



**MBA : SECOND YEAR**

**SEMESTER IV**

**MARKETING GROUP**

## Sales and Distribution Management

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Roorkee

---

## Authors

**Dr. Piyush Seth**

Assistant Professor  
Feroze Gandhi Institute of  
Engineering & Technology  
Raebareli, Uttar Pradesh, India

**Dr. Latika Ajitkumar Ajbani**

Assistant Professor, YCMOU

**Dr. Surendra Patole**

Assistant Professor, YCMOU

## Editor

**Dr. Vinay Sharma**

Associate Professor  
Department of Management Studies  
Indian Institute of Technology (IIT)  
Roorkee, Uttarakhand, India  
Visiting Professor, IIM, Lucknow

---

## Instructional Technology Editing & Programme Co-ordinator

---

**Dr. Latika Ajitkumar Ajbani**

Assistant Professor  
School of Commerce & Management  
Yashwantrao Chavan Maharashtra  
Open University, Nashik

---

## Production

---

**Shri. Anand Yadav**

Manager, Print Production Centre, Y. C. M. Open University, Nashik- 422 222

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**MKG 402**

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# Introduction

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The cut-throat competition in the market place has led the growth of sales and distribution management in an apex heights. Hence knowledge, skills, and theoretical underpinnings related to sales and distribution management are the key for success of a management graduates. Keeping in mind the contemporary relevance of the sales and distribution management in this course materials authors have integrated all the possible dimensions of sales and distribution management to facilitate the learners for maximum integrated learning of sales concepts, nature, role and functions to challenge the cut throat competition in the contemporary market place between marketers, and sales organizations.

In continuation with the above said objectives of the book the unit first deals with the basic concepts of sales and distribution management, its nature and theoretical understanding of the sales and distribution management for making the readers sound towards sales and distribution management. Unit second further extend the readers understanding about the management and controlling of sales efforts towards better outcome. Consequently unit three deals with the unseparated role of transportation in sales management and how the motivational strategies of the management could be useful in motivating the sales forces and how the compensation of the sales force is fixed is uniquely described in unit fourth.

The role of the functions of human resources management, such as training, recruitment, selection, and performance evaluation is separately discussed in unit fifth, sixth, seventh, and eighth for building the understanding of the learner about the applications of human resource strategies in sales management for productive outcomes in the favor of serving organizations. Unit ninth explores the process of budgeting in sales management with an understanding of all possible and applicable techniques currently are applicable in industries and sales organization for fixing the budget for managing the sales. Without distribution the actual objective of sales management remains incompetent in the entire process, hence unit tenth gives a complete overview and understanding how the distribution function takes significant role in the sales management. And finally unit eleventh deals with the storage and inventory functions that are the means for the entire process of sales and distribution management.

The authors hope that all the contents on understanding of the sales and distribution management will definitely enhance the learner's capability and skills for outstanding management of the sales activities they are expected to perform for the organizations.

- Dr. Vinay Sharma  
- Dr. Piyush Seth  
- Dr. Latika Ajitkumar Ajbani  
- Dr. Surendra Patole

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## Message from the Vice-Chancellor

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Dear Students,  
Greetings!!!

I offer cordial welcome to all of you for the Master's degree programme of Yashwantrao Chavan Maharashtra Open University.

As a post graduate student, you must have autonomy to learn, have information and knowledge regarding different dimensions in the field of Commerce & Management and at the same time intellectual development is necessary for application of knowledge wisely. The process of learning includes appropriate thinking, understanding important points, describing these points on the basis of experience and observation, explaining them to others by speaking or writing about them. The science of Education today accepts the principle that it is possible to achieve excellence and knowledge in this regard.

The syllabus of this course has been structured in this book in such a way, to give you autonomy to study easily without stirring from home. During the counseling sessions, scheduled at your respective study centre, all your doubts will be clarified about the course and you will get guidance from some experienced and expert professors. This guidance will not only be based on lectures, but it will also include various techniques such as question-answers, doubt clarification. We expect your active participation in the contact sessions at the study centre. Our emphasis is on 'self study'. If a student learns how to study, he will become independent in learning throughout life. This course book has been written with the objective of helping in self-study and giving you autonomy to learn at your convenience.

During this academic year, you have to give assignments and complete the Project work wherever required. You have to opt for specialization as per programme structure. You will get experience and joy in personally doing above activities. This will enable you to assess your own progress and thereby achieve a larger educational objective.

We wish that you will enjoy the courses of Yashwantrao Chavan Maharashtra Open University, emerge successful and very soon become a knowledgeable and honorable Master's degree holder of this university.

Best Wishes!

**- Vice-Chancellor**

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# Sales & Distribution Management (MKG 402)

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## SYLLABUS

**Unit 1 : Sales and Distribution Management: Nature, Concept and Scope**

Sales Management —What is Sales Management? —Sales Management and the Environment —Sales and Other Departments —The Scope of Sales Management —Characteristics of the Sales Job —Categories of Salespersons —The Role of a Salesperson— Sales-Related Marketing Policies —Sales and Advertising —Sales & Distribution—Sales and pricing—The Sales Management Process —Implementing the Sales Programme —Evaluation Control of the Sales Programme —Sales Management and Control —Formal Control—Key Account Management —Building Relationships with Key Accounts —Tactics of Relationship Selling

**Unit 2 : Controlling the Sales Effort**

Sales Budgeting and Control —Purpose of Sales Budget —Methods of Sales Budgeting—Preparation of Sales Budget —Sales Control — Purpose of Sales Control —Sales Control System —Methods of Sales Control —Sales Analysis —Marketing Cost Analysis —Sales Management Audit —Sales Quotas —Purpose of Sales Quotas —Controlling Sales Person's Activities —Types of Sales Quotas —Sales Volume Quotas —Methods of Setting Sales Volume Quotas —Limitations of Sales Quotas —Administration of Quota System —Sales Territories — Developing Territories —Objectives and Criteria for Territory Formation —Purpose of Sales Territories

**Unit 3 : Transportation**

Definition of Transportation —Policies—The Role of Transport— Transport in Emergencies—Operations - Transport Strategy — Managing transport providers—Organizing movement—Mode of Transport—Air Transport—Road Transport—Sea transport—Rail transport—Administration - Safety and security of goods to be moved —Insurance

**Unit 4 : Motivating and Compensating Sales Personal**

—Need for Motivation —Steps in Motivation —Motivational Theories —Maslow's Hierarchy of Needs —Herzberg Two Factor Theory—

Vroom's Expectancy Theory —Financial Motivational Techniques — Non-financial Motivational Technique —Financial Incentives — Requirements of a Good Sales Compensation Plan —Designing a Compensation Package —Consider the Compensation Patterns in Community and Industry —Types of Compensation Plans —Straight Salary Plan —Straight Commission Plan —Factors Influencing Design of Compensation Scheme —Use of Bonus —Fringe Benefits

**Unit 5 : Training and Development of Sales Force and Sales Organization, Evaluation of Sales Personnel**

—Training and Development of sales force—Significance of training—The focus of sales training  
—The Sales Training Process—Assessing training needs—Designing training content—Conducting group training sessions— Training methodologies—Training for different sales personnel—Functional activities—Training on functional activities—Training feedback

**Unit 6 : Recruiting Selecting**

Recruitment and selection of Sales force—Basic Objective of Sales Force Management—Preparation of Job Description and Personnel Specification—Sourcing Applications for Sales Positions—Screening Applicants—Conducting Interviews —Short List Applicants—Checking References—Background investigation—Selection and Induction

**Unit 7 : Selection and Placement of Sales Personnel**

Selection Process —Preliminary Interview —Formal Application Blank —Interview —Reference Check —Psychological Testing —Physical Examination —Employment Offer —Future

**Unit 8 : Performance Evaluation of Sales Personnel**

Performance evaluation of sales force—Purpose Evaluating the Performance of Sales force—Approaches in Evaluating Performance of a Sales force—Key issues in controlling and evaluating sales performance—Dimensions of Salesperson Performance Evaluation—Performance Evaluation Methods—Possible bias in performance evaluation—Evaluating Team Performance

**Unit 9 : Sales Budgeting - Approaches and Techniques**

What is a Sales Budget? —The Budgeting Process —Methods of Sales Budgeting —Preparing the Sales Budget —Review and Analysis of the Marketing Environment —Sales Control —Purpose of Sales Control—The Sales Control System —Nature of Control —Methods of Sales Control

**Unit 10 : Distribution**

Distribution Plan—Elements of Distribution & Cost Implications—  
Network Design —Direct Delivery—Distribution Centre Network—  
Supplier Milk Run—Choosing a Network Configuration—Quality  
Control Monitoring —Supply tracking—Performance measurement—  
End user monitoring

**Unit 11 : Warehousing and Inventory Management**

Definition—Global Warehouses—Field Warehouses—Policies and  
Procedures—Types of Warehouse Space—Basic Principles of  
Warehouse and Inventory Management—How to Select and Set-Up  
a Warehouse—Determining Storage Requirements—Warehouse  
Preparation Planning—Aspects to consider when managing  
Warehouse Operations—Resource Requirements—Legal  
Considerations

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# UNIT 1 : SALES AND DISTRIBUTION MANAGEMENT : NATURE, CONCEPT AND SCOPE

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*Sales and Distribution  
Management : Nature,  
Concept and Scope*

## NOTES

- 1.0 Unit Objectives
- 1.1 Introduction
- 1.2 Sales Management: Marketing Management and the New Economy
- 1.3 Sales Management
  - 1.3.1 What is Sales Management?
  - 1.3.2 Sales Management and the Environment
  - 1.3.3 Sales and Other Departments
- 1.4 The Scope of Sales Management
  - 1.4.1 Characteristics of the Sales Job
  - 1.4.2 Categories of Salespersons
  - 1.4.3 The Role of a Salesperson
- 1.5 Sales-Related Marketing Policies
  - 1.5.1 Sales and Advertising
  - 1.5.2 Sales & Distribution
  - 1.5.3 Sales and pricing
- 1.6 The Sales Management Process
  - 1.6.1 Implementing the Sales Programme
  - 1.6.2 Evaluation Control of the Sales Programme
  - 1.6.3 Sales Management and Control
  - 1.6.4 Formal Control
- 1.7 Key Account Management
  - 1.7.1 Building Relationships with Key Accounts
- 1.8 Tactics of Relationship Selling
- 1.9 Summary
- 1.10 Key Terms
- 1.11 Questions and Exercises
- 1.12 Further Reading and References

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## **1.0 Unit Objectives**

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After going through this unit, you will be able to differentiate between marketing and sales, understand the relationship of sales with other environment and marketing variables. Describe sales-related marketing policies and explain the changing role of personal selling

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### **1.1 Introduction**

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Sales management as a concept has taken on a greater significance especially with the changes that have been taking place in the economy. This unit discusses the importance of sales management, the new concepts that have arisen, and some old ones that have assumed new dimensions in the context of globalization. Differentiating between sales and marketing, the unit goes on to explain the relationship between sales and other environment and marketing variables. Concepts like personal selling, sales control, and relationship selling are examined and the various roles of account management, sales force and the sales manager are delineated.

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### **1.2 Sales Management : Marketing Management and the New Economy**

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Today it has become imperative to talk about the new economy. Businesses are operating in a global economy where markets face competition faster than ever before. Technology too is changing every day. Present-day business has to adapt to the needs of the customer, who has tremendous buying power and a wide variety of goods and services to choose from.

Marketing deals with identifying and meeting human and social needs. It is also defined as the art of selling products. A simple marketing system is shown in following figure.

Due to competition in the marketplace, marketers are now building a mutually satisfying long - term relationship with key customers, including

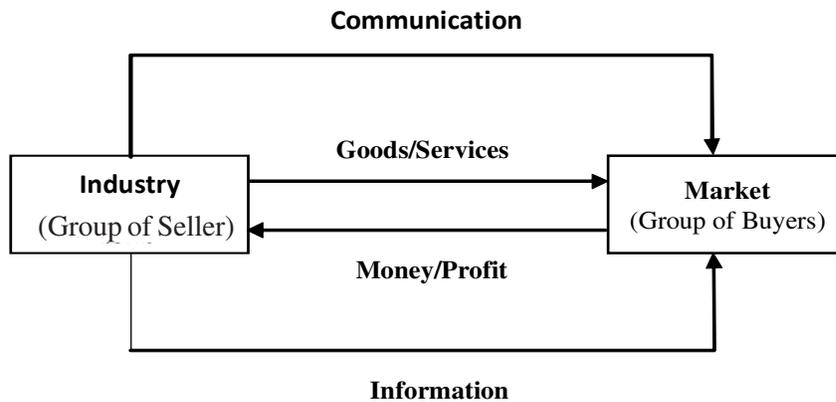


Figure 1 A Simple Marketing System

suppliers and distributors. Sales management is a part of the marketing mix strategy. Sales management focuses on the need of the seller with the aim of making profit whereas marketing is devoted to the satisfaction of the needs of the customer.

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## 1.3 Sales Management

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### 1.3.1 What is Sales Management?

Sales management, apart, from the management of personal selling, encompasses marketing activities like advertising, sales promotion, marketing research, physical distribution, pricing, merchandising and so on. Sales management is defined by the American Marketing Association (AMA) 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’. Sales volume, contribution to profits and growth are the three major objectives of the sales function. Organizational objectives are communicated to the marketing department which, in turn, passes on the responsibility to the sales department.

### 1.3.2 Sales Management and the Environment

Sales management in any organization is affected by environmental

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factors. Such factors affecting sales could be behavioral, technological or managerial in nature.

**Behavioral Factors :** The consumer today has become more conscious of the environment, and sales must adjust to a variety of influences. Like rising consumer expectations, expanding power of major buyers, customer avoidance of buyer—seller negotiations, globalization of markets, fragmented markets.

**Technological Factors :** The major technological factors that affect sales are sales force automation, virtual sales offices, and electronic sales channels.

Sales force automation includes laptop and palmtop computers, mobile telephones, fax, e-mail and more advanced sales software that aid account planning, and the recruitment, selection and evaluation of the sales personnel. Electronic data interchange (EDI) provides computer links between manufacturers and resellers (retailers, wholesalers and distributors), allowing direct exchange of information. Technological innovations have facilitated desktop videoconferencing, enabling sales meetings, training and customer interaction without the need for people to leave their office.

Technological innovation leads to cost and time saving and enhanced job satisfaction for salespersons.

**Managerial Factors :** Managers respond to the change in the environment by developing new strategies and tactics to enhance sales effectiveness. They employ direct marketing techniques, improve cooperation between sales and marketing, and look after the training and development needs of the sales people. Sales management responds to new challenges by recognizing the importance of professional qualifications. Sales organizations depute sales people for training as well to enhance their professional qualification to institutes like the National Institute of Sales in India to meet the challenges of today's competitive environment.

### **1.3.3 Sales and Other Departments**

Sales personnel have to coordinate with the marketing departments like promotional activities and market planning. Sales people must also coordinate with distribution channels pre- and post-introduction of products. It is sales that has to balance the interests of trade and the manufacturer. Sales must motivate trade for joint promotional efforts. Coordination between sales and the overall marketing strategy is absolutely essential, especially where new product introduction is concerned.

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## **1.4 The Scope of Sales Management**

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Sales management directs the sales force. Therefore, it must know the art and science of personal selling. Personal selling is accomplished through salesmanship. The sales executive must know the activities of salespersons, including salesmanship and the problems faced by salespersons. From the organization's viewpoint, there are three objectives of sales management: achieving sufficient sales and volume, providing ample contribution to profits, and experiencing continuing growth. The top management delegates to the marketing management, which then delegates to the sales management. During the planning phase that precedes this goal setting, sales executives provide informed estimates on market and sales potentials, the capabilities of the sales force and the middlemen.

#### **Check Your Progress**

Discuss the Concept,  
Nature & Scope of Sales  
Management?

### **1.4.1 Characteristics of the Sales Job**

There are several distinguishing features of a sales job.

- A salesman is the ambassador of his company to the external world.
- He leaves a lasting impression on those with whom he interacts and who form an opinion about the company from his behavior.
- A salesman needs human relations skill much more than others. As he interacts with a variety of people in diverse situations, he must

## NOTES

show diplomatic skills and composure.

- He should also use tact and intelligence while dealing with his customers.

### 1.4.2 Categories of Salespersons

Selling jobs can be classified on the basis of the creative input needed to perform them. Thus we have several categories of salespersons, such as:

**Just Delivery:** Here several sales people simply fulfill orders by delivering the product – a driver of a van of soft drink bottles, a milk vendor, or persons at the petrol pumps.

**Order Taker:** The salesman behind the counter of a grocery store or a bookstore listens to the requirements of the customers and serves them the right products. These order takers may be found in the field as well, e.g., salesman selling hardware items.

**Missionary Selling:** Here are persons who build an image of the organization and generate goodwill for it. For instance, those selling pharmaceuticals (medical representatives) are missionaries.

**Sales Engineers:** There are sales people who have the sound technical knowledge of the product are considered as sales engineers.

**Creative selling:** Salespersons use their creativity to sell tangible products, like computers or aircraft, as well as intangible products, like insurance, consultancy services, advertising services, etc.

### 1.4.3 The Role of a Salesperson

Salespersons have key responsibilities, both to their employers and to those who buy and use their firm's products. The top management holds them responsible for:

- (i) obtaining sufficient sales volume,
- (ii) providing ample contributions to profits, and

(iii) continuing business growth.

Sales managers are in charge of personal-selling activity, and their primary assignment is management of the personal sales force. Today's sales managers are responsible for organizing the sales effort, both within and outside their organizations.

Within the organization, the sales manager builds a formal and informal organizational structure that ensures effective communication not only inside the sales department but also in its relations with other organizational units. Outside the organization, the sales manager serves as one of the company's most important contact point with customers.

The sales manager is responsible for building and maintaining an appropriate and effective distribution network. Today's sales managers are responsible not only for using but 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 in marketing decisions regarding products, marketing channels and distribution policies, advertising and other forms of promotion, and pricing. Thus, the modern sales manager is both an administrator in charge of personal-selling activity and a member of the executive group that makes marketing decisions of all types.

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## **1.5 Sales-Related Marketing Policies**

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Following are the main aspects which considered as sales related marketing policies.

### **1.5.1 Sales and Advertising**

The personal-selling effort must be coordinated effectively with advertising, display, and other promotional efforts if the total marketing effort is to achieve the desired results. Synchronizing personal selling with advertising is particularly important. Advertising may prove uneconomical unless the sales force capitalizes upon the interest aroused.

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## **1.5.2 Sales & Distribution**

Sales executives are concerned with coordinating the personal - selling effort with the marketing efforts of the middlemen. Among the most important aspects of this coordinating activity are : gaining product distribution, obtaining dealer identification, reconciling business goals, and sharing promotional risks.

In furthering the chances that the personal-selling effort will succeed, the salesperson must ensure that final buyers know which local outlets stock the product. Even if the manufacturer's advertising succeeds in pre-selling the product, no sales will result if the final buyers are unable to find the outlets that stock it.

The marketing programme often calls for the manufacturer and the middlemen to use cooperative advertising. In these cases, sales executives ensure that the sales personnel make effective presentations designed to convince dealers to participate. It is not enough Sales and pricing for sales executives to know the techniques and problems of new-brand introduction. They must be capable of putting the plans into action, implementing them and skillfully executing the programme.

## **1.5.3 Sales & Pricing**

Pricing of a product can be done with the help of two pricing strategies, via. Penetration pricing strategy and skimming pricing strategy. The penetration pricing strategy is used for products that are not very costly and are meant for the masses. The skimming pricing strategy is used for expensive products.

A salesperson is the best judge of the marketplace as he is in touch with the customer and knows the pulse of the marketplace. An organization decides upon the pricing strategy to be adopted according to the need of the market and the customer's decision.

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## 1.6 The Sales Management Process

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Sales management programmes are formulated to respond effectively to an organization's environmental circumstances, and these must be consistent with the businesses competitive and marketing strategies.

The effective management of a company's sales force involves three interrelated sets of decisions or processes.

- \* **Formulation of a Strategic Sales Programme :** The strategic sales programme should consider the environmental factors faced by the firm. It should organize and plan the company's overall personal-selling efforts and integrate these with the other elements of the firm's marketing strategy.
- \* **Implementation of the Sales Programme :** The implementation phase involves selecting appropriate sales personnel as well as designing and implementing policies and procedures that will direct their efforts towards the desired objectives.
- \* **Evaluation and Control :** The evaluation phase involves developing methods for monitoring and evaluating the performance of the sales force.

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### 1.6.1 Implementing the Sales Programme

As with any kind of management, implementing a sales programme involves motivating and directing the behavior of other people - the members of the sales force. To be effective, the sales manager must understand why the people in his or her sales force behave the way they do.

Regardless of how highly motivated or competent salespersons are, their ability to achieve a particular level of job performance is influenced by environmental factors. A salesperson must understand what the job entails and how it is supposed to be performed. The activities and behaviors associated with a particular job are defined largely by the expectations and demands of other people, both inside and outside the organization.

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A salesperson's ability to perform activities related to the job is also influenced by his/her personal characteristics, such as personality traits, intelligence, and analytical ability. A sales person cannot achieve a high level of job performance unless motivated to expend the necessary effort. A person's motivation is determined by the kind of rewards expected for achieving a given level of performance- such as more salary or promotion.

A sales manager can use several policies and procedures to influence the aptitude, skill levels, role perceptions, and motivation of the sales force. Implementing a sales programme involves designing such policies and procedures so that shaped the job behaviors and performance of each salesperson direct him/her towards the specified objectives and performance levels. The sales manager must decide what kind of aptitude is required for the firm's salespersons to do the kind of selling involved and achieve the program's objectives.

### **1.6.2 Evaluation Control of the Sales Programme**

A company might utilize three major approaches in evaluating and controlling the sales force to monitor the performance of the sales programme. The first approach is sales analysis. The volume of sales can be monitored for each salesperson. In addition, sales figures are often broken up according to geographical district, each product in the line, and the different types of customers. The second approach is cost analysis. The costs of various selling functions can be monitored and examined across individual salespeople and districts. The third approach is behavioral analysis. A salesperson's ability to achieve a certain volume of sales is sometimes constrained by factors beyond his control, such as competition or economic conditions.

### **1.6.3 Sales Management and Control**

Planning and control go hand in hand. Sales objectives are reviewed to examine where we stand today, how we travelled up to this point,

where we are headed, and how to reach there. Sales plans are examined along with policies and procedures. The control process starts by setting performance standards. The actual performance is then measured. The results are compared with the standards set. Variations are deeply examined. Last of all, corrective action is taken to set the matter right.

Salespersons are responsible for controlling the personal-selling effort of the organizational units they head. The general purpose of this control is to assure that sales-department objectives are reached with as little wasted effort as possible. Salespersons start by reviewing the personal-selling objectives of the firm and ironing out the weaknesses. They set quantitative standards against which to measure performance.

Evaluation of performance consists of comparing actual results with standards. Departures from standards are classified and divided into uncontrollable and controllable variations. Variations outside the control of the person whose performance is being appraised include those caused by rapid and unexpected changes in economic conditions, changes in governmental activities, wars, strikes, floods, droughts, and other natural disasters. Variations over which the person held responsible has some control include such items as: failing to obtain proper sales coverage, neglecting to follow up leads, not selling a balanced line, not securing adequate credit information. Management corrects that part of the variation explained by factors within the control of the person whose performance is being evaluated. The amount of uncontrollable variation in the comparison indicates the relative need for making adjustments in sales plans.

### **1.6.4 Formal Control**

An organization needs written sales and marketing policies to ensure substantial uniformity of action. Written policies also conserve executive time, a matter of great importance to sales executives. Because policies are written, more time can be used for planning and making decisions regarding problems not covered by existing policies. Estimating how.

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#### **Check Your Progress**

Define the strategy of Sales Control?

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Much of a product can be sold in a specified future period is a prerequisite both for planning and control. Sales-volume performance is best appraised by comparing it with the potential sales volume. The 'sales or market forecast', therefore, serves as a standard for evaluating sales performance. Ultimately, formal control requires installation of sales budgetary controls and setting up of sales territories. Budgetary control represents an extension of control over margins and expenses, and hence over profits. When control reaches this stage, sales management can project individual profit-and-loss statements for such units as sales territories, products, marketing channels, and classes of customers.

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### **1.7 Key Account Management**

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Key account management is a strategy used by suppliers to target and serve high potential customers with complex needs by providing them with special treatment in the areas of marketing, administration and service. In order to receive key account status, a customer must have high sales potential. A second characteristic is that of complex buying behavior; for example, large decision-making units with many choice criteria are often found in dispersed geographical locations. The decision-making unit may be located in a different functional area. Third, key account status is more likely to be given to customers willing to enter into a long-term alliance or partnership. Such relationships offer buyers many benefits including reliability of supply, risk reduction, easier problem solving, better communications and high levels of service. Key accounts that are geographically spread are often called national accounts.

Key account handling requires a special kind of attention from the seller that may be beyond the capacity of the regular field sales force. Some of the key responsibilities of key account managers are: planning and developing relationships with a wide range of people in the customer firms, mobilizing personnel and other resources in their own firms to assist the account, and coordinating and motivating the efforts and communication of

their company's field salespeople in their calls on the various departments, divisions and geographical locations of the key account.

According to Hise and Reid, the six most critical conditions needed to ensure the success of key account management are:

- Integration of the key account programme into the company's overall sales effort.
- Senior management's understanding of, and support for, the key account unit's role.
- Clear and practical lines of communication between outlying sales and service units.
- Establishment of objectives and missions.
- Compatible working relationships between sales management and field salespeople.
- Clear definition and identification of customers to be designated for key account status.

## **1.7.1 Building Relationships with Key Accounts**

The importance of relationship building with customers is discussed in Unit 7. However, there are certain ways in which suppliers can build relationships with key accounts. Five ways of building strong customer relationships will now be described.

- a. Personal trust:** The objective is to build confidence and reassurance.

***Methods:***

- Ensure that promises are kept.
- Reply swiftly to queries, problems and complaints.
- Establish high (but not intrusive) frequency of contact with key account.
- Arrange factory/site visits.
- Engage in social activities with customer.

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- Give advance warning of problems

**b. Technical support:** The objective is to provide know-how and improve the productivity of the key account.

**Methods:**

- Research and development cooperation
- Before- and after-sales service
- Provide training
- Dual selling (supplier helps key account to sell)

**c. Resource support:** The objective is to reduce the key account's financial burden.

**Methods:**

- Provide credit facilities
- Create low-interest loans
- Engage in cooperative promotions to share costs
- Engage in counter-trade (accept payment by means of goods or services rather than cash)

**d. Service levels:** The objective is to improve the quality of service provision.

**Methods:**

- Reliable delivery
- Fast/just-in-time delivery
- Install computerized reorder systems
- Give quick and accurate quotes
- Defect reduction (right first time)

**e. Risk reduction:** The objective is to lower uncertainty in the customer's mind regarding the supplier and the products/services provided.

**Methods:**

- Free demonstrations.
- Free/low –cost trial period
- Product guarantees
- Delivery guarantees

- Preventive maintenance contracts
- Proactive follow-ups
- Reference selling

Suppliers should consult the above checklist to evaluate the cost/benefit of using each of the methods for building strong relationships with each account. A judgment needs to be made regarding the value each key account places on each method and the cost (including executive and management time) of providing the item.

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## **1.8 Tactics of Relationship Selling**

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Customer retention constitutes a prime objective of relationship selling. This can only be achieved in an organizational selling situation by giving full regard to customers' needs and by working to form long and trustworthy relationships. In such situations it can be seen that the length of time that individual salespersons stay in particular posts may well increase since buyers generally stay in their positions about twice as long as field salespeople. This new tendency has given rise to the associated concept of internal marketing, defined by Berry as 'the means of applying the philosophy and practice of marketing to people who serve external customers so that (i) the best possible people can be employed and retained and (ii) they will do the best possible work'.

Just as in the case of external customers, there is a strong body of opinion that internal marketing should focus on long-term relationships and employee retention within company departments. Thus it is anticipated that under relationship selling circumstances the time individual salespeople spend in a particular post will move towards that of their purchasing counterparts. Why should this be the case? It can be postulated that buyers, because of the type of role they fulfill, have what may be termed a more 'sedate' occupational lifestyle than that of the traditional salesperson whose lifestyle 'on the road' can be quite hectic. Buyers are thus more 'settled'

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and stay in post longer. As buyers become more proactive in the marketplace under the system of reverse marketing, their lifestyle will become more akin to that of the field salesperson. Although there is pressure to purchase effectively, it is different from the pressure to sell in terms of reaching sales targets and quotas in a given period.

At the same time, the role of the field salesperson will also experience a different kind of work pressure under reverse marketing. The pressure will focus on the long-term goal of customer retention rather than sales targets and quotas. In fact, it is even contended that in such circumstances the traditional sales commission system might well disappear to be replaced by a higher basic salary plus bonuses shared by the expanded sales team whose ranks have been swelled by the concept of the part-time marketer. This might include production, quality and finance people, amongst others.

In their proposal of the 'virtuous circle', Reichheld et al. advocate that the emphasis of this approach is placed on mechanisms that motivate employees to achieve as highly as possible. Hence, support mechanisms such as training programmes that enable employees to do their jobs to the best of their abilities are becoming primordial. Different qualities will be required of field salespeople in relationship selling situations. The importance of features such as determination, self-motivation, resilience and tenacity, whilst still important when establishing long-term relationships, might well be overtaken by the greater relevance of features such as acceptability, attention to detail and a general ability to 'get along' with people on a long-term basis. To a certain extent, the 'cut and thrust' that one traditionally associates with field selling positions will be supplanted by a calmer environment of working together as a team that includes members of both the salesperson's own company and the buyer's company. Additionally, the attitudes of the buyer or customer towards the salesperson will also need to be taken into consideration. For instance, liking a specific salesperson will positively affect a buyer's attitude towards the products recommended by that person. However, caution must be exercised when

interpreting selling relationships. Research by Kinniard has shown that the sales role is attracting empathetic people who are not always successful because they mistake friendliness as meaning that a relationship has been established and naively anticipate that business will flow automatically.

Sales visits to individual customers are likely to be longer in duration and this will result in less individual sales calls being made. In fact, in some situations it can even be envisaged that there might well be somebody from the supplier's company permanently in place at the customer's company. This is already being practiced by some high technology companies, for example, those providing computer software and hardware to large retail organizations. At a more practical level, the two activities that currently tend to be regarded as ancillary to the task of selling information gathering and servicing will become more important.

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## **1.9 Summary**

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Sales management revolves around a number of activities, the first being contribution of profit. The other activities include achieving sales targets, satisfying customers, identifying the sales strategy, and defining the personal selling objectives. The formulation and control of a sales policy and implementation of the sales programme are all responsibilities of the sales manager.

Thus sales management today is of greater significance and includes marketing activities, like advertising, sales promotion, research, distribution and pricing. Sales alone cannot bring profits to an organization; today, with competition in the marketplace it is of relationship selling that brings success to any organization.

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## **1.10 Key Terms**

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- **Just Delivery** : Here several sales people simply fulfill orders by delivering the product – a driver of a van of soft drink bottles, a milk

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vendor, or persons at the petrol pumps.

- **Order Taker:** The salesman behind the counter of a grocery store or a bookstore listens to the requirements of the customers and serves them the right products. These order takers may be found in the field as well, e.g., salesman selling hardware items.
- **Missionary Selling:** Here are persons who build an image of the organization and generate goodwill for it. For instance, those selling pharmaceuticals (medical representatives) are missionaries.
- **Sales Engineers:** There are sales people who have the sound technical knowledge of the product are considered as sales engineers.

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### 1.11 Questions and Exercises

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1. Why is there a change in the role of sales management from just selling to relationship selling?
2. If you are a salesperson for a cosmetic company, what, according to you, are the essential qualities required for a salesperson?
3. What is the role of sales control and how is it done?
4. 'Today it is important for a salesperson to be a marketing man too.' Support this statement with examples from the market.
5. Explain the role of environmental factors in sales activities.

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### 1.12 Further Reading and References

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- "Sales Management" By V.Das, Gupta 3. "Marketing Management" By Philip Kotler
- "Skills for Sales Success" By Bachelor.
- "Selling and Sales Management" By Lancaster.
- "Management of Sales Force" By Ford, Churchill and Walker.

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# UNIT 2 : CONTROLLING THE SALES EFFORT

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*Controlling  
the Sales Effort*

## NOTES

2.0 Unit Objectives

2.1 Introduction

2.2 Sales Budgeting and Control

2.3 Purpose of Sales Budget

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2.14 Objectives and Criteria for Territory Formation

2.15 Purpose of Sales Territories

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2.17 Key Terms

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## **2.0 Unit Objectives**

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After studying this unit, you will be able to: explain the importance of budgeting; describe the methods and purposes of sales control, discuss the concept of quotas, describe the types of quotas, and explain the concept of sales territory.

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## **2.1 Introduction**

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Sales managers must be aware of the types of expenses that are incurred both before and after the sale as well as the sales revenues generated. Budgeting becomes a key task of sales management. It is also known as a blue print to making profitable sales. It estimates how much sales are to be made and what expenses will be incurred in the same. A proper budget provides a projection into the sales volume, selling expenses and profits of the company. Personal selling objectives, both quantitative and qualitative, determine the sales related marketing policies which in turn forms personal selling strategies. The strategies are decided keeping in mind the two key decisions, i.e., kind of sales personnel and size of sales personnel. All this together determines the sales budgets and once the expenses have been estimated the sales force management is undertaken.

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## **2.2 Sales Budgeting and Control**

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A sales budget is a financial plan depicting how resources should best be allocated to achieve the forecasted sales. The purpose of sales budgeting is to plan for and control the expenditure of resources (money, material, people and facilities) necessary to achieve the desired sales objectives.

Sales forecast and sales budget are related in that if sales budget is inadequate the sales forecast will not be achieved and if sales forecast is increased sales budget must be increased accordingly. It also acts as a means

of evaluating and planning sales effort. It aims at attaining maximum profits by direct efforts on most profitable segments, customers and products.

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## 2.3 Purpose of Sales Budget

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It serves three basic purposes:

**Planning Tool:** In order to achieve goals and objectives sales managers plan by outlining essential costs to be incurred. This helps in profit planning and act as a guide for achieving objectives.

**Instrument of Coordination:** Budget acts as an instrument of coordination. Selling is one of the functions of marketing and needs support from the elements of marketing mix. Budgets also help in integrating other functions of like sales, finance, production and purchase.

**A Tool for Control:** Comparison between budgeted and actual costs result in the analysis of factors causing variations and enables the sales manager to spot problem areas or plan better for expected outcomes. Variance analysis helps in improving insight of sales manager and enables to define and develop realistic sales budget in future with minimal variance.

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## 2.4 Methods of Sales Budgeting

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**Affordable Method:** What is affordable? Many companies set the promotion budget at what they think the company can afford. This method is used by firms dealing in capital industrial goods. Also companies having small size of operation make use of this method.

**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.

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**Competitors Parity Method:** This method is used by large size companies facing tough competition. It presumes knowledge of competitors' activities and resource allocation.

**Objective and Task Method:** This method calls upon marketers to develop their budgets by identifying the objectives of sales function and then ascertaining the selling and related tasks to achieve objectives. Later the cost of each task/activity is calculated to arrive at the total budget. Adjustment to task or budgets can be made.

**Zero Base Budgeting:** A process in which sales budget for each year is initiated from zero base thus justifying all expenditure and discarding all conventions and rules of thumb. Its limitation is that it is very elaborate and time consuming process. In practice, companies use a combination of these methods.

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## **2.5 Preparation of Sales Budget**

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Sales budget is the most important element of sales. Generally, three basic budgets are developed:

- a. Sales budget
- b. Selling expense budget
- c. Sales department administrative budget.

Sales organizations have different procedures. However, a sequence is generally followed.

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## **2.6 Sales Control**

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One of the most important responsibility of a sales manager is to exercise control over sales and the performance of selling activities. Sales need to be controlled both on an ongoing (continuous) basis as well as overall, periodically. Sales control function assists the manager in ascertaining which level of sales have been achieved, why there has been a variance and which remedial action can be taken to achieve the target results.

## 2.6.1 Purpose of Sales Control

Sales control assists the sales manager in:

- Initiating remedial steps.
- Revising the sales policy and strategies followed.
- Implementing steps for improving the productivity of sales force.
- Improving the quality of target setting sales plans and budget functions.
- Increasing sales profitability.

## 2.6.2 Sales Control System

A sales control system should be set up on the following guidelines :

- Setting detailed objectives (round key result areas).
- Establishing standards for appraising performance.
- Gathering information on actual sales activities and results.
- Comparing actual with expected.
- Taking remedial action (need based).

Existence of a comprehensive sales information system in the firm is a prerequisite for an effective sales control system. This can be done by recording sales by value, by customer, by sales person, by territory, by distribution outlet, by cash or credit. In addition to invoice other important documents are dispatch notes, customers call reports, daily activity reports, journey plans, sales quotations, sales expenses forum, discount and allowance records.

## 2.6.3 Methods of Sales Control

Most commonly used methods are

- Sales analysis
- Marketing cost analysis
- Sales management audit

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#### **Check Your Progress**

What do you mean by Sales Budgeting ?

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## **2.7 Sales Analysis**

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It is a detailed examination of sales volume by territory, sales person, customer, product line, etc. It works on the principle that the trends of the total sales volume conceal rather than reveal the market reality. Researchers reveal that in most organizations a large percentage of customer order territories bring in a small percentage of total sales. This is known as 80-20 principle. 80% of the orders contribute over 20% of sales and 20% of selling units amount for 80% of sales. Likewise there is the example of iceberg principle which shows that total sales volume may reveal 10% of real market situation which is above the surface and 90% may remain unknown. Therefore, it is recommended that for unearthing reality and gaining meaningful insight, sales must be analyzed by territory, by sales person, by customer.

The sales manager scans the total sales on territory basis. Any unusual conditions in any territory such as intense competition, strike by labour union or transportation, etc., which make an adverse effect on company's products' are considered for further sales analysis.

### **2.7.1 Marketing Cost Analysis**

Here the cost incurred to achieve sales are considered. It is not just sales but sales with budgeted profits or expenses that matter. It is a fact finding analysis which relates cost to sales volume and resultant profitability. It relates cost and financial discussion of each selling transactions and activity. It can generate

- Cost of goods per rupee of sale
- Profit per territory, product pack, sales person
- Profit per rupee of sale
- Sales volume and turnover of receivables
- Turnover of stock and profitability
- Average value of order

- Average cost per order
- Total value of orders.

Usefulness of Marketing Cost Analysis: Successful cost analysis benefits the manager in ascertaining:

- Relative cost and profitability of sales operation
- Profitable, not so profitable and not profitable territories
- Products, pack size, market segments, distribution channel
- Minimum order level quantity
- Productivity of sales person
- Profitability of different sales promotion techniques
- Profitability of different marketing mix programmes.

## **2.7.2 Sales Management Audit**

Sales analysis and marketing cost analysis focus on routine and operational aspects. The third technique of sales control relates to strategic discussions of sales control.

Sales management audit is a comprehensive, systematic, independent and periodic audit of sales policy, objectives, strategies, organization and procedure followed by the firm. The purpose of sales management audit is to evaluate the soundness of the sales management of firm. It examines the validity of the very basis and assumption on which sales function is planned and managed. By critically evaluating the sales management against the changing market environment, it points out the emerging areas of opportunity as well as areas which need observation. Some aspects covered in sales management audit are:

- Appropriateness of selling functions and objectives
- Role of selling function in promotional mix and sales marketing integration.
- Organization and work norms of the sales force and its size.
- Recruitment, selection, promotion policy, compensation motivation of sales forces.

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- Basis of sales quota, sales budget, territory allocation and their market need suitability.
- Quality of sales force, appraisal criteria, training and development of sales personnel.
- Productivity of sales function.
- Sales planning and control system.
- Commercial procedures and sales promotion method.

It is a technique of management control. If conducted by outside experts and officials it is very beneficial.

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## 2.8 Sales Quotas

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A sales quota is a quantitative goal assigned to a sales unit relating to a particular period of time. A sales unit may be a territory, a branch office, a region, a distributor or a person. Sales quotas plan, direct, control and evaluate the activities of a company and their effectiveness depends upon the kind, quantity and accuracy of marketing information used in setting them and upon management's skill in administering the quota system.

Sales quotas provide a source of motivation, a basis for incentive, compensation and increasing standards of performance of sales persons and uncover the strength and weaknesses in the selling structure of the firm. Sales persons are quota achievers and their motivation may fall off if the quotas are easy to achieve. The sales quotas are set by sales manager for individual salesman or a sales district. The executives who set sales quotas must have experience and should be familiar with territories.

### **Budget Quotas**

- Set for various units in sales organization to control expenses, gross margins, or net profit
- Expense quotas
- Expense quotas are used most often in combination with sales volume quota

- Management provide sales personnel with financial incentives to control their own expenses
- To reduce administrative burden and misunderstandings, expense quotas are generally expressed as % of sales

### **Gross margin or net profit quotas**

- Appropriate when the product line contains both high & low margin items

### **Activity quotas**

- Define the important activities sales person perform; then set target performance frequency
- Appropriate when sales personnel perform important non-selling activities
- Control & recognition of sales person performing non selling activities
- Reward sales person on quantity of work; irrespective of quality
- Problem in inspiring the sales force

### **Combination & Other Point System Quota**

- Combination quotas control performance of both selling & non-selling activities
- Overcome the difficulty of using different measurement units to appraise different aspects of performance
- Because performances are computed as %, known as Point systems, the points being % points.
- Summarize overall performance in a single measure

## **2.8.1 Purpose of Sales Quotas**

Sales quotas serve several purposes. The principal purposes include the following.

- Providing Goals and Incentives to Achieve a Certain Performance Level

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#### **Check Your Progress**

Discuss the concept of Sales Quota?

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- If performance is exceeded or surpassed more incentives are given. While setting quotas, it must be ensured that they are specific, measurable, attainable, and realistic and time bound. (SMART).

## 2.8.2 Controlling Sales Person's Activities

Quotas provide opportunities:

- To direct and control the selling activities of sales person.
- To control the calls per day.
- To gain new accounts.
- To plan demonstrations.
- For realization of money from the account holders.
- To take corrective actions if the salesman fails to achieve his targets.

The entire control process of setting the desired performance, measuring the actual performance, finding out the deviation and taking corrective action is followed in its totality.

**Evaluating Performance :** Performance against quotas also helps in identifying strong and weak points of the sales person and performance of qualitative and quantitative activities. The performance can be judged for various products and in various territories. A salesman may perform differently but to the satisfaction of the sales executive. If a sales person is below average in many ways then there is food for thought and some action is required by the executive.

**Controlling Selling Expenses :** It is the duty of the sales person to keep the sales expenses within limits. Expense quotas help the companies to set profit quotas. Expenses are also tied to compensation. Usually a limit is fixed for external factors. These are- type of the city, type of work, type of terrain, type of product, etc. These are fixed after discussions with the salesman so that they are aware of the same.

**Make Effective Compensation Plans :** Proper compensation plans provide an incentive for the sales person and some Indian companies only give compensation when the quotas are achieved or exceeded. Some use it as a basis for bonus purposes and give bonus only when part or full quota is achieved.

Quotas should not be fixed arbitrarily or on the whims and fancies of the management. These should be set on certain criteria like past experience, potential demand, market analysis, competitive factors, quality and price. Once the quotas are fixed and seem all right, these can be gradually increased to achieve greater sales. Sometimes sales quotas are used in various types of sales contests. These motivate the salesman further and special prizes can be awarded for attaining quotas in these contests. These are also known as “special quotas” and help the average sales person to perform better.

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## **2.9 Types of Sales Quotas**

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There are basically four types of sales quotas and different types or a combination of them can be used depending upon their need, procedures, policies, selling problems and executive judgment.

- Volume of sales made by an individual.
- Volume of sales made in a geographical area.
- Volume of sales made in a product line.
- Volume of sales made in a distribution outlet.

### **2.9.1 Sales Volume Quotas**

These are most commonly used and are based on sales volume. Sales volume can be measured by:

- Volume of sales made by an individual.
- Volume of sales made in a geographical area.

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**Check Your Progress**

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- Volume of sales made in a product line.
- Volume of sales made in a distribution outlet.

Sales volume quotas are also set to balance the sales of slow moving products and fast moving products. They may be set in terms of unit sales or rupee sales volume or both and on overall as well as product wise basis. Some companies combine these two and set point wise basis, i.e. 1000 = 1 point. Also different points can be given to different products - 3 for product A, 5 for product B and so on.

Unit sales volume quotas are found useful in market situations where prices of the product fluctuate considerably or when the unit price of the product is rather high. Rupee sales volume quota is found useful for sales force selling multiple products to one or different types of customers.

## 2.9.2 Methods of Setting Sales Volume

### Quotas

Sales volume quotas can be set on the following basis.

**Past Sales:** Sales quotas are set based solely on past sales experience. If the sales quotas are to be set for this year then we find out the sales of last year and taking the expected percentage increase in market share, we add this percentage to last year sales.

E.g., Last year's sales - 100

Percentage increase in market share expected is - 10%

Then for this year sales quota will be - 110%.

This method assumes that the preceding year was the typical year. We can also take the average of past three years and add the rate of growth.

**Total Market Estimates:** In this method of setting sales quotas total market estimates are made by the company for that year and sales quotas are derived from this. Two approaches are generally used.

- Market size estimates can be had from the data available and the judgment of the executive at the head office.
- Sales quotas can also be made from the projections made by field staff at each territory office.

**Territorial Sales Potentials:** Many managers derive sales volume quotas from sales potentials. Sales potential represents the maximum sales opportunities open to the same selling unit. This approach is appropriate when:

- Territorial sales potentials are determined in conjunction with territorial design. In this case sales volume quotas are set by calculating the percentage relationship between each territorial sales potential and total sales potential and using the resulting percentages to apportion the company sales estimate among territories. For example, if territory X's sales potential is 3 per cent of the total and the company sales estimate is 10 million, then the sales volume quota for territory X is 3,00,000.
- Bottom-up planning and forecasting procedures are used in obtaining the sales estimate in the sales forecast. In this case, management, after considering such factors as past sales, competition, changing market conditions and differences in personal ability, as well as contemplated changes in prices, products, promotion and the like, gives final revised estimates of territorial sales potentials which become the territorial sales volume quotas.

**Compensation Plans:** Companies sometimes base sales volume quotas solely upon the projected amounts of compensation that management believes sales personnel should receive. No consideration is given to territorial sales potentials, total market estimates and past sales experience and quotas are tailored exclusively to fit the sales compensation plan. If, for instance, sales person A is to receive a 2,000/- monthly salary and a 5 per cent

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commission on all monthly sales over 40,000/-, A's monthly sales exceeds 40,000/-, management holds A 'compensation-to-sales ratio to 5 per cent. Note that A is really paid on a straight commission plan, even though it is labeled "salary and commission".

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## **2.10 Limitations of Sales Quotas**

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- In situations where goods are in short supply the quotas do not serve any purpose. These can only be used in buyers' market where goods are available in plenty and enough competition is in existence.
- Generally quotas are set at a high level which creates frustration in sales persons.
- It is not easy to get reliable sales estimates from the market. The collection of data is also very expensive therefore many quotas are set on past performance and by guess.
- Some sales quotas are complicated and aren't understood by salesman and hence are opposed by them.

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## **2.11 Administration of Quota System**

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The skills in administering the quota system are of a basic nature, they help not only to realize the full benefit for control purpose but also to secure cooperation among staff in making the system work. It is most critical to secure and maintain acceptance of those to whom quotas are assigned.

Some sales people oppose the sales quota and anything that makes them doubt the accuracy, fairness or attainability of sales quotas, leads to reducing the system's effectiveness.

**Accurate, fair and Attainable Quotas:** Quotas should be accurate, fair and attainable. Obtaining accurate quotas is a function of the quota setting procedure. Accurate quotas result from skillful blending of planning and operating information with sound judgment.

Setting a fair quota involves determining the proper blend of sales potential and previous experience. If management believes that its quota setting procedure produces accurate quotas and is confident that fair quotas are being assigned, then they should be attainable.

**Securing and Maintaining Sales Personnel's Acceptance :**

Management must make certain that sales personnel understand quotas and the setting procedure. Conveying this understanding is a critical step in securing staff acceptance of quotas. If sales personnel do not understand the procedure used in establishing quotas, they may suspect, for example, that the quotas are a technique to obtain extra effort from them at no cost to the company. This attitude destroys the quota's effectiveness as an incentive. It is important that sales personnel understand the significance of quotas as communicators of "how much for what period", but, if they also understand the quota setting procedure, they are more likely to consider their quotas accurate, fair and attainable. The quota setting method should be simple enough for sales personnel to understand, yet sufficiently sophisticated to permit acceptable accuracy.

**Participation of Sales Personnel :** If sales personnel participate in quota setting, the task of explaining quotas and how they are determined is simplified. It is not advisable to turn the whole quota-setting job over to the sales staff but some sales force participation can obtain more accurate and realistic quotas.

**Keeping Sales Personnel Informed :** Effective sales management keeps sales personnel informed of their progress relative to quotas. Sales personnel receive frequent reports detailing their performance to date. This permits them to analyse their own strong and weak points and take corrective action. Of course, sales personnel need encouragement, advice and occasionally, warnings in deciding to take measures to improve their performance.

**Continuous Managerial Control and Review :** In administering any quota system, there is a need for continuous monitoring of

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performance. Arrangements must be made together and performance statistics should be analyzed with minimum delay. Continuous managerial review and appraisal are required, since, for example, a quota that was accurate, fair and attainable at the beginning of an operating period can prove totally unrealistic in view of changing selling conditions. Flexibility in administering the system is important. If a quota is unrealistic, it should be adjusted.

Administrative flexibility is desirable, but not too much. Small changes can be ignored; important changes call for adjustments. Balance is needed between flexibility to every slight change and inflexibility regardless of changes.

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## **2.12 Sales Territories**

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A sales territory represents a group of customers or markets or geographical areas. Sales territories are geographical area that can be covered conveniently and canonically by a sales person. Territories can be formed on the basis of geographical locations, industry, and product use method of buying and channel of distribution. By terrorization, organizations can achieve better coverage of potential markets because it permits better planning, proper coverage of potential markets, efficient call patterns and better customer service. Some services like Insurance and Mutual Fund are sold on personal contacts rather than by developing territories. House Accounts useable are handled by the Co. itself. Big customers of prefer to deal directly with the Co. This many lower the morale of the salesman as a significant share of the Co's business is done directly by the Co. and the salesman is deprived of the commission.

Territory management is the planning, implementation and control of sales person's activities with the goal of realizing the sales and profit potential of their assigned territory.

- Sales territories Match sales effort with sales opportunities.

- Territorial assignment tells direction to the planning and control of the sales force.
- By forming territories management learns the strengths and weaknesses of the company in serving different markets.
- Realistic planning can be done as territories are more homogeneous than the entire market.
- By dividing the market into small groups specific objectives can be made and more control can be exercised.
- Performance appraisal of the sales person becomes critical according to directions that can be given.

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### 2.13 Developing Territories

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Designing of sales organization is incomplete till territories have been formally defined. Territories can be formed according to:

- Geographical location
- Industry
- Product use
- Method of buying
- Channels of distribution
- Sales potential
- Work load in territories
- Arbitrarily
- Rational basis.

By territorialisation better coverage can be achieved because it facilitates:

- Better planning
- Proper coverage of potential markets
- Efficient call patterns
- Better customer service
- Choosing appropriate salesmen for specific accounts.

In certain businesses which are carried out by social and personal contacts such as LIC, mutual funds, stocks, etc., it is preferable not to

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develop sales territories. Factors that affect the sales volume of a territory are its :

- Size
- Market potential
- Number of customers' accounts
- Firm's experience
- Market share in the territory.

Factors that affect the size of the territory are :

- Number of customers and prospects in an area
- Call frequency on existing customers
- Number of calls that the sales person makes in a day

A company's sales territory represents basic accountability units at the lowest level of aggregation. Several territories are combined into a district, several districts are combined into a region, several regions into zones and several zones into a national market.

Sales people are not only responsible for individual accounts but for a group of accounts (Territory Management). This is the first step in moving from selling to managing. It requires planning and control of sales effort. Territories are long lasting structural arrangements. These are formed by dividing the company's total market into smaller parts or also by taking smaller units of the market and assembling those to larger territories.

The steps followed in developing territories are being described below :

**Determination of Basic Control Unit for Territorial**

**Boundaries :** The starting point in territorial planning is the selection of a basic geographical control unit. The most commonly used control units are villages, tehsils, towns etc. and then cities, standard metropolitan statistical area, trading area and states. The two reasons for selecting a small control unit are :

- If the control unit is too large, areas with low sales potential are hidden by areas having high sale potential and vice versa

these units remain relatively stable making it difficult to redraw territorial boundaries.

- To increase one territory and reduce the other is easier with smaller sized control units. Other than a village, tehsil, town, etc., there are three more basic units for territorial boundaries.

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## 2.14 Objectives and Criteria for Territory Formation

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Proper territory formation is important as:

- It affects the sales force morale and performance. Results may be measured by sales volume, market share, or profits. The job of a sales manager is to form optimum number of territories and their configuration. In case of insufficient territories' sales will suffer for lack of coverage. If too many territories are formed the account will be fragmented as sales people may not get sufficient sales from their respective territories and a higher labour turnover may result.
- Another objective is the equalization of territory potential. This is to provide equal opportunities for the sales person since territories differ in many aspects including the potential and they become big or small accordingly. Travelling requirement and coverage is another problem. Added to this, is the fact that the current potential of a territory cannot be assessed at a particular given time.

In many cases territories having different potential are treated as potential territories and they may be made training grounds for new salesmen and more productive territories may be given to senior sales people. Therefore, while forming territories factors like territories with different sales potential, sales ability or performance index of the salesman and factors like coverage difficulty in territories should be considered.

Another factor is the frequency of calls. If there are lesser calls or frequency is less than sales opportunities are lost and with excess calls time

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and money are wasted.

Sales representatives work load must also be considered - if he is prospecting and selling then he has to make more calls whereas a person who is servicing the accounts (investors, write orders, trained personnel in products) will make lesser calls. The type of product can dictate territorial size as well. The more selective the product the larger the territory. Other factors are organizational abilities.

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## **2.15 Purpose of Sales Territories**

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Sales territories are formed to achieve specific goals.

**Proper Market Coverage:** By territorisation we can comb the territories more effectively as specific areas are assigned to sales people which become their territory and intensive coverage becomes possible.

**Market Coverage and Salesman's of Territories :** If Sales efforts are not matched with sales opportunities Co. loses Business. If territories are set up intelligently and proper assignments to Sales Person are made proper Market coverage can be obtained. The design of territory must permit salesman to cover them conveniently & economically. The territories should be such that more time is spent with customer and less on Road. The S.P. should be able to call upon different Class of customers (A, B, C) and with needed frequencies. Regular call lead to Repeat Sales and persistence by salesman turns prospects into regular customers.

**Controlling, Selling Expenses :** Good territorial design leads to a number of benefits - high sales volume, low selling expenses, fewer nights away from home, low expenses on travelling and stay in lodges. Proper planning should be done. If the travel is unplanned and unnecessary more travelling and more travelling and more expenses. Well-designed territories give more contact time rather than travelling time. The idea is not to reduce expenses but to see

that expenses give greater output.

**Assists in Evaluation of Personnel :** When total Market is divided strengths & weaknesses of the Co. can be gauged and appropriate arrangements can be made. It can gauge the performance of personnel. It can pinpoint sales & cost responsibility to individual S.P. It helps in setting Quotas & Evaluating performance against.

**Contributing to Sales Force morale :** Well-designed territories are convenient for sales force to cover. They give reasonable workloads to S.P. which they can achieve thereby boosting their Morale. Good territory design as well as intelligent & competent S.P. Boost the Co. Sales. Morale is also high because of No “conflicting claims” for the S.P. on the same a/c when sales territories are not assigned conflicting claim poses a problem to the management. By well-designed territories better planning enables the S.P. to spend minimum time on the Road.

**Aiding in Coordinating of Person selling & Advertising :** Management may revise territories to aid in coordination of personal selling & advertising. By blending Personal Selling & Advertising synergistic effect can be achieved. Sales personnel before launching a new product find the objectives of dealers, provide them with displays & other promotional material & make adequate supplies to them.

**Effective Deployment of Sales Force :** Proper knowledge of the demands of the territory helps the managers to put the right person in the right area. When jobs become specific and the responsibilities are clearly defined, work load can also be distributed equally. When there is equal distribution of load there is lesser or no conflict because one does not encroach on other’s territory.

**Efficient Customer Service :** Well-designed territories improve buyer-seller contacts and better managing by the sales person. It ensures regularity of customer calls as well as provision of better

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customer service.

**Objective Evaluation of the Sales Force :** Sales persons can be evaluated on their performance more effectively and more objectively. Territory by territory evaluation also leads to spot changes in market fluctuations. The strategies can accordingly be changed to suit the changing conditions.

**To Aid Management in Improving Selling and Marketing Productivity :** If a territory is well designed it can coordinate selling activities with other marketing functions of the company. Marketing planning can be used for setting quotas more efficiently and also for better profits.

Sales and cost analysis can be done on territory basis rather than the whole market. Functions like launching an advertising campaign, distribution, point of purchase displays and launching of promotional schemes can be done and managed more effectively on territories than on the entire market.

**Reasons for not Establishing Sales Territories :** There are three instances when territory function is not appropriate.

- When a company is small territories to be flexible.
- When friendship sales are important.
- When high technology selling is involved - these accounts are small in number therefore to restrict specialized salesmen from moving around and losing business would be foolish.

**Reasons for Revising Territories :** When a company first forms territories it is not in a position to know everything. As it gets to know the customers, the types of accounts and the dynamics of business activity it has to bring about changes. Revision of territories takes place due to different reasons.

**Customer Related Reasons :** Revision of a territory may take place due to shift in customers business which may be geographic or technical in nature or which may be related to the firm's product policies. More aggressive domestic or international competition

may also necessitate change.

**Sales Person Related Reasons :** Revisions can start with physical or psychological changes. Sales person with advanced age may not have the energy to cope with the pressure required. Family problems of a sales person may necessitate changes. A sales person may also be frustrated due to inadequate challenges or due to monetary reasons. A change may be required due to any of these factors.

**Management Misjudgment :** These could be the underestimating of a sales potential of a territory. Underestimating the territory is more common than overestimating the territory. If the territory is large then a sales person just skims the territory rather than working thoroughly. If the sales are overestimated then territories formed are small or undersized.

Realignment also becomes necessary when new product lines are introduced as company's product mix may become too large or the product may reach the maturity stage. All these factors lead to change in territories.

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## **2.16 Summary**

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Sales managers must be aware of the types of expenses that are incurred both before and after the sale as well as the sales revenues generated. A sales budget is a financial plan depicting how resources should best be allocated to achieve the forecasted sales. Existence of a comprehensive sales information system in the firm is a prerequisite for an effective sales control system. The sales manager scans the total sales on territory basis. The purpose of sales management audit is to evaluate the soundness of the sales management of firm. A sales quota is a quantitative goal assigned to a sales unit relating to a particular period of time. The sales quotas are set by sales manager for individual salesman or a sales district. Sales volume quotas are also set to balance the sales of slow moving products and fast moving products. Companies sometimes base

## **NOTES**

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sales volume quotas solely upon the projected amounts of compensation that management believes sales personnel should receive. Management must make certain that sales personnel understand quotas and the setting procedure. Effective sales management keeps sales personnel informed of their progress relative to quotas. Sales and cost analysis can be done on territory basis rather than the whole market.

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### 2.17 Key Terms

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- **Competitors Parity Method:** This method is used by large size companies facing tough competition. It presumes knowledge of competitors' activities and resource allocation.
- **Zero Base Budgeting:** A process in which sales budget for each year is initiated from zero base thus justifying all expenditure and discarding all conventions and rules of thumb.
- **Sales Quotas:** A sales quota is a quantitative goal assigned to a sales unit relating to a particular period of time. A sales unit may be a territory, a branch office, a region, a distributor or a person.

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### 2.18 Questions and Exercises

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1. What are the various methods of sales control?
2. What feedback can be obtained by analyzing the various sales reports sent by the salesmen?
3. What is the role of a territory manager to streamline the sales of an organization?
4. What are the bases for forming sales territories?
5. What do you understand by ability index of a salesman? How can a manager decide the territories according to the ability index to increase the sales? Illustrate with example.
6. Describe the model of territory management cycle with the help of a diagram.

7. What are a territory manager's problems and how a manager deals with them?
8. How do quotas motivate the salesmen? Describe the needs and importance of quotas.
9. What are the various types of sales quotas that are fixed for salesmen?
10. What do you understand by Combination quota? Why is Combination quota used?
11. Give a brief account of the administration of quota system and the limitations of sales quota.

## NOTES

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## 2.19 Further Reading and References

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## **UNIT 3 : TRANSPORTATION**

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### **NOTES**

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3.1 Introduction

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3.11 Question and Exercises

3.12 Further Reading and References

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### **3.0 Unit Objectives**

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After studying this unit, you will be able to understand the meaning and concept of transportation along with its strategy and different modes.

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## 3.1 Introduction

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Transport or transportation is the movement of people, animals and goods from one location to another. Modes of transport include air, rail, road, water, cable, pipeline and space. The field can be divided into infrastructure, vehicles and operations. Transportation is important because it facilitates trade, exchange and travel. Without effective transportation, regions are largely isolated from each other. Effective, affordable transportation also plays a role in letting people move to new areas.

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## 3.2 Definition of Transportation

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The American Marketing Association Define transportation as “A marketing function that adds time and place utility to the product by moving it from where it is made to where it is purchased and used. It includes all intermediate steps in the process.”

The aim of transport is to physically move supplies in a reliable and safe manner, on time, cost effectively and efficiently to its destination.

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## 3.3 Policies

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The rapid growth of technology and the changes in the delivery of humanitarian aid has done little to change the fact that relief supplies still have to be collected and delivered.

Historically, the transportation of supplies has been regarded as an ancillary function of little or no central importance. More recently, efficient transportation has been recognized as an essential determinant in providing consistent, quality service to beneficiaries. A good transport system fulfills three of the “rights” of supply. That is, getting the goods there at the right time, in the right condition and in a cost effective manner. Summarizing this thinking into a series of actionable steps, and successfully implementing those steps, will ensure timely and effective delivery of humanitarian assistance.

Goods will arrive as scheduled, at the right price, in maximized loads with no breakages or pilferage. A good transport system complements an efficient distribution system.

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### **3.4 The Role of Transport**

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The role of transport is to facilitate the movement of goods. This may be from points of manufacture, storage or pre-positioning, to points of use; or between hubs and distribution points; or hubs to end use; or distribution points to end use; or return from end use back to hub and pre-positioning points or manufacturers. The source and destination may be in the same country, or one may be in a different country requiring international movement.

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### **3.5 Transport in Emergencies**

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Transport management in emergencies is a complex task depending on the nature of the disaster. How it is structured is very dependent on the state of the infrastructure, security in the area of disaster, demand, nature of product etc. More and more, humanitarian organizations are beginning to tap into the joint transport services when they are offered by the Logistics Cluster during emergencies. The service is based on a collaborative approach and aims to leverage the advantages of centralized coordination and sharing of assets.

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### **3.6 Operations - Transport Strategy**

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A transport strategy depends, not only on the needs within the organization, but varies from organization to organization and from situation to situation. Some factors to consider when developing a transport strategy are:

- how to identify transport service providers;

#### **NOTES**

**Check Your Progress**

What are the various modes of transport?

**NOTES**

- how to manage the function; i.e. whether to lease, outsource or manage own fleet;
- capacity of transport modes available;
- quantities requiring movement over a period of time;
- nature of goods/products/supplies to be transported;
- distances to be covered;
- Environmental issues such as climate, government legislature, infrastructure, taxes etc.;
- number of destinations, hubs and pre-positioning locations;
- origins and routes;
- available transport modes & their relative costs;
- human resources;
- terrain;
- funding;
- security; and
- Circumstances – such as Nature of disaster.

The above factors would be valid for both emergency and non-emergency situations.

### **3.6.1 Managing transport providers**

Occasionally the need arises, or the decision is taken to use external transport providers. In this event there has to be a structured approach to the selection (see contracting) and subsequent monitoring and control of the provider or providers selected. There are a number of important issues to be considered to ensure that a reputable provider, who will provide the required level of service, at an acceptable cost, is sourced.

**Point to note :** The selection process adopted for the acquisition of all services is covered by the organization's approved procurement policy, processes and procedures.

Contracting should be done in a competitive manner, on market terms, and negotiations undertaken in an open and

transparent fashion, thus ensuring cost effectiveness and equal opportunities for the appropriate commercial entities.

**Criteria influencing transport service providers :** The criteria for selection will vary from organization to organization. Some factors that may influence the selection of transport service providers are:

- carrier characteristics and capacity;
- proven efficiency;
- timely delivery;
- known integrity, reputation and reliability;
- good relationships with others carriers;
- responsiveness to urgent needs of the organization (if previously contracted);
- financial viability to cover costs of providing the service;
- adequate communication systems to facilitate tracking to the vehicle;
- assets to safeguard organization cargo;
- ability to provide a multi-modal service, if need be; and
- Presentation of timely reports and correct invoices.

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### **3.6.2 Organizing movement**

There are two types of transport movement in an emergency:

- a. Local transport movement :** Local movements within a specific country will usually involve road transport. This may involve movement of bulk loads from ports, airports and railheads to warehouses and depots, bulk movements between facilities such as warehouses or depots, or delivery of smaller consignments from a local warehouse or depot to end users at a number of destinations in an area.
- b. International movement :** In normal circumstances the local environment will not always be able to provide all the products and services required to fulfill the needs identified in an emergency

**NOTES**

**Check Your Progress**

How to control transportation cost?

environment. Logisticians therefore become responsible for sourcing externally and organizing the transportation of relief supplies to affected locations. Often the relief supplies come from other countries and have to go through various processes before they are received. To ensure efficiency and to allow the logisticians to focus on their core job, the organizations seek service providers with expertise and capacity to handle certain aspects of the movement.

***The common service providers are:***

- Freight forwarders;
- Clearing agents;
- Inspection services.

***Criteria for selection of above service providers:***

- Licensed by the government to conduct customs clearance formalities and be up-to-date on changes in customs requirements;
- Offer a wide variety of services, so that you do not need to contract many different companies for different services (e.g. sea and air freight, re-packaging of damaged materials, etc.);
- Own or have access to a bonded warehouse to protect and control shipments in transit;
- Own a trucking fleet for inland transport and have access to specialized vehicles when needed such as container trucks, low-bed trailers, tankers, etc.;
- Have trained, competent, experienced and trustworthy staff;
- Have a proven record of reliability, accuracy, and timeliness, as verified by references from other groups that have used their services;
- Are flexible in their availability at short notice, also outside of office hours and on public holidays;
- Have an established reputation and have been in business for a number of years;

- Have influence in the transport market, with port authorities, etc.;
- Are experienced in successfully handling duty exemption arrangements for humanitarian organizations;
- Have an office in the port area or nearby;
- Are experienced in verifying goods arriving in the port: discharge, storage and loading operations, checking weights and inspecting shipping packages for visible damage;
- Are experienced in hiring porters and stevedores for cargo handling;
- Have at least a country-wide, preferably a multi-country regional network; and
- Use technology effectively, including a good telecommunications system and, preferably, a computerized tracking system that allows visibility of where shipments are at a given time;

***Other related parties are:***

- Customs officials;
- Port authorities;
- Customs brokers; and
- Stevedores;

Although it is advisable to use an intermediary such as a freight forwarder or clearing agent to handle international movements, it is still important to have a basic understanding of the roles of other third party service providers involved in international movement. It should be noted that these third parties may be private companies or in some cases state run organizations.

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## **3.7 Mode of Transport**

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A mode of transport is the means by which goods and material are transferred from one point to another. The basic modes of transport are:

**NOTES**

## Transportation

- a. Air
- b. Sea
- c. Road
- d. Rail

## NOTES

See below a mode comparison matrix for different modes.

CRITERIA \ MODE	MODE			
	ROAD	RAIL	SEA	AIR
Relative speed	Moderate	Moderate	Slow	Very high
Reliability	Good	Good	Limited	Very good
Cost per tonne/km	Medium	Low/medium	Low/very low	High
Flexibility	High	Low	Low	Medium
Other considerations	Extensive network	Limited and fixed infrastructure	Restricted network	Limited network
	Short and medium distances e.g. Europe/Middle East. From a neighbouring country to operation site Internal transport; Short/medium distance	Large consignments. From port of discharge to inland operation site (warehouse). Ecological.	Large quantities; Less urgent; Pre positioning phase; Second phase; Long distance with no time constraint.	Emergency phase; Expensive goods; Fragile or perishable goods; Cold chain; No alternative option; Small shipments; e.g. diplomatic pouch; Long distance with time constraint.
Advantages	Relatively fast; No transshipment; Direct delivery; Flexible; Cost.	Economical; Large loading capacity; Range and speed (in most countries).	Economical; Large loading capacity; No restriction on loading capacity; Cheap.	Fast; Reliable; Limited losses; Direct; Easy tracking and tracing.
Disadvantages	Roads may be dangerous (land mines) or blocked (rainy season); Sometimes, driver's nationality or vehicle registration not acceptable	Difficulty finding freight cars; Delays; Transshipment; Inflexible; Tracking.	Slow; Transshipments at ports; Use as a second means of transport for large volumes; Higher theft risk in the port; Not flexible.	Expensive; Restricted to journeys between airports; Restricted loading capacity (dangerous goods, size of shipment, weight, fuel, size of packages, etc.).

**Table 1: Criteria of different modes of transport, from Fritz Institute**

In emergencies, the criteria of speed and reliability must be examined when considering the choice of mode. Different modes have quite different characteristics and will meet the speed/reliability/cost criteria to varying degrees. The appropriate mode must be carefully selected if it is to match all the requirements. Multi-modal solutions may provide the most effective and efficient transport option.

determine a specific mode of transport, most goods will be capable of being moved by a variety of modes. Customer requirements and constraints on the organization providing the transport must be considered. In humanitarian aid situations, it is often environmental factors, such as the destruction of roads and railways that have a significant impact on mode selection. It is important to fully recognize the operational characteristics of the mode or modes that have been selected. It is also necessary to consider the type of vehicle or equipment that will be used within that mode.

Prior to making a decision on the mode of transport, it would be useful to create a matrix ranking of influential factors for choosing transport modes. Some factors to consider in the rating:

**Mode Selection Criteria :** Four key criteria :

- The speed which the mode exhibits;
- The reliability that the mode demonstrates in its ability to fulfil service requirements;
- The flexibility that the mode exhibits; and
- The comparative unit costs, which the modes incur.

Speed and reliability will have a major impact on the ability to deliver humanitarian aid effectively and efficiently to where it is needed.

**Other considerations in the selection of a transport mode are:**

- Required delivery date;
- Cost of transport service;
- Reliability and service quality;
- Shipment size;
- Transit time;
- Number of transshipment points;
- Item type;
- Possibility of damage; and
- Range of services.

**Matching Operational Factors to the Selection Criteria :** It is important to use a structured approach to mode selection. It is

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important to understand the following points:

- Opportunities and constraints in the choice of mode will be identified from careful analysis of all relevant operational factors;
- Modes that realistically cannot be considered should be ruled out of the decision process immediately;
- Geographical factors should be considered, as they may remove the opportunity to use a particular mode; and
- Lack of appropriate infrastructure may also remove the opportunity to use a particular mode.

### **3.7.1 Air Transport**

The transportation which is performed through air mode is known as air transportation

*Air transport can be provided through :*

- Schedules air carriers using world airlines and other global logistics service providers or
- Air charters; where it is possible to charter planes/helicopters or perhaps to have the use of military aircraft to allow a totally dedicated movement to take place.

*Factors that influence the decision to charter and the nature of the aircraft chartered:*

- Availability and cost of different types of aircraft;
- The nature, quantity, weight, size and volume of the cargo;
- Equipment for the aircraft and cargo handling available at origin and destination;
- The distance to be travelled and possible constraints on certain airspace;
- Ability of certain airports to handle particular types of aircraft;
- Possible noise and/or operating hours restrictions at certain

airports;

- Securing landing and over-flight permission;
- Availability of customs and/or immigration at the airport

### **3.7.2 Road Transport**

If an organization decides to acquire its own vehicles, there are a number of areas to be considered. The type of vehicle, in terms of the chassis-cab and the body type, needs to be determined. The nature of the operation may also require that mechanical handling aids need to be incorporated into the overall vehicle specification.

**Advantages :** The advantages of owning vehicles include:

- Vehicles can be built specifically to carry a particular product. Special equipment for materials handling can be attached;
- The driver can be specially trained and will fulfil the ‘ambassador’ role for the organization;
- Vehicles can carry the company livery, perhaps the aid organizations logo and, where appropriate, the Red Cross; and
- Management retains total control over the vehicle and its operation.

**A major disadvantage :** Management of the transport function can occupy a great deal of management time, requires specific expertise and significant capital investment. In contrast, third party carriers can often provide more cost-effective transport facilities but careful consideration must be given to the level of service required.

**Third party advantages and disadvantages :** Even if an organization owns its vehicles, there may well be occasions when a need arises for additional capacity, to meet peak activity or other short term needs. This can be met by the use of vehicles supplied

### **NOTES**

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by a commercial transport provider (third party).

**The advantages of using third party transport include:**

- Organizations can use commercial providers to meet fluctuating demand requirements;
- Variable loads and journeys can be catered for;
- The transporter may be able to offer a more cost-effective and a more efficient service; and
- Responsibility for administration of vehicles and drivers is no longer the responsibility of the organization, allowing staff to concentrate on more productive areas. There is no requirement for capital to be invested in transport.

**Disadvantages :** A measure of control is lost with third party operations. Performance feedback and communication with customers' needs to remain a strong feature and be controlled by the contracting organization.

### **3.7.3 Sea transport**

Sea transport is convenient for bulky pre-planned consignments. In the early days of emergency situations, sea transport is not used to service immediate needs in rapid on-set disasters but more to pre-position or serve post disaster and longer term needs. The key document used in shipping is the bill of lading (B/L). Logisticians should familiarize themselves with it.

**Bills of Lading :** The B/L is the transport waybill for a sea freight consignment. It is usually issued in a set of three originals and several non-negotiable (N/N) copies. The B/L is signed on behalf of the ship owner by the person in command of a ship or the shipping agent, acknowledging the receipt on board the ship of certain specified goods for carriage. It stipulates the payment of freight and the delivery of goods at a designated place to the consignee therein named.

**The B/L is the major shipping document and has three roles:**

- It affirms the contract of carriage and sets out the terms thereof. It is evidence of the contract between the consignor and the shipping line, and on the reverse details the conditions of carriage.
- It is the carrier's receipt for the carriage of goods by sea and is signed by the master or another duly authorized person on behalf of the ship owner, acknowledging receipt on board the ship of certain specified goods that he undertakes to deliver at a designated place.
- Possession of the original B/L gives the title to the goods being carried. It is a negotiable document of title to the goods. The consignor must make sure that at least one original B/L reaches the consignee in good time (since he will receive the goods only against presentation of at least one original B/L). The carrier usually establishes three original B/L, which are sent to the consignee under two separate registered mails (it is also possible to send one by ship's bag).

The B/L states to whom and on what terms the goods are to be delivered at destination. Without an original B/L the goods will not be released. The usual way to get the goods without the presentation of the original B/L is the establishment (by the consignee's bank) of a bank guarantee covering the value of the goods. Such guarantee can only be cancelled by remittance of the original B/L to the bank. It is sometimes possible, at the discretion of the carrier, for the consignee, holding a copy B/L to sign a Letter of Indemnity in return for delivery of cargo. On receipt of the B/L it should be passed to the party responsible for clearing the goods. Once the vessel has docked and the goods have been unloaded, the B/L and appropriate customs documents will be required to obtain release of the goods for onward transport.

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**Terms of the B/L:** There are three different entries possible in the box headed “*CONSIGNEE*”:

- To bearer: this means that any person having possession of the B/L may collect the goods; such person is not required to disclose their identity or to explain how they came into possession of the B/L. The mere fact that they have possession of and present the B/L is sufficient. Issuing B/L “to bearer” is not common practice and carries significant risk.
- To order: this is the form of B/L used most frequently in commercial transactions. As long as the shipper holding the B/L has not endorsed it, he is entitled to dispose of the goods. By endorsing it, he transfers his rights to the endorsee, that is, the person to whom the B/L is assigned by endorsement. Title to the goods is thereby transferred to the new holder of the B/L who may in turn assign it by endorsement to somebody else.
- To a named party (straight B/L): in contradiction to a B/L “to order”, the straight B/L (one in which it is stated that the goods are consigned to a specified person) does not entitle the shipper to dispose of the goods. That right is vested exclusively in the receiver who alone has the right to collect the goods, upon presentation of the B/L and proof of his identity.

### **3.7.4 Rail transport**

Rail transport is a safe land transportation system when compared to other forms of transportation. Rail transportation is capable of high levels of passenger and cargo utilization and energy efficiency, but is often less flexible and more capital-intensive than highway transportation is, when lower traffic levels are considered. Rail transport costs less than air or

road transport. It is very suitable for the movement of large load sizes over longer distances, but it has the following disadvantages:

- It lacks the versatility and flexibility of motor carriers since it operates on fixed track facilities. It provides terminal to terminal, rather than point to point delivery services;
- Though it offers an effective method of bulk haulage, it is slow.

Documentation for movement by rail is controlled through the rail waybill. The rail waybill is a nonnegotiable document. It contains the instructions to the railway company for handling, dispatching and delivering the consignment. No other document is required except for international transport across borders, where enquiries should be made locally as to the proper documentation needed.

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### **3.8 Administration - Safety and security of goods to be moved**

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Legislation and regulatory frameworks for transport usually include a specific requirement for vehicle safety. Most humanitarian organizations also lay down safety and security policies that need to be followed. Requirements will include the vehicle weight, the way it is loaded and how the load is distributed.

Drivers and operators of vehicles are responsible for using a vehicle on the road with a safe and secure load. Legislation will often state that, in transit, the drivers have full responsibility for the safety of their load, even if they did not load it personally. Even if, in some countries, the legislation is not implemented, respected or followed, every effort must be made to ensure that the organization's drivers are following the legislation that has been laid down.

**Avoiding in-transit theft :** A thief intending to steal a loaded vehicle requires:

- Knowledge of an attractive load;
- The opportunity to access it;

#### **NOTES**

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- Time to steal it and to get away before detection;
- A market for the goods; and
- Limited or negligible perception of risk.

Main sources of vehicle theft are from depots, from overnight parking areas and from the roadside. Theft can be committed by:

- Stealing an unattended vehicle;
- Hi-jacking the vehicle;
- Threatening or bribing drivers.

Drivers are central to prevention of this type of loss, and their integrity is essential.

Consequently, careful recruitment and selection of drivers is critical. Training will impress upon them the need for care, and procedures to follow to avoid risk of theft. Driver identification cards can be used for added security and to avoid thieves gaining access to vehicles by misrepresentation when parked on third party premises. However, there is little to prevent deliberate collusion by drivers. Vigilance is essential and attention to any pattern of discrepancies on loads.

### **3.8.1 Insurance**

Insurance is required for both the load and the vehicle. Insurance for the load may be covered by the overall shipping terms, if the road transport is performing an onward shipment for example. In other cases the load may be covered by a blanket insurance policy. It is advisable to confirm the insurance status and requirements with the sender/owner of the goods to be moved. Necessary precautions must be taken to avoid theft and loss.

The risk of using a transport provider in the required area must be assessed and the appropriate insurance taken out. In moving goods through the use of third party providers, as part of a humanitarian aid initiative, there will be potential risks attached in terms of theft or loss of the goods.

It is necessary to understand the level of insurance that the provider will offer to cover the goods it carries on behalf of its clients. Often if any insurance cover is offered, it will be fairly nominal. It is important, therefore, to ensure that the goods that the third party provider is carrying are properly insured.

The cost of this may be influenced by the reputation of the transporters. In setting up contracts with providers, it is important that the situation on insurance be clarified and if appropriate, incorporated in the contract terms. If there is any doubt as to the cover provided, advice from the organization's office handling insurance should be sought. If insurance costs differ for transportation provided by different transporters, these should be included in the overall cost comparison matrix.

***Things to look out for:***

- Type of insurance: Who and what is covered and to what extent;
- Duration;
- Scope: in-country coverage only? What happens when the vehicle crosses borders?
- How are high risk areas covered, if at all; and
- Reimbursement process and how long it takes.

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## **3.9 Summary**

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The transportation play a major role in the success of business organizations, as through the various modes of transportation the business remains active in fulfilling the needs of a diverse group of consumers at their door step.

Various modes such as air, rail, road etc. are commonly used for transportation of goods from one place to another that depends on various consideration as defined in the unit.

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## **3.10 Key Terms**

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- **Transportation** : A marketing function that adds time and place utility to the product by moving it from where it is made to where it is purchased and used.
- **Bills of Lading** : The B/L is the transport waybill for a sea freight consignment. It is usually issued in a set of three originals and several non-negotiable (N/N) copies

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## **3.11 Question and Exercises**

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1. What are the various modes of transport? Discuss the merits and demerits of each?
2. What are the points Transport manager needs to look while deciding modes of transport?
3. How to control transportation cost?

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## **3.12 Further Reading and References**

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# UNIT 4: MOTIVATING AND COMPENSATING SALES PERSONAL

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*Motivating and Compensating  
Sales Personal*

## NOTES

4.0 Unit Objectives

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4.2 Need for Motivation

4.3 Steps in Motivation

4.4 Motivational Theories

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4.12 Factors Influencing Design of Compensation Scheme

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4.18 Further Reading and References

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## **4.0 Unit Objectives**

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After studying this unit, you will be able to discuss the need of motivation, describe the theories of motivation, discuss the non-financial incentives, and describe the compensating Sales Personal.

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### **4.1 Introduction**

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It has a monotonous job to perform and he gets fed up very soon and wants a change. Through motivation the salesman is stimulated to action, so that he gets interested in the job and performs his duties to the best of his capability. “The primary purpose of motivation is to aid salesmen to satisfy their goals by stimulating them to improve the efficiency of their work.” Motivation can be defined in many ways, it is a psychological aspect and helps the salesman to a goal directed behaviour. Through motivation the needs of the salesmen may be fulfilled. 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 :

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

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### **4.2 Need for Motivation**

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

- The job has a lot of obstacles for the salesman, as most of the customers visited don't entertain the salesmen by giving orders.

- The salesman has no family life as he is always enveloped in the market and the traders.
- He has to face acute competition from competitive products. There is no fixed hour of working for a salesman.
- The activities of a salesman are repetitive and he gets dissatisfied from repeating his work which becomes highly monotonous.
- 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.
- Too much of travelling and keeping away from home leads to health problems which affects the salesman in the long run.
- By working in fields the salesman does not have contacts with his fellowmen or the members of the organization 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.
- He does not work to full capacity and does an average job to remain in the job. This can be overcome through proper motivation.
- 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 socialize with their kith and kin.
- 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.

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### Check Your Progress

How Maslow's hierarchy does help in motivating the sales force?

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## 4.3 Steps in Motivation

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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

## NOTES

and for the different areas. However, the main aim of motivation is to encourage the salesman to give off his best which has been discussed earlier in the unit.

**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 organization 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.

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## 4.4 Motivational Theories

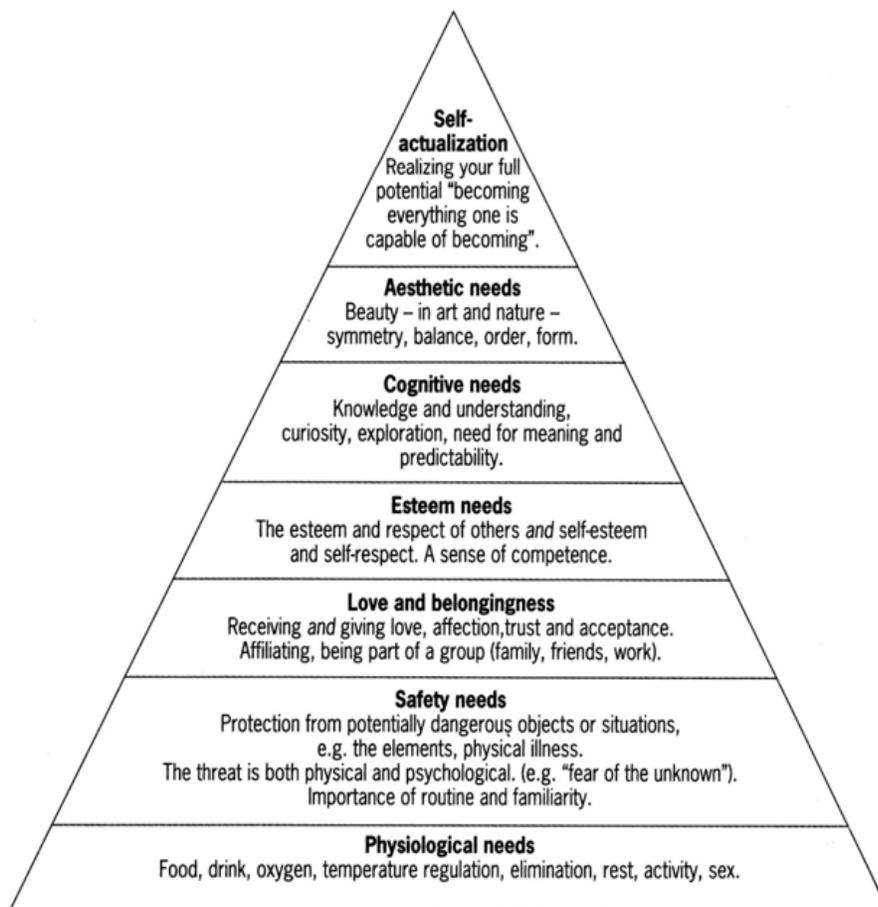
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Motivation has been researched by psychologists and others for many years. A number of theories have been evolved which are pertinent to the motivation of salespeople. These are the theories of Maslow (1943), Herzberg et al (1959), Vroom (1964) and Likert (1961).

## 4.4.1 Maslow's Hierarchy of Needs

Maslow's classic hierarchy of needs model proposed that there are five fundamental needs which are arranged in a hierarchy as shown below.

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 criticized, the theory does have relevance to sales force motivation. First, it highlights the perhaps obvious point that a satisfied need is not a motivator

### NOTES

## NOTES

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.

### **4.4.2 Herzberg 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. 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.

Hygiene and Motivating Factors of Dual Factor Theory	
Hygiene Factors	Motivating Factors
(1) Company's Policies and Administration	(1) Achievement
(2) Supervision	(2) Recognition for Accomplishment
(3) Working Conditions	(3) Increased Responsibility
(4) Interpersonal Relations	(4) Opportunity for Growth and Development
(5) Salary	(5) Creative and Challenging Work
(6) Job Security	
(7) Status	
(8) Personal Life	
(9) Employee Benefits	

## NOTES

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. 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 criticized it in terms of methodology and oversimplification (see Dessler, 1979). 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 hitherto been badly neglected.

### 4.4.3 Vroom's Expectancy Theory

Basically this theory assumes that a person's motivation to exert effort is dependent upon his expectations for success. Vroom based his theory on three concepts - expectancy, instrumentality and valence.

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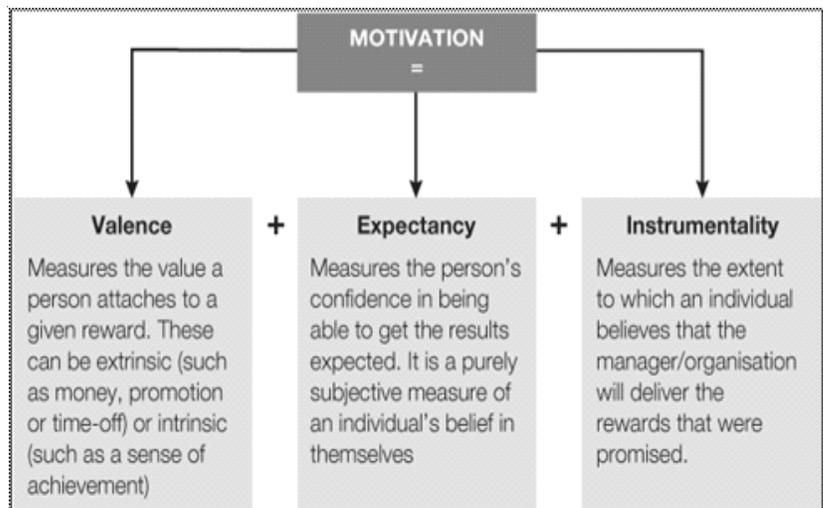
**Check Your Progress**

What is the importance of fringe benefits?

**Expectancy** : This refers to a person’s perceived relationship between effort and performance, i.e., to the extent to which a person believes that increased effort will lead to higher performance.

**Instrumentality** : This reflects the person’s perception of the relationship between performance and reward, for e.g., it reflects the extent to which a person believes that higher performance will lead to promotion.

**Valence** : This represents the value placed upon a particular reward by a person. For some individuals promotion may be highly valued, for others it may have little value. Thus, according to the theory, if a sales person believes that by working harder he or she will achieve increased sales (high expectancy), and that higher sales will lead to greater commission (high instrumentality) and higher commission is very important (high valence), a high level of motivation should result. The nature of the relationships in the sales setting are depicted in the following figure.



Clearly, different salespeople will have different valences (values) for the same reward. Some might value increased pay very highly, while for others higher pay may have less value; for some the sense of accomplishment and recognition may be very important, for others much less so. Also, different salespeople may view the relationship between performance and reward, and between effort and performance, in quite different ways. A task of sales

management is to specify and communicate to the sales force these performance criteria, which are important in helping to achieve company objectives and to relate rewards to these criteria. Further this theory supports the notion that performance targets, e.g., sales quotas, to be effective motivators, should be regarded as attainable (high expectancy) by each sales person, otherwise the first link in the expectancy model will be severed. Finally, this model provides a diagnostic framework for analyzing motivational problems with individual salespeople and provides an explanation of why certain managerial activities can improve motivation. Training in sales skills, for e.g., can improve motivation by raising expectancy levels.

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### **4.5 Financial Motivational Techniques**

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Most salesmen prefer the financial benefit because the need at the lower level of organization is more of physiological and safety needs, rather than those of esteem and self-actualization. Social needs are also necessary at all levels.

The financial incentives include:

- Higher salary
- More commission
- Other monetary incentives
- Profit sharing
- Travelling allowance
- 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.

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### **4.6 Non-financial Motivational Technique**

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The simple motivational tools of early years such as only financial benefits prove to be a poor method of motivation beyond physiological and

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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 especially relevant as Dawson has pointed, "Business is on the threshold of a new era of human and social concern, which will inevitably result in greater attention to total human resource development by sales management".

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

**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. 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 manager's 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, and 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. For e.g., in one company which used a sales contest to promote sales at a series of promotional events around

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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 sales force 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 sales force.

**Positive Effect :** The positive effect method is also an important technique for motivating the sales force 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 employee's 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 organization.

**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 person's accomplishments are more enduring and relatively economic methods of motivation. Some of the ways to extend recognition and honor 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 company's newsletter, certificate etc. Recognition and honor 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

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where one perceives he or she acts more out of external compulsion than internal volition.

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### 4.7 Financial Incentives

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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. Financial incentives not only keep sales person on the company roles 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 organize 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.

It is difficult to devise a sound compensation plan. It comes with experience and varies from company to company. It is designed keeping in view the company's goals, capabilities and requirements. The company wants to increase sales and profits at a minimum cost whereas the sales person is interested in maximizing his earnings. An effective compensation plan takes care of both the parties. Therefore, a compensation plan must attract, retain and motivate capable sales personnel and also work within the company's budget.

According to the motivation theories, money has limited potential as a motivator. Nevertheless, sales force needs to be compensated to keep its morale high and to contribute its maximum. A sales compensation plan, properly designed, has three motivational roles:

- Provide a living wage.
- Adjust pay levels to performance.

- Provide a mechanism for demonstrating the congruency between attaining company's goal and individual goals.

A properly designed sales compensation plan fits a company's special needs and problems. Direct salary is similar for all companies but indirect incentives and prerequisites differ. A sales force is representative of a company's philosophy and business principles. It builds company's perception among its clients. Building of the sales force and its maintenance is therefore important and this is done by compensation schemes and motivation.

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.

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## **4.8 Requirements of a Good Sales Compensation Plan**

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A good sales compensation plan fulfils seven requirements:

- It provides a living wage in the form of a secured income.
- The plan fits with the rest of the motivational programme.
- The plan is fair-it does not penalize 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.
- It is easy for sales personnel to understand-they are able to calculate

## **NOTES**

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their own earnings.

- The plan adjusts pay to changes in performance.
- It is economical to administer.
- It helps in attaining the objectives of the sales organization.

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## **4.9 Designing a Compensation Package**

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

- Defining a Sales Job
- Consider the Company's General Compensation Structure
- Simple Ranking
- Classification or Grading
- Point System
- Factor Comparison Method

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## **4.10 Consider the Compensation Patterns in Community and Industry**

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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 four questions.

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

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## **4.11 Types of Compensation Plans**

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

### **4.11.1 Straight Salary Plan**

This is the simplest compensation plan. Under it, sales persons receive fixed sums at regular intervals (companies than consumers' goods companies. Firms that previously used the straight salary plan have switched over to combine basic salary with a variable element.

### **4.11.2 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:

- Straight commission with sales persons paying their own expense. Advances may or may not be made against earned commissions.
- 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.

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## **4.12 Factors Influencing Design of Compensation Scheme**

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

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- Relation with Product Life Cycle (PLC)
- Compensation Related with Demographic Characteristics
- Role of Selling in Marketing Strategy of the Company
- Competitor's Practices

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### 4.13 Use of Bonus

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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 that is calculated from the commission.

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### 4.14 Fringe Benefits

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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.

- a. **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.
- b. **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.
- c. **Paid Vacations:** These are provided to sales persons with a long standing, who have served the company for a long period of time.
- d. **Paid Leaves:** Includes, sick leave, maternity leave and are enjoyed by confirmed salesman who have worked for a considerable period of time.
- e. **Retirement Plans:** Many companies contribute to pension plan for its employees. The sales person also contribute a part of their income through payroll deductions.
- f. **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.
- g. **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.

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### 4.15 Summary

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The sales job is very monotonous and full of disappointments. A proper motivation programme is to be followed. The sales personnel need to be given proper incentives to reduce the labour turnover. It is important that the manager is skilled and knows the technicalities of the job and is able to lead the personnel in an effective manner. The financial and non-

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financial incentives both need to be taken care of. Fringe benefits, which do not bear direct relationships to job performance, range from 25-40 per cent of the total sales compensation package. A bonus is an amount paid for accomplishing a specific sales task. Life insurance, health insurance, accident and disability insurance are provided by most companies. Many sales persons take advantage of company sponsored educational programmes. 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. Many sales persons take advantage of company sponsored educational programmes.

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### 4.16 Key Terms

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- **Expectancy** : This refers to a person's perceived relationship between effort and performance, i.e., to the extent to which a person believes that increased effort will lead to higher performance.
- **Instrumentality** : This reflects the person's perception of the relationship between performance and reward, for e.g., it reflects the extent to which a person believes that higher performance will lead to promotion.
- **Clarity of Job** : Clarity of job and what is expected from the sales person is a great motivator.

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### 4.17 Questions and Exercises

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1. What is the importance of non-financial incentives in motivating the sales person?
2. How Maslow's hierarchy does helps in motivating the sales force?
3. Describe Adam's Inequity theory. How does it motivate and demotivate sales force?
4. What are the main elements of a compensation programme?
5. Describe the requirements of a good compensation plan.

6. What are the various types of compensation plans and their advantages and disadvantages?
7. What is the importance of fringe benefits?
8. Describe the importance of fringe benefits elements with reference to any organization.
9. Explain the Likert's Sales Management Theory.

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## **4.18 Further Reading and References**

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# **UNIT 5 : TRAINING AND DEVELOPMENT OF SALES FORCE AND SALES ORGANIZATION, EVALUATION OF SALES PERSONNEL**

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*Training and Development  
of Sales Force and Sales  
Organization, Evaluation of  
Sales Personnel*

## **NOTES**

### 5.0 Unit Objectives

#### 5.1 Introduction

#### 5.2 Training and Development of sales force

##### 5.2.1 Significance of training

##### 5.2.2 The focus of sales training

##### 5.2.3 The Sales Training Process

##### 5.2.4. Assessing training needs

##### 5.2.5 Designing training content

##### 5.2.6 Conducting group training sessions

##### 5.2.7 Training methodologies

##### 5.2.8 Training for different sales personnel

##### 5.2.9 Functional activities

##### 5.2.10 Training on functional activities

##### 5.2.11 Ttraining feedback

#### 5.3 Summary

#### 5.4 Key Terms

#### 5.5 Questions and Exercises

#### 5.6 Further reading and references

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## **5.0 Unit Objectives**

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After reading this unit you should be able:

- To recognize different ways of training methods for sales personnel

- To explain and compare and steps involved in training process of sales personnel.

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### 5.1 Introduction

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All types of sales jobs require some type of training for their efficient performance and therefore all sales people whether new or old require training or retraining. Every new salesman irrespective of his past training, education and experience needs training according to the work environment of the firm. He must be taught how to perform specific tasks. An old salesman also needs training when he is promoted to the new position or transferred to the new sales job or when new skills are to be learnt. Training is also necessary for better career advancement. Training helps both the organization and the employer. A trained employee becomes an asset to the organization. Effective sales training also assists sales management in discharging its social responsibility for controlling marketing costs when sales people perform efficiently. Cost savings show up in benefits to consumers as well as to the enterprises. A company's position in its industry is determined importantly by the performance of its sales personnel. Skillfully designed and executed sales training programmes have potential for helping sales personnel to achieve effective job performance.

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### 5.2 Training the sales force

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One of the important responsibilities of the sales Manager is training his sales team. This responsibility can be delegated to the sales training Manager or individual field sales line Managers who are responsible for the performance of their subordinates. Sales training on average takes four months. Though, sales training is expensive, they can yield strong returns. Many companies are adding Web-based sales training programs which is much less expensive than traditional sales training programs. Training programs have a number of objectives, these objectives are discussed below.

## **5.2.1 Significance of Training**

- 1) **Improve Customer Relations:** Better performance of sales people create lasting customer relationships which build productive partnerships and increase customer satisfaction.
- 2) **Improves Communication:** Improved communication skills help the sales person would be able to communicate effectively with the customers.
- 3) **Improved Self Management:** Improved self management helps sales people to manage their time and territory better.
- 4) **Improve Morale:** Increasing the productivity of the sales people by giving them proper instructions on how to do their jobs.
- 5) **Lower employee Turnover:** Effective training programme scan improve staff morale and job satisfaction.
- 6) **Increase Sales Productivity:** Training provides right skills, knowledge and attitude which helps in improving sales.

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## **5.2.2 The Focus of Sales Training**

Sales training programs have a number of goals. It should endow with good knowledge about the company and its products to the sales representative. The sales personnel should be aware of customer and competitor characteristics. He should also be skilled in making sales presentations and have a good understanding of the field events and tasks. Through sales force training the sales person can study about the organization culture and build product knowledge and sales- skills. Training on technological skills should also be given to sales force which will help out him carry out his day to day responsibilities easily. Training process reduces the amount of supervision required, release management time for other activities. It increases the sales force satisfaction and thus reduces turnover and increases performance. A good sales training program must analyze the requirements of the sales force and then based on the needs it should set “SMART” i.e. specific, measurable, affordable, realistic and time bound

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training objectives. Once the objectives are formulated it is essential to develop and implement the training program. Thereafter, the training program should be evaluated and reviewed to identify any modification necessary to achieve greater effectiveness. Sales training should be emphasized on achieving the following key results areas:

- Improve Territory management.
- Improve account management.
- Improve negotiation skills.
- Presentation skills.
- How to handle customer objections.
- How to close the sale.
- How to adapt to different selling situations.
- Basic marketing principles.
- How to understand the buyer's motivation, objectives and priorities.
- Time management.
- Improve interpersonal skills.
- Customer care.

### **5.2.3 The Sales Training Process**

#### *Stage 1 : Training Needs Assessment*

- Set Training objectives - improve sales productivity, decrease turnover, create higher staff morale, improve communication, improve customer relations, improve self-management.
- Identify staff to be trained - Identify new recruits, field sales person, and sales Managers who require training.
- Identify training needs of each sales staff – What type of need does the sales staff have? Do we provide standardized training for all staff or is there a need for customized training?
- evaluate the amount of training needed.

### **Stage 2 : Designing Training Program**

- Identify Trainers - The trainers can be Staff Trainers, Line personnel or External Training Specialist.
- Determine timing and place of training.
- Determine the content of training - The content of training may include company knowledge, product knowledge and applications; competitors products; customer information business principles; selling skills, team-selling skills, computer assisted selling skills, relationship-building skills, time-management skills, knowledge of the legal constraints on selling.
- Determine teaching methods to be used.

### **Stage 3 : Design Training methods**

- Design the training method to be adopted for training - The training can be delivered by observation method, refresher classes or by web-based training programmes.

### **Stage 4: Training Evaluation**

- Assess the outcomes to be evaluated – responses, Learning, performance and Results.
- Decide the measures to be used in evaluating outcomes.

## **5.2.4 Assessing Training Needs**

Each sales person may have different training needs since each one of them possess different combination of qualities, skills and experience. Therefore sales Manager have to provide each sales person with customized field training in addition to the general structured training provided. The sales Manager when designing the training should consider current sales related skills possessed by the sales people. Most Managers favor people serving in the company for a long period of time. The training required by any individual is a function of :

- Current Knowledge, experience and skills.
- Attitude and aptitude for the job.

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### **Check Your Progress**

What do you understand by training to salesman?

- Flexibility and Adaptability.
- Ambitions and motivations.
- The required standards and actual performance.

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Poor Performers Should be Identified and performance deficiencies should be jotted down by the sales Manager in order to focus training efforts. Performance can be measured determined by analyzing the following :

1. Effectiveness of sales presentations.
2. Identification of new potential customers.
3. Assess sales person's actual skill set and levels of performance.
4. Success in obtaining new product listings, product displays, etc.
5. Ability to overcome objections and objection handling techniques.
6. Determine desired skill set and levels of performance Analyze gap between desired and actual to determine training needs.
7. Objectives achieved.
8. Conversion rate of orders to calls.
9. Conversion rate of orders to calls.
10. Call rates compared with standards or average achievements.
11. Closing techniques and success rates.
12. Relationships between territory cost of operations and sales revenues compared with standards or averages.
13. Compliance with administrative requirements and procedures.
14. Customer relationships.

### ***Typical Sales Training Needs may include:***

1. Sales Techniques: Salespeople have a constant need to be trained "how to sell?"
2. Product Knowledge: Salespeople must know their product benefits and limitations, applications, and competitive strengths.

3. **Customer Knowledge:** Salespeople should know their customer needs, buying motives, buying procedures, and personalities.
4. **Competitive Knowledge:** Salespeople must know strengths and weaknesses of the competitors' product.
5. **Time and Territory Management:** Salespeople should be trained to maximize work efficiency

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### 5.2.5 Designing Training - Program Content

Training must be an ongoing activity, the training needs should be continuously reviewed in order to adapt to changing marketing conditions and work environment. This will help increase performance and the skills of the employees. For example: New sales persons need training in company orientation, products and basic selling skills. Established sales persons need ongoing training in developing new business, territory and customer management, advanced selling and negotiating skills, and ongoing personal development. Program content for training new sales personnel tends to remain constant overtime within a firm.

- a) **Company Knowledge :** Sales trainees must be aware of company polices that affect their selling activities. Sales representatives should know how to handle customer request to adjust price, modify product, and differ credit terms and delivery methods. In most large corporations the sales force is provided with sales manuals that cover product line information and company polices. A Good sales manual gives a sales person quick answers to a customer's questions. Most training programs for new employees include a period of induction during which they are familiarized with:
  - Company's past and tradition.
  - The company's responsibility in the industry.
  - Management beliefs and style.
  - Organization and management structures and reporting.

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- Production facilities and office facilities.
- Goal and objectives for the future personnel policies and practices.

**b) Product or Service Knowledge :** Product knowledge is one of the most important knowledge that a sales person should acquire. Furthermore, the sales person should know how to use this knowledge during a sales call. Unlike non technical product companies, a technical product company spends more time on product knowledge. Product knowledge involves knowing;

- How the product is made.
- How the product is commonly used, and
- How it should not be used.
- Product heritage and historical product development.
- Current product range, design aspects, packaging, specifications.
- Production methods and processes.
- Product range features and benefits.
- New product innovations, developments, expansion plans.
- Legal aspects relating to products and markets.
- Comparisons with competitor's products.
- Markets for the products.
- Marketing programs and support.

The sales person should also know about the competitor's products, price, construction, performance, and compatibility with each other. A sales person, when equipped with product knowledge, is capable of providing the prospect with the important information which is needed for rational decision making.

**c) Selling Process :** Selling involves satisfying customer needs and providing solutions to their problems. It is important to understand that this involves communicating the product benefit to the customer rather than just listing the product attributes and features. The selling process consists of the following basic steps:

- Identify prospective customers.
- Identify internal decision-making process of the potential customers.
- Analyze product needs of the customer.
- Set relevant and achievable objectives for the customer.
- Meet with decision makers.
- Present the products and product benefits in line with the customer needs.
- Overcome any objections in a satisfactory manner.
- Negotiate terms and conditions.
- Close the sales.
- Complete any post-sales tasks.
- Follow-up

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In selling skills training, a structured approach to selling is usually the best approach to work towards; moreover, it can be adapted to suit consumer products or industrial products. The structured approach is customized to provide skills related to the product and trade channels. It should provide the sales person with broad but detailed coverage of customer care, prospect identification and the seven steps to the call as given below. Every sales person should be trained to progress through within a structured selling process.

### ***For Retail Selling :***

1. Preparation and planning.
2. In-Outlet check.
3. Review Call Objectives.
4. Sales Presentation.
5. Close call.
6. Product Merchandising.
7. Administration and evaluation.

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***For Industrial Selling :***

1. Preparation and planning.
2. Preliminary needs and assessment and canvassing influencers/  
users.
3. Sales presentation.
4. Trials and tests.
5. Final negotiations.
6. Close call.
7. Administration, evaluation and follow-up.

***For Key Account Selling:***

1. Preparation and planning.
2. Outlet check and canvassing.
3. Review objectives.
4. Sales presentation.
5. Negotiation.
6. Close call.
7. Administration, evaluation and follow-up with implementers.

*All the selling process needs a set of sales tools which includes the following:*

- The sales presenter.
- The brand talk.
- Samples/ demonstrations.
- Pen/Pencil.
- Sales planning slip.
- Customer record card.

*For all the selling process the sales person may have to use few selling techniques such as:*

- Working to objectives.
- Customer needs analysis.
- Benefit selling.
- Questioning techniques.
- Overcoming objections.

- Increasing the sale.
- Using the appropriate body language.
- Using appropriate selling style.

Each sales call consists of three levels of activity, pre-call activity, in-call activity and post call activity. When selling to major categories of customers such as retail customer, trade distributors of product and industrial users, a sales person should focus on different key activities shown below

- Retail outlets – price, profit, promotion, display and countering competitive threats
- Trade distributors – Maintaining distribution over time, keeping distribution channels open, developing personnel relationships, building loyalty between distributor and sales person and supporting the distributor’s service to customers.
- Industrial users – Promoting long-term loyalty, building a supply chain partnership, ensuring compatibility of products with users’ own processes, blocking opening for competitors and advising and leading with technology.

## **5.2.6 Conducting Group Training Sessions**

In Group training meeting, the principles for training individuals, should be applied with the following points being taken into account. When commencing the group training meeting the trainer should introduce the topic clearly and definitively. The purpose and the objective of the training should be clearly defined. The scope of the training session should be limited to the time span and the guidelines should be set on rules and procedures for the training session. The trainer should try to develop positive and open attitudes in the attending audience.

In a participatory meeting the trainer should obtain views and

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opinions from participants. He should gather information on the nature and strength of feelings or experience and a reaction and group input on the subject matter, discussion points and proposals. The discussion should be developed so that it leads to the desired conclusion, action or acceptance of ideas and proposals. The trainer should produce the intended modification of attitudes, opinions, behavior, activities, action or techniques. He should also demonstrate a neutrality or impartiality which earns the respect and cooperation of the group in the training meeting.

### 5.2.7 Training Methodologies

There are wide varieties of methods, but the appropriate method should be chosen according to the training program content.

- a) **Lecture :** This method is used extensively in sales training. The trainees watch and listen to the lecture and sometimes are allowed to ask questions. The lecture is an inactive method of training, that is, there is nothing or less participation from the trainee. Lectures are very effective if the lecturer is able and enthusiastic and uses examples. But lectures may be the only method of training when there are a large number of trainees. Lectures are very effective when used for introductory and orientation sessions and for providing summaries for major topics taught through other methodologies. It is widely used for providing information about the company, its policies, products, markets etc. The lectures can be made effective by using the multimedia approach, using projectors and screens to show charts, diagrams, graphs and other graphics.
- b) **Demonstrations :** Demonstration is more suitable for sharing information about new products or sales techniques. Demonstrations are much more effective than lecturing when it comes to sharing knowledge about how to close a sale. Demonstrations can be used in conjunction with other

methodologies. For example: Demonstrations in the middle of the lecture can make the lecture less boring. The sales trainer should always be willing to demonstrate selling techniques and skills for his or her products in typical selling situations encountered during direct customer contact.

- c) **Role Playing :** In Role playing the trainee is trained through a simulated sales situation. This method is more effective than lectures, demonstrations, and films. Confidence and skills can be developed by involving sales persons in role playing. The colleagues who observe the role play also gains knowledge.
- d) **Films or Videos :** Sales training videos can be purchased or rented. These videos facilitate self development of the sales person. Videos or films can be used to communicate sales objectives developed and to train the salesman on handling objections, closing sales, and body language. Limitations of videos and films are that they are short and most of them focus on a few key areas. Videos can be skillfully used as a part of other training methodologies such as role playing
- e) **Feedback Reviews and Discussions :** Feedbacks should be given at the end of each stage in the training process. The feedback and discussion helps to develop skills and to appraise performance of the employees. Feedback should not only address the negative aspects of the employees' behavior but it should be used to reward the positive aspects of the employees' behavior.
- f) **Printed Handouts :** Employees who take part in training should be given some form of document which serves as a reference after the training. Such documents should contain the company information, product information, job description, responsibilities, customs and practices, guidelines to sales administration and a summary of sales skills and techniques covered in the training.
- g) **Sales Meetings and Conferences :** The members of the sales department may gather at regular intervals say for example weekly,

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monthly or even half yearly for a meeting or conference. These meetings or conferences of sales personnel are intended for educating sales people about diverse features of sales. The participants express their views and opinions about the present strategies and various aspects of sales. To make these conferences and meetings interesting, sales story, dramas, demonstrations are included in the schedules.

- h) Visual Training :** Visual training programmes are imparted with the help of slides, strips, video recorders, etc. which tells a sales story or a part of it. There are also other aids like black boards, charts, graphs, diagrams, etc. with the help of which the salesmen are given training on a particular aspect of sales. For example, approaching a salesman and dealing with annoyed customers can be shown. To make such programmes successful, audio aids are also used. Audio aids include tape recorders and record players. These are meant to improve the style of speaking
- i) Game or Simulation Method :** This method somewhat resembles role playing. It uses highly structured contrived situations based on reality in which players assume decision making roles through successive rounds of play. A unique feature of this technique is that trainees receive informative feedback. In one game, for example, trainees play the roles of decision makers in customers' organization, using data ordinarily available to make decisions on various aspects of the problem say, on the timing and size of orders, and so on. The results of these decisions then are calculated by referees and feedback for the players to use in their next round of decisions. The technique is mainly used to prepare trainees for management positions. The method is not extensively used because, of the initial difficulties in preparing games.

## 5.2.8 Training for Different Sales Personnel

**Sales Induction Training :** Most large companies provide induction training to their new recruits. Induction training varies from company to company and it should be customized to the recruit due to their differing needs and attitudes. The length of training also varies according to the company philosophy. Providing the new recruits with induction training will show the professionalism of the company and its concern for its new employees. The basic induction training should provide company information, product information, customer care skills, professional selling skill and administrative skills.

**Training Sales Managers :** The sales manager can be trained internally or externally through a number of external courses provided by leading business schools. The sales Manager should possess all the skills of the sales person and much more. A checklist can be used to evaluate the training program. Checklist can be useful a document to ensure that training covers all important areas. A Checklist should include following :

- a) Check whether the assessment of training needs and skills of new recruits are complete.
- b) Check whether the initial training to cover the needs have been developed.
- c) Check whether the initial training provide sufficient knowledge and skills on the following topic.
  - \* Company knowledge.
  - \* Product knowledge.
  - \* Customer Care and professional selling skill.
- d) Check whether the training materials are provided, which provide information on the following topic
  - \* Knowledge.
  - \* Product knowledge.

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#### Check Your Progress

Describe in brief the different methods of training salesmen?

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\* Customer care and professional selling skills.

- e) Check whether the formal training program use a variety of communication media such as lectures, demonstration, role playing, films and videos, discussion etc.
- f) Check whether the feedback is provided to all participants in order to facilitate self-improvement.

**Role and objective of Field Training :** One of the important responsibilities of the field sales Manager is field training the sales persons. Objectives of field training are:

1. Rising marketing knowledge to sharpen responsiveness at the point of sale.
2. Distribution of product knowledge to increase expertise, interest and confidence
3. Improving personal selling and negotiation skills.
4. Improving understanding of buyers' motivations, their organization, role and objectives.
5. Gathering market intelligence about customers and competitors.
6. Increasing sales person's adaptability to different buying and selling environments in changing markets. Developing administration and organizational skills (whether a paperwork-based system or computer based system is in use).
7. Developing skills in interpersonal relationships.
8. Developing expertise in customer needs identification and creation.

### **5.2.9 Functional Activities**

Most aspects of a sales person's functional activities can be measured using quantitative or objective measures. The field sales Manager can observe each activity the sales person carries out during the selling day,

and make decisions and conclusions on the suitability of performance in each area, while also comparing with other team members. Most functional activities will apply in all selling environments, regardless of the difference among consumer, industrial or business-to-business, but their comparative importance in the selling process may differ.

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**Selling Activity :** Working to a Structured Selling Process The sales person should be encouraged to work to a structured selling process. Observation will quickly confirm if the sales person works to a suitable structure of the selling process. The Manager is likely to want to focus on key stages that impact particularly on sales success and business development and profitability, such as identifying needs, effective presentations, negotiating and closing the sale.

**Setting Call Objectives :** The sales person should create practical and reachable but challenging sales objectives in advance of commencing sales presentations, recognizing that managing to objectives is essential to growing business. Sales Managers need to be alert to sales persons whose only objective is ‘obtaining an order’, and to develop a positive approach to setting quantifiable objectives in terms of volumes and turnover, or even other business-building objectives such as obtaining new listings, or new locations where the product can be displayed or used.

**Use of Time :** Time is a key limiting resource of the sales team; the sales person should learn to manage his/her time effectively to maximize selling time. You need to consider following points in analyzing the use of time:

- Time of first call.
- Time of leaving last call.
- Amount of time during the day spent driving and parking.
- Pre-call preparation and planning activities.
- Post-call administration.

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- Lengths and frequency of inter-call breaks.
- Waiting time at calls.
- Time spent checking stocks.
- Time spent merchandising product.
- Time given to effective selling activities (e.g. the presentation).

**Building Relationships :** Sales person force must carefully build satisfactory relationships with all buyers and decision influencers.

**Call Rate :** The sales person should achieve a satisfactory daily call rate on customers, and this should be compared with the average call rates of the sales team.

**Conversion Rate :** There should be satisfactory ratio between orders and calls and it should be properly maintained by sales team .Any significantly variance should be analyzed when compared with an average for the sales team.

**Administration :** The sales person is responsible for competently and promptly completing all administrative tasks associated with the selling activities.

**Job Description :** The sales person is required to fulfill all the other responsibilities given in the suitable job description, and with other job requirements identified by the sales Manager.

**Sales Techniques :** Performance records do not give a fair idea about the skills used in sales techniques in the face-to-face selling situation but this can be analyzed through observation when the Manager is accompanying members of his or her sales team. Field training can then be focused on areas of weakness .They can further used as aspects of techniques judged as priorities in obtaining and building business. The customer approach should be proficient, affectionate, positive and passionate. The sales person should have the pleasant appearance. He should create positive impression, getting attention and respect from the buyer.

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**Identifying/accessing Decision Makers :** The sales person should identify and get access to the decision maker in the buying organization. The sales person should also recognize all the other decision influencers in the buying organization and should develop a program of regular contact with them. The sales person should present product information to the decision influencers so that they will concentrate on their particular needs.

**Working to Call Objectives :** The sales person should set general objectives for the business with each customer account. Bigger objectives have to be broken down to specific objectives for each customer contact, and with each person involved in the decision-making process.

**Identifying Customer Needs :** The sales person should establish the buyer's needs and problems in relation to the products being offered (including addressing the specific needs for each person involved in the buying process, such as product specifiers, testers, users). Presentations should recognize and satisfy needs, and address any buyer queries or concerns.

**Benefit Selling :** The sales person should highlight key benefits in relation to buyer needs instead of just presenting a list of product features (leaving the buyer to judge the benefits). The sales person should try to narrow down the range of features and benefits to focus on within a presentation rather than running through the entire menu item by item. The sales person should approach each decision influencer with a range of product benefits addressing their particular concerns and needs.

**Objection Handling :** The sales person should be able to recognize real objections and clarify them. The sales person should be capable of responding to objection with appropriate objection handling techniques.

**Increasing the Sale :** The sales person should be able to recognize and pursue opportunities to increase the sale (in value or volume)

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through product switching opportunities, selling up to higher value/profit items, or linking to sales of supplementary items (such as accessories, service contracts, etc.)

**Closing Techniques :** The sales person should be capable of controlling the closing stage of the presentations and he should present a positive request for an order.

**Use of Sales Aids :** The sales person will prepare all sales aids ready for sales presentations. Sales person should be capable of effectively using the range of sales aids to progress the sale and influence the buyer.

**Control of the Call :** The sales person should be able to control the pace, environment and content of the presentation. He should work to influence the buyer's views, opinions and decision making (and similarly work to influence other decision influencers)

**Communication Skills :** The sales person should show appropriate standards of communication skills (verbal fluency, skills in presenting data and information, inquiring techniques, listening skills, responsiveness to voluntary/involuntary signals from the buyer, body language, etc.).

**Use of Product Knowledge :** The sales person should have sufficient knowledge about the company, its heritage and products, and the markets served by the company and its customers. The sales person should be able to effectively answer buyer questions and concerns based on knowledge (e.g. product specifications, performance, pricing, terms, servicing and maintenance, availability)

**Initiative in utilizing Opportunities :** The network within the buying organizations should be developed by the sales force and exhibit initiative in taking opportunities for further business.

**Organization :** Proper evaluation of the training needs performed by the field sales Manager's should include organizational factors of the selling job. Any insufficiency can then be the focus of training according to how they are judged as impacting on sales

performance.

**Call Records :** The sales person should take the responsibility for keeping all customer records completely up to date. The sales person should carry customer records either physically as record cards, or logged on to a laptop computer. The sales person should also make use of the customer record information when preparing and planning for sales presentations.

**Information Retrieval :** The sales person should organize all files and data in a fashion that aids storage and retrieval of information during the selling day. The sales Manager should ensure that the sales person keeps all sales equipment including records and sales aids in a tidy and accessible fashion in the vehicle. Sales person should be able to readily access all sales aids, paperwork, samples, equipment, etc., carried in a briefcase during a sales presentation, and they should be organized in some systematic fashion for use during sales presentations.

**Sales Aids :** The sales person should be provided with a complete set of all current sales aids and related product and promotional material available throughout the selling day. All necessary sales aids should be checked prior to making a call on each customer. Appropriate sales aids must be taken to the call and others should be left in the vehicle.

**Journey Planning :** The sales person, if appropriate, should schedule sales appointments at intervals that maximize customer coverage during the selling day. The journey planning should be organized in the most cost- and time-effective manner. Calls on customers should be made at frequencies that reflect their current sales performance with the supplier, or their potential. That is the sales person should not over- visit some customer and under-visit others.

**Vehicle :** The vehicle should be kept clean and tidy to reflect a suitable image of the company and the sales person's

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professionalism. Vehicle servicing should be up to date, with all aspects complying with relevant regulations.

**Administration :** It should be ensured that pre-call and post call administrations are carried out promptly and efficiently. Communications and correspondence with customers and other head office service functions and colleagues should be handled in a timely and efficient manner. The sales person should record, follow up, and honor all commitments made to customers and colleagues.

**Personal Attitudes :** In preparing a training audit, this is perhaps the most subjective area. Evaluation of attitude may be influenced by personal feelings, prejudices and preferences. The field sales Manager should try to make unbiased assessments. It is very hard to change the attitude of the people. Skills training will frequently produce a modification in attitudes, where the sales persons see that they can actually improve their sales performance. The attitude audit typically might cover the following characteristics of the sales person which can impact sales performance.

**Personal warmth :** The sales person should exhibit warmth and friendliness to all contacts in customer organizations.

**Empathy :** Sales person should be empathetic with the buyers when they are discussing their problems.

**Enthusiasm :** Sales person should show enthusiasm, for the company, its products, policies and philosophies, and his or her job.

**Loyalty :** Sales persons should be loyal to company colleagues and management.

**Positiveness :** Sales person should have the right positive mental attitude to the job and life in general, and this positiveness should be displayed during customer calls.

**Team spirit :** The sales person should be a good team player and should be participative at meetings and conferences. He should be willing to help colleagues in any practical way that will help promote

the development of the business.

## **5.2.10 Training on functional activities**

The training on the functional activities should focus on equipping the sales person with skills to do the following task.

- a. Seven steps of the sales call.
- b. Setting call objectives.
- c. Time management.
- d. Relationship building.
- e. Increase call rate.
- f. Improve call conversion rate.

**Training on Sales Techniques :** The training on sales techniques should be focused on providing the skills in order to achieve the following :

- Approaching the customer.
- Identifying the decision makers and assessing them.
- Achieving call objectives.
- Assessing the customer needs.
- Providing the customer with benefits rather than a list of attributes.
- Handling objections.
- Increasing sales.
- Closing the sale.
- Using sale aids such as sales presenter, brand talk, samples/sample case, pen/pencil, sales planning slip and customer record card.
- Controlling call.
- Effectively communicating to the prospect.
- Listening to the customer.
- Using the product knowledge effectively.

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**Training on Organizing :** The training on organizing should be focused on providing the right skill in order to carry out the following.

- Keeping call records.
- Being able to retrieve information fast.
- Organizing the sales aids.
- Planning the journey.
- Maintaining the vehicle.
- Handling administration

**Training on Attitudes :** Training should focus on building the following personal characteristics of the sales person;

- Personal warmth.
- Empathy.
- Enthusiasm.
- Loyalty.
- Passiveness.
- Team Spirit.

### 5.2.11 Training Feedback

Feedback is important for improving performance and modifying behavior. Effective feedback should be open, frank and honest. Feedback can be used to demonstrate that the Manager is concerned with the sales person's interest and their progress. Good feedback should inculcate the sales person to expect and accept counseling and training. It should make the sales person realize that management does not expect perfection, but it expects effort and improvement. Right feedback can facilitate self improvement that will allow the sales person to improve self analysis in selling situations. Feedback should not be used solely for criticizing the employee. The Manager should ensure that he uses the opportunity to praise the employee when necessary. The effectiveness of a trainer can be judged through progress against a mix of objective and subjective factors.

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## 5.3 Summary

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Sales force training is an important element in any business processes. This is because the selling product or service and earn monetary profit is the chief purpose of any business activity. Training sales force has numerous benefits like increasing employee morale, reducing turn over, increases sales productivity and also improves customer relations. A sales training program must be designed by considering the requirements of the sales force. They should be trained on product knowledge, company knowledge, selling process, organizing process, time management as selling is always targeted time activity. Once the training programme is designed the as per the content, need, trainer availability out of many training methods like Lecture, Feedback Reviews and Discussions, role-plays, demonstrations, printed handouts etc Any one method which is most suitable for training sales personnel is used to implement the training programme. The last step in training process is training feedback and evaluation.

Thus this all about training and development of sales personnel.

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## 5.4 Key Terms

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- **Sales Aids** : It is a print piece (booklet or brochure) or an electronic document containing product information.
- **Visual Training** : It is a way of learning in which information is associated with images.
- **Empathy** : It is the ability to understand and share the feelings of another.
- **Passiveness** : It is used to describe someone who allows things to happen or who accepts what other people do or decide without trying to change anything.

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### 5.5 Questions and Exercises

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1. Discuss the need and importance of training the salesmen.
2. What do you understand by training to salesman?
3. What are the main objectives of sales training?
4. Describe in brief the different methods of training salesmen.

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### 5.6 Further reading and references

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- “Sales Management - Decisions, Strategies and Cases” By Cundiff, Still and Govoni.
- “Sales Management” By V.Das, Gupta
- “Marketing Management” By Philip Kotler
- “Skills for Sales Success” By Bachelor
- “Selling and Sales Management” By Lancaster.
- “Management of Sales Force” By Ford, Churchill and Walker

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# UNIT 6 : RECRUITING SELECTING

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## NOTES

### 6.0 Unit Objectives

#### 6.1 Introduction

#### 6.2 Recruitment and selection of Sales force

##### 6.2.1 Basic Objective of Sales Force Management

##### 6.2.2 Preparation of Job Description and Personnel Specification

##### 6.2.3 Sourcing Applications for Sales Positions

##### 6.2.4 Screening Applicants

##### 6.2.5 Conducting Interviews

##### 6.2.6 Short List Applicants

##### 6.2.7 Checking References

##### 6.2.8 Background investigation

##### 6.2.9 Selection and Induction

#### 6.3 Summary

#### 6.4 Key Terms

#### 6.5 Questions and Exercises

#### 6.6 Further Reading and References

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## 6.0 Unit Objectives

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After reading this unit, you should be able to:

- Describe the recruitment process and sources of recruitment.
- Explain the steps involved in selection process.
- Distinguish between recruitment and selection.

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## 6.1 Introduction

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Sales force management is the soul of the company. Establishing a world recognize brand does not only require marketing and advertise

**NOTES**

efforts, but it also requires the sales representatives or in simple words sale force along with all other promotional activities. Firms are now investing considerable funds, time and expertise to train the sales force. In order to compete in the market and getting brand recognition, a quality product needs a quality sale force. The face of any organization is the sales force. Companies spend a considerable amount of time and money on sales force rather than on any other promotional activity. However, sales force is expensive and companies are looking forward to managing them in an efficient and effective manner.

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## **6.2 Recruitment and selection of Sales force**

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### **6.2.1 Basic Objective of Sales Force Management**

A customer identifies the Brand or product by the Sales Representatives. The Sale Force Management is the primary link between the Product offered by the Company and the end consumer that will buy the product. Over a decade the firms have a single goal of earning profit and making sales. The Sales Team were recruited to search for the present and potential customers and to make the sale and their sole purpose was to sell a product. Now with the advancements in market, the customer is becoming more and more aware of product and the company image. Hence companies cannot focus on the sole purpose of earning profit. It concentrates on winning a customer that will not only ensure current sales but also ensures future business or profit for the company. Therefore, the sales teams are now better trained as closing the deal. They must require effective communication, good negotiation skills and product knowledge. The sales force management gathers info regarding market completion, new trends, and Changing Consumer demands. The sales representatives are the Eye and Ears of any business organization and really matter a lot in the success and failure of the product.

## **6.2.2 Preparation of Job Description and Job Specification**

The job holder initial step in the recruitment process is to design a job description and job (personal qualities) specification. A job description is a list of tasks, duties, and responsibilities of a job. Job specifications, in contrast, talk about the skills and abilities the person must have to perform the job. The two are coupled together, as job descriptions are usually written to include job specifications. A good job description provides several useful functions for the sales manager, including :

- 1) Base for preparing personnel specifications
- 2) Simplify job responsibilities to sales managers and Sales personnel.
- 3) Providing a performance measurement base
- 4) Providing a base for appraisals and other formal and informal counseling
- 5) Assist in inter-job content comparisons
- 6) Aid job performance evaluations.

Poorly prepared job descriptions can give rise to differentiation disputes, cause interpersonal rivalries and jealousies, or result in unnecessary assumptions of superiors by one person or another.

Before recruiting a person for a job it is essential to be unambiguous on what the job is. It is also important to ensure that the job is different from jobs being done by other people in the sales organization, otherwise there is a possibility that the job responsibilities may overlap and produce conflict. This may also lead to confusion in the minds of job holders to accept personal responsibility for actions or activities. For example, the inside salesperson's role could overlap with some responsibilities of sales executive.

The general job description consists of the nature of a job, its functions, responsibilities, duties and accountabilities, and key responsibility area of persons appointed to the position.

### **NOTES**

#### **Check Your Progress**

Describe job description and job specification?

## **6.2.3 Sourcing Applications for Sales**

### **Positions**

#### **NOTES**

a) **Job Application Forms** : Many companies develop their own job application form. The benefit of using an indigenous form is that managers can see all the necessary information and responses in a required layout, which enhances the screening process. Individual letters and curriculum vitae are prepared by the individual job applicant with an intention to express the employers regarding their professional qualities and past experience rather than proving how the applicant is suitable for job the basic information a job application might include :

1. Full name of applicant
2. Date of birth( age)
3. Nationality
4. Sex
5. Ethnic origin
6. Marital status
7. Children/dependants
8. Address and telephone number (and fax/electronic mail)
9. Medical history (including information on recurring ailments and disabilities)
10. Physical characteristics (height/weight)
11. Driving license, driving record
12. Education: Primary schools, secondary schools and examination results - Higher education and examination results and qualifications achieved - Other courses attended  
- Employment history, positions held, dates applicable to each position Summary of key functions and responsibilities  
- Current income - Reasons for wanting to change jobs - Period of notice required at present employment - Trade or professional qualifications and membership of professional

institutions personal interests personal references - Special aptitudes (e.g. Languages spoken) - Any other relevant additional information

**b) Guidelines for Press Advertisements :** In order to attract a number of applicants suitable for the job post organizations take assistance of press advertisements. It should not be so inviting as to encourage applications from persons clearly outside the limits of physical and personal characteristics and qualities contained in the person specification. The content of the advertisement should give entire information regarding the experience and professional skills required, personal qualities and educational qualifications also any certifications (if mandatory) in detail. This helps the job applicants to screen themselves as per their skill sets and the required skill sets to apply for the post. Thus the content should include following information.

- a. Job title:** It is the designation of the job post e.g. Area sales manager, regional manager, Inside sales person, etc.
- b. Company name and logo:** Organization should clearly mention its name and logo. So that the job applicants can apply if the brand image of the organization is excellent. Some employers choose to remain unidentified they use post office box numbers or recruitment consultancies. This is done when the organizations don't want people within the company know about the recruitment.
- c. Products:** Organization should mention the nature of products, and the markets they are serving; if possible one can also provide product illustration in order to attract attention of the job seekers if the brand is well known.
- d. Key Responsibility Area (KRA):** State the basic key functions, accountabilities and responsibilities that help a potential applicant relate to his or her present experience.

## NOTES

NOTES

**e. Location or territory to be covered:** Organization should state clearly where the job will be based, as the issue of relocation can be a factor in attracting to, or detracting from, the job.

**f. Candidate skill and qualification requirements:** Organization also mentions what minimum related sales or sales management experience, and other experience, expect.

**g. Rewards and benefits offered:** While in some countries, or within some companies, it is the practice not to disclose pay and benefits (e.g. ‘an attractive package will be offered, commensurate with skills and experience’), most applicants prefer a clear statement of the range of rewards and benefits they might expect, as this influences a decision to apply.

**h. Details of application procedure:** We might note if we want applicants to phone in for an application form or to send a curriculum vitae. As a matter of courtesy and goodwill we should communicate promptly with all unsuccessful candidates who have submitted a completed application form. It is important that rejected applicants still maintain a high degree of goodwill to the company as they and their contacts are all potential customers, and a well-conducted recruitment offers another excellent opportunity to promote goodwill for our business in the local community.

**c) Sources of Recruitment:** A sales organization may have internal and external sources in order to look for suitable candidates. The following diagram will show this composition.

<b>External sources of recruitment</b>	<b>Internal sources of recruitment</b>
1. Advertisement in Newspapers	Promotions
2. Employment Exchanges	Transfer
3. Educational Institutions	Job posting
4. Field Trips	Employee referrals
5. Labor Contractors	-
6. Employee Referrals	-
7. Telecasting	-
Direct Employment or Recruitment Notice at Factory Gate.	-

**NOTES**

### **6.2.4 Screening Applicants**

Screening applicants is the process of comparing the various candidates for a position with the qualities, skills and experience judged necessary to fulfill the job functions satisfactorily. The usual screening stages are:

- Issue job application forms
- Study (screen) completed application forms, comparing them against the person specification
- Reject unsuitable applicants (usually by letter).
- Invite most suitable applicants to interviews.

**NOTES**

Normally the first stage in the applicant screening process is to provide applicants with a job application form. The advantage of using a job application form is that all the basic information we require in deciding who to invite for interview, or what to pursue during the interview, is presented in a standard format, which saves us time hunting for relevant information. The alternative to asking for the completion of job application forms is to request the submission of personally prepared curriculum vitae. Study the completed application forms, and invite the most suitable applicants for an interview, allocating time exclusively to the interviewing process.

In studying completed application forms it is normal to look at factors such as those listed below, and judge how these match our requirements.

- Applicant home location in relation to the job location
- Holding a clean current driving license
- Age in relation to specified range
- Relevance of job experience
- Employment agencies
- The trade
- Speculative applications
- Referrals
- Educational institutions
- Recruitment consultancies
- Personal contacts
- Press advertisements
- Internal transfers and promotions
- Sources of Applicants
- Any evidence of formal training in selling skills
- Relevance of vocational education and professional qualifications
- Educational standards and achievements
- Comparison of educational achievements and job progression with successful company salespersons
- Health conditions (poor health is a negative factor, obviously)
- Personality and disposition
- Personal hobbies and interests
- Achievement relative to peer group norms
- Motivation and potential.

At the pre-interview stage of screening job application forms we should really be concentrating on objective criteria and trying to avoid

rejecting applications for emotional or subjective reasons. As a rule we cannot attach much importance to handwriting or presentation unless it is apparent the applicant lacks sufficient literacy for the job. The most suitable candidates can be invited to initial interviews either over the telephone or by letter.

**NOTES**

**a) Screening Applicant Interests :** It may be subjective to attach much significance to hobbies and interests prior to an interview, sometimes these can indicate special skills or attributes. For example: an applicant might be a young group leader, or have intellectual interests such as chess or home computing, or pursue some other interest that indicates something about his or her personality, motivations or abilities. Interests are particularly useful as an ice breaker in the opening minutes of an interview, and may provide some guidance to a candidate's motivations and disposition. In the interview we can check the breadth, depth, pattern, commitment, stability or maturity, skills and knowledge involved, personal motivations to pursue interests, and relevancy of interest to the job. Generally interests may be considered to fall into the broad categories of social, intellectual, practical, physically active, and artistic.

Organizations need qualified employees to succeed; therefore selection is an important process. Selection can be defined as the process of choosing individuals who have required qualities to fill jobs in an organization. The Selection process is mostly centralized. The reason for this is that it is easier to have applicants in one place and contact with outside applicant can be easily made. Managers can concentrate on operating responsibilities rather than the selection process. Selection costs are lower with no duplicated efforts. Placement consists of fitting a person to the right job. Person-job fit is matching the knowledge, skills and abilities (KSAs) of people to the characteristics of jobs benefits of person-job fit is that it result in higher employee performance and lower turnover and absenteeism.

NOTES

**Check Your Progress**

Describe the procedure for selection of right type of salesman?

## 6.2.5 Conducting Interviews

The selection process will normally take more than one interview, possibly supported by other forms of assessment tests. Candidates we considered most suitable should be invited for an interview with us or a personnel manager as soon as possible, and if we plan to use other assessment techniques the candidates should be notified of that, and advised of the duration of the selection process. The interview stage of the recruitment process should be treated as systematically as each of the preliminary selection stages of exploring alternative applicant sources, advertising and screening applications. It is risky to try to slot interviews in between other appointments and management activities. Comparisons will be less meaningful and interviews less thorough if we see individual job applicants under widely divergent circumstances at different times. Allocate a specific time period (a day, morning, or whatever is needed) to the interviewing of applicants. Conduct all interviews without interruptions in suitably private locations such as our office or a hotel room. Generally we should expect to allow about 30 to 60 minutes per candidate at a first interview. Experience will show that a good proportion of candidates can be eliminated objectively within 15 to 30 minutes, where they fail to match the personnel specification for qualities, skills and experience. The way we conduct the interview and its general content is critical to obtaining relevant information to enable us to evaluate candidates in the minimum time. The possible broad structure of the interview process could consist of :

- 1. Personal introductions:** Introduce ourselves by name and position so that the candidate does know whom he or she is talking to; candidates are frequently nervous and a smile always goes a long way towards relaxing a nervous interviewee.
- 2. Introduction to the company:** the products and the job. Ideally this should take no longer than five minutes. Prepare notes on our introductory presentation to ensure we cover all the main points systematically. It is also useful to have some product

samples and literature in the interview room. The introductory commentary should cover. A brief history of the company and outline of main company philosophies knowledge of product range summary (best shown by photographs and examples) and also the job functions (we can provide a job description now or while the candidate is waiting for the interview) - and the main terms and conditions of employment.

- 3. The actual interview:** At this stage, as the objective is to interview the candidate rather than the reverse, it is not good to permit ourselves to wander off at a tangent in response to distracting questions or comments. When conducting an interview we will need to make brief notes as a record of what we have discovered in addition to the information contained in the job application form, and to record our observations and conclusions.

There are two types of interviews. This would be structured interviews and unstructured interviews. Structured interviews use a set of standardized questions asked of all job applicants. Structured interviews are useful for initial screening and comparisons. The benefits of structured interview are that it obtains consistent information needed for selection decision and it is more reliable and valid than other interview formats.

### ***Structured Interviews***

- 1) Behavioral interview** – In this type of interview the applicants are asked to give specific examples of how they have performed a certain task or handled a problem in the past. It further helps to discover applicant's suitability for current jobs based on past behaviors and also assumes that applicants have had experience related to the problem.
- 2) Situational interview** –Here applicants are asked how they would respond to a specific job situation related to the content of the job they are seeking.

## **NOTES**

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***Unstructured Interviews:***

- 1) **Non-directive Interview** – Applicants are queried using questions that are developed from the answers to previous questions. – Possibility of not obtaining needed information. – Information obtained may not be job-related or comparable to that obtained from other applicants.
- 2) **Stress Interviews** – An interview designed to create anxiety and put pressure on an applicant to see how the person responds.

**6.2.6 Short List Applicants**

Once the first interviews have taken place, objective decisions being made about which candidates deserve further consideration, a second meeting with each of the short listed candidates should take place to further check out their suitability, skills and experiences. The shortlist interview can also provide additional information on the company and the specific job vacancy. This shortlist interview should be conducted within as brief a time interval as possible after the first interview. With an internal recruitment the first interview may be the only stage, or it may be supported by other tests. The objectives of a short-list procedure are to Call back those candidates evaluated most likely to meet the requirements of the job and to draw out additional information about their suitability to the job. let the candidate be given time to become more familiar with the company environment and team in order that he or she can make fair decisions about joining the company if made a job offer. It can be very useful to allow the candidates to meet other salespersons, and perhaps also to arrange for the most suitable candidates to spend some time with an established salesperson calling on a few customers.) Provide an opportunity for company managers to meet a range of candidates, who have been judged at the initial recruitment stages as having relevant skills, experience and personal attributes warranting their further consideration. In most markets reliance will be upon selection

through second interviews, often with a colleague involved, i.e. a personnel manager or senior sales manager. At the shortlist stage it may prove right, for certain positions to support interviews with additional assessment techniques, such as additional intelligence or aptitude tests, group selection activities, or individual tasks. If these are suitable then they should be discussed and developed with our human resource department, and administered by a person trained in their use and interpretation in the selection process. In many markets it is found to be a very useful exercise to ask the final candidates, prior to a job offer being made or accepted to spend a day with an established salesperson calling on trade outlets and observing the normal job functions. This serves to clarify to the candidate the real nature of the job and reduces the risk of successful applicants subsequently being dissatisfied with the job content.

## NOTES

### **6.2.7 Checking References**

Prior to making a formal job offer, but after completing the selection process to the point where we have a favored candidate, we should take references on the prospective appointee. In some companies this may be undertaken by a human resource manager, but in others it will fall upon the line manager. Where that is not the case the following guidelines will aid the sales manager in taking references. Sometimes a job offer is made orally in the first instance, but it should be made conditional upon satisfactory references being received. A conditional offer by letter avoids the risk of later misunderstandings. (Note that in some countries the taking of references from employers is not permitted.) Personal references from friends acting as referees carry less weight than a reference from a current or former employer of a job applicant. Good sources of reference include:

- A former line superior, who can provide insight into a candidate's performance against objectives, job achievements, skills, abilities, strengths, potential, management style, etc.

**NOTES**

- A peer group colleague, who may provide insight into how the candidate works within a team, interacting with colleagues, and earns and builds respect
- A subordinate, who may give insight into management style, team building and leadership skills, training and feedback skills, etc.

References are usually best taken over the telephone. Letters tend to be replied to slowly, if at all, and produce minimum factual information. The person asked to give a reference will ‘ respond more positively if we identify ourselves and confirm we call with the candidate’s permission, and if the referee has been forewarned by the candidate to expect the call. Also, make a note of the key points. During a reference-taking conversation it is always best to start with a few basic questions that are aimed to verify facts, as that usually will relax the referee more towards us, and start the flow of information. Then we can proceed to elicit some additional information with open questions.

### **6.2.8 Background Investigation**

It is found that, one-third of applications and resumes contain factual misstatements or significant omissions. Reference Checking Methods can be used to verify the reliability of applications and resumes. This can be done by telephoning the reference or outsourcing reference checking. Obtaining signed releases from applicants avoids problems with privacy issues that may be caused by legal constraints.

### **6.2.9 Selection and Induction**

When the sales manager has made his or her decision on whom to offer a sales position to, and if all the references taken are judged satisfactory, then the last stages in the recruitment process are:

- **Sending a Letter of Appointment to the selected person**
- **Sending ‘No’ letters to the unsuccessful candidates**

- **Organizing the welcome and induction process and training for the new recruit.**

Some or all of these actions might be under-taken by a human resource department in some companies, but where the sales manager is responsible for all stages of his or her own recruitment, it is very important in the interests of goodwill and professionalism that he or she communicates promptly with all unsuccessful interviewees as well as making a formal job offer in writing to the successful candidate. The job offer letter should detail all the terms and conditions relating to employment with the company in the local market, and will normally include, either in the actual letter or in accompanying documents such as an employee handbook, details of :

1. Basic pay, bonus and incentive schemes
2. Hours of work
3. Other conditions of employment, e.g. Flexibility to travel
4. Expense allowances or claim procedures
5. Company vehicle and other fringe benefits  
Sickness benefits if applicable
6. Pension arrangements if applicable
7. Starting dates
8. Any other arrangements for joining the company  
Detailed job responsibilities

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## **6.3 Summary**

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Successful recruitment and selection of salespeople is one of the most important responsibilities of sales management. It involves procuring people who satisfy the job skills of sales position required by a firm. Recruitment and selection practices would fluctuate greatly between order-taking and order-getting sales positions, given the differences in the expectations of these two jobs. Therefore, recruitment and selection needs

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a careful preparation of job analysis. Determining the qualifications needed to fill the job is the most difficult part of the sales selection process. As yet, we simply have not been able to isolate the traits that make for success in selling. However, we do know that it is important to develop standardized hiring specifications for a given job in a given firm. As a starting point, management should study the job descriptions. They should also analyze the personal histories of their present and past salespeople to identify those characteristics that distinguish the successful sales representative from the less successful ones. After determining the number and kind of salespeople required, the next major step in sales force selection is to recruit several applicants for the job. A well-planned, well-operated recruiting system is essential for a successful selection program. It is significant to hire good, well-qualified salespeople. But the selection in salespeople is a unplanned affair-done with casual notion about exactly what type of person the firm needs This approach has led to poor sales-and costly sales force turnover. Increasingly, firms are using the Internet to identify candidates. Resume search services will perform the search for a fee, or managers can access several job banks on the Internet.

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## **6.4 Key Terms**

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- **Recruitment:** A process that provides the organization with a pool of qualified job candidates for selection.
- **Selection:** It is the process of selecting qualified sales people who can successfully do a job and deliver valuable contributions to the organization.
- **Job description:** Job description includes basic job-related data that is useful to advertise a specific job and attract a pool of talent. It includes information such as job title, job location, reporting to and of employees, job summary, nature and objectives of a job, tasks and duties to be performed, working conditions, machines, tools and equipments to be used by a prospective worker and hazards involved in it.

- **Job specification:** job specification is a written statement of educational qualifications, specific qualities, level of experience, physical, emotional, technical and communication skills required to perform a job, responsibilities involved in a job and other unusual sensory demands.
- **Background Investigation:** The background investigation is the confirmation of information provided by the job candidate during the selection procedure.
- **Stress Interviews :** An interview designed to create anxiety and put pressure on an applicant to see how the person responds.

## NOTES

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### 6.5 Questions and Exercises

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1. Explain difference between recruitment and selection?
2. Discuss various sources of internal and external recruitment?
3. Describe job description and job specification?
4. Why reference checks and background investigation are important criteria in selection process?
5. Describe various types of interviews?
6. Discuss the steps involved in the selection process.
7. Describe the procedure for selection of right type of salesman.
8. What qualities will you look for in the candidate who has applied for a sales job? Also discuss the selection process you will use.

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### 6.6 Further Reading and References

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# UNIT 7: SELECTION AND PLACEMENT OF SALES PERSONNEL

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*Selection and Placement  
of Sales Personnel*

## NOTES

### 7.0 Unit Objectives

#### 7.1 Introduction

#### 7.2 Selection Process

##### 7.2.1 Preliminary Interview

##### 7.2.2 Formal Application Blank

##### 7.2.3 Interview

##### 7.2.4 Reference Check

##### 7.2.5 Psychological Testing

##### 7.2.6 Physical Examination

##### 7.2.7 Employment Offer

#### 7.3 Future

#### 7.4 Summary

#### 7.5 Key Terms

#### 7.6 Questions and Exercises

#### 7.7 Further Reading and References

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## 7.0 Unit Objectives

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After studying this unit, you will be able to: define selection; discuss the selection process; describe the interviewing techniques; and explain the placement of sales personnel.

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## 7.1 Introduction

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Selection systems for sales personnel range from simple one-step systems consisting of nothing more than an informal personal interview to

complex multistep systems incorporating diverse mechanisms designed to gather information about applicants for sales job.

## NOTES

***“A selection system is a set of successive ‘screens’ at any of which an applicant may be dropped from further consideration”***

Companies using multistep selection systems differ as to the number of steps and their order of inclusion. Each company designs its selection system to fit its own information needs and to meet its own budgetary limitations. As applicants survive succeeding steps in the system, the additional increments of information enable increasingly accurate estimates of success and failure probabilities.

Selection of proper sales people is very important to avoid disappointments, both to the employer and employee. Effective sales managers make every effort to get the best sales people available to them. Having wrong personnel costs a great deal to any organization as neither the employer nor the employee is satisfied. An organization’s turnover rate shows the effectiveness of its selection process. It is a risk both to the company and the sales person. The company loses because the sales person does not fit into the required job and the sales person loses by choosing a wrong career and losing time which cannot be recovered. Unlike other jobs success in selling does not depend on an intellectual ability alone. There are many emotional demands on the salesman also. His personality, ability, experience, temperament and aptitude are also important in tackling situations that many a times are very disappointing. Like management, selection is also both an art and a science. It is an art as it requires experience and science because a set of systematic procedures are followed.

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

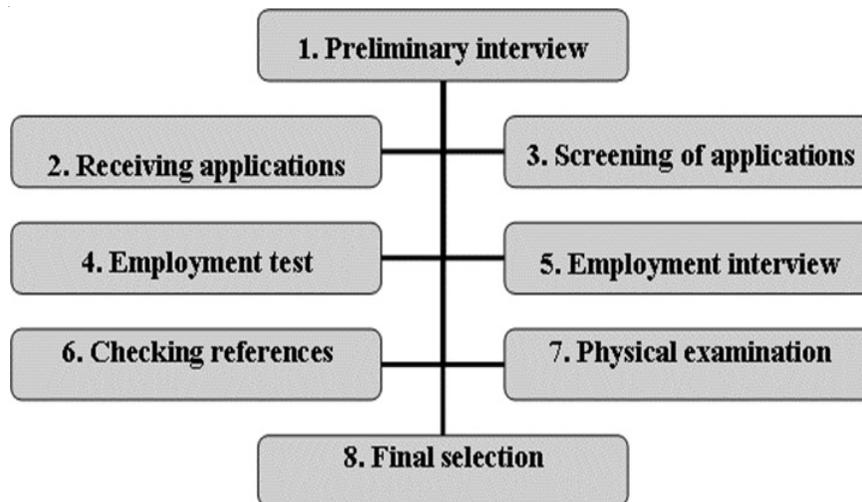
that his requirements are also met.

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## 7.2 Selection Process

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As shown in the Figure below 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

### 7.2.1 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 organization. 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

### NOTES

#### Check Your Progress

What are the steps involved in selection system?

appearance, age and facility of speech. If a candidate meets with the requirements of the organization he may be selected for further action. If not, he is eliminated at this preliminary stage.

## NOTES

### **7.2.2 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:

#### **a. Personal**

- Name
- Address
- Sex
- Date of birth and age
- Marital status
- Children/dependents.

#### **b. Education**

- Schooling : primary/secondary
- Higher education: institutions
- Qualifications
- Specified training, e.g., apprenticeships, sales
- Membership of professional bodies.

**c. Employment History**

- Number of jobs held
- Name of companies worked for
- Duration and dates of employment
- Positions, duties and responsibility.

**d. Other interests**

- Sports
- Hobbies
- Membership of societies/clubs.

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### **7.2.3 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.

#### ***Interview Decisions***

The following important decisions have to be taken by the management regarding interviews:

**Who :** The usual practice is to interview several persons and evaluate each applicant. In large sales organization, district or branch sales manager handles the interview while in small organizations the responsibility lies with the top personnel of sales and marketing department.

**Where :** Similarly the place of interviewing also depends upon the size and degree of decentralization in the organization. In large and highly decentralized organizations the responsibility lies with district/branch/regional level sales department while in centralized organizations it lies with top personnel of sales and marketing

**NOTES**

department.

**When :** A short interview is generally used at the initial stage of screening process as preliminary interview, while a detailed/depth interview is used at a later stage in the selection process.

***Interviewing Techniques***

Mainly four kinds of interviewing techniques are used in a sales organization. These are:

**Non-Directed/Non-Structured Interview:** This kind of interview does not follow a standard format of questions, instead it involves a relaxed discussion. Some personnel experts say that a non-directive technique yields maximum insight into an individual's attitude and interests. This method is perhaps the best way of probing an individual's personality in depth. The main drawback is that administering the interview and interpreting the results demands specialized instructions.

**Patterned/Structured Interview:** In this method the interviewers are given a prepared list of questions or a specific outline of questions designed to elicit a basic core of information.

McMurray explains why the patterned interview is likely to improve the judgment of the interviewers: First, the interviewer works from definite job specifications, he knows what qualities each job requires. Second, he has a plan, he knows what questions to ask. Third, he has been trained in the techniques of conducting an interview. Fourth, prior to interview, he has checked with outside sources and already knows a great deal about the applicant. Fifth, the interviewer himself has been carefully selected to assure that he has adequate intelligence and is emotionally well adjusted.

**Interaction (Stress) Interview:** It is a highly complex technique. In this the interviewer assumes a hostile role towards the applicant. He deliberately puts him on the defensive by trying to annoy, embarrass and frustrate him. The interaction interview simulates

the stresses the applicant would meet in actual selling and how he would react to them.

**Rating Scales:** In this method results are obtained from comparable ratings of the same individual by different interviewers. The rating scales of the interview are so constructed that interviewers' ratings are channeled into a limited choice of responses. For instance, in evaluating the attitude of the candidate an interviewer is forced to choose from one of these answers: negative and complaining, pessimistic, positive and healthy, strong loyalty.

## NOTES

### 7.2.4 Reference Check

Sometimes applicants are asked to name as references those people on whom they can rely to speak about them.

The main purpose of reference checks as a selection tool is to verify the facts such as dates of employment, earnings, sales volume, absenteeism and nature of the past selling job. This typical procedure is to check the references by personal visit, telephone or letter.

### 7.2.5 Psychological Testing

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

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 behavior of two or more persons”. In narrow sense, “It is a sample of an aspect of an individual's behavior, performance or attitude”. Thus, we may define it as a systematic procedure for sampling human behavior. Psychological testing is gaining greater importance as a selection tool of sales personnel because of sales management becoming more formalized and rising cost of selection and training.

The major purpose of testing is to identify the various aspects of a persons' behavior such as intelligence, achievements, interests, aptitude, personality traits, etc.

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

**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:

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

**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 categorized into the following types.

### Check Your Progress

Describe the Placement of sales Personnel ?

- a. Objective Test: They measure neurotic tendencies, self-sufficiency, dominance-submission and self-confidence. These are scored objectively.
- b. 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.
- c. 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.

**Achievement 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.

- a. Tests for measuring job knowledge: They are administered to determine degree of their qualification and feasibility to perform the job.
- b. Work sample tests: They demand the administration of the actual job as a test.

**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.

## **7.2.6 Physical Examination**

Sales persons' job requires unusual stamina, strength or tolerance of hard working conditions. The presence or absence of these qualities in the

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candidate is revealed by physical examination. The major purpose of physical examination in the selection procedure of sales persons is that:

- a. It gives a clear indication whether candidate is physically able to perform the sales person's job in the company.
- b. It prevents selection of people who suffer from some contagious diseases.
- c. 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 score 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.

## 7.2.7 Employment Offer

An employment offer is extended to the candidate who successfully passes through all the preceding steps.

**Placement of Sales Personnel :** Once, an offer of employment has been extended and accepted the final stage in procurement function is concluded, and the process of placement of the individual on the new job and orienting him to the organization.

Placement may be defined as “*the determination of the job to which an accepted candidate is to be assigned and his assignment to the job. It is a matching of what the supervisor has reason to think he can do with the job demands (job requirements), it is a matching of what he imposes (in strained working conditions) and what he offers in the form of payroll, companionship with others, promotional possibilities, etc.*”

**Probation :** After selection, the employee is generally put on a probation period, ranging from one to two years, after which his employment may be regularized, provided that during this period, his work has been found to be satisfactory. Only in very rare cases is the employee, once placed, asked to quit and even then, it is only when there is something very serious against him or he is found guilty of continued negligence in the performance of his duties. The new employee is placed as a probationer until the trial period is over.

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## 7.3 Future

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Every company must look at its future management requirements as well as its need for career salesman. Usually, these two demands will have to be met by different types of staff. Therefore, two different man

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profiles may be necessary when looking to fill similar sales positions. Those men with management potential should certainly score higher in leadership, self-reliance and ability to accept responsibility categories than the career sales staff. Unless different standards are adopted, too many men of high potential may be employed who will quickly become frustrated and leave. If men who can be only career salesman are taken on, there will be no potential management pool for the future. The relationship between the two categories will depend upon the spans of control, the number of management levels and the life span of management in each job.

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## **7.4 Summary**

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A selection system is a set of successive 'screens' at any of which an applicant may be dropped from further consideration. An interview can be defined as an attempt at gathering information from the candidate concerning his suitability for the job under consideration. Achievement tests seek to determine how much the individual knows about a subject. McMurray explains why the patterned interview is likely to improve the judgment of the interviewers. A psychological test can be defined both in a broad as well as narrow manner. The initial screening is usually undertaken by the receptionist in the employment office. After selection, the employee is generally put on a probation period, ranging from one to two years, after which his employment may be regularized. It is assumed in the use of interest tests that a relationship exists between test and Notes motivation. Every company must look at its future management requirements as well as its need for career salesman. The presence or absence of these qualities in the candidate is revealed by physical examination.

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## **7.5 Key Terms**

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- **Aptitude or Ability Test:** These are used to measure the talent/ability of a candidate to learn the job or skill.

- **Achievement Tests (Proficiency Tests) :** Achievement tests seek to determine how much the individual knows about a subject.
- **Personality Tests :** These tests try to find out an individual's value system, his emotional reactions and maturity and his characteristic mood.
- **Interest Test :** It is assumed in the use of interest tests that a relationship exists between test and motivation.

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## 7.6 Questions and Exercises

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1. The selection of salesman varies from company to company, from product to product and from market to market. Explain with the help of example.
2. What are the steps involved in selection system?
3. What are the various types of interviewing techniques? Describe them briefly.
4. How does psychological testing help in choosing right candidate for the right job?
5. Are females suited to sales job, keeping in view the physical fitness and the touring?
6. What do you understand by placement and where does it fit into the selection system?
7. Explain the different types of Psychological Tests.
8. Describe the Placement of sales Personnel.
9. What do you know about Employment Offer?
10. Explain the Preliminary Interview.

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## 7.7 Further Reading and References

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# UNIT 8 : PERFORMANCE

## EVALUATION OF SALES PERSONNEL

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*Performance Evaluation  
of Sales Personnel*

### NOTES

#### 8.0 Unit Objectives

#### 8.1 Introduction

#### 8.2 Performance evaluation of sales force

8.2.1 Purpose Evaluating the Performance of Sales force

8.2.2 Approaches in Evaluating Performance of a Sales force

8.2.3 Key issues in controlling and evaluating sales performance

8.2.4 Dimensions of Salesperson Performance Evaluation

8.2.5 Performance Evaluation Methods

8.2.6 Possible bias in performance evaluation

8.2.7 Evaluating Team Performance

#### 8.3 Summary

#### 8.4 Key Terms

#### 8.5 Questions and Exercises

#### 8.6 Further reading and References

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### 8.0 Unit Objectives

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After reading this unit you should be able:

- To describe performance evaluation of sales personnel.
- To recognize different ways of controlling and evaluating the performance of sales force.

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### 8.1 Introduction

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Sales training programmes have become a significant part of most of the companies. Their evaluation i.e., measuring programme effectiveness is necessary step, because a sales training programme requires a huge

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amount of investment of time, money and effort, and therefore, management must expect results commensurate with the total investment. In some respects, evaluation of sales training programme is not difficult. As soon as the training programme is over, the trainees may be tested in terms of what they feel about the training programme. Written questionnaire may also be used for this purpose during and after the programme. They may also be tested to find out if they know the pertinent facts about products, company policies, and sales operations.

On the other hand, in the areas of sales skills and personal attitudes, the evaluation of sales training programme is difficult. There are three main reasons for this :

1. Skills and attitudes are difficult to observe and to evaluate objectively.
2. One can never be sure to ascertain which changes in the skill, and attitude are the result of training and which changes may have existed in the trainees before they are trained.
3. After training, one cannot be sure which skill, attitudes and knowledge the trainee has learnt from sales experience and which have come from the training programme itself.

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## 8.2 Performance Evaluation of Sales Personnel

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Performance evaluation is a crucial part of a firm's performance management process. Performance Evaluation is the activity used to determine the extent to which an employee performs work effectively. Performance evaluation can be an informal performance evaluation system or formal performance evaluation system.

## **8.2.1 Purpose Evaluating the Performance of Sales force**

The basic objective of salesperson performance evaluations is to determine how well individual salespeople have performed. However, the results of salesperson performance evaluations can be used for many other sales management purposes such as :

- To make the rewards consistent with the sales persons performance
- To identify the employees to be promoted
- To find out the employees who needs to be terminated
- To identify the training and development needs of the employees
- To be used as an input for the HR planning
- To identify the criteria need to be used in recruitment and selection
- To inform the salesperson about the companies expectation
- To motivate salesperson
- To help salesperson in setting the career goals
- Te improve performance

## **8.2.2 Approaches in Evaluating Performance of a Salesman**

Although it is impossible to determine with accuracy all the performance evaluation approaches used by sales organizations, several studies have produced sufficiently consistent information to warrant some general conclusions

- 1) Most sales organizations evaluate salesperson performance annually, even though many firms carry out evaluations semiannually or quarterly. Relatively few firms evaluate salesperson performance more often than quarterly.
- 2) Most sales organizations use combinations of input and output criteria that are evaluated by quantitative and qualitative measures. However, emphasis seems to be placed on outputs, with evaluations of sales volume results the most popular.

### **NOTES**

#### **Check Your Progress**

What do you understand by training to salesman?

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- 3) Sales organizations that lay down performance standards or quotas tend to enlist the aid of salespeople in establishing these objectives. The degree of salesperson contribution and involvement does, still, appear to differ across organizations.
- 4) Many sales organizations assign weights to different performance objectives and incorporate regional data when ascertaining these objectives.
- 5) Most organizations use more than one basis of information in evaluating salesperson performance. Computer documents, call reports, supervisory calls, sales itineraries, prospect and customer files, and client and peer feedback are some of the common basis of information.
- 6) For the most part performance evaluations are conducted by the field sales manager who supervises the salesperson. However, some organizations engage the manager above the field sales manager in the salesperson performance appraisal.
- 7) Many sales organizations provide salespeople with a written copy of their performance review and have sales managers discuss the performance evaluation with each salesperson. These discussions typically take place in an office, although sometimes they are conducted in the field.

**a) Traditional Top-Down Appraisal**

Six Steps for a Systematic Process:

1. Set up performance standards for each position and the criteria for evaluation
2. Ascertain performance evaluation strategies on when to rate, how often to rate, and who should rate
3. Collect data on employees' performance
4. Evaluation of employees' performance by the raters.
5. Discuss the evaluation with the employee
6. Draft decisions and file the evaluation

## **b) 360 Degree Feedback**

360-degree feedback involves performance assessment from multiple parties, including sales managers, internal and external customers, team members, and even salespeople themselves. 360-degree feedback helps to better understand customer needs, identify barriers to success, assess developmental needs, create job involvement, reduce assessment bias, and improve performance. However, when using the process, keep in mind that bias may still exist. Individuals may be less forthright in giving feedback and less accepting of feedback from others if they believe it will have damaging consequences. Thus, it may be best to use it in conjunction with other appraisal techniques.

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### ***Advantages of 360 Degree Feedback***

1. Many aspects of a person's performance are revealed
2. Ratings can evaluate person based on actual contact and observation
3. Feedback is provided from all directions (above, below, and peer)
4. Upward feedback when anonymous, results in full participation
5. Knowing about weaknesses and strengths is motivation

### ***Disadvantages of 360 Degree Feedback***

1. Feedback from all sources can be inspiring.
2. Rater can conceal in a group of raters and provide harsh evaluations
3. Conflicting ratings can be mystifying and provoking
4. Providing feedback that is constructive requires a plan and well-trained raters
5. Not usually found in organizations

## **8.2.3 Key Issues in Evaluating and Controlling Sales Performance**

An outcome-based perception focuses on objective measures of

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results with modest monitoring or directing of salesperson behavior by sales managers. By disparity, a behavior-based perspective incorporates composite and often subjective assessments of salesperson characteristics and behaviors with considerable monitoring and directing of salesperson behavior by sales managers. On balance, these implications provide strong support for at least some behavior-based evaluations in most selling situations. In lack of any behavior-based measures and limited monitoring and direction from sales management, salespeople are likely to focus on the short-term outcomes that are being evaluated. The process of obtaining the desired outcomes may be neglected, causing some activities that produce short-term results, (e.g., selling pressure, unethical activities) to be emphasized and activities related to long-term customer relationships (e.g., customer orientation, post sale service) to be minimized.

A reasonable conclusion from this discussion is that sales organizations should use both outcome-based and behavior-based measures when evaluating salesperson performance. Research indicates that some firms use a cross approach to controlling the sales force. The cross form was found to place considerable emphasis on the following: supervision; evaluation of attitude, effort, and quantitative results and complete, accurate paperwork. However, the comparative importance on result-based and behavior-based measures depends on environmental, firm, and salesperson considerations. Establishing the desired emphasis should be the initial decision in developing a salesperson performance evaluation and control system. Once this emphasis has been established, the sales organization can then address the specific criteria to be evaluated, the methods of evaluation, and how the performance information will be used.

## **8.2.4 Dimensions of Salesperson Performance Evaluation**

The typical salesperson job is multidimensional. Salespeople normally sell multiple products to diverse customers and perform a variety

of selling and non-selling activities. Therefore, any comprehensive assessment of salesperson performance must include multiple criteria. Although the specific criteria depend on the characteristics of a given selling situation and the performance evaluation perspective, the four performance dimensions should be considered: behavioral and professional development (behavior based perspective) and results and profitability (outcome-based perspective). Regardless of the specific evaluative criteria chosen, it is important that salespeople know and understand the criteria to achieve desired performance.

*Following are the Characteristics of Effective Criteria*

- **Reliability** – a measure of performance must be consistent
- **Relevance** – a measure of performance must be related to the actual output of an incumbent
- **Sensitivity** – criteria must be able to reflect the difference between high and low performers
- **Practicality** – the criteria must be measurable
- Data collection cannot be inefficient or too disruptive

a) **Behavioral Criteria** : The behavioral dimension consists of criteria related to activities performed by individual salespeople. The emphasis is on evaluating exactly what each salesperson does. These behavioral criteria should not only address activities related to short-term sales generation but should also include non selling activities needed to ensure long-term customer satisfaction and to provide necessary information to the sales organization. As might be expected, most sales organizations focus on the number of sales calls made as the key behavioral criterion. However, other activities are also important to at least some sales organizations. In some organization, customer satisfaction plays a role in salespeople's evaluation. Part of their pay check is based on how customers rate them. When salespeople's rewards are based on customer satisfaction rating, salespeople are likely to demonstrate a higher level of customer

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service activity. Salespeople therefore have a high control over what they do. Evaluations of their performance should include some assessment of their behavior. The use of behavior based criteria will also facilitate the development of a professional, customer-oriented, committed, and motivated sales force.

**b) Professional Development Criteria :** Another aspect of substantial importance in evaluating the performance of individual salespeople relates to professional development. Professional development criteria evaluate progress in certain characteristics of salespeople that are related to successful performance in the sales job. For example, if product knowledge is critical in a particular selling situation, then evaluations of the product knowledge of individual salespeople over various periods should be conducted. Many sales organizations incorporate multiple professional development criteria into their salesperson performance evaluations. For instance, in some companies, salespeople are evaluated on their knowledge of the product line being sold as well as competitive products, knowledge of customers' businesses, the development of plans to assist customers, and the development of their professional skills. This is appropriate, because salespeople have control over the development of personal characteristics related to success in their selling state. The professional development measure introduces a long-term perspective into the method of salesperson performance evaluation. Salespeople who are developing professionally are increasing their chances of successful performance over the long run. Although the professional development and behavioral criteria might be combined into one category, we choose to divide them to reflect their different angles.

**c) Results Criteria :** The results accomplished by salespeople are very important. It should be evaluated. A potential problem with the use of results criteria is that the overall result measures do not reflect the territory situations faced by individual salespeople. The

salesperson with the highest level of sales may have the best territory and may not necessarily be the best performer in generating sales. In fact, study show that rewards for achieving results have a negative effect on performance and satisfaction because salespeople may view the rewards as arbitrary if the goals are beyond their control. Beside from the impossible task of developing territories that are exactly equal, the only way to address this potential problem is to compare actual results with standards that reflect the unique territory situation faced by each salesperson. These standards are generally called sales quotas.

A sales quota represents a rational sales objective for a territory, district, region, or zone. Because a sales forecast represents an expected level of firm sales for a defined geographic area, time period, and strategy, there should be a close relationship between the sales forecast and the sales quota. Bottom-up and/or top- down approaches might be used to develop sales forecasts that are translated into sales quotas.

Another recommended approach is to use statistical methods such as regression. Depending on the planning and control unit of interest (territory, district, region, or zone), different determinants of market response (e.g., sales, market share) might be important. However, these determinants can be classified as either environmental, organizational, or salesperson factors. Once the determinant and market response factors are identified, their values for each planning and control unit in the previous period must be measured.

## **8.2.5 Performance Evaluation Methods**

Sales managers can use a number of different methods for measuring the behavior, professional development, results, and profitability- of salespeople. Ideally, the method used should have the following characteristics.

- 1) **Job relatedness** - The performance evaluation method should be designed to meet the needs of each specific sales organization.

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**Check Your Progress**

How should sales training programmes be evaluated?

- 2) **Reliability** - The measures should be stable over time and exhibit internal consistency.
- 3) **Validity** - The measures should provide accurate assessments of the criteria they intended to measure. Standardization - The measurement instruments and evaluation process should be similar throughout the sales organization. Practicality - Sales managers and salespeople should understand the entire performance appraisal process and should be able to implement it in a reasonable amount of time.
- 4) **Comparability** - The results of the performance evaluation process should make it possible to compare the performance of individual salespeople directly.
- 5) **Discriminability** - The evaluative methods must be capable of detecting differences in the performance of individual salespeople.
- 6) **Usefulness** - The information provided by the performance evaluation must be valuable to sales managers in making various decisions.

Designing methods of salesperson performance evaluation that possess all these characteristics is a difficult task. Each evaluative method has certain strengths and weaknesses. It is important to understand the strengths and weaknesses of each method so that several can be combined to produce the best evaluative procedure for a given sales organization.

There are two types of performance Evaluation Methods, Individual Evaluation Methods and Multiple-Person Evaluation Methods

Advantages and Disadvantages of Some Individual Methods of Performance Evaluation are given below :

- **Rating Scales** - Easy to use, easy to complete, relatively low cost; focuses too much person instead of on performance
- **Forced Choice** - Selectively low cost, easy to use; difficult to explain to those evaluated
- **Essay** - Good in providing specific feedback if evaluator is a good writer; difficult in making comparisons across those being evaluated.

- **Critical Incidents** - Time consuming, must be disciplined to log in incidents, reveals critical behaviors that can be fed back easily.
- **Behavior Scales** - Difficult to develop, time consuming, great for providing specific feedback to aid in improving performance.

Advantages and Disadvantages of Some Multiple person Methods of Performance Evaluation are given below :

**Ranking and Paired Comparisons** - Hard to use for providing feedback, good for making comparisons among employees.

**MBO** - Focuses on results that are important, sometimes too short-term oriented, does not engage in comparisons among employees.

- a) **Graphic Rating/Check List Methods** : This method consists of approaches in which salespeople are evaluated by using some type of performance evaluation form. The performance evaluation form contains the criteria to be used in the evaluation as well as some means to provide an assessment of how well each salesperson performed on each criterion. Graphic Rating Scale allows the rater to indicate an employee's performance on a continuum.

This method is popular in many sales organizations. It is especially useful in evaluating salesperson behavioral and professional development criteria. Graphic rating/checklist methods possess many desirable characteristics, especially in terms of job relatedness, standardization practicality, and comparability. The reliability and validity of these methods, however, must be continually assessed and the specific rating scales improved over time. The major disadvantage of graphic rating/checklist method is in providing evaluations that discriminate sufficiently among the performances of individual salespeople or among the performances on different criteria for the same salesperson.

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Other disadvantage includes

- a) Restrictions on the range of possible rater responses.
- b) Differences in the interpretations of the meanings of scale items and scale ranges by raters.
- c) Poorly designed scales that encourage rater errors.

Rating form deficiencies that limit the effectiveness of the appraisal the advantages of graphic rating/checklist methods clearly outweigh the disadvantages. However, care must be taken to minimize potential sales management biasness when the evaluation forms are completed, and continuous attention to reliability and validity issues are necessary

**b) Ranking Methods :** Similar to graphic rating/checklist methods, ranking methods rank all salespeople according to relative performance on each performance criterion rather than evaluating them against a set of performance criteria. Numerous different approaches might be used to obtain the rankings. Ranking methods provide a standardized approach to evaluation and thus force discrimination as to the performance of individual salespeople on each criterion. The process of ranking forces this discrimination in performance. Despite these advantages, ranking methods have many shortcomings. Ranking all salespeople against each performance criterion can be a complex and cognitively difficult task. The ranking task can be simplified by using paired-comparison approaches. However, the computations required to translate the paired comparisons into overall rankings can be extremely cumbersome.

Even if the evaluative and commutative procedures can be simplified, the rankings that are obtained are of limited usefulness. Rank data reveal only relative ordering and omit

any assessment of the differences between ranks. For example, the actual differences in the communication skills of salespeople ranked first, second, and third may be small or large, but there is no way to tell the degree of these differences from the ranked data. In addition, information obtained from graphic rating/checklist methods can always be transformed into rankings, but rankings cannot be translated into graphic rating/checklist form. Therefore, using ranking methods for salesperson performance evaluations is recommended only as an adjunct to other methods. Ranking involves listing of all employees from highest to lowest in performance. Drawback of this method is that it does not show size of differences in performance between employees. This method implies that lowest-ranked employees are unsatisfactory performers but there may be a number of factors which may affect the performance. Ranking can become a cumbersome task if the group to be ranked is large.

c) **Objective Setting Methods** : The most common and comprehensive goal-setting method is management by objectives (MBO). Applied to a sales force, the typical MBO approach is as follows:

1. Mutual setting of well-defined and measurable goals within a specified time period
2. Managing activities within the specified time period toward the accomplishment of the stated objectives
3. Appraisal of performance against objectives

As with all the performance evaluation methods, MBO and other goal-setting methods have certain strengths and weaknesses. Although complete reliance on this or any other goal-setting method is inadvisable, the incorporation

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of some goal-setting procedures is normally desirable. This is especially true for performance criteria related to quantitative behavioral, professional development, results, and profitability criteria. Absolute measures of these dimensions are often not very meaningful because of extreme differences in the territory situations of individual salespeople. The setting of objectives or quotas provides a means for controlling for territory differences through the establishment of performance benchmarks that incorporate these territory differences.

Quotas can be established for other important results criteria and for specific behavioral, professional development, and profitability criteria. Each type of quota represents a specific objective for a salesperson to achieve during a given period. Actual performance can be compared with the quota objective and a performance index calculated for each criterion being evaluated. The individual performance indices can then be weighted to reflect their relative importance and combined to produce an overall performance index.

In any case, the use of quotas provides an extremely useful method for evaluating salesperson performance and highlighting specific areas in which performance is especially good or especially poor. Management by Objectives consists of specifying the performance goals that an individual and his or her manager agree to try to attain within an appropriate length of time. Employee involvement creates higher levels of commitment and performance. It encourages employees to work effectively toward achieving desired results.

***MBO Program Process***

1. Supervisor and employee conduct meetings to define key tasks of the subordinate and to set a limited number of objectives (goals)
2. Participants set objectives that are realistic, challenging, clear, and comprehensive
3. Supervisor, after consulting with the employee, establishes the criteria for assessing the accomplishment of the objectives
4. Dates for reviewing intermediate progress are agreed upon and used
5. Supervisor and employee make any required modifications in the original objectives
6. Final evaluation by the supervisor is made; counseling meeting is held with employee
7. Objectives for next cycle are set by employee after consulting with supervisor (keeping in mind previous cycle and future expectations)

***Drawbacks of MBO Process are:***

- Involves lot of paper work
- Confusion may occur if a large number of objectives are set
- Focus more on short-term
- MBO is forced into jobs where establishing objectives is extremely difficult
- Failure to tie in MBO results and rewards
- Supervisors are not trained in the MBO process and the mechanics involved
- Original objectives are never modified
- MBO is used as a rigid control device that intimidates rather than motivates

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- d) Behaviorally Anchored Rating Methods :** Behaviorally Anchored Rating Scales is unique due to its focus on trying to link salesperson behaviors with specific results. These behavior results linkages become the basis for salesperson performance evaluation in this method. The development of a BARS approach is an iterative process that actively incorporates members of the sales force. Salespeople are used to identify important performance results and the critical behaviors necessary to achieve those results. The critical behaviors are assigned number on a rating scale for each performance result.

The performance result in this example is achieving cooperative relations with sales team members. Seven behaviors have been assigned numbers on a 10-point rating scale to reflect the linkages between engaging in the behavior and achieving the result. This scale can then be used to evaluate individual salespeople.

The BARS approach rates high on job relatedness. This is because of the rigorous process used to determine important performance results and critical salesperson behaviors. The results and behaviors identified in this manner are specific to a given selling situation and directly related to the job of the sales people being evaluated. Research indicates that positive feedback about sales behaviors have a greater impact on salesperson behavior than positive output feedback, perhaps because it gives salespeople direction for improving selling. However, although both have a positive effect on performance, the effect is greater for positive output feedback. The really sole aspect of BARS is the focus on linkages between behaviors and results. No other approach incorporates this perspective.

## **8.2.6 Possible Bias in Performance Evaluation**

There are many possible sources of error in performance appraisal

process. One of the major sources is the mistake made by the rater. Most common rater errors are shown below :

- a. **Varying standards** – Here the rater rates similar performance differently.
- b. **Recency/ primacy effects** – Here the timing of the information affects the rating. In recency effect the rater gives more weight to the recent events. whereas in the primacy effect the information received first get more weight
- c. **Central tendency error** – This is where the rater rates all employees in a narrow range in the middle of the rating scale.
- d. **Rater bias** – This error occurs when a rater’s values or prejudices distort the rating.
- e. **Halo effect** - This involves rating a-person high on all items because of performance in one area.
- f. **Contrast error** – This is the tendency to rate people relative to others rather than against performance standards.

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### 8.2.7 Evaluating Team Performance

Sales organizations employing sales teams must also consider how to evaluate them. When designing the appraisal process for teams, sales managers must still consider the criteria on which member will be evaluated and the methods used to evaluate performance. In addition, it is important that sales managers establish a link between team performance and positive outcomes to promote individual and team effort. The process is fostered by allowing team members to participate in developing team goals and objectives. Furthermore, members are more willing to participate when individual goals are linked to team goals.

Generally, the team as a whole should be evaluated, in addition to assessing individual member performance. Team performance can be measured by team members as well as by the sales manager.

**NOTES**

- a) **Using Performance Information :** Different methods are used to evaluate the behavior, professional growth, outcome, and productivity of salespeople which gives very significant performance information. The important sales management task is to use this information to improve the performance of individual salespeople, sales teams, and the overall operations of the sales organization. Initially, it should be used to determine the absolute and relative performance of each salesperson. These determinations then provide the basis for reward payment, special recognition, promotions, and so onwards. The second major use of this performance information is to identify potential problems or areas in which salespeople need to improve for better performance in the future. If salespeople are evaluated against multiple criteria, as suggested in this module, useful diagnostic information will be available. The difficulty exists in isolating the specific causes of low performance areas. The first step in this analysis is to review the performance of each salesperson against each relevant criterion and then to summarize the results across all salespeople being supervised. The purpose of this step is to determine whether there are common areas of low performance. For example, the situation is different when most salespeople are not meeting their sales quotas than when only one or two salespeople are not meeting their sales quotas. Once the poor performance areas have been identified, the sales manager must work backward to try to identify the cause of the poor performance. Only determining that most salespeople did not meet their sales quotas is not sufficient to improve future performance; the sales manager must try to uncover the reason for this poor performance. The basic approach is to try to answer the

question, “What factors affect the achievement of this performance dimension?” For example, in respect to achieving sales quotas, the key question is, “What factors determine whether salespeople achieve their sales quotas?”

All the factors identified should be reviewed to isolate the cause of any poor performance. After identifying the potential causes of poor performance, the sales manager must determine the appropriate action to reduce or eliminate the cause of the problem so that performance will be improved in the future. Consider again the poor performance on sales quota achievement. Assume that intense review of this problem reveals that salespeople not meeting sales quotas also do not make many product demonstrations to prospects. This study proposes that if salespeople were to make more product demonstrations, they would be able to generate more sales and thus achieve their sales quotas. The sales management task is to determine what management action will lead to more product demonstrations by salespeople. Possible actions include more training on product demonstrations, direct communication with individual salespeople about the need for more product demonstrations, or some combination of these or other management actions. This discussion highlights the thought processes that sales managers need to use to identify performance problems, isolate the causes of these problems, and determine the appropriate management actions necessary to solve the problems and improve future salesperson performance. Using this approach successfully requires that sales managers have a detailed understanding of the personal selling and sales management processes and relationships. Such an understanding is essential for them to be able to determine

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the causes of performance problems and recognize the proper management actions to solve these problems. Our discussion and examples have emphasized problems affecting many salespeople. The same basic approach can be used for performance problems that are unique to one individual salesperson. In fact, many sales organizations use performance reviews as a means for a sales manager to meet with each salesperson, analyze the salesperson's performance on each criterion, and suggest ways to improve future performance. These performance reviews provide one means for communicating the performance feedback that is so important to salespeople. Performance feedback is also an important determinant of salesperson job satisfaction, which is discussed next.

- b) **Team/Peer Ratings** : Advantages of the team/ peer rating are that it helps improve the performance of lower rated individuals. It gives peers an opportunity to observe other peers. Peer appraisals focus on individual contributions to teamwork and team performance. However the disadvantages of this method are that it can negatively affect working relationships and may create difficulties for managers in determining individual performance. The organizational use of individual performance appraisals can hinder the development of teamwork.

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## 8.3 Summary

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Evaluation is essential to management of a sales force. Sales reports sent by the sales force serve a good starting point of evaluation. Evaluating the effectiveness and efficiency of sales training can never be a complete and accurate activity. During their sales career, the salespeople acquire knowledge, skills and attitudes through experience or through training –

formal or informal. The process of evaluation is, therefore, an unending process and a long term activity.

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## 8.4 Key Terms

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- **Management by objectives (MBO)** : Mutual setting of well-defined and measurable goals within a specified time period.
- **Ranking method** : This method is one of the simplest to administer in which jobs are compared to each other based on the overall worth of the job to the organization.
- **360 degree feedback method** : It is a process utilized by organizations to solicit information from a variety of workplace sources on an employee's work-related behavior and/or performance.
- **Behaviorally Anchored Rating Method (BARS)**: It is an appraisal method that aims to combine the benefits of narratives, critical incidents, and quantified ratings by anchoring a quantified scale with specific narrative examples of good, moderate, and poor performance.

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## 8.5 Questions and Exercises

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1. What do you understand by training to salesman? What are the main objectives of sales training?
2. Describe in brief the different methods of training salesmen.
3. Discuss the need and importance of training the salesmen.
4. How should sales training programmes be evaluated?
5. Discuss the methods that might be used to make this evaluation.

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## 8.6 Further Reading and References

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- Futrell, Charles (2001), Sales Management.
- "Sales Management - Decisions, Strategies and Cases" By Cundiff, Still and Govoni.

### NOTES

*Performance Evaluation  
of Sales Personnel*

- “Sales Management” By V. Das, Gupta 3. “Marketing Management”  
By Philip Kotler
- “Skills for Sales Success” By Bachelor.
- “Selling and Sales Management” By Lancaster.
- “Management of Sales Force” By Ford, Churchill and Walker

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# UNIT 9 : SALES BUDGETING - APPROACHES AND TECHNIQUES

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*Sales Budgeting Approaches  
and Techniques*

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9.0 Unit Objectives

9.1 Introduction

9.2 What is a Sales Budget?

9.3 The Budgeting Process

9.4 Methods of Sales Budgeting

9.5 Preparing the Sales Budget

9.5.1 Review and Analysis of the Marketing Environment

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9.6.1 Purpose of Sales Control

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9.11 Further Reading and References

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## 9.0 Unit Objectives

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After going through this unit, you will be able to explain how sales control helps to monitor sales performance, maintain and improve the efficiency of sales operations. Understand the role of budget setting in order to achieve the actual sales target and the various budget-setting methods.

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## **9.1 Introduction**

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Sales budgets and control help to monitor sales performance. They also help to maintain and improve the efficiency of sales operations. This unit helps to understand the use of a sales budget and the ways in which a sales budget can be prepared. It also presents to the reader the various processes and methods that go into sales control.

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## **9.2 What is a Sales Budget?**

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A budget is a financial plan and tool of control. In a sales budget, resources are allocated to achieve the sales forecast. 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. A budget is an estimate of sales, either in units or value and the selling expenses likely to be incurred while selling. 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. It is an instrument of planning that shows how to spend money to achieve the targeted sales. A budget also anticipates a particular level of profit.

Budgeting is a short-term exercise that attempts to optimize business profits by accommodating customer-service activities and incurring expenses to acquire new business. For instance, to increase the sales volume by Rs. 2 lakh, sales management may have to rope in new customers. The expense of appointing new customers is also included in the budget.

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## **9.3 The Budgeting Process**

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In many organizations, sales is the key variable for formulating the budgets of the other departments. Thus raw materials and production are purchased and planned in accordance with the sales estimate, leading to the purchasing budget. Finance is arranged in accordance with

the requirements of production and other departments. Human resources are deployed to realize the overall planning requirements. The starting point becomes the sales budget. It generates other budgets like the inventory budget, purchase budget, production budget and so on. The sales budget becomes a major input in the financial plan.

Planning can be top-down or bottom-up. In a top-down plan, the plan flows from the top, and is broken down into smaller units. In a bottom-up plan, the departments and units set their own goals, which are aggregated at the top. In sales budgeting, some organizations adopt a top-down approach in which the goals are set by the immediate higher level. Some organizations follow a bottom-up approach where each level in sales right from the salesman puts forward sales and profit objectives. The bottom-up style is more participatory.

Each budget has quotas or standards, against which management has to measure performance. Evaluation and control are vital parts of the management process. As the opening scenario suggests, management needs feedback on the effectiveness of its plan and the quality of its execution to operate more effectively; otherwise it is easy to lose sight of the firm's objectives.

In order to achieve goals and objectives, sales managers plan by outlining the essential costs to be incurred. The budget acts as an instrument of coordination. Selling is one of the functions of marketing and needs support from the elements of marketing mix. Budgets help in integrating all functions, like sales, finance, production and purchase.

A comparison between budgeted and actual cost results in the analysis of factors causing variations and enables the sales manager to spot problem areas or plan better for expected outcomes.

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## 9.4 Methods of Sales Budgeting

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- **Affordable Method:** Many companies set the promotion budget at what they think the company can afford. This method is adopted

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#### Check Your Progress

Why does audit play an important role in sales management?

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by firms dealing in capital industrial goods.

- **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.
- **Competitors' Parity Method:** This method is adopted by large-sized companies facing tough competition. The knowledge of competitors' activities and resource allocation is important if an organization wants to pursue this method.
- **Objective and Task Method:** This method calls upon marketers to develop their budgets by identifying the objectives of sales function and then ascertaining the selling and related tasks to achieve the objectives.

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## 9.5 Preparing the Sales Budget

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The sales budget is the most important element of sales. There are three basic sales budgets, namely:

- Sales budget: This budget is kept for sales activities.
- Selling expense budget: This budget is basically designed for dealing with sales expenses.
- Sales department administrative budget: This budget is designed for expenses related to administrative purposes.

**The proforma of a sales budget is given in table no. 9.1 :**

### 9.5.1 Review and Analysis of the Marketing Environment

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/regional budget. In turn, these budgets are submitted to

**Table 9.1**

Items  Sales	Month 1			Month 2			Month 3		
	Budget	Actual	Difference	Budget	Actual	Difference	Budget	Actual	Difference
<b>Expenditure</b>									
Salaries									
Commission									
Bonus									
Medical Treatment									
Retirement									
<b>Travel</b>									
Lodging									
Food									
Entertainment									
<b>Office Expenses</b>									
Mail									
Telephones									
Miscellaneous									
<b>Promotion</b>									
Sample									
Catalogue									
Price List									
<b>Advertising</b>									
Control of Sales Operations									

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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 factors is undertaken before setting the budget. SLEPT factors are social, legal, economic political and technological factors that 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.

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## 9.6 Sales Control

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One of the most important responsibilities of a sales manager is to exercise control over sales and the performance of selling/sales activities. Sales need to be controlled both on an ongoing (continuous) basis as well as overall, periodically. The sales control function assists the manager in ascertaining which level of sales have been achieved, why there has been a variance and what remedial action can be taken to achieve the target results.

### 9.6.1 Purpose of Sales Control

Sales control assists the sales manager in:

- Initiating remedial steps
- Revising the sales policy and strategies followed
- Implementing steps for improving the productivity of sales force

- Improving the quality of target-setting sales plans and budget functions
- Increasing sales profitability

## 9.6.2 The Sales Control System

A sales control system should be set up on the following guidelines:

- Setting detailed objectives
- Establishing standards for appraising performance
- Gathering information on actual sales activities and results
- Comparing actual with expected sales
- Taking remedial action.

The existence of a comprehensive sales information system in the firm is a prerequisite for an effective sales control system. This can be done by recording sales by value, by customer, by salesperson, by territory, by distribution outlet, by cash or credit.

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## 9.7 Nature of Control

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The key role played by evaluation and control in the management process is depicted in the feedback-control system shown in the figure below. Company goals initiate the process by serving as the targets that guide the formulation of plans. Once designed, the plans need to be implemented to become part of the daily operations. The firm then needs to collect and organize information about its operations so that it can compare this data with its goals to determine how well it is doing. Such evaluation and comparison provide the control for the enterprise.

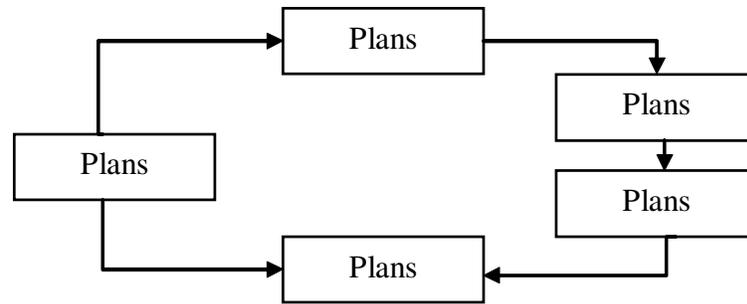
Comparison between budgeted and actual cost result in the analysis of factors causing variations and enables the sales manager to spot problem areas or plan better for expected outcomes.

### NOTES

#### Check Your Progress

What are the various and processes methods of sales control?

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**Figure 1. Control of the sales operation**

### 9.7.1 Methods of Sales Control

**Sales volume analysis :** This is a detailed examination of sales volume by territory, salesperson, customer, product line, etc., which is recommended in order to know the real situation and gain meaningful insight.

The sales manager scans the total sales on territory basis. Any unusual conditions in any territory such as intense competition, strike by labour union or transportation, etc., which has an adverse effect on the company's products, is considered for further sales analysis. In the above example, actual sales need to be compared with desired sales and the reasons for variations looked into.

**Cost Analysis Techniques :** A cost analysis attempts to isolate the costs incurred in producing various levels of sales in order to determine the segment-wise profitability of sales of the business. Cost analysis can be used by sales managers to investigate the profitability of regions, territories, customers and various channels of distribution.

*A successful cost analysis benefits the manager in ascertaining*

- The relative cost and profitability of the sales operation
- Profitable, not-so-profitable and not profitable territories
- The products, pack sizes, market segments, distribution channel

- The minimum order level quantity
- The productivity of salespersons
- The profitability of different sales promotion techniques
- The profitability of different marketing mix programmes

**Performance analysis :** This analysis is used to judge the performance of the sales representative based on five factors: role perception, aptitude, skill level, and motivation level, personal and organizational variables that affect performance. All these factors are linked to behavior, performance of the salesperson and the effectiveness in performing his duties. Behavior refers to what salespersons do. Performance is behavior evaluated in terms of contributions. Effectiveness is the outcome of the individual in the job he has to perform.

**Sales management audit :** A sales management audit is a comprehensive, systematic, independent and periodic audit of sales policy, objectives, strategies, organization and procedures followed by the firm. The purpose of a sales management audit is to evaluate the soundness of the sales management of the firm. It examines the validity of the very basis and assumption on which the sales function is planned and managed. By critically evaluating the sales management against the changing market environment, it points out the emerging areas of opportunity as well as areas that need observation.

***Some aspects covered in a sales management audit are:***

- The appropriateness of selling functions and objectives
- The role of selling function in promotional mix and sales marketing integration
- Organization and work norms of the sales force and its size
- Recruitment, selection, promotion policy, compensation motivation of the sales force
- The basis of sales quota, sales budget, territory allocation

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and their market suitability

- The quality of the sales force, appraisal criteria, training and development of sales personnel.

**Marketing audit :** The most thorough mechanism for evaluating the marketing effort is a marketing audit. A marketing audit is a complete, systematic, objective evaluation of the total marketing effort of a firm. Marketing audits examine the firm's goals, policies, organization, methods and procedures, and personnel.

The two basic types of marketing audits are vertical and horizontal. The horizontal audit is often referred to as a marketing mix audit in that it examines all the elements that go into the marketing mix. It emphasizes the relative importance of the various elements and the mix among them. In contrast, the vertical audit singles out selected elements of the marketing operation and subjects them to thorough study and evaluation.

**Sales report :** A sales report is an instrument of control and regulation of activities of a salesperson. A report can be a daily sales report or a weekly one. The salesperson fills the tasks and activities of the day in the sales report. This sales report is used by sales managers to evaluate the performance of the sales people, as well as compare the sales report with the budget and sales target set for the salesperson by the sales organization

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## 9.8 Summary

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Sales control is a function of sales management for ensuring that operations are carried out as per plan to achieve the sales objectives. The sales budget is a statement of revenues and costs. It is one of the control devices available with the management which also helps in sales planning. Thus budget and control complement each other in the implementation of the sales programme.

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## 9.9 Key Terms

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- **Budget:** A budget is a financial plan and tool of control. In a sales budget, resources are allocated to achieve the sales forecast.
- **Competitors' Parity Method:** This method is adopted by large-sized companies facing tough competition.
- **Affordable Method:** Many companies set the promotion budget at what they think the company can afford. This method is adopted by firms dealing in capital industrial goods.

### NOTES

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## 9.10 Questions and Exercises

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1. Why does audit play an important role in sales management?
2. What is the role of budget-setting in achieving the actual sales target?
3. Explain how sales control helps to monitor sales performance and maintain and improve the efficiency of sales operations.
4. What are the various and processes methods of sales control? Discuss.
5. What are the various budget-setting methods? Explain each in detail.

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## 9.11 Further Reading and References

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- "Sales Management" By V.Das, Gupta 3. "Marketing Management"  
By Philip Kotler
- "Skills for Sales Success" By Bachelor.
- "Selling and Sales Management" By Lancaster.
- "Management of Sales Force" By Ford, Churchill and Walker

*Sales Budgeting Approaches  
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# UNIT 10 : DISTRIBUTION

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10.3 Elements of Distribution & Cost Implications

10.4 Network Design

10.4.1 Direct Delivery

10.4.2 Distribution Centre Network

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10.4.4 Choosing a Network Configuration

10.5 Quality Control Monitoring

10.5.1 Supply tracking

10.5.2 Performance measurement

10.5.3 End user monitoring

10.6 Summary

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## 10.0 Unit Objectives

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After reading this unit you will be able to understand the concept of distribution in sales management, its elements and various steps in quality control and monitoring through the Distribution.

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## 10.1 Introduction

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The distribution chain or channel represents the movement of a product or service from the point of purchase to the time it is handed over to the final user/consumer. This may entail a chain of intermediaries passing the product down the chain within the organization before it finally reaches the consumer or end-user. Or it could be direct from the point of purchase to the end user. Each of the elements in these chains will have its own specific needs, which the producer must take into account, along with those of the all-important end user. Reliability of the distribution chain is critical.

In the humanitarian context, distribution is viewed from three perspectives:

- Movement of goods from the point of purchase or transfer of ownership (vendor to humanitarian organization) to the point of final use. This is common in sudden on-set emergencies where goods are often taken straight to end user. The internal distribution occurs at the point the commodity or goods are being handed over to the beneficiary;
- Movement of goods from one location within the organization to another location within the same organization. For example, from hub to hub, or hub to end user point; this is common when resources are being mobilized to strategic locations for onward movement to point of use as in the case of preparedness for an anticipated emergency; or,
- The point at which the goods are handed over by the organization to beneficiaries or partner organization. For example, WFP food distribution direct to beneficiaries or partner agency conducting the distribution exercise.

Some of the distribution activities embrace, materials handling, storage and warehousing, packaging, transportation etc. Distribution is sometimes referred to as the “final mile” and is a critical part of the supply chain. This is where the risk of loss and insecurity tends to be high, where communication is the most sporadic, where monitoring is most difficult, where costs require

close monitoring, and where the organization sometimes has less direct control but can integrate with the programme the more closely. This topic is intended to help develop an understanding of distribution and provides information that embraces all three perspectives above.

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## 10.2 Distribution Plan

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The distribution plan is normally part of general supply planning, but in this case the assumption is that the organization that you represent will be responsible for major portions of the distribution network. It should be emphasized that coordination, both internally and externally, is critical to a successful distribution plan. Generally speaking, partners (NGOs etc.) should follow the distribution plan the donors/main supplier (WFP, UNICEF, etc.) are using. Distribution planning should be adapted to the situation in the field and prepared accordingly taking into account the main drivers of distribution costs-security and access. With all these variables in mind, care needs to be exercised in coordinating and formulating the distribution plan for your organization within the broader situation and overall response.

The final over-all distribution plan should be easy to read and focused around a distribution table or spreadsheet representing the needs.

There are three levels of a distribution plan.

- The country plan will show the total for the country. The country may be divided into product destinations (whether provincial, regional or your organization's office responsible areas).
- The secondary level may take into consideration one province and split it into various EDP's. Extended-delivery point (EDP) refers to the point at which your organization actually physically hands over supplies to a counterpart (an NGO, an individual, or even the beneficiaries themselves).
- At the tertiary level the plan is drawn up by the counterpart, the entity on the ground facilitating distribution. This lists the names of the beneficiaries, or schools, or health posts that the items are

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### Check Your Progress

What is Distribution Plan?

destined for. This list reconciles the planned quantities with real beneficiaries, so that for each province, there is a plan one level down.

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### 10.3 Elements of Distribution & Cost Implications

Each step adds to the cost, and all add to total overhead. Following diagram represents the all associated elements of distribution and their cost implication.

Distribution, in addition to representing the highest value of the goods, also represents the most vulnerable point. This vulnerability may be due to lack of security, a difficult environment and/or lack of adequate monitoring. It is the most likely area for supplies to be diverted from the end user, and the most distant area from your organization's oversight. It is worth noting that there are significant human resources costs at every stage of the distribution process. Investing in staff can help to mitigate some of the vulnerabilities of the distribution process and it is better to initially overstaff at the beginning of a response to mitigate vulnerabilities as the response develops.

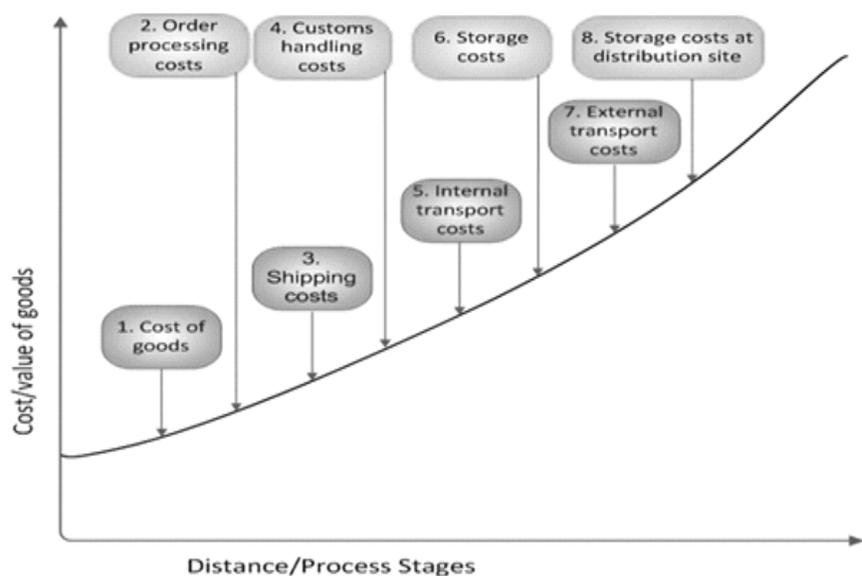


Diagram 1 : Distribution and Cost Implications, adapted from UNICEF In-Country Logistics Guide 2006

A good distribution plan is therefore not simply a document that indicates what has to go where and when, but a key document that allocates supplies, outlines the responsibility points for supplies, informs staffing requirements, and serves as the main justification for related expenditure, e.g. transport, warehousing. One of the main functions of distribution is to ensure goods reach the end point at the right price.

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## 10.4 Network Design

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### 10.4.1 Direct Delivery

When goods are delivered to a secondary point from a central point it is referred to as direct drop. Very often, goods need to be dropped by the same truck in different or multiple locations. The multiple locations are lumped together in clusters. This can be illustrated thus:

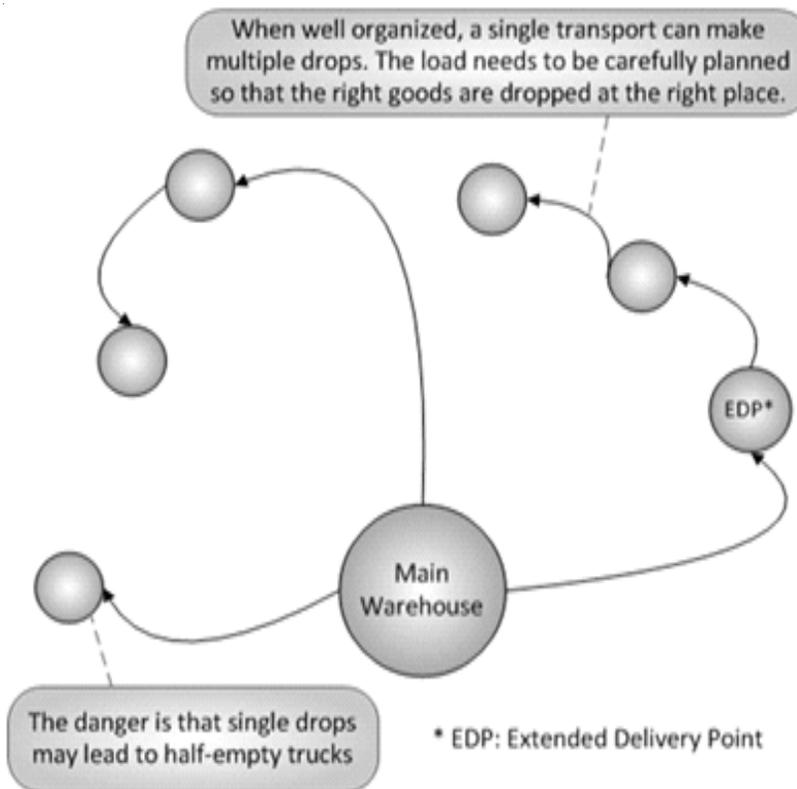


Diagram 2 - Direct Delivery, adapted from UNICEF In-Country Logistics Guide 2006

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### **The Characteristics of supplier distribution model**

#### *Key Elements of Distribution*

- At what point should handover occur?
- Final design of distribution plan
- End user distribution
- What happens and how does a humanitarian organization need to intervene in order to assist?
- Kitting & packaging

#### **Characteristics of direct deliveries from a single point**

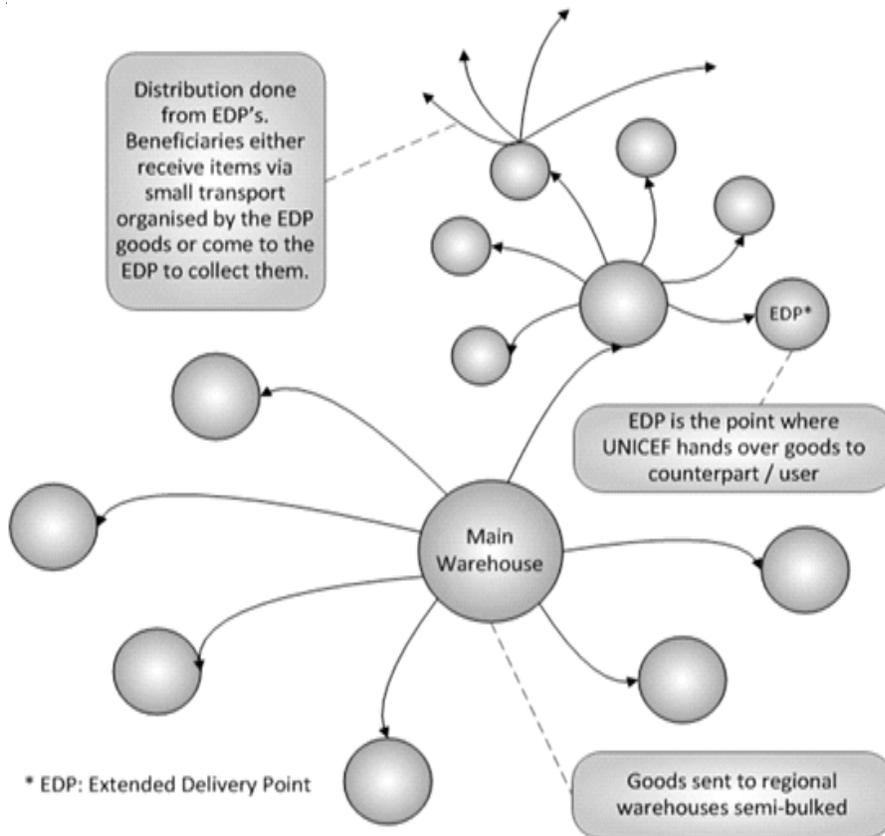
- Reduces number of storage facilities.
- All deliveries to individual EDP's are managed from a single point. But can be overwhelming if there are too many EDPs.
- Only one transport contract needed from the main warehousing point.
- High risk of less than a full truck loads going, especially when delivering to isolated areas.
- Higher risk of errors when loading/unloading, e.g. items ending up in the wrong place.
- Bulk goods need to be broken down into distribution-ready packages at the main warehouse. Breaking bulk earlier means that overall transport costs will increase exponentially with the number of EDP's directly served. This might be offset by the saving in warehouse structure.

This model is recommended for smaller distribution operations, where the number of EDP's is easy to handle, and where the geographical area is not large.

### **10.4.2 Distribution Centre Network**

This is sometimes referred to as the 'Hub-and-Spoke' model. The warehouses are in hubs, transport from the warehouses is represented by

the spokes. At the end of each spoke is the EDP. This can be illustrated as follows:



**Diagram 3 - Distribution Centre Network, adapted from UNICEF In-Country Logistics Guide 2006.**

### 10.4.3 Supplier Milk Run

The Supplier Milk Run sometimes referred to as the direct delivery from supplier's model. In this process the EDP's receive supplies directly from suppliers.

### 10.4.4 Choosing a Network Configuration

**Site Selection :** The number and location of distribution sites must be a compromise between the limitations and costs of the transport system and minimizing the distance which beneficiaries need to travel. Distributions can be carried out in established community centers

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(at local markets or meeting places), so that people who either live close by, or are in the habit of travelling to that place go. However there are additional security issues and impediments to logistics movements with these sites so care should be taken in the planning phase. Consider the distance that people will have to travel to distribution points, and the routes they need to take. It is a good idea to think about the “path of the beneficiaries” and think about every step they will take from entrance of the site until the exit.

*When choosing specific locations, consider the following factors:*

- Provision of shade, water and latrines for beneficiaries while queuing;
- Local transport and road system – whether access for vehicles carrying goods is likely to be blocked by beneficiaries travelling to the distribution point;
- Secure location for the beneficiaries;
- Evacuation route for staff, in case of security problems;
- Proximity to military or security establishments, or other sensitive areas;
- Logistics and program personnel should prepare the site together; and
- Organizing the distribution site from a logisticians perspective:
  - Coordinate with providers of the goods to be distributed. Delays in the initial delivery can create security issues later in the process
  - Ensure that the quantity of goods available on the day is enough to supply the needs of all those eligible. A perceived shortage could cause tension or a disturbance. Work with programs according to quantities in their distribution plans;

- The distribution must be carried out in an efficient and organized manner. Try to minimize the amount of time which beneficiaries will need to spend queuing – consider what the cost of that time will be to the beneficiaries;
- A distribution site should be divided into a registration area, where beneficiaries report and are checked against names on a list. This is for ease of accounting for supplies issued out;
- The actual distribution zone should be adjacent to the registration site but with controlled access, so that only registered people line up for distribution. This may well require a substantial crowd control element as well as barriers (make use of ropes, trucks, available walls, insides of buildings);
- Where possible, have the labour force that unloaded the trucks to double as security, to prevent unauthorized access and possible swarming and looting of the goods. An incentive may need to be given for this work;
- Spend time at the beginning organizing your site; and
- Spend time days in advance to streamline and verify your beneficiary list. Ensure that enquiries are directed at registration staff, not at distributors. Tension will occur when there are people not on the list, or if the list is done poorly, or when there is a delay in the smooth flow of people through the distribution site.

Advance work minimizes this tension and is the cornerstone of successful distribution. It is amateur distribution that results in the TV images of people rushing the open backs of trucks and being thrown goods.

Information on direct distribution adapted from Oxfam guidelines.

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**Distribution Staff :** The relationship between beneficiaries and distribution staff is a potential source of tension, corruption and abuse. Staff should be selected objectively and should be clear about the standards expected of them. Distribution staff must be subject to stringent monitoring. They should sign for receipt of the goods to be distributed, and should be held accountable for any losses. If tokens are being used, then the quantity of tokens received by staff should be monitored to check that it corresponds to the amount of food distributed. The token system is a distribution method where beneficiaries in a list are registered, the name crossed off, and a token issued. The goods are exchanged for this token.

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## 10.5 Quality Control Monitoring

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There are three major elements of monitoring, in terms of distribution and providing added value in terms of programme success.

### 10.5.1 Supply tracking

There are a number of supply tracking programmes in use across the humanitarian community, along with the paper-based system included in this guide. They are an essential element for:

- Donor Reporting;
- Programme Management, Enabling Programme Staff To Check Progress Of Supplies;
- Logistics Management, Enabling Logistics Staff To Manage The Supply Chain And Coordinate Activities More Effectively; And
- Accountability, a System for Leaving an Audit Trail.

### 10.5.2 Performance measurement

Both in terms of logistics performance against logistics targets, and as a measure of logistics contribution to programme success, the basic

#### Check Your Progress

What is Supply Tracking ?

performance measures for logistics are:

- speed or timeliness measures
- cost measures
- compliance measures
- quality measures

Measures require clear information, which should not be too difficult to acquire. Clear responsibilities for obtaining and holding data must be assigned and the logistics system must be designed in such a way as to enable data to be created. Measures should reflect the strategy of the logistics organization, and the goals of the programme. Some examples of measures are given below.

- Reliability of delivery (items delivered against items committed to be delivered);
- Inventory accuracy (number of errors in records as a percentage of total);
- Vehicle utilization (number of full loads as a percentage of total loads);
- Logistics cost (as a percentage of total value of program materials (pgms) handled by logistics); and
- Quality of delivery (loads with loss/damage as a percentage of total loads delivered).

Different measures target activities that have been assigned the most importance by both logistics and programme sections. If cost is the overriding factor due to budget cuts, focus on cost. If quality of delivery has become the biggest issue, focus on quality measures. Be prepared to review your measure annually, and to readjust them to focus on the changing strategic priorities of the programme.

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### **10.5.3 End user monitoring**

Aiming to improve programme/supply planning for the next distribution cycle by providing feedback on quality, efficiency and impact of supply component of programs. This is done by doing the following :

- Assess quality, effectiveness and appropriateness of supplies;
- Assess timeliness of delivery;
- Assess whether and how supplies are being used;
- Assess durability and suitability of the supplies;
- Determine the impact of a product on their users;
- Determine whether an input should continue, be amended or stopped;
- Check logistics chain (breaks, lead time).

Most of these activities are programme follow-up responsibilities. However, logistics staff can assist in providing up-to-date distribution information, and submitting relevant performance measures (such as reporting supplies easily damaged during transit). Carefully ascertaining product suitability and the impact on the product users requires choosing a number of strategic products and then making investigations within the beneficiary community, while ensuring that a wide sample coverage is used. It is a good idea to focus on products that have a high value, are appearing in markets on a regular basis, or are new products (or new suppliers providing a similar product). These evaluations should be designed and executed with programme sections, but can be initiated and driven by supply/ logistics staff.

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### **10.6 Summary**

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The distribution system represents the intermediaries passing the final product in the market for final consumers. It basically includes various

decisions such as distribution plan, elements of distribution, their cost implications and delivery system.

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## 10.7 Key Terms

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- **Direct Delivery:** When goods are delivered to a secondary point from a central point it is referred to as direct drop.
- **End user monitoring:** Aiming to improve programme/supply planning for the next distribution cycle by providing feedback on quality, efficiency and impact of supply component of programs.

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## 10.8 Question and Exercises

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1. What do you understand by Distribution System?
2. Discuss the various elements of Distribution Network?
3. Define the steps involved in Quality Control Monitoring?

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## 10.9 Further Reading and References

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## NOTES

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# UNIT 11 : WAREHOUSING AND INVENTORY MANAGEMENT

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*Warehousing and Inventory Management*

## NOTES

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- 11.1 Introduction
- 11.2 Definition
- 11.3 Global Warehouses
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- 11.5 Policies and Procedures
- 11.6 Types of Warehouse Space
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## 11.0 Unit Objectives

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After studying this unit, you will be able to understand the meaning and concept of warehousing along with its policies and procedures and storage requirements.

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## **11.1 Introduction**

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A warehouse is a commercial building for storage of goods. Warehouses are used by manufacturers, importers, exporters, wholesalers, transport businesses, customs, etc. They are usually large plain buildings in industrial areas of cities, towns and villages.

They usually have loading docks to load and unload goods from trucks. Sometimes warehouses are designed for the loading and unloading of goods directly from railways, airports, or seaports. They often have cranes and forklifts for moving goods, which are usually placed on ISO standard pallets loaded into pallet racks. Stored goods can include any raw materials, packing materials, spare parts, components, or finished goods associated with agriculture, manufacturing and production. In Indian English a warehouse may be referred to as a godown

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## **11.2 Definition**

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According to American Marketing Association, “A physical facility used primarily for the storage of goods held in anticipation of sale or transfer within the marketing channel”.

A simple world, a warehouse is a planned space for the storage and handling of goods and material.’ (Fritz Institute) In general, warehouses are focal points for product and information flow between sources of supply and beneficiaries. However, in humanitarian supply chains, warehouses vary greatly in terms of their role and their characteristics.

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## **11.3 Global Warehouses**

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The global warehousing concept has gained popularity over the last decade as stock pre-positioning becomes one of the strategies for ensuring a timely response to emergencies. They are usually purpose built or purpose designed facilities operated by permanent staff that has been

trained in all the skills necessary to run an efficient facility or utilizing third party logistics (3PL) staff and facilities. For such operations, organizations use, information systems that are computer based, with sophisticated software to help in the planning and management of the warehouse. The operating situation is relatively stable and management attention is focused on the efficient and cost effective running of the warehouse operation. Numerous organizations have centralized pre-positioning units strategically located globally. Some of these offer extended services to other humanitarian organizations on a cost plus operating charges basis. The United Nations Humanitarian Response Depot (UNHRD) Network.

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## 11.4 Field Warehouses

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Field Warehouses are usually temporary in nature. They may be housed in a buildings which was not designed to be used as a warehouse, in a temporary building/structures, and are often in mobile units (rub halls, Wiikhalls) that are little more than a tent in a field. The initial staff may be a casual workforce that has never worked in a warehouse before and the inventory system is more likely to be paper based. Often the situation is initially chaotic, sometimes dangerous and coupled with a humanitarian need which may be very urgent. The management style must therefore be practical and action oriented with a focus on making the humanitarian goods available as quickly and efficiently as possible, while being accountable at the same time.

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## 11.5 Policies and Procedures

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**Policies :** The policies contain hard and fast rules and regulations that define the general conduct of the warehouse operation. Examples of the types of policies that organizations will define are as follows:

- Organizational specific warehouse management policy and procedures guideline outline

### NOTES

#### Check Your Progress

What do you mean by warehousing?

**NOTES**

- Health and safety
- Human resources management
- Security
- Pest control
- Warehouse maintenance and cleaning
- Quality control
- Record keeping and reporting
- Reverse logistics – Return of goods and exit strategy in the event of downscaling or shutting down operations
- Disposal of obsolete and damaged goods.

**Procedures :** The procedures' document defines step by step how the activities in the warehouse should be carried out and clearly defines the processes to be adopted. These can be adopted as 'best practice'.

The procedures provide visibility of the operations for managers and donors. However, in creating such procedures, care must be taken to avoid constraining the use of local initiative which might be required to deal with local conditions. Procedures should be considered as streamlining the business processes and providing checks and balances. They provide guidance to warehouse managers and must have some level of flexibility to cater to unique situations. This can be achieved by limiting the level of detail that the procedures document defines, allowing more flexibility and/or by arranging 'dispensations' to allow departure from the procedures in order to optimize local performance, especially in emergencies.

The procedures will normally provide the step by step guidance on how to manage each aspect of warehousing and may cover:

- Receiving and issuing of supplies;
- Quality control or verification;
- Storage of goods;
- How to control stock movement (stock control);

- Documentation flow;
- How to detect and deal with stock losses;
- How rejected material will be managed; and
- How to deal with unwanted material, obsolete and scrap, disposal.

**NOTES**

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## **11.6 Types of Warehouse Space**

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- Commercial: in rented building used for business.
- Government or state: such as at the ports or harbors. This is common in emergency situations.
- Transit: for temporary storage of goods destined for different locations and need storage for a very short time.
- Bonded warehouses: for storage of goods whose duty is unpaid and especially where the goods are destined to another country. Pre-positioned stock is often held in bonded warehouses so that export is quick and can sometimes be stored for long periods.
- Open storage: not ideal for perishable products but in emergencies, sometimes the only alternative.
- Space that is owned and managed by the organization.
- Pre-fabricated warehouses where there are no permanent structures available. This is common practice in emergencies.

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## **11.7 Basic Principles of Warehouse and Inventory Management**

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### Basic Principles of Warehouse and Inventory Management

- Planning inbound receipt procedures.
- Storage formalities e.g.:location management; inventory control; occupational health and safety
- Outbound delivery procedures.

**NOTES**

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## **11. 8 How to Select and Set-Up a Warehouse**

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**Determining Needs :** In determining needs, one should look beyond the basic need of a warehouse to store things. Whilst, this is correct there are also other considerations.

- The volume of goods;
- Speed of through-put required;
- As a transit point;
- Breaking bulk location;
- An area for sorting and consolidating different goods;
- To enhance the speed of the response;
- To protect and account for inventor; and
- As a buffer in the event of a break-down or delay in the supply pipeline.

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## **11.9 Determining Storage Requirements**

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**Selecting a Suitable Location :** There are a range of factors to consider when deciding on the location of a new warehouse facility and these may vary depending on whether you are selecting a location for a temporary building or selecting from one of a number of existing buildings.

These may include:

- Proximity to ports of entry and beneficiaries
- Existing buildings
- Security
- The context
- Site condition
- Access
- Services
- Land size available
- Purpose of warehouse

- Previous use of the facility
- Floor weight
- Access to labour

**Warehouse Selection :** Factors to consider :

- Nature and characteristics of goods to be stored;
- Nature of handling equipment available;
- Duration of storage needed i.e. Short term or long term;
- The need for other activities, e.g. Repackaging, labelling, kitting, etc.;
- Access and parking for vehicles;
- Number of loading docks required; and
- Secure compound.

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## **11.10 Warehouse Preparation Planning**

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**Space layout :** The areas that should be planned are both the general storage areas and the areas for goods receipt, consignment picking and goods dispatch. It is also desirable that space should be set aside for the following activities:

- Equipment maintenance and parking;
- Charging of equipment batteries such as pallet trucks;
- Refueling of trucks;
- An area for garbage disposal e.g. Empty packaging;
- A quarantine area for keeping rejected goods, goods to be sent back or destroyed;
- An employee rest area;
- Washroom; and
- An administration office.

**Planning :** It is worth keeping these requirements in mind during the planning of the main operating areas. Planning consideration needs to be given to the following:

### **NOTES**

## NOTES

- Allocate space for each type of product and locating number;
- Allow sufficient space for easy access to the stacks for inspecting, loading and unloading. Stacks should be one meter from the walls and another meter between stacks;
- Sizing the goods receipt and dispatch area;
- Allow space for storage of cleaning materials and supplies;
- Allocate areas for damaged items by consignment number;
- Allow sufficient space to repackage damaged items and place it in separate stacks;
- Sufficient free space is needed to operate a warehouse effectively. When planning the size of a warehouse consider:
  - Throughput rate
  - Number of stock keeping units (SKU)
  - Handling characteristics of items, etc.

**Space utilization and handling :** The diagram shown below represents the process of space utilization. As shown in the diagram the warehouse operation is composed of four key work activities:

- Goods receipt
- Storage
- Picking
- Goods dispatch

To estimate the resource requirement for the whole warehouse, one should start by estimating the requirements for each of the key work activities in turn and the level of demand. Then, the resource requirements for all activities should be combined together, taking into account the way that the activities are phased during the working day, in order to make an estimate of the total resources required.

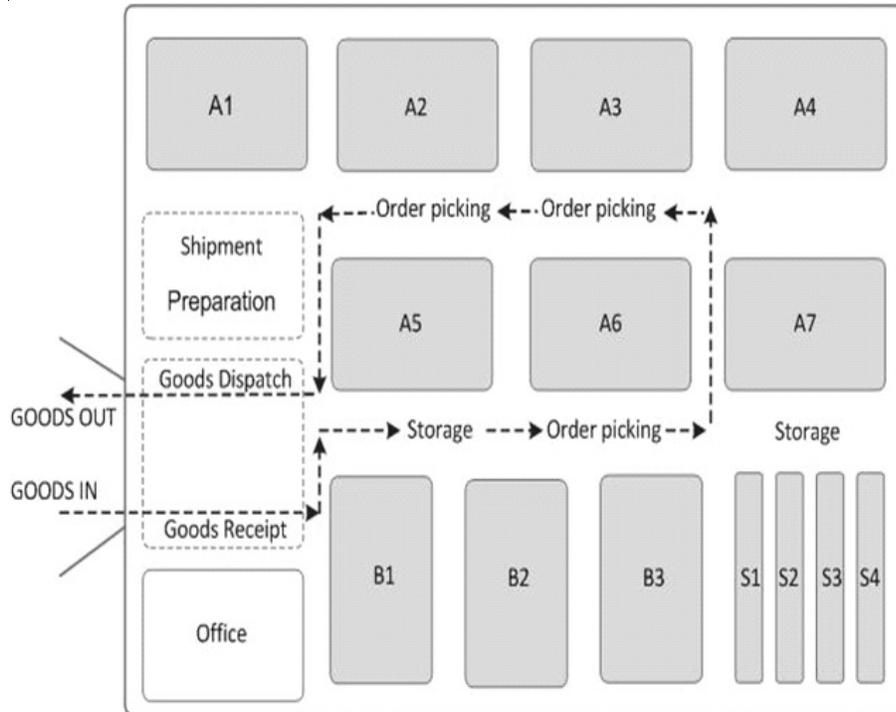
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## 11.11 Aspects to consider when managing Warehouse Operations

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- Planning the workload

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Key:  
A1 to A7 - Household and shelter materials  
B1 to B3 - Medical Equipment  
S1 to S4 - Camp Supplies

**Figure 11.1 Warehouse Operation Mapping**

- Allocating resources
- Space utilization & handling, (see the diagram above):
- Receiving goods;
- Storing goods.
- Assembling consignments
- Dispatching consignments
- Disposal of goods
- Pest control
- Security
- Inventory management
- Handling and stacking techniques
- Occupational health and safety

**NOTES**

**Check Your Progress**

Discuss the various kind of resources requirements?

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## 11.12 Resource Requirements

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In addition to the work methods, equipment and space requirements it is essential that the warehouse is adequately resourced. This is done by planning or estimating the requirements for people and equipment in order to operate the warehouse facility.

There is a trade-off to be made between the people and handling equipment requirements for any given workload. In global warehouse operations, which are run like commercial operations, the focus is on minimizing the cost of running the operation. In this situation, it is often better to invest in handling equipment and reduce the dependence on people resources.

However, in field operations, many humanitarian organizations prefer to hire local labor which provides employment instead of relying on handling equipment. The requirement for the total amount of resources required will be determined by the amount of goods flowing into and out of the warehouse, as shown in the diagram below.

**Basic Warehouse Equipment :** Various types of equipment are required to ensure the smooth execution of work in a warehouse. All equipment should be properly stored when not in use and a regular maintenance schedule posted. Warehouse staff should be trained in standard daily maintenance practices and the correct use of equipment. Where necessary, they should be equipped with personal safety equipment such as work gloves, work boots, goggles, etc.

***Required equipment may include***

- Sufficient quantities of standard forms, calculators and stationery to keep proper storage records;
- Small tools for opening cases, such as hammers, pliers, crowbars, steel cutters;
- Tools and materials for store repair and simple maintenance;

- Supplies for reconditioning damaged packaging, such as bags, needles, twine, oil containers, stitching machine, strapping machine, adhesive tape and small containers or cartons;
- A sampling spear for inspecting foodstuffs;
- Scales for weighing goods;
- Standard wooden pallets in sufficient numbers – ideally international;
- Standardization organization’s “euro” type (120 × 80cm);
- Two-wheel hand trolleys for moving supplies within the warehouse;
- A pallet-jack to move pallets;
- A forklift where pallets are to be loaded and offloaded from trucks;
- Brooms, dust pans, brushes, shovels, sieves, refuse bins for cleaning and disposing of collected waste;
- First aid kits, flashlights, fire extinguishers and other fire-fighting equipment both inside and outside the warehouse;
- Weighing scales; and
- Ladders.

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## **11.13 Legal Considerations**

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**Leasing Temporary Warehouses/Contracting :** The common practice in emergencies is to lease or rent, not purchase warehouses. In this situation, there is often a shortage of suitable buildings or locations for warehouse space and this can often cause the costs to increase significantly. Therefore, it is often necessary to utilize temporary warehouse space for as short a time a possible.

Care must be taken with the drawing up of the lease agreement (See Warehouse Rental Contract sample) with the owner. The following items are basic inclusions and in a lease

## NOTES

agreement:

- The cost for the lease;
- The duration of the lease agreement;
- Exit clause: the period of notice required for terminating or extending the lease period. Confirmation of the existence of property insurance, covering third-party, fire, water damage, window breakage, etc. ;
- Details of any security arrangements;
- A detailed inventory of any equipment, fixtures and fitting included with the building and detailed description of their condition;
- Confirmation of either sole tenancy or details of other tenants;
- Information about the ground or floor strength per square meter;
- The weight capacity of any equipment such as forklifts, racks and shelves;
- In situations where neutrality is important, care must be taken to establish the actual owner of the building, which might be different from the 'lessor' of the building e.g. The military, religious groups or government;
- Force majeure;
- Indemnity; and
- Insurance.

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## 11.14 Summary

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The warehouse is a key component of the supply chain in emergencies. It buffers uncertainties and breakdowns that may occur in the supply chain. When properly managed and appropriately stocked a warehouse provides a consistent supply of material when it is needed.

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## 11.15 Key Terms

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- **Warehousing:** A physical facility used primarily for the storage of goods held in anticipation of sale or transfer within the marketing channel  
Forklift
- **Global warehouses:** They are usually purpose built or purpose designed facilities operated by permanent staff that has been trained in all the skills necessary to run an efficient facility or utilizing third party logistics (3PL) staff and facilities. Goods receipt
- **Reverse logistics:** Return of goods and exit strategy in the event of downscaling or shutting down operations

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## 11.16 Question and Exercises

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1. What do you mean by warehousing?
2. Describe the various types of warehouse spaces
3. What are the aspects to be considered in managing the warehouse operations?
4. Discuss the various kind of resources requirements.

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## 11.17 Further Reading and References

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## NOTES