature of the Product:** The more complex the product, the broader the scope of evaluation
   - **Number of Channel Members:** Manufacturers who use intensive distribution: Channel member evaluation may be cursory. Manufacturers who use highly selective distribution: Channel member evaluation is comprehensive

Performance Audit

Phases of Performance audit includes:

- Developing criteria for measuring channel member performance
- Periodically evaluating the channel members' performance against the criteria
- Recommending corrective actions to reduce the number of inadequate performances

Key Criteria to be considered for Performance Audit include:

- Sales performance of channel members
- Inventory maintenance of channel members
- Selling capabilities of channel members
- Attitudes of channel members
- Competition faced by channel members
- General growth prospects of channel members
- Net profit margin- is defined as % net profit divided by net sales however net profit margin actually measures the proportion of each sales rupees that is kept by firm as net profit
- Asset turn over- is a ratio of total sales divided buys total assets. It actually measures the efficiency of management in utilizing assets. Its shows how much money in total sales volume is generated by each dollar that the firm has spent.
- Leverage – the result by multiplying net profit margin percentage times asset turnover ratio in return on assets (ROA). For OR, ROA is a critical measure of performance because it especially tells how well they have used all the resources at their disposal to achieve profit.

4.8 Managing Channel Relationships

Marketing channels are characterized by continuous and sometimes dramatic change, especially with the changes brought by the growth of the Internet as a major marketing tool and channel of distribution. For example, the new competition no longer involves competition between individual firms but rather between retail systems. Three of the most significant trends are the growth of vertical, horizontal, and multichannel marketing systems. All channel systems have a potential for vertical, horizontal, and multichannel conflict stemming from such sources as goal incompatibility, unclear roles and rights, differences in perception, and high dependence. Managing these conflicts

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can be sought through super-ordinate goals, exchange of persons, co-optation, joint membership in trade associations, diplomacy, mediation, and arbitration. Marketers should continue to explore and respond to the legal and moral issues involved in channel development decisions

Partner relationships have only increased in complexity, so it is time to look toward enterprise applications' providing a broader range of capabilities. VAR Business labs-testing partner Doculabs examines this trend and the products that are available.

Partner-relationship management (PRM) solutions have traditionally focused on maximizing sales revenue and increasing the effectiveness of sales and marketing initiatives through the coordination of channel partnerships. The earliest PRM tools used simple contact databases and the posting of product and pricing information through an extranet portal. But the extended enterprise has resulted in new types of partnerships, leading to new challenges in managing multiple facets of partner relationships and information flows that extend across a broad range of constituencies.

PRM applications go beyond customer-relationship management (CRM) and supplier-relationship management (SRM) solutions by providing visibility and control into multiple tiers of partners. At the same time, they provide a portal framework for the aggregation of back-end systems, content repositories and collaboration tools, as well as secure access to a broad range of employees and partners.

Improving the efficacy of sales and marketing activities is also no longer the sole objective of PRM. Now, instead of merely improving channel effectiveness, many organizations seek to improve the way they work with their partners.

In addition, the new definition of PRM differentiates between supply-side partners and demand-side partners. Supply-side partners provide information, tools, products or services that impact partners. Demand-side partners focus on increasing sales of products or services. By acknowledging the need for solutions that address both sets of relationships--often involving parties that play dual roles--organizations have raised the bar for PRM solutions.

Channel Conflict

Types of conflict & competition include the following:

- Vertical channel conflict exists when there is conflict between different levels within the same channel.
- Horizontal channel conflict exists when there is conflict between members at the same level within the channel.
- Multichannel conflict exists when the manufacturer has established two or more channels that compete with each other in selling to the same mkt.

Causes of channel conflict: Conflict between channel members can arise for one or more of the following reasons:

Incompatibility of goals: Organisations can have conflicting goals. A grower may want to grade the produce in order to achieve a price premium for the top quality produce or to develop a brand image, but the wholesaler may only be interested in selling large volumes of undifferentiated produce.

Confusion over roles and rights: For example, a grower may sell part of the produce through local agents and part direct to supermarkets. This may cause conflict because the local agent believes that all sales should go through him/her.

Differences in perceptions: Among the many potential differences in perceptions, which can result in conflict, are: who the customer is; what the market wants; the objectives of other channel members in participating in the market; and the role which other channel members play in helping the organisation achieve its own objectives.

Members of a distribution channel can also differ in how they perceive themselves. There is an argument as to whether the 'distribution channel' is more than an abstract academic concept. Whilst manufacturers and producers may think in terms of a distribution system, intermediaries do not necessarily see themselves as part of some other party's 'system', but instead consider themselves as independent operators. If intermediaries do lack a systems orientation, then there are additional prospects of conflict since they will be, naturally, reluctant to compromise their own interests in deference to those of the distribution system as a whole.

Degree of interdependence: The greater the degree of interdependence between two members of the distribution channel, the greater the potential for conflict. This is because the actions of one directly impinge upon the performance of the other

Managing channel conflict: Following may help in managing channel conflict:

- Some channel conflict can be constructive. It can lead to more dynamic adaptation to a changing environment. But too much is dysfunctional.
- Perhaps the most important mechanism is the adoption of super ordinate goals. Working closely together might help them eliminate or neutralize the threat.
- Exchange of persons between two or more channel levels is useful.
- Cooptation is an effort by one organization to win support of the leaders of another organization by including them in advisory councils, boards of directors, etc.
- Encouraging joint membership in & between trade associations.
- When conflict is chronic, the parties may have to resort to diplomacy, mediation or arbitration.

Legal & Ethical Issues in Channel Relations

Legal and ethical issues in channel relations include:

- Exclusive dealing: Arrangement between manufacturer and e-marketing intermediary that prohibits the intermediary from handling competing product lines.
- Exclusive territories: Exclusive geographic selling region of a distributor.
- Tying agreements: Arrangement that requires a marketing intermediary to carry items other than those they want to sell.
- Dealers' rights

Long-Term Inter-firm Relationships

Long term inter-firm relationships raise the following:

- While individual transactions are the economic cornerstone of exchange, they do not always describe the complex relationships that often emerge between channel members. Individual transactions may be referred to as exchange episodes. Four elements are invariably associated with marketing exchange episodes: products and services, and information, financial, and social exchange. The sum of all the costs and benefits associated with these exchange episodes is called exchange utility. Each party to a transaction both gives and receives utility. It is important to differentiate between exchange episodes and longer-term aspects of exchange.
- All transactions range from discrete (or transactional) to relational exchange. Discrete exchange describes highly impersonal, one-time transactions. In discrete exchange, there is only minor social exchange with little concern for the possibility of future interactions. Conversely, relational exchange may be compared to the behavioral actions and reactions that occur in a successful marriage. It addresses the long-term, ongoing relationships that develop between exchange partners. More and more companies are engaging in relational exchange with each other. These companies are more concerned

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with sustaining exchange relationships and less concerned with enforcing the precise terms of an exchange episode. Ongoing relationships are customized over time to the particular needs associated with each exchange partner.

- On their path to the preferred state of relationalism, relationships move through four stages: awareness, exploration, expansion, and commitment. The norm of reciprocity, reflective of the *give* and *take* that sometimes develops between exchange partners, provides the impetus necessary to move from awareness through to the commitment stage. Reciprocity can be facilitated or inhibited within an exchange relationship by the type of communication processes that evolve between channel members. In autonomous communication strategies, exchange between channel members is infrequent. This strategy is typically associated with discrete exchange. By contrast, collaborative communication strategies generally prevail within highly-relational exchange. Collaborative strategies are associated with more frequent communication and more information sharing. Collaborative strategies are consistent with the cooperative character of relational exchange.
- The importance of developing and preserving exchange relationships can be demonstrated in buyer-seller interactions. The relational orientation has become known as relationship selling. In relationship selling, sellers actively engage customers as partners. For instance, buyers and sellers might co- design product offerings so they can each benefit directly from the exchange association.

4.9 Channel Leadership and Power

Channels usually perform better if a party is in charge, providing some level of leadership. Essentially, the purpose of this leadership is to coordinate the goals and efforts of channel institutions. The level of leadership can range from very passive to quite active. The style may range from very negative, based on fear and punishment, to very positive, based on encouragement and reward. In a given situation, any of these leadership styles may prove effective.

Power is our willingness to use force in a relationship. It is often the means by which we are able to control or influence the behavior of another party. In the channel mechanism, power refers to the capacity of a particular channel member to control or influence the behavior of another channel member. For instance, a large retailer may want the manufacturer to modify the design of the product, or perhaps be required to carry fewer inventories. Both parties may attempt to exert their power in an attempt to influence other's behavior. The ability of either of the parties to achieve this outcome will depend upon the amount of power that each can bring.

Effective channel management can be achieved if channels members appoint effective leaders who take a broad inter-organizational perspective of distribution opportunities and problems .These leaders must emphasize the need for developing cordial channel relationships.

Channel leaders can use their leadership power to manage and resolve conflicts effectively, leading to improvement in coordination and functioning of channels. The effectiveness of channel leaders depends on the extent of power they hold and the acceptance and attitude of the rest of the channel members. Channel leaders must seek to reduce functional conflict and levels of dysfunction conflict in the channel. Channel leaders can use different methods to resolve channel's conflicts. They include coercion, rewards and the use of legitimate expert and referent power.

- **Reward Power** is the ability to offer a reward. Channel leaders can use reward power to resolve channel conflicts.
- **Coercive Power** is a threat of punishment. The channel leader can use coercive power to control the actions of channel members. For example, a manufacturer might threaten a retailer with loss of exclusive distribution if it does not agree to do the desired tasks.

- **Legitimate Power** is power from contract agreement or organizational relationships. Channel leaders can reduce conflicts by using this power, which gives them the right to make certain decisions and ensure that other channel members follow them.
- **Expert Power** is power resulting from technological expertise or proprietary reasons. Expert power can be in the form of knowledge about certain channel functions that other members are unaware of, but would stand to benefit from.
- **Referent Power** results from ability to influence further action. Channel leader have the right to permit the other members to be associated with certain trade associations.

4.10 Measuring Channel Performance

While designing or structuring a distribution channel, an analysis of the performance of channel partners by suppliers becomes necessary. A distribution channel can be assessed in terms of performance dimension such as channel effectiveness, channel efficiency, productivity, channel equity and channel profitability.

In the following section, we will try to examine how to evaluate the performance of a marketing channel. Beginning with measures that analyse the performance of a marketing channel from the macro and the micro perspective, we will proceed to discuss strategic profit model – a diagnostic tool for estimation of channel profitability. This will be followed by a discussion on the contributions made by channel members and their appraisal using activity based costing and direct product profit.

Measurement of Channel Performance at Macro Level

Performance may be defined as 'the sum of all processes that will lead managers to taking appropriate actions in the present that will create a *performing* organisation in the future' or in other words, 'doing today what will lead to *measured value outcomes tomorrow*'

At macro level questions such as the following become important

- Does distribution cost too much?
- Are there people who are disadvantaged by the current distribution system?
- How do channel members at various levels of distribution compare, in aggregate, productivity per employee?
- Has productivity been increasing more rapidly in manufacturing, wholesaling, or retailing?

Macro level performance dimensions are:

- **Effectiveness:** It refers to the channel members' ability to provide the required service at least cost and its ability to satisfy customer needs. It focuses on issues like Lot size, delivery time, location convenience and assortment breadth and his role in stimulation of demand, that is, what are the efforts made by the channel member to increase customer base or increase the usage of the product.
- **Equity**: Extent to which marketing channel serves the market or customer with equitable opportunities, especially to disadvantaged or geographically isolated consumers.
- **Efficiency:** Judges the ability of intermediaries to perform necessary channel functions by incurring minimal costs. Productivity deals with the extent to which the total channel investment in the form of input have been optimized to yield maximum output.
- **Profitability:** It is concerned with a channel's financial efficiency with respect to R.O.I. over

1. Stock turns and margins
2. Control on overhead costs c. Cost and use of funds

Measurement of Channel Performance at Micro Level

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Question here focus on profitability and costs

- Which channel member are solid run?
- Which channel seems to produce highest returns?
- Which suppliers/intermediaries will help the firm generate the greatest end user satisfaction?
- Which of the marketing flows is best performed by specific channel member?

Performance Dimensions at Micro Level are:

- **Goal Attainment:** They look at how an individual channel member should go about evaluating its own performance. How the channel member (Manufacturer)will evaluate the performance of another channel member (wholesaler)
- **Pattern maintenance** involves coordination of process and function among organizational units to help the system function smoothly.
- **Integration** refers to the coordination among the components of a channel to meet common objectives and maintain the entity's one single objective.
- **Adaptation** is the modification of resources required to meet system objectives

4.11 Diagnosing Channel Profitability

Channel profitability is a dimension that considers the financial performance of channel members in terms of Return on Investment (ROI), liquidity of the channel member, financial leverage, growth pattern and potential for sales and profits. The Strategic Profit Model (SPM) functions as an efficient tool to evaluate the profitability of channel Members..

- Cost and revenue of distribution channels can be used by a firm to determine the relative profitability and financial performance of channels.
- As a result of the financial analysis one or more appropriate managerial action may be taken.

Changes in frequency of sales calls, the size of minimum order, promotional expenses might lead to changes in profitability

Strategic Profit Model (SPM)

SPM is an analytic tool frequently used to determine ROI in a business firm. It is a tool that incorporates both income and balance sheet data and demonstrates how these data relate to each other to result in RONW (return on net worth)& ROA (return on assets).

Profit Margin X Asset Turnover = Return on Assets

Return on Assets X Financial Leverage = Return on Net

The formula can be broken down as: Profit margin = Net Profit / Net Sales

Asset Turnover = Net Sales / Total Assets

Return on Assets = Net Profit / Total Assets Financial Leverage = Total Assets / Net Worth Return on Net Worth = Net Profit / Net Worth

Hence, the formula for the strategic profit model can be simplified into:

Net Profit / Net Sales x Net Sales / Total Assets = Net Profit / Total Assets

Net Profit / Total Assets x Total Assets / Net Worth = Net Profit / Net Worth

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- Net profit margin is defined as % net profit divided by net sales. However, net profit margin actually measures the proportion of each sales rupees that is kept by firm as net profit.
- Asset turn over is a ratio of total sales divided by total assets. It actually measures the efficiency of management in utilizing assets. Its shows how much money in total sales volume is generated by each dollar that the firm has spent.
- Leverage - the result by multiplying net profit margin percentage times asset turnover ratio in return on assets (ROA). For OR, ROA is a critical measure of performance because it especially tells how well they have used all the resources at their disposal to achieve profit.

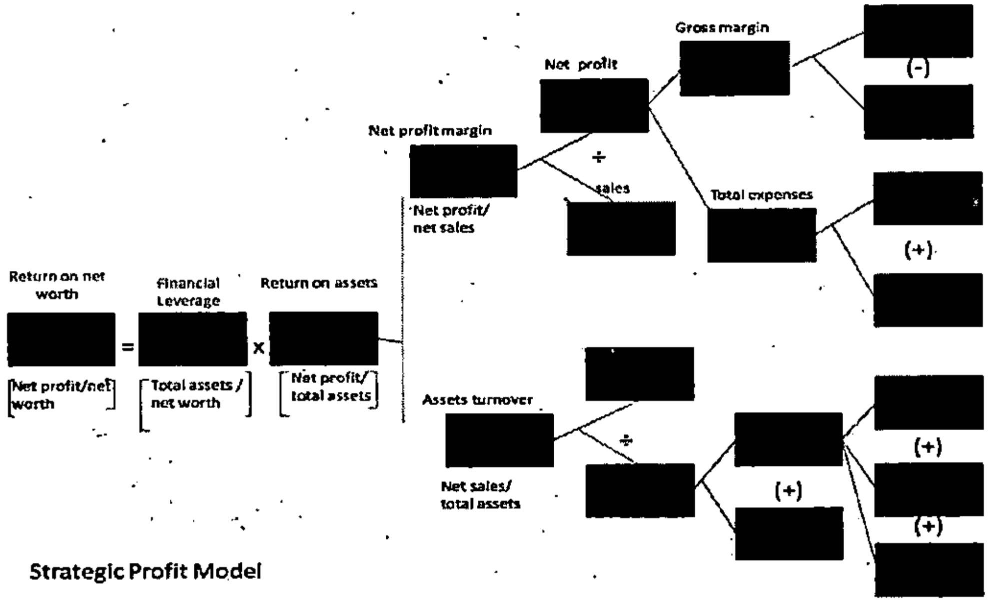

Figure 4.5: Strategic Profit Model

- Financial Leverage – A company can maximize its profitability using debt management as a tool. Debt management for a firm involves considering the cost of debt, the impact on shareholders and the company's financial soundness. A company uses bonds, debentures etc. as instruments of borrowing to raise debt capital. Financial leverage is one of the elements in debt management and refers to the contribution of owners and creditors in financing a firm.
- Economic Value Analyses- Managers use EVA as a tool to determine the true cost of capital to determine financial resource allocations. EVA considers the cost of both debt and equity. Eva ensures that capital is allocated most efficiently. It is extensively used that require decisions on cost justification. It is determined as the difference the net operating profit after tax and the total cost of capital.

EVA is computed as

EVA = after tax operating profit- total annual cost of capital

EVA also examines the capital used by an intermediary in the distribution.

Appraisal of channel Members' Contribution

A firm's financial performance is analyzed through the SPM and economic value analysis. However, to study channel performance in details, activity based costing and direct product profitability have to be used.

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Activity Based Costing

Activit y-based costing (ABC) emerged during the 1980s as a means to more accurately assign costs within an organization. ABC is a technique for assigning the direct and indirect costs of an organization to the activities consuming the organization's resources and then subsequently tracing the costs of performing these activities to the products, customers, or distribution channels consuming the activities. ABC has gained considerable attention as a potential tool for evaluating supply chain performance. The fragmentation or tailoring logistics services offers an opportunity to obtain a competitive advantage.

Activity based costing involves:

- **Activity accounting:** This involves determining product costs accurately. Special emphasis is laid on attributing overhead costs related to production, unlike in traditional accounting.
- **Cost drivers**: Cost drivers are activities that incur costs.
- **Direct traceability**: Costs are allotted to products or processes on which they are incurred, allowing managers to track them at any point of time.
- **Identification of costs that do not add value**: Costs that do not add any value to the product or service or the process concerned are identified so that they can be minimized or eliminated

Direct Product Profit

Allotment of shelf space is an important parameter for sellers as products differ in their contribution to sales and profits. Channel members give more priority to allocation of shelf space to profitable items.

Different approaches like mathematical programming, non-linear programming and direct product profit (DPP) are adopted by intermediaries while allocating shelf space. Of these, DPP is an important tool used by retail outlets.

DPP represents a products contribution to channel members' profit. DPP is a method used to derive contribution to profits on the basis of an item's gross margin.

4.12 Managing Channel Conflict

A channel conflict may be defined as "A situation in which one channel member perceives another channel member(s) to be engaged in behavior that prevents it from achieving its goals". Conflict is opposition, disagreement or discord among the organizations.

Conflict is an inherent behavioral dimension in all social system including the marketing channel. In any social system, when a component perceives the behavior of the other component to be impending the attainment of its goal or the effective performance of its instrumental behavior pattern, an atmosphere of frustration prevails. When this frustration is not resolved by the other component, a stage of conflict may exist. More over if the other component also perceives it as the blockage in its attainment of goal then both the components become objects of each other frustration and the conflict arises. In distribution channel, the same is also applicable. Here the conflict may be sales man versus distributor, distributor versus wholesaler, wholesaler versus retailer and so on. Some time in bigger organizations the conflict may arise between product company versus supply company, sales department versus production department. This type of channel conflict is more common in the organizations where every department is an independent cost center or profit center and its effectiveness are monitored separately.

Causes of Marketing Channel Conflicts

Various channel analysts have advanced a number of causes of conflicts. Robert Little point to such cause as misunderstood communication, divergent functional specialization and goals of the channel member and failing in joint decision making process. Some other experts suggest different economic objective and ideological differences among channel members as cause of conflict.

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The most comprehensive list of conflict causes in the marketing channels is:

1. **Role incongruities:** A role is a set of perception defining what the behavior of position member should be. When applied to the marketing channel, any given member of the channel has a series to role to which he is expected to fulfill. For example a franchiser is expected to provide extensive management assistance and promotional support for his franchises. In return the franchisees are expected to operate in strict accordance with the franchiser standards operating procedure. If either of the franchisee or franchiser deviates from his role, conflict situation may result.
2. **Resource scarcities:** This refers to conflict stemming between channel members over the allocation of some valuable resources needed to achieve their respective goals. A common example of this is the allocation of resources between the wholesaler and the salesman. In the case both wholesaler and salesman as a valuable resource necessary to achieve their target view the retailer. Frequently the wholesale distributor decides to keep some of high volume retailers for himself as his accounts. This leads to objection by salesperson over what they consider to be an unfavorable allocation of resources. This kind of disputes is often one of the conflicts.
3. **Perceptual difference:** Perceptions refers to the way an individual selects and interprets environmental stimuli. The way stimuli are perceived however is often quite different from objective reality. In a marketing channel context, the various channel members may perceive the same stimuli but attach different interpretation to them. A common example of this is the case of sale material provided by manufacturing company for their retailer to put on at their retail counters. From the company point of view these sale materials are valuable promotional tools needs to move their products of the retailer shelves. Whereas the retailer often perceives the material as useless junk which serves only to take up its valuable space.
4. **Expectational difference:** Various channel members have expectations about the behavior of the other channel members. In practice, these expectations are predictions or forecast concerning the future behavior of the other channel members. Sometimes this forecast turns out to be inaccurate but the channel members who make the forecast will take action based on the predictive outcome. By doing so, he can elicit a response behavior from other channel member which might now have occurred in the absence of the original action. An example of this could be seen at the retail end where a retailer expects stock on credit due to his past experience, now if the salesman, upon instructions of the distributor, tries to tighten the credit suddenly the retailer might refuse to oblige, resulting in possible conflict.
5. **Decision domain disagreement:** each channel member explicitly or implicitly carves out for himself an area of decision making which he feels is exclusively his own. In contractual channel system such as franchise, the decision domain is quite explicit and usually spelled out clearly in franchise contract. But in more traditional loosely aligned channels made up of independent firms, the decision domains are sometime up for grabs. Hence conflicts can arise over which member has the right to moves to make the decision.
6. **Goal incompatibilities:** Each member of the marketing channel has his own set of goals and objectives that are very often incompatible with those of other channel members. When goals of two or more members are incompatible, conflicts may result and incompatible goals often arise between channel members for example the most common conflict issues, which arise between manufacturer and industrial distributor.
    - How to handle large accounts
    - The required inventory stocking levels
    - The quality of distributors management
    - Size of distributor's margin

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Clearly underline many of these issues, are the difference in goals, aims and values among channel members involves. Furthermore in consumer goods market there are literally items of thousands of small retailer served by large manufactures. Large manufacturers tend to be growth oriented where as small retailers are more interested in status quo. The likelihood of the conflict is high in such situation is because in their pursuit of policies that re congruent with their dynamic goal. The former would likely adopt innovative programs that contradict the more static orientation of the latter.

7. **Communication difficulties:** Communication is the vehicle for all interactions among these channel members. Whether such interactions are cooperative or conflictive. A foul up or break down in the process of communication can turn quickly a cooperative relationship into a conflicting one. For example manufacture often makes changes in product design, prices and promotional strategies. The resellers generally feel that they are entitled to ample advance notice of such changes so that they can make appropriate strategic adjustments, if necessary. If adequate communication is not provided and these failing results in negative consequences for a channel member, severe conflict can result.

Types of Conflict

Each channel member views the conflict, the relationship and the tensions differently. Following are the types of channel conflicts:

- **Latent conflict:** The channel members may be unaware about the opposition. They do not fully sense the conflict. This is due to the separate or un-conflicting goals.
- **Perceived conflict:** The channel members sense that some sort of opposition of perceptions, of interest, or of intensions exists. It is more psychological, i.e. two organizations can perceive that they are in disagreement but their individual members do not consider it as a very serious issue.
- **Felt conflicts:** When channel members not only perceive the opposition or disagreement but also feel it actually they are felt or affective conflicts. This needs to be sorted out at an early stage to avoid further consequences.
- **Manifest Conflict:** If felt conflicts are not managed in time and properly, they can become manifest or overt conflicts and these conflicts stop the cooperation and understanding between two organizations and block the other from achieving its goals.
- **Functional Conflict:** When channel members accept that there is opposition and disagreement but actually, this opposition will improve their relationship, it becomes functional conflict. It is common, obvious and sometimes desirable too due to the interdependence of channel members on each other.

Conflicts can also be classified as:

1. **Vertical conflicts:** Vertical conflicts occur due to the differences in goals and objectives, misunderstandings, and mainly due to the poor communication Lack of role clarity and over dependence on the manufacturers. For e.g. today the large retailers dominate the market and dictate the terms. Hence there are often conflicts between these giant retailers and the manufacturers Wholesalers expect manufacturers to maintain the product quality and production schedules and expect retailers to market the products effectively. In turn, retailers and manufacturers expect wholesalers to provide coordination functional services. If they fail to conform each others expectations, channel conflict results.
   - Wholesalers expect manufacturers to maintain the product quality and production schedules and expect retailers to market the products effectively. In turn, retailers and manufacturers expect wholesalers to provide coordination functional services. If they fail to conform each others expectations, channel conflict results.

Some common reasons for vertical conflict are:

- Dual distribution i.e. manufacturers may bypass intermediaries and sell directly to consumers and thus they compete with the intermediaries.
- Over saturatión, i.e. manufacturers permit too many intermediaries in a designated area that can restrict, reduce sales opportunities for individual dealer and ultimately shrink their profits.
- Partial treatment, i.e. Manufacturers offer different services and margins to the different channels members even at same level or favor some members.
- New channels, i.e. manufacturers develop and use innovative channels that create threat to establish channel participants.
- Wholesalers expect manufacturers to maintain the product quality and production schedules and expect retailers to market the products effectively. In turn, retailers and manufacturers expect wholesalers to provide coordination functional services. If they fail to conform each others expectations, channel conflict results.
- No or inadequate sales support and training to intermediaries from the manufacturers.
- Irregular communication, non co-operation and rude behavior with the channel members.
- Stipulation of ordering in advance, high stock holding and dumping the stock at the intermediaries.
- Delays in delivering the products or sometimes dispatching the products without confirmed order.
- Refusal to replace or take back the goods damaged in transit. Non co- operation in replacement of faulty goods, repairing services, and installations.
- No co-operative advertisements. Manufacturers do not share any expenses of advertisements.
- No or inadequate credit offered to the intermediaries. Margins / commissions are not sufficient and there is no periodic revision of commission and other terms.

Conflicts due to the Intermediaries Actions are:

- Intermediaries promote and sell more private labels than promoting the manufacturer's brands.
- Intermediaries encourage customers to switch to private labels / competitive products.
- Intermediaries carry competing lines and give more showroom space.
- No support in the manufacturer's promotional efforts.
- Intermediaries fail to get the expected / promised efforts.
- Intermediaries refuse to service and install manufacturer's products.
- No appropriate and timely market feedback and report to the manufacturers.

2. **Horizontal conflicts**: Horizontal conflicts are the conflicts between the channel members at the same level, i.e. two or more retailers, two or more franchisees etc. These conflicts can offer some positive benefits to the consumers. Competition or a price war between two dealers or retailers can be in favor of the consumers. Reasons behind horizontal conflicts are:

- Extra service offered by one dealer / retailer can attract customers of others.
- Crossing the assigned territory and selling in other dealers / retailers / franchises area.
- Unethical practices or malpractices of one dealer or retailer can affect other and spoil the brand image.

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3. **Inter Type conflict**: Inter type conflict occurs when, the Intermediaries dealing in a particular product starts trading outside their normal product range. For example, now the supermarkets such as Food world also sell vegetables and fruits and thus compete with small retailers selling these products. Large retailers often offer a large variety and thus they compete with small but specialized retailers. This concept is called as "Scrambled Merchandising" where the retailers keep the merchandise lines that are outside their normal product range.
4. **Multi-channel Conflict:** Multi-channel conflict occurs when the manufacturer uses a dual distribution strategy, i.e. the manufacturer uses two or more channel arrangements to reach to the same market. Manufacturers can sell directly through their exclusive showroom or outlets. This act can affect the business of other channels selling manufacturer's brands

Manufacturers can bypass the wholesalers and sell directly to the large retailers. Conflict becomes more intense in this case as the large retailers can enjoy more customers and so the profit due to offering more variety and still economical prices, which is possible due to a volume purchase.

Resolving Channel Conflicts

Conflict is a natural phenomenon, which cannot be eliminated. In channel management, it is an inevitable as many individuals, institutions are involved and they are interdependent. Certain conflicts are constructive too. The conflicts can be reduced and managed better to reduce the friction in the channel management. Various techniques can be used to resolve the conflicts. It is important to find out the root cause behind the conflict so that appropriate technique can be used to resolve the conflicts and lasting effect is possible. Some techniques are as follows:

1. **Channel leadership:** Many channel conflicts can be resolved through the effective channel leadership. Channel leader is able to reduce conflicts because he possesses the channel power. Channel power is the ability of one channel member to influence another member's marketing decisions and goal achievement. It enables the leader to influence overall channel performance. The channel leader controls resources on which other members depend. Channel power can increase conflict and reduce cooperation if one channel member uses coercion to influence others. Manufacturers, wholesalers or even retailers can become the channel leaders. For example, producers like IBM, Ford can act as channel leaders because of their economic power.
2. **Adoption of Super ordinate goals:** The channel members come to an agreement on the fundamental goal they are jointly seeking, whether it is survival, market share, high quality or customer satisfaction.
3. **Exchange of persons between two or more channel levels:** This helps in better understanding. It can reduce the misunderstanding and conflicts can be reduced substantially through this communication. Each will grow to appreciate the others point of view and carry more understanding when returning to their position.
4. **Co-Opt:** It is an effort by one organization to win the support of the leaders of another organization by including them in advisory councils, board of directors so that they feel that their opinions are being heard. Co- operation can reduce conflict provided both the parties compromise some or the other issues in order to win the support of the other side
5. **Joint membership in and between trade associations:** Such associations bring all participants under one roof for more exposure to the public and to improve relations with each other by understanding their problems.
6. **Diplomacy:** Diplomacy takes pace when each side sends a person or a group to meet with their counterpart from the other side to resolve the conflict. It makes sense to assign diplomats to work more or less continuously with each other to avoid the conflicts.
7. **Third-Party Mechanisms:** When conflict is chronic, and the above mentioned techniques are ineffective, both the parties may have to resort to third parties, which are not involved or not the part of the existing channel.

- *Arbitration:* In this method, the two parties agree to present their arguments to a third party and accept arbitration decisions.

8. **Mediation:** Mediation implies resorting to a neutral third party who brings skills in conciliating the interests of the two parties. Mediation is the process whereby a third party attempts to secure settlement of a dispute by persuading the parties either to continue their negotiations or to consider procedural recommendations that mediator may make. Mediator has a fresh view of the situation and may perceive opportunities that insiders cannot. Effective mediation succeeds in clarifying facts and issues. Mediators help the parties to set up their own decisions whereas in arbitration it can be compulsory.

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4.13 Channel Information System

Channel Information System is the orderly flow of pertinent operational data both internally and between channel members, for use as a basis of decision making in specified responsibility areas of channel management. Information technology has made a big difference to channel operations and management. Information systems have revolutionized the way information is collected, stored and transmitted between channel members. They add value to the distribution function and enable channel members to integrate different channel functions, which was not possible in conventional distribution systems. Channel information systems have also influenced the structure of distribution channels. Lengthy channels have given way to shorter and highly efficient distribution systems.

Functions of Channel Information System

CIS is of primary use of sales managers. Information technologies are a precondition for the development of information systems, and thus information systems in a supply chain, i.e. in distribution or marketing channels. Information technologies can play various roles within a supply chain Information technologies are a precondition for the development of information systems, and thus information systems in a supply chain, i.e. in distribution or marketing channels. Information technologies can play various roles within a supply chain. Therefore, it is necessary to underline its specific role in it

- the increase in market sensitivity,
- simplification of distribution systems,
- the increase in the number of channel types,
- the increase in the market size,
- wider use of e-commerce,
- internationalisation and easier access to global markets,
- change in distribution channels.

Information technologies are used in three broad areas, according to their areas of application and technological systems in their hierarchical structures, the most complex technological business systems, such as ERP systems (Enterprise Resource Planning), which were designed to cover and connect the whole company on the software level.

Targeted technological solutions (the lower level of technological solutions that facilitate optimising certain business functions or enhance visibility along channels), such as: warehouse management system – WMS, transport management system – TMS, or advanced planning system – APS; (c) Technological tools for executive-solutions: Electronic Data Interchange – EDI, the Internet or RFID (Radio Frequency Identification).

Elements of Information System

Channel information systems comprise an information database and the hardware and networks that help in the collection, processing and transmission of information. The hardware, software

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and networks vary depending on the application requirements of channel members. They vary for business-to-business applications, retailing applications, business to consumer applications and interactive applications for consumers. Transaction-Based Information System (TBIS), Continuous Replenishment Program (CRP), Efficient Consumer Response System (ECR), Point-of-Sale S ystems (POS), Quick Response System (QR), Electronic Data Interchange (EDI) etc., are some commonly used information systems.

Many companies have developed information systems to suit their needs. McKesson's ECONOMOST system, United Airlines and American Airlines' Apollo and Sabre systems, Analytic Systems Automatic Purchasing (ASAP) by Baxter Healthcare, Johnson & Johnson's Cooperative Action Plus (COACT) and Abbott's Quick Link information systems are some successful information systems. Precision Code, Data Designs, Archer's Retail Database Management System (ARDMS) and Product Information Management System by IBM are examples of database systems developed by companies.

Few of them are described below:

- CIS facilitate the sharing of information among manufacturers, suppliers, wholesalers, retailers, improve inventory management, and develop efficient production schedules reduce transaction costs, help assortment planning, new product development and order processing and replenishment.
- One of the earliest and most well known strategic information systems is Analytic Systems Automatic Purchasing (ASAP) developed by the American Hospital Supply Corporation. An American company dealing with hospital products. (Now Baxter Healthcare after its purchase by Baxter). It is a computerized system for ordering. Tracking and managing hospital supplies. Other companies that introduced similar automated and proprietary order-entry systems include Johnson & Johnson's Cooperative Action Plus (COACT) and Abbott's Quick Link.
- Some commonly used systems that facilitate performance of distribution functions include Shipping Container Marking (SCM). Computer- Aided Design (CAD), Electronic Data Interchange (EDI), Transaction-Based Information, Efficient Consumer Response (ECR) and a host of others. Shipping Container Marking is used not in business-to-business applications but also in retailing applications. It will be discussed along with retailing applications.)
- Let us now discuss some information stems that improve b to b - relationships among channel members.
- **Quick response (QR) system:** It is widely used in the apparel industry to ensure that fabric makers, apparel designers and retailers can share-info iätiff5'ut product design, orders, billing production, delivery-schedules and so on. It enables channel members along the entire chain to be aware of the requirements of one another well-in-advance. QR ensures that manufacturers and retailers coordinate activities along the whole chain so, that the right product is available to the consumer in the right place and at the right time.
- **Efficient consumer response (ECR):** It is a variation of the continuous replenishment program used in the apparel industry. ECR uses category management organizes product replenishment on product groups.

  This system was developed by independent grocers to offset the entry of retail giants like Wal-Mart and KMart into the grocery industry. ECR is a computerized system that uses software to collect retails sales data. Based on this information, the manufacturing, distribution and sales activities of products are developed. ECR serves to provide a wide assortment of products to the consumer, provide the best possible distribution system from the manufacturer the retailer and save costs by promoting products with consumer demand.

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- **Transaction-based information system (TBIS)** - TBIS helps integrate the process and communication of information about every transaction, right from product purchase at consumer level back to the manufacturer's level.

  TBIS also acts as information barmier to prevent the entry of new players into a particular distribution channel. The system helps create an information network that aids the smooth collection and transmission of information while preventing outside channel members from gaining access to this precious information.
- **Extranets:** The networking systems enable manufacturers to share information and conduct transactions with other channel partners like suppliers and distributors by linking their internal information network to an external network.

Advantages of Information Systems

Information systems can help a company acquire competitive advantage over competitors and other channel members in terms of comparative efficiency or bargaining power. The first enables the company to manufacture products and services cheaper than competitors, while the second gives the firm the ability to negotiate with other channel members to its advantage.

Competitive advantage in terms of comparative efficiency:

Inventory costs are lowered: Information systems enable a company to transmit relevant data about product requirements and delivery schedules to suppliers. Thanks to 'just-in-time' delivery, the company saves costs, which would have been incurred for storage and transport. It also enables shipping orders economically with minimum time spent on trans-shipment of goods. The ordering pattern of suppliers can also be identified to facilitate proper delivery schedules.

Data utility: Information systems enable information to travel at high speeds between channel members. The data can be transmitted in a standardized format, which means the firm can modify and analyse data quickly and easily, leading to better responses in shorter time-periods.

Reduces the need for personnel: Information systems assist customers and suppliers to access and check information electronically. This reduces the requirement for personnel to interact with customers and to enter and edit data.

Benefits of integration: Implementing information systems helps firms enjoy the benefits of vertical integration like better control over channel activities, cost reduction and improved coordination of different channel functions.

Increase sales: Information systems increase the sales of a firm's products by allowing cross selling of high-margin products. Ordering procedures are also simplified, leading to higher orders and improved sales.

Evaluate promotional activities: It enables the company to precisely evaluate customer response to discounts, rebates and other promotional activities. The company can also develop individualized sales messages based on information pertaining to customer purchase patterns, recorded in the information systems.

Competitive advantage in terms of bargaining power:

Switching costs are high: By linking channel members with a unique information system, the firm reduces the chances of these members switching to a different system. The need to retrain employees to ensure compatibility with a new system, the prohibitive cost of purchasing hardware and software, and costs of organizing an information system, prevents channel members from moving to a different

Differentiated offering: Implementation of information systems can provide a unique advantage over other distribution channels in terms of better product image, increased customer service, more information on product availability and better product handling and ordering.

Source of information: It allows customers to access information, on product specifications, alternative suppliers, price discounts, methods of ordering and delivery and so on.

Retailing applications Retailers use information systems to enhance communications between headquarters and retail outlets. Some retailers use computer-based networks running on proprietary software while some use satellite information networks to transmit information between different units.

Shipping Container Marking Technology (SCM) - Technology has vastly improved the distribution process at both wholesaler and Distribution centre levels for the retailer. This technology improves the efficiency of ordering and distribution tasks. Retailers prefer to place purchase orders with flexibility in the time of product delivery, to overcome the problem of fluctuating sales volumes. The use of scanned shipping container labels in SCM technology helps this by keeping track of information about the automatic shipping notice, the original purchase order and the specific cartons to be dispatched.

Electronic Shelf Labels (ESL) - Electronic shelf labeling has been adopted in retail supermarkets and hypermarkets. Many retailers stock as many as 20,000 assorted products. Putting a price tag on each item in the store shelf is tedious and labour-intensive. Moreover, some large retailers like Tesco, J. Sainsbury and Safeway make frequent price changes. For example, Safeway Plc which is an 'every day low price' (EDLP) retailer, makes as many as 1,500 price changes per week. ESL enables retailers change prices whenever the need arises, without changing labels on the shelf or for all products. This saves cost.

Business-to-consumer online applications - Companies use electronic sales channels to provide information to customers about products and services. These channels include online Internet services and interactive multimedia. For example, Digital Equipment Corporation (an American-based computer company acquired by HP) has its own on-line catalogue and ordering service, Digital's Electronic Store. Electronic markets are one step ahead of electronic stores and include products of competitors too in the company's database. The Apollo Information System of United Airlines and Sabre Information System o American Airlines provide details of availability of seats and reservation for all airlines.

Interactive multimedia applications - Shopping through interactive multimedia has become an important marketing channel. Companies and retailers are increasingly using online information systems for mutual benefit. Unlike other information systems, online systems enable customers to respond to information in the form of queries or purchase order. J.C.Penny, an American retail giant, uses Telaction, an interactive online shopping system that provides customers a virtual shopping experience from the comfort of their home. Customers access this system through a cable television channel and obtain product information using a push-button telephone. Similarly, Sears- Roebuck and IBM have created Prodigy, a home shopping and entertainment system that users can access through personal computers.

Information System in Managing Channel Relationship

Use of Channel Information Systems (CIS) has influenced the way in which different channel functions are performed. It has streamlined operations leading to improved channel flow. CIS has also changed the order in which different functions are performed. CIS has influenced the physical distribution of products or distribution flow. Transaction flow, promotion flow, inventory flow and negotiation flow have improved with the advent of information technology in channel management.

Information systems have a profound impact on channel member relationships.

They influence the balance of power, intensity of conflict and the extent of cooperation and coordination among channel members. CIS has changed the dynamics of power among channel members. EDI systems have reduced asset specificity, complexity of product specifications and coordination costs. This has led to a shift in the balance of power among channel members. Many retailers like Wal-Mart have developed efficient information systems that offer them substantial leverage over their suppliers. Even manufacturers like Philip Morris have conducted extensive programmes to build an exhaustive database about consumer preferences, which allowed them to influence downstream channel members. CIS reduce conflicts that may arise between supplier and retailer due to differences in different channel functions. Some common issues that give rise to conflicts are minimum order size, retail assortment, speed of delivery, retail inventory levels, retail promotion and performance management and the issue of retailers carrying competitors' products. However, the use of channel information systems minimizes the chances of conflicts.

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Coordination and cooperation among channel members have greatly improved due to CIS. Channel members have opted for collective goals over individual goals and have started looking for benefits to the channel as a whole. Information is easily available to all channel members, resulting in an increase in trust and commitment. Channels differ based on the type of channel members involved in cooperation and the extent to which members cooperate. Different channel systems include consensus systems, vertical systems, horizontal systems and inter-type systems. Channel cooperation and coordination have led to successful and profitable relationships at different levels in the channel - between manufacturers and suppliers, suppliers and retailers and between manufacturers and retailers.

4.14 Summary

Managing channels is one of the most important dimensions of businesses across the world for improving their value in the market. Customers are constantly on the look out for convenience and service, when purchasing goods. Effective channel management helps companies decrease costs and reach potential customers profitably. Effective channel management involves proper recruitment of channel members. Recruiting channel members should be a continuous process. In the recruitment process, screening involves elimination of applicants who do not match the criteria set for the position. After effective screening, the company has to make the final selection based on some criteria. These criteria can be divided into sales factors, product factors, experience factors, administrative factors and risk factors. After selecting channel members, they have to be constantly evaluated and based on their performance; the company will either retain existing channel members or try to forge relationships with new channel members. Channel members can be evaluated by using parameters like sales quota attainment, average inventory levels, proper management of inventory, channel members' cooperation in promotional and training programmes, etc. The distribution requirements of a company will keep changing according to changes in the product life cycle. Modifying channels accordingly is essential for the success of the organization. However, care should be taken in dealing with channel members for proper channel management. Conflict management among channel members is another important activity for the management of the organization.

Information technology has made a big difference to channel operations and management. Information systems have revolutionized the way information is collected, stored and transmitted between channel members. They add value to the distribution function and enable channel members to integrate different channel functions, which was not possible in conventional distribution systems. Channel information systems have also influenced the structure of distribution channels. Lengthy channels have given way to shorter and highly efficient distribution systems. Channel information systems comprise an information database and the hardware and networks that help in the collection, processing and transmission of information. The hardware, software and networks vary depending on the application requirements of channel members. They vary for business-to-business applications, retailing applications, business to consumer applications and interactive applications for consumers. Transaction-Based Information System (TBIS), Continuous Replenishment Program (CRP), Efficient Consumer Response System (ECR), Point-of-Sale Systems (POS), Quick Response System (QR), Electronic Data Interchange (EDI) etc., are some commonly used information systems.

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Multichannel marketing is where a single firm uses two or more marketing channels to reach one or more market segments. This process is also known as 'dual distribution.' Although additional channels increase the market coverage of the firm, they also result in greater conflict between the channel members, especially if the members are vying for the same market segments. Conflicts arise between marketing channel members when one member of the marketing channel thinks that another member is preventing or impeding it from achieving its marketing goals. Channel conflicts can be of three types - vertical, horizontal, and multichannel conflicts. Conflicts may arise due to various reasons such as a difference in the aim of producer and channel members, lack of clearly defined roles and responsibilities and both manufacturer and channel members fighting for the same market. The various methods for solving and managing conflicts include negotiation, problem-solving strategies, persuasive mechanisms, legalistic strategies, and climate management. Obtaining the cooperation and coordination of the channel members helps firms leverage their limited resources to achieve organizational objectives through the combined efforts of the channel members.

4.15 Glossary

- *Ownership:* Ownership flow takes place when the title to the goods passes from one channel member to another during their passage from the manufacturer to the consumer.
- *Price policy:* Wholesale or retail margins, list of prices and a specified discount have to be developed. These may reflect the interest of the intermediary as well as the interest of the producer and supplier if they have to form a stage for channel members.
- *Diplomacy:* Diplomacy takes pace when each side sends a person or a group to meet with their counterpart from the other side to resolve the conflict. It makes sense to assign diplomats to work more or less continuously with each other to avoid the conflicts.
- *Channel leadership:* Many channel conflicts can be resolved through the effective channel leadership. Channel leader is able to reduce conflicts because he possesses the channel power. Channel power is the ability of one channel member to influence another member's marketing decisions and goal achievement. It enables the leader to influence overall channel performance.
- *Ordering and Payment:* ordering and payment flow involves activities pertaining to the purchase of goods and making payment.

4.16 Review Questions

1. Discuss the criticality in Managing Channel Intermediaries.
2. Explain the channel selection process.
3. List out the various criteria to be considered for Performance Audit.
4. Discuss the several selection criteria should be considered during this final evaluation of channel members
5. Discuss the various means to motivate channel members.
6. Explain the dynamics of Channel Relationships.
7. Discuss the dynamic nature of Channel Power and Leadership.
8. Discuss the various types of Channel Conflict.
9. Managing Channel Conflict is an everyday affair. Comment and discuss the resolving Techniques.
10. Discuss and illustrate the economic justification for Measuring Channel Performance.

11. Discuss the financial tools for Measuring Channel Performance.
12. Discuss the Impact of Channel Information System on Channel Management.
13. Discuss the various B to B Information System Applications.

4.17 Further Readings

Notes

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UNIT-5

EMERGING OF MARKETING CHANNELS

Notes

(Structure)

5.1 Learning Objectives

After studying the chapter, students will be able to:

- Explain the Concepts of Supply Chains;
- Get an Overview of Value Chain;
- Describe the Supply Chain Effectiveness;
- Provide Insight into Logistics in 21st Century;
- Understand the meaning and importance of logistics management;
- Know-how to manage physical distribution;

5.2 Introduction

Supply Chain Management (SCM) maximizes profit by integrating three key flows across the boundaries of the companies that form the supply chain: flow of value (product/materials), information, and funds. Successful integration or coordination of these three flows produces improved efficiency and effectiveness for business organizations. In theory, supply chains can work as cohesive, singularly competitive units similar to a large, vertically integrated firm, without significant financial investments by the members of the chain. The basic difference between vertically integrated firms and a supply chain is that firms in a supply chain are relatively free to enter and leave supply chain relationships if these relationships are no longer proving beneficial.

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This poses challenges; supply chains are often very dynamic or fluid, partners can change, each partner will look out for its long term advantage, and this can also cause problems in effectively managing supply chains. While supply chain management may allow organizations to realize the advantages of vertical integration, certain conditions must be present for successful supply chain management to occur. It also creates competition amongst supply chains and supply chain partners, therefore, supply chains can operate more effectively than many vertically integrated conglomerates.

The term physical distribution is more appropriate to outgoing (outbound logistics) or forward movement of products, services, and information from a firm's manufacturing facility to customers, and involves defined network of transportation links, warehousing and storage, and finally delivery at the destination in a cost effective manner within the desired time. Some texts use terms *supply chain management*, and *logistics management* which are much broader concepts than physical distribution. As discussed earlier, supply chain management starts from the supplier of raw materials, then conversion at factory into finished products, storage at warehouses, and finally, supply to distribution channels to meet the demand of end-user for a finished product at an acceptable cost and service level. Physical distribution starts in a forward movement of goods from the company's production facility to end-user, and supply chain management starts before physical distribution. According to Stern, El-Ansari, and Coughlan, "*The term logistics management and supply chain management are widely used to describe the flow of goods and services and related information from the point of origin to the point of consumption.*" Some authors view *logistics* as the transporting, sorting, and handling of goods to match target customers' needs with a company's marketing mix – within individual companies and along a channel of distribution. Thus, logistics represents the value chain of a company, the starting point is the procurement and at the end of the chain is the customer. Logistics management includes both materials management and physical distribution. More and more companies are realising the importance of managing the entire supply chain rather than just transportation and warehousing decisions alone. The focus of managing supply chain is on removing inefficiencies and hurdles in meeting customer demand at the time when it occurs.

The concept of physical distribution is based on the highly acclaimed study of Howard T. Lewis, James W. Culliton, and Jack D. Steele of Harvard University in 1956. It says that entire transportation, storage, and product handling activities of a business and the total channel set up should be coordinated as one system that aims to minimise distribution costs for a particular customer service level because lower costs and better service contribute for increasing customer value. Often, one channel member manages physical distribution on behalf of all involved channel members. Tom Richman reported a trend toward centralisation, where one channel member in the supply chain assumes responsibility and authority for physical distribution for the entire channel.

5.3 Concepts of Supply Chains

Historically built on Procurement, Operations and Logistics foundations; Supply Chain Management exceeds these traditional concepts. Supply Chain Management is involved with integrating three key flows, between the different stages, across the boundaries of the companies:

- Flow of information,
- Product/materials, and
- Funds.

Members of the supply chain act as partners who are "linked" together through both physical and information flows. It is this that makes an effective supply chain. The flows that involve the transformation, movement, storage of goods and materials and money are called 'physical flows'. These flows are easily visible.

The physical flows are reinforced by information flows. Information flows are used by the various supply chain partners to coordinate their long-term plans, as well as efficiently control the day-to-day flow of goods and material to the supply chain. In essence, the supply chain enables the flow of products, services, and information goes both up and down the chain. Successful integration or coordination of these three flows produces improved efficiency and effectiveness for business organizations.

'Supply Chain Management' can be defined as the active management of supply chain activities to maximize customer value and achieve a sustainable competitive advantage. It represents a conscious effort by the supply chain firms to develop and run supply chains in the most effective and efficient ways possible. There can be various types of supply chains. There is a basic supply chain, and an extended supply chain. The definition of a basic supply chain is: a set of three or more companies directly linked by one or more of the upstream or downstream flows of products, services, finances and information from a source to a customer.

An extended supply chain includes suppliers of the immediate supplier and customers of the immediate customer, all linked by one or more of the upstream and downstream flows of products, services, finances, and information.

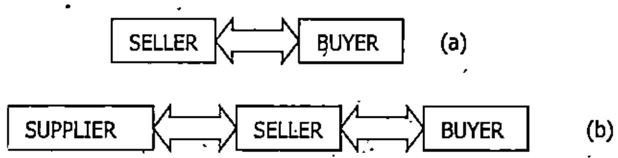

Figure 5.1: (a) Traditional Supplier-Buyer Relationship, (b) Basis Supply Chain

Source: Upendra Kachru (2010), "Exploring the Supply Chain," Excel Books

Figure 5.1 shows a traditional seller-buyer relationship (a) and a basic supply chain (b). An extended supply chain is the supply chain shown in Figure 5.2. An extended supply chain consists of a number of relationships. These are called tiers. The simplified version of the supply chain of Kalyani Breweries, exemplifies this.

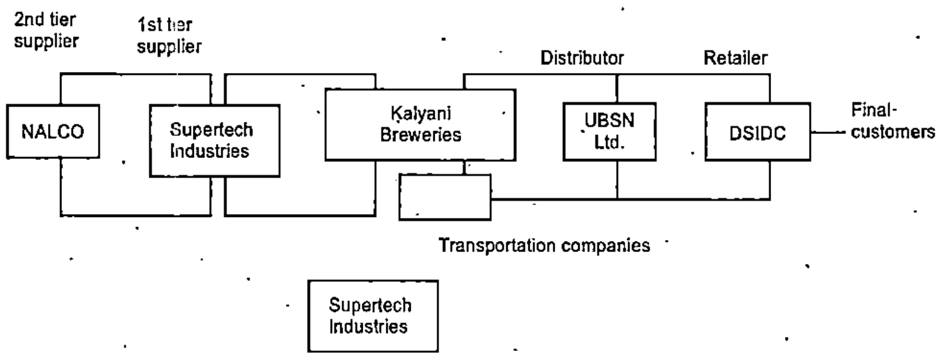

Figure 5.2: A Simplified View of Kalyani Breweries Supply Chain

Source: Upendra Kachru, (2010), "Exploring the Supply Chain," Excel Books

For the product to reach a typical customer who goes to the shop to buy beer, these linkages and the steps necessary to bring the product to him are not probably apparent.

Example: Take Cans

National Aluminum (NALCO) extracts the aluminium ore and converts it into aluminium metal. The aluminium metal is shipped to Supertech Industries at Bangalore, who convert the aluminium into cans. Supertech Industries supplies cans to Kalyani Breweries. As Supertech Industries supplies directly to Kalyani Breweries, it is a first-tier supplier in the supply chain. Using the same logic, NALCO is a second-tier supplier. It is the supplier of a supplier.

The beer is produced from other raw materials, such as barley, hops, yeast, and water. Aluminium cans from Supertech Industries used to contain the product and combined with cartons, to produce the packaged beverage. Kalyani Breweries then sells the packaged beverage to UBSN Ltd., the distributor, who in turn sells the finished good to retailers like DSIDC. Transport carriers, who move the inputs and outputs from one place to the next along the supply chain, provide the logistic support.

In the example given, we see that goods and information flow travels both ways. In other words, members in a supply chain are both customers and suppliers, with respect to these flows.

Example: Supertech Industries places an order (information) with Nalco, who in turn ships aluminium (product) to Supertech Industries.

Supertech Industries is, therefore, a customer to Nalco and a supplier to Kalyani Breweries. We can visualize an extended relationship where Kalyani Breweries returns empty pallets or containers to its first-tier suppliers. This would result in a flow of physical goods back up the supply chain. If this happens, Kalyani Breweries becomes a supplier to Supertech Industries. This is in addition to its being the customer. An organization can be part of numerous supply chains. This follows from the definition given earlier.

For any supply chain, there is only one source of revenue: the customer. At DSIDC, a customer purchasing beer is the only one providing positive cash flow for the supply chain. All other cash flows are simply fund exchanges that occur within the supply chain given that different stages have different owners. When DSIDC pays its supplier, it is taking a portion of the funds the customer provides and passing that money onto the supplier. It is all these flows - information, products, or funds - that generate the costs within the supply chain.

The appropriate design of the supply chain will depend on both the customer's needs and the role of the stages involved. This relationship reflects a single strand in the supply chain. In a typical supply chain, there are many more participants than the ones - Kalyani Breweries has hundreds of suppliers who provide barley, hops, yeast, cartons, etc. It also has a large extended network of retailers throughout the country whose number is even higher.

Regardless of the number and different types of suppliers a firm uses to satisfy its requirements, the overall structure and its essential interfaces and control processes have to be identified, irrespective of how vast and complex the system is. Any operation or facility in one supply chain arrangement may also be a part of different supply chains.

Example: As was mentioned earlier, Dabur is a part of the supply chain for consumer care products, consumer health products, food products, and home products.

A supplier typically participates in numerous different supply chains, which may involve a wide variety of industries and customers. In the case of the mail order business, such as Amazon.com, the company maintains an inventory of product from which it fills customer orders. In the case of retail stores, the supply chain may also contain a wholesaler or distributor, the store and, the manufacturer. The final consumer is always considered a member of the supply chain.

There can be many types of supply chains.

An example of an even more complex relationship could be the case of Reliance Communications. Reliance Communications might find Nokia to be a customer in one supply chain, a partner in another, a supplier in a third, and a competitor in still a fourth supply chain. This multiple supply chain phenomenon also explains the complex nature of the network created by many supply chains.

In large enterprises, like Dabur, involved in marketing a broad product line to numerous customers - engaging in basic manufacturing and assembly, and procuring materials and components on a global basis, the supply chain is very complex. However, for any supply chain, there is only one source of revenue, the customer. Logically, the sources of cost are all flows of

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information, product, or funds. Thus, the appropriate management of these flows is a key to supply chain success. The conceptual framework of a supply chain is shown in Figure 5.3.

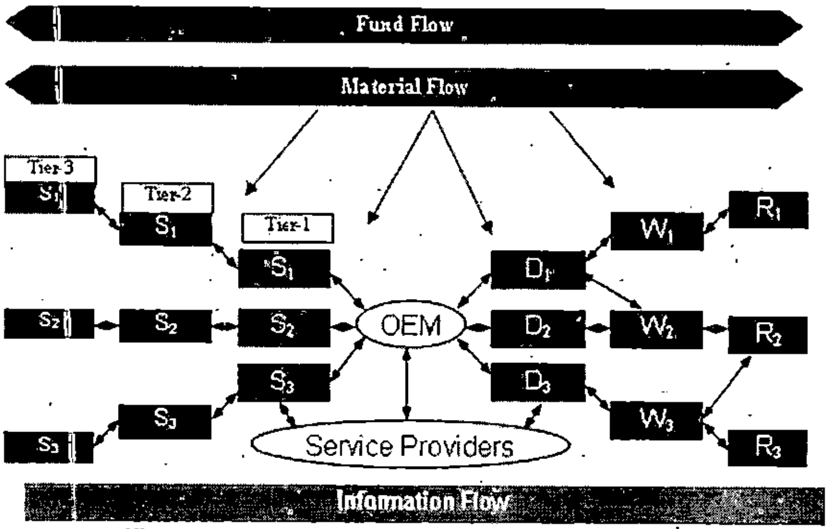

Figure 5.3: Conceptual Diagram of a Supply Chain

Source: Upendra Kachru, (2010), "Exploring the Supply Chain," Excel Books

In evaluating the success of the supply chain, the links between the manufacturer and the retailer have to function at a desired level. Even when the performance at earlier stages of the supply chain is outstanding, this is not important – if the product is not available to support retail sales. This is because the end customer is the only source of revenue for the supply chain and the linkage is the ultimate test to the success of the supply chain.

The basic objective of Supply Chain Management is to maximize the supply chain profitability. A more successful supply chain will, therefore, have higher profitability. The profitability of a supply chain is the difference between what the customer pays for the final product and the costs the supply chain expends in filling the customer's request.

FMCG major Hindustan Lever has reduced its inventory from about 45 days to less than 5 days; Mahindra & Mahindra has been able to reduce its inventory by 20-50 days, while in LG's case, the reduction has been around 30 days. These companies attribute a significant part of their success to the way they manage the operations of their supply chain.

Supply Chain Management of Dabbawala

As the story of the semi-literate tiffin-wallahs shows, a world-class supply chain basically requires the coordination of information and activities from the housewife (she supplies the tiffin and is considered as the supplier in the supply chain context) to the householder (he receives the tiffin and is the client), trust between the tiffin-wallahs (firms) and management of relationships (NMTBSCT).

How does this supply chain system work? The tiffin is filled with lunch at the client's kitchen by the housewife and kept outside the door of the residence at 8.25 a.m. At 8.30 a.m., the tiffin-wallah arrives, picks up the tiffin and moves on, knocking at the door only if the tiffin is not seen. Under normal circumstances, there is no interaction with any member of the client's household. By 8:38 a.m. the tiffin is placed on the bicycle or pushcart together with tiffins collected from other customers.

Bicycles and pushcarts drawn by individual tiffin-wallahs arrive from various collection centres to the suburban railway station by 9:20 a.m. At the stations, the sorting operation begins with tiffins sorted according to destinations and placed in cartages that are specific to each destination. The cartages come in two standard sizes, accommodating 24 and 48 tiffins each. This is completed by 9:41 a.m., when the suburban train arrives. The cartages, normally numbering 5-6, are loaded into the special compartment located next to the driver's cabin.

The train arrives at one of the major hubs by 10:21 a.m. The cartages are unloaded and bundled with those arriving from other collection centres. They are resorted according to destinations. By 11:05 a.m., the cartages are located into the suburban train for onward journey to the final destination terminals. When the suburban train reaches the terminal station, cartages are unloaded and tiffins are resorted, now according to specific delivery routes.

By 12:10 p.m., the tiffins are placed in destination-specific cartages and hitched, typically onto bicycles or pushcarts for delivery to individual clients and delivered at the doorstep of the client's workplace, at the latest by 12:30 p.m. The delivery process is reversed in the afternoon. The empty tiffin is picked up between 1:15 p.m. and 2:00 p.m. for its return to the client's home early that evening (e.g. by 5:30 p.m.).

As will be apparent, the whole operation is a marvel of product movement (through co- ordination, trust, multi-tasking and role changes) and perfect exchange of information (through the coding system, rail timings, and knowledge of Mumbai's geography) - this is a perfect supply chain. The supply chain is about information use and it is about product movement. There are three key areas of focus:

(i) Proper information use,

(ii) Proper product movement, and

(iii) Proper relationship management.

Factors that assist in enhancing information use, relationships, or product movement, help in improving and creating excellence in the supply chain.

5.4 Generalised Supply Chain Model

The general concept of an integrated supply chain is typically illustrated by a line diagram that links participating firms into a coordinated competitive unit. A conventional supply chain is shown in Figure 5.4. It is a chain of firms that are involved in providing a product or service, each firm performing its own functions that begins activities with a customer order and ends when a satisfied customer has paid for his or her purchase. Generally, more than one player is involved at each stage. A manufacturer may receive materials from several suppliers and then supply several distributors. Thus, most supply chains are actually networks.

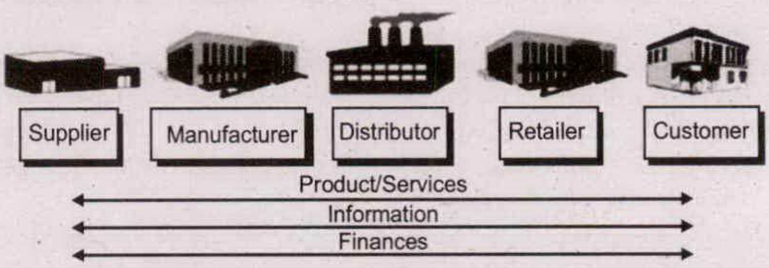

Figure 5.4: The Supply Chain

Source: Upendra Kachru, (2010), "Exploring the Supply Chain," Excel Books

Though many stages are shown in the Figure 5.4, each stage need not be present in a supply chain.

It is in the process that the organization generates profits for itself. A typical supply chain may involve a variety of stages. These supply chain stages include:

- Customers
- Retailers
- Wholesalers/Distributors

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- Manufacturers
- Component/Raw material suppliers

In materials management, most participants performed as buyers and sellers independently of other firms supplying to the buyer. Supply chain management differs in the sense that its efforts involve individual firms taking steps to improve the flow of information with its suppliers and reduce the variation in business processes and practices between the firms that form the supply chain. In essence, the supply chain concept tries to make each participant in the chain more efficient by coordinating their efforts towards a common goal.

A lot of interaction and trust between companies is required to make the supply chain work. In that respect, it is significantly different from materials management.

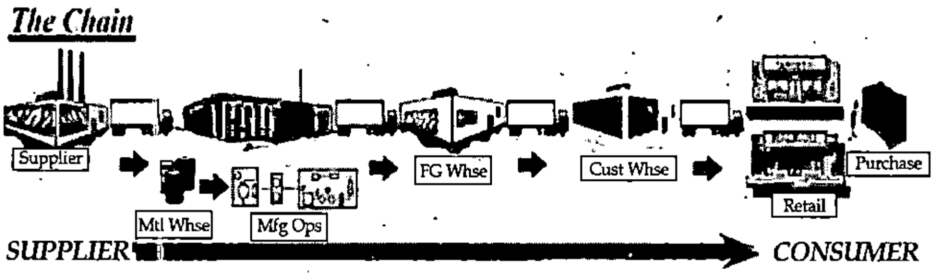

Figure 5.5: Different Stages of a Supply Chain

Source: Upendra Kachru (2010). "Exploring the Supply Chain". Excel Books.

Consider the supply chain shown in Figure 5.5. The component supplier after making the component sends the material to the material warehouse. From the material warehouse, the material goes to the manufacturer. After completion of manufacturing operations, the material goes to the finished goods warehouse, where it is transferred to the customer warehouse on receipt of an order. From the customer warehouse, the product moves to the retail outlet, from where it is purchased by the customer.

This is basically what the philosophy of the supply chain management recognizes. Without the retail store, the supplier does not make any profit and without the supplier, the retail store has no business. In either case, the customer gets no value. But what does this mean in terms of the supply chain?

Firstly, every product that reaches an end user represents the cumulative effort of multiple organizations. And secondly, organizations have to pay attention to what is happening outside their "four walls" and manage the entire chain of activities that ultimately delivers products to the final customer in order to maximize profits. This means that the supply chain philosophy extends the concept of partnerships into a set of beliefs that each firm in the supply chain directly and indirectly affects the performance of all the other supply chain members. It also affects the ultimate, overall channel performance.

This philosophy recognizes that the purpose of supply chain management is to improve customer value and satisfaction. It directs supply chain members to focus on developing innovative solutions to create unique, individualized sources of customer value.

Did u know? The ultimate objective of Supply Chain Management (SCM) translates into a philosophy which has the following characteristics:

- Systems approach to viewing the channel as a whole, and to managing the total flow of goods inventory from the supplier to the ultimate customer,
- Strategic orientation towards cooperative efforts to synchronize and converge intra- firm and inter-firm operational and strategic capabilities into a unified whole, and
- Customer focus to create unique and individualized sources of customer value, leading to customer satisfaction.

SCM philosophy drives supply chain members to have a customer orientation. To do this successfully, you need to synchronize the intra-firm and inter-firm operational and strategic capabilities into a unified, compelling marketplace force. Therefore, the SCM philosophy suggests the boundaries of SCM include not only logistics, but also all other functions within a firm and within a supply chain to create customer value and satisfaction.

This follows directly from Forrester's early concepts. Forrester recognized the integrated nature of organizational relationships and argued that these influence the performance of different functions. He said, "Managements need to understand better the inter-relationships between separate company functions and between the company and its markets and its industry". The 'Forrester Effect' illustrates the phenomenon that he described. It shows the influence of order information flow on production and distribution performance for each supply chain member, as well as the entire supply chain system.

In adopting a supply chain management philosophy, firms must establish management practices that permit them to act or behave consistently with this philosophy. There are a number of activities that are necessary to implement an SCM philosophy successfully. In adopting a supply chain management philosophy, firms must establish management practices that permit them to act or behave consistently with the philosophy. Previous research has suggested various activities necessary to implement an SCM philosophy successfully.

The primary SCM activities are:

1. Integrated behaviour and integration of processes
2. Mutually sharing information
3. Mutually sharing channel risks and rewards
4. Co-operation
5. Goal-sharing and partnership

To be fully effective in today's competitive environment, firms must exhibit integrated behaviour with the supply chain partners, such as suppliers, carriers, and manufacturers, to dynamically respond to the needs of the end customer. Customer Relationship Management (CRM) and Demand Planning have given today's businesses better tools for managing and integrating customers' demands across a company's entire value chain. These tools, coupled with proven business strategies and processes, produce a uniform picture of demand that can then integrate the behaviour and drive all subsequent planning and operations helping in the integration of processes. The end result is an agile organization, capable of rapidly recognizing and responding to changes in the market.

Integrated behaviour and integration of processes leads to information sharing. Information sharing is the willingness to make strategic and tactical data available to other members of the supply chain. Open sharing of information such as inventory levels, forecasts, sales promotion strategies, and marketing strategies reduces the uncertainty between supply partners and results in enhanced performance.

Effective SCM also requires supply chain partners mutually sharing channel risks and rewards that yield a competitive advantage. According to many experts, for long-term focus and cooperation among the supply chain members, risk and reward sharing is extremely important. Risk and reward sharing is a very, very difficult task. Though conceptually, it is possible, but no organization likes to forego its revenues and profits, and it becomes very difficult unless you can sell the benefits to the organization.

Co-operation among the channel members is required for effective SCM. Co-operation starts with joint planning and ends with joint control activities to evaluate performance of the supply chain members. It happens at several management levels involving cross-functional coordination across the channel members.

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Getting people to co-operate is the most difficult part of supply chain management, even when it may produce superior mutual outcomes. People are generally concerned about them and would like to promote their individual parochial objectives and co-operation limits the freedom of firms to act in their own interest when performing similar or complementary activities.

A supply chain succeeds if all the members of the supply chain have the same goal and the same focus on serving customers. Establishing the same goal and the same focus among supply chain members means that they are working towards a form of policy integration. Most organizations go through four stages of policy integration:

Stage 1: It represents the base line case. At this point, the supply chain is a function of fragmented operations within the individual company. It is based on traditional concepts and characterizedby staged inventories, independent and incompatible control systems and procedures, and functional segregation.

Stage 2: It is the start of internal integration. It begins with a focus on cost reduction rather than performance improvement. It is characterized by an emphasis on internal trade-offs and reactive customer service.

Stage 3: The firm attains internal corporate integration. It is characterized by full visibility of purchasing through distribution, medium-term planning, tactical focus, emphasis on efficiency, extended use of electronics support for linkages, and a continued reactive approach to customers.

Stage 4: It has a strategic focus. The organization achieves supply chain integration by extending the scope of integration outside the company to embrace suppliers and customers.

All firms go through these four stages. Ultimately, policy integration is made possible by the supply chain members trying to create compatible cultures and management techniques. Collaboration takes place when two or more independent companies work jointly to plan and execute supply chain operations with greater success than when they are acting in isolation. This is not easy and requires a sustained effort through cross-functional teams, in-plant supplier personnel, and third party service providers.

Firms that have reached Stage 4 proceed to build-up a series of partnerships. Successful partnerships aim to integrate supply chain policy to avoid redundancy and overlap, while seeking a level of cooperation that allows participants to be more effective at lower cost levels. The organization should select a small number of partners to facilitate increased cooperation. You have an effective SCM when these partners build and maintain long-term relationships where the relationship time horizon extends beyond the life of the contract – perhaps indefinitely.

Supply Chain Management extends the supply chain philosophy across all members of the chain. By integrating behaviour and processes, sharing information, planning in collaboration with each other, sharing the risks and rewards, co-operation, goal sharing and partnerships, the operations in the supply chain can be streamlined and the profitability of all members in the chain improved.

Example: Dell and Wal-Mart have been the pioneers in this concept of Supply Chain Management.

They reflect some of the most successful examples of effective supply chain management. What is interesting is that they have created world-class supply chains by tackling the 'Forrester Effect' from different ends. Dell has been a pioneer in the build-to-order ('pull') cycle i.e. reducing forecasting based demand uncertainty, and Wal-Mart has been a pioneer in the use of information flow to reduce demand uncertainty.

Dell Computers builds-to-order, i.e. a customer order initiates manufacturing at Dell. Dell does not have retailers, wholesalers, or distributors in its supply chain. While other computer companies must stock a month of inventory, Dell carries only a few days worth of stock. It plans orders and signals suppliers every two hours, which enables it to manufacture and deliver exactly what its customers want. In fact, many of the components are delivered to Dell within a few hours of assembly and shipped to the customer.

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The success of Wal-Mart is drawn from new technologies combined with new ways of doing business. It has used the power of information flow to create a global supply chain designed down to the last atom of efficiency. Automated replenishment and the smooth functioning of the Wal-Mart supply chain depend on reliable connectivity between the stores, the centralized database, and the distribution centres. The Wal-Mart network connects more than 2,400 stores, 100 distribution centres worldwide, and 950,000 Wal-Mart associates.

The success of supply chains is based on their ability to deliver superior cost, quality, delivery, and technological performance. These, along with the process linkages between the participants, are critically important factors to make for a successful supply chain.

Finally, it is necessary to appreciate that in order to operate a supply chain successfully, you need to clearly understand intra-organizational and inter-organizational supply chain processes. Where organizations do not keep this in view or take too much time to evolve inter- organizational processes, it generally becomes too late for the supply chain to succeed. There are more failures in SCM than there are successes.

SCM is involved with integrating three key flows, between the different stages, across the boundaries of the companies:

- ***Product/Materials:*** This is the most obvious and visible part of the supply chain. Physically, the flow manifests itself in the form of goods and services. This is also called the 'value flow'. Goods and service flows follow a similar sequence.

Example: Goods flows constitute raw materials (including material being transported), work in process, finished goods, and spares, and reverse flows due to returns, rework or recycling of the goods. The vendor side of these flows is called 'upstream' and the flows towards the customer are referred to as 'downstream'.

- ***Flow of information:*** Information flows allow the various supply chain partners to coordinate their long-term plans, and to control the day-to-day flow of goods and material to the supply chain. It consists of flows both from vendor to the customer and from the customer to the vendor. The downstream flow of information has important components like capacity estimates for plans, stocks available, dispatch advices, stock transfer notes, quality assurance reports, warranties, etc. The upstream components of information flow are inputs for forecasts, marketing plans, dispatch plans, production plans and procurement quantities and timing, orders from customers and dealers, quality feedback, and warranties.
- ***Funds:*** This is the commercial part of the supply chain, and runs counter to the direction of the value flow. It reflects the money paid with respect to the transfer of title and/or service delivery in the supply chain. Other features of cash flow are credit periods/advances for payments from customers/dealers, and to vendors. The cash flow determines how the value flow is financed by the various actors in the supply chain.

5.5 Value Chain

Within a typical enterprise the three areas, physical distribution, manufacturing support, and procurement overlap to provide integrated management of materials, semi-finished components, and products moving between locations, supply sources, and customers of the enterprise. Viewing each as an integral part of the overall value-adding process creates an opportunity to capitalize on the unique attributes of each while facilitating the overall process.

The product/material flow in a supply chain is concerned with the procurement, movement and storage of materials and finished products. For a large manufacturer, these operations may consist of thousands of components, raw materials and parts and their movements, which ultimately culminate in the delivery of products to an industrial user, retailer, wholesaler, dealer, or other customer.

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One of the key features of modern industrial system is that organisations use specialist services, incorporate proprietary items into products, and develop ancillaries to support their product and services. Very rarely does a single company perform all activities from product design, production of components, and final assembly to delivery to the final user by itself. There is usually specialization of role and a number of organisations are involved in the creation of the final product. Therefore, all the organizations connected with delivering the product or services to the final consumer are elements of a value chain system of the supply chain. Figure 5.6 extends the concept of the value chain from a single enterprise to a supply chain.

The value a supply chain generates is the difference between what the final product is worth to the customer and the effort the supply chain expends in filling the customer's request. Therefore, the profitability of the supply chain is based on the flows between and among stages in a supply chain, unlike the traditional measure of organizational success in terms of the profits at an individual stage. The final price of the goods should be such that it covers all of the costs involved, with a profit share for each participant in the chain.

Within the whole value system, there is only a certain value of profit margin available. This is the difference of the final price the customer pays and the sum of all costs incurred with the production and delivery of the product/service (e.g. raw material, energy etc.). The structure of the value system will determine, to a large extent, how this margin is distributed between the various elements of the value system.

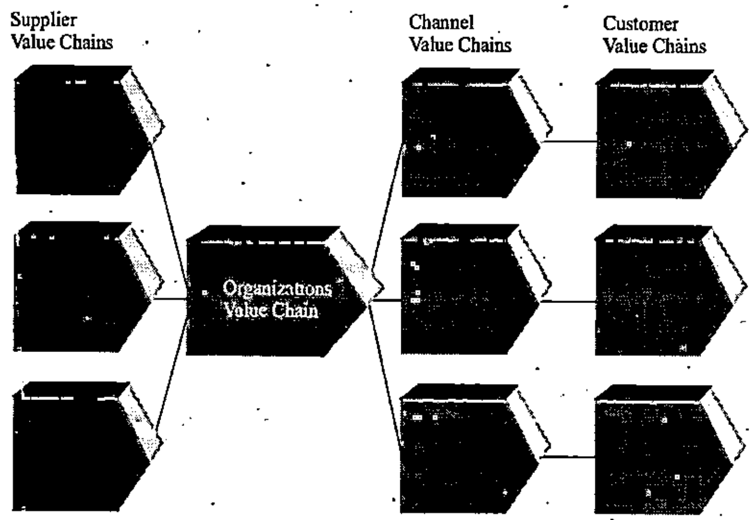

Figure 5.6: The SCM Value Chain System

Source: Upendra Kachru, (2010), "Exploring the Supply Chain," Excel Books

Example: Suppliers, producers, distributors, customers, and others.

Each member of the value chain will use its standing in the value chain, market position and negotiating power to get a higher proportion of this margin. A successful value chain is developed when each member of the value chain believes that it obtains value from the relationship. The ability of an organization to influence the performance of other organizations in the value chain is often a core capability and a source of competitive advantage. Many organizations have special functions that are involved in ancillary development, dealer and distributor training, etc.

In looking at the strategic capability of an organisation, it is not sufficient to look inside the organisation. We must look into the interconnections. Much of the value creation will occur in the supply and distribution chain. Any analysis of the strategic capability has to be viewed from a holistic view that includes the entire value chain.

Example: An analysis into the value chain may show that some of these interconnections will be critical to the competitive advantage of the organisation; some can perhaps have substitutes; others can be eliminated.

Hence, value chain analysis should cover the whole value system in which the organization operates. A value chain is one of the most common sources of increasing the technological competence of organisations. Knowledge is spread between members in the value chain through the process of diffusion. This results in adding competencies both to the provider and receiver of the knowledge. The traditional structure of the Japanese industry is illustrative of this. Units attached to the mother unit cooperated with each other to improve their efficiency, teach each other and learn from each other new and better ways of accomplishing their tasks, and help each other to reduce their costs. In doing so, they are able to achieve a higher total margin to the benefit of all of the members in the system.

Value Chain Analysis

Value chain analysis is not a very difficult exercise conceptually. However, depending on the nature of the product, the linkages, the primary processes involved, etc. it is often an exercise that can be quite complex and requires a large amount of information and data processing capacity for the analysis. However, many of the concepts of breaking up functions into activities and attributing costs to them are now a standard cost accounting practice which makes the process easier. Once the basic information has been collected and the linkages established, it becomes a routine exercise. A typical value chain analysis can be performed in the following steps:

1. Analysis of own value chain – identify the primary and support activities. Each of these activity categories needs to be broken up into its basic components and costs are allocated to every single activity component.
2. Analysis of customers value chains – examine how does our product fit into the value chain of the customer.
3. Identify activities that differentiate the firm and the potential cost advantages in comparison with competitors.
4. Identify potential value added for the customer – how can our product add value to the customers value chain (e.g. lower costs or higher performance) – where does the customer see such potential?
5. The final step is to identify those activities that provide a differential advantage compared to competitors. These are the competencies or the core competencies of the organization.

A strong and supportive value chain works like the traditional Japanese system, where members of the chain look at the benefits that accrue to the entire value chain. Such cooperation is possible and often seen in such value chains, e.g. increasing productivity, reducing stocks at different levels, or process improvements etc., are undertaken by members of the value chain and the advantages that accrue benefit all members of the value chain.

5.6 Supply Chain Effectiveness

The effectiveness and value of the supply chain is determined by its ability to align with its partners, whether they are service providers, employees, suppliers or distributors. The processes and systems have to be set to common business goals. It includes the business activity analyses that allow you to optimize processes, both strategic and operational. Supply chain effectiveness is determined by some identified management traits that set them apart from others. These traits include the following:

Strategy

It starts with strategy. Firms with best supply chains have a corporate strategy that drives planning, tactical design, milestones and other steps in strategy development an d implementation. The supply chain organization builds on and around this. The supply chain management strategy should enable firms to plan tactical operations and to prioritize suppliers, customers and products.

Notes

Strategy sets the platform for supply chain execution if the supply chain members understand the process crosses their company and extends beyond the company. The strategy has to be about the flow of products and information, which stretches from suppliers through to store shelves or to customer warehouses. If the company's strategy means a significant shift in markets, products or customers, then the supply chain must change.

The strategy is long-term and has a growth focus. The strategy must be dynamic, and must take into account the resistance to change that can happen within companies. That means the supply chain strategy must be a facilitator of change, be agile and able to recognize, incorporate and adapt to drive toward the changes required.

Metrics

Results matter, but the right measures matter more. Performance management often gets lost in the maze of supply chain initiatives. There are many new initiatives firms are taking in SCM:

Radio Frequency Identification (RFID), Six-sigma Quality, Lean Manufacturing, Outsourcing, Vendor-managed Inventory (VMI), Collaborative Planning, Forecasting and Replenishment (CPFR), Spend Management and Regulatory Compliance. All these initiatives promise to improve the speed of transactions, streamline processes, optimize throughput and minimize risk. But the effectiveness of these initiatives should also be evaluated as they relate in overall performance goals.

Financial measures are poor ways to evaluate, direct and manage supply chains. The key performance indicators are orders (if it is delivered complete, on time and accurate), lead-times, reliability, inventory levels, potential out of stock conditions and logistics costs. The metrics for these have to be got right.

Technology

Technology is a process enabler. Corporations invested trillions of dollars over the past two decades in supply chain management software and systems. Historically, however, their focus has been on improving transaction processing, streamlining processes and optimizing throughput – in short, on improving efficiency. Few firms, if any, have applied resources to supply chain effectiveness and the ability to plan strategically and detect exceptions before they become expensive problems.

Technology is vital for supply chain execution to provide event management, exception management, complete supply chain visibility from purchase orders to delivery orders, and as a tool for collaboration.

Supplier Performance

Supply chain success depends on supplier performance. Supplier performance, or the lack of, can create havoc on revenue, inventory and profitability. Companies and their supply chains must control suppliers, and gain insight into operational issues through interactions by identifying root causes and understanding the impacts of various actions. It is critical to align performance with demand planning. They should not let suppliers control their business as it will lead to much variability in performance.

Integration and Collaboration

The supply chain process requires integration throughout the organization and beyond with suppliers and customers Operations managers often make decisions about demand, supply, manufacturing, fulfilment and distribution without clearly understanding the impacts of these decisions on performance targets. This may result in gaps and blind spots in the supply chain that can significantly hinder results. Collaboration with key supply chain participants is important to provide additional focus and resources to the total supply chain.

Risk Mitigation

A supply chain is effective if the entire supply chain can be assessed to identify critical areas, including suppliers, logistics service providers, ports and other potential risks that could disrupt the company's supply chain and corrective action taken.

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All this factors are critical for supply chain effectiveness. The supply chain, in the ultimate analysis, has to have agility and responsiveness to better adjust to changing market conditions and, to some degree, to control those forces.

5.7 Financial Sophistication

Few managers question the benefits of applying the time-based strategies to supply chain operations. However, a valid question is, How fast is fast enough? Speed simply for the sake of being fast has little, if any, enduring value. The answer concerning how much speed is desirable is found in the financial impact. The process of creating value dictates that faster, more flexible, and more precise ways of servicing customers are justified as long as they can be provided at competitive prices. A third force driving competitive supply chain strategy is the ability to manage in a timelier manner to achieve financially attractive working arrangements.

The financial benefits of timely response are straightforward. Fast delivery translates to less inventory and reduced need for distribution facilities. Faster to customers means less working capital is required to support supply chain operations. Three aspects of financial sophistication are cash-to-cash conversion, dwell time minimization, and cash spin.

Cash-to-Cash Conversion

The time required to convert raw material or inventory purchases into sales revenue is referred to as cash-to-cash conversion. Cash conversion is generally related to inventory turn: The higher the inventory turn, the quicker the cash conversion. A goal of supply chain design is to reduce and control order receipt-to-delivery time in an effort to accelerate inventory turns.

In traditional business arrangements, benefits related to cash-to-cash conversion have typically been enjoyed at the expense of business partners. Given typical purchase discounts and invoicing practices, it is operationally possible for arms to rapidly sell merchandise and still qualify for prompt payment discounts.

Example: Terms of sale offering a 2 percent discount net 10-day payment (2% no 10) means that a prompt payment discount is earned if the invoice is paid within 10 days from time of delivery. Thus, if the invoice is $1000, a payment made within 10 days will earn a $20 discount. If the firm sells the product for cash before the invoice payment date, it, in effect, enjoys free inventory and may even earn interest by investing cash while awaiting the payment date.

In response-based systems, cash-to-cash conversion benefits can be shared by managing inventory transfer velocity across the supply chain. This ability to manage inventory velocity from origin to final destination has the potential to achieve greater efficiencies than attainable by a single firm. Coordinated operations may require that a designated firm in the supply chain serve as the principal inventory stocking location.

Such practice means that risk and benefits related to inventory need to be shared by participating firms. To facilitate such arrangements, supply chain members often replace the discounts with dead net pricing. Dead net pricing means that all discounts and allowances are factored in the selling price. Thus, incentives for timely payment are replaced by specific performance commitments at a specified net price. Invoice payment, based on negotiated net price is completed upon verification of physical receipt. Such payment is typically in the form of Electronic Funds Transfer (EFT), thereby streamlining both the flow of physical goods and cash among supply chain partners. Managing supply chain logistics as a continuous synchronized process also serves to reduce dwell time.

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Dwell Time Minimization

Traditional distribution arrangements typically involve independent business units loosely linked together on a transaction-to-transaction basis. A transaction view of traditional business operations results in a series of independent transactions buffered by inventory. In contrast, a supply chain has the potential to function as a synchronized series of interdependent business units. At the heart of supply chain operating leverage is the willingness to transfer inventory on an 'as-needed basis,' taking advantage of as much collaboration and information as possible. Such collaboration and information can be focused on maintaining the continued flow and velocity of inventory moving throughout the supply chain. The potential of such synchronization is a key benefit of supply chain connectivity. A significant measure of supply chain productivity is dwell time.

Dwell time is the ratio of time that an asset sits idle to the time required to satisfy its designated supply chain mission.

Example: Dwell time would be the ratio of the time a unit of inventory is in storage to the time that it is moving or otherwise contributing to achieving a supply chain's objectives.

To reduce dwell time, firms collaborating in a supply chain need to be willing to eliminate duplicate and non-value-adding work.

Example: If three different terms perform identical processes as a product flows along a supply chain, dwell times will accumulate.

Designating a specific firm to perform and be accountable for the value-added work can serve to reduce overall dwell. Likewise, timely arrival and continuous inventory flow between supply chain partners reduce dwell. When a product flows from a supplier through a retailer's cross dock sortation process without coming to rest or being diverted to warehouse storage, dwell time is minimized. A collateral benefit of reducing dwell time and the associated logistics cost is the ability to reduce investment in inventory and related assets.

Cash Spin

A popular term for describing the potential benefits of reducing assets across a supply chain is cash spin, sometimes referred to as free cash spin. The concept is to reduce overall assets committed to supply chain performance. Thus, a dollar of inventory or the rent of a warehouse, if eliminated by a reengineered supply chain arrangement, represents cash available for redeployment. Such free capital can be reinvested in projects that might otherwise have been considered too risky. Naturally, cash spin opportunity is not unique to the supply chain. The potential to spin cash applies to all areas of a firm. What makes the potential of supply chain cash spin so attractive is the opportunity to collaborate between firms. The benefits flowing from fast cash-to-cash conversion, reduced dwell time, and cash spin combine to increase the financial attractiveness of effective collaboration. Another major force driving expansion of supply chain management is the growing involvement of most firms in international operations. Expanded global business is a result of two significant opportunities: market expansion and operating efficiency.

5.8 Logistics in 21st Century

The changing business strategies in the 21st century drive the logistics management in enterprises. Implementation of relationship logistics model in the process of logistics management provide enterprises speed, flexibility and efficiency in their logistics functions.

In 21st century digital technologies enable the development of new economic models. Gradual reduction in the production costs effects demand and supply equilibrium. Reduction in costs leads to increase in supply. In this case, new marketing and distribution methods are required to meet the demand. As a result of successful logistics management faster flow of goods and services is achieved. In economies based on digital technologies payment systems are transferred to the electronic environment. It is possible to reach millions of people at the same time in the digital environment. Development of digital economy enables faster and more efficient sharing of information and thus the quality of logistics process improves. database system together with the suppliers and distribution channels.

New developments in internet area influence the market structure, consumption choices and competition in business world. As the organization structures of corporations get more simplified their logistics systems become elastic and quicker. The organization structures operating at 7 days 24 hours are becoming widespread. Markets now are more global and personal. Since customers are more informed about the developments, they desire to buy higher quality at a lower price. In digital environment everything is carried out "just in time". "Just in time" advertisement, "just in time" communication, and "just in time" delivery are becoming everyday concepts used by the marketing managers. Somewhat digital technologies mean reaching millions of people at the same time. So, as a result of the increasing importance of customers, corporations concentrate on the customer oriented marketing concept.

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Information Technology and Logistics Management in 21st Century

Developing digital technology has enabled the boundaries to be removed in the world trade and increased competition has brought about the necessity of delivery of right product to the customer at the right time, at best price and with minimum cost. Distribution and logistics have been conceived as much important as the high quality standards of the product. It has been accepted that the way of providing the most appropriate and quickest distribution that takes a product from its production line and delivers it to the customer's shelf is as much important as producing that product. Corporations have discovered the logistics as the most effective competitive element in the conditions of the increased competition.

In the digital marketing concept of 21^{st} century logistics quality can outweigh the product itself in the competition among corporations. Now producer corporations give the same weight to the quick and effective realization of logistics services as the product and new production techniques. In the scope of logistics management, starting point of the physical distribution subsystem must be the customers' orders. Compared to traditional marketing activities in processes such as obtaining the orders, evaluating and classifying them, logistics information systems enhance the productivity of logistics activities and offer timesaving advantage. The cost of reaching a larger body of customers in logistics system is significantly lower than the other traditional ways by using the customer basis formed for the future marketing activities. Orders when obtained through the order forms in the internet web sites filled in by the customer's leads to the sales process mainly to be carried out in internet medium. During this process, a new distribution strategy must be developed instead of a distribution structure in a traditional purchasing process that will enable to reach a very large consumer body simultaneously and will include new mediator types. distribution subsystem.

New logistics systems have lower cost and work faster than the traditional systems in the flow of the larger scale orders to the buyers through the logistics information technologies. In compliance with this, putting the enterprises' information as buyer order into the physical distribution actions compatible with the buyer demand will be a factor providing competitive advantage among enterprises.

Development of appropriate and optimum transportation system and determining of transportation tools in this system considering the competitive advantages they offer is the other point that should be emphasized when the information technologies is used in logistics management.

Nevertheless, the enterprises which should establish a technological balance among the raw material resources, inventories, sales and production could obtain optimum stock level by taking the costs, demand, product features and competition conditions into account in the stage of inventory planning according to the quantity and variety. Warehousing is another area thought as one of the logistics actions starting point. This should be implemented in harmony with the high-tech distribution processes related to the storage of goods inside and outside of the enterprise by using the computer-communication systems. While preparing the warehousing policy and strategies, the selection process of storage place which combines new technologies and the firm infrastructure in e-business environment should be planned to have minimum cost and maximum efficiency to create competitive advantage against the competitors.

Notes

5.9 Objectives of Supply Chain and Logistics Management

Meeting Customer Service Requirements

Marketing strategy aims at satisfying customers' needs and wants. Physical distribution is invisible to most consumers. They pay attention to it only when something goes wrong and it may be too late for the company to cheer them. It is not unusual in India, particularly for service providers failing to meet customer service delivery expectations.

Physical distribution systems must meet the factory needs towards supply chain and the customers. First of all it is necessary to find out what are customers requirements and what competitors are providing. Customers want timely delivery, efficient order processing, willing suppliers to meet emergency needs, progress report, proper handling of products, post purchase services, prompt replacement of defective goods, and warranties. Customers' inventory requirements affect the expected level of physical distribution service. The company must determine the relative importance of these aspects. Paying attention to customer needs and preferences is necessary for increasing sales and getting repeat orders. For example, an auto manufacturer with a low inventory of replacement parts requires fast, dependable supply from suppliers of component parts. Repair service facility and time for car buyers is very important. Anne G. Perkins found that even when the demand for products is unpredictable, suppliers must be prepared to respond fast to inventory needs. Under these situations, distribution costs may be a minor consideration compared to the importance of service, dependability, and timeliness.

Most customers are concerned with speedy and dependable delivery of what they want and don't care how a product moves from a manufacturer to the point of delivery from where they acquire it.

Minimising Total Distribution Costs

Companies strive to minimise their distribution costs associated with order processing, inventory management, materials handling, warehousing, and transportation. However, decreasing costs in one area often increases them in another. The company has to develop an economical system without compromising the minimum guaranteed service-delivery level and to achieve this trade-offs between service level and costs becomes unavoidable. Taking a systems approach to distribution, the focus from lowering costs of individual activities shifts to minimising overall distribution costs. Adoption of total cost approach requires analysing costs associated with distribution alternatives, such as comparing inventory levels against warehousing costs, materials cost against expenses involved with various modes of transportation, and all distribution costs against customer service requirements. Lowest overall distribution system cost should be compatible with company's stated minimum expected level of customer service objectives. This requires trade-offs costs because higher costs in one area of distribution system may be necessary to obtain lower costs in another. In many cases accounting procedures, asking customers to rank their preference and employing statistical procedures, and computer simulations are used to determine total costs.

Curtailing Time-cycle

Time-cycle refers to the time it takes to complete a process. It is an important objective of physical distribution to reduce time-cycle to reduce costs and increase customer service. Many businesses such as overnight delivery companies, and major news media strive to slash time-cycle to gain competitive advantage. For example, FedEx overnight delivery service conducts research and employs new techniques and procedures to be the fastest overnight delivery service. FedEx offers its customers package-tracking software so that they can track the progress of their package. In such situations, speed is important than costs.

Notes

5.10 Order Processing

The receipt of order and transmission of sales order information is an important function of physical distribution. In developed and developing countries, computerised order processing furnishes a database for all channel members to increase their productive efficiency. Efficient order processing contributes to customer satisfaction, reduces costs and time-cycle, and increase profits.

Order entry starts when customers or sales people place purchase order by telephone, computer, or mail. Electronic ordering system reduces procurement costs. After receiving order, it is passed on electronically or by whatever system is in place to warehouse to verify product availability, to credit department for checking prices, terms, and customer's credit rating. After credit department's approval, warehouse personnel assembles the order. If the product is out of stock, production order is sent for manufacturing or the customer is offered a substitute.

After assembling the order and packing for shipment, the warehouse arranges delivery though an appropriate carrier. The customer is sent an invoice, inventory records are updated, and order is delivered.

Order processing can be manual or electronic depending on which approach offers more speed and accuracy within cost limits. In India, so far electronic order processing is not very common with many smaller businesses. Manual processing is suitable for smaller volumes. Electronic Data Interchange (EDI) is very suitable for integrating order processing with production, inventory, accounting, and shipping. It links marketing channel members, facilitators, and provides convenience to member to cut down paper work and sharing information on invoices, orders, payments, inquiries, and scheduling among all members.

5.11 Transportation

It helps in positioning inventory geographically. There are three forms of transport, i.e., private carriage, contract carriage and public carriage.

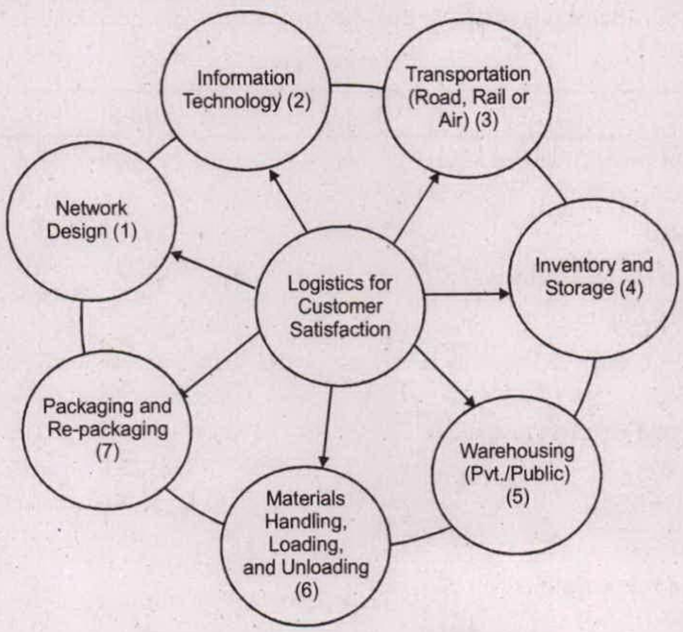


Figure 5.7: Functional Areas of Logistics

Notes

There are two fundamental factors to transportation performance:

- *Cost:* It is the payment for movement between two locations and expenses related to administration and maintaining in-transit inventory. Hence, logistical systems should be designed to utilise transportation that minimises total system cost.
- *Speed:* It is the time required to complete a specific movement. Speed and cost of transportation are related in two ways:
  - Faster Service with higher rates.
  - Faster service means shorter time interval.

Therefore, balancing of speed and cost is necessary.

Road Transport

Although India has the third largest road network in the world, efficient and speedy transportation is not facilitated due to a large proportion of unsurfaced roads (50 per cent) and the over dependence on national highways. The national highways (38,445 Km.) account for less than 2% of the total road network but carry as much as 40% of the total road traffic in the country. Currently, 80% of the passenger movement and 60% of the freight movement depends on roads. Estimates indicate that, by the end of the year 2000, road traffic will account for 85% of passenger and 65% of goods traffic.

The Plan of Super National Highways

After the national highways, there is a plan under the consideration of the Central Road Transport Ministry to create Super National Highways. Through these super national highways of about 14,000 km. length, there is a plan to link big sea ports of the country with important cities. In the building of these highways, the role of the private sector will be important. This will be done on the basis of BOT (Build-Operate-Transfer) by the private sector. The Government of India has received 22 feasibility reports for the building of Super National Highways estimated to cost about ₹ 1,50,000 crore. Out of these, 10 proposals have come from multinational companies.

After the amendment in Clause 9 of National Highway Ordinance 1956, the Rajya Sabha passed the National Highway (Amendment) Act 1997 on March 11,1997 through voice vote. This has given the central government the right of enacting laws regarding land acquisition for the development of national highways. By this, the process of land acquisition has been simplified.

Table 5.1

	1950-51	1994-95
1. Length of Roads (Thousand Km.)	400.0	2884.0
Total		
Surfaced	157.0	About 50%
2. Length of National Highways		
(Thousand Km.)		
Total	22.0	38.45
Surfaced	22.0	38.45
3. No. of Regd Vehicles (Thousand)	306.0	30287.0
All Vehicles	82.0	1796.0
Goods Vehicles	34.0	425.0
Buses		
4. Revenue from Road Transport (Rs Crore)		
Central	35.0	6918.2
State	13.0	4424.7

Notes

Water Transport

Under water transport, coastal transport and overseas transport have their own importance. In the coastal areas, navigation by sea is comparatively cheaper. On the 5,560 km long sea coast of India, there are 11 big and 139 small and medium sized sea-ports. The development and management of big or major ports is the responsibility of the central government, whereas other ports are in the concurrent list. Among the big ports, Kandla, Mumbai, Majhgaon, New Mangalore, Cochin and JNPT (Jawahar Lal Nehru Port, Mumbai) are situated on the western coast and Tuticorin, Chennai, Visakhapatanam, Paradeep, Kolkata and Haldia Ports are situated on the eastern coast. Jawahar Lal Nehru Port is the latest big port equipped with most modern facilities. The ports of Mumbai and Cochin are natural seaports whereas the Kandla Seaport is used in tides. Visakhapatanam is the deepest port of India. Chennai is the oldest seaport. Kolkata Port is situated on the river bank.

India has 11 major ports which handle around 90% of the sea borne trade. These ports are managed by Port Trusts under the central government. In addition, there are 139 minor working ports which are under the state governments. During 1996-97, the total cargo handled at major ports was 227.3 million tonnes, registering a growth of 5.6% over 1995-96. About 85% of the total volume of port traffic handled was in the form of dry and liquid bulk, while the remaining 15% consisted of general cargo, including containers. During 1997-98 (April-February), 228.1 million tonnes of cargo was handled by major ports, registering a growth of 11.6%. Maximum growth was recorded for fertilizer and raw material (28.4%), iron ore (18.6%) and others (22.7%).

The country has the largest merchant shipping fleet among developing countries and ranks 17th in the world in shipping tonnage. As on December 31, 1996, the net operative tonnage consisted of 484 ships totalling to 70,51,546 GRT.

Shipping Companies

There were 84 shipping companies in the country in operation as on 31st March, 1997, including the Shipping Corporation of India, a public sector undertaking. Of these, 48 are engaged exclusively in coastal trade, 21 in overseas trade and the remaining 15 in both coastal and overseas trade. The Shipping Corporation of India, which is the biggest shipping line of the country, had a merchant fleet of 179 vessels of 30-39 lakh GRT as on 31st March, 1997 and operated on almost all maritime routes. Its tonnage accounts for about 44% of total Indian tonnage.

Gopalpur Seaport Project

Orissa government had signed an agreement on 15 February, 1996 with MMTC (Mineral and Metal Trade Corporation) for the development of Gopalpur small seaport into an international seaport but, later on, the MMTC went back on its assurance in view of its financial difficulties. Now the state government has invited tenders from internal and foreign companies to complete the Project on BOT (Build-Operate-Transfer) basis. It is worth mentioning that, at present, coal and fertilizer are being exported and imported from this seaport.

At present, there are 12 major private sector shipping companies which own one lakh or more GRT. Great Eastern Shipping Company Limited is the biggest private company having the capacity of 8.73 lakh GRT, followed by Essar Shipping Limited (4:54 lakh GRT).

In the budget of 1997-98, an amount of ₹ 1,354.22 crore was approved for the development of seaports.

National Waterways

The Inland Waterways Authority of India was set up on October 27,1986. This statutory body is entrusted with the responsibility of development, maintenance and regulation of national waterways.

The government has identified 10 important waterways for consideration to declare them as National Waterways. The following have so far been declared as national waterways and the

Notes

same are being developed for navigation by Inland Waterways Authority of India – The Ganga between Allahabad and Haldia (1620 km.) on October 27, 1986, the Sadia-Dhubri stretch of river Brahmaputra (891 km.) on Oct. 26, 1988 and the Kollam-Kottapuram stretch of West Coast canal (168 km.) along with Champakare canal (14 km.) and Udyogmandal canal (22 km.) in Kerala with effect from February 1, 1993. It is also proposed to consider the declaration of some more waterways like the River Godavari, Sunderbans and Waterways in Goa as National Waterways.

Air Transport

For civil aviation, Air India, Indian Airlines, Vayudoot, Pawan Hans and private air services are available. Air India and Indian Airlines were established under the Air Corporation Act, 1953. Air India was established with the purpose of international air flights and Indian Airlines for flights within the country. Air India has extended its air services to five continents. After showing a loss for two consecutive years in 1995-96 and 1996-97, Air India was hopeful of earning a net profit of ₹ 91.26 crore and total profit of ₹ 145.35 crore in 1997-98. Its main office is situated in Mumbai. For international flights, the aerodromes of Delhi, Mumbai, Kolkata, Chennai and Thiruvananthapuram have been declared as international aerodromes. The responsibility for the management and development of these aerodromes was entrusted to International Airports Authority of India. With effect from April 1, 1995, the responsibility of maintenance of international aerodromes along with internal aerodromes has been entrusted to International Airways Authority of India.

The head office of Indian Airlines is situated in Delhi. Basically, it is responsible for domestic flights but at present it also provides flights for 14 countries – Nepal, Pakistan, Sri Lanka, Singapore, Bangladesh, Afghanistan, Thailand, UAE, Qatar, Oman, Myanmar, Kuwait and Malaysia. In 1995-96, Indian Airlines had a fleet of 59 aeroplanes but showed a loss of ₹ 110 crore.

Vayudoot was established on January 20, 1981 as a Corporation. Basically, it was established to fulfil the requirement of air services in the north-eastern area, but, by and by it has extended its services to other areas also where the services of Indian Airlines are not available. Vayudoot had 16 aeroplanes in 1992-93. It too showed a net loss in 1991-92 and 1992-93 amounting to ₹ 30.6 crore and ₹ 24.2 crore, respectively. Since 1992-93, Vayudoot has merged with Indian Airlines.

The Recommendations of the Rakesh Mohan

Committee on Infrastructure

In Oct., 1994, under the Chairmanship of Shri Rakesh Mohan, Director General of NCAER (National Council of Applied Economic Research), a 17-member committee was constituted by the government. The committee handed over its report to the Finance Minister on June 22, 1996 which was released on Jan. 8, 1997. The committee, in its Report, has said that it is possible to increase the investment in basic infrastructure area from the present level, 5.5% of GDP, to 7% by 2000-06. This will increase to $ 30 billion by 2000-01 and further to $50 billion by 2000-01 and 8% by 2005-06 in place of present annual investment of $ 17 billion. The committee has recommended wide concessions in taxes to promote private investment in basic infrastructure areas.

In order to fulfil the financial needs of basic areas, the committee has recommended the use of funds available with Insurance Companies, Assets Management Companies, Employees' Provident Fund. The committee has said that it is better to create small insurance companies and divide GIC and its four allied companies.

The other recommendations of the committee are as under:

Telecommunication

- To open the long distance inter-circle services to private sector by 2001.
- To create a company named 'India Telecom' for the Telecommunication departments.
- To consider the increased privatisation of MTNL (Mahanagar Telephone Nigam Ltd).

- To deposit all the license fees connected with telecommunication into one basic fund so that loans and equities may be provided to projects concerned with basic infrastructure.

Notes

Electricity

- The formula of fixation of electricity charge should be based on investment and there must be a possibility of the increase in levy, on an average per year, in addition to adjustment for inflation.
- In order to promote entry of private sector, a minimum charge of electricity should be fixed.
- The state electricity boards should be reconstituted at an early date.
- The Central Electricity Tribunal should be decentralised.

Roads

- To establish a 'Highway Development Fund' by levy of surcharge of 50 paise per litre on diesel and Re 1 per litre on petrol.
- To construct Super National Highways, bypasses, etc., on an extensive scale in collaboration with private sector.
- To begin 'Highway Infrastructural Savings Scheme' on the lines of National Savings Schemes.
- To create a Road Board for the development of integrated main routes.
- To have 'Four Lanes' for some present national highways.

Seaports

- At least 2 'Mega ports' should be developed in the country. There should be at least one on both the coasts
- To exempt the private collaboration for seaports from corporation taxes.
- The financial arrangements for seaports should be done through primary market or financial institutions.

Pawan Hans was established on Oct. 15, 1985 as a Corporation. Its original name was Helicopter Corporation of India which was later renamed as Pawan Hans. Basically, it was established to provide helicopter services to ONGC (Oil and Natural Gas Commission) in the exploration of oil. Apart from this, it also provided services to certain state governments and public sector undertakings. The company achieved total flying task of 22,047 hours during 1996-97 as compared to 19,250 hours in the previous year.

In recent years, the permission to operate private air taxis in the field of air transport has been given by the government as a result of which the sole right of public sector in air transport has come to an end. Air taxi services can be operated as non-scheduled flights both on 'chartered' and 'non-chartered' basis to all airports in the country open to civil operations. The air taxi operators are free to charge any fare on their own commercial discretion.

Merger of NAA and IAAI

The two Airport Authorities – National Airports Authority (NAA) and International Airports Authority of India (IAAI) – have been merged on April 1, 1995 as a new organisation named as Airports Authority of India (AAI). This newly created AAI is presently controlling both domestic and international airports of the country. Prior to it, NAA was controlling domestic airports, while IAAI was managing international airports of the country.

Notes

Just-in-Time (JIT) Transport Management

Just-in-Time transport management is an increasingly popular method used to manage inventory levels. Manufacturers, in a number of industries, employ it to help them reduce the amount of production supplies that they keep on hand. Discussed below are the benefits for implementing JIT concept in transport and inventory management.

A multitude of JIT benefits have been identified in the early JIT literature. However, some of them seem inappropriate in practical life. Some are elements which have been advocated as components of the implementation process itself (i.e., some authors say that a variable is a component of the implementation process itself, while some say that it is a result of JIT implementation; e.g., transport improvement or inventory reduction are prerequisites to JIT implementation or results of implementation). To describe a variable as a component of JIT implementation and then designate it as a benefit utilised in measuring the level of success of JIT implementation is circular logic. Specifically, if reductions in lead time, set-up time and lot sizes are seen as a part of the implementation process itself, can these reductions be seen as success factors? Apparently, a more "cause- and effect-type" relationship is desirable for measuring successful implementation.

Seven results were selected for this study as benefits of JIT implementation:

Each of these is discussed below:

- **Downtime Reduction:** In order to make the lot size cuts proposed by JIT advocates, equipment must be readily available for use. The demise of buffer stock means that product machinery must be capable of running what is needed, when it is needed, if current demand is to be met. If there is no "just-in-case" inventory, unexpected downtime can lead to the inability to respond to demand. In addition, the increased use of preventive maintenance in a JIT environment can also result in decreased downtime.
- **Inventory Reduction:** In a JIT environment, total inventory levels fall. Raw material is reduced by smaller purchased lot sizes and more frequent deliveries. Work-in-process is reduced by the shift to smaller lot sizes, which are, in turn, made possible by shorter set-up times. When the firm produces at a rate demanded in the market, finished goods are shipped as they are finished. Nothing need accumulate in the finished goods warehouse. Even very early JIT literature contains numerous examples which support the contention that inventory reduction is an indicator of JIT implementation success. Inventory reduction benefits, can be as high as 97 per cent.
- **Workspace Reduction:** Less workspace is needed in a JIT environment owing to smaller lot sizes and reduced inventory levels. This reduction is mostly due to the absence of stored inventory, both between and within work centres. This absence of inventory, in addition to the use of group technology techniques, has allowed some firms to move work centres closer together, freeing space and reducing material handling distances. This results in a neater, more organised facility, which provides for speed, identification of bottlenecks and fewer lost parts. Japanese plants are typically one-third the size of US plants providing a comparable output. An average company adopting JIT should be able to reduce workspace by 25 to 50 per cent.
- **Increased Quality:** Reduction of "in-house" sizes of lots promotes rapid feedback from downstream work centres, when there is a quality problem. This feedback results in a reduction of scrap, rework and ultimately, a higher overall level of quality. Further, the cross-training of workers as an element of JIT implementation provides workers who are able to assist one another when a quality problem arises. For purposes of this study, increased quality is measured as a decrease in scrap and rework.
- **Increased Manpower Utilisation:** Cross-training of employees allows less worker idle time when a machine is not needed for production. Having workers with the ability to move from one work centre to another results in increased manpower utilisation.

The number of workers needed can then be reduced with no consequential drop in output.

- **Increased Equipment Utilisation:** The introduction of total preventive maintenance, the cross-training of workers, smaller and more flexible machinery and the use of group technology techniques—all combine to increase equipment utilisation.
- **Increased Inventory Turnover:** Reduction in inventory and lot sizes results in increased inventory turnover. Inventory turnovers at Haworth doubled in one year after implementing JIT, while other examples include threefold, fourfold and even sixfold increase.

5.12 Inventory Management

The interest of management in better inventory management is much more than it was a few years back. Management knows the need, importance and practicability of scientific inventory management.

The conflicting objectives of inventory control are reflected in the seemingly conflicting demands which are made on an inventory manager from time to time. For example, stocks are to be kept at a low level but not too low; turnover is to be increased but only at a satisfactory profit rate; bulk purchases are to be attempted to obtain better prices but over buying is to be controlled; special attention is to be paid to the disposal of obsolete or near obsolete items but not before the point of coalescence is identified; and so on.

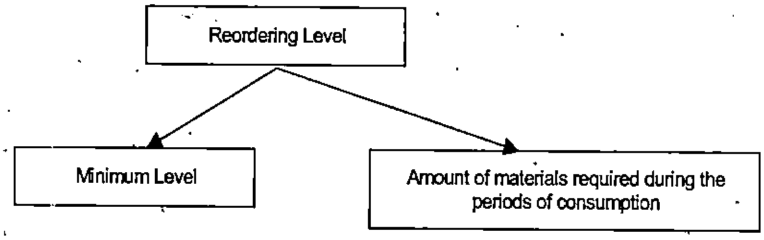
Table 5.2

S. No.	Title	Basis	Main Uses
1.	ABC (Always Better Control)	Value of Consumption	To control raw material components and work-in-progress inventories in the normal course of business.
2.	HML (High, Medium, Low)	Unit price of material	Mainly to control purchases.
3.	XYZ	Value of items in storage	To review the inventories and their uses at scheduled intervals.
4.	VED (Vital Essential Desirable)	Criticality of component	To determine the stocking levels of spare parts.
5.	FNSD (Fast, Nominal, Slow, Dead, etc.)	Consumption pattern of the component	To control obsolescence.
6.	SDE (Scarce, Difficult, Easy to obtain)	Problems faced in procurement	Lead-time analysis and purchasing strategies.
7.	GOLF (Government, Ordinary, Local, Foreign sources)	Source of the material	Procurement strategies.
8.	SOS (Seasonal, Off-season)	Nature of supplies	Procurement/Holding strategies for seasonal items like agricultural products.

Ordering Level

Reordering Level: This is the level at which the firm should go for fresh purchase requisition of material through the storekeeper to meet the requirements. The reordering level takes into consideration the minimum level of consumption of raw material during the course of production process, as well as the amount of material required by the firm during the period of purchase and goods in transit immediately after the order.

Notes



Minimum level of stock for uninterrupted flow of production process. + Amount of materials required during the periods of consumption

Reordering level = Or Lead time stock level

An alternate method is available by using the maximum consumption and maximum recorder period.

Reordering level = Maximum consumption × Maximum Reorder period

This method registers the maximum consumption of the firm during the production as well as the maximum time period required for the supply of required materials.

Under this alternate approach, the firm at any moment will not face any difficulties due to short supply or insufficient amount of materials.

Minimum Level/Safety level: The firm should always maintain a minimum amount of material in its hands to facilitate the flow of production process unaffected, due to any shortfall in the quantum of materials.

The following points are most important in designing the minimum level of stock:

- ***Lead time should be predominantly considered:*** To determine the time lag between the materials ordered and received. The firm should find out the practical difficulty of the vendor in supplying the material for the determination of minimum level of stock.
- ***Amount of consumption of the material during the lead time***

Minimum stock level = Reordering level – (Normal level consumption × Normal reorder period).

Minimum level = Reorder level- (Average level of consumption × Average Reorder period)

Average and normal level of consumption are synonymous with each other. If normal or average consumption is not given, the formula is as follows:

$$\text{Average consumption} = \frac{\text{Minimum level consumption} + \text{Maximum level consumption}}{2}$$

Maximum Level

This is the level at which the firm holds maximum quantity of materials as stock during the process. The ultimate aim of fixing the level at maximum is to avoid overstocking. If the stock level of the firm exceeds the maximum level already fixed, it is known as overstocking level of the firm, more than the requirement.

Why is overstocking considered not advisable?

- It leads to excessive investment on inventory more than the requirement.
- It leads to unnecessary wastage of the materials due to excessive stock.
- The excessive storage of materials may certainly affect the price of the product. Maximum stock level = Reordering level + Reordering quantity – (Minimum consumption × Minimum Reordering period)

Notes

Danger Level

At this level, the firm should not further issue any materials to the various functional departments. At the danger level, the purchase department is vested with greater responsibility to immediately arrange the supply of raw materials in order to maintain the flow of production as uninterrupted.

The consumption level of the materials becomes varied from one time period to another. During the specified period, there may be maximum consumption and minimum consumption, which should be averaged to find the mid-point in between the two, in order to either fulfill the minimum consumption or maximum consumption to the extent possible.

Why is the maximum reorder period taken into consideration?

The criterion of considering is the greater period taken by the supplier to supply the required materials.

Danger Level= Average consumption × Maximum reorder period

Average Stock Level

Average stock level =Minimum stock level + ½ of the reorder quantity

Bin Card System

Bin card is a record prepared by the storekeeper at the moment of issuing and receiving the materials. It is maintained by the storekeeper for physical verification with accuracy and effectiveness. The inventory control can be accessed through physical verification then and there, whenever the situation warrants.

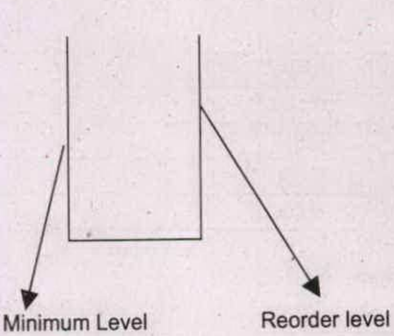
The Bin card system is adopted by many firms for their inventory control either in the form of bin tag or stock card hanging outside the rack in order to portray the information immediately to facilitate the storekeeper to understand the stock position of the store room.

The Bin card system is available in two major categories viz:

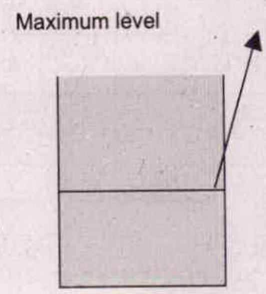
Two-Bin Card System

Under this system, two different bins are used. As soon as the goods or materials are received by the storekeeper, that should be recorded in terms of quantities. One among the two should be maintained for reorder level and minimum level another for maximum stock level.

To alert the firm to neither store more than the maximum level nor to issue less than the minimum level of the stock. Once the firm reaches the maximum level, it should immediately consider the implications due to the overstocking. The same firm, it reaches the minimum level of stock, should not go for further issue of materials to functional department. Otherwise, the firm's production may be disturbed due to the poor stocking.



Bin card for Mini and Reorder level



Bin card for Maximum Level

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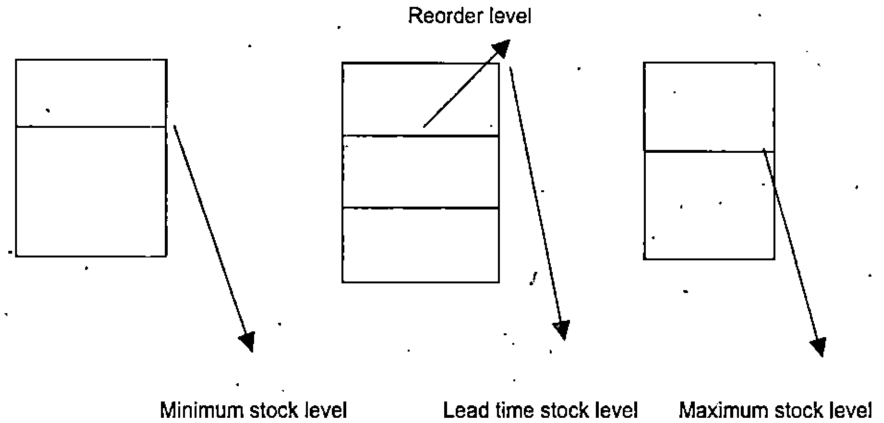
Three-Bin Card System

It is an extension of the earlier method, which incorporates the lead time stock level in addition to the other level viz Maximum, Reorder and Minimum level of the stock. Among the three, two cards are exclusively used by the firm in order to maintain the appropriate stock level, i.e. for maximum stock level and minimum stock level. The firm should neither store beyond the maximum level nor issue less than the minimum level. In between, a separate bin card is used only for the Reorder level and lead time stock level at which the firm should go for the placement of an order, to get fresh delivery of materials and help the firm to undergo production without any interruption, by considering the time taken by the supplier to supply the ordered materials.



Illustration

The following information regarding receipts and issues of iron ore has been obtained from the stores record of a construction iron rod manufacturing company.

Bin card

No :42 | Minimum stock:16,000 Kg
Code:IR12 | Maximum stock:1,00,000Kg
Reordering level: 50,000 Kg

Job No.	Qty.		Date Issued		Order No. & Date	Qty.	Date Issued	
Date	Receipts		Issues		Balance	Stock verification		
	Challan	Qty.	Requisition	Qty.		Date	Remarks	Initials
1/4/06					50,000	6/4/06	Shortage 1000 Kg	
2/4/06			No 1	26,000	24,000			
3/4/06			No.2	4,000	20,000			
4/4/06	No. 1236	60,000			80,000			
5/4/06			No 3	20,000	60,000			
6/4/06			No.4	10,000	50,000			
6/4/06	No. 34	20,000			70,000			
6/4/06			Shortage	1,000	69,000			
7/4/06			No.5	9,000	60,00			

April 2006

1. Opening stock of iron ore. 50,000 Kg
2. Issued on Requisition No 1 26,000 Kg

3.	Issued on Requisition No 2	4,000 Kg
4.	Received from a supplier by challan No 1236	60,000 Kg
5.	Issued on Requisition No 3	20,000 Kg
6.	Issued on Requisition No 4	10,000 Kg
7.	Received from supplier challan No 34	20,000 Kg
8.	Issued on Requisition No 5	9,000 Kg

Examination by the stock verifier on 6th morning revealed a shortage of 1,000 Kg

Maximum Limit was	1,00,000 Kg
Minimum Limit was	16,000 Kg
Ordering Level was	50,000 Kg

You are required to prepare the Bin Card 42 for the Iron ore for the manufacture of construction iron rod IR 12.

Notes

Stores Ledger

The stores ledger is prepared by the costing department of a firm. It not only records the issues and receipts of the materials at par with the bin card system but also the value of the materials at every situation. It supersedes the bin card system in revealing the quantity of materials accurately as well as their value.

Difference between the Bin card system and Stores ledger:

Bin card	Store ledger
Only at the moment of issues and receipts	Quantities and Values are simultaneously recorded at the moment of issues and receipts.
These quantities are maintained by the storekeeper.	It is maintained by the costing department and cost accountant.
Recording takes place before the receipt and issue.	It takes place only after the transaction.
Balances are normally denominated only in terms of quantities.	Balances are finally extracted with values.
The system cannot be meaningfully designed to the needs and demands.	The stores ledger can be designed to the tune of nature of the materials.

ABC Analysis

Normally the materials are classified on the basis of the following covenants viz

- Volume and
- Value

Based on the following basis, the materials are classified into three categories:

- Lesser percentage in volume and Greater percentage in Value - Category A
- Greater percentage in volume and Lesser percentage in Value - Category B and
- Percentage in volume and Percentage in value are more or less similar - Category C

This will be explained with the help of following example:

A store has 4,000 items of consumption and a monthly consumption of ₹ 20,00,000. 320 items will have a consumption of ₹ 15,00,000. 500 items will account for ₹ 4,00,000 and 2,680 items consume material worth ₹ 1,00,000 only.

Table of items and value

Group	No. of Items	% of Items	Value Rs.	% of Value
A	320	8%	15,00,000	75%
B	1000	25%	4,00,000	20%
C	2,680	67%	1,00,000	5%
Total	4,000	100%	20,00,000	

The importance of the analysis is exercising the control on the inventory.

How is the control of the inventory being exercised?

- Group A items are high valued items among the other items of the enterprise, requiring greater monitoring and controlling.
- Group B items are comparatively lesser in value among the three items given next to the Group A, require less rigid control and monitoring.
- Group C items are the major volume of items among the 4000 items of the enterprise which are least in value, need very little control and monitoring.

The following shows the control of inventory on A, B and C items of the enterprise:
From the above table, it is obviously seen that the items which have greater percentage (75%) in the total value require rigid control than any other quantity of materials. The Group C items bear 67% of total consumption amount to 5% of total value of the items procured by the enterprise.

The unique features of the ABC analysis:

Nature	A Group of Items	B Group of Items	C Group of Items
Level of Control	Rigid control	Moderate control	Very little control
Order frequency	Frequency of ordering-weeks, fortnights	Once in 2 months	Once in 6 months
Lead time problem	To be cut off drastically	To be reduced moderately	Lead time problem due to clerical should be cut off
Safety stock level	Due to greater value least volume of safety stock is to be maintained	Due to moderate value-lesser safety stock is required	Due to lower value higher safety stock is required
System of Purchase	Higher value demands centralized system of procurement	Moderate value requires centralized and decentralized system of purchase	Lower value needs, decentralized system of purchase
Supervision	By Senior officers	By Middle level managers	By clerical staff

Advantage

1. It guides the management to exercise the control based on the value of goods to the total composition.
2. Systematic inventory control can be exercised through this analysis on the basis of value of the materials. The high value materials of Group A are rigidly controlled which finally led to lesser investments.
3. Scientific system helps to lessen the storage cost of the inventory.

Ved Analysis

VED analysis is applied for the inventory control of the manufacturing enterprise.

- V-Vital
- E-Essential and
- D-Desirable

Notes

It is the Analysis for monitoring and control of stores and spares inventory by classifying them into 3 categories viz., Vital, Essential and Desirable. The mechanics of VED analysis are similar to those of ABC Analysis.

The spare parts are classified into vital, essential and desirable to the criticality to the production.

The non-availability of certain spares for short time leads to high cost stock out known as vital spares.

The non-availability of spares cannot be tolerated even for few hours or one day and the cost of lost production is enormous, known as essential spares to production.

The absence of spares even more than one week, not affecting the flow of production is known as desirable spares.

The VED analysis is done to determine the criticality of an item and its effect on production and other services. It is specially used for classification of spare parts. If a part is vital it is given 'V' classification, if it is essential, then it is given 'E' classification and if it is not so essential, the part is given 'D' classification. For 'V' items, a large stock of inventory is generally maintained, while for 'D' items, minimum stock is enough.

Steps Involved In VED Analysis

Step-1: Identify the factor that you need to consider for VED analysis.

Step-2: Assign points or weight ages to the factor according to the important they have to the company.

Step-3: Divide each factor into 3 degree and allocate points of each degree.

Step- 4: Prepare categorization plan to provide basis of evolution of items as shown below:

Categorization plan.	
Points	**Classification**
100-160	**D**
161-230	**E**
231-300	**V**

Step-5: Specify the degree and allocate weight-ages to all the factors.

Step-6: Evaluate and find the final score for every item and specify the type of item.

Just-in-time (JIT) Inventory Management

In the 1970s, when Japanese manufacturing companies were trying to perfect their systems, Taiichi Ohno of Toyota developed a guiding philosophy for manufacturing that minimized waste and improved quality. Called Just In Time (JIT), this philosophy advocates a lean approach to production, and uses many tools to achieve this overall goal.

Just-In-Time is a term usually thought of as describing inventory arriving or being produced just in time for the shipment or next process. JIT is a process for optimizing manufacturing processes by eliminating all process waste including wasted steps, wasted material, and excess inventory. The term also describes lean manufacturing that is dependent upon JIT inventory systems (Term=JIT). The term is commonly referred to the concepts of Taiichi Ohno from the Toyota Motor Company in Japan regarding production. Just-In-Time inventory systems depend upon logistics that include: transportation, warehousing and several strategies for handling the potential supply chain uncertainties (Martha A18). Just-in-time is easy to grasp conceptually, everything happens just-in-time. Conceptually there is no problem about this; however achieving it in practice is likely to be difficult. Just-in-time (JIT) is an inventory strategy implemented to improve the return on investment of a business by reducing in-process inventory and its associated carrying costs. In order to achieve JIT the process must have signals of what is going on elsewhere within the process. This means that the process is often driven by a series of signals, which can be Kanban, that tell production processes when to make the next part. Kanban are usually 'tickets' but can be simple visual signals, such as the presence or absence of a part on a shelf. When implemented correctly, JIT can lead to dramatic improvements in a manufacturing organization's return on investment, quality, and efficiency.

Notes

Just-in-time (JIT) refers to a collection of practices that eliminate waste. These organizationwide practices encompass the entire logistics flow of materials from purchasing through production and distribution. The elements of JIT may include shared product design with suppliers and customers, movement toward single sourcing, proximate suppliers and customers, reduced machine set-up times, total preventive maintenance, reliance on analytic tools (such as fishbone diagrams) to identify sources of defects in products and processes, demand-pull support, and cellular plant layout, among others.

The products that are manufactured will be produced according to the amount of products needed. Products will be shipped out as soon as they are completed eliminating the need for storage. Once the costs from the storage facilities are eliminated, the company will see an increase in profits. Implementing a JIT inventory system also allows the same products to be produced which means there will be less mistakes. The quality of the products will increase since the same products are made every time without any changes to them. JIT's inventory effect results from three interrelated processes. The first concerns a focus on product and process quality. The adoption of analytic tools (such as fishbone diagrams, Pareto charts, and design of experiments) and the inclusion of direct labor into quality improvement programs have a significant effect on inventory levels. Analytic tools are used to spot the sources of defects, whether these sources originate in defective assembly processes, materials, or materials design. These tools become all the more powerful when their use is orchestrated by direct workers in production and logistics whose expertise and knowledge is tapped by quality circles. As sources of defects are identified and remedied, product quality improves, the number of quality control inspectors declines, and, more important, the amount of scrap and rework inventory declines. Reductions in work-in-process inventories lead to a lesser need for safety stock based upon expected defect levels in inventory. Safety stocks of finished goods may also decline because the expected defect rate is lower. Since products are of a higher quality, the amount of after-sales service repair work declines, leading potentially to reductions in the amount of spare parts kept on hand. The second source of JIT's inventory effect lies in the re-engineering of internal plant processes. Cellular plant layout refers to clustering plant machinery to accommodate the flow of materials as opposed to clustering plant machinery around similarities in machine types. Dissimilar machines may be grouped together so long as they share a common stage in assembly or production. Direct workers at a particular cell must be able to operate a number of dissimilar machines (hence, they require training). Traditional and cellular layout each has advantages, but cellular layout shortens the distance that inventory travels in the plant and more finely coordinates subsequent stage machine velocities. Other factory elements of JIT include demand-pull support, reduced machine set-up times, and total preventive maintenance. Under demand-pull support, inventory is made available only when the next workstation (or cell) puts out a request for more inventory in a specified amount. Under reduced machine set-up time, the amount of time required to shift from production of one good to related goods is driven down. The goal of total preventive maintenance is having machines always run when they should.

JIT has more pros than cons signifying that it may be a better idea to implement than not. One of the cons of a JIT inventory system is when a malfunction occurs in the equipment or the products. How long will it take to repair the parts of the equipment? You have to remember that there is money involved in every process so when the equipment breaks that is less products being produced. Another con to implementing a JIT inventory system is if the product is altered during production. The whole set would need to be thrown out and the process started all over again.

XYZ Analysis

The XYZ analysis is a procedure of stock management in the management economics, with which on the basis empirical experiences, results are usually assigned to a classification by bill

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explosions or by the determination by variation and/or fluctuation coefficients of goods and articles concerning its turnover regularity (consumption and its predictableness). XYZ analysis is calculated by dividing an item's current stock value by the total stock value of the stores. The items are first sorted on descending order of their current stock value. The values are then accumulated till values reach say 60% of the total stock value. These items are grouped as 'X'. Similarly, other items are grouped as 'Y' and 'Z' items based on their accumulated value reaching another 30% & 10% respectively. The XYZ analysis gives, you an immediate view of which items are expensive to hold. Through this analysis, you can reduce your money locked up by keeping as little as possible of these expensive items.

Articles, which are sold very regularly and in to some extent constant numbers of items (e.g. Bulbs), are called X-articles, while the Z-class contains such articles, whose sales runs very irregularly or even stochastically (like e.g. Spare parts). Classes can be summarized as follows:

- X constant consumption, fluctuations are rather rare
- Y stronger fluctuations in consumption, usually for trend-moderate or seasonal reasons
- Z completely irregular consumption

The XYZ analysis in the materials requirement Planning (materials requirements planning), in addition, in camp planning and in the calculation is used, frequently combined with the ABC analysis.

FSN Analysis

Classification based on Frequency of issues/use is called FSN analysis. F, S & N stand for Fast moving (F), Slow moving (S) and Non-moving (N) items. This form of classification identifies the items frequently issued, less frequently issued for use and the items which are not issued for longer period, say, 2 years.

Thus,

Fast Moving (F) = Items that are issued say more than once a month.

Slow Moving (S) = Items that are frequently issued less than once a month.

Non-Moving (N) = Items that are not issued\used for periods say more than two years.

There are following steps in doing the FSN analysis:

- Calculation of average stay and the consumption rate of the material in warehouse
- FSN Classification of materials based on average stay in the inventory
- FSN Classification of the material based on consumption rate
- Finally classifying based on above FSN analysis.

SOS Analysis

Seasonal, Off Seasonal Report helps you to view seasonal required items.

S- For seasonal Materials

OS - For non-seasonal Materials

Purchase planning has to be done if the material is seasonal as material shall be available for a particular time period of the year.

Seasonal Items can be further classified into two groups

1. Leechee is seasonal fruit which is available only for one month in year. If any Juice and pulp company wants to buy this fruit then the procurement department shall have to plan in advance the requirement and procurement job becomes concentrated only for one month. Other than this issue, shelf life and storage is also a big problem as the plan is consume is throughout the year while the buying time available is only one month.
2. Some materials are seasonal but are available throughout the year such as grains, and other non perishable items. These items are bought during season and these items are cheaply available during season. The company can take the advantage of economies of scale in

Notes

buying these materials in bulk. But at the same time the inventory carrying cost should not go beyond the profit margins while holding the large inventory

Non-seasonal materials are available throughout the year without any significant price variation.

Non seasonal items can be Plastics, Metals etc. The prices of these materials are independent of the season.

HML Analysis

Classification based on unit price is called HML analysis. Thus, for example items are classified under this as:

H-High Price Materials: Item whose unit value is very high, say, for example ₹ 1000- and above.

M-Medium Price Material: Item whose unit value is of medium value, say, for example above ₹ 100/- but less than ₹ 1000/-.

L - Low price materials: Item whose unit value is low, say, for example less than ₹ 100/-. This type of analysis helps in exercising control at the shop floor level ie, at the use point. Proper authorisation should be there for replacing a spare value. Procurement department is more concerned with prices of materials so this analysis helps them to take them the decisions such as, who will procure what based on the hierarchy and price of material.

When it is desired to evolve purchasing policies then also HML analysis is carried out i.e. whether to purchase in exact quantities as required or to purchase in EOQ or purchase only when absolutely necessary.

When the objective is to keep control over consumption at the department level then authorization to draw materials from the stores will be given to senior staff for H item, next lower level in seniority for M class item and junior level staff for L class items.

Cycle counting can also be planned based on HML analysis. H class items shall be counted very frequently, M class shall be counted at lesser frequency and L class shall be counted at least frequency as compared to H & M class.

SDE Analysis

Classification based on the lead time is called SDE analysis. This classification is carried out based on the lead time required to procure the spare part. The classification is as follows:

S - Scarce Items i.e. hardly available. Items which are imported and those items which require more than 6 months lead time. These materials are always in shortage and difficult in procurement. These materials sometimes require government approvals, procurement through government agencies. Normally one has to make the payment in advance for sourcing these materials. Purchase policies are very liberal for such materials

D - Difficult Items i.e. difficult in sourcing. : Items which require more than a fortnight but less than 6 months lead time. These materials though not easy to procure but are available at a longer lead times and source of supply may be very far from the consumption. Procurement of these materials requires planning and scheduling in advance. Particular OEM spares of the machinery may fall under this category as that OEM may be very far from the ordering or consumption location.

E-Easy Items i.e. materials available easily. Items which are easily available ie., less than a fortnights lead time. These materials are normally standard items and easily available in the market and can be purchased anytime.

GOLF Analysis

Government, Ordinary, Local, and Foreign Report help you to do material analysis based on location and type of organization.

- G -Government suppliers
- O- Ordinary or non government suppliers
- L - Local suppliers
- F - Foreign suppliers

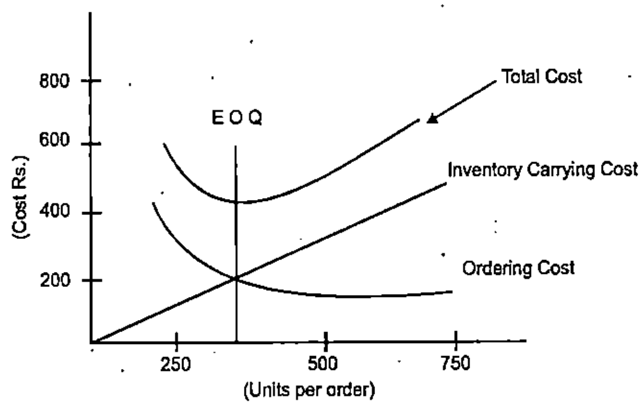
Notes

5.13 Economic Order Quantity (EOQ)

Economic order quantity is the quantity for which orders are placed when stock reaches the re-order level. In other words, EOQ is the quantity which is most economic to order, or, EOQ is that size of the order which gives maximum economy in purchasing material and ultimately contributes towards maintaining the material at the optimum level and at minimum cost.

With EOQ, two types of costs should be taken into account:

1. **Ordering Cost:** This is the cost of placing an order with the supplier. Because of so many factors involved, it is quite difficult to quantify this cost.
2. **Inventory Carrying Cost:** It includes the following:
   - Cost of operating the stores
   - The incidence of insurance costs
   - Interest on capital locked up in store
   - Deterioration and wastage of materials



Mathematical Formulae

EOQ can also be calculated with the help of a formula as given below

$$EOQ = \sqrt{\frac{2.A.B}{C.S}}$$

Where E O Q = Economic Order Quantity

A = Annual Consumption in units

B = Cost per unit

C.S = Storage or carrying cost as a percentage of average inventory.

Example:

The annual demand for a product is 64,000 units. The unit cost is ₹ 6 and inventory carrying cost is 25% per annum. If the cost of one procurement is ₹ 75, determine:

(i) EOQ

(ii) No. of orders per year

(iii) Time between two consecutive orders.

Notes

Solution:

a. $\text{EOQ} = \sqrt{\dfrac{2.A.B}{C.S}}$

$\sqrt{\dfrac{2\times 64000\times 75}{6\times 25\%}} = 8000$ units

b. No. of orders per year = 64000/8000 = 8 orders in a year

c. Time between two consecutive orders

12 months/8 orders = 1½ months

Figure shows the trade-off typically found in managing and controlling inventory levels.

5.14 Warehousing

Warehouses provide a key link in the physical distribution chain and, like other stages of distribution, they are being closely scrutinised by today's marketing managers. The location, size and capabilities of warehouses can profoundly affect a company's ability to satisfy its customers and deliver products and services profitably.

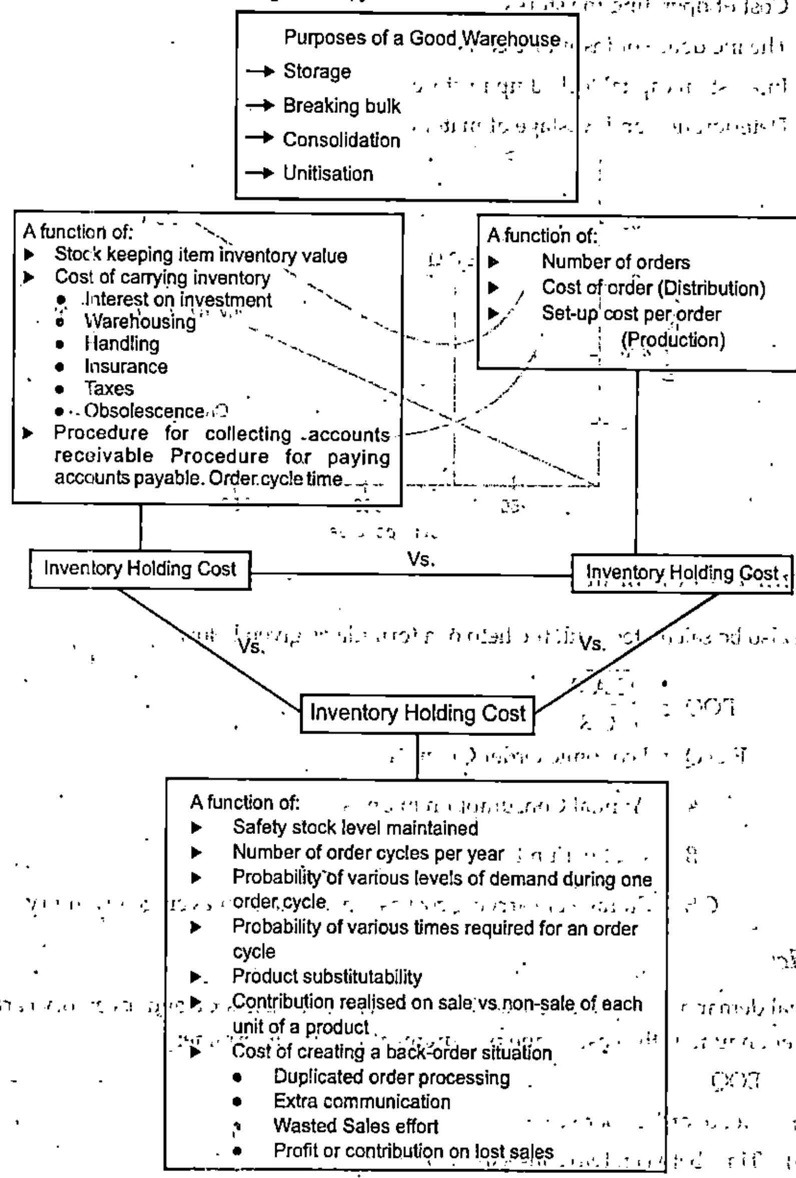


Figure 5.8: Trade-off Typically Found in Managing and Controlling Inventory Levels

Types of Warehouses

The basic purpose of warehousing in distribution logistics is to arrange placement of products and supply storage facility to store them, consolidate them with other and similar products and divide them into smaller quantities on the basis of ownership. There are two types of warehouses (i) private warehouses (ii) public warehouses. The following decision variables can be considered:

Factors Affecting Warehousing Choice

The warehousing decision is influenced by the difficulty of moving goods directly from the assembly line to buyers or public warehouses. The following factors have to be kept in mind when deciding the location of a warehouse:

	Types of Warehousing Arrangements		
	Private		
Decision Variables	Owned	Leased	Public
1. Fixed investment	Very high	Moderate, depends on the lease's terms	No fixed investment is involved
2. Unit cost	High	High, if volume is low	Low, since facilities are on "for hire *as* needed" and fixed costs are widely distributed among users
3. Control	High	High	Low managerial control
4. Adequate product line	Highly adequate	Moderately adequate	May not be convenient
5. Flexibility	Low	Low	High; termination of usage can be easily arranged.

Figure 5.9: Decision Variables in Choosing among Types of Warehousing

- Product type
- Markets
- Labour supply
- Geography
- Transportation cost
- Rent
- Taxes
- Competition

5.15 Materials Handling Equipments

Material handling is such an important activity that it cannot be avoided in the performance of logistics. Material handling activities should be minimised as it requires a very high capital investment and direct labour cost. The network of facilities forms a structure from which logistical operations are performed within a network design framework as per the requirement of customers.

Transportation is required for materials handling – for efficient loading and unloading. In warehouse operations, materials handling includes receiving products, moving, sorting and assembling them to meet the customers' and distributors' requirements.

Products in the form of cans, bottles or boxes are combined into larger units to make master cartons because it protects the products during the logistical process.

Materials handling system in logistics is designed under certain guidelines. These are very important to assist management. These are:

- Equipment for materials handling and storage should be standardised
- The system should be designed to provide maximum continuous product flow as per the requirements of the company
- Handling equipment should be properly utilised.

Notes

Classification of Materials Handling Systems

Materials handling systems in logistics are mainly divided into three categories:

1. **Mechanised Systems:** These systems utilise a combination of labour and handling equipment to facilitate receiving, processing, and/or shipping. Mainly labour constitutes a high percentage of overall cost in mechanised handling. Even then, mechanised handling systems are very common. They employ a wide range of handling equipments. These are:
   - Forklift trucks
   - Walkie-Rider pallet trucks
   - Townlines
   - Tow tractors with trailers
   - Electric hoists or cranes
   - Conveyors
2. **Semi-automated System:** When selected handling functions are performed using automated equipment and the remainder of the handling is completed on a mechanised basis then the system is said to be semi-automated. It can be called as a mixture of automated and mechanised handling.

   The main equipments used in semi-automated system are:
   - Automated Guided Vehicle System (AGVS)
   - Sortations
   - Robotics.
3. **Automated System:** Automated System attempts to minimise labour as much as practically possible by substituting capital investment by equipment.

Packaging

Packaging includes handling and storage of finished goods. It also emphasises on protection from loss and damage.

Hence, we can say that logistics management is the framework of 7 'R's—Right quantity of the Right product or service to the Right place in the Right conditions at the Right cost and the Right time with Right impression.

Excellence in each aspect of functional work is relevant and must be viewed in terms of improving the overall efficiency and effectiveness of integrated logistics.

5.16 Managing Physical Distribution

The logistical integration process is composed of two interrelated efforts, i.e., goods flow and information flow. Information from and about customers flows through the enterprise in the form of sales activity, forecasts and orders. This information is refined into manufacturing and procurement plans. A value-added inventory flow results in transfer of finished products to customers.

The following are the major components of logistical operations:

(i) ***Physical Distribution:*** It refers to those activities which are related to providing customer service. It requires performing order receipt and processing, deploying inventories, storage and handling and outbound transportation within a channel of distribution. It coordinates with market planning such as pricing, promotional support, customer service levels, delivery standards, handling returns and life-cycle support. Its main objective is to assist in revenue generation by providing desired customer service levels at the lowest total cost.

(ii) ***Manufacturing Support:*** These activities are related to planning, scheduling and supporting manufacturing operations. It requires master schedule planning and performing work-in-progress storage, handling, transportation and time phasing

of components. It is responsible for storage of inventory at manufacturing sites and maximum coordination between manufacturing and physical distribution activities.

(iii) *Procurement:* It is related to obtaining products and materials from outside suppliers. It performs resource planning, supply sourcing, negotiation, order placement, inbound transportation, receiving and inspection, storage and handling and quality assurance. It is responsible for coordination with suppliers for better scheduling, supply continuity, hedging and speculation, as well as research leading to new sources or programmes. Its main objective is to support manufacturing or resale organisations by providing timely purchase at the lowest total cost.

(iv) *Inventory Flow:* It is concerned with the movement and storage of materials and finished products. It starts with the shipment of materials or component parts from a supplier and ends when a manufactured or processed product is delivered to a customer.

The logistical process adds value by moving inventory when and where needed. Work-in-process inventory must be moved to support final assembly, thereby it gains value at each step of its transformation into finished inventory.

(v) *Information Flow:* Information integrates operating components. These components contain the actual logistics work and information facilities, coordination of planning and control of day-to-day operations.

Notes

5.17 Summary

'Supply Chain Management' can be defined as the active management of supply chain activities to maximize customer value and achieve a sustainable competitive advantage. Members of the supply chain act as partners who are "linked" together through both physical and information flows. The general concept of an integrated supply chain is typically illustrated by a line diagram that links participating firms into a coordinated competitive unit. SCM philosophy drives supply chain members to have a customer orientation. Within a typical enterprise the three areas, physical distribution, manufacturing support, and procurement overlap to provide integrated management of materials, semi-finished components, and products moving between locations, supply sources, and customers of the enterprise.

The effectiveness and value of the supply chain is determined by its ability to align with its partners, w hether they are service providers, emp loyees, suppliers or distributors. Few managers question the benefits of applying the time-based strategies to supply chain operations. However, a valid question is, How fast is fast enough? Speed simply for the sake of being fast has little, if any, enduring value. Traditional distribution arrangements typically involve independent business units loosely linked together on a transaction-to-transaction basis. A popular term for describing the potential benefits of reducing assets across a supply chain is cash spin, sometimes referred to as free cash spin. In 21st century digital technologies enable the development of new economic models. Gradual reduction in the production costs effects demand and supply equilibrium. Reduction in costs leads to increase in supply.

The design of a logistics system depends on management information system. It has to serve two conflicting requirements. An effective logistic system requires a total cost approach instead of a fragmented cost approach. For the total cost approach, the logistics require enough data pertaining to the various key elements of the total cost and also such other information as would help to design and execute alternative physical distribution systems.

An effective physical distribution system ensures an efficient administration of the total system for controlling the flow of raw materials and finished goods.

5.18 Glossary

- *Cash-to-Cash Conversion:* The time required to convert raw material or inventory purchases into sales revenue is referred to as cash-to-cash conversion.

Notes

- *Collaborative Planning, Forecasting and Replenishment (CPFR):* CPFR, a trademark of the Voluntary Inter-industry Commerce Standards (VICS) Association, is a concept that aims to enhance supply chain integration by supporting and assisting joint practices.
- *Flow of Information:* Information flows allow the various supply chain partners to coordinate their long-term plans, and to control the day-to-day flow of goods and material to the supply chain.
- *Funds:* This is the commercial part of the supply chain, and runs counter to the direction of the value flow.
- *Supply Chain Management (SCM):* Supply chain management (SCM) is the management of a network of interconnected businesses involved in the provision of product and service packages required by the end customers in a supply chain.
- *Third-party Logistics (3PL):* A third-party logistics provider (abbreviated 3PL, or sometimes TPL) is a firm that provides service to its customers of outsourced (or "third party") logistics services for part, or all, of their supply chain management functions.
- *Value Chain:* A value chain is a chain of activities that a firm operating in a specific industry performs in order to deliver a valuable product or service for the market.
- *The Logistics:* The process of strategically managing the movement and storage of materials, parts and finished inventory from supplier through the firm and on to customers.
- *Physical Distribution:* It refers to the movement of goods from producers to customers encompassing order processing, inventory management, warehousing and transportation.
- *Economic Order Quantity:* It is the quantity for which orders are placed when stock reaches the reorder level. It is the quantity, which is most economical to order.
- *Material Cost:* It is the purchase price plus transport and insurance during transit and taxes, if any.
- *Carrying Cost:* It includes space cost, storage cost, insurance, taxes, theft and pilferage, wastage and loss etc.

5.19 Review Questions

1. What are the basic concepts of Supply Chain Management?
2. Discuss about the traditional supplier-buyer relationship.
3. Explain the simplified view of Kalyani Breweries supply chain.
4. What is the basic objective of Supply Chain Management?
5. "A typical supply chain may involve a variety of stages". Elaborate.
6. What are the different stages of a supply chain?
7. "SCM philosophy drives supply chain members to have a customer orientation". Explain.
8. What are the primary SCM activities?
9. Briefly explain the SCM value chain system.
10. "Value chain analysis is not a very difficult exercise conceptually". Clarify.
11. What are the identified management traits that set them apart from others?
12. Discuss about financial sophistication.
13. Define and illustrate cash-to-cash conversion, dwell time minimization, nd cash spin.
14. How do supply chain strategy and structure impact each?

15. Discuss and support the following argument: "Supply chain arrangements may reduce consumer value."
16. Explain about Information Technology and Logistics Management in 21st Century.
17. What is the role of inventory management in the overall distribution task?
18. What are the relative advantages and disadvantages of various transportation modes?
19. What do you understand by logistics management? Define its scope and objectives and discuss the key decision areas.
20. What are the factors to be considered for deciding the location of the manufacturing plant? Discuss the importance of materials management during this period.
21. 'Physical distribution is the better half of marketing'. Discuss and show the major elements of physical distribution.
22. Discuss the importance of warehousing in physical distribution. What are the important decisions that managers must make when establishing warehouses?
23. Suggest alternatives for the physical distribution of washing machines.
24. Describe the factors that determine the decisions about the locations of warehouses for a consumer durable product.
25. How would you decide on levels of inventory for electric motors primarily used in agriculture?
26. What modes of transportation would you use for a company manufacturing personal computers? Also give justifications for your recommendation.
27. Differentiate between 'Channel Management' and 'Physical Distribution Management'.
28. What are the advantages and disadvantages of the different transportation options for a company?

Notes

5.20 Further Readings

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