Graduate/Postgraduate Diploma in Marketing
Intermediate Level

Recommended Study Text

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Chapter 1
Sales Management Function of an Organisation

This chapter will cover the following areas
1. Sales Management as a Marketing Function
2. Selling vs. Sales Management
3. The Managerial, Administrative and Planning Functions of Sales
4. The Functional Activities of Sales
5. Different Job Functions in a Sales Organizations
6. The Relationship between Marketing and Sales

1. Sales Management as a Marketing Function

Sales management concentrates on the administration of the personal selling function of the marketing mix. This consist of the planning, management, and control of sales programs as well as the recruiting, selecting, training, developing, compensating, motivating and appraising of sales personnel.

"Sales management: The attainment of sales force goals in an effective and efficient manner through planning, staffing, training, directing, and evaluating organizational resources."

- Charles M. Futrell, “Fundamentals of Selling”
To be more effective, sales management requires ongoing involvement with the sales force. Effective sales management has number of benefits. It can increase sales revenue and profitability and decrease variability of revenue due to inaccurate forecasting. Further, it can increase salesperson motivation, sales productivity (revenue per salesperson) and customer satisfaction and loyalty.

2. Selling vs. Sales Management

Marketing programs are planned around four component of marketing mix: Product, Price, Promotion and Place. Promotion part comprises of the marketing communications tools, which are classified as personal selling, advertising, sales promotion, and public relations. Personal selling is defined as personal communication with the customers or prospects through sales persons or staff of an organization. Sales management is simply the management of an organization’s personal selling function.

Advertising and sales promotions are non-personal communications, but in personal selling sales persons communicate directly to customers. Advertising and sales promotion pull products through the channel whereas personal selling is used to push the products through the channel.

Unlike advertising and sales promotions, personal selling can be directed to qualified prospects, but most of advertising and sales promotions are wasted because many people in the audience do not have the need for the product. Advantage of personal selling is that it is significantly more effective than sales promotion, public relations and advertising and in identifying opportunities to create value for the customer and to gain customer loyalty.

Direct selling is just one of the whole range of options available to go to market, but having an effective sales force could be a definite advantage for any organization. Companies invest large sums of money on sales force, costing anywhere from one to forty percent of the sales. Large companies spend millions on hundreds of direct sales people. In business-to-business markets, large part of sales and marketing budget is spent in terms of salaries, bonuses, commissions and expenses of the sales staff.

Primary objective of the sales force is to identify, secure and service customers. The sales force is one of the most important assets of any company because they are in very close relationship with the most important asset of any organization which is the customer. A motivated, well-trained sales force creates more sales than less motivated, untrained sales force. The sales force is one of the most empowered set of people in an organization. Size of the sale force depends on the number of customers a company wants to reach. Sales force is the most productive and most expensive asset of any organization. Increasing sales force would increase both cost and sales.
The sales force sells a company’s product to existing and new customers. A salesperson is traditionally visualized as a person who visits customers or potential buyers in a particular territory, demonstrating the company’s product. Today’s sales forces are much more complex.

Companies use multiple sales channels to sell their products that include physical products, services and solutions. Further, they are integrated with other customer contact units such as customer services, contracts, customer finance and collections.

The role of the sales person is to create, manage, deepen and entrench the relationship between the company and the customer.

Sales force or sales organization plays an important role in the growth, development, profitability of most businesses. Mostly, Sales organization is a small part of the organization in form of a department or division, but it is an important part, which should be developed and motivated to carry out its functions within the organization and in the external market place. Often Sales force is responsible for identifying the special needs of the customer. Sales force is also responsible for providing appropriate explanations for customers’ question and concerns.

The sales Manager is there to coach and mentor the sales person to help them reach their goals and stretch targets. Not by doing it for them while they watch, but by critiquing and improving their performance and helping them stay focused, committed, on-target, well-planned, clear and articulate.

Sales Manager is responsible for management of the field staff’s sales operation. Sales Manager may be the first line Manager who is directly responsible for the everyday management of salespeople, or may be positioned at a higher level in the management hierarchy, accountable for directing the activities of other Managers.

Sales Managers are involved in planning, implementation, evaluating and controlling all personal selling activities. They are responsible for achieving or exceeding the expected performance goals for the given period and developing the people working under them. Sales Managers must be able to deal effectively with people in the personal selling function, people in other functional areas of the organizations and with people outside the organization, especially customers. The major stages in the sales management process are illustrated in the following figure.
3. The Managerial, Administrative and the Planning Functions of Sales

The functional activities undertaken by the sales departments can be categorized into one of the three categories of management, administration or planning.

Management activities comprises of functional activities that keep the business running day to day. Administration activities comprises of those activities that actually examines the past sales. Planning activities comprises of those sales management activities that are focused on planning for and obtaining future business.

Sales Management activities comprises of activities such as:

- Meeting sales targets in volume and value.
- Meeting distribution goals.
- Product display/merchandising.
- Call (outlet) coverage.
- Recruiting and selecting the sales force.
♦ Training of sales persons.
♦ Giving of feedback to sales persons.
♦ Trade terms.
  - financial terms of trade.
  - warranties and sale conditions.
  - order size and delivery.
♦ Appraising performance.

Sales Administrative activities comprises of activities such as:

♦ Credit control.
♦ Debt collection.
♦ Customer service and care.
♦ Order processing.
♦ Sales force records maintenance.
♦ Activity and customer response.

Sales planning activities comprises of activities such as:

♦ Sales forecasting
♦ Pricing policies and profit planning
♦ Sales promotions and competitions
♦ Sales force rewards and incentives
♦ Management training

4. The Functional Activities of Sales

4.1 Achieving Functions Related to the Sales

A sales Manager is responsible for achieving the given sales targets. A company’s sales budgeting is based on the sales forecasts. Failing to meet the sales target will have a series of effects on the company’s income and on its ability to meet its expenses.

4.2 Distribution Logistics

Sale can often be increased by increasing distribution. A well managed distribution does not only increases sales but also increase product offtake or usage by the existing customers.

4.3 Merchandising

Most of the consumer goods company contract the merchandising to specialist companies that provide merchandising service to a number of suppliers. Some companies use their
own sales force to carry out the merchandising function. Merchandising function is used for consumer products and for some industrial products, distributed through trade stockists, where off take is a factor of display.

4.4 Sales Recruitment

To form a successful sales force it’s important to select effective sales persons. Sales Manager is responsible for identifying and training suitable people for the selling position. Most customers like salesman who are honest, reliable, knowledgeable and helpful. These traits could help the selection of the salesmen. After identifying the relevant qualities and skills needed by the salesperson, it could be used to produce a clear job description and specification.

4.5 Sales Training

Once recruited, salespersons should be given training in order to make them more effective. There are three levels of training: Firstly, the sales person is oriented with product and industry knowledge and fundamental selling skills. Secondly, he/she is given ongoing field sales training. Thirdly, supportive training is provided at sales meeting and conferences.

4.6 Performance Measurement

The sales Manager should communicate to the sales persons what they should be doing and they should motivate them to do it. Performance measurement helps sales Manager to accomplish this. In performance evaluation process, firstly the standards are set. Standards can be based on the profitability, sales volume, sales value etc. Secondly, the information is gathered on the performance of the sales persons. Thirdly the gathered information is compared with the set standard. Fourthly, feedback is given to the sales person. Further, the result obtained from the performance evaluation can be used to motivate the employee performance. For example, if the sales person had exceeded the set standard, he could be motivated by rewards such as commission, bonus etc. Performance measure obtained in this manner is often broken down based on distinct categories and when possible compared with similar external data of other similar companies.

4.7 Credit Control and Collection of Payments

Finance department is often partly responsible for credit control and the collection of payment. However, sales force is often given that responsibility of collecting overdue payment. This is justifiable, since they select the customer and advice on customer’s creditworthiness. In Sri Lanka, it is usually a practice of the sales person to collect payment while calling on customers. This is not recommended because it distracts the sales person from focusing on his primary objective, which is selling. In a more developed market, direct bank to bank transfer or cheques are used to pay for the goods
dispatched. When the customer delays the payments, a polite reminder is sent. If the customer does not respond, the sales person may be requested to collect the debt.

4.8 Customer Service

Most of the modern companies have realised the importance of good customer service. They strive to satisfy their customers by exceeding the customers’ expectations, by providing better service. Customer service includes a wide range of activities such as providing product information, answering questions or queries, taking orders, billing and complaint handling and providing after sales service and technical support, usually without a charge or at a low cost.

4.9 Record Management

Sales persons should have information regarding customers as well as his/her own activities such as call schedules, calls made, the results of calls, sales objectives for each customer, etc. Most companies have an automated customer record system that is used by sales persons to record customer details, sales, call schedules, calls made etc. Modern companies are strengthening their salespeople with sales automation equipment (Computers, PDAs, etc) and software. These systems allow salespeople to research the customer prior to the visit, answer questions on the visit, and record important information after the visit. Salespeople can retrieve product information, pricing information, customer buying history, preferred payment terms, and other data to facilitate effective performance.

4.10 Sales Forecasting

Sale Manager contribute to this, partly a marketing function, by providing information in relation to sales volume, sales value, distribution and display objective and setting budget.

4.11 Supporting Sales Promotions

In order to achieve strategic objectives such as increasing distribution, display, and user/consumer trials, the marketing department might start may tactical promotional activities. Some promotional activities, aimed at improving performance, might be under the control of the sales Manager, such as sales force incentives and competitions.

5. Different Job Functions in Sales Organizations

5.1 Head of Sales – Sales Directors/Sales Manager

A sales Manager organises sales strategies across a wide geographical area and is head of the sales organization. he participates making critical decisions at the top management level. Sales Manager is responsible for:

♦ Recruiting, selecting and training all subordinate Managers and sales persons.
♦ Organizing to achieve company plans and objectives by designing and developing a sales organization and structure in a manner which is suited to the company, industry and markets.

♦ Identifying, setting, and achieving sales objectives, targets, budgets and profit plans.

♦ Communicating plans, programmes, policies, and performance feedback to sales force and customers when necessary

♦ Developing programmes, allocating the sub-territories to be covered and assigning sales force priorities in line with objectives and plans

♦ Setting standards of performance, sales targets, and creating programmes for subordinate functions and Managers based on overall plans and objectives. In the process, it should be made sure that each person is allocated a fair share based on past performance and potential.

♦ Setting prices, scale discounts and allowances, promotional allowances, etc.

♦ Assisting with the test marketing of new products

♦ Building good relationship with other department in the organization

♦ Setting up monitoring systems to monitor sales performance at all levels of the organization and for all trade sectors, including systems for benchmarking company performance versus competitors' performance and trade/customer expectation

♦ Monitoring the work of sales reps, and motivating and encouraging them through motivational reward and incentive packages,

♦ Compiling and analysing sales figures and forecasting potential sales volumes and prices.

♦ Collect feedback from customers and compile market research information.

♦ Write reports for head office or give presentations to groups of colleagues.

♦ Organise sales conferences to introduce new products to sales reps and other colleagues.

♦ Deal with major customers on a personal basis.

♦ Attend meetings, conferences, and trade fairs.

♦ Set up and staff the company’s stand at national or international trade fairs.

♦ Developing a head office sales support organization, which may comprise of operational planning and forecasting, sales recruitment and sales training, sales performance monitoring and performance feedback reporting, sales promotions department, customer service departments, order processing departments, tele-sales departments, product distribution, production scheduling etc.

5.2 Field Sales Manager, Assistant Manager, Executives

The responsibility of the field sales Manager is implementing the marketing programme. Larger companies may have a group of field sales Managers, called Area Managers or District Managers, who lead smaller teams of six to ten sales persons. Field sales Manager liaises between head office departments and field personnel. He communicates
effectively with the sales people through regular sales meetings and bulletins and advises superiors on market intelligence, competitive products, promotions, terms of trade.

The effective field sales Manager will work to achieve his or her goals and maximize sales team performance by ensuring that he or she is well briefed on company policies, objectives and activities and by placing subordinates first in his or her priorities.

He plans and monitors call coverage to optimize effective frequency of calling in relation to potential. He implements field programmes supporting company marketing plans.

The field sales Manager liaises with sales persons and superiors in setting sales performance targets, objectives, standards of performance, etc. by territory and achieves them with and through the team.

He selects, trains, manages, motivates and controls his or her sales team and uses training, counselling and feedback to maximize the sales effort. He interprets and filters company policies and exercises control and maintains team discipline.

Field sales Managers should motivate their team to ensures that his or her sales team achieves high job satisfaction through job content, team spirit and membership, management, monetary and non-monetary rewards, recognition of achievements, quality of products sold and the company as a good employer.

5.3 Key Account Managers

Key account Manager has the responsibility of managing the company's business and relations with major customers. He/she is held responsible for achieving sales volume, profit, brand/package mix, and market share objectives for the assigned account and at the same time to ensure that all business is conducted in line with company policy.

Sales Director and marketing departments and Key Account Manager coordinate in setting customer targets/forecasts, which would be broken down by product and branch or location (depending on whether the supplier is offering industrial inputs or products for resale through trade distribution channels). The Key Account Manager is responsible for the implementation of the company's sales and marketing programme at the key account level.

Buyer and key account Manager coordinates and agree on the annual sales volume forecasts, and negotiate any ongoing supply contracts. The Key Account Manager is responsible for advising on setting terms of trade for each key account, and then manages the business to these trade terms. He is also responsible for conducting negotiations on products (standard products or special production runs such as customized industrial products or private label retail products), quantities, prices, promotions, special offers, etc.
He manages the accounts (orders and revenue), recommending credit limits, resolving account queries to ensure prompt payment, effectively communicating special terms and deals.

He is responsible for negotiating special distribution requirements and for monitoring key account profit performance and achieves satisfactory profit contributions from accounts. He recommends key account special promotional activity to senior Managers and reports market intelligence concerning the key account's own strategies and performance, and that of competitors with the account.

Networking within major accounts is normally critical to successful business development; therefore Key Account Managers should develop relationships with other key account personnel influential in the buying process (e.g. users, specifiers, budget controllers, other authorizers, etc.) Internally he should maintain a good rapport with all departments and colleagues involved in supplying or servicing the key account.

Key account Manager monitors performance of the key account in terms of sales volumes, turnover, profitability, usage/distribution, and any other relevant criteria, comparing performance with plans agreed with the account head office buying team, giving breakdowns for branches/subsidiaries, providing feedback and promoting corrective action to counter any deviations from plans.

5.4 Salesman

The salesman is a person who comes into direct contact with the customer and serves as the interface between the company and the customer. A salesperson agrees with his or her field sales Manager the individual customer and territory objectives, targets and programmes, breaking down the larger territory target by product and customer, for each measured time period or journey cycle.

Typically they persuade customers to buy their products/services. Sales person discuss prices, after-sales customer service, guarantees and delivery schedules with customers. They identify new customers and ensure the loyalty of existing customers. They note customers' reactions to new products and forecast future trends. The information gathered is relayed back to their employer.

Sales person is responsible for developing a professional rapport and business relationship with all buyers and influential contacts. He maintains planned call coverage and develops a programme of prospecting/pioneer calling to identify new worthwhile customers on the assigned territory.
The sales person should identify new product and new prospect opportunities. He is responsible for maintaining full and accurate customer call records. Salesperson avoids out-of-stock situations, checking stock in all outlets, and sells in product to satisfy demand and off take. He achieves maximum levels of sales and distribution in current and potential outlets. Sales person achieves optimum levels of product display for retailed products in all appropriate outlets.

Sales person motivates and trains customer staff to promote company brands against competition, giving them guidance in any necessary technical knowledge, and helping them understand and communicate the product features and benefits. He also provides market intelligence feedback on competitive activity.

5.5 Merchandisers

Merchandisers usually work for a large retail store or a supermarket. They choose the goods the store will sell and rotate and display the stock so that it sells at a profit. They liaise with the buyers and store Managers in their own company and with the suppliers or producers of the merchandise. Merchandisers are useful for consumer product companies, where products are sold to the consumers through a number of retailers and where there is competition for display space and display affects the consumer’s choice since there are a number of similar products.

Merchandiser can be directly employed by the supplier or contracted from outside, in either case, he/she has the responsibility of placing products and displays at key selling points within any product category and maximizing display of company products in assigned retail outlets.

He also arranges displays to ensure that damaged products are not left on display and the products in retail outlets should be correctly priced according to the retail outlet's pricing structure. Products which are on promotion should be supported through the construction of feature displays and placement of promotional point of sale materials. Retail outlets should be motivate to re-order company products as necessary to maintain stock levels avoiding out-of-stock situations

5.6 Product Promoters

Product promoters are used at the customer's locations to communicate product features and benefits directly to customers. This is suitable when a supplier has organized certain types of promotional activity with trader or retail customers. These promoters can carry out useful functions, if the right individuals are selected and trained:

- Strengthening relationships between the distribution company and on or off trade retailer.
Creating a direct interface between the distribution company and the customer, reporting on attitudes, reactions, etc.

Promoting consumer trial through sampling or demonstrating products, contacting customer directly or by supporting promotional activity at the point of sale.

Motivating display retention through presence and activity.

‡ Activity

Your friend just after a seminar on "Future of Sales Management" is convinced that salesmen will take a backseat due to the technologies such as PDAs, Internet and highly customized information about the target customers. He believes that these technologies will redefine the future of sales management and that sales can be done without a salesman.

According to what you have learnt what would you consider be the future of sales management? What are the possible impacts of such technology on selling?

6. The Relationship between Marketing and Sales

Companies that rely on direct selling with a sales force should focus on bringing sales and marketing together. Marketing is mostly concerned with products rather than markets or specific customer sets. Supplying sales forces with product-specific information, marketing expects the sales force to bring together this information with the solution-oriented needs of their customers. This creates an enormous amount of wasted time and effort. Marketers should tap into sales information and integrate with sales force in order to find opportunities for selling more. The sales force provides marketers’ with sales information flow that extends naturally to every customer and across every customer touch point.

Marketing support the sales in the following ways:

- Marketing supports sales by preparing a report of the best prospects so that sales persons know who to call on and who not to call on.
- Marketing places ads and buys lists to identify new prospects.
- Marketing stimulates customers’ interest in company products through advertising, this makes salespeople more welcome.
- Marketing uses advertising and telemarketing to find and qualify leads that can be turned over to the sales force.
- Marketing documents and distributes sales success stories and uses them in training programs.
- Marketing can give information on buying influences and rationales used by key customer decision makers.
- Marketing can provide information on competitors’ strengths and weaknesses and how the company’s products rate against competitor’s products or service.
Marketing is about identifying consumer needs and developing the right product. Sales support marketing by giving the required push to make the consumer buy the product produced.

‡ Activity

Sales Management Audit

Form groups of three students. Each team should interview a sales Manager at their place of business. The sales Manager must supervise an outside sales force.

After gathering some background information of the company, the students should interview the sales Manager in order to gather information regarding how sales management is carried out. For example, the students may gather information on how the sales department is organized, how the company recruits salespeople, how they select salespeople etc, by using specific questions.

The team must then analyze each sales management responsibility and suggest how the company could improve the performance of each aspect of sales management.

Finally, prepare a class presentation and a written report.

† Key Concepts

“Sales management: The attainment of sales force goals in an effective and efficient manner through planning, staffing, training, directing, and evaluating organizational resources.” - Charles M. Futrell, “Fundamentals of Selling”

Sales management is simply the management of an organization’s personal selling function.

Personal selling can be defined as personal communication with the customers or prospects through sales persons or staff of an organization.

Mini Case

American Express having realised the significance of consistent brand messaging had trouble executing the concept. The company wanted to ensure that a consistent message is delivered across all channels, call centre, web site or through a salesperson, when the salesperson has a face-to-face meeting with customers. The company faced a number of challenges in carrying out this task:
The sales force complained to marketing that they were suffering from information overload.

The company needed to balance the quantity of product information with the specific needs of customers or customer segments.

The skill sets of sales representatives varied across the company, that is, some were able to synthesize all of the marketing information, while many were not.

National team and larger accounts benefited from more experienced sales representatives and accordingly were able to construct the information overload into consistent selling messages with customer-specific adjustments.

Small- to middle-market sales representatives, with more accounts to cover but in many instances possessing less experience, struggled to deliver the right brand benefits to their accounts to communicate the value of the American Express relationship.

American express wanted to hire about 100 to 150 customers within a year and a half to focus on small and midrange opportunity. The newly recruited sales persons normally comes with past experience and their own way of doing things, therefore they have to be oriented and trained to introduce new thinking into their mind. Another problem that the American express faces was the delivery of inconsistent message. According to the American Express’s audit, there was little difference in the material that sales people presented to their consumers.

The company determined that it needed to understand customers’ specific needs and integrate those with the messages that American Express is delivering. The company had spent a considerable amount of money, time, and resources training salespeople to sell based on the needs of customers. It had spent significant labour-hours investing in those resources. The problem was that all of the strategies that marketing was creating did not necessarily strengthen the message.

In the small to middle market, sales cycles are becoming significantly more complex, looking more like sales cycles of a national team. So salespeople who typically would go in and sell an account in one or two visits are now looking at an extended sales cycle, since they are working with more educated customers who may actually know more about the industry than the salespeople. So the company needed to create a method by which these salespeople could become more educated. At the same time, all salespeople are driven to make quotas, which tend to increase every year, a factor the company needed to take into account.

All of these external pressures and the information overload ultimately lead to disjointed messaging. So the company decided to determine a way to bridge this messaging gap through a collaborative partnership between sales and marketing.
American Express decided to take a lesson from the success of others. The company laid out, in partnership with a group called the Sales Executive Council, some of the best-in-class procedures that other companies with similar challenges had used. The company grouped these strategies into three primary areas: freeing up rep time, increasing rep effectiveness, and reorganizing efforts around the customers.

The company also created a sales intelligence centre, where any data needed throughout the sales process is housed in one place and a team of cross-functional individuals can tackle any business issue.

Anytime a company tries to alter its operations, there is a major challenge in preparing people for change. The company definitely had some adoption challenges, but tried to address those by proactively approaching the sales teams in developing the collaborative environment.

Ultimately, American Express launched an initiative called Sales Force Online. It has been so successful that account Managers are working to find access to the same information.

At any given time, American Express has an estimated 300 to 500 different marketing programs with which a salesperson has to be adept to sell to a prospect. So the company created a filter through which sales reps could create, based on the needs and objectives of that customer, an appropriate marketing solution, then print out an agreement and all of the marketing materials they would need.

One of the key areas of the information portal is called Roadmap. Roadmap takes all of the elements that a salesperson uses throughout the sales cycle—the value information, customer testimonials, and survey findings—and loads them into a central knowledge database.

American Express wanted to leverage the good work already being done, but also marry the sales and marketing effectiveness and layer different product rollouts into one database.

To create the appropriate message, American Express surveyed its existing customer base to learn the benefits of accepting the American Express card from the perspective of the customer. Just getting the perspective wasn’t enough because, as it turned out, marketing and sales interpreted customer perspectives differently.

By working together, sales and marketing agreed on customer messaging that they could deliver in an automated fashion. In doing so, they managed to create a partnership between marketers and salespeople, defusing a traditionally adversarial relationship.

Now an American Express salesperson or an account Manager can customize all of the documents and all communication points with a customer. The company has moved toward unique messaging based on the needs of a particular customer.
On the back end, the solution gives American Express incredible market intelligence. Within a particular market segment, the company can see what the salesperson delivered in the presentation and the features that resonated with this particular account. Then the company can determine in similar presentations what showed up 100 percent of the time and what showed up 50 percent of the time, which tells the company what is resonating in the marketplace.

The technology has aided American Express in three key areas: reducing the cost of acquisition, improving sales rep productivity, and, most important, enhancing the quality of customer messaging.

In order to provide sales reps with the most accurate and timely data, American Express now posts its marketing collateral online, rather than printing it and updating it via hard copy. The readiness and speed-to-market components of the program, as well as its central location, give salespeople the appropriate information, at the appropriate time, in the appropriate format.

Most important, however, American Express now knows that when salespeople go out to speak to prospects, they have worked in concert with marketing to create an effective, targeted message. Marketing can now manage content and deploy new messages rapidly. The continuous feedback loop also allows the sales force to let marketing and other reps know what’s working and what isn’t. Ineffective messages can be refined, refocused, and reintroduced to the marketplace in rapid order.

Sales Force Online has provided American Express with a wealth of information—so much so that account Managers are seeking access to the same information. The company is now in the process of expanding the application in order to have a more holistic view of the customer relationship.

*Extracted from “Enterprise Marketing Management” by Dave Sutton and Tom Klein. p52-56*
Chapter 2
The Selling Process

This chapter will cover the following areas

1. What is Personal Selling?
2. Why Selling as a process?
3. The Selling Process

1. What is Personal Selling?

Personal selling involves a representative of the selling organization, presenting a product directly to a potential customer. It is used to persuade someone to buy a product through personal communication of information. Personal selling is more personal, flexible, a two-way communication, provides direct feedback and is useful for building preference, conviction, and action.

The personal contact can help build a relationship with buyers and since it is two-way communication, it allows adaptation to buyer reactions. Personal selling is the largest single operating expense in many companies, and is the most expensive promotion tool which requires a long-term commitment to build an effective sales force.

Good interpersonal relationship skills and effective oral communication skills are needed for personal selling, since personal selling involves the use of oral presentations in a conversation with one or more prospective buyers for the purposes of making a sale. Personal selling combines product information and benefits with the interpersonal dynamics of the sales person.

1.1 Why Choose Personal Selling?

- Personal selling is most recommended when the market is concentrated or the product is a high value technical product which requires demonstration.
- It can also be used to sell a product which is in the introductory stage of the product life cycle and when the organization does not have the right finance for a suitable advertising campaign.
- Personal selling can be adapted as a promotional tool for products which can be tailored to an individual customer’s need.
- If the product is an unsought product which has low product awareness or negative interest, then personal selling may be a useful means.

1.2 Advantages of Personal Selling

- It can be adapted for individual customers and it can be focused on prospective customers.
• Other types of promotions are used in moving the customer closer to sales whereas personal selling results in the actual sales.

1.3 Disadvantages of Personal Selling

Personal selling does have limitations,

• It can be quiet expensive to maintain a sales force and is most expensive on a per contact basis.
• It requires long-term commitment and ongoing management.
• It is also very difficult to get highly competent sales people.

21st Century Personal Selling focus more on relationship selling rather than hard selling. Hard selling is where the sales person attempts by all means to get the prospect to buy, regardless of whether it is in the prospect’s best interest. Whereas in relationship selling, the sales person focuses on developing a trusting partnership in which the sales person seeks to provide long-term customer satisfaction by listening, gathering information, educating, and adding value for the customer.

Some large modern companies use Customer relationship management (CRM) systems which assists firms in identifying the best customers on whom to focus their sales efforts.

CRM depend on advanced information systems to identify the best customers, so that marketing and retention strategies can be customized for these prospective buyers

1.4 Sales Careers

Sales people are very important to the business world. The portrayal of Salesmen as thought to be misleading and untrustworthy who extends a glad hand, has ruined the sales profession. However, individuals are attracted to sales careers because of the complexity and the challenge of the job that motivates salespeople with their choice of careers.

• It provides great flexibility in sales activities and opportunities for personal initiatives.
• It consists of a variety of challenging activities.
• It provides opportunity to travel.
• It provides a favorable working conditions.
• It provides a good opportunities for development and advancement.
• Intrinsic rewards are given for helping customers.
• Financial rewards (Extrinsic rewards).
Despite the above advantages a sales career has a set of drawbacks as given below:

- The sales person might have to work long hours to achieve the targets.
- Inadequate information about job responsibilities and performance-related goals can create anxiety (Role ambiguity).
- Conflicting job demands can create anxiety (Role Conflict).
- The pressure of the job itself can create a lot of tension (Job anxiety).

1.5 Qualities of a Good Sales Person

The term sales person covers a wide range of positions from:

- Missionary Selling (building goodwill or educating buyers).
- Order taking (sales person in a retail store).
- Order Getting (obtaining order by creatively handling customers).

A sales person should be willing to continuously learn and accumulate new knowledge and skills. And most importantly he/she should try to bring out customer problems or needs and then take the necessary steps to provide solution to those problems or to meet those needs in a manner that is in the best interest of the customer.

1.6 Types of Personal Selling

Personal selling can be categorized into three types:

- Telemarketing – using the phones for prospecting, selling, and/or following up with the customers. There are two types of telemarketers,
  o Outbound telemarketers.
  o Inbound telemarketers.
- Over-the-counter selling – this form of personal selling can be witnessed in retail outlets. Retail sales person may act as an order taker or an order getter and at the same time he might do suggestion selling, which involves inducing additional purchase by suggesting to the customer other available complementary items which is in line with the items selected by the customer.
- Field selling entails calling on potential customers either in their business or home locations. Sales people can be categorized as:
  o Professional salespeople
  o National account managers
  o Missionary salespeople
  o Support salespeople

Sales person can make personal selling more effective by:

- Understanding the customer problem by talking with the customer.
- Special needs of the customer can be granted by manipulating the marketing mix.
- Term and conditions of the sales has to be negotiated with the customer.
- Focusing on creating a long term relationship with the key person in the DMU.
The Sales person serves as a bridge between the company and its customers, therefore he/she takes up the dual role of representing the company to the customer and representing customers to the company.

‡ Activity 1

1. What factors will influence the continued evolution of personal selling?
2. How do salespeople contribute to our society? Are there negative aspects of personal selling from a societal perspective?
3. What are the primary contributions made by salespeople to their employers?
4. Most businesses would have a difficult time surviving without the benefits of the salespeople who call on them. Do you agree?

2. Why Selling as a Process?

Selling is not just one task but it is a process consisting of a series of activities which need to be planned, organized and controlled.

Personal Selling entails an individual acting for a company by performing one or more of the following activities:

- Prospecting,
- Communicating,
- Servicing,
- Information Gathering.

In traditional selling methods, negligible amount or sometimes no time is spent in the early stages of the process. This made it hard for the sales person to gain any commitment from the buyer. Today the salesman resorts to a professional selling method in which a substantial amount of time is spent in the early stages which made it easier for the sales person to gain commitment in the subsequent stages.

Managing the sales force is very important to effectively manage the selling process which involves:

- Planning.
- Recruiting and Selecting Salespeople.
- Training and development of Salespeople.
- Compensating Salespeople.
- Leading Salespeople.
- Appraising Salespeople.

3. The Selling Process

The following diagram will list out the steps involved in the selling process that is usually practiced by many sales organizations.
3.1 Prospecting

This stage involves identifying the potential customers and qualifying the potential customers.

<table>
<thead>
<tr>
<th>Definition</th>
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<tbody>
<tr>
<td>Prospecting can be defined as the process of identifying, qualifying, and prioritizing customers (both organizations and individuals) that have the need and potential to purchase the sales person’s products or services.</td>
</tr>
</tbody>
</table>

Prospecting plans are the foundation for effective prospecting. It starts with setting goals, which involves deciding on daily, weekly and monthly standards for acquiring new prospects. Time should be allocated to establish a regular daily schedule for conducting prospecting activities. Action taken should be continuously recorded; this could help the sales person evaluate the results yielded by different prospecting methods. A sales person should always be confident that he/she is offering the best solution. This requires in-depth knowledge about the product or services offered.

Information about the qualified potential customers can be obtained from a number of sources which can be categorized into, External sources, internal sources and personal contacts.
• **External Sources** includes referrals, introductions, community contacts, organizations and non-competing salespeople

  o **Referrals from customers** – obtained by the sales person asking current customers if they know someone else who might need the product. This is the most importance source of information, providing about two thirds of the sales persons need.

  o **Referrals from external referral agencies** – sometimes outside agencies are used to obtain information on the potential customers.

  o **Networking** – Sales persons can get new contacts through their friends, colleague and relatives.

**Internal Sources** includes company records, lists and directories, advertising inquiries, telephone inquiries, mail inquiries and internet or World Wide Web.

  o **Referrals from internal company sources** – such as marketing department, telemarketing department and sales manager.

  o **Directories** can be used to get information of potential customers. There are different types of directories which can be obtained from different sources such as chamber of commerce, the government, trade association, yellow pages and the Internet.

  o **Personal Contact** can come from observation, cold canvassing, Trade Shows, etc.

  o **Cold Canvassing** – This is where the salespeople make unannounced calls on businesses which may need the products which the sales person sells. The rejection rates are high in this approach which makes this approach less cost effective. Cold canvassing can work well for certain widely used product.

Qualifying involves determining whether prospects have the willingness, purchasing power, and authority to buy. Qualified Sales leads are prospects who can benefit from the sales offering and have the financial means to purchase the product. He/she plays an important role in the purchase decision process. Qualified prospect must be reasonably accessible and willing to consider the sales offering at an acceptable level of profitability.

Traditionally, it was the sales reps job to find their prospects. However, today, the marketing department has taken over the development of the prospecting system for the salesmen. Some companies use telemarketing to help the salesmen identify and qualify customers. Sales people usually favour this and the company benefits when its sales people spend more time actually making sales presentations to qualified prospects.

**The Importance of Product Knowledge**

The importance of product knowledge of the sales person should be stressed at this point. The salesmen should have in-depth product knowledge so that he can use it to
successfully educate customers about the product’s advantages, uses, and limitations and answer customer questions and counter customer objections. If the sales persons lacks the product knowledge then personal selling becomes mere order-taking.

3.2 Pre-approach

At this stage the salesman has to decide on the sales approach and plan his/her sales calls. Further the salesman should determine which products and services best suit the particular prospects.

<table>
<thead>
<tr>
<th>Definition</th>
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<tbody>
<tr>
<td>Pre-approach involves collecting information about the potential customer and the customer’s company prior to the initial visit.</td>
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</tbody>
</table>

Sales people must assimilate important information about the prospects and their needs and situation, the information gathered can be used by the sales people to plan their sales presentation.

Information gathered may include information on prospective organization’s size, its present suppliers, volume purchased, manufacturing locations, details of its executives, and the names of people who make the purchase decision as well as those who influence the purchase. The sales person should make sure that he has learnt as much as possible about a prospective customer before making a sales call. It is also helpful to learn something about the buyers background, such as education and social affiliation, or their personalities.

<table>
<thead>
<tr>
<th>Type of information collected</th>
<th>Sources of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name and title of the potential customer</td>
<td>Receptionist or secretary would be able to provide information regarding the correct spelling or pronunciation.</td>
</tr>
<tr>
<td>Is the prospect a risk taker? Is he confident about his decisions?</td>
<td>Ask the prospect.</td>
</tr>
<tr>
<td>Lifestyle and leisure activities of the prospect</td>
<td>Observe for clues displayed in the office.</td>
</tr>
<tr>
<td>Hobbies or interests which the prospects are proud of.</td>
<td>Observation.</td>
</tr>
<tr>
<td>Personality of the prospect</td>
<td>Observation and experience.</td>
</tr>
<tr>
<td>Prospects educational and social background</td>
<td>Ask the prospect or look for qualification in name cards etc.</td>
</tr>
<tr>
<td>Type of business</td>
<td>Publications such as News Articles, directory or company web site.</td>
</tr>
</tbody>
</table>
### Type of information collected

<table>
<thead>
<tr>
<th>Prospects product and services, market, and competitors</th>
<th>Sources of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company publications, including Annual reports and company web site.</td>
<td></td>
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</table>

| Other vendors who caters to the prospects needs. Amount of products purchased from these vendors. How long have prospect been purchasing from their supplier(s)? What are the problems faced by the organization? | Ask the prospect. |

After gathering as much information as possible about the client, the sales presentation should be planned. The most important step in planning is setting the objectives or goals to be achieved. The goal of the sale presentation is not necessary to close a sale but to make the buyer commit to some action which moves the sales forward.

The plan may also include details on how the customer is going to be approached and what questions are to be asked. Recognizing the difference across selling situation and the ability to adapt presentation according to the situation is important.

Based on the customer research, the salespeople make tentative judgment of the most appropriate product suitable for a particular customer. The presentation will be planned according to that product, but when the salespeople talk to their customer they may have to change their plans. This is called adaptive selling.

### 3.3 The Approach

Once the name of a prospect and adequate pre-approach information has been collected, the next step is to approach the prospect. The approach is the development of relationship with the customer.

When the prospect initiates the contact they might use the phone, mail, email, or use the company web site to request information, ask questions and/or to make a purchase. Prospects might also call at odd hours to find out if the company is open or to find out the location of the store. Be sure your answering service or Web site answers these questions.

When sales person initiate the contact, "cold canvassing" is one of the most common form of initial contact conducted through phone or in person. Cold canvassing refers to a contact made with prospects without any announcement in advance. This method can be more efficient when done through phone than in person.

Knowing how to meet the buyer is definitely a good start towards a lasting relationship with the buyer. Before the call it is important to do a little homework. Sending a letter, fax or email before the call will help the prospects get an idea of what the sales person
would be doing during the call. Making an appointment to see the buyer is important. This helps to get the buyer's attention during the presentation.

A well planned approach makes a good impression on the prospect and creates a good relation between the sales person and the buyer. To make a favorable impression with the customer the sales person should be well dressed, make good eye contact and should have a firm handshake with the prospect. The sales person should state his/her purpose of approach quickly ideally within 15 seconds. The approach should start with an introduction and a small amount of small talk.

Salespeople draw attention of the buyers by handing them a sample product or service or by highlighting some of the benefits that the buyer will be interested in. Though the approach takes only the first minute or so of the call, it can make or break the entire presentation. If it breaks the sales person lose the opportunity of making a sales presentation.

3.4 Need Assessment

Organizations and consumers purchase products and services to satisfy their needs. Success at the need-identification stage of the selling process requires asking probing questions of the prospective customer to determine needs.

- Organizational needs.
- Personal needs.

Organizational needs may arise when a company needs to improve performance to become more efficient and effective at fulfilling customer needs.

In this stage, the sales person must discover, clarify, and understand the buyer's needs; the best way to uncover and understand needs is by asking questions. It is a researched fact that salespeople who ask more questions are more successful. There are many types of question which can be used to bring out customers need:

1. Situational Questions.
2. Problem Discovery Questions.
3. Problem impact questions.
4. Solution value question.
5. Confirmatory questions.

These questions are asked by the salespeople in the given logical order. The situational questions are asked first followed by the problem discovery questions, the problem impact questions, the solution value questions, and finally the confirmatory questions.

1. **Situational questions** are asked to get realistic information of the buyer’s current situation. This information can be used to find out how the product offered by the sales person can be of use to the buyer. Good customer research in the previous
stage will reduce the situational questions used. Examples of situational questions are:
   a. Who is makes the purchase decision for this product?
   b. How many bottles of oxygen do you use per month?
   c. How often you change the cutting nozzle in your cutter?

2. **Problem discovery questions** are used to find out the problems that the buyer is facing and which can be solved by the sales person’s products and services. Salespeople can build their presentation, after uncovering customer needs using these questions. Examples of this type of question are:
   a. Do you get the expected quality using the existing machinery?
   b. Has your supplier ever delayed the supply of these raw materials?
   c. Have you faced problem finding spare parts for existing machines?

3. **Problem impact questions** are used to analyze the consequence create by the problems identified using problem discovery questions. These questions are asked by the salespeople to make the buyer understand the consequence of not solving the problem which they face. Understanding the seriousness of the problem will make the buyer rationalize the amount of money and time spent on solving the problem. Examples of problem impact questions are:
   a. What impact does poor quality of resources have on production?
   b. What affects does the delay in receiving the materials have on your operations?

4. **Solution value question** are used to access the value or the importance of a solution to a problem obtained by using problem impact questions. This allows the buyer to assess the value of a solution based on the importance of the problem. Example of solution value questions are:
   a. How much will you be able to save by increasing the quality of the product?

5. **Confirmatory questions** are used to confirm with the buyer, whether he is interested to know how he can help solve the problem with his/her product and services. Confirmatory can be used by the salespeople just before starting their presentation of their product and service. Some example of confirmatory questions are:
   a. Would you be interested in a machine which would improve the quality of your product?

**Activity - The Importance of Active Listening**

The popular stereotype of the sales person is that of the persuasive speaker. Most salespeople talk too much. To be effective, sales person should obtain information from the customer. The easiest way to do this is by carefully listening to the customer. Active listening is a skill which should be developed in order to be successful sales people.
The following are some tips on how to become an active listener:
- Watch for cues, don’t just listen to words. This will give an idea of the buyer’s real intention.
- Show that you are interested in what the buyer says.
- Encourage the buyer to comment on your product.
- Establish eye contact with the customer.
- Always check your understanding by asking questions.
- Listen first, then speak. When the customer is talking avoid the tendency to interrupt.
- Studies have shown that good listeners are capable of doing 4 different things at the same time:
  - Anticipate what the talker is trying to say.
  - Analyse the validity of the talker’s statements.
  - Review and summarize what is said.
  - Observe the talker’s body language.
- Don’t judge soon, this would avoid misunderstanding.
- Use positive body language.
- Always acknowledge, and encourage the buyer when he talks.
- Avoid being completely silent, the buyer may think that you are not listening or that you are not interested.

3.5 The Presentation

Once the needs of the customers are identified, the next step is to present a product or service which satisfies the needs. This is known as the presentation. The presentation involves telling the customer about the characteristics, benefits, and advantages of the product or service which the customers are in need of. Presentations are mostly done orally but may include support materials, written proposal, and visual aids. Preferred end result of a presentation is to persuade the customer to switch from the competitor’s product to the salesperson’s product.

The sales person should present features, advantages, and the benefits of the product.
- Features - describe the characteristics of the product or service,
- Advantages - describe how the feature affects the performance of the product or service
- Benefits - describe how the advantage will help the buyer.

Product demonstrations can help the sales person to effectively present features and advantages of a product.

Some salespeople use prepared sales presentations (canned sales talk), many companies have used this technique successfully. Prepared sales presentation can be advantageous in a number of ways. It is easy to train a sales person and gives new salespeople confidence.
But if the prepared presentation is not done properly and without feeling it would be very dull and boring.

Some tips on developing an effective presentation

- **Keep it simple.** The presentation should be as simple as possible. The message conveyed should be clear and concise. Too much information may confuse the prospect.

- **Avoid the use of Jargon.** The use of industrial jargons should be avoided. The customer may not know what the sales person is talking about.

- **Adapt the product or service to the customer.** Different customers may set different priorities on the features of the product. The sales person should understand which feature is most important to the customer and adapt the presentation accordingly.

- **Credibility is crucial.** Whatever that is presented should be credible. If the customer does not believe what the sales person says then the sale might not be successful.

<table>
<thead>
<tr>
<th>Activity</th>
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<tbody>
<tr>
<td>In this activity you have to demonstrate your ability to organize and present a sales presentation. You have to assume the role of a sales person and make a presentation to a potential buyer or group of buyers. You can choose to make the presentation on any item. You will be given 10–15 minutes to finish your presentation.</td>
</tr>
</tbody>
</table>

### 3.6 Meeting Objections

The sales person may have to face objection during the selling process. Objections are statements made by prospects about why they don't intend to purchase the product or services offered. Objections are part of almost all presentations.

Objections are nothing to be feared of; it is simply part of the selling process. Objections should be taken as a sign of curiosity on the part of the prospects. A prospect who is not interested in purchasing the product rarely raises any objections. Objections should be taken positively since they show that the prospect has some interest on the offer. It can provide information to the prospect and clear his doubts. Therefore objections should be anticipated. When faced with objections the sales person should probe to find out the prospect’s real objection.

The prospect’s objection can be skilfully handled using various techniques:

- **Listen** - It is very important that the sales person encourages the prospect to talk and listens to the prospect carefully. This will bring out any objections that the prospect may have.

- **Clarify** – once faced with an objection, repeat and clarify the objection. This would clear any misunderstandings and brings out more information. This may
reduce the magnitude of an objection or permit prospects to change their objection to get closer to the actual objection.

- **Respect** – the sales person should respect the buyer's concerns, and show that he understand and appreciate them. The sales person should also try to employ the “yes, but” technique, by agreeing with your customers first and then offering them new information.

- **Respond** - It is important that the sales person responds to the buyer's concern. The response is contingent on the type of objection. Common types of objections and the approach to take for them are given below:

  - **Price or Value Objections** – the buyers who puts out their objection by stating that they do not need the product or that the product cost too much are stating that they don't agree with the cost paid to obtaining the need or to solve the problem. At such situations, the importance of the problem and the need for a solution should be stressed to the buyer. The buyer’s perception of the seriousness of the problem can be increased by asking further problem impact and solution value type questions. Price comparisons of alternative solutions can be used, if the buyer feels that the solution offered is too costly.

  - **Product/Service Objections** – The buyer sometimes may doubt the ability of the product or service offered, to solve his problem or improve the operation, and may doubt the sales person’s assessment or his knowledge. In such situations, the sales person might have to prove the capability of his product or service by demonstrating the product or by giving the buyer some testimonials, case histories, expert’s opinion or a trial period to use the product. When faced with objection regarding the needs which the product offered cannot satisfy, the sales person should first acknowledge it if it is correct and then try to increase the perceived value of the product offered by stressing those essential needs which the product can satisfy.

  - **Procrastinating Objections** – sometimes the buyer may put off or delay taking action. They might use a number of excuses for postponing, they may say that they need more time to think about it or that they do not have the right authority to take action etc. When it comes to most business customers, pushing or rushing a sale is not recommended. In such cases, the best option the sales person might have is to get the customer committed for some future action which will move the sales forward.

  - **Hidden Objections** – Some prospects will not reveal the real reason for not buying the offered product or service instead they may give a false reason for not purchasing the product. The ideal method for understanding the buyer’s hidden objective is by encouraging the customer to talk by asking questions.
3.7 Gaining Commitment and Closing the Sale

Commitment is gained when the prospect agrees to take the action required by the sales person. Gaining commitment involves asking the prospect to commit to some action which moves towards the sale. To be effective this should be done, only when the sales person is certain that the prospect is interested in the product. Most simple sales which involve selling consumer products require only a call. In such situations it is essential that the sales person get a commitment from the prospect to buy the offered product or service on the first call to avoid a lost sale.

Selling business products however requires more than one call and is often a complex endeavour. In such selling process, the objective of the sales person is to get the buyer to commit to some action which moves the selling process towards the sale. The sales person should make sure that he plans the objective to be achieved in every sales call and ask for commitment. The selling process will not move forward unless the sales person doesn't ask for commitment. At some point, prospects will probably give some signal when they are ready to become customers, then the sales person must ask for the order.

3.8 Follow Up

The salesman must understand that the sale is not over when the order is taken. A good sales person will follow up in various ways. Following up will include ensuring customer satisfaction and repeated business. Follow-up requires that the sales person complete any agreed upon actions. Some sales people believe that follow-up after the sale is just as important as making the sale.

Salespeople should stay in touch after a sale to ensure that the customers are still happy with their purchase decisions. This help the sales person to build long-term relationship with customers, this can allow the sales person to leverage or make additional use of his/her initial investment of time and money spent selling to that customer. Good follow-up is crucial to build loyal customers. Satisfied customers willingly provide more business, which can results in substantial income for the sales person.

They say ‘There's no better advertising than a satisfied customer’. A good follow-up and after sales service will help a sales person to establish and maintain good reputation, build goodwill among customers and most importantly generate repeat/extra business.

‡ Activity

In this activity you are required to interview a sales person and go on a few calls with the sales person. Through interviewing the sales person you are required to gather the following information:

- Sales person’s name, job title.
Gather the following data through observation during the call

- Description of the customer.
- What is the purpose of the call?
- Describe how the sales person began the presentation?
- How did he identify the needs?
- What are the objections put forward by the buyer? How did the sales person handle objections?
- When and how did the sales person try to close the sale?

Using the information obtained make a report evaluating the way the sales person handled his customers.
My Short Notes
Chapter 3
Training Sales Personnel

This chapter will cover the following areas

1. Why Train Salesmen?
2. Focus of Sales Training
3. The Sales Training Process
4. Training for Different Sales Personnel
5. Developing a Training Checklist
6. Role and Purpose of Field Training
7. Assessing Training Needs
8. Training Stages
9. Training Feedback

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.

1. Why Train Salesmen?

**OBJECTIVES OF SALES TRAINING PROGRAM**

- Improves Customer Relations
- Improve Communication
- Improved Self Management
- Improves Morale
- Lower employee Turnover
- Increase Sales Productivity

**Improve Customer Relations:** With better performance, sales people can create lasting customer relationships and they can build productive partnerships and increase customer satisfaction.

**Improves Communication:** With improved communication skills the sales person would be able to effectively communicate with the customers.
**Improved Self Management:** Improves self management, helps sales people to manage their time and territory better.

**Improve Morale:** Increasing the productivity of the sales people by giving them proper instructions on how to do their jobs.

**Lower employee Turnover:** Effective training can improve staff morale and job satisfaction.

**Increase Sales Productivity:** by providing right skills in order to improve sales.

Sales Manager initiates and manages training. Training is used to gain more competencies through skilled sales teams and this is done by:

- Providing salespeople with right knowledge of the company, products and markets.
- Improving performance by changing attitudes.
- Improving performance by making salespeople acquiring new skills.
- Widening the span of control of Managers by reducing the level of Field management supervision needed. This allows Manager to take on other duties.
- Increasing job satisfaction which in turn can reduce sales force turnover.

Basic competencies in a selling and sales management environment are:

- Interpersonal Skills
- Teamwork
- Influence over people and performance
- Creativity
- Organization and planning
- Business and commercial skills

The Manager will be able to create these competencies only when he understands the specialist and generalist skills that develops these competencies and provide training to his subordinates. After providing the proper training the Managers should ensure that there are appropriate systems and procedures that allow these skills which have been acquired to be implemented. And thereafter the performance should be measured and evaluated regularly.

**Managing Key Result Areas**

Performance can be improved by managing key result areas. Managers can identify the key results areas for the business by using the following process model. You should focus each subsequent stage towards those key sales results areas identified by

- Evaluating the current performance at each level.
- Setting standards and establishing key result area goals and objectives.
- Training staff to achieve key results.
- Monitoring and providing feedback.
- Linking rewards and incentives to the fact that creates improvement in the key result areas.
In the stages of training process, first it is necessary to identify the activities for key result areas. This involves all the activities which can influence quantitative and qualitative results. After doing this, it is necessary to develop measurement goals and objectives for the job, training to improve performance, and rewards and incentive schemes to recognize better performance and achievement. The training process will not be successful unless the stages in the training process are properly followed.

Two goals and objectives should be related to measurable achievements and feedback should show the achievement as well as any deviations. Lack of feedback can make training less effective and the rewards and incentives will not be motivational.

2. The Focus of Sales Training

Sales training programs have a number of goals. It should provide a sales representative with a good knowledge about the company and its products. The sales person should know customer and competitor characteristics, be proficient in making sales presentations and have a good understanding of the field procedures and responsibilities.

Through sales force training the sales person can learn about the corporate culture and build product knowledge and sales- skills. Sales force training should also provide the sales person with technological skills that will help him carry out his day to day responsibilities easily.

Training can reduce the amount of supervision needed, releasing management time for other activities. It increases the sales force satisfaction and thus reduces turnover and increases performance.

A good sales training program should analyze the needs of the sales force and then based on the needs it should set specific, realistic and measurable training objectives. Once the objectives are set it is important 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 focused 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.

A sales Manager trying to introduce a sales training program may face a number of obstacles. Some of them are given below;
  • The management may not believe in sales training.
  • Lack of finance for sales training.
  • Salespeople may be uninterested in sales training.
  • They may feel that sales training is a waste of time.
  • Salespeople may not be willing to change.

3. The Sales Training Process

A sales training program need consists of the following steps;

<table>
<thead>
<tr>
<th>Stage one: Training Needs Assessment</th>
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<tbody>
<tr>
<td>Identify program objectives</td>
</tr>
<tr>
<td>Identify employee who needs training</td>
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<tr>
<td>Identify training needs and specific goals</td>
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<tr>
<td>Identify the amount of training needed</td>
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<tr>
<th>Design Training Program</th>
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<th>Evaluate training</th>
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<td>Determine the outcomes which can be used for evaluation</td>
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Stage one: 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 need to be trained.
• 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?
• Assess the amount of training needed.

Stage Two: Designing Training Program

• Identify Trainers - the trainers can be Staff Trainers, Line personnel or External Training Specialist.
• Determine timing and venue 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: Provide Reinforcement

• Decide how the training can be reinforced - The training can be reinforced by observing sales representatives in the field, refresher classes and by web-based reinforcement training.

Stage 4: Evaluate Training

• Determine the outcomes to be evaluated – Reactions, Learning, Behavior and Results.
• Determine the measures to be used in evaluating outcomes.

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<th>Objective</th>
<th>Information Sources and Processes</th>
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<td>Set specific, realistic, and measurable objectives</td>
<td>Review needs, consider short-term and long-run issues, compare training objectives with company goals.</td>
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<td>Develop and Implement Program</td>
<td>Evaluate previous training methods; consider cost/benefits of various training programs.</td>
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<td>Evaluate and Review Program</td>
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3.1 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.
- Flexibility and Adaptability.
- Ambitions and motivations.
- The required standards and actual performance.

The diagram below shows the various methods used to assess the training needs:

![Methods of Assessing Training Needs Diagram]

**Poor Performers Should be Identified**

Sales persons’ performance deficiencies should be identified by the sales Manager in order to focus training efforts. Performance can be measured by analyzing the following:

- Identification of new potential customers.
- Objectives achieved.
- Success in obtaining new product listings, product displays, etc.
- Conversion rate of orders to calls.
- Effectiveness of sales presentations.
• Call rates compared with standards or average achievements.
• Ability to overcome objections and objection handling techniques.
• Closing techniques and success rates.
• Customer relationships.
• Relationships between territory cost of operations and sales revenues compared with standards or averages.
• Compliance with administrative requirements and procedures.
• Determine desired skill set and levels of performance.
• Assess sales person’s actual skill set and levels of performance.
• Analyze gap between desired and actual to determine training needs.

Typical Sales Training Needs may include:
• Sales Techniques: Salespeople have a constant need to be trained “how to sell?”.
• Product Knowledge: Salespeople must know their product benefits and limitations, applications, and competitive strengths.
• Customer Knowledge: Salespeople should know their customer needs, buying motives, buying procedures, and personalities.
• Competitive Knowledge: Salespeople must know strengths and weaknesses of the competitors’ product.
• Time and Territory Management: Salespeople should be trained to maximize work efficiency.

Sales training addresses following common performance deficiencies
• Ineffective listening and questioning.
• Failure to build rapport and trust.
• Lack of preplanning of sales calls.
• Lack of sales strategies for different accounts.
• Poor job of prospecting for new accounts.
• Spending too much time with old customers.
• Reluctance to make cold calls.
• Failure to match call frequency with account potential.
• Over-controlling the sales call.
• Failure to respond to customers’ needs with benefits.
• Giving benefits before clarifying customers’ needs.
• Ineffective handling of negative attitudes.
• Failure to effectively confirm the sale.

‡ Activity
Select a job which you are familiar with analyze the major duties and responsibilities of the job. List the entire task involved in carrying out the job. Finally suggest the type of training program which can improve performance, clearly stating the methodologies which are most appropriate.
3.2 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 programmes 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.
- 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 possess. Moreover, 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.
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.
6. Product Merchandising.
7. Administration and evaluation.

**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.
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.
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.
- Over coming objections.
- Increasing the sale.
- Using the appropriate body language.
- Using appropriate selling style.

Each sales call consists of three levels of activity, precall 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.

### 3.3 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 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.
3.4 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.

4. Training for Different Sales Personnel

4.1 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.

4.2 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.

5. Developing a Training Checklist

A checklist can be used to evaluate the training. Running through a checklist can be useful to ensure that training covers all important areas.

A Checklist should:

- Check whether the assessment of training needs and skills of new recruits are complete.
- Check whether the initial training to cover the needs have been developed.
- Check whether the initial training provide sufficient knowledge and skills on the following topic;
- company knowledge.
- product knowledge.
- customer Care and professional selling skill.

- Check whether the training materials are provided, which provide information on the following topic
  - company knowledge.
  - product knowledge.
  - customer care and professional selling skills.

- Check whether the formal training programme use a variety of communication media such as lectures, demonstration, role playing, films and videos, discussion etc.

- Check whether the feedback is provided to all participants in order to facilitate self-improvement.

6. Role and Purpose of Field Training

One of the important responsibilities of the field sales Manager is field training the sales persons. Objectives of field training are:

- Rising marketing knowledge to sharpen responsiveness at the point of sale.
- Distribution of product knowledge to increase expertise, interest and confidence
- Improving personal selling and negotiation skills.
- Improving understanding of buyers' motivations, their organization, role and objectives.
- Gathering market intelligence about customers and competitors.
- 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).
- Developing skills in interpersonal relationships.
- Developing expertise in customer needs identification and creation.

7. Assessing Training Needs

Field training is particularly effective in focusing on functional activities, sales techniques, organization, and personal attitudes.

7.1 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.
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. Following points might be considered 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.
- 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 should carefully cultivate 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

The sales person should try to maintain a satisfactory ratio between orders and calls when compared with an average for the sales team, and any significantly variance should be analyzed.

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 established by the sales Manager.

7.2 Sales Techniques

Performance records do not give a very good 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 or aspects of techniques judged as priorities in obtaining and building business.

Customer Approach

The approach should be professional, warm, confident and enthusiastic. The sales person should have the appearance and bearing to make a positive impression, commanding attention and respect as the buyer's equal.

Identifying/accessing Decision Makers

The sales person should identify and gain access to the decision maker in the buying organization. The sales person should also identify and recognize all the other decision influencers in the buying organization and should develop a programme of regular contact with them. The sales person should present product information to the decision influencers in ways that address their particular needs.

Working to Call Objectives

The sales person should set overall objectives for the business with each customer account. Larger- scale objectives should 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) 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 exhibit suitable standards of communication skills (verbal fluency, skills in presenting data and information, questioning techniques, listening skills, responsiveness to voluntary/involuntary signals from the buyer, body language, etc.).
Use of Product Knowledge

The sales person should have adequate 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 Exploiting Opportunities

The sales person should network within the buying organization and demonstrate initiative in looking for opportunities for additional business.

7.3 Organisation

Assessment of the training needs performed by the field sales Manager's should include organizational aspects of the selling job. Any deficiencies 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 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.

7.4 **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.

8. Training Stages

8.1 Training on functional activities

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

- Seven steps of the sales call.
- Setting call objectives.
- Time management.
- Relationship building.
- Increase call rate.
- Improve call conversion rate.

8.2 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.

8.3 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.
- Organising the sales aids.
- Planning the journey.
- Maintaining the vehicle.
- Handling administration.
8.4 Training on Attitudes

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

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

9. 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.

9.1 Objective Factors in Evaluating Effectiveness of Training

These include:

- Better time management.
- Call rate.
- Call conversion rate.
- Order size.
- Tasks concerned with display such as shelf layout, promotional features and use of point of sales material.
- Expansion of distribution.
- Market share when compared with the competitors.
- Prices controlled within guidelines in distribution channels.
- Territory and account profitability.
- Implementation and effectiveness of sales promotion programmes.
- Increase in identification of new business opportunity.
- Staff turnover.
- Compliance with administrative procedures.
- Customer complaints.
9.2 Subjective Factors in Evaluating Effectiveness of Training

These include:

- High staff morale.
- Increased staff participation.
- Creative ideas from the employees.
- Better networking within customer organizations.
- Less sick leave.
- Less time spent on unproductive activities.
- Less management time is needed for supervision.
- Improved level of job satisfaction.
- Sales person willing to learn more skills.
Chapter 4
Motivating Sales Personnel

This chapter will cover the following areas

1. Why a Sales Person Needs to be Motivated?
2. Factors which would Motivate Sales persons
3. Common De-motivators of Salesman
4. Tackling De-motivated Salesmen
5. Developing Motivational Rewards
6. Principles of Devising Incentive Schemes
7. Developing Intrinsic Reward Schemes

1. Why a Sales Person Needs to be Motivated?

People are the most difficult part of an organization to manage but they are an organization’s most valuable and expensive resource. People are unpredictable and they come with a variety of knowledge, skills, experience, abilities and they respond differently in different situation.

Motivation is about why people do certain thing and do not do certain other thing. A motive can be defined as the drive within a person. The motivation process includes deciding on the right alternative action in order to achieve a goal.

Motivation can be defined as psychological processes that create and direct goal-directed behavior. It is the desire within a person that makes him/her to act in a goal directed manner.

Performance = Ability × Motivation

The performance is a function of ability and motivation. The employee should have the ability to do the tasks. However, even though the employee has the ability to do the task, he should have the desire to perform at a higher level. Sales persons need constant motivation in order to maintain performance and productivity at a satisfactory level and in order to increase the performance and productivity to a higher level.

One of the important responsibilities of the Managers is to align the employee motivation with the organizational goals. Most Managers find it hard to understand the factors that motivate an employee. Each employee has different behaviour and motivation pattern. A factor which motivates one employee may not motivate another because of their individual difference. The individual difference of motivation of each employee should be identified, recognised and addressed in order to improve the performance and productivity.

Motivation is important to carry out various activities including motivating people to join your organization, to retain them with your organization, to make them attend to work every
morning, to make them perform better at your organization and also to make them do extra for your organization. The stages of the motivational process is shown below

1.1 Stages in Motivational Process

2. Factors which would Motivate Sales persons

The following theories will discuss some of the common factors that would motivate sales people.

2.1 Maslow’s Hierachy of Needs

Abraham Maslow categorises a persons needs into five types: Physiological, Security, social, esteem and self actualization. He state that these categories of needs ascend in order as shown in the diagram below, that is, the lower needs must be fulfilled before a person will strive to meet higher needs.

**Physiological** need is the lowest level need in Maslow’s needs hierarchy. It is the basic need that arise from a person’s natural feeling to stay alive and reproduce. This includes the need for food, water, air, sex and shelter
Security needs are a subdivision of the physiological needs. It includes the need for safety, stability, and protection from natural dangers, pain, threat or illness. Security of employment is the intermediate need covering the basic ones.

Social need includes need for friendship, love, feeling of belongingness and acceptance.

Esteem needs includes personal feelings such as self-respect, autonomy and achievement; and attention, recognition or respect from others.

Self-Actualization needs are placed at the top of the hierarchy by Maslow. They include need for growth, achieving ones potential, and self-fulfilment.

According to Maslow, once a person has satisfied a need in the lower level of the hierarchy, another need, which is comparatively higher up in the hierarchy, will become important. This concept is widely accepted now. The needs are interdependent. The need for esteem and accomplishment arises only when the basic needs lower down in the hierarchy are satisfied.

The ultimate need, such as self-actualization, is hardest to satisfy and therefore can be a powerful motivator.

An organizations reward system should focus on unsatisfied or under satisfied needs of the staff. This will motivate the staff to perform in order to satisfy his need.

2.2 Goal Setting Theory

Goal setting theory is concerned with making an organization efficient and effective by sharing the organizational goals with the individuals. This can motivate the employees to perform at their full potential. Goal Setting theory was developed by Lathem and Locke based on the concept of Management by Objective (MBO).

MBO is an organization-wide intervention technique of joint goal setting between employees and Managers. MBO is a cyclical planning approach based on mutual agreement in which the Manager and employee jointly agree on progress toward goals. Employees participate in setting goals.

According to Lathem and Locke, when people are given specific goals they are more motivated and they achieve higher performances. The goal setting stretches employees by giving each employees attainable and yet challenging goals. The goals should not be very easy or very hard. The goals are agreed upon between Manager and employee. Regular feedback on the employee’s performance is crucial to motivate the employee.

The goal setting theory will not be effective if any stage is not used properly. For example, the goals set should not be very easy or very hard and sufficient feedback should be given or else the whole process may become demotivating and the employee may perform poorly.
Goal theory can be used to manage performance of the employees, where the goals and objectives used to improve performance of the employees in all organizational levels. Goals and objectives set should be regularly reviewed and revised in order to provide the employees with a continuous source of motivation. Aligning the individual goals to the organizational goals is a complex process which may involve a number of problems including:

- Lack of congruence between the individual and the organizational goals – the individuals in an organization may perceive goals which are different to that of the organization. Congruence between the individual and the organization is very important specially in order to effect change in the organization. Failing to adapt to the environment can put the organization in a dangerous position. Adapting to the environment may require changes in the goals and the objectives of the organization.

- It is hard to identify the goals of the groups within an organization. The group goal may motivate the group member to continue within the group. The group goals should be aligned with that of the organization in order to be effective motivators of performance. Each member of a group may bring into the group a set of their own personal goals and objectives.

Thus within an organization there may be a number of different goals which include the organizational goals, group goals and individual goals. An organization will be able to function most effectively when all the above goals match so that all the employees in an organization are working in order to achieve the same goal.

2.3 Equity Theory

The Equity theory states that rewards are evaluated partly by comparing with what others receive. An equity state exists when we perceive our ratio to be equal to that of others with whom we compare ourselfs with. An inequity state exists when these ratios are not equal. This is where the individual feels that he is under rewarded or over rewarded.

Equity is the perceived fairness of what the person does compared to what the person receives. It is the perception of the fair value of rewards (outcomes) for efforts (inputs) that individuals make when comparing their results to others in the organization.

\[
\frac{\text{Inputs}_{\text{Individual}}}{\text{Outcomes}_{\text{Individual}}} = \frac{\text{Inputs}_{\text{Other}}}{\text{Outcomes}_{\text{Other}}}
\]

Most organization reward seniority for achievement and pay is tied to the seniority. Due to this the superior usually earn more than his subordinate. For the pay to work as an incentive it is important that there should be large differential in the pay level. Due to this reason, most organizations are usually secretive about their pay levels. This could be destructive because when the individuals lack the knowledge of others pay, they tend to estimate other’s pay and may feel that they are underpaid or overpaid. Herzberg argues that money is not a hygiene factor, but equity is a hygiene factor.
Equity Sensitivity is an individual’s tolerance for negative and positive equity
  - Benevolents have a higher tolerance for negative inequity.
  - Sensitives adhere to strict norm of reciprocity.
  - Entitleds have no tolerance for negative inequity.

The issues of the equity theory is that it is very hard to identify an employees referent group and it is also equally hard to find out how they define inputs and outputs.

2.4 McClellands

McClelland’s theory of motivation is very similar to the Maslows hierarchy of needs. Unlike Maslow, McClellands concentrates on three key needs which include

- Affiliation needs – This includes the need for friendship and meaningful relationships.
- Power needs - This includes the peoples desire to influence, coach, teach, or encourage others to achieve.
- Achievement needs - This includes the peoples need for growth, progress and to accomplish something difficult.

These three key needs relate to performance of people at various levels of authority in an organization. People higher up in the organization will have a strong need for power. Whereas the employees in the middle level of the organization have considerable need for achievement and at the lower levels employees have a need for affiliation.

2.5 Expectancy Theory

Expectancy theory developed by V. H. Vroom states that the strength of the tendency to act in a certain way is affected by the strength of the expectation that the act will be followed by a given outcome, and on the attractiveness of that outcome. An individual’s desire to produce at a given time depends on that individual’s specific goals and perception of the relative worth of performance alternatives as paths to attainment of those goals.

- Attractiveness of Rewards – This is the value of the rewards to an individual. Rewards have value to the individual, the reward that can satisfy the unsatisfied needs of the individuals are valuable. This is the importance we place on the potential outcome or reward that can be achieved on the job.
- Performance-reward linkage – This is the belief that the right level of performance will lead to a desired outcome (rewards).
- Effort-performance linkage – This is the belief that exerting a given amount of effort will lead to performance.

The strength of an individual’s motivation exert effort in a certain way depending on how strongly that individual believes that these efforts will achieve the desired performance level. If the individual achieves the desired performance, then how strongly does the individual
believe that the organization’s rewards/punishments will be appropriate for that kind of performance, and to what extent will this satisfy the individual’s needs?

Expectancy theory conceptualizes motivation as a process governing choices of behavioural activity. Expectancy theory can be used as a framework for identifying the changes needed to increase motivation.

The strength of people’s motivation to perform (effort) depends on:

- How strongly they believe that they can achieve what is attempted.
- If they achieve the goal (performance), there is the question of whether they will be adequately rewarded.
- If rewarded by the organisation, will the reward satisfy their needs?

The Expectancy theory can be given by the formula:

\[
\text{Motivational force (F)} = \text{Valency (V)} \times \text{Expectancy (E)}
\]

Where

- Valency is the value of the outcome to the person.
- Expectancy is the perceived likelihood of the outcome.

If the valency or expectancy is equal to zero then there will be no motivational force.

The Expectancy theory differs from the theories of Maslow and Herzberg, by the emphasis that this theory places on the individuality and variability of the motivational forces.

In sales management, the expectancy model can be used to analyse whether the company’s compensation system (reward system) satisfies the wants of the sales person. It can be used to analyse whether individual sales personnel perceive the kind and amount of effort management anticipate that they will make to attain set performance levels. Lastly, it can be used to understand how convinced are individual sales personnel that given performance patterns lead to given rewards.

<table>
<thead>
<tr>
<th>‡ Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Identify three activities you really enjoy (e.g., listening to music, playing games, reading a magazine, shopping). Next, identify three activities you really dislike (e.g., going to the dentist, cleaning the house, staying on a restricted-calorie diet). Analyze each of your answers, using the expectancy model, to assess why some activities stimulate your effort while others don't.</td>
</tr>
<tr>
<td>2. Think about the best job you have had. What motivation approach was used in that organization? Now think about the worst job you have had. What motivational approach was used in that organization?</td>
</tr>
<tr>
<td>3. After, a company announced that all its employees would take a 15% pay cut for the next five weeks, some employees stole from the company. How would the expectancy model explain this behaviour of the employees?</td>
</tr>
</tbody>
</table>
3. Common De-motivators of Salesman

Before motivating the salesman, it is important that management should eliminate the existing demotivating factors. There are number of common demotivators which can be categorised under the following categories:

- Inadequate management.
- Inadequate working environment.
- Poor compensations.
- Poor Prospects.
- Job imbalances.
- Job uncertainties.

Job uncertainties consists of insecurity of tenure, ill defined roles and responsibility, poor training and absence of performance standards.

Job imbalances may include personal qualification (over or under qualified), incorrect job assignment, Limited self development opportunities and poor job content.

Inadequate management consists of Limited management skills and experience (poor skill credibility), poor management control, Manager’s prejudices, lack of recognition or appraisal systems, inadequate communications and inadequate company personnel development programmes.

Inadequate working environment includes poor equipment, poor location and poor work relations.

Poor compensation includes demotivating factors such as uncompetitive income and incentive rewards. Inequitable rewards and incentive programmes for similar job function and responsibilities, absence of merit reward recognition, uncompetitive fringe benefits and feeling of being under-valued.

Poor prospects includes limited internal promotion opportunities, limited opportunity to increase knowledge or skills or experience.

Sales Manager should be aware of signs of demotivation in his sales team. These sign includes:

- Increased absence.
- Higher incidents of sickness.
- Complaints about demotivating factors.
- Deteriorating performance.
- Requests for transfers.
- Active job hunting.
- Increased staff turnover.
- Non-Compliance with administrative procedures.
- Increase pessimism at meetings.
‡ Activity

Assume that you are a Manager who is supervising an employee whose performance is very bad. The motivation techniques which you used on this employee have failed. He supports a wife and 3 children with his salary. Discuss what you should do.

1. Should you keep him on the job without expecting too much from him? Or
2. Should you fire him, after giving several warnings? Or
3. Should you fire him, but give him a long time to his termination date. Or
4. Should you use other options?

4. Tackling De-motivated Salesmen

Reward for performance and seniority, better compensation and regular training programmes are believed to make salespersons more competent and effective. Whenever the sales Manager sees that the morale and motivation of the employees are weakening, he should find out the actual reason for it. Only then he could take effective measures to remove the demotivating factor. The Manager may do a self analysis in order to identify his role in demotivation.

The Manager should never try to win an argument with his sales person. The sales person will become demotivated if he loose. It should be certain that limited damage is made by disagreements when it arises. It is important that the fact be separated from the opinions. The Managers should emphasis the areas, which he agrees.

The Manager should listen to the employees because they may have spent a long time thinking about the matters under discussion and they may have excellent ideas.

The Manager should try and put himself in the employee’s shoes and accept employees’ opinions, even if they are at odds with his opinion.

Give people room to save face, especially after criticism, failure or disappointment.

5. Developing Motivational Rewards

Remuneration packages play an important role in motivating employees. But every employee is different and what motivates one employee may be of little or no interest to another. To overcome this problem some companies use ‘salad bar’ approach to remuneration where the employees are allowed to pick and choose their benefit package.

The most visible or obvious part of any remuneration package is the salary. Salary can be made up of several elements including basic pay, commission, bonuses, profit-related pay and share dividends. But it should be noted that many of the most motivated people are also the worst paid.
Many employees do welcome company contributions to pension, insurance or healthcare schemes. It is often much cheaper for companies to offer access to group schemes like pensions than it would be for employees to purchase individual rights.

Company cars remain a popular reward for many employees despite increasing taxation on cars and fuel. Some companies’ offer staff discounts on the company products or services. Most companies provide benefits such as subsidised meals and accommodation.

Some companies reward staff through company events and days out. These types of rewards are mostly used to reward specific achievements of targets such as monthly sales targets. This method is a useful way of rewarding groups of people. Rewarding groups of people helps build team spirit.

Most employees do not see money and benefits as the main motivator. Most people are motivated by doing something worthwhile or working for a worthwhile cause.

It is found that if pay is tied to performance, the employee produces a higher quality and quantity of work. Compensation systems can be made more effective by ensuring that they are directly linked to performance.

### 5.1 Basic Salary or Wages

Although sometimes the terms wages and salaries are used interchangeably they are different in terms of payroll accounting. A wage is the amount of money paid for some specified quantity of labour normally expressed with respect to time (usually per hour). Therefore, wages could be defined as the earnings of employees whose pay is calculated on an hourly basis.

Salary refers to the earnings of employees whose pay is calculated on a weekly, bi-weekly, semi-monthly, or monthly basis. It is a form of periodic payment from the employer to the employee, which is specified in an employment contract.

The advantages of paying by salary or wages are that the sales persons know in advance what their income will be and the expenses on salesmen is known in advance. The disadvantage are that this method tends to shift salesman’s focus towards just making the sale instead of prospecting and creating long-term customer; and since the pay is not related to results salesmen’s performance may not be adequate.

### 5.2 Commissions

Sales commission plans vary to a great extent from one company to another, but is normally based on the amount of sales made during a payroll period. Commission income is considered the same as wages or salaries for withholding and reporting purposes. Commissions are usually computed on a certain percentage or commission rate.
Some commissioned employees may not be exempt from the minimum wage requirement. The employer must determine the regular, hourly rate for each non-exempt sales person during the week and make sure this rate is at least equal to the current minimum wage.

5.3 Bonuses

Companies offer bonuses in a number of different ways. Some bonuses are based on profitable operations of the business and are paid at year-end. A common type of bonus may be offered to salespeople for selling a specific item. Another type of bonus plan, one that may be part of an employment agreement, pays Managers if the yearly sales or profits reach a certain level.

Bonus schemes can be used to motivate employees to perform better. Bonuses linked to clear targets for individual performance will encourage individual effort, but not teamwork. Each person should only have one or two immediate targets to aim for. But when bonuses are linked to company profits it can promote teamwork, as long as individuals can see how they can affect the figures. Team goals could include sales, margins, costs and employee punctuality.

Bonus targets should be set monthly, so results can be monitored immediately. You can target a key area for one month only, to focus on something which would otherwise be neglected. Bonuses based on short-term goals may actually damage long-term profitability. For example, a salesman on commission may neglect after-sales service and harm the company's reputation.

Bonuses should be on top of basic pay. Reducing pay in order to fund a bonus scheme will do more harm than good. Bonuses need not be large to be effective. Bonuses should be paid out of extra profits achieved by hitting well-chosen targets.

Performance Bonus can be based on individual or group performance. Where it is individual based, the payment would depend on performance ratings. In many countries performance bonuses are commonest for executive staff. Some of the criteria for the success of such bonus payments are: group over individual performance, the existence of objective criteria for distribution, and the fact that such criteria are capable of measurement to ensure that what is paid is related to it.

5.4 Contests

Sales contests, a widely used form of sales force special incentives, receive considerable attention in the trade and academic press. Most salespeople are competitive. Contests are great ways to motivate salespeople to strive harder to achieve success, especially if they are competing against each other. While understanding sales persons’ preferences for various contest designs is a critical first step for understanding how sales contests motivate sales people to pursue contest goals, a knowledge gap exists in understanding design preferences.
Most contests need to be short-term, as the immediate gratification of a contest pay-off is critical for salespeople to stay engaged in the contest itself. The shorter contests are also easier to measure for sales Managers, and keep them focused on helping their salespeople generate higher sales success. It is also critical to remember that tracking the success of each sales rep during the contest is very important, and sending out weekly updates to the sales team will keep each sales rep on track and motivated to win.

With expectancy theory serving as a theoretical basis, the authors develop hypotheses about preferences for sales contest components. Following tests of hypotheses using survey and data provided by field sales forces from three companies, exploratory analyses of how individual, supervisory, and sales setting characteristics may affect preferences suggest potential boundary conditions for initial findings. The results lead to an improved awareness of the determinants of contest design preferences as well as insights and implications for sales Managers seeking to design effective contests.

5.5 Stock Options and Profit Sharing

A profit sharing plan, like a bonus plan, can be structured in a number of different ways. An employer may elect to pay cash to employees, give them stock in the business, or set up a deferred compensation fund for retirement.

These schemes are not related to an individual’s performance, but are linked to the profits of an enterprise, a part of which is paid as a bonus to the workers. It may be a cash payment, or a deferred payment kept, for instance, in a special fund for a particular period. There are numerous types of schemes in existence.

Typical Profit Sharing Plans includes Cash or current distribution plans and deferred plans. Cash or current distribution plans provide full payment to participants soon after profits have been determined. Deferred plans credit a portion of current profits to employees’ accounts with cash payments made at the time of retirement, disability, severance, or death. A combination of both incorporates aspects of current and deferred options.

In an Employee Stock Ownership Plan (ESOP) the employees receive stock in the company. ESOPs are tax qualified i.e., in return for meeting certain rules designed to protect the interests of plan participants, ESOP sponsors receive various tax benefits. ESOPs are defined contribution plans that the employers make yearly contributions to that accumulate to produce a benefit that is not defined in advance.

5.6 Job Pre-Requisites

Job pre-requisites of the next job in the career path of the employee can be an effective motivation factor for the employee. Therefore, it is important that the employee should be aware of the job pre-requisites of the next job the employee wants to be doing.
6. Principles of Devising Incentive Schemes

In order for an incentive pay scheme to work, your employees must be fully committed to it. Firstly, the Manager should explain the need for incentive schemes by a written explanation which answers most common questions that may arise. The Manager should then agree with the employees the strategy and list of objectives which needs to be achieved, the way to measure improvements and calculate incentive pay. Thereafter the Managers’ should discuss specific responsibilities and goals with each employee. He should ensure that employees feel that they own the scheme and should take action promptly to resolve any disagreement between different objectives or between employees.

Secondly, the Manager should continue to manage the employees. He should provide regular feedback to help employees achieve their goals. He should listen to their suggestions and agree targets at regular reviews. Thirdly, the Manager should analyse the success of his incentive pay scheme regularly and amend the scheme if it does not work.

Instead of being a motivator, pay can be a demotivator. Pay can be an effective way of undermining motivation, at every level in your business. Be aware that every pay envelope gives a message to employees. This message could motivate or demotivate the employee. For example, if the company pay less than its competitor, employees can become demotivated. Whereas, if the company only give pay increases when employees threaten to quit then it is rewarding disloyalty. If the company pays higher rates to attract new employees, current employees will be demotivated.

The company should avoid the use of year-end profit as a target for bonuses as the employees may not see a direct link between their efforts and their bonuses. The profit figure may be changed due to tax and only a small number of employees will believe their efforts can influence the consequence.

7. Developing Intrinsic Reward Schemes

In work and other contexts, motivation is frequently described as being “intrinsic” or “extrinsic” in nature. Extrinsic reward is the payoff, such as cash an individual receives from others for doing a particular task. Intrinsic Reward is the satisfaction, such as the feeling of accomplishment; a person receives for doing the particular task. This intrinsic motivation that originate from within the person or from the activity itself, positively affects behavior, performance, and well-being of an employee.

Intrinsic reward scheme includes praise and criticism. Praise and criticism are ways of letting employees know when they are doing well and when they are doing badly. It is a type of feedback. When giving feedback it is necessary to take the following points into consideration.

The Manager should always remember why they are giving feedback. The objectives of the feedback are to improve performance, help learning and build employees’ motivation and
self-esteem. Any feedback that does not contribute to these goals is counterproductive and therefore should be avoided.

Managers should respond to people's successes and failures as soon as possible, so they can progress by making many small corrections. The Managers’ should be specific and say exactly what they are congratulating people on or wanting to help them improve. A Manager should show real feelings, that is he should be delighted or disappointed. He should make it clear that business is not just numbers to him. The Manager should also allocate time to praise people properly and not save up praise or criticism for reviews, or for when they lose their temper.

Managers should avoid getting personal and they should describe the negative consequences of an action, rather than criticising the person. They keep your praise and criticism messages entirely separate and should not end a conversation by criticising. Once the Manager has given the message, he should encourage the employee to think through with him about achieving better results. Most Managers find it all too easy to complain about employee’s mistakes. It is important that the Manager should raise criticisms constructively, in ways that will help employees make corrections. Managers should try to praise ten times more than criticising.

‡ Activity
1. Does motivation come from within a human being or is it a consequence of circumstances? Explain.
2. Describe the three needs put forward by McClelland. How are they related to the behaviour of a worker?
3. Identify the variables in expectancy theory.
4. Is it possible for a person to be too motivated, so that his or her performance decreases due to excessive effort? Discuss.
5. Compare goal-setting theory to the MBO process. How are they similar? Different?
6. What is an Employee share ownership plan? How might it positively influence employee motivation?
7. What are the advantages of variable-pay programs from an employee's prespective, from management's perspective?
8. What is gainsharing? Why is it getting more and more popular?
10. As a Manager, what action can you take, to increase the probability of your employees exerting a high level of effort?
11. Identify five different criteria by which organizations can compensate employees. Based on your knowledge and experience, do you think performance is the decisive factor mostly used in practice to compensate? Discuss.
12. “Job satisfaction is not strongly related to job performance.” Discuss.
13. Why might an employee with a low level of motivation be a top performer?
14. If high achievers are better performers, why don't organizations simply hire high achievers?
Chapter 5  
Sales Administration

This chapter will cover the following areas

1. Organizing a Structure for the Sales Force  
2. Typical Sales Organizational Structures  
3. Sales Meetings and Conferences  
4. Skills Required for a Salesmen  
5. Preparation of Job Description and Person Specification  
6. Recruiting and Selecting Sales Personnel  
7. Performance Evaluation of Sales Personnel

1. Organizing a Structure for the Sales force

Organizing a structure divides work to be done into specific jobs and departments; and assigns tasks and responsibilities associated with individual jobs. It coordinates diverse organizational tasks; and clusters jobs into units. Organizing establishes relationships among individuals, groups, and departments. It establishes formal lines of authority and allocates and deploys organizational resources.

Factors that are needs to be considered when organizing a structure for sales force includes marketing strategy, sales strategy, distribution channels and products needs.

1.1 Marketing Strategy Consideration

- Marketing goals and market share objectives
- Market segmentation and product positioning issues
- target market sectors
- Marketing communication

1.2 Sales Strategy Consideration

- identifying and servicing trade customers or product users
- Market coverage objectives
- Sales volume objectives
- Sales value objectives

1.3 Other Organizational Consideration

- Distribution channels
  - Needs of each level of the distribution chain
  - Distribution infrastructure of the market
  - Product needs

Key factors which influence sales force organization design is presented in the following diagram.
2. Typical Sales Organizational Structures

The organizations have a structure because the cognitive capabilities of managers are limited (bounded rationality). The information flows within an organization is imperfect and costly (incomplete and asymmetric information). This information is used to improve the decision-making process and to monitor the results because of its monitoring function, information is likely to be distorted.

Any job activity that links different work units performs an integrative function. The more a firm is differentiated, the greater the need for integration among the units. Differentiation means that the organization consists of many different units that work on different kinds of tasks.

Organization’s internal environment can be differentiated in terms of division of labor or in terms of specialization - division of labor is the assignment of different tasks to different people or groups. Specialization is the process in which different individuals and units perform different tasks. Differentiation is high when there are many subunits and many kinds of specialists who think differently.

Integration is the degree to which differentiated units work together and coordinate their efforts. All the specialized tasks in an organization cannot be performed completely independently. Coordination consists of procedures that link the various parts of the organization to achieve the organization’s overall mission.

The choice of organizational structure determines the up and down flow on the organizational ladder. The choices of organizational structure is based on three dimensions, the principles governing the division of tasks and responsibilities, the depth of hierarchy and the extent of authority or autonomy.
2.1 Organizational Principles

a) Depth and Span of control

Greater depth increases speed of decision-making but adds greater distortion. Information principally flows between adjacent steps in the hierarchy. The wider the span of control, the more the manager’s ability to monitor each subordinate is diluted.

Span of Control is the number of employees who can be effectively and efficiently supervised by a manager. The width of span is affected by skills and abilities of the manager, Employee characteristics, characteristics of the work being done, similarity of tasks, complexity of tasks, physical proximity of subordinates and Standardization of tasks.

b) Authority or Autonomy

The extent of Authority or Autonomy shows the amount of discretion is delegated down the hierarchical ladder. Authority is the legitimate right to make decisions and to tell other people what to do. Authority in organizations resides in positions rather than people. In private business enterprises, owners have ultimate authority. Traditionally, authority has been the primary means of running an organization. A central problem is how much autonomy to give different levels of the hierarchy when dealing with unexpected events.

c) Hierarchy

Hierarchy depicts the authority levels of the organizational pyramid and is divided into three levels top-management, middle management and lower management. Top management consists of strategic managers in charge of the entire organization. The middle management is in charge of plants or departments. The lowest level is made up of lower management and workers and is called the operational level of the organization. The trend now is to reduce the number of hierarchical layers.

Subunits are subdivisions of an organization, subunits with fewer layers have higher operating efficiency. Span of control is the number of subordinates who report directly to a manager. Narrow spans produce tall organizations and wide spans produce flat organizations.
2.2 Centralization and Decentralization

Centralization is the degree to which decision-making is concentrated at a single point in the organization. In these organizations, top managers make all the decisions and lower-level employees simply carry out those orders.

In a Decentralized Organization decision-making is pushed down to the managers who are closest to the action. This can be done through employee empowerment that is by increasing the decision-making power of the employee.

There are a number of factors that Influence the amount of Centralization in an organization. More Centralization is suitable when the environment is stable. It is used when the lower-level managers are not as capable or experienced at making decisions as upper-level managers or when the lower-level managers do not want to have a say in decisions. Important Decisions are made centrally. Centralized decision making are used when the organization is facing a crisis or, the risk of company failure. Most large companies are centralized. Most Effective implementation of company strategies depends on managers retaining their say over what happens.

More Decentralization is preferred when the environment is complex and uncertain and when lower-level managers are capable and experienced at making decisions and they want a voice in decisions. Decisions are relatively minor. Corporate culture is open to allowing managers to have a say in what happens. Company is geographically dispersed. Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions.

Formalization is the degree to which jobs within the organization are standardized and the extent to which employee behavior is guided by rules and procedures. Highly formalized jobs offer little discretion over what is to be done. Low formalization means fewer constraints on how employees do their work.

2.3 Delegation

Delegation is the assignment of authority and responsibility to a subordinate. This can occur between any two individuals in any type of structure with regard to any task. **Responsibility** is the assignment of a task that an employee is supposed to carry out. It should delegate enough authority to complete the task.

Managers remain responsible and accountable for their own actions and those of their subordinates. **Accountability** is expectation that employees perform a job, take corrective action when necessary, and report upward on the status and quality of their performance.

Advantages of delegations are that it permits getting work done through others. The manager saves time and he frees herself/himself to devote energy to other important, higher-level activities. Delegation provides subordinates with more important jobs and with the opportunity to develop new skills and to demonstrate potential. From the organization’s perspective, jobs are done more efficiently and cost-effectively.
Decentralization is the result of the delegation of responsibility and authority. In a centralized organization, high-level executives make most decisions and pass them down to lower levels for implementation whereas in a decentralized organization, lower-level managers make important decisions.

Ideally, decision making should occur at the level of the people who are most directly affected and have the most intimate knowledge about the problem. Most executives now a days understand the importance of decentralizing decision making to the point of the action.

2.4 Mechanistic and Organic Organization

Mechanistic Organization is a rigid and tightly controlled structure. It has High specialization, rigid departmentalization, Narrow spans of control, High formalization, Limited information network (downward) and Low decision participation. Organic Organization is highly flexible and has an adaptable structure. It has non-standardized jobs, fluid team-based structure, little direct supervision, minimal formal rules, open communication network and empowered employees.

2.5 Organization Charts

Organization chart depicts the positions in the firm and how they are arranged. This provides a picture of the reporting structure and conveys information such as different work in the organization, which is represented by the boxes in the organizational chart. The titles in the boxes represent the work performed by each unit. Superior-subordinate connections are shown by solid lines which indicate the reporting and authority relationships. The levels of management indicated by the number of horizontal layers in the chart. All persons or units that are of the same rank and report to the same person are on one level.

2.6 Factors which influence structural decisions

a) **Strategy and Structure** - Structural decisions are influenced by the overall strategy of the organization since Organizational structure follows strategy. Achievement of strategic goals is facilitated by changes in organizational structure that accommodate and support change. Organization may use any of the following Strategy Frameworks:

- Innovation - pursuing competitive advantage through meaningful and unique innovations favors an organic structuring.
- Cost minimization - Focusing on tightly controlling costs requiring a mechanistic structure for the organization.
- Imitation - Minimizing risks and maximizing profitability by copying market leaders requires both organic and mechanistic elements in the organization’s structure.
b) **Size and structure** - Size of the organization can affect the organizational structure. As an organization grows larger, its structure tends to change from organic to mechanistic with increased specialization, departmentalization, centralization, and rules and regulations.

c) **Technology and structure** - Technology used by the organization can influence structure of the organization. Firms adapt their structure to the technology they use.

d) **Environmental Uncertainty and Structure** - Due to the flexibility of organic organizational structures, it is appropriate for dynamic and complex environments. Whereas, mechanistic organizational structures tend to be most effective in stable and simple environments.

### 2.7 Departmentalization

Departmentalization consists of subdividing the organization into smaller subunits. Line departments have responsibility for the principle activities of the firm. They deal directly with the organization’s primary goods and services. The line managers typically have substantial authority and power; ultimate responsibility for major operating decisions; and accountability for “bottom-line” results. Staff departments provide specialized support for line units and are moving toward a role focused on strategic support and expert advice.

#### a) Common Organizational Designs

<table>
<thead>
<tr>
<th>Traditional Designs</th>
<th>Simple structure</th>
<th>Low departmentalization, wide spans of control, centralized authority, little formalization</th>
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<tbody>
<tr>
<td></td>
<td>Functional structure</td>
<td>Departmentalization by function - Operations, finance, human resources, and product research and development</td>
</tr>
<tr>
<td></td>
<td>Divisional structure</td>
<td>Composed of separate business units or divisions with limited autonomy under the coordination and control of the parent corporation.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contemporary Organizational Designs</th>
<th>Team structures</th>
<th>The entire organization is made up of work groups or self-managed teams of empowered employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Matrix and project structures</td>
<td>Specialists for different functional departments are assigned to work on projects led by project managers.</td>
</tr>
<tr>
<td></td>
<td>Project structures</td>
<td>Employees work continuously on projects; moving on to another project as each project is completed.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Boundary less Organization</th>
<th>Virtual Organization</th>
<th>An organization that consists of a small core of full-time employees and that temporarily hires specialists to work on opportunities that arise.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Network Organization</td>
<td>A small core organization that outsource its major business functions (e.g., manufacturing) in order to concentrate what it does best.</td>
</tr>
<tr>
<td></td>
<td>Modular Organization</td>
<td>A manufacturing organization that uses outside suppliers to provide product components for its final assembly operations.</td>
</tr>
</tbody>
</table>
Boundary less Organization is a flexible and unstructured organizational design that is intended to break down external barriers between the organization and its customers and suppliers. It removes internal (horizontal) boundaries by eliminating the chain of command, by having limitless spans of control, and by using empowered teams rather than departments. It removes external boundaries by using virtual, network, and modular organizational structures in order to get closer to stakeholders.

b) The Learning Organization

The Learning Organization is an organization that has developed the capacity to continuously learn, adapt, and change through the practice of knowledge management by employees. A learning organization is characterized by an open team-based organization design that empowers employees. There is an extensive and open information sharing processes. It has a leadership that provides a shared vision of the organization’s future, support and encouragement. A strong culture of shared values, trust, openness, and a sense of community is important.

c) Choosing the right Structure

Choosing the right structure is said to be an art rather than science. The right organizational structure depends on numerous factors – size of firm, stability or dynamism of market, growth-oriented or placid leader or follower.

When choosing a structure one should follow the standard rules of optimization by comparing benefits and costs of each alternative. Benefit may include reduction of planning or production uncertainties, or their effects on transformation costs; enhanced goal consensus. The cost may include information time; information distortion; opportunism; influence costs etc.

There are three main approaches for the division of task and responsibilities, they are Functional (Multifunctional), Multidivisional and Matrix approach.

2.8 Sales Functional Structures

Functional Structure divides tasks and responsibilities by different functions in an organization. For example, an organization can be divided into a number of functional departments as given below.
In a functional organization, jobs (and departments) are specialized and grouped according to business functions and the skills they require. For example, production, marketing, R&D, human resources, and finance. At the most basic level, functional structure is organized around the company’s value chain. Value chain is the sequence of activities that flow from raw materials to the delivery of a product or service. Functional structures are common in both large and small organizations but they may be most suitable in simple and stable environments.

Functional organizations are constrained from decentralizing by delegating complete operational autonomy to functions. This is because the lines of authority are not self-sufficient in revenues.

Advantages of sales functional structures include: a) efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations. The performance standards are better maintained. b) provides greater opportunity for specialized training and in-depth skill development, therefore, economies of scale can be realized. c) Technical specialists are relatively free of administrative work. d) Decision-making and lines of communication are simple and clearly understood.

However, it has disadvantages such as poor communication across functional areas and provides a limited view of organizational goals. People may care more about their own function than about the company as a whole. People may lose focus on overall product quality and customer satisfaction. In a functional organization, managers do not develop knowledge of the other areas of the business and may become specialists and not generalists. Communications among functions may suffer accordingly due to conflicts, which arise among them. High differentiation may create barriers to coordination across functions.

2.9 Divisional Organization

In a divisional organization, units grouped around products, customers, or geographic regions. It is divided into two or more divisions based on related product lines, and subordinate functions beneath divisional heads. It groups all functions into a single division and duplicates each function across all of the divisions. Separate divisions may act almost as separate businesses. Divisions work autonomously to achieve the goals of the organization.

Multidivisional organizations usually assign all operation decisions to divisions, leaving top management to focus on inter-divisional resource allocation and business strategy.
In geographical divisions, divisions are built around geographical distinctions. Advantages of this type of organizational structure are that they are more effective and efficient managers of specific regional issues that arise and they serve needs of unique geographic markets better. Disadvantages of geographically organized sales force are that it results in the duplication of activities across many geographic areas. It can become isolated from other organizational areas.
b) Organizational Structures with Trade Sector Specialization

In many fast moving consumer goods and industrial product companies, more than one sales force emerges over time to serve different trade sectors with the same product range. Various trade sectors may have very different service needs, or requirements for promotional support, and require different inputs of selling time to develop business optimally.

An example of the same products requiring more than one sales force to serve different trade sectors is the wines and spirits trade. The retail sector will require a more aggressive selling style in a very competitive retail environment, product merchandising, in-store promotional displays and consumer promotions encouraging a take-home trial, with selling activity taking place during normal daytime hours. But on-trade will require a different selling style which is less aggressive, perhaps, with emphasis on relationship development with owners/managers, probably a sales team that calls on customers when they are open for trade which in many markets will not be until late in the day or the evenings, different formats of promotional support during peak evening opening hours, not with major feature displays, but perhaps with sponsored events and theme nights.

In the example shown in Figure below, retailers might prefer single unit bubble packs. Building and electrical contractors would want to purchase bulk quantities with price
being the key selection factor. Manufacturers of other forms of electrical products would want component inputs, for designing into their own products, where the component supplier might have to custom design a product of special size or shape to meet the customer's needs. In addition the component manufacturer is likely to want to promote to persons who specify components (such as architects of public sector bodies concerned with public housing). All this can make for a sales force structure with several separate sales teams who are each specialized in a market sector, possibly with special training or experience.

c) Sales Structures with a Product Specialization

Many companies offer more than one product range, and these might be offered to a common customer base, or to different target market users/consumers. In a Product division, all functions that contribute to a given product are organized under one manager. The advantage of this structure is that, the information needs are managed more easily and people have full-time commitment to a particular product line. Task responsibilities are clear and people receive broader training. Flexibility of structure better suits it for an unstable environment. It allows specialization in particular products and services. Managers can become experts in their industry.
But despite these advantages there are also some disadvantages which includes limited view of organizational goals, difficulty to coordinate across product lines, the managers may not acquire depth of functional knowledge and the duplication of functions are expensive.

In such situations there may also be a need for different sales teams to specialize in different product groups, even when they may overlap, calling on some of the same customers. In some instances the different sales teams might call on the same corporate customers, but deal with quite a different group of buyers or specifiers.

Insurance companies typically offer products to meet very different personal needs, such as household insurance, life assurance, and pension and investment plans. Some of these categories are frequently promoted by professional advisers (who typically receive a commission for recommendations), such as lawyers and accountants, and these advisers will need product briefings from specialist salespersons.

Company selling industrial machinery and consumable materials for use with the machinery, such as print binding machinery and the binding materials, or shoe making machinery and shoe components, may also decide to split the sales force into product teams. The machinery may be purchased by one type of buyer supported by specialist specifiers, such as engineers, and the consumables might be purchased by another buyer supported by finished product designers and production managers. Each buying team will have very different objectives and criteria for judging products they are responsible for.
The machinery buyers may have concerns for capital cost, operating costs, spare part and service availability and support, and the sales team may need a level of engineering expertise. The consumable products buying team may be concerned for durability of the consumable inputs in finished products, design and aesthetic factors, ease of use by production operatives, minimum down-time through consumables jamming in machinery, etc. If the products are very technical, it is likely that the sales teams may need to be supported by technical experts who can survey needs or work with engineers in specifying product modifications, as well as supervising tests and trials and providing installation support. A customer service function may need a particular focus on after-sales technical support.

2.10 Structures Supporting Key Account Management

Some of the examples illustrated show a key accounts selling structure, sometimes also referred to as national accounts management. Some comment on the development and role of such a sub-organization is warranted here. In many markets there is a growing concentration of buying points, in part through mergers and acquisitions, and in part through organic expansion. In retailing concentration is found in food, furniture, electrical goods, toys, pharmaceuticals, clothing, service products such as travel and cleaning, and so on. Smaller independent retailers have often banded into voluntary buying groups in an attempt to remain competitive and to buy on better terms from suppliers. Similar trends are found in manufacturing for many product categories, where mergers provide benefits from synergy of operations. Buying then often becomes centralized, rather than each branch or subsidiary organizing its own supply purchasing.

As purchasing becomes more concentrated many suppliers become concerned for their margins (as buyers demand larger discounts, performance rebates, promotional and display allowances in retailing, and so on), and for security of their supply contracts. But there can also be benefits from purchasing concentration and proactive key account management, such as:

- An improved ability to forecast sales as more and better information becomes available.
- Better production planning and plant utilization.
- Improved control over supplies of inputs and inventories.
- More flexibility and control in developing specific sales promotions to support ongoing marketing programmes.
- Opportunities to negotiate larger and longer-term supply contracts.
- New opportunities to supplement standard products with products customized to customer needs (e.g. Private label products for retailers, or customized design of industrial products).
- Concentration of key selling functions to few highly skilled key account business development executives, trained to negotiate with professional buyers.
A possible reduction in the size of a field sales force, resultant cost savings, and an opportunity to focus more management time and effort on developing business with the major account (nationally and internationally).

Key account management thrives on mutual respect and recognition of professionalism in aspects of business relations and negotiating. Neither party benefits from ignoring problems, either in relationships or technically with products or service, and both have a strong interest in satisfactory resolution of problems standing in the way of mutually profitable business development. The account manager must, above all, be an efficient and effective communicator, both with the customers and internally within the selling organization, with a strong ability to influence senior managers. It is critical to select suitable persons to fulfil the job functions, as not all salespersons will have the personal and technical skills and qualities to work as equals with buyers, authorizers, specifiers and any other persons inputting to the buying process within major account organizations.

The size of a national accounts organization will depend on the number of major accounts warranting treatment as key accounts. Many companies find that a few customers contribute most sales turnover and profit, and analysis normally confirms the broad Pareto findings that 80 per cent of sales comes from 20 per cent of turnover (i.e. the 80/20 rule, or Pareto rule). Typically, when trying to assess the number of key account executives needed, look at:

- How many customers provide at least 50 per cent of turnover, or individually represent more than one per cent of sales (then this list can be refined to include the largest and those with most potential as key accounts).
- The number of subsidiaries or branch locations that need servicing for each account (as these should all be the responsibility of a single account manager).
- The amount of time needed for planning and performance monitoring.
- The expected frequency of account contact (at head office and branches).

A simple tabulation of customer sales normally highlights the potential candidates for key account treatment. If there are different product groups or market sectors, the key account structure may have specialists in product groups or trade sectors.

It is interesting to note in this example that, while the top 50 represent a similar proportion of both sales and profits, the ranking for sales and gross margin would not be exactly the same, and there are significant differences between the gross margin yields from various customers. Key account management is not just about generating and managing turnover, but managing the total business partnership of supplier and customer, with a focus on the profitability of trading. The key account organization structure, as a sub-department of the sales division, can incorporate, as appropriate, elements of horizontal, vertical and geographical specialization.
2.11 Export Sales Department Organization

All of the basic principles of developing a sales and marketing organization outlined in this chapter can be applied when structuring an export organization. In some companies export sales operations fall under the control of a sales or marketing director, while in larger organizations export will often be a separate function with its own director heading the organization.
2.12 Matrix Sales Organization

Some companies have found that the traditional pyramidal organizational hierarchy has not always been effective or easy to manage as a company grows in size, and the product range and market sectors served diversify. Internal politics and communication blockages or barriers can result in delays in implementation of strategies and tactics through all the departments that contribute to achievement of an effective plan. Marketing and sales managers cannot manage their own departments in isolation from other specialist functions or production and distribution departments.

The result in some companies has been for a form of matrix management to develop, to supervise projects and sometimes product development and management. In this scenario the team can control planning, decision taking, evaluation and resource allocation, as well as performance monitoring against plans and objectives.

Typically, within the matrix, team leadership would be from a department with key inputs to contribute, such as marketing or possibly sales. Hierarchical reporting relationships would still exist, in that each team member has line superiors who would expect reports. As any reader who has experience of this type of matrix team has probably discovered, the teams can only function effectively where each person has clearly defined roles and contributions, so that disfunctionality and confusion do not hamper progress while managers argue over what they view as incursions into their sphere of operations. While, on the one hand, to internal managers it seems essential to avoid conflict and confusion, what can frequently be overlooked in internal politics is the confusion customers experience when they do not know who, in a company, can effectively manage their business and relationship.

Customers who find they are being contacted by several persons (from the same or different departments), whether on separate or overlapping issues, will first become confused but soon learn to play the supplier's weaknesses in managing communications to their advantage. So whether a traditional pyramidal structure or some form of matrix organizational structure is preferred, lines of communication, both internally and externally, must be clearly drawn, and the roles and responsibilities of individuals clarified.

Matrix organization is a hybrid form of organization in which functional and divisional forms overlap. They have dual reporting relationships in which some managers report to two superiors rather than a single line of command. Advantage of such system is that they have higher degree of flexibility and adaptability. But the disadvantage of matrix organization is that they violate the unity of command principle, reporting to two superiors can create confusion.
3. Sales Meetings and Conferences

Sales meetings are generally organized periodically, often monthly, amongst a group of salespersons with common interests or issues to address, e.g. key account managers, field sales managers, territory salespersons, under the chairmanship of their line manager. Meetings are often planned to:

- Provide feedback on performance of the employee such as any deviations from the standards.
- Share information product or services.
- Address sales promotional activity.
- Address sales targeting.
- Discuss sales force procedures and operational matters.
- Provide sales skill training.

Sales conferences normally draw together the various sections of sales and marketing team, at a national gathering, often only once per year. Often conferences are designed to communicate more momentous developments than might be covered at local sales meetings, and provide a sense of focus and direction to a longer time period, such as the next year.

3.1 Purpose of the Sales meetings and Conferences

A meeting should have a clear rationale and agenda, established in advance in order that all the inputs focus on the purpose. Sales meetings have a number of different purposes. One of the purposes of sales meeting is team building, since participation in the sales meeting promotes team building. Sales meetings may be held to resolve problems or to identify and evaluate alternative options. Sometimes sales meetings are used for providing instructions, new information, selling or marketing technique, training, administrative systems and procedures, policies, programmes etc. Sales meeting can be
used for motivating by focusing on performance feedback, encouragement, productivity, improvement ideas, and exchanges of experiences and ideas. Sales meeting can be used to explore new ideas to improve productivity or performance, or promote the achievement of goals and objectives.

3.2 Factors to Consider in Organizing Sales Meeting

If a sales meeting is to achieve its objectives and also to enhance the sales manager's reputation as a professional within his or her sales team it is essential that it be planned thoroughly. The main complaints of salespersons about meetings are usually that:

- They are too lengthy
- Subject coverage is repetitive
- They don't seem to accomplish anything
- Lot of time is wasted on individual issues not relevant to all the attendees.

The sales manager must avoid these criticisms within his or her own team, and can be done through meeting planning and preparation and addressing each of the following points.

3.3 Conducting Sales Meetings

A sales meeting should be treated like a sales presentation, with the objectives of:

- Gaining And Retaining Attention
- Creating Interest In The Subject Matter
- Generating Desire In The Attendees To Implement The Content Of The Meeting In Everyday Work Practices
- Provoking appropriate action from the participants.

3.4 Seating Arrangements

The configuration of a meeting room has a direct bearing on a meeting’s effectiveness. The ideal room setup can better meet each session’s objectives and enhance the attendees’ learning experience. It is also important to select a meeting room layout that will correspond with your audiovisual needs.

![Screen, Speaker, Chart](attachment:seating_arrangements.png)
3.5 Meeting Formats

<table>
<thead>
<tr>
<th>Case studies</th>
<th>Presentations</th>
<th>Role playing</th>
</tr>
</thead>
<tbody>
<tr>
<td>An individual or team development exercise at meetings, related not just to sales and marketing matters but general management situations</td>
<td>On subjects of interest to the whole group</td>
<td>New techniques or skills can be practised by the group</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Group discussions</th>
<th>Presentations by meeting attendees</th>
<th>Planning sessions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Related to the objectives, theme or content of the meeting</td>
<td>Attendees should be encouraged to make presentations on special subjects or areas of expertise as a development and team building exercise</td>
<td>Groups can turn general plans into specific area or territory plans</td>
</tr>
</tbody>
</table>

3.6 Guidelines in Preparing and Planning for Meetings

a) Set and agree **objectives** and build the content round these.
b) Ensure all speakers are notified of the core **theme**.
c) **Allocate planning, organizational and administrative authority** for the meeting to someone competent to meet the demands of skill and time.
d) Identify and reserve a suitable **venue**. Major conferences often need to be booked a year ahead.
e) Set the **length** of the meeting to be no longer than necessary to accomplish objectives. Two to four hours is common for an area meeting of salespersons or
field sales managers' meeting. An annual conference may occupy much of a day. Meetings should be run strictly to scheduled timings.

f) Prepare a full agenda round the objectives and theme, and organize topics and timings to maintain interest.

g) Decide who should attend and notify early.

h) Plan which communication aids to use. Be sure to use a variety to maintain interest, such as overhead transparencies, flip charts, slides, films or videos, and so on. Presentation aids should be legible to be read by the farthest participant. Speakers should rehearse with their communication aids to ensure fluency and competency.

i) Prepare handouts where appropriate.

j) Obtain draft speeches for guest speakers and ensure they are in line with theme, objectives and time allocation.

k) Consider the most suitable room layout to match objectives, so that all attendees can hear and see presentations, in comfort, with minimal distractions.

3.7 Chairing Sales Meetings

At the beginning of a sales meeting the sales manager leading the meeting should introduce the topics clearly and definitively and define the purpose and objectives of the meeting. Scope of the meeting and questions to matters should be limited so that it can be covered within the time span. Guidelines on rules and procedures should be set for the meeting. Positive and receptive attitudes should be developed in the attending salespersons.

The sales manager, acting as the chairperson in a participatory sales meeting should obtain views and opinions from participants and gather information on the nature and strength of feelings on issues discussed. He should get a reaction on the subject matter, discussion points and proposals.

Sales manager should develop the discussion so that it leads to the desired conclusion, action or acceptance of ideas and proposals. He should produce the intended modification of attitudes, opinions, behaviour, activities, action or techniques. Sales manager should demonstrate a neutrality or impartiality which earns the respect and co-operation of the group in the meeting interest, drawing in people with a contribution to make.

The sales manager must remain in control of the meeting while involving each member of the team as appropriate. He must work to gain acceptance of ideas and a commitment to programmes introduced, communicating the benefits of change in a way the team understands and accepts.

a) Communication aids

Communication aids can encourage salesperson participation and involvement to retain attention and in a sales meeting communication aids are generally used to:
- Direct and retain attention and interest.
- Present often complex information in a meaningful and comprehensible fashion.
- Record salespersons' inputs and comments.
- Involve the sales team in a participatory meeting.
- Increase assimilation and retention of information.
- Summarize main points of presentations.
- Provide a focal point as the meeting develops into a practical planning and implementation session.

A variety of visual communication aids can be used to gain and retain attention

Check which visual aids will help you conduct the meeting, and ensure they are available at the meeting venue. Often you will want to do some preparation, such as writing notes on flip charts, in advance of the meeting. If any form of slides are being used you will need to check that they are in correct running order (it helps to number them). If you are preparing visual aids in advance then consider how to maximize impact through design factors such as:
- Size
- Legibility
- Originality
- Simplicity
- Clarity
- Colour
- Realism
- Relevance to the meeting content and the audience.
3.8 Making Sales Meeting Presentation

The sales manager frequently has to make presentations to groups, including customers, colleagues or his area sales team. The key to successful presentations is preparation. Preparation starts with considering the audience, the purpose and the subject matter.

a) The Audience

Question to consider in preparing for a sales meeting or presentation:

- What is the present level of subject knowledge of the audience?
- What is their experience in relation to the subject matter?
- What is their likely interest level?
- What is the attitudes of the audience?
- What is their ability to assimilate the information being presented?
- Are they familiar and experienced with participating in meetings or public presentations?

b) The Purpose

The sales manager should be clear on his objectives for the sales meeting or presentation. The format of the meeting should be a sign of its purpose, as should the preparation of notes and supporting materials. Typical purposes of meetings include:

- To give a background impression or overview of events, developments, programmes, etc.
- To increase expertise or present detailed information.
- To teach a new skill or modify participant behaviour.
- To present a new point of view.
- To present a programme or course of action.

A meeting that is designed to present detailed information needs to have more comprehensive charts and supporting handouts than a meeting just giving background information. A meeting designed to modify selling behaviour needs to have role-play scenarios prepared for active role-playing in the meeting.

c) The Subject Matter

Once the sales manager is clear on the meeting’s audience and purpose he needs to prepare his notes for his own inputs, structure an agenda, and draft notes on points that he wants to receive coverage in the meeting. Attention to detail at this stage will reduce the risk of a meeting degenerating into a moaning or gossip session. Sales team should leave each of the meetings feeling it was worthwhile and beneficial. Sales manager should look at the subject matter to be covered and his agenda, and jot down all his initial ideas on each topic on a sheet of paper. He should group related points on each topic together and identify the key points the talk can be structured around. Sales manager should identify and research any additional sources of useful information that will help him cover the
subject thoroughly. He should prepare any meeting presentation aids taking account of the ability of the team to absorb information. He should look for ways to involve the audience in a participatory fashion at this preparation stage, and plan how and when to draw them into active participation.

d) Structuring the Presentation

Generally, if you are preparing a formal presentation on a topic, you should divide the presentation into an introduction, core theme and a memorable summary. An introduction includes an overview of the topic and highlights how team members can benefit. Core theme consists of the subject matter and encourages participation, discussion and questions. Memorable summary highlights priorities and key action points.

4. Skills Required for a Salesmen

| Selling | An understanding of the selling and buying processes, and skill in the use of professional selling techniques is essential. A salesperson acquires these skills as a result of training and practice, not as an inherent talent, although a number of personal characteristics facilitate the process of acquiring skill. |
| Product Knowledge | Detailed product knowledge, and related company and marketing knowledge, is essential in selling. Without this the salesperson cannot match his products and programmes to the opportunities of the market place and needs of the customers. |
| Verbal | The salesperson must be able to collect his or her thoughts and make clear, concise and logical presentations, using developed verbal skills, that hold the buyer's interest. |
| Numerical | The necessary level of numerical skills will depend on the demands of a selling job. An account manager will need better developed skills than a territory salesperson. But all sales personnel need sufficient numerical ability to understand data, prepare quotations or costings, calculate prices and volumes, etc. |
| Administrative | Professional selling is not just about talking to customers, but requires an ability to keep good customer records and to handle and process the supporting sales force administrative paperwork. |
| Organizational | The salesperson needs to be able to organize his or her workload, use of time, paperwork, promotional activities, etc. |
| Communicating | Good communications skills are needed if the salesperson is not to experience problems resulting from communication breakdowns. Typically a salesperson must be fluent in verbal communications, and support that with skills in written communication, administrative and organizing aspects of the job as he or she liaises with customers, colleagues and the office support functions. |
Planning is a fundamental sales activity. Without good planning at the level of territory and customer and the resultant implementation of plans, there will be an under-performance against targets and potential.

Selling and sales management are about inspiring and influencing people. This requires developing relationships, people management, motivational and persuasive skills.

4.1 Workflow Analysis

This is a study of the way work (inputs, activities, and outputs) moves through an organization. Job Analysis is the process of gathering, analyzing, and structuring information about the content, context, and the human requirements of jobs. It is the systematic process of determining the skills, duties, and knowledge required for performing jobs in an organization. Job analysis process gathers, analyzes, and structures information about a job’s components, characteristics, and job requirements. It produces the job description (task, duties, and responsibilities) and job specification (KSAOs)

5. Preparation of Job Description and Personnel Specification

5.1 Job Description

The starting point in the recruitment process is to develop a job description and personnel (job holder) specification. A well-prepared job description serves several useful functions for the sales manager, including:

- As a basis for preparing personnel specifications
- Clarifying job functions to sales managers and job holders
- Providing a performance measurement base
- Providing a base for appraisals and other formal and informal counselling
- Aiding inter-job content comparisons
- Facilitating job evaluations.

Poorly prepared job descriptions can produce demarcation disputes, cause interpersonal rivalries and jealousies, or result in unwarranted assumptions of authority by one person or another.

Before recruiting an individual for a job it is important to be clear on what the job is. It is important to be sure the job is quite distinct from jobs being done by other people in the sales organization, otherwise there is a risk of overlapping responsibilities, producing conflict or a failure by job holders to accept personal responsibility for actions or activities; for example, the salesperson's role could overlap with some responsibilities of key account managers, various managers in marketing or support functions, merchandisers or sales promoters.

The typical job description summarizes the nature of a job, its functions, responsibilities, duties and accountabilities, and key competencies of persons appointed to the position.
The reader may already have job descriptions prepared in his or her company format, but if not he/she should develop descriptions for all jobs within the sales organization.

a) Functions and Content of a Job Description

<table>
<thead>
<tr>
<th>Company name</th>
<th>The name of the local operating company.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating divisions and/or department</td>
<td>e.g. Sales Division.</td>
</tr>
<tr>
<td>Job title</td>
<td>Generally descriptive of the key function.</td>
</tr>
<tr>
<td>Job holder's name</td>
<td>This can be inserted where appropriate.</td>
</tr>
<tr>
<td>Reporting relationships</td>
<td>e.g. to the Regional Sales Manager.</td>
</tr>
</tbody>
</table>
| Purpose of the job | Provide a brief summary of the key elements of the job and what is expected to be achieved in the interests of the company. Key data that summarizes the size of the job might be inserted here, e.g.:
   - Numbers of direct and indirect subordinates
   - Numbers and sizes of sales accounts. |
| Job accountabilities | This section should describe the important end results (usually around 8 or 10 items) the jobholder is expected to achieve. It should focus on stating what has to be achieved and why, not how it is to be achieved (which might be covered under the next section). |
| Job content and functions | Describe how the various accountabilities listed in this section are to be achieved. You could detail the main functions and activities, the main tasks of the job holder. |
| Job knowledge and competencies | Detail the main areas of experience, knowledge, skills and personal qualities needed to perform the job competently. |
| Decision making authority (this information should not be communicated at a candidate's first interview*) | Describe the scope for decision making in the job, and the types of decisions the job holder is expected to make, and note any limits on authority. Any relevant quantitative factors should be noted, such as:
   - sales and financial data
   - expenditure, e.g. promotion budgets. |
| Relationships | Outline the key relationships with internal colleagues (e.g. line manager, colleagues in other departments, subordinates) and external contacts (e.g. customers). In some instances it will be appropriate to include an internal organization chart showing job functions, reporting relationships and other key functional relationships. |
| Additional information | This section can be used to add any additional information not covered in the other sections of the job description. |
5.2 Person Specifications

After creating a job description, it is important to consider the kind of person who is required to perform all the job functions. The qualities, skills and experience needed to fulfil the job can all be summarized in a person specification, which is really just a pen sketch of the ideal job applicant. It can be used as a reference point when you are screening job application forms or conducting initial interviews. When preparing person specifications some of the questions the sales manager should consider include the following.

- What are the present strengths and weaknesses of the team?
- What kind of personality will fit with the team?
- What skills/qualities in a new recruit will provide a better balance within the team?
- Do you need more graduate calibre salespersons?
- Do you need to increase the mix of salespersons with particular skills such as numeracy or familiarity with computers?
- Do you need a salesperson with established trade relations?
- Will special qualities and skills be needed to service any particular types of customer?
- Are there any special working hours for contacting customers that require particular flexibility or particular qualities/skills?

The basic standards and requirements you include in the person specification should be factors that can be measured objectively, or where your personal assessment (if they are subjective factors) is critical in considering a job applicant. You really should only set a standard if the ability of an applicant to perform a particular job really may hinge on meeting that standard and an assessment can be made from application forms or at
interviews. The minimum standards set in a personnel specification should be relevant to successful job performance, and optional standards can also be set in respect of qualities or skills that the ideal candidate additionally might possess. Persons who do not qualify in respect of minimum standards set should not normally be interviewed or appointed. Local laws relating to recruitment and employment vary round the world, and it is important that account is taken of these in developing job descriptions, person or job holder profiles, and the methods and manner of recruitment.

a) Content of a Personal Specification

<table>
<thead>
<tr>
<th>Job requirements</th>
<th>Essential</th>
<th>Optional</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Physical characteristics</strong></td>
<td>• 1.70 metres&lt;br&gt;• Physically fit and able to merchandise product in company outlets&lt;br&gt;• No back problems or physical disabilities</td>
<td></td>
</tr>
<tr>
<td><strong>Attainments</strong></td>
<td>• Secondary school education with certificates</td>
<td>• Completed education to 18 years with appropriate certificates&lt;br&gt;• Ideally with at least 2 years working experience in a sales position&lt;br&gt;• Formal sales skill training with consumer goods company</td>
</tr>
<tr>
<td><strong>Special aptitudes</strong></td>
<td></td>
<td>• Linguistic abilities</td>
</tr>
<tr>
<td><strong>Personality/Disposition</strong></td>
<td>• Outgoing&lt;br&gt;• Persuasive&lt;br&gt;• Self-confident&lt;br&gt;• Enthusiastic&lt;br&gt;• Intelligent&lt;br&gt;• Determined/self-motivated</td>
<td>• Leadership qualities</td>
</tr>
<tr>
<td><strong>Interests</strong></td>
<td>• Social interests</td>
<td>• Preferably active, e.g. sports&lt;br&gt;• Preferably keeps up to date with current affairs, e.g. through reading</td>
</tr>
<tr>
<td><strong>Circumstances</strong></td>
<td>• Stable family background&lt;br&gt;• Mobile, with no restrictions travel&lt;br&gt;• Current driving licence</td>
<td>• Living close to territory&lt;br&gt;• Clean driving licence</td>
</tr>
</tbody>
</table>
6. Recruiting and Selecting Sales Personnel

6.1 Sourcing Applications for Sales Positions

a) Job Application Forms

Many companies develop a standard job application form. The advantage of using a standard form (either instead of, or to supplement, individual applications, letters and curriculum vitae) is that managers can see all the relevant information and responses in a standard layout, making it quicker to screen applications. Individual letters and curriculum vitae are prepared by the individual applicant and focus on telling you what they want you to know rather than what you decide you want to know about the person.

The basic information a job application might request include:
- Full name of applicant
- Date of birth, age
- Nationality
- Sex
- Ethnic origin
- Marital status
- Children/dependants
- Address and telephone number (and fax/electronic mail)
- Medical history (including information on recurring ailments and disabilities)
- Physical characteristics (height/weight)
- Driving licence, driving record
- 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

While an advertisement is intended to attract a number of suitably qualified applicants, 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 description of the skills, experience, personal characteristics and qualifications given in an advertisement should enable potential candidates to screen themselves in respect of their ability to match the criteria.
The actual content of the advertisement should give brief coverage to a range of information that helps the potential applicants decide if they have the qualifications and interest to pursue an application by sending in a curriculum vitae or requesting an application form. You should include:

- **The job title** e.g. Territory salesperson, key accounts manager, area sales manager, etc.
- **The company name and logo.** Identify who you are, with pride in your company and heritage. Some advertisers prefer to remain anonymous, possibly using post office box numbers or recruitment agencies. This tends to be preferred when there are strong reasons why you do not want others within the company to know about a recruitment.
- **The products.** Clarify the nature of your products, and the markets you are serving, possibly with a product illustration if appropriate (a useful way to attract attention to an advertisement, particularly if you have an established product).
- **The job functions.** State the basic key functions, accountabilities and responsibilities that help a potential applicant relate to his or her present experience.
- **Location or territory to be covered.** State clearly where the job will be based, as the issue of relocation can be a factor in attracting to, or deterring from, the job.
- **Candidate skill and qualification requirements.** State what minimum related sales or sales management experience, and other experience, you expect.
- **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.
- **Details of how to apply for the vacancy.** You might note if you want applicants to phone in for an application form or to send a curriculum vitae.

As a matter of courtesy and goodwill you 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 your business in the local community.

c) Sources of Recruitment

A sales organisation may have internal and external sources in order to seek for suitable candidates. The following diagram will indicate this composition.
6.2 Screening Applicants

Screening applicants is the process of comparing the various candidates for a position with the qualities, skills and experience judged necessary to fulfil 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.

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 you require in deciding who to invite for interview, or what to pursue during the interview, is presented in a standard format, which saves you 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 your requirements.

- Applicant home location in relation to the job location
- Holding a clean current driving licence
- Age in relation to specified range
- Relevance of job experience
• 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 you should really be concentrating on objective criteria and trying to avoid rejecting applications for emotional or subjective reasons. As a rule you 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.

a) Screening Applicant Interests

While it may be subjective to attach much importance to hobbies and interests prior to an interview, sometimes these can indicate special skills or attributes. For example: an applicant might be a youth 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 you can probe the breadth, depth, pattern, commitment, stability/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 Section 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 (tasks,
duties and responsibilities). Benefits of person-job fit is that it result in higher employee performance and lower turnover and absenteeism.

6.3 Conducting Interviews

The selection process will normally take more than one interview, possibly supported by other forms of assessment tests. Candidates you considered most suitable should be invited for an interview with you or a personnel manager as soon as possible, and if you 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 unwise to try to slot interviews in between other appointments and management activities. Comparisons will be less meaningful and interviews less thorough if you 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 your office or a hotel room.

The time you need to allocate to an interview so that you can satisfy yourself you have formed an objective assessment of a job applicant will vary according to your personal interviewing skills. Generally you 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 you conduct the interview and its general content is critical to obtaining relevant information to enable you to evaluate candidates in the minimum time.

The possible broad structure of the interview process could consist of:

1. Personal introductions. Introduce yourself 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 your introductory presentation to ensure you 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. A brief history of the company and outline of main company philosophies
   b. A product range summary (best shown by photographs and examples)
c. The job functions (you can provide a job description now or while the candidate is waiting for the interview)

d. 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 unwise to permit yourself to wander off at a tangent in response to distracting questions or comments.

When conducting an interview you will need to make brief notes as a record of what you have discovered in addition to the information contained in the job application form, and to record your observations and conclusions. The notes will act as a pen picture later when you come to review the merits of each of the applicants you have seen. It is useful to highlight on the interview notes record any points that might need further probing at the shortlist interview.

**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.**

Semi-structured Interviews

- Behavioral interview
  - Applicants are asked to give specific examples of how they have performed a certain task or handled a problem in the past.
  - Helps discover applicant’s suitability for current jobs based on past behaviors.
  - Assumes that applicants have had experience related to the problem.
- Situational interview
  - Applicants are asked how they would respond to a specific job situation related to the content of the job they are seeking.

Less Structured Interviews

- Nondirective 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.
- Stress Interviews
  - An interview designed to create anxiety and put pressure on an applicant to see how the person responds.
Effective Interviewing

- Conducting an Effective Interview
  - Planning the interview
  - Controlling the interview
  - Using proper questioning techniques
- Question types to avoid in interviews
  - Yes/No questions
  - Obvious questions
  - Questions that rarely produce a true answer
  - Leading questions
  - Illegal questions
  - Questions that are not job related

- Types of Errors
  - Similarity error: preferring candidates similar to themselves
  - Contrast error: comparing candidates against recent candidates rather than a standard.
  - Overweighting of negative information
  - Race, sex, and appearance bias
  - First impression error
  - Halo error: When either the interviewer’s overall impression or strong impression of a single dimension spreads to influence his or her rating of other characteristics.
  - Non-verbal factors: smiling, nodding, eye contact, clothing, perfume
  - Faulty listening and memory interviewers may miss a substantial part of what the interviewer says
  - Leniency or severity effect: When there are no differences between what constitutes a 5 or a 3 on a 5-point scale for individual raters.

6.4 Short List Applicants

Once the first interviews have taken place, and objective decisions being made about which candidates warrant further consideration, a second meeting with each of the short listed candidates should take place to further probe 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 judged most likely to meet the requirements of the job and to elicit additional information about their suitability to the job and the company environment
o Give other persons in the company team a chance to meet the candidates and provide an input to their suitability.

o Allow the candidate 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.)

o 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 appropriate, 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 appropriate then they should be discussed and developed with your 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.

6.5 Checking References

Prior to making a formal job offer, but after completing the selection process to the point where you have a favoured candidate, you 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.
- 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 provide 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 you identify yourself and confirm you 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 you, and start the flow of information. Then you can proceed to elicit some additional information with open questions.

**Background Investigation**

It's 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.

**Fair Credit Reporting Act**
- Requires disclosure of a credit check
- Requires written consent of applicant
- Requires a copy of credit report be given to the applicant

**Giving References on Former Employees**
- Employers can incur a civil liability for statements made about former employees.
- Employers have adopted policies restricting the release of reference information to name, employment dates, and job title.

**Risks of Negligent Hiring**
- Employers must exercise “due diligence” in investigating an applicant’s background to avoid suits for the actions of their employees.

### 6.6 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:

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

7. Performance Evaluation of Sales Personnel

7.1 Purpose Evaluating the Performance of Sales Personnel

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 consistant 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
- To improve performance

7.2 Approaches in Evaluating Performance of a Salesman

Although it is impossible to determine with precision all the performance evaluation approaches used by sales organizations, several studies have produced sufficiently consistent information to warrant some general conclusions
a) Most sales organizations evaluate salesperson performance annually, although many firms conduct evaluations semiannually or quarterly. Relatively few firms evaluate salesperson performance more often than quarterly.

b) 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.

c) Sales organizations that set performance standards or quotas tend to enlist the aid of salespeople in establishing these objectives. The degree of salesperson input and involvement does, however, appear to vary across firms.

d) Many sales organizations assign weights to different performance objectives and incorporate territory data when establishing these objectives.

e) Most firms use more than one source of information in evaluating salesperson performance. Computer printouts, call reports, supervisory calls, sales itineraries, prospect and customer files, and client and peer feedback are some of the common sources of information.

f) Most salesperson performance evaluations are conducted by the field sales manager who supervises the salesperson. However, some firms involve the manager above the field sales manager in the salesperson performance appraisal.

g) Most 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.

These results offer a glimpse of current practices in evaluating salesperson performance. Although performance appraisal continues to be primarily a top-down process, changes are taking place in some companies leading to the implementation of a broader-based assessment process.

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.

To provide information that can serve the organization’s goals and that complies with the law, a performance evaluation system must provide accurate and reliable data. This is enhanced if a systematic process is followed.

Who should evaluate the employees?
- Immediate supervisor
- Rating by a committee of several supervisors
- Rating by the employee’s peers (co-workers)
- Rating by the employee’s subordinates
- Rating by someone outside the immediate work situation
• Self-evaluation
• Rating by a combination of approaches

a) Traditional Top-Down Appraisal

Six Steps for a Systematic Process:
1. Establish performance standards for each position and the criteria for evaluation
2. Establish performance evaluation policies on when to rate, how often to rate, and who should rate
3. Have raters gather data on employees’ performance
4. Have raters (and employees in some systems) evaluate employees’ performance
5. Discuss the evaluation with the employee
6. Make 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, detect 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.

Positive Features of 360-Degree Appraisal Systems:
• Multiple perspectives of a person’s performance
• Ratings can evaluate person based on actual contact and observation
• Feedback is provided from multiple directions (above, below, and peer)
• Upward feedback when anonymous, results in full participation
• Learning about weaknesses and strengths is motivation

Negative Features of 360-Degree Appraisal Systems:
• Feedback from all sources can be overwhelming
• Rater can hide in a group of raters and provide harsh evaluations
• Conflicting ratings can be confusing and frustrating
• Providing feedback that is constructive requires a plan and well-trained raters
• Not typically found in organizations
7.3 Key Issues in Evaluating and Controlling Sales Performance

An outcome-based perspective focuses on objective measures of results with little monitoring or directing of salesperson behaviour by sales managers. By contrast, a behaviour-based perspective incorporates complex and often subjective assessments of salesperson characteristics and behaviours with considerable monitoring and directing of salesperson behaviour by sales managers. On balance, these implications provide strong support for at least some behaviour-based evaluations in most selling situations. In the absence of any behaviour-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 behaviour-based measures when evaluating salesperson performance. Research indicates that some firms use a hybrid approach to controlling the salesforce. The hybrid form was found to place considerable emphasis on the following: supervision; evaluation of attitude, effort, and quantitative results; and complete, accurate paperwork. However, the relative emphasis on outcome-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.

Employees’ Problems with Performance Evaluation:
- Employees do not understand the system or its purpose
- Employees are not work-oriented
- Evaluation may be below the employee’s expectations

7.4 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: behavioural and professional development (behaviour-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.
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

### 7.5 Behavioural Criteria

The behavioural dimension consists of criteria related to activities performed by individual salespeople. The emphasis is on evaluating exactly what each salesperson does. These behavioural 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 behavioural 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 service activity.

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

### 7.6 Professional Development Criteria

Another dimension of considerable importance in evaluating the performance of individual salespeople relates to professional development. Professional development criteria assess improvements 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 situation. The professional development criteria introduce a
longterm perspective into the process 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 behavioural criteria might be combined into one category, we prefer to keep them separate to reflect their different perspectives.

7.7 Results Criteria

The results achieved by salespeople are extremely important and 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, some research shows 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. Aside 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 reasonable 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.

Statistical packages can then be used to estimate the parameters of the regression equation. For example, if you are a district sales manager interested in forecasting territory sales, you would identify and measure specific environmental, organizational, and salesperson factors as well as sales for each territory in the previous year. You could then develop a regression model of the following form:

\[
\text{Territory sales} = a + (b1)(\text{environmental factor}) + (b2)(\text{organizational factor}) + (b3)(\text{salesperson factor})
\]

where \(a, b1, b2, \) and \(b3\) values are the model parameters supplied by the regression procedure to define the relationship between the determinant factors and territory sales.
Although this type of model might be useful, it suffers from two basic weaknesses. Firstly, it incorporates only the independent effects of the determinant variables, yet these variables are highly interrelated. Secondly, this type of equation is linear, yet the determinant variable relationships are probably nonlinear. These weaknesses can be addressed by performing the linear regression on the logarithms of the actual data, producing a multiplicative power function of the following form:

Territory sales = (a) \( \text{environmental factor}^{b1} \) \( \text{organizational factor}^{b2} \) \( \text{salesperson factor}^{b3} \)

This function is nonlinear and incorporates interactions through the multiplication of determinant variables. The regression model generates a specific sales forecast for each territory, and it also provides information concerning relationships between determinant factors and sales.

The regression forecasting approach develops sales forecasts that explicitly consider the characteristics of a territory or other planning and control unit. Thus, these regression forecasts can be translated directly into sales quotas. Sales management might use these regression sales forecasts as sales quotas for each territory. Alternatively, sales management might adjust the forecasts up or down based on information about the territories not incorporated in the regression model.

The regression approach can be used to develop sales forecasts and establish sales quotas at all sales organization levels. The determinant variables and measures are typically different depending on whether the control unit is a territory, district, region, or zone. Nevertheless, accurate sales forecasts are critical for establishing valid sales quotas at all sales organization levels.

Although forecasts provide the basis for developing quotas, they must be adjusted to determine each individual's quota. Research suggests that salesperson performance can be enhanced by assigning more challenging quotas to experienced salespeople who have demonstrated exceptional competence or to novices who quickly exhibit high potential.

**a) Profitability**

A potential problem with focusing on sales results is that the profitability of sales is not assessed. Salespeople can affect profitability in two basic ways, salespeople have an impact on gross profits through the specific products they sell and/or through the prices they negotiate for final sale. Thus, two salespeople could generate the same level of sales dollars and achieve the same sales/sales quota evaluation, but one salesperson could produce more gross profits by selling higher margin products and/or maintaining higher prices in sales negotiations.

Salespeople affect net profits by the expenses they incur in generating sales. The selling expenses most under the control of salespeople are travel and entertainment expenses. Therefore, two salespeople could generate the same levels of total sales, the same
sales/sales quota performance, and even the same levels of gross profits, but one salesperson could contribute more to net profits through lower travel and entertainment costs.

Sales organizations are increasingly incorporating profitability criteria into their salesperson performance evaluations. The most frequently used profitability criterion is net profit dollars. Selling expenditures relative to budget is also heavily emphasized. The need to address profitability criteria is especially important during a slow-growth, competitive environment in which sales growth is so difficult and productivity and profitability so important.

Conducting a comprehensive evaluation of salesperson performance typically requires consideration of behavioural professional development, results, and profitability criteria.

7.8 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:-
- Job relatedness - The performance evaluation method should be designed to meet the needs of each specific sales organization.
- Reliability - The measures should be stable over time and exhibit internal consistency.
- 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.
- Comparability - The results of the performance evaluation process should make it possible to compare the performance of individual salespeople directly.
- Discriminability - The evaluative methods must be capable of detecting differences in the performance of individual salespeople.
- 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 on 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 behavioural 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. Other disadvantage includes

- Restrictions on the range of possible rater responses
- Differences in the interpretations of the meanings of scale items and scale ranges by raters
- 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. Many 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 computative 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 of some goal-setting procedures is normally desirable. This is especially true for performance criteria related to quantitative behavioural, 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 behavioural, 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 consist 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

d) Behaviourally Anchored Rating Methods

Behaviourally Anchored Rating Scales (BARS) is unique due to its focus on trying to link salesperson behaviours with specific results. These behaviour 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 salesforce. Salespeople are used to identify important performance results and the critical behaviours necessary to achieve those results. The critical behaviours 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 behaviours have been assigned numbers on a 10-point rating scale to reflect the linkages between engaging in the behaviour 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 behaviours. The results and behaviours identified in this manner are specific to a given selling situation and directly related to the job of the salespeople being evaluated. Research indicates that positive feedback about sales behaviours have a greater impact on salesperson behaviour 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 unique aspect of BARS is the focus on linkages between behaviours and results. No other approach incorporates this perspective. In sum, the basic methods for evaluating salesperson performance include graphic rating/checklist methods, ranking methods, objective-setting methods, and BARS
methods. Each approach has specific strengths and weaknesses that should be considered. Combining different methods into the salesperson performance evaluation process is one way to capitalize on the strengths and minimize the weaknesses inherent in each approach.

7.8 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

- **Varying standards** – Here the rater rates similar performance differently.
- **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
- **Central tendency error** – This is where the rater rates all employees in a narrow range in the middle of the rating scale.
- **Rater bias** – This error occurs when a rater's values or prejudices distort the rating.
- **Halo effect** - This involves rating a-person high on all items because of performance in one area.
- **Contrast error** – This is the tendency to rate people relative to others rather than against performance standards.

7.9 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.

Poor team performance is often not the fault of individual team members but of management.
a) Using Performance Information

Using different methods to evaluate the behaviour, professional development, results, and profitability of salespeople provides extremely important performance information. The critical 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 disbursements, special recognition, promotions, and so forth.

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. Merely 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 instance, in regard 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 analysis suggests 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 the causes of performance problems and identify the appropriate 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 is 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 is 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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<td>1. What are some of the problems associated with improperly executed recruitment and selection activities?</td>
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<td>2. To enhance sales force socialization, recruitment and selection should assure realism and congruence. How can this be accomplished?</td>
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<td>3. Describe the relationship between conducting a job analysis, determining job qualifications, and completing a written job description.</td>
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### Activity

#### Evolving Recruitment Methods

Many companies are starting to change the ways they recruit in order to improve the recruiting efficiency. They make use of innovative recruiting approaches that bring imagination and aggressiveness to a company's overall recruiting function. Innovations are occurring in several part of the recruiting process. Here is a look at innovations in several areas.

**Recruitment advertising** - An increasing number of companies are supplementing and even replacing the traditional classified advertisement with creative, clever, eye-catching advertisements. These advertisements are essentially a company's resume and cover letter, designed to send a unique and memorable message about the company to sought-after prospective applicants.

**Contract recruiting** - The contract recruiter is a relatively new type of external specialist who is contracted on a short-term basis to carry out recruiting functions for diverse job openings. The contract recruiter goes through applicants resumes, conducts interviews, coordinates campus recruiting, prepares and executes formal offers, and performs several numbers of contractual recruiting responsibilities. These recruiter provides several benefits and therefore are becoming popular. A recruiter can be quickly brought in to handle the sudden needs for immediate hiring which may occur when a company is undergoing exceptionally fast growth. Here the recruiting is performed without hiring expensive permanent staff. The contract recruiter is self-employed and is paid at an hourly rate negotiated with the client company, he is not associated with an employment agency and does not receive a commission or a percentage of the hirer’s salary. Recruiters can also take up the role of external, objective advisers to the company's human resource function. Some contract recruiters develop expertise in certain employment fields. Companies with hiring needs in these areas benefit from the specialists' contacts and highly focused capabilities. Some companies hire the same recruiters time and again, finding that the subsequent knowledge of the company's recruiting needs and functions that the recruiter acquires helps to further reduce per-hire costs.

**Campus recruiting** – Instead of selecting recruits from the set of applications received, some companies are focusing efforts on a set of selected recruits, a number of students in their junior year. Many companies are creating programs to provide professors more in-depth understanding on the company's career opportunities for graduates and hope that this information will be communicated to students. Some companies are changing their recruitment brochures by developing smaller, more individualized publications that provide information on particular jobs and departments and information on the community where a prospective applicant would work. Invitation letters to a campus
interview are personalized, often explaining why the company is interested in that particular student. More companies are producing recruiting videos for show on campus. Companies are also paying more attention to the quality of their on-campus interviewers, providing their recruiters with training in communications skills. And many firms are replacing the form rejection letter with one that is more tactful and considerate. Firms are mindful of the impact that a word-of-mouth reputation created by an inconsiderate, uninterested recruiter can have on a company's campus recruiting efforts.

**Computer databases** - Computer databases are being developed as job and resume data banks. Jobsnet, a computer database network, allows job hunters to place their resumes in the network. Companies pay a fee for access to the database. A company can search the database by specifying any of a number of criteria, such as how recent the resume is. Some college placement centres are also establishing computer databases to link students with prospective jobs. For example, IDM, Sri Lanka, has established Job Search, a computer database of job information. The network provides job listings and is available for all students.

**Employee referrals** – A growing number of companies are aggressively promoting referral campaigns with special themes and prizes. Referral bonuses run the range from money and trips to time off and gift vouchers. Many referral programs are periodically given a boost with new bonuses and new themes.

**DISCUSSION QUESTIONS**

- Assess the effectiveness of a recruitment advertising strategy that relies on imaginative, highly visual, eye-catching advertisements. What are the potential strengths and drawbacks of this approach to recruitment advertising?
- What type of company would benefit most from contract recruiters? What type would benefit least?
- Suppose you are faced with the task of developing a college recruiting strategy for obtaining talented business school graduates with degrees in management information systems. Demand for these individuals is currently very high; supply is limited. Develop a recruiting strategy that addresses innovations discussed in the case and includes your own ideas.

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Chapter 6
Sales Budgeting and Forecasting

This chapter will cover the following areas
1. Sales Forecasting
2. Sales Budgeting

1. Sales Forecasting

1.1 Understanding the Scope of Sales Forecasting

Sales forecasting involves a number of steps. Firstly, it involves estimating the total size of the potential market and the current level of total market demand for a product or group of related products. Secondly, it involves estimating the supplier’s current share of the total market demand, and finally it involves forecasting the level of sales the company would expect to achieve in each market sector based upon particular marketing strategies.

In rapidly evolving markets, forecasting can be critical to fiscal success. When companies have insufficient inventory to meet market demand for new products, competitors can rapidly net reseller’s mindshare by meeting their shortage-induced needs.

When a large percentage of revenues generated in the indirect channel, forecast reliability greatly depends on collecting and processing accurate information from reseller and distributor partners. Simply taking last year's sales and adding a set percentage is not a forecast in any sense that a sales forecaster would find acceptable. The forecast growth of the company must be benchmarked against external data, to ensure that the company is keeping pace with the market and competition.

Sales managers responsible for forecasting and achieving sales must satisfy themselves that the market demand is not rising faster than the demand for their own products. The issue of poor data availability can be addressed through desk research into markets and customers and through market research into total product category (and substitute product) sales, including local production and net imports to estimate total local demand in each market. Without appropriate forecast information, vendors can also suffer overstocking problems. When resellers order stock through distributors, the indirect channel can become "stuffed" with inventory, causing distributor orders from the vendor to drop suddenly and remain reduced for months.

1.2 Planning Time Spans for Forecasting

a) Short-Range Forecast

Short-term forecasting usually employs different methodologies than longer-term forecasting. Short-term forecasts tend to be more accurate than longer-term forecasts.
Short term forecast are generally less than 3 months up to 1 year. Forecasts which are categorized under short term forecast are job assignments, production levels, Specific product quantities, machine capacities planning, purchasing, job scheduling and workforce levels.

**b) Medium-range forecast**

Medium range forecast ranges from 3 months to 3 years. It consists of sales and production planning, budgeting, product groups, department capacities and sales planning, production planning and budgeting.

**c) Long-range forecast**

Long range forecast are forecast which are made for more than 3 years. Forecast such as new product planning, facility location, research and development, product lines, factory capacities, planning for new products, capital expenditures, facility location or expansion and R&D.

Medium/long range forecasts deal with more comprehensive issues and support management decisions regarding planning and products, plant and processes.

**1.3 Types of Sales Forecasting**

**Sales Volume Forecasts and Sales Value Forecasts**

Estimating the total market size for a product category is the first step for any forecasting, and then an estimate of the share of the total market that the company can expect to achieve through a proactive marketing programme is made.

Sales forecasting is mostly concerned with predicting sales volumes and sales values. The strategies the company plans to take up in pursuing its marketing objectives are important when forecasting volumes and values, along with the product mix, and expectations of market price movements.

Most sales forecasts focus more on estimates of sales volumes and revenues. Attention must be given to the product mix expected to be sold because the sales volumes and revenues are affected by the change in product mix.

In addition, since in good forecasting practice the marketing strategy is used to derive the forecast, it is important to consider strategies and marketing expenditure when forecasting. Forecasts must be adjusted to reflect the likely impact of the changes in the strategies and marketing expenditure.

The marketers need to be involved with the accountants in creating the budgets, taking into consideration of any resources limitations when the forecasts are developed from the marketing strategy.
The values of sales should go with the revenue budget. Operating costs, material inputs and staffing levels needed to achieve the forecasts should be estimated. Marketer can benchmark performance and forecasts against the estimated market potential and market demand.

1.4 Main Methods of Sales Forecasting

Forecasting can be done at the macro level of the total market or industry or it can be done at the micro level of the company down to the individual customers. Forecasting normally needs to be undertaken at both levels.

Outcomes of the forecasting done at both levels help managers to come to a reasoned view of realistic and achievable sales forecasts or targets. These can be looked at in relation to the overall goals and objectives for the market, and the range of marketing and sales strategies and tactics to be employed in a marketing plan to ensure their achievement.

Macro and micro forecasting techniques can be categorised into two groups, forecasting techniques which deals with future demand and forecasting technique which deals with current demand.

These forecasting techniques can be quantitative or qualitative. Quantitative techniques are used when numerical records are available which will form a firm basis for estimates and forecasts. The quantitative techniques mostly use appropriate computer programs and spreadsheets.

Qualitative techniques rely greatly upon the judgement of the forecasters and their market knowledge and assessments of trends.

1.5 Forecasting Current Demand

First of all, market potential for each market sector and the overall market for company products should be estimated, and then analyse this market. In other words current demand and the company share of the current demand can be used in formulating marketing strategies to develop the company's sales and market share.

a) Total Market Potential Analysis

Market potential is basically an estimate of total sales potential for all industry suppliers in a market (maximum demand) in a time period based on the number of potential users and the purchase rate. Actual industry sales are usually less than market potential. The industry purchase rate is influenced by price levels, promotional expense, and the number of stores stocking the machines. Market potential will be larger than actual levels of demand this is because it takes time to persuade people to purchase luxury products such as digital camera, and because some can't afford them.
Company sales will generally be lower than industry sales. Company sales potential is a part of total industry demand. It is the maximum quantity a firm can sell in a time period under most favourable conditions. The ratio of company sales to industry sales is a measure of the market share of the organization. Volume or value being made can be estimated using quantitative techniques. Forecaster must first make some assumptions about what qualifies a person as a prospective buyer. Number of prospective buyers for a product is always difficult to estimate. In order to estimate the number of potential buyers, the target market should be profiled or qualified in a manner which relates to product consumption or use.

With industrial products, macro market estimate is often difficult to develop with any accuracy, although some good estimates can be built up from micro-level data. A starting point is often to attempt to establish the number of persons employed in an industry or market sector that uses the products, and apply a ratio of usage based on experience or rational criteria.

In many developed countries government organizations monitor industry statistics of production and consumer expenditure, and desk research to access this data can help in developing estimates of market potential and market demand for products. Manufacturing companies are normally classified by standard industrial classification (SIC) codes, and if a company's industrial products have applications in certain industries then accessing government statistics and lists of companies in appropriate SIC classifications will assist the sales manager in estimating market potential and in subsequent sales forecasting.

**b) Industry Sales and Market Share Methods**

It’s often easier for consumer goods producers than for industrial products suppliers for making quantitative estimates of industry sales and market shares. The following diagram shows the sources can be used as first steps in developing industry sales estimates and competitor shares,
c) Multiple Factor Index Method

Multiple factor index method is used for forecasting regional demand. It is most commonly used by consumer goods companies when

- Wanting to build national forecasts from known regional data about a product category, or
- Trying to break down national forecasts to regional forecasts.

A reasonable range of relevant demographic data on a population is needed in order to build an index relating to demand and potential for growth. The Multiple Factor Index method is more complex than most sales forecasting techniques unless markets have a lot of relevant index data readily available.

In some markets where government department monitor consumer expenditure, data showing national expenditure on a range of product categories and regional variations in expenditure may be available, sales forecasters may be able to use this data to make forecasts of regional sales as a percentage of national forecast sales.

d) Market Build Up Method

Market build up method is a quantitative technique which is used for both industrial and consumer goods. It involves building up from the micro level to give an overall macro assessment of sales or forecast. In this method the sales forecaster requires access to lists identifying the potential buyers for a product. With an industrial product, an initial profile can be developed for typical potential users, and any listings of companies by standard industrial classification (SIC) codes might be used to identify other companies matching the user profile.

If there are a large amount of prospective customers in the product category the data acquired from a sample set of users can give wide standards to construct market demand estimates.

1.6 Forecasting Future Demand

Forecasting the future is much more of a complex process, since a number of variables must be considered which may include changes in the customer preference, technology etc.

Using both quantitative and qualitative techniques, majority of future forecasting activity is concentrated on macro market forecasts.

a) Time Series Analysis

A time series is a set of numbers where the order or sequence of the numbers is important, e.g., historical demand.
Time Series analysis is a statistical procedure which can be used for studying historical sales data. Analysis of the time series identifies patterns, which once identified can be used to develop a forecast. It involves separating and assessing four main types of sales variation which includes trend, cyclical variation, seasonal variations, and other irregular variations. Time series analysis is mostly used in long term forecasting. Time series analysis is more appropriate for short term sales forecasts only where sales patterns are clearly defined and relatively stable from year to year.

This method normally makes use of computer programs. It includes the following main statistical techniques.

- Finding the line of best fit involves plotting the actual historical data and determining a line (trend line) which lay close or on most of the plotted points.
- Moving averages are practical techniques that smooth data in a time series, showing a trend that is not distorted by serious seasonal, cyclical or random fluctuations. In this method, an averaging period is selected. The forecast for the next period is the arithmetic average of the averaging period most recent actual demands. When new demand data becomes available, the oldest data is not used therefore the term “moving”. The forecast will become less responsive to fluctuations in demand when averaging period is increased. When the averaging period is decreased, the forecast will become more responsive to fluctuations in demand. One of the limitations of simple moving average technique is that they do not respond quickly to unexpected or significant changes in the pattern of sales.
- Exponential smoothing is where the weights used to calculate the forecast are exponentially distributed. Extra weighting is given either to earlier or to more recent data in an effort to take account of more significant changes in the pattern of sales.
- Forecasting from time series data using standard deviations is another quantitative technique, which can be used at the level of industry or company sales. This is probably unlikely to be used by most sales forecasters except possibly within major corporations serving major market sectors. This technique can be developed easily using computer program such as spreadsheets. It is most suited where there is a repetitive seasonal sales pattern. The objective is to measure the seasonal fluctuations, typically by month or quarter of the year, in terms of their deviation from the average trend, then to project the trend forward, adding back in the seasonal deviation factors for each quarter.

b) Statistical Demand Analysis

The limitations of forecasting like time series is that it treats sales only as a function of time. They do not take account of any other factors which affect sales. For example, factors such as price, promotion, income levels, population change, new technology or product varieties can influence demand and thereby can affect sales. To overcome this limitation there are many statistical demand techniques referred to as causal analysis techniques are available. These include:
o **Regression analysis** – In this technique, equations are developed that relate the volume of sales to a number of independent variables known to impact on sales performance and a line of regression (line of 'best fit') describes in quantitative terms the underlying correlation between any two sets of data. These independent variables may include advertising, salesperson call rate, number of distribution points, promotional expenditure, display activity, etc.

o **Econometric models** – In this technique the interdependent relationship of a number of factors that affect sales and profits are examined.

o **Input/output models** - This technique requires some knowledge of the expected level of output from users of the forecaster's products. Input/output models might be very useful for component forecasting where projections will include the demand for inputs in relation to outputs in user industries.

c) **Market Sales Tests**

Normally in market sales tests for new consumer products, the products are distributed into a limited geographical sales area whose consumer profile matches closely the national pattern and where it is judged that sales performance can be monitored closely while any marketing communications can also be tightly focused to the target audience. National forecasts can be extrapolated from the test market results in this quantitative technique.

d) **Expert Opinion/ Marketer’s Opinion**

- **Expert Opinion**

Expert opinion is a qualitative approach used for macro forecasting. In this method, panels of both internal and external experts on the industry give their reasoned opinions on trends and estimates of market volumes.

An expert panel might include sales forecaster, trade distributors, trade dealers or retail stockists, most important end users, marketing consultants, international market researchers, and trade association representatives.

However small or large the panel is, it will have a limitation in that each contributor will have limited market experience and knowledge. Due to this reason, it is suggested that the approach should be only one of the approaches to forecasting adopted by a company, and not the only one.

In this approach, known market or company data is given to all the panel of experts. Each expert will add to this from his or her own perspective of market knowledge or insight. Assumptions upon which the experts estimates are based should be stated clearly by each expert. Once all the panel of experts have given their estimates the sales forecaster can then take these estimates into account in planning marketing strategies and developing sales forecasts.
In some markets, larger companies often avail themselves of data from local research firms or specialist economic forecasters who develop macro market models of expected trends and demand levels for certain industries.

- Marketers' Opinions

Marketers' opinions is a qualitative approach where the sales forecaster's experience is used to make qualitative judgement of demand in each market sector based on the known data and historical performance, and a careful analysis of the environment.

Sometimes, mostly with major branded end user products, market research reports may point out consumer attitudes, buying patterns, and product preferences, thereby helping to predict or observe trends.

The disadvantage in relying simply on judgemental estimates in practice is that they frequently rely excessively on the marketer's own recent sales data, taking little account of the total market and competitive activity.

If an agent or distributor is under-performing against the overall market this may be missed, or even if recognized, might not be addressed through a corrective action plan. A sales manager may be more influenced by his or her distribution or sales limitations in estimating sales potential or demand than by independent data on the market.

Another factor that produces a weakness in basing forward forecasts on sales team opinion is that the team usually have no reasonable basis to anticipate trends that will emerge from significant technological changes. The more data that sales forecasters have available on markets and existing and potential customers, the more meaningful will be any sales estimates they produce.

e) Surveys of Future Buying Plans

This is a qualitative technique commonly used for industrial products or larger consumer products, where users are asked about expected product category purchases to meet their own company needs, and the company estimates its likely share of these user estimates. Surveys of future buying plans are also a key means of obtaining information that can be used in preparing future forecasts of market demand and potential. Most industrial products have a certain life in use, and users will need to replace equipment over time, either with an identical item where it is purely a consumable product in production processes or a wearable part, or usually with more recent technology where it is equipment. With industrial products advance knowledge of likely buying intentions and patterns can be important to plan market coverage and marketing strategies.
1.7 Considerations in Sales Forecasting

When preparing a forecast, apart from the above mentioned observations, there are other factors that may deserve consideration, such as inflation, seasonal trends, cyclical trends, random fluctuations and product life cycles.

a) Inflationary Pressures

Generally forecasts of cost factors should allow for inflation, and if an allowance is made in costs then a similar assumption should be made about the effect of inflation on prices. In some companies they prefer to avoid taking a view about inflation in the medium- to longer-term plans, forecasting all values at constant costs/prices applicable at the time of forecasting, and they would then take a similar approach as they roll forward the plans to further years. However, for the short term (one year) it is normal to attempt to judge the levels of inflation and its effect on both costs and prices.

b) Seasonal Trends

Many industries and their products experience seasonal sales trends, such as in holiday and leisure goods, home improvements, gardening equipment, toys, cosmetic products, etc. If the manufacturer of the finished goods experience seasonal sales trends, then generally the suppliers of components and other inputs will face similar trends.

Seasonality of sales affects the organization of production and the organization of the sales effort. If goods can be produced seasonally to meet demand, there may be better cash flow positions, but there may be other problems in finding suitable labour or other input supplies at short notice. The sales manager faced with seasonal products will not only need to forecast market sales with a good degree of accuracy, to ensure adequate stock is produced and available for shipment, but also will need to work with his or her sales team and any distributors to ensure that seasonal coverage of all current and potential outlets or users is at a high enough level to maximize sales during key selling seasons.

c) Cyclical Trends

Sales volumes and resultant revenues and profits are often unpredictable, but in some instances there is a cyclical trend that can be monitored and included in planning. This allows reduction of cost when there is a decline in business and planning of expansion early when there is an increase in business activities.

Overall sales are less disruptive to the planning process and the company's profit performance when there is a sufficient spread of markets and the cycles are taking place at different times in different markets catered by the company.
d) Random Fluctuations

Random fluctuations can have positive or negative effect on sales. They are not generally used for in the market planning process since they are not normally the result of predictable events. Typical unpredictable events such as natural disaster, industrial disputes, conflict and political turmoil can cause haphazard or irregular fluctuations in markets.

e) Product Life Cycles

All products have a life cycle, where sales will grow for a period after introduction, eventually reach a maturity, and thereafter declines. The following characteristics of the product life cycle varies between the products and markets:

- The shape of the life cycle graph
- The length of the life cycle
- The rate of growth and decline
- The levels of peak sales

The sales forecaster should take into account where each of the products lies on their product life cycle for each market sector when developing forecasts in longer-term planning. All markets do not move at a similar pace, and in some instances it is found that an outdated product in sophisticated markets may have clear functional benefits, and therefore a longer life, in less developed markets.

f) Sales Forecast Based on Trends from Data Analysis

Having looked at the issues in market forecasting, at this point it is worth taking time to look at developing a practical sales forecasting process based on the available data.

1.8 Information Inputs for Forecasting

In many companies a basic problem arises over how data is recorded and presented. Though, most past sales performance data can be used in forecasting, it is fairly common for performance data to be prepared by the finance department, which quite naturally more concerned in monitoring costs and profits than in monitoring unit sales by product and by market. The first step in market planning is to make sure that sales performance is monitored for the volumes and values of each product shipped to customers on a monthly basis.

When the sales are done through a network of distributors, monthly reports of the distributor's sales should be obtained, as this provides the true measure of sales performance in the market. This data is important if the final forecasts are to be broken down to the level of targets for individual customers in the market. A macro forecast is much less likely to be achieved, or even if the forecast is achieved it might represent an...
under-achievement against real sales potential, where it is not broken down to the micro level for each account. When a company produces a number of products it will need to forecast or target separately for each product.

The basis for a simple practical forecasting process can be as follows:

- Use recorded past data to provide a base for measurement against plans and forecasting
- Fit a trend line
- Plot total industry data, and project trends
- Build up forecasts by product, market sector and account, summarizing to give sales territory and national estimates (this micro-level build-up of account sales forecasts can be compared with the macro forecasts).

Forecasts should include any appropriate adjustment for any significant developments that are expected to affect sales more than a forward projection of historical sales might suggest, e.g. innovative new technology that might open the market to more consumers through price, availability, ease of use factors, etc., such as we have seen in the computer and mobile telephone industries.

While the sales forecaster will normally have access to data on his or her own market sales, industry data for the total product category or sub-categories might be available through national trade associations, market research sources, government statistical publications, or other identifiable sources. Industry estimates might not always be very accurate for any single market sector, but they should not be ignored as the sales manager should benchmark his or her performance against the total market and individual competitors.

a) Tabulating Data and Projecting Trends in Moving Annual Formats

Tabulating moving monthly averages of monthly sales data smoothes out wide fluctuations in actual monthly sales patterns, and tabulating moving annual totals of sales smoothes out wide fluctuations in seasonal sales, showing the longer-term underlying sales trend more clearly. Plotting the total market compared with company product sales can highlight aspects of the marketing strategy that might need attention.

b) Forecasting from moving annual total data

An alternative to just projecting a trend line on a graph of tabulated moving annual total data is to take the moving annual total at a point in time, and to project it forward by a factor expected to represent the achievable growth. Normally spreadsheet packages are used in forecasting calculations, which enable variations to be incorporated easily.

Any forecasts based on moving annual data, moving monthly averages, moving quarterly averages or other past data must be tempered with the sales forecaster's inputs of judgement to allow for current trends or anticipated developments. A weakness in using...
moving averages is that all the time periods being analysed are weighted equally, and information from the oldest periods are just as important in the forecasting as information from the newest periods - which is often inappropriate in real-life marketing, where recent events should have more weight attached to them.

There is no simple ideal and accurate way of producing a forecast, particularly with all the complexity of factors to be considered in product marketing. If there is additional market knowledge the sales forecaster might decide to apply his or her judgement to this knowledge, and alter the growth factor accordingly from that indicated by historical sales data. Other information might also be available suggesting that the forecasts should be adjusted from the moving monthly average or moving annual total trend approaches to forecasting.

Therefore, the sales forecaster should attempt to gather and plot data on his or her product sales in total and for each market sector, and comparable data for the total market for his or her product category. Actual monthly and cumulative sales statistics can be tabulated and graphed, along with moving annual total data and moving monthly average data that smoothes out major fluctuations and helps in identifying trends and developing more accurate forecasts.

c) Building Forecasts from Local Market Sales Data

Apart from using the overall data of sales to, or in, the market to monitor progress and provide a basis for market forecasting, forecasts can also be built up from the micro level by looking at the historical sales for each current customer account and potential sales to each prospective account, and comparing the two to come to a reasoned, realistic and achievable (within the forecast period time frame) figure. To build forecasts in this way it is necessary to have sales data on individual customers kept for each product.

d) The Importance of Key Accounts

For most suppliers, and in most markets, a few key accounts dominate purchases (for local distribution and re-sale) or direct use of a supplier's products. The sales manager should be monitoring sales to and through these accounts. If they are being supplied by direct shipments from the supplier, it is easier to access the direct shipment records. If they are being supplied through locally appointed distributors, it will be necessary to obtain data from the distributors, and that will be more forthcoming where distributors see the need for the data in forward planning, and the benefits of accuracy in forward planning to their sales throughput, cash flow and stock management.

The sales manager might design some simple form (or computer spreadsheet) that summarizes sales history and contains an estimate (ideally based on discussions with the key account) of its likely purchases in the next planning period. A well-designed form, provided the information can be collected, can provide useful insights into the relative growth of major customers, and provide information useful to developing market sales tactics.
**e) Building Targets for a Larger Customer Base**

Since most products are sold to a larger number of users or outlets, if forecasts or targets are being built up from the market base then a more comprehensive listing of current and prospective customers will be needed. The sales manager can design some suitable forms for data tabulation, or a simple computer spreadsheet data record, but typically data is needed that shows the expected pattern of sales across the year, or the expected sales by product variant.

Most sales forecasters can improve their market sales forecasting. If the only current approach to forecasting is either taking last year's figures for shipments and aiming to better it by a certain percentage, or just developing an annual sales 'target' and dividing it into 12 equal portions, then there will be additional information available from some source that can improve upon that, and reduce the risks of a hit or miss forecasting style. As we have seen in this chapter, apart from making better use of company sales data, having an external benchmark, such as industry data on market sales, will provide an additional dimension further refining forecasting. Identifying trends and incorporating them into forecasting improves the meaningfulness.

The medium-term annual forecasts will need to be monitored frequently, at least monthly, and updated short-term forecasts prepared as necessary, often quarterly, to ensure production and sales plans are adjusted to meet demand or potential.

**2. Sales Budgeting**

**2.1 Purpose of Budgeting**

A sales budget is normally prepared annually. Budgets are important techniques used by management in planning to achieve their objectives.

The two main purposes of the budgets are, firstly, it forces the management to think through the costs and revenues involved in achieving sales and profit objectives and it serves as a benchmark to monitor actual expenses. Budgeting can help the businesses identify sales opportunities, sales objectives and sales quotas. And to achieve these reasonable resources can be set aside. Budgets stimulate cooperative efforts. It encourage overall product line coverage and balance between sales effort, sales expenses and planned results.

Budgets offer a means for evaluation planning and effort. Budgets create emphasis on profitable product lines, profitable marketing areas, profitable existing customers and profitable prospects.

One of the prime benefits of sales budgets is that they force managers to think about how marketing funds should be spent. Decisions must be made about whether sales representatives should receive more training, whether more money should be spent to purchase complementary hockey tickets, whether to provide more sample books, or to
increase bonuses, and so on. Budgets, therefore, aid sales managers in designing the optimal combination of the marketing variables under their control. Another advantage of a budget is that it facilitates the control of sales operations. If sales objectives are not being reached, for instance, the manager can see from the budget how much money has been spent in each expense category and where adjustments are needed. In this case the sales manager might be able to use funds from the training budget to buy prizes for a sales contest.

2.2 Methods of Arriving at the Sales Budget

a) Percentage of Sales Methods

In this technique a sales budget is made based on what managers think is a reasonable percentage of planned revenues. This is the most popular method for determining a sales budget. The percentage is usually derived from past spending patterns and industry standards for a particular line of trade.

For example, management of a printer cartridge company is trying to determine how much to spend on the sales force next year. They have forecasted sales for Rs. 20 million and have noted that manufacturing companies spend 6.8 percent of their revenue on the salesforce. Let’s also say that traditionally 15 percent of the sales force budget was spent on sales management. In this case, the sales force budget and the number of salespeople the budget supports could be derived as follows:

\[
\text{Sales budget} = \text{Expected sales} \times \text{Field sales expense ratio} = Rs. \ 20,000,000 \times 0.068 = Rs. \ 1,360,000
\]

Allocation for sales people

\[
= Rs. \ 1,360,000 \times 0.85 \text{ Percent for sales force} = Rs. \ 1,156,000
\]

Number of sales people

\[
= \text{Rupees available/Wages and expenses per person} = Rs. \ 1,156,000/ Rs.57,600 = 20 \text{ persons}
\]

In the most recent years, budgeting has been greatly made easy with the widespread availability of personal computers and the development of the electronic spreadsheet such as Lotus 1-2-3 and Excel.

b) Affordable Method - Many firms set the budget based on what they think the company can afford. For example, a firm may decide the amount to be spent on the various areas such as production and operations and then allocates what is left to advertising and promotion.
c) **Competitive-Parity Method** - Some companies set budgets on the basis of what competitors spend. Usually accomplished by matching the same percentage of sales expenditures as competitors, that is, to maintain competitive parity.

d) **Objective-and-Task Method** - The objective-and-task method calls upon advertisers to develop their budget by

1. Setting their advertising objectives as specifically as possible,
2. Deciding on the tasks that must be carried out to achieve these objectives, and
3. Estimating the costs of performing these tasks.

The sum of these costs is the proposed advertising budget.

2.3 **The Sales Budgeting Process of the Organization**

a) **The Budgeting Process**

Sales budgeting start with the senior management creating a marketing plan and setting spending levels for marketing promotions. The sales and profit objectives are set. Once these key factors are set, sales forecasts can be made. Sales forecast should be compared to objectives. It provides a guide for estimating how many salespeople will be needed. Sales managers must also project travel and other expenses for the sales force. Then, the actual expenses for a period are compared with the budget. When expenses exceed planned levels, the sales manager has to do some adjustment or ask for more funds.

The main concerns in preparing budgets are to decide on the amount of money to be spent on personal selling and how to distribute the money for a range of selling activities.
The budget consists of the following components:

- Salespeople’s expenses - salaries, commissions, bonuses and travel expenses such as lodging, food, transportation, etc.
- Administrative sales expenses - office expenses, manager's salaries, commissions, bonuses, sales manager's travel expenses such as lodging, food, transportation, etc.
- Other selling payroll - trainer's salary, sales trainee's salaries, etc.
- Other selling expenses - meetings and conventions, sales promotions, display or showroom expenses, catalogs and price lists, recruiting expenses, moving expenses, demo product and samples expenses
- Communication expenses – mailing, telephone, internet

b) Sales Expense Budgets

Sales managers set target figures for various selling expense categories for each planning period. The goal is to keep actual expenditures at, or under, the budgeted figures to ensure that overall financial objectives are achieved. Some of the more common expense categories are:

- Sales force salaries, commissions, and bonuses
- Social security
- Retirement plans
- Hospitalization and life insurance
- Automobile
- Travel, meals, lodging, and entertainment
- Sales manager salaries, commissions, and bonuses
- Office supplies and postage
- Office rent and utilities
- Clerical and secretarial services
- Recruiting and training
- Samples and other sales aids

The amounts budgeted for the different expense categories tend to vary widely by product and type of customer. Often managers make their initial allocations using the previous year's budget, and adjust for inflation and program changes.

c) Selling and Distribution Overheads Budget

As with other overhead budgets, the object of this budget is to identify the overheads to be controlled by management – in this case, the sales management. Further analyses of the overheads would be required to show the budgeted costs on a monthly basis, and by regions and representatives where appropriate.

d) Production Budget

The purpose of this budget is to show the required production for the coming year, so that production scheduling can be completed in advance, and individual machine loading schedules can be prepared. This will enable the production department to assess the
budgeted usage of plant, the labour requirements and the extent of any under- or over-capacity. As with the sales budget, the total annual requirements must be analysed into monthly figures.

e) Materials Purchase Budget

This budget sets out the purchasing requirements for each type of material used by the organization, so that the purchasing department can place orders for deliveries, to take place in accordance with production requirements – the essential need being that production shall not be held up for lack of materials.

Purchase orders should be placed, and deliveries phased, according to the production schedules, care being taken that no excessive stocks are carried. The standard for the products will also specify the quality of material required, so that the purchasing department will be responsible for obtaining the materials required, of the standard quality.

As with other budgets, the purchasing budget should show the monthly quantities to be purchased, allowing for any lead time in suppliers’ deliveries.

2.4 Sales Budgets and its Impact to Organizational Profitability

The advantages of a sales budget are that overall company needs are easier to meet. It forces managers to pay attention to the value of each rupees spent. Every rupee saved goes to profit and rupees are spent more wisely. It facilitates constant re-evaluation current expenses and new expenditures.

Disadvantages of this method are that unexpected opportunities are missed due to lack of funds. It tends to stretch resources thin and yet may leave some department needs unmet. If compensation is tied to sales then in bad times it de-motivates sales people.

<table>
<thead>
<tr>
<th>Activity</th>
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<tr>
<td>1. What is meant by forecasting?</td>
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<td>2. Distinguish between quantitative and qualitative forecasting techniques.</td>
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<td>3. What is Time Series Analysis?</td>
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<td>4. What is the Moving Averages system of forecasting?</td>
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<td>5. What are the limitations of the basic moving averages system and how does exponential smoothing overcome these?</td>
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<td>6. Into what factors can a Time Series be separated?</td>
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Graduate/Postgraduate Diploma in Marketing

Intermediate Level
Distribution Management

Recommended Study Text

Module Two
Chapter 7
Channel Management

This chapter will cover the following areas

1. Definition of Marketing Channels.
2. Typical Channel Functions
3. Channel Levels
4. Designing of Marketing Channels
5. Channel Management Decisions
6. Channel Typologies
7. Channel Conflict, Cooperation, and Competition
8. Legal and Ethical Issues in Channel Relations

1. Definition of Marketing Channels

Marketing channels: the path or route taken by goods and services as they move from producer to final consumer; in addition to the goods and services themselves, title, information, promotion and payment also move along the marketing channels. Also called Channels of Distribution.

Most producers do not sell their goods directly to the final users. Generally between them, a set of intermediaries performing a variety of functions. These intermediaries constitute a marketing channel (also called a trade channel or distribution channel. Some intermediaries-such as wholesalers and retailers-buy, take title to store, sell and merchandize and they are called Merchants. Others – brokers, manufacturers, and sales agents search for customers and may negotiate on producer’s behalf and do not take title to the goods. They are called Agents. Others such as warehouses, banks, advertising agencies who assists in the distribution process but do not take title to goods or negotiate purchase or sales and they are called facilitators.

Marketing channels are sets of interdependent organizations involved process of making a product or service available for use or consumption. This is one of the critical decisions facing management owing to connectivity and dependency it has towards the other marketing variables. The company pricing depends on whether it uses mass merchandisers or high-quality boutiques. The firm’s sales force and advertising decisions depend on how much training and development dealers need. Any change of the marketing channel is due over a period of time with the changes of the customer needs and wants.
1.1 What Work is Performed by Marketing Channels?

There are certain advantages for producers delegating some of the selling job to intermediaries.

- Many producers lack the financial resources to carry out direct marketing. For example, Unilever Sri Lanka has more than 150 Distributors Island wide. Even Unilever would be hard pressed to raise the cash to buyout its dealers.

- In some cases direct marketing simply is not feasible. Uswatta confectionaries as FMCG Sector Company would find it not practical selling its products by mail or through direct marketing to the entire Island.

- Return on investments for the producers. If a company earns a 20 percent rate of return on manufacturing and only a 10 percent return on retailing, it does not make sense to undertake its own retailing.

- Intermediaries achieve superior efficiency. Through their contacts, experience, specialization and scale of operation, intermediaries usually offer the firm more than it can achieve on its own.

Therefore, these intermediaries are vital for any producer to make the product available at most convenient place to the end customer to demand in any quantity and assortment.

2. Typical Channel Functions

As discussed above, marketing channels overcomes certain factors such as time, place and possession gap that separate goods and services from those who need or want them. In this process, the intermediaries perform a number of key functions:

- They gather information about potential and current customers, competitors, and other factors and forces in the marketing environment.
- They develop and disseminate persuasive communications to stimulate purchasing.
- They reach agreement on price and other terms so that transfer of ownership or possession can be effected.
- They place orders with manufacturers.
- They acquire funds to finance inventories at different levels in the marketing channel.
- They assume risks connected with carrying out channel work.
- They provide for the successive storage and movement of physical products.
- They provide for buyers' payment of their bills through banks and other financial Institutions.
- They oversee actual transfer of ownership from one organization or person to an other.
These functions constitute a two way flow. Backward and forward flow. The physical, title and promotion constitute a forward flow (producer to customer) while ordering and payments constitute a backward flow (customer to producer). Still others (information, negotiation, finance, and risk taking) occur in both directions. However this is a bit of a complex process to visualize in a diagram due to the number of people, processes and information involved.

2.1 Five Marketing Flows in the Marketing Channel for Forklift Trucks

a) Physical Flow

Suppliers → Transporters, Warehouses → Manufacturer → Transporters, Warehouses → Dealers → Transporters → Customers

b) Title Flow

Suppliers → Manufacturer → Dealers → Customers

c) Payment Flow

Suppliers → Banks → Manufacturer → Banks → Dealers → Banks → Customers
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3. Channel Levels

The producer and the final customer are part of every channel. For the purpose of discussion we will use the number of intermediary levels to designate the length of a channel.

A zero-level channel (also called a direct-marketing channel) consists of a manufacturer selling directly to the final customer. The major examples are door-to-door sales home parties, mail order, telemarketing, TV selling, Internet selling, and manufacturer-owned stores. Direct Marketing companies which advertise some of the exercise machines in the TV can be a better example for this type of Zero-Level Channel.

A one-level channel contains one selling intermediary, such as a retailer. A two-level channel contains two intermediaries. In consumer markets, these are typically a wholesaler and a retailer. A three-level channel contains three intermediaries. In the vegetable selling operation, the cultivator sells to the vendor who sells to small vegetable sellers. From the producer’s point of view, obtaining information about end users and exercising control becomes more difficult as the number of channel levels increases.
An industrial goods manufacturer can use its sales force to sell directly to industrial customers or it can sell to industrial distributors, who sell to the industrial customers or it can sell through manufacturer's representatives or its own sales branches directly to industrial customers, or indirectly to industrial customers through industrial distributors. Zero-, one-, and two-level marketing channels are quite common in industrial marketing channels. The above discussion was on the forward channels. Let us look at some of the backward channels as well. The recycling of solid waste can be a classic example of this context.

3.1 Consumer and Industrial Marketing Channels

[a] Consumer Marketing Channels

<table>
<thead>
<tr>
<th></th>
<th>Manufacturer</th>
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<tbody>
<tr>
<td>0 – level</td>
<td>Customer</td>
<td>Customer</td>
<td>Customer</td>
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[b] Industrial Marketing Channels

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<th>Manufacturer</th>
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<tbody>
<tr>
<td>0 – level</td>
<td>Industrial Customer</td>
<td>Industrial Customer</td>
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<td>Industrial Customer</td>
</tr>
<tr>
<td>1 – level</td>
<td>Manufacturer’s Representative</td>
<td>Manufacturer’s Sales Branch</td>
<td>Manufacturer’s Sales Branch</td>
<td>Manufacturer’s Sales Branch</td>
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<tr>
<td>2 – level</td>
<td>Industrial Customer</td>
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<td>Industrial Customer</td>
</tr>
<tr>
<td>3 – level</td>
<td>Customer</td>
<td>Customer</td>
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c) Service Sector Channels

The concept of marketing channels is not limited to the distribution of physical goods. Producers of services and ideas also need appropriate channel decision made to make the service available conveniently to the end consumer to consume. Opening up of new branches of SLIM in different major towns is a clear indication of this. As Internet technology advances, service industries such as banking, insurance and stocks buying and selling will take place through new channels.

4. Designing of Marketing Channels

A new firm typically starts as a local operation using existing intermediaries. These intermediaries can be who are already established in the market place. Deciding on the best channels might not be a problem. The problem might be to convince the available intermediaries to handle the firm’s line.

Only when the company is successful it might branch into other different markets. In smaller markets, the firm might sell directly to retailers; in larger markets, it might sell through distributors.

Designing a channel system calls for analyzing customer needs, establishing channel objectives, and identifying and evaluating major channel alternatives.

4.1 Analyzing Customer’s Desired Service Output Levels

In designing the marketing channel, the marketer must understand the service output levels desired by the target customers. Channels produce five service outputs:

1. **Lot size:** The number of units a typical customer can purchase on one occasion.
2. **Waiting Time:** The average time taken to receive products from the channel (fast Delivery).
3. **Spatial Convenience:** The degree of convenience to purchase products from the channel.
4. **Product Variety:** The assortment breadth provided by channel. Generally customers prefer greater assortment and more choices.
5. **Service Backup:** The add-on services provided by channel such as credit, delivery, installation and repairs. These add-on services will vary according to the product handled along with the work provided by the channel.

Greater the service provided by the channel higher the cost for the channel and price for the customer.

<table>
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<th>Activity</th>
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<tr>
<td>Considering the organization you work for, analyze the customers’ desired output levels under the five points discussed above</td>
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</table>

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4.2 Establishing Objectives and Constraints

Channel objectives should be stated in terms of targeted service output levels. However this should consider the cost and the desired level of service. Channel objectives will vary according to product characteristics. Perishable products need more of direct marketing while other products which have higher shelf life time need the involvement of the intermediaries. High-unit-value products such as generators and turbines are often sold through a company salesforce rather than intermediaries.

Channel designing will have to consider the strengths and weaknesses of different types of intermediaries such as cost per customer contact and competitors’ channel. Designing of channel also will depend on macro environment. When the economy is in a slump, the channel requires shorter channels to push the products into the market as quickly as possible.

4.3 Identifying Major Channel Alternatives

A company defined target market and desired positioning should identify its channel alternatives. This will be described by three elements: number of available business intermediaries, the number of intermediaries needed and the terms and responsibilities of each channel member.

a) Types of Intermediaries

The company needs to identify the types of intermediaries available to carryon with the channel functions and to do so the following alternatives may be considered.

- **Company salesforce:** Expand the company's direct salesforce. Assign sales representatives to territories to contact all prospects in the area or develop separate salesforces for the different industries.

- **Manufacturers' agency:** Hire manufacturers' agents in different regions or end-use industries to sell the new equipment.

- **Industrial distributors:** Find distributors in the different regions or end-use industries who will buy and carry the device. Give them exclusive distribution, adequate margins, product training, and promotional support. For example a consumer electronics company produces cellular car phones. It identify the following channel alternatives:

  - **OEM market:** The company could sell its car phones to automobile manufacturers to be installed as original equipment. *OEM* stands for *Original Equipment Manufacture*.

  - **Auto-dealer market:** The company could sell its car phones to auto dealers

  - **Retail automotive-equipment dealers:** The company could sell its car phones to retail automotive-equipment dealers through a direct sales force or through distributors.
• **Car phone specialist dealers**: The company could sell its car phones to car phone specialist dealers through a direct sales force or dealers.

• **Mail-order market**: The company could sell its car phones through mail order catalogs.

**b) Number of Intermediaries**

The three strategies available for a company are exclusive distribution, selective distribution and intensive distribution.

In an **exclusive distribution strategy**, the company focuses on limited number of intermediaries when the producer needs to maintain the control over the service level offered through the channel. Often this involves exclusive dealing arrangements in which the reseller agrees not to carry other competing brands and expects more dedicated and knowledgeable selling. Also it requires greater amount of partnership between the seller and the reseller.

In a Selective distribution strategy, company uses more than a few but less than all of the intermediaries who are willing to carry a particular product. The company does not have to make its efforts over too many outlets; it enables the producer to gain adequate market coverage with more control and less cost than intensive distribution.

**Intensive distribution** consists of the manufacturer placing the goods or services in as many outlets as possible. This strategy is generally used for items such as tobacco products, soap, snack foods, and gum, products for which the consumer requires greater deal of location convenience.

**c) Terms and Responsibilities of Channel Members**

The objective behind channel selection and development should be to make a win-win situation between the company and the intermediaries. The main elements in the "trade-relations mix" are price policies, conditions of sale, territorial rights, and specific services to be performed by each party.

**Price policy** calls for the producer to establish a price list and schedule of discounts and allowances that intermediaries see as equitable and sufficient.

**Conditions of sale** refers to payment terms and producer guarantees.

Distributors **territorial rights** define the distributors' territories and the terms under which the producer will enfranchise other distributors.

**Mutual services and responsibilities** are conditions that must be carefully spelled out, specially in franchised and exclusive-agency channels.
d) Evaluating The Major Alternatives

The evaluation of the major alternatives will depend on the certain criteria such as economic, control and adaptive. For example when a manufacturer decides following two main alternatives, a) hiring 10 new sales people to operate out of sales office. They would receive a base salary plus commissions. b) To use manufacturers’ sales agency that has extensive contacts with retailers. The agency has 30 sales representatives, who would receive a commission based on their sales.

- Economic Criteria

Each alternative will produce a different level of sales and costs. The first step is determined whether a company sales force or a sales agency will produce more sales. Most marketing managers believe that a company’s sales force will concentrate more on the company's products; they are better trained to sell those products; they are more aggressive because their future depends on the company.

However, the sales agency could conceivably sell more. The agency's sales force might be just as aggressive as a direct sales force, depending on the commission level. Some customers prefer dealing with agents who represent several manufacturers rather than with salespersons from one company. The agency has extensive contacts and marketplace knowledge, whereas a company sales force would need to build these from scratch.

The next step is to estimate the costs of selling different volumes through first channel. The fixed costs of engaging a sales agency are lower than those of establishing a company sales office: But cost rise, faster through a sales agency because sales agents get a larger commission than company salespeople.

- Control Criteria

Using sales agency poses a control problem due to the main focus to maximize profits. Therefore, they may concentrate most on the profitable customers and they will not master the technical details of the company’s products or handle its promotions.

- Adaptive Criteria

The degree of commitments the channel members will have for a specific period of time will invariably decrease the producer’s ability to respond to a changing market place in a rapidly changing market owing to lack of connection in terms of information directly to the manufacturers.

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<th>Activity</th>
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<tr>
<td>Select an organization which is preferably from a FMCG sector and evaluate channel alternative between using own company sales force and use of intermediary sales force.</td>
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5. Channel Management Decisions

After a company has chosen a channel alternative, individual intermediaries must be elected, trained, motivated, and evaluated. Channel arrangements must be modified over time.

5.1 Selecting Channel Members

The company should determine what characteristics distinguish the better intermediaries. They will have to evaluate the number of years in business. Other lines to consider are growth and profit solvency, cooperativeness, and reputation. If the intermediaries are sales agents, producers will want to evaluate the number and character of other lines carried and size and quality of the sales force. If the intermediaries are department stores that want exclusive distribution, the producer will want to evaluate locations, future growth potential and type of clientele.

5.2 Training Channel Members

Companies need to plan and implement careful training programs for their distributors and dealers, because the intermediaries will be viewed as the company by end users. This could be selling techniques, product training or customer handling or any other areas for training.

For example Ford Motor Company beams training programs and technical information via its satellite-based Fordstar Network to more than 6000 dealers. Service engineers at each dealership sit around a conference table and view a monitor on which an instructor explains procedures such as repairing onboard electronics and asks and answers questions.

5.3 Motivating Channel Members

A company needs to view its intermediaries in the same way that it views its end users. The company needs to determine intermediaries needs and constructional positioning such that its channel offering is tailored to provide superior value to these intermediaries. The company should provide training progress market research programs, and other capability-building programs to intermediaries' performance. The company must constantly communicate its view that the intermediaries are partners in the joint effort to satisfy end-using consumers.

Producers vary greatly in skill in managing distributors. They can draw on the following types of power to elicit cooperation:

- **Coercive power** occurs when a manufacturer threatens to withdraw a resource or terminate a relationship if intermediaries fail to cooperate. This power can be quite effective if the intermediaries are highly dependent upon the manufacturer. But the exercise of coercive power produces resentment and can lead the
intermediaries to organize countervailing power.

- **Forward power** occurs when the manufacturer offers intermediaries an extra benefit for performing specific acts or functions.

- **Legitimate power** is wielded when the manufacturer requests a behavior that is warranted under the contract. Thus Ceylon Tobacco Company may insist that its dealers carry certain inventory levels as part of the franchise agreement. As long as the intermediaries view the manufacturer as a legitimate leader, legitimate power works.

- **Expert power** can be applied when the manufacturer has special knowledge that the intermediaries value. For example, a manufacturer may have a sophisticated item for sales-lead generation or for distributor sales training. This is an effected form of power, if intermediaries would perform poorly without this help.

- **Referent power** occurs when the manufacturer is so highly respected that intermediaries are proud to be associated. Companies such as CTC, Unilever, Hemas and JKH have high referent power.

### Activity

Select an organization of your choice which has at least 3 intermediaries and analyze the different power dimensions used to manage channel members.

Intermediaries can aim for a relationship based on cooperation, partnership, or distribution programming. Most producers see the main challenge as gaining Intermediaries’ cooperation. They often use positive motivators, such as higher margins, special deals, premiums, cooperative advertising allowances, display allowances and sales contests. More sophisticated companies try to forge a long-term partnership with distributors. The manufacturer clearly communicates what it wants from its distributor in the way of market coverage, inventory levels, marketing development, account solicitation, technical advice and services, and marketing information.

The most advanced supply-distributor arrangement is *distribution programming* which can be defined as building a planned, professionally managed vertical marketing system that meets the needs of both manufacturer and distributors. The manufacturer establishes a department within the company called *distributor-relation planning*. Its job is to identify distributor needs and build up merchandising programs to help each distributor operate as efficiently as possible. This department and the distributors jointly plan merchandising goals, inventory levels, space and visual merchandising plans, sales-training requirements, and advertising and promotion plans. The aim is to convert the distributors from thinking that they make their money primarily on the buying side (through tough negotiation with the manufacturer) to seeing that they make their money on the selling side (by being part of a sophisticated vertical marketing system).
5.4 Evaluating Channel Members

Producers will have to continuously evaluate intermediaries’ performance in terms of sales-quota attainment, average inventory levels, customer delivery time treatment of damaged and lost goods, and cooperation in promotional and training programs. Underperformers need to be counseled, re-trained. Re-motivated, or terminated.

5.5 Modifying Channel Arrangements

A producer must periodically review and modify its channel arrangements. Modification becomes necessary when the distribution channel is not working as planned, consumer buying patterns change, the market expands, new competition arises, innovative distribution channels emerge, and the product moves into later stages in the product life cycle. Marketing channel will not remain effective over the product life cycle shown below of an example from designer apparel at different stages in the product life cycle:

- **Introductory stage**: Radically new products or fashions tend to enter the market through specialist channels (such as hobbyist shops, boutiques) that spot trends attract early adopters.
- **Rapid growth stage**: As interest grows, higher-volume channels appear (shopping malls, department stores) that offer services but not as many as the previous channels.
- **Maturity stage**: As growth slows, some competitors move their product into lower-cost channels (mass merchandisers).
- **Decline stage**: As decline begins, even lower-cost channels emerge (mail-order houses, off-price discounters).

In highly competitive market structure with low entry barriers, the channel structure changes. These changes could take the nature of adding, dropping or comprehensive re-designing of the channel members. It is also important to analyze the cost and the benefits of either adding or dropping of any intermediaries.

United Motors Lanka noted at one time that 5 percent of its dealers were selling fewer than three or four trucks a year. It cost the company more to service these dealers than their sales were worth. But dropping these dealers could have repercussions on the system as a whole. The unit costs would be higher because the high amount of overhead, some employees and equipment would be idled; some business in these markets would go to competitors; and other dealers might become insecure. All these factors would have to be taken into account.

However, most of the manufacturers find difficulties making decisions involved revising the channel strategy. A gap exists between a sellers’s existing distribution system and the ideal system that target customers' needs and desires.
Stern and Sturdivant have outlined an excellent framework, called *Customer Driven Distribution System Design*, for moving a poorly functioning distribution system closer to target customers' ideal system. Six steps are involved:

a) Research target customers’ value perceptions, needs, and desires regarding channel service outputs.
b) Examine the performance of the company’s and competitors’ existing distribution systems in relation to customer desires.
c) Find service output gaps that need corrective action.
d) Identify major constraints that will limit possible corrective action.
e) Design a “management – bounded” channel solution.
f) Implement the reconfigured distribution system.

5.6 Channel Dynamics

Distribution channels also evolve keeping in line with evolving market situations. As a result new channel systems evolve. We will look at the recent growth of vertical, horizontal and multi-channel marketing systems and see how these systems cooperate, conflict, and compete.

6. Channel Typologies

6.1 Vertical Marketing Systems

The channel systems consisting of horizontally coordinated and vertically aligned establishments that are professionally managed and centrally coordinated to achieve optimum operating economies and maximum market impact.

A *vertical marketing system* (VMS), by contrast, comprises the producer, wholesaler(s), and retailer(s) acting as a unified system. One channel member, the *channel captain*, owns the others or franchises them or has so much power that they all cooperate. The channel captain can be the producer, the wholesaler, or the retailer.

a) Corporate VMS

A *corporate VMS* combines successive stages of production and distribution under single ownership. Vertical integration is favored by companies that desire a high degree of control over their channels. For example, Sherwin-Williams marketing but also owns and operates 2,000 retail outlets.

b) Administered VMS

An *administered VMS* coordinates successive stages of production and distribution through the size and power of one of the members. Channel members are independent with a high level of inter-organizational management by informal coordination. Agree to adopt uniform accounting policies etc., and promotional activities. For example Procter & Gamble and Campbell Soup are able to command high levels of cooperation from their resellers in connection with displays, shelf space, promotions, and price policies.
c) Contractual VMS

Most popular VMS, interorganizational relationships formalized through contracts that spell out each members rights and obligations. For example McDonald's and KFC. Franchise organizations generate 1/3 retail sales and have 500,000 outlets.

The traditional system is the manufacturer-sponsored retailer franchise. Ford for example, licenses dealers to sell its cars. The dealers are independent businesspeople who agree to meet specified conditions of sales and services. Another is the manufacturer, sponsored wholesaler franchise. Coca-Cola, for example, licenses bottlers wholesales in various markets who buy its syrup concentrate and then carbonate, bottle it and send it to retailers in local markets. A newer system is the service-firm-sponsored retailer franchise. A service firm organizes a whole system for bringing its service efficiently to consumers. Examples are found in the auto rental business (Hertz, Avis). Fast-food service business (McDonald's, Burger King), and motel business (Howard Johnson, Ramada Inn).

d) The New Competition in Retailing

Vertical marketing systems constantly threaten to bypass large manufacturers and set up their own manufacturing. The new competition in retailing is not large between independent business units but between whole systems of centrally programmed networks (corporate, administered, and contractual) competing against one another to achieve the best cost economies and customer response. For example, in order to target value conscious consumers, Gap developed the Old Navy Clothing Company, which was an enormous success. Then to capture a market more upscale than Gap, it bought the Banana Republic chain. Now it has a significant market share at all three price levels.

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<td>What are the advantages and disadvantages of vertical marketing systems and what really challenges the marketing manager to manage VMS?</td>
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6.2 Horizontal Marketing Systems

Another channel development is the horizontal marketing system, in which two or more unrelated companies put together resources or programs to exploit an emerging marketing opportunity. Many supermarket chains have arrangements with local banks to offer in-store banking. Each company lacks the capital. know-how, production, or marketing resources to venture alone, or it is afraid of the risk. The companies might work with each other on a temporary or permanent basis or create a joint venture company.
6.3 Channel Marketing Systems

In the past many companies sold to a single market through a single channel. Today with the proliferation of customer segments and channel possibilities, more companies have adopted multi-channel marketing. Multi-channel marketing occurs when a single firm uses two or more marketing channels to reach one or more customer segments.

By adding more channels, companies can gain three important benefits. This is increased market coverage—companies often add a channel to reach a customer segment its current channels can not reach. The second is lower channel cost—companies may add a new channel to lower the cost of selling to an existing customer group (selling by phone rather than personally visiting small customers). The third is more customized selling—companies may add a channel whose selling features fit customer requirements better (adding a technical sales force to sell more complex equipments).

The gains from adding new channels come at a price. However new channel, introduce conflict and control problems. Two or more company channel end up competing for the same customers. The new channels may be more dependent and make cooperation more difficult.

Companies should use different channels for selling to different-size customers. A company can use its direct sales force to sell to large customers, telemarketing to sell to midsize customers, and distributors to sell to small customers. In this way, the company can serve more customers at an appropriate cost. But these gains can be compromised by an increased level of conflict over who has account ownership.

7. Channel Conflict, Cooperation, and Competition

No matter how well the channels are designed, there will be some conflicts. Therefore, the understanding of the types of conflicts, causes for conflict and what can be done to resolve conflicts.

7.1 Types of Conflict and Competition

Conflicts can be of three types. They are: vertical, horizontal and multi-channel. Vertical channel conflict means conflict between different levels within the same channel. E.g.- General Motors came into conflict with its dealers in trying to enforce policies on service, pricing, and advertising.

Horizontal channel conflict involves conflict between members at the same level within the channel.

Multi-channel conflict exists when the manufacturer has established two or more channels that sell to the same market. These conflicts are more of marketing mix related conflicts. For example product, price, promotions and distribution related.
7.2 Causes of Channel Conflict

It is important to identify the different causes of channel conflict. Some are easy to resolve, others more difficult. A major cause is goal incompatibility. For example, the manufacturer may want to achieve rapid market penetration through a low-price policy. The dealer in contrast, may prefer to work with high margins and pursue short-run profitability. Sometimes conflict arises from unclear roles and rights. IBM sells personal computers to large accounts through its own sales force, and its licensed dealers are also trying to sell to large accounts. Territory boundaries and credit for sales often produce conflict.

Nevertheless, the manufacturers are finding it difficult to manage the power to manipulate the channel and the intermediaries. Clearly, manufacturers cannot take up their own retail outlets, nor do manufacturers want to continue to spend so much of money on trade promotion. Market-share leaders are resorting to the following strategies to maintain their power:

a) Focus on the brands that have a chance of being number one or two in their category and commit to continuous research to improve quality, features, and packaging.

b) Maintain an active program of line extensions and a careful program of brand extensions. Develop fighter brands to compete with store brands.

c) Spend as much as possible on targeted advertising to build and maintain brand franchise.

d) Treat each major retail chain as a distinct target market and adjust offers and sales systems to serve each target retailer profitably. Treat them as strategic partners and be ready to customize products, packaging, services, benefits, and electronic linkups.

e) Provide a high level of service quality and new services: on time, accurate delivery of complete orders; order-cycle time reduction; emergency delivery capability; merchandising advice; inventory management support; simple order processing and billing; and access to real-time information regarding order or shipment status.

f) Consider adopting everyday low pricing as an alternative to trade dealing, which leads to large forecasting errors, forward buying, and geographical diverting of merchandise.

g) Aggressively expand into alternative retail outlets such as warehouse membership clubs, discount merchandisers convenience stores, and some direct marketing.

7.3 Managing Channel Conflict

Some channel conflict can be constructive and lead to more dynamic adaptation to a changing environment. But too much is dysfunctional. The challenge is not to eliminate conflict but to manage it better. There are several mechanisms for effective conflict management.
An important mechanism is the adoption of super-ordinate goals. Channel members come to an agreement on the fundamental goal they are jointly seeking whether is survival, market share, high quality, or customer satisfaction. They usually do this when the channel faces an outside threat, such as a more efficient competing channel, an adverse piece of legislation, or a shift in consumer desires. A useful step is to exchange persons between two or more channel levels. Cooptation is an effort by one organization to win the support of the leaders on another organization by including them in advisory councils, boards of directors and the like. Much can be accomplished by encouraging joint membership in and between trade associations.

When conflict is chronic or acute, the parties may have to resort to diplomacy mediation, or arbitration. Diplomacy takes place when each side sends a person or group to meet with its counterpart to resolve the conflict. Mediation means resorting to a neutral third party who is skilled in conciliating the two parties' interests. Arbitration occurs when the two parties agree to present their arguments to one or more arbitrators and accept the arbitration decision.

8. Legal And Ethical Issues in Channel Relations

For the most part, companies are legally free to develop whatever channel arrangement that suits them. In fact, the law seeks to prevent companies from using exclusionary tactics that might keep competitors from using a channel. Here we briefly consider the legality of certain practices, including exclusive dealing, exclusive territories, tying agreements, and dealers' rights.

8.1 Exclusive Dealing

Many producers like to develop exclusive channels for their products. A strategy in which the seller allows only certain outlets to carry its products is called exclusive distribution, and when the seller requires that these dealers not handle competitors' products, this is called exclusive dealing. Both parties benefit from exclusive arrangements: The seller obtains more loyal and dependable outlets, and the dealers obtain a steady source of supply of special products and stronger seller support. Exclusive arrangements are legal as long as they do not substantially lessen competition or tend to create a monopoly and as long as both parties enter into the agreement voluntarily.

8.2 Exclusive Territories

Exclusive dealing often includes exclusive territorial agreements. The producer may agree not to sell to other dealers in a given area, or the buyer may agree to sell only in its own territory. The first practice increases dealer enthusiasm and commitment. It is also perfectly legal, a seller has no legal obligation to sell through more outlets than it wishes. The second practice, whereby the producer tries to keep a dealer from outside its territory, has become a major legal issue.
8.3 Tying Agreements

Producers of a strong brand sometimes sell it to dealers only if they will take some or all of the rest of the line. This practice is called full-line forcing. Such tying agreements are not necessarily illegal, but they do violate law of some countries if they tend to lessen competition substantially.

8.4 Dealers' Rights

Producers are free to select their dealers, but their right to terminate dealers is somewhat restricted. In general, sellers can drop dealers "for cause." But they cannot drop dealers if, for example, the dealers refuse to cooperate in a doubtful legal arrangement, such as exclusive dealing or tying agreements.
Chapter 08
Territory Management

This chapter will cover the following areas

1. Meaning of Territory Management
2. Reasons for Establishing Sales Territories
3. Steps in Setting up Sales Territories
4. Territory Planning

1. Meaning of Territory Management

For many companies, the sales force is one of their most expensive human resource investments, with sales calls costing upwards of several hundred Rupees. Companies have turned to Sales Force Automation (SFA) systems, Customer Relationship Management (CRM) systems, enhanced sales training and account management programs to gain more productivity from their sales force. While each of these initiatives has merit, many companies have found that a sales territory alignment initiative can increase productivity and sales at a relatively low cost. Sales territories, by nature, are geographic in nature. When they are out of balance, some areas with high potential customers may be underserved while other areas are saturated. Too much effort may be expended against low potential customers. Sales and service people spend too much “windshield time” driving from sales call to sales call and don’t spend enough time seeing and listening to customers. The result of these inefficiencies is that companies not only often leave millions of Rupees on the table; they suffer from low morale and high turnover among sales people. Establishment of sales territories facilitates matching selling efforts with sales opportunities. Sales personnel are assigned the responsibility for serving particular groupings of customers and prospects and provide contact points with the markets. Territorial assignments lend direction to the planning and control of sales operations.

In establishing sales territories, the management needs to look at the organizational strengths and weaknesses in serving different markets. Through utilization of this knowledge in planning sales operations, managerial efforts to improve competitive position become increasingly effective. Realistic sales plan is done on a territory-by-territory basis due to customers and prospects vary from territory another. The territory is a more homogeneous unit than the market as a whole.

Breaking down the total market into smaller units makes control of sales operations more effective. Assigning responsibility for achieving specific objectives to subordinate line executives and individual sales personnel bring selling efforts into alignment with sales opportunities. Direction is lent to gathering information on individual performances, and comparisons of performances with sales opportunities present in each territory provide sound bases for appraisal.
1.1 The Sales Territory Concept

The emphasis in the sales territory concept is upon customers and prospects rather than upon the area in which an individual salesperson works. Operationally defined, a sales territory is a grouping of customers and prospects assigned to an individual salesperson. Many sales executives refer to sales territories as geographic areas, for example, southern territory, northern territory. But in some company’s sales personal are assigned entire classes of customers regardless of their customers ignoring geographical considerations. Whether designated geographically or not, a sales territory is a grouping of customers and prospects that can be called upon conveniently and economically by an individual salesperson.

Other situations exist in which sales territories are not designated geographically. Certain companies have highly specialized sales personnel, each with responsibility for serving customers who need his or her special skills.

For instance, one maker of complicated machinery has only five salespersons, each specializing either in part of the product line or in particular product applications. In other companies, it is common to have allocated more than one sales person due to scattered locations of accounts and "leads" furnished by established customers often require calls in different parts of the city.

In most marketing situations, however, it is advantageous to "assign" sales personnel to territories. Determining the territorial assignments requires consideration of customers' service requirements and the costs of providing service. Geography affects both a company's ability to meet customers' service requirements and the costs of meeting them.

1.2 House Accounts

A house account is an account not assigned to an individual salesperson but one handled by executives or home office personnel. Many are extremely large customers, most of whom prefer—indeed, sometimes demand—to deal with the home office. These types of accounts are responsible for total company sales and if not managed properly this might have some adverse effects upon sales force moral thinking that the company is depriving them of the best customers.

1.3 The Benefits of Sales Territory Alignment

Aligning sales territories is an important initiative and can lead to many benefits for a business. Good territory alignment will increase sales and customer coverage, reduce travel time and associated costs, provide a competitive advantage, and foster equity and morale among sales people.

- Increased sales and customer coverage — when territories are properly aligned, issues of under- and over-capacity are reduced or eliminated. Each territory is created allowing
the sales person to reach and spend time with the greatest number of high potential customers, thus increasing sales.

- Reduced travel time and associated expenses — Due to the geographic nature of sales territories, better alignment means less travel time to reach customers. Less time spent in the car means more time spent with customers, thus more time for selling. Other associated expenses such as fuel and automobile costs are reduced as well.

- Competitive advantage — this benefit of sales territory alignment is often overlooked. However, if you have better coverage in your territories, you can reach new opportunities faster than your competitors, again leading to increased sales.

- Equity and morale — nothing can be more discouraging to a sales person than to see an associate milking a highly profitable territory while they’re stuck servicing an area with low potential. Properly aligned territories provide a more equitable distribution of accounts, level the playing field in terms of achieving rewards, and boost morale among sales people. In addition, sales people stay longer, thus lowering the costs associated with new hiring.

2. Reasons for Establishing or Revising Sales Territories

Sales territories are set up, and subsequently revised as market conditions dictate, to facilitate the planning and control of sales operations. More specifically, there are five reasons for having sales territories:

- To provide proper market coverage,
- To control selling expenses,
- To assist in evaluating sales personnel,
- To contribute to sales force morale, and
- To aid in the coordination of personal-selling and advertising efforts.

2.1 Providing Proper Market Coverage

When there is no proper market coverage, the company loses its market share to its competitors. This could be due to mismatch of sales management for selling efforts or competitors have a better match and they obtain orders. To overcome problems of this type, generally management must establish sales territories, if the company does not have them, or revise those that it has. If sales territories are set up intelligently and if assignments of sales personnel to them are carefully made, it is possible to obtain proper market coverage. Note that mere establishment or revision of the sales territories is not enough. The design of the territories should permit sales personnel to cover them conveniently and economically. Territories, in other words, should represent reasonable work loads for the sales staff while assuring that all prospects that are potentially profitable can be contacted.
Good territorial design allows sales personnel to spend sufficient time with customers and prospects and minimizes time on the road. This permits them to become thoroughly conversant with customers' problems and requirements. Successful selling is based upon helping customers solve their problems, not just upon making sales or, even worse, upon taking orders. Well-designed sales territories, combined with appropriate sales force assignments, result in calls upon different classes of customers and prospects at needed frequencies. Call regularity is important in selling products purchased on a repeat basis, and persistence turns many a prospect into a regular account.

### 2.2 Controlling Selling Expenses

A better territory design combined with careful sales person assignment will result in minimizing organizational sales operational cost and high sales volume. Sales personnel spend fewer nights away from home, which reduces or eliminates many charges for lodging and food: at the same time, cutting travel miles reduces transportation expenses. These savings, plus the higher sales volumes from increased productive selling time, reduce the ratio of selling expenses to sales. To secure larger sales volumes, sales personnel may have to incur additional expenses. Securing larger orders may require more frequent sales calls, which increases selling expenses. Well-designed sales territories and appropriate assignments of sales personnel increase the total time available for contact with customers and prospects, thus preparing the ground for improved sales volumes.

Sales management's problem in controlling selling expenses is not to minimize them but to obtain the best relation between selling expenses and sales volumes. Short-term reductions in the selling expense ratio are not always desirable; the long-term result is important. The intelligent letting up or revising of sales territories is one step management takes to see that selling expense dollars are spent to the best advantage.

### 2.3 Assisting In Evaluating Sales Personnel

Well-designed sales territories assist management in evaluating sales personnel. Selling problems vary according to the local area, the degree of competition and so on. If the territory allocation is done properly, then the possibility is high in changing selling strategies knowing company strengths and weaknesses. Through analyzing the market territory by territory and pinpointing sales and cost responsibility to individual sales personnel, management has the information it needs to set quotas and to evaluate each salesperson's performance against them.

### 2.4 Contributing to Sales Force Morale

Good territorial designs help in maintaining sales force morale. Well-designed territories are convenient for sales personnel to cover; they represent reasonable-sized work loads, and sales personnel find that their efforts produce results. All are responsible for achieving given levels of performance within their own territories, so all know what management expects of them. Results that come from each sales territory are correlated with the efforts
of individual sales personnel. Good territorial design plus intelligent salesperson assignment help to make each person as productive as possible and make for high earnings, self-confidence, and job satisfaction.

2.5 Aiding In Coordination of Personal Selling and Advertising

Management may set up sales territories or revise existing territorial arrangements to improve the coordination of personal selling or advertising efforts. In most situations, personal selling or advertising alone cannot accomplish the entire selling task efficiently or economically. By blending personal selling and advertising, management takes advantage of a synergistic effect (the "2 + 2 = 5" effect) and obtains a performance greater than the sum of its parts.

3. Steps in Setting up Sales Territories

In setting up or in revising sales territories, there are four steps:

- Selecting a basic geographical control unit,
- Determining sales potentials in control units,
- Combining control units into tentative territories, and
- Adjusting for coverage difficulty and redistricting tentative territories.

3.1 Selecting a Basic Geographical Control Unit

The starting point in territorial planning is the selection of a basic geographical control unit. The most commonly used control units are counties, cities, trading areas, and states. Sales territories are put together as consolidations of basic geographical control units. There are two reasons for selecting a small control unit. One reason is to realize an important benefit of using territories, the precise geographical identification of sales potential. If the control unit is too large, areas with low sales potentials are hidden by inclusion with areas having high sales potentials, and areas with high sales potentials are obscured by inclusion with those having low sales potentials. The second reason is that these units remain relatively stable and unchanging making it possible to redraw territorial boundaries easily by redistributing control units among territories.

**Counties.** The county is the most widely used geographical control unit. The county is small enough to prevent the obscuring of areas with high and low sales potentials, and statistical information on counties should be readily available. This makes it inexpensive to develop market and sales potentials on a county-by-county basis.

**Cities.** When a company's sales potential is located entirely, or almost entirely, in urbanized areas, the city is used as the control unit. The city rarely is fully satisfactory as a control unit, in as much as most grow beyond their political boundaries. For many products, suburbs adjacent to cities possess sales potentials at least as great as those in the cities themselves.

**Trading areas.** A logical choice for a geographical control unit is the trading area, since it is based upon the natural flow of trade. Formally defined, a trading area consists of the
geographical region surrounding a city that serves as the dominant retail or wholesale center or both for the region. Consumers, for example, regard convenience and the merchandise selection available as key factors in deciding where to shop. People living in suburban areas such as Gampaha, for instance, may reason that the best selection of the desired type of product is in Colombo City, and conclude that Colombo is reasonably convenient to get to, and subsequently shop and buy the item there.

It is difficult to define the limits of trading areas, as they vary from product to product. But because trading areas are based on natural trade flows, they are considered in planning sales territories even though they are not selected as geographical control units. The main problems in using trading areas as control units are defining them and estimating sales potentials. Depending upon the product, both retail and wholesale trading areas vary in size and shape and change over time. Rural consumers buy work clothes and routine supplies in the nearest small towns, but they go to regional shopping malls or larger cities to shop for dress clothing, and even farther to buy expensive furniture or jewelry. Each such location is the focal point for a trading area, at least for products customarily purchased there. Trading areas for products purchased frequently and routinely are much smaller in size, and consequently more numerous, than are those for luxury products. Trading area maps for general product classifications are available.

The precise demarcation of the trading areas will primarily depend on quantification of customers’ preferences and buying habits.

States. States, as basic geographical control units, provide a rough basis for subdividing the national market. There are two situations in which the fixing of territorial boundary lines along the borders of states is justifiable. One is the company with a small sales force covering the market extensively rather than intensively; there are only a few customers and prospects, but they are all across the nation. The other situation is the company first seeking national distribution, which assigns its sales personnel to territories consisting of one or more states as a temporary expedient. These types of geographical control units are very familiar in countries like U.S.A, U.K.

3.2 Determining Sales Potential Present in Each Control Unit

The next step is to determine the sales potential present in each central unit. The territorial planner needs some way to measure sales potentials, which, you will recall, represent the maximum possible sales opportunities open to a specific company selling a good or service during a stated future period to particular market segments. For the present purpose, substitute "a particular control unit" for "a particular market segment", in other words, each control unit is a particular geographical market segment. Geographical market segments, like all market segments, are made up of present and prospective customers, so the territorial planner must identify the buyers of the product as precisely as possible. A vague identification of the market segment that the company targeting the product to be sold will be deadtremental. Instead, if it can be determined that "Our product is bought
almost entirely by middle-aged, lower-income women living in cities," a more precise
description of the buyers comprising the market is obtained. Formal market identification
studies may be necessary.

Sometimes supply of information by sales people can not be used due to distortion. If the
sales person complains that the whole seller does not have many contacts with his retailer
or his customers or it could be prospective key accounts in the area may not be identified,
then the total potential of the area can not be measured. When there is no direct contact
with formal buyers, formal marketing research studies obtain precise identification of all
classes of final buyers. Whether or not this process should be carried as far as
identification of each possible buyer depends upon the product being marketed. In
consumer goods, it is unnecessary and too expensive to go to this extreme. In industrial
goods, where often there are only a few possible buyers, exact identification is desirable
and feasible.

Having identified potential buyers, the planner next determines the sales potential in each
control unit. The planner ascertains how many potential buyers in each class there are in
each 'Control unit and the unit's total market potential. Then the planner estimates the
portion of the unit's market potential that the company has an opportunity to obtain (that is,
the sales potential).

Market potentials are generally converted into sales potentials by analyzing historical
market shares within each control unit, adjusting for changes in company and competitors'
selling strategies and practices, and arriving at estimates. Having made these estimates, the
territorial planner ascertains those control units with sufficient sales potential to justify
sales coverage. For the manufacturer with mass distribution, this is not a problem. Mass
marketers provide sales coverage in every control unit, regardless of how little sales
potential it represents, because maximum sales exposure is crucial to marketing success.
Many manufacturers, however, provide sales coverage only in those control units con-
taining sufficient sales potential to assure profitable operations, and for most manufacturers,
there are some control units where selling costs are excessive. This is true of numerous
industrial-goods producers, such as those selling machine tools and mining equipment.

3.3 Combining Control Units into Tentative Territories

The planner next combines units into tentative sales territories. This is only a tentative
arrangement because; subsequent adjustments must be made for relative coverage
difficulty. At this stage, the planner assumes that no significant difference in the physical or
other characteristics of individual control units exists. Subsequent adjustments must be
made for relative coverage difficulty. At this point, however, the planner decides the
number of territories, and this, assuming that all sales personnel are of average ability, is
identical to deciding sales force size. Basically, the planner estimates the percentage of total
sales potential that the average salesperson should realize. Analysis of past sales experience'
helps in making this estimate, which, once made, is used to determine the number of
territories. In effect, the planner estimates the sales productivity per sales personnel unit and divides it into the total estimated sales potential, thus arriving at the number of sales personnel units - and territories-required.

To simplify this step, sales potentials for control units are expressed as percentages of total sales potential. In the example, then, control units are grouped into ten tentative territories, each containing, about 10 percent of the sales potential. Throughout this grouping process, the planner combines only control units contiguous to each other; individual control units are not split into different territories, even if this results in tentative territories with different total sales potentials.

**Territory shape.** The planner now considers territory shape. The shape of a territory affects both selling expenses and ease of sales coverage. In addition, if the shape of a territory permits the salesperson to minimize time on the road and contributes to sales force morale. These shapes are widely used in: wedge, circle and clover leaf.

**Shapes of sales territories in wide use.**

The wedge is appropriate for territories containing both urban and non urban areas. It radiates out from densely populated urban center. Wedges, of course, can be in many sizes (up to just under 360 degrees). Travel time among adjoining wedges can be equalized by balancing urban and suburban calls.

The circle is appropriate when accounts and prospects are evenly distributed throughout the area. The salesperson assigned to the circular-shaped territory is based at some point near the center, making for greater uniformity in frequency of calls on customers and prospects. This also makes the salesperson nearer to more of the customers than is possible with a wedge-shaped territory.

The clover leaf is desirable when accounts are located randomly through a territory. Careful planning of call schedules results in each cloverleaf being a week's work, making it possible for the salesperson to be home weekends. Home base for the salesperson assigned to the territory is near the center. Clover-leaf' territories are more common among industrial marketers than they are among consumer marketers and among companies cultivating the market extensively rather than intensively.
3.4 Adjusting for Differences in Coverage Difficulty and Redistricting Tentative Territories

The final step is to redistrict the tentative territories through adjusting for coverage difficulty. The tentative territories each contain approximately the same sales potential, but, almost certainly, territories with nearly equal sales potentials require different selling efforts and, in turn, selling expense totals. Significant differences in physical and other characteristics make providing sales coverage more difficult for some control units than for others. Certain large cities, for instance, have greater sales potentials for most products than some states, but the time required to contact customers and prospects in cities is much less, and the same is true of selling expenses.

The optimum territorial arrangement is reached when incremental sales per Rupee of selling expenditures are equated among all territories. In working toward this ideal, both sales potential and coverage difficulty are taken into account. The final territorial arrangement almost certainly is one in which different territories contain different sales potentials. Differences in coverage difficulty represent differences in work loads. The planner ascertains how large the maximum work load—the largest work load for any salesperson—should be. All work loads need not be the same size, since sales personnel vary in ability as well as in drive, and some can safely be assigned larger work loads. However, since there is an upper limit to the "desirable work load," and this also limits a territory's maximum geographical extent. When final adjustments for coverage difficulty are made, sales territories have varying amounts of sales potential and different-sized work loads, but none exceeds the maximum desirable work load.

Redistricting to adjust for coverage difficulty (that is, differences in work loads) is a seven-step procedure:

1. **Determine number, location, and size of customers and prospects in each tentative territory.** Customers are identified and located through sales records; prospects through trade directories, subscription lists to trade publications, classified directories, and credit-reporting agencies. Size is measured in terms of sales potential.

2. **Estimate time required for each sales call.** This varies from account to account and from prospect to prospect, so customers and prospects are classified into groups, estimating an average time per call for each group. Time and duty analyses of sales personnel are used to check these estimates.

3. **Determine length of time between calls that is the amount of time required to travel from one customer to the next.** This varies among regions, depending on the density of customers and prospects and the condition of roads and transportation facilities. Particular attention is paid to physical characteristics. Large rivers, lakes, mountains, and other barriers to travel make natural and necessary territorial boundaries. The numbers of places where a large mountain range can be crossed by automobile are...
limited and often considerable time is consumed in the crossing. The same is true of large rivers, lakes, bays, and so forth. Transportation facilities are as important as physical characteristics. If travel is by automobile, territories are planned so that driving is mainly on primary, all-weather roads, with minimum cross-tracking. If public transportation facilities such as commercial airlines are used, territories are planned with an eye on locations of air terminals.

The planner interrelates and balances differences in sales potential, physical geographical characteristics, and transportation facilities and routes. After sketching in on a map the tentative territorial division according to roughly equal sales potentials, the planner makes adjustments after superimposing maps showing topographic and transportation features.

4. Decide call frequencies. Within certain control units, some or all customer and prospect classes require call frequencies that differ from those in other control units. Differences in the strength of competition require variations in call frequency rates. Similarly, call frequency rates are influenced by the market acceptance of the product line within control units. Cost studies on minimum profitable order sizes also provide input to the decision on call frequencies.

5. Calculate the number of calls possible within a given period. This is a matter of simple arithmetic. To determine the number of calls per day in a certain control unit, the 'average amount of time required for each call is added to the average time between calls and divided into the number of working hours in the day. Adjustments are made when call lengths vary for different classes of customers and prospects.

6. Adjust the number of calls possible during a given period by the desired call frequencies for the different classes of customers and prospects. This results in an estimate for the total work load represented by the control units in each tentative territory. Further adjustments are made to assure that the work load in any territory is not larger than the allowable maximum and that selling expenses are within budget limits. The planner shifts control units among different tentative territories, adding units to some by taking them away from adjacent territories. Each shift brings the territorial arrangement closer to the optimum—that is, closer to one in which incremental sales per Rupee of selling expenditures are equated among all territories.

7. Finally, check out the adjusted territories with sales personnel who work or who have worked in each area, and make further adjustments as required. Personnel familiar with customer service requirements, competitive conditions, and the topography, roads, and travel conditions may point out weaknesses not obvious to the planner. These cause further shifting of control units from one territory to another, each shift bringing the final territorial arrangement a little closer to the optimum.
3.5 Deciding Assignment of Sales Personnel to Territories

When the arrangement is the best obtainable, it is time to assign sales personnel to territories. Up to this point in territorial planning, an implicit assumption has been that all sales personnel are "average," that is, that all are interchangeable, each capable of producing similar results at similar costs regardless of territorial assignments. Clearly, this is an unrealistic assumption, adopted only for territorial planning purposes, and one that is discarded when sales personnel are assigned to territories. Few sales people will vary their physical conditions, ability, initiative and their effectiveness. One reasonable work load for one sales person may not be appropriate for some one else. Further, sales person’s effectiveness will vary from one territory to the other. One’s high performance in one territory may be low in an other territory. Performance, moreover, is conditioned by customer characteristics, customs and traditions, ethnic influences, and the like.

In assigning sales personnel to territories, management seeks the most profitable alignment of selling efforts with sales opportunities. The territories, containing varying sales potentials, represent different amounts of sales opportunity. The sales personnel, differing in ability and potential effectiveness, represent the range of available selling talent. Management should "Assign each salesperson to the particular territory where his or her relative contribution to profit is the highest".

Selecting sales people for different territories will vary from company to company without applying a general guide. At one extreme, some companies display great reluctance to transfer sales personnel to different territories, management fearing not only sales force resistance but the consequences of breaking established salesperson-customer relationships. The planner expands or contracts territorial boundaries, adding to or subtracting from individual territorial sales potentials, until territories contain sales potentials appropriate to the abilities of assigned sales personnel. These companies, in effect design sales territories around, and to fit, the abilities of sales personnel.

At the other extreme, the company has all the rights to change, develop or transfer any sales person in order to develop the area according to the potential. The situation in most companies is somewhere between the two extremes. For various reasons, some totally outside management's control, certain sales personnel are not transferable, but others are freely moved from one territory to another. This means that management designs some sales territories to fit the ability levels of nontransferable sales personnel while reassigning other sales personnel with ability levels appropriate to sales territories redesigned according to the suggested procedures.

The optimum territorial arrangement is reached when the incremental sales produced per Rupee of selling expenditures are equated among all territories. After a sales territory reaches a certain size in terms of sales potential, adding successive increments of sales potential is feasible only up to the point at which the last dollar of selling expenditures just brings in sufficient sales to provide a Rupee of profit contribution. A company seeking the
optimum territorial arrangement generally concludes that it is wise to cut off additional selling expenditures before reaching this "point of feasibility." This is because the best condition requires the equating among all territories of the incremental sales produced by the last dollar of selling expenditures in each.

4. Territory Planning

4.1 Routing and Scheduling Sales Personnel

Routing and scheduling plans aim to maintain the lines of communication, to optimize sales coverage and minimize wasted time. When management is informed at all times of salespersons' whereabouts in the field or at least knows where they should be, it is easy to contact them to provide needed information or last-minute instructions. Chances are good that sales personnel will be where they are supposed to be.

Routing and scheduling plans improve sales coverage. The mechanics of setting up a routing plan are simple, but in working out the plan, detailed information, required on the numbers and locations of customers, the means and methods of transportation connecting customer concentrations, and desired call frequency rates. Detailed maps are needed showing not only towns and cities and transportation routes but trading-area boundaries, mountain ranges, lakes, bridges, and ferry lines. If sales personnel are to travel by air, airport locations need spotting. The route, or routes, finally laid out should permit the salesperson to return home at least on weekends.

If the route planner considers the desired call frequency rate for each customer on the route, the call schedule is a by-product of setting up the route. In most cases, however, making up the call schedule is more than planning the route. Customers and prospects are segregated according to the desired call frequency rate. Using detailed maps, the planner identifies the locations of members of each customer and prospect group and reconciles the route with these locations. Hence, often the salesperson has a different route each time he or she travels the territory, to achieve the desired call frequencies and to incorporate new customers and prospects into the itinerary. Furthermore, because changes occur in account classifications, prospects, competitive activity, as well as in road conditions, it is impractical to set up fixed route and call schedules good for long periods.

Routing and scheduling plans reduce wasted time by sales personnel. Much backtracking, travel time and other "nonselling" time are eliminated, and scheduled call frequency is to fit customers' needs. Effective routing and scheduling automatically builds up the size of the average order.

In scheduling sales personnel, some firms not only designate the customers to call upon each day but prescribe the time of day to make each call. Detailed scheduling is coupled with a system for making advance appointments. Companies not using scheduling plans usually suggest advance appointments, but often salespeople ignore this suggestion. For effective detailed scheduling the scheduler needs current information on time required for
each call, probable waiting time at each stop, travel time between calls, and the probable
time with each customer. This information is difficult to collect and update. Detailed
scheduling is most feasible when customers give their full cooperation. Most firms allow
their sales personnel "time cushions" to allow for the many variations met on each selling
trip.

Companies, almost without exception, benefit from systematic routing and scheduling, but
not all find detailed scheduling feasible. The petroleum marketing companies, and other
firms with combination driver-salespersons, use detailed routing and scheduling plans
successfully, as do several large pharmaceutical manufacturers. Less detailed routing and
scheduling plans are used by wholesalers of groceries, drugs, and hardware. Detailed
scheduling plans are appropriate in trades typified by frequent calls, great homogeneity
among customers, short travel time between calls, and highly standardized products not
requiring large amounts of creative selling time—that is, in situations where trade
predominates.

**Routing, scheduling, and control.** The routing plan, the scheduling plan, or both assist
sales management in obtaining closer control over sales personnel's movements and time
expenditures. The routing and scheduling plans are integral parts of the overall process of
establishing sales territories and assigning sales personnel. Any routing or scheduling plan
should have frequent checkups to detect needed adjustments. Call reports are compared
with route and call schedules to determine whether plans are followed. Variations or
discrepancies are noted and sales personnel asked for explanations.

Setting up sales territories facilitates the planning and control of sales operations. Well-
designed territories assist in attempts to improve market coverage and customer service,
reduce selling expense ratios, secure coordination of personal-selling and advertising
efforts, and improve the evaluation of personnel performance.

Good territorial design is based upon thorough knowledge of sales potentials and
differences in coverage difficulty. The steps in setting up or revising sales territories are

- Selecting a basic geographical control unit,
- Determining sales potential,
- Combining control units into tentative territories, and
- Adjusting for coverage difficulty and redistricting tentative territories.

In assigning sales personnel to territories, management seeks the best alignment of selling
efforts with sales opportunities, and systematic plans for routing and scheduling sales
personnel help in accomplishing this. Since sales personnel vary in individual effectiveness
with the territories to which they are assigned, management develops ability indexes for
each possible assignment pattern.
Case Nestle

Amazingly, UK consumers have a choice of over 5,000 chocolate lines available from 150,000 outlets. Because it is so widely and readily available, we tend to take chocolate for granted, and few of us probably ever consider what is involved in producing it.

We don't know who first discovered that cocoa beans could be turned into a drink, but we do know that by 600AD the Mayan people living in what is now Mexico were growing cocoa in the jungles of Yucatan. In the mid-19th century an English cocoa manufacturer, Joseph Storrs Fry, tried mixing cocoa butter with sugar and cocoa paste and invented the world's first solid blocks of chocolate.

All over the world you will find prominent brands first developed in the UK e.g. Smarties, Dairy Milk, Aero and of course Kit Kat (the UK’s Number 1 selling confectionery brand since 1985). Boxed chocolates such as Quality Street make up 15% of the confectionery market. Blocks and bars like Kit Kat and Yorkie account for 65% and bitesize chocolates e.g. Smarties and Rolo make up 10%.

Chocolate manufacture provides steady employment and job security for tens of thousands of employees in manufacturing locations like York and Birmingham. The industry also generates jobs in marketing, administration, transport and storage. Chocolate sales are an important source of income for many retailers. Besides the cocoa beans themselves, raw materials for the chocolate industry include sugar, milk and wrapping/packaging materials e.g. paper, foil and card.

As a major buyer Nestlé seeks to be as closely involved in the supply chain as possible, to ensure quality and fairness. Currently Nestlé is participating in a process to examine potential problems of forced child labour on cocoa farms in West Africa. They depend on people operating in the tertiary or service sector of the economy to collect, purchase and transport the cocoa product to warehouses.

Most of us love chocolate in one form or another and every week a typical UK citizen spends around £1.80 on it. Amazingly, UK consumers have a choice of over 5,000 chocolate lines available from 150,000 outlets. Because it is so widely and readily available, we tend to take chocolate for granted, and few of us probably ever consider what is involved in producing it.

This case study looks at the massive, complex worldwide operations that ensure that chocolate products are on the shelves of retail outlets 365 days a year. We tend to treat this achievement as routine. In reality, it represents a triumph for careful planning and meticulous organization. We don't know who first discovered that cocoa beans could be turned into a drink, but we do know that by 600AD the Mayan people living in what is now Mexico were growing cocoa in the jungles of Yucatan.
In the 16th century the Spaniards invaded South America, quickly learned the secrets of making chocolate as a drink and started shipping back cargoes of cocoa beans. By the 18th century, chocolate-based drinks were popular in British high society. In the mid-19th century an English cocoa manufacturer, Joseph Storr's Fry, tried mixing cocoa butter with sugar and cocoa paste and invented the world's first solid blocks of chocolate.

The UK has long been a major manufacturer (and consumer) of chocolate products. All over the world you will find prominent brands first developed in the UK e.g. Smarties, Dairy Milk, Aero and of course Kit Kat (the UK's Number 1 selling confectionery brand since 1985).

Three producers dominate the chocolate market. Cadbury with around 28 while Mars and Nestlé each have around 24. Sales of milk chocolate (96 predominate, with plain and white chocolate accounting for about 2 each). Boxed chocolates such as Quality Street make up 15% of the confectionery market. Blocks and bars like Kit Kat and Yorkie account for 65% and bitesize chocolates e.g. Smarties and Rolo make up 10% of the market. Easter eggs are another big seller, accounting for 5% of the market.

The UK's chocolate industry is over 150 years old. Chocolate manufacture provides steady employment and job security for tens of thousands of employees in manufacturing locations like York and Birmingham. The industry also generates jobs in marketing, administration, transport and storage. Chocolate sales are an important source of income for many retailers.

Large confectionery companies meet customer requirements with a wide selection of different types of chocolate products to meet a variety of tastes. A company like Nestlé is involved at every stage of the production chain. It gets to know as many people as possible in the supply chain, providing growers with technical advice, advising intermediaries about quality issues, and of course researching the market to find out what the consumer wants.

Large organisations like Nestlé are able to pass on to us the benefits of economies of scale, coupled with their experience of producing high quality chocolates over many years. As a result, we consumers are able to enjoy products built around cocoa beans from a small farm and transformed by complex production processes into sophisticated products such as Quality Street, Smarties, Aero, or many other forms of chocolate product.

Questions

[01] The only sensible way to organize a sales force is by geographical region. All other methods are not cost efficient. Discuss.

[02] How practical is the workload approach to sales force size and territory determination at Nestle?
Chapter 09
Physical Distribution Management

This chapter will cover the following areas

1. Understanding Physical Distribution Management
2. Physical Distribution Objectives
3. Physical Distribution Activities
4. Logistics
5. Global Distribution

1. Understanding Physical Distribution Management

It is not enough to simply state a firm’s goal as maximizing the present value of total profit since this does not differentiate it from other firms and says nothing about how this objective is to be achieved. Instead, a business and marketing plan should suggest how the firm can best put its unique resources to use to maximize stockholder value. A number of resources come into play—e.g.

- Distinctive competencies—knowledge of how to manufacture, design, or market certain products or services effectively;
- Financial—possession of cash or the ability to raise it;
- Ability and willingness to take risk;
- The image of the firm’s brand;
- People who can develop new products, services, or other offerings and run the needed supports;
- Running facilities (no amount of money is going to get a new microchip manufacturing plant started tomorrow); and
- Contacts with suppliers and distributors and others who influence the success of the firm.

Interrelated objectives: A firm’s distribution objectives will ultimately be highly related—some will enhance each other while others will compete. For example, as we know, more exclusive and higher service distribution will generally entail less intensity and lesser reach. Cost has to be traded off against speed of delivery and intensity (it is much more expensive to have a product available in convenience stores than in supermarkets, for example).

Narrow vs. wide reach: The extent to which a firm should seek narrow (exclusive) vs. wide (intense) distribution depends on a number of factors. One issue is the consumer’s likelihood of switching and willingness to search. For example, most consumers will switch soft drink brands rather than walking from a vending machine to a convenience store several blocks away, so intensity of distribution is essential here. However, for sewing machines, consumers will expect to travel at least to a department or discount store, and premium brands may have more credibility if they are carried only in full service specialty stores.
Retailers involved in a more exclusive distribution arrangement are likely to be more “loyal” — i.e., they will tend to
- Recommend the product to the customer and thus sell large quantities;
- Carry larger inventories and selections;
- Provide more services

Thus, for example, Compaq in its early history inst ituted a policy that all computers must be purchased through a dealer. On the surface, Compaq passed up the opportunity to sell large numbers of computers directly to large firms without sharing the profits with dealers. On the other hand, dealers were more likely to recommend Compaq since they knew that consumers would be buying these from dealers. When customers came in asking for IBM’s, the dealers were more likely to indicate that if they really wanted those, they could have them — “But first, let’s show you how you will get much better value with a Compaq.”

**Distribution opportunities:** Distribution provides a number of opportunities for the marketer that may normally be associated with other elements of the marketing mix. For example, for a cost, the firm can promote its objective by such activities as in-store demonstrations/samples and special placement (for which the retailer is often paid). Placement is also an opportunity for promotion — e.g., airlines know that they, as “prestige accounts,” can get very good deals from soft drink makers who are eager to have their products offered on the airlines. Similarly, it may be useful to give away, or sell at low prices, certain premiums (e.g., T-shirts or cups with the corporate logo.) It may even be possible to have advertisements printed on the retailer’s bags (e.g., “Got milk?”)

Other opportunities involve “parallel” distribution (e.g., having products sold both through conventional channels and through the Internet or factory outlet stores). Partnerships and joint promotions may involve distribution (e.g., Burger King sells clearly branded Hershey pies).

**Deciding on a strategy.** In view of the need for markets to be balanced, the same distribution strategy is unlikely to be successful for each firm. The question, then, is exactly which strategy should one use? It may not be obvious whether higher margins in a selective distribution setting will compensate for smaller unit sales. Here, various research tools are useful. In focus groups, it is possible to assess what consumers are looking for which attributes are more important. Scanner data, indicating how frequently various products are purchased and items whose sales correlate with each other may suggest the best placement strategies. It may also, to the extent ethically possible, be useful to observe consumers in the field using products and making purchase decisions. Here, one can observe factors such as (1) how much time is devoted to selecting a product in a given category, (2) how many products are compared, (3) what different kinds of products are compared or are substitutes (e.g., frozen yogurt vs. cookies in a mall), (4) what are “complementing” products that may cue the purchase of others if placed nearby. Channel members — both wholesalers and retailers — may have valuable information, but
their comments should be viewed with suspicion as they have their own agendas and may distort information.

The smooth operating of a marketing channel, regardless of the coordination system involved, requires a workable system for physical distribution—the storage, handling, and movement of goods to make them available when and where customers want them. Such a system can be a major expense, but costs for physical distribution vary widely from firm to firm. In many industries, distribution costs exceed 20 percent of sales. Any reduction in distribution costs can significantly affect profitability and physical distribution is for many companies a high-performance area for improvement in profitability.

Controlling costs and keeping a product's physical distribution moving smoothly requires a coordinated effort of all the elements of the system—order processing, warehousing, inventory handling, and transportation. Larger companies’ appoint specialists to manage physical distribution. In smaller firms, this task is an additional responsibility of a member of the management team. Regardless of how it is handled, the coordination of the physical distribution effort is extremely important to both customer satisfaction and business profits.

A. Inventory control (sales forecasting, inventory record-keeping)
B. Order processing (computer systems, telephone banks)
C. Warehousing and storage (physical problems)
D. Transportation (motor, water, air, pipeline, courier, rail, wire)
E. Protective packaging (fine china vs. magazines)
F. Materials handling (conveyor belts, forklifts)

**Paths to the customer.** For most products and situations, it is generally more efficient for a manufacturer to go through a distributor rather than selling directly to the customer. This is especially the case when consumers need to have variety and assortment (e.g., a consumer would like to buy not just toothpaste but also other personal hygiene products, and even other grocery products at the same place), when products are bought in small volumes or at low value (e.g., a candy bar sells for less than Rs.1.00), or even intermediaries have skills or resources that the manufacturer does not (a sales force, warehousing, and financing). Nevertheless, there are situations when these conditions are not met—most typically in industrial settings. As an extreme case, most airlines are perfectly happy only being able to buy aircraft and accessories from Boeing and would prefer not to go through a retailer—particularly since the planes are often highly customized. More in the "gray" area, it may or may not be appropriate to sell microcomputers directly to consumers rather than going through a distributor—the costs of providing those costs may be roughly comparable to the margin that a distributor would take.

**Potential channel structures.** Channel structures can assume a variety of forms. In the extreme case of Boeing aircraft or commercial satellites, the product is made by the manufacturer and sent directly to the customer's preferred delivery site. The
manufacturer, may, however, involve a broker or agent who handles negotiations but does not take physical possession of the property. When deals take on a smaller magnitude, however, it may be appropriate to involve retailer--but no other intermediary. For example, automobiles, small planes, and yachts are frequently sold by the manufacturer to a dealer who then sends directly to the customer. It does not make sense to deliver these bulky products to a wholesaler only to move them again. On the other hand, it would not make sense for a Hambantota customer to travel to Colombo, buy a car there, and then drive it home. As the need for variety increases, a wholesaler may then be introduced. For example, an office supply store needs to sell more merchandise than any one manufacturer can produce.

Therefore, a wholesaler will buy a very large quantity of binders, file folders, staplers, and reams of paper, glue sticks, and similar products and sell this in smaller quantities—say 200 staplers at a time—to the office supply store, which, in turn, may go to another wholesaler who has acquired telephones, typewriters, and photocopiers. Note that more than one wholesaler level may be involved—a local wholesaler serving the Inland Empire may buy from each of the two wholesalers listed above and then sell all, or most, of the products needed by local office supply stores. Finally, even in longer channels, agents or brokers may be involved. This, in particular, will happen when the owner of a small, entrepreneurial company has more experience with technology than with businesses negotiations. Here, the manufacturer can be freed, in return for paying the agent, from such tasks, allowing him or her to focus on what he or she does well.

**Criteria in selecting channel members.** Typically, the most important consideration whether to include a potential channel member is the cost at which he or she can perform the required functions at the needed level of service. For example, it will be much less expensive for a specialty foods manufacturer to have a wholesaler get its products to the retailer. On the other hand, it would not be cost effective for Procter & Gamble and Wal-Mart to involve a third party to move their merchandise—Wal-Mart has been able to develop, based on its information systems and huge demand volumes, a more efficient distribution system. **Note the important caveat that cost alone is not the only consideration**—premium furniture must arrive in the store on time in perfect condition, so paying more for a more dependable distributor would be indicated. Further, channels for perishable products are often inefficiently short, but the additional cost is needed in order to ensure that the merchandise moves quickly. Note also that image is important—Wal-Mart could very efficiently carry Rolex watches, but this would destroy value from the brand.

**Evaluating Channel Performance.** The performance of channel members should be periodically monitored—a channel member may have looked attractive earlier but may not, in practice be able to live up to promises. (This can be either because of complacency or because the channel member simply did not realize the skills and resources needed to perform to standards). Thus, performance level (service outputs) and costs should be evaluated. Further, changes in technology or in the market place may make it worthwhile
to shift certain functions to another channel member (e.g., a distributor has expanded its coverage into another region or may have gained or lost access to certain retail chains). Finally, the extent to which compensation is awarded in proportion to performance should be reassessed—e.g., a distributor that ends up holding inventory longer or taking on more returns may need additional compensation.

2. Physical Distribution Objectives

The objectives of physical distribution are to create value for customers by making products available where and when customers want them at the least possible cost. These objectives, of course, must be balanced. To make products available when and where customers want them, a company must shorten delivery time by combining inventory available for shipment and rapid transportation. Conversely, to make products available at the lowest possible cost, the supplier needs to keep low inventories and lengthen delivery times—which would result in a longer wait for both goods and services. Thus, physical distribution objectives have to seek a balance between the goals of improved customer service and lower costs.

As with the channel objectives, physical distribution objectives should be set based on the target market's needs and a review of the competition's service levels. Managers also need to analyze the costs of providing higher levels of service. Ultimately, a firm may want to offer less service than its competitors and charge lower prices or it may opt for higher service than its competitors and charge higher prices to cover the increased costs of service.

3. Physical Distribution Activities

Like the overall market channel, physical distribution must be viewed as a system whose activities must be coordinated in order to minimize total system costs relative to service level objectives. The physical distribution activities are order processing, warehousing inventory, management, and transportation.

3.1 Order Processing

The receipt and transmission of sales order information is called order processing. The more efficiently orders are processed, the less time is required for delivery and the greater the satisfaction for customers.

Order processing occurs in three steps: order entry, order handling, and order delivery. Order entry begins when a customer or salesperson places an order. Order building starts with the transmission of the order to the warehouse. Upon receiving the order, the warehouse verifies that the product is in stock. At the same time, the order is communicated to the credit department, which checks prices, terms, and customer credit. If the customer's credit is approved and the item is available in the warehouse, the order is filled. If the item is not in stock, a production order is placed with the factory. Finally, the order is packaged for shipping and scheduled for delivery.
While order processing can be done manually, most firms now use some form of electronic order processing. The use of electronic order processing speeds up the process and also allows firms to integrate other functions such as production Control and transportation planning at the time the order is placed. The use of optical scanners at the checkout is an example of advanced order processing management. The data gathered at the point of sale enables a firm to maintain desired inventory levels on a constant and "as-needed" basis. See the ad in Exhibit 16-8: Specializing in design and construction, the Austin Company of Cleveland describes the state-of-the-art facility required to maintain the inventory readiness of the U.S. Army.

"Social-Technical" Distribution Founded in Cape Elizabeth, Me., in 1883, Hannaford Brothers operates 78 supermarkets in 5 Northeastern states. Despite the recession that has gripped New England since 1988, the company's 20-percent return on equity is well above the industry average, due in part to the "socio-technical system" adapted from Japanese practice at its Albany, N.Y., distribution center: 125 managers and employees form several small, virtually autonomous work groups that make their own rules, handle their own hiring set their own pay scales, and voice and field their own complaints. "Employees are playing a role in what they're doing," explains one Hannaford executive, "rather than just performing a job."

3.2 Warehousing

Storing goods waiting to be sold or shipped is known as warehousing. Manufacturers produce goods in large quantities at fairly constant rates. Demand typically fluctuates, however, and manufacturers generally prefer to produce a bit too much in order to cover peak demand periods. Some product must thus be warehoused. Warehousing, then, solves some of the problems that result from the fact that products cannot be produced precisely when they are demanded.

When looking at warehousing costs, marketers must balance the faster-service advantage of numerous warehouse locations with the increased warehousing costs of multiple locations. If the firm still opts for multiple warehouses, managers must also decide whether to buy (or build) warehouses or rent space in public warehouses. Public warehouses rent space to any firm wishing to pay for it. While a company owned warehouse gives the producer more control. It ties up a firm's money in the purchase of the building and limits its ability to respond to changing market demands. Public warehouses are flexible because they are located and designed to meet the needs of numerous different producers.

In addition to warehouses, which store goods, most large companies also have distribution centers—automated facilities that both receive goods from the company's suppliers and service customer orders. Distribution centers have become key elements in the distribution systems of virtually every major company. In 1990 alone, for example,
Wal-Mart Stores built three new distribution centers with a total distribution capacity of 15 million square feet—a company-wide increase of 24 percent in the first year, these facilities delivered 315,000 trailer loads of merchandise.

3.3 Inventory Management

Inventory Management and Inventory Control must be designed to meet the dictates of the marketplace and support the company's strategic plan. The many changes in market demand, new opportunities due to worldwide marketing, global sourcing of materials, and new manufacturing technology, means many companies need to change their Inventory Management approach and change the process for Inventory Control.

Despite the many changes that companies go through, the basic principles of Inventory Management and Inventory Control remain the same. Some of the new approaches and techniques are wrapped in new terminology, but the underlying principles for accomplishing good Inventory Management and Inventory activities have not changed.

The Inventory Management system and the Inventory Control Process provides information to efficiently manage the flow of materials, effectively utilize people and equipment, coordinate internal activities, and communicate with customers. Inventory Management and the activities of Inventory Control do not make decisions or manage operations; they provide the information to Managers who make more accurate and timely decisions to manage their operations.

The control of inventory levels is referred to as inventory management. Once again, we encounter the paradox of distribution: In determining both production schedules and production levels, a company must be careful to maintain stock levels adequate enough to satisfy customer demand while not incurring the costs of storing excess inventory. In other words, in order to achieve the greatest profitability, the company must weigh the costs of processing customer orders against the costs of carrying inventory. The more often a product is ordered the higher the order-processing costs (unloading, stocking, order placing, and so forth), The less often a product is ordered, the higher the inventory-carrying costs since the product must be kept in inventory to cover the longer period between orders.

To help control inventory costs, many producers now use total system inventories, in this method, the inventory of a particular product is monitored throughout the channel system. Thus the producer knows not only how much inventory it has in its warehouse, but also what inventory is. In wholesale and retail warehouses, how much is in transit, and how much is in retail outlets. In retail stores, the use of point-of-sale scanners (which electronically read codes on products) has even made it possible for some suppliers to even keep track of each unit as it is sold.
3.4 Transportation

Decisions about transportation also have a significant effect on overall distribution costs. There are five basic transpiration methods available for moving a company's products: rail, truck, water, air, and pipeline. Although rail declined in importance over the last century, it remains the most cost-effective method for moving bulk cargo over long distances. In the U.S., nearly 37 percent of total cargo moves by rail.

Trucks continue to grow in importance as a carrier. Today about one-quarter of all cargo moved in the United States travels the highways. Trucks are an excellent choice for shipping products short distances, especially within cities. Among all means of transportation, companies generally find it easiest to get a truck to deliver their goods when and where they want—from producer to wholesaler, wholesaler to retailer, and retailer to customer. Because of their point-to-point capability, most items shipped long distance by other transportation methods wind up on trucks for the final part of their journey.

Shipping goods by water is extremely low in cost. But water travel is quite slow at best and can be set back further by weather conditions. The low cost of water transport makes it the first choice for moving relatively high-weight goods such as iron ore, steel, autos, and heavy machinery.

Air is the fastest means of transport; thus it is the carrier of choice for shipping items likely to spoil, such as milk and eggs. Companies moving fairly light-weight, expensive items—diamonds or watches, for example—may choose air. In addition, a company urgently needing a replacement part may find it worthwhile to foot the air freight bill. Currently, air travel accounts for less than 1 percent of merchandise shipped in the United States.

Pipelines meet only very particular routing demands. This means of shipping is popular among petroleum and chemical producers, which transport their products to customers this way. The Alaska oil pipeline is a fairly well-known example. Pipelines are more expensive than water but less expensive than rail.

Each method of shipping has its plusses and minuses. Can a company use multiple modes of transportation to maximize efficiency? To take advantage of more than one method of shipping goods, companies are turning increasingly to containerization. Containerization means using trailers or boxes of standard sizes that can then be transferred from one means of transportation to another. For example, "piggyback" transportation combines the use of railroads and trucks. "Birdy back" combines the use of airplanes and trucks and/or rail. "Fishy back" combines the use of boats and trucks and/or rail. Multiple modes of transportation can save money and time and increase flexibility. Birdybacking, for example, saves time by taking advantage of the speed of air travel and provides the point-to-point capability of trucking to complete shipments.
How does a company finally choose the best method of transporting its goods? Management must weigh the benefit of the method—such as speed or convenience—against the cost. Does a customer need a replacement part immediately? If the distribution center is located some distance from the need, air is indicated if the cost of air is less than the added value of the shorter delivery time. If the market is local, then trucks may be sufficient. In fact, even if there is great distance between the distribution center and the need, trucking may be a lower-cost alternative than rail because of its point-to-point capability. For example, in the case of beer distribution, where flexibility in meeting small orders and the ability to make several stops is important, trucks may be the preferred mode. But in the case of oil from a refinery, when speed is not critical but is a constant and when the need to move large supplies of a product makes cost a concern, pipelines and tanker ships create the greater value.

3.5 Trends in Physical Distribution Management

There are many trends that are taking place in the physical distribution management area. The following are some of them.

1. Key competitive advantages: One of the main findings is that many major companies now regard their supply chains as one of the central elements in their overall competitive strategies. Companies are re-designing, restructuring, and totally overhauling their supply chains. Frequently, companies end up scrapping their existing distribution systems and replacing them with state-of-the-art networks.

2. Network re-designs: Supply chain executives frequently reported that network re-designs are their number one challenge. They’re costly and fraught with risk. Should its order-delivery system develop any snags or glitches, a company will have to deal with unhappy customers — many of whom will take their business elsewhere. No company would embark on a project with so much downside risk unless it was convinced that its future depends on its distribution network. It’s clear from the interviews that companies are coming increasingly to this realization.

3. Outsourcing to offshore manufacturing facilities: Manufacturers are continuing to outsource to offshore facilities in order to cut operating costs. The downside, however, is that they’ve also stretched their lead-times for delivery. In turn, global manufacturers have devised a plethora of strategies and tactics aimed at mitigating the impact of longer lead-times on their transportation budgets, inventories, and customer service. Some are simple; others more elaborate — e.g., risk management systems, electronic dashboards, VMI (vendor-managed inventory) hubs, re-defined inventory-stocking policies, and merge-in-transit programs.
4. Increasing customer service requirements: Customers today are demanding more services (at little or no extra cost) from their suppliers — including shorter lead times, higher fill rates, perfect-order tracking, store ready displays, customer-specific labeling, promotional packaging, and integrated supply. Meeting these higher customer service standards engenders higher costs. The challenge for suppliers is to improve customer services while remaining cost competitive. Many of the companies interviewed have devised innovative strategies for how to meet this daunting challenge.

5. Growing reliance on supply chain software applications: With supply chains becoming longer and more intricate and with customer service requirements the extensive interviews with supply chain leaders yielded a gold mine of information, experience, and insights. Supply Chain Review on the rise, supply chain operators is turning to technology to create or maintain competitive supply chains. In general, new technology and software applications are all designed to improve a company's visibility and control throughout its supply chain. Communication is vital to the efficient operation of supply chains, and the Internet is fast becoming the medium of choice for supply chain partners to communicate with each other.

6. Aggregation evolving into a key supply chain strategy: Companies have learned how to unleash potent supply chain synergies and efficiencies by aggregating product flows and then channeling them through a common network of facilities, transportation lanes, and customers.

7. Distribution centers getting bigger: Distribution facilities continue to get bigger, with the largest ones exceeding one million square feet. Several supply chain executives reported that megasized facilities incorporating the latest innovations in warehouse design, warehouse layout, and warehouse management systems had obviated the need (to some degree) for costly automated materials handling systems. Mega-sized facilities, they claim, have turned out to be extremely efficient and have contributed vitally to the overall success of their network re-designs.

8. Heightened emphasis on cash flow: Cash-to-cash cycle time has become a key metric today in designing and managing supply chains. Examples include:
   - Faster inventory-turns yield lower inventory investment.
   - If a company ships orders on time with 0% errors and 0% damage, it will get paid sooner and have fewer days of receivables.
   - If a company negotiates extended terms from its suppliers, it will have moved inventory cost upstream and reduced its cash requirements. One interviewee highlighted the connection between profit and cash flow: “Only after you have completed a cash-to-cash cycle do you realize your [profit] margin. We do that more often now.”
9. Manufacturing and distribution networks are merging: Many companies are attempting to create operating synergies and efficiencies by merging their manufacturing and distribution networks via such strategies as geographic-based manufacturing, mass customization, or postponement. Several interviewees discussed, for example, how their companies had switched to geographic based manufacturing platforms from product-based platforms. In other words, they have reconfigured their manufacturing plants to produce the company’s entire Communication is vital to the efficient operation of supply chains, and the Internet is fast becoming the medium of choice for supply chain partners to communicate with each other. Portfolio of products, whereas previously these plants had been dedicated to making a single product or family of products. The rationale is that these multi-product plants can be located nearer to the company’s customer base, thereby eliminating steps from the supply chain, reducing overall supply chain costs, and improving customer service. Similarly, one company that was interviewed is redesigning its line-up of products to facilitate mass customization or final configuration of the products at the retail level.

10. Striving for external visibility: Companies used to be preoccupied with building and refining the internal infrastructure of their supply chains. More recently, companies have been concentrating on teaming up with supply chain partners via VMI programs.

3.6 Disintermediation and Physical distribution management

Disintermediation is the removal of intermediaries in a supply chain: "cutting out the middleman". Instead of going through traditional distribution channels, which had some type of intermediate (such as a distributor, wholesaler, broker, or agent); companies may now deal with every customer directly, for example via the Internet. One important factor is a drop in the cost of servicing customers directly.

Disintermediation initiated by consumers is often the result of high market transparency, in that buyers are aware of supply prices direct from the manufacturer. Buyers bypass the middlemen (wholesalers and retailers) in order to buy directly from the manufacturer and thereby pay less. Buyers can alternatively elect to purchase from wholesalers. Often, a B2C intermediary functions as the bridge between buyer and manufacturer.

To illustrate, a typical B2C supply chain is composed of four or five entities (in order):

- Supplier
- Manufacturer
- Wholesaler
- Retailer
- Buyer

It has been argued that the Internet modifies the supply chain due to market transparency:

- Supplier
- Manufacturer
- Buyer
Impact of Internet-related disintermediation upon various industries

Strong impact
- Computer hardware and software
- Travel agencies
- Bookstores and music stores

Still in progress (due to legal or structural obstacles)
- Alcoholic beverages
- Real estate
- Prime brokerage for hedge funds

Failed and became niche ancillary services
- Furniture
- Groceries
- Pet supplies (especially dog food)

A prime example of disintermediation is Dell, Inc., which sells many of its systems direct to the consumer — thus bypassing traditional retail chains. In the non-Internet world, disintermediation has been an important strategy for many big box retailers like Wal-Mart, which attempt to reduce prices by reducing the number of intermediaries between the supplier and the buyer. Disintermediation is also closely associated with the idea of just in time manufacturing, as the removal of the need for inventory removes one function of an intermediary.

The existence of laws which discourage disintermediation has been cited as a reason for the poor economic performance of Japan and Germany in the 1990s. However, Internet-related disintermediation occurred less frequently than many expected during the dot com boom. Retailers and wholesalers provide essential functions such as the extension of credit, aggregation of products from different suppliers, and processing of returns. In addition, shipping goods to and from the manufacturer can in many cases be far less efficient than shipping them to a store where the consumer can pick them up (if the consumer's trip to the store is ignored). In response to the threat of disintermediation, some retailers have attempted to integrate a virtual presence and a physical presence in a strategy known as bricks and clicks.

Bricks and clicks is a business strategy or business model in e-commerce by which a company attempts to integrate both online and physical presences. It is also known as Click-and-mortar or clicks-and-bricks.

For example, an electronics store may allow the user to order online, but pick up their order immediately at a local store. Conversely, a furniture store may have displays at a local store from which a customer can order an item electronically for delivery.

The bricks and clicks strategy has typically been used by traditional retailers who have extensive logistical and supply chains. Part of the reason for its success is that it is far
easier for a traditional retailer to establish an online presence than it is for a start-up company to employ a successful pure dot.com strategy, or for an online retailer to establish a traditional presence (including a strong brand).

The success of the strategy in many sectors has destroyed the credibility of analysts who argued that the Internet would render traditional retailers obsolete through disintermediation.

4. Logistics

**Logistics** is the art and science of managing and controlling the flow of goods, energy, information and other resources. A more specific definition would be “Logistics is the process of strategically managing the procurement, movement and storage of materials, parts, and finished inventory (and the related information flows) through the organisation and its marketing channels in such a way that current and future profitability are maximised through the cost-effective fulfillment of orders”.

The term logistics has evolved from the military's need of spare-parts supply, but is now widely accepted to include activities like purchasing, transport, warehousing, organizing and planning of these activities. Logistics managers need general knowledge of each of these functions, and specific knowledge of the industry, commodity, or business protocols governing the product types being managed.

In business, logistics may have either internal focus, or external focus covering the flow from originating supplier to end-user, see management. In military logistics, experts manage how and when to move resources to the places they are needed. In military science, maintaining one's supply lines while disrupting those of the enemy is a crucial, and some would say the most crucial element, of military strategy (since an armed force without food/fuel and ammunition is useless).

There are two fundamentally different forms of logistics. One optimizes a steady flow of material through a network of transport links and storage nodes. The other coordinates a sequence of resources to carry out some project.

**Distribution** is one of the four aspects of marketing. A distribution business is the middleman between the manufacturer and retailer. After a product is manufactured by a supplier/factory, it is typically stored in a distribution company's warehouse. The product is then sold to retailers or customers. The other three parts of the marketing mix are product management, pricing, and promotion. Traditionally, distribution has been seen as dealing with logistics: how to get the product or service to the customer. It must answer questions such as:

- What kind of distribution channel to use?
- Should the product be sold through a retailer?
• Should the product be distributed through wholesale?
• Should multi-level marketing channels be used?
• How long should the channel be (how many members)?
• Where should the product or service be available?
• When should the product or service be available?
• Should distribution be exclusive, selective or extensive?
• Who should control the channel (referred to as the channel captain)?
• Should channel relationships be informal or contractual?
• Should channel members share advertising (referred to as co-op ads)?
• Should electronic methods of distribution be used?
• Are there physical distribution and logistical issues to deal with?
• What will it cost to keep an inventory of products on store shelves and in channel warehouses (referred to as filling the pipeline)?

5. Global Distribution

There are, of course, some significant differences between national and global channel management and distribution. For example, economic differences between countries are well documented, in countries such as Argentina and Brazil; inflation rates exceed 1,000 percent in a good year. In turn, high inflation rates have effects on distribution. Goods must be priced daily or even hourly to reflect the depreciating currency value. Physical distribution costs also soar 17%.

In some cases, firms marketing outside their home country must also contend with stronger competition that affects distribution. For example, local producers may have long-established ties with intermediaries in their home countries. At the same time, manufacturers from many nations may all be vying for the services of the same intermediaries; Firms wishing to gain market access in such competitive environments will have to structure channels according to the unique competitive mix in each area. Japan has been a special challenge to foreign firms seeking entry because of the exclusive distribution agreements that lock competitors out of existing channels.

Cultural differences affect channel relations. Types of channel arrangements may differ, and basic ways of doing business may be quite different. For example, in Japan and China, firms must first establish a trusting social relationship with a channel partner before expecting a business commitment. Bose Corporation'(maker of high-quality stereo speakers) learned this lesson the hard way when their Japanese distributor, not trusting Bose and not having had sufficient face-to-face contact by its salespeople, attempted to "improve" a product by removing a key component. The action ruined the sound of the speakers-along with any chance of selling the Japanese market.

Adapting to local needs in order to market globally is as important in distribution as in any other aspect of the marketing mix. In some cases, a producer better off selling its product to an intermediary and allowing the intermediary to sell the product as it pleases.
This is a viable solution if the product does not require a great deal of producer input (information, assembly) or after-sales service. For example, Avon uses this technique in Africa and the Middle East but uses its familiar direct sales approach in the United States, Latin America, Europe, and the Pacific.

5.1 Exporting and Importing

Participation in foreign trade and international marketing generally depends on a country’s level of economic development. Some countries, such as Japan, are primarily exporters—that is, they sell products to other foreign markets. Others, including many Third World countries, are primarily importers—they mainly buy from other countries.

Most industrialized countries engage in both exporting and importing, contributing to nation's participation in foreign trade creates a balance of payments—or unbalance—between imports and exports. Developing countries are often plagued by huge national debts assumed in attempts to modernize their economies. In order to pay off these debts and participate in international trade, they try to accumulate hard currencies—money that is stable and universally accepted, such as the dollar, yen, franc, deutschmark, and pound.

Most marketing strategy is primarily concerned with exporting, which is the first step in international marketing. The physical distribution of an exported product requires a means of inserting the product into the distribution system of the country. Because of their knowledge of local languages, customs, laws, and practices, intermediaries are particularly important in exporting. The exporter basically appoints a distributor or an importer who assumes responsibility for marketing and advertising a product in the new country. This person or company may or may not take ownership of the product.

As volume and product lines expand, the exporter might send an employee to work with the importer to handle details or set up a local office. In order to ensure that distribution activities are being carried out as agreed and to solve communication problems between the exporter and local agents, it is essential that such people know the local language and the distribution system. As business develops, companies may eventually develop manufacturing facilities in the new country and move from exporting to a form of local production.

5.2 Intermediaries in International Distribution

Some of the export houses and trading companies are specialists. For example, in building products, horticultural equipment, frozen and chilled produce or fresh produce, including meat, seafood, dairy products, vegetables, fruit and flowers.

5.3 Export Specialists

Also called expediters; they find markets in other parts of the world for their home country's products.
5.4 Import Specialists

They find products in other parts of the world to bring into their home markets. It is almost impossible to enter the complex Japanese market without the help of import agents, and you are required by law to use agents in Saudi Arabia to import industrial goods.

5.5 Export Trading Companies

There are various types of export intermediaries—those individuals or companies that assume responsibility for different combinations of finding overseas buyers, sourcing and shipping products, and getting paid on the behalf of a manufacturer. The export intermediary may be a commissioned agent; an export management company (EMC), an export trading company (ETC), an export agent, or a re-marketer. Note that EMC and ETC are sometimes used interchangeably.

These are the most common type of intermediaries. They have been around since the time of the East India Company in the 16th century and the Hudson Bay Company. A trading company handles merchandise from a number of suppliers, transports the merchandise, and negotiates trade in one or a number of foreign countries. Japan has long been a leader in the area of trading companies, with some 300 doing $240 billion in trade annually. U.S. companies have only recently been permitted to engage in trading companies through the Export Trading Company Act of 1982. For these companies, business has been slow getting started.

5.6 Freight Forwarders

An international freight forwarder brings together all the loose ends that must be coordinated if American products are to be shipped to foreign buyers in the course of our nation's international trade.

They are both small and large firms that have been licensed by the federal Maritime Commissions as fit, willing and able to provide the expert know-how and experience needed to arrange for the movement of cargo from inland points to foreign destinations with maximum speed and efficiency at the least cost to the exporter. The international freight forwarder must have an intimate knowledge of transportation techniques...both their possibilities and their limitations and has to know how to advise and act in the best interests of his exporter principal.

These companies handle the details of getting the merchandise out of the home country, through the international distribution and transportation channels, into the foreign country, and then into the appropriate retailing or sales environment. They focus on physical distribution.
5.7 Export-Management Companies

There are two reasons to use an export management company. First, an export management company can **generate more sales to more countries in less time** than the manufacturer can. Second, the export management company can **generate export sales and manage the export process more cost-effectively** than the manufacturer's own marketing department.

Sometimes called *agents*; they operate in several different ways. They may take title to the product and then resell it, or they may operate as the marketing arm of the exporting firm under an exclusive contract, perhaps even using the company's letterhead. These companies tend to specialize by product categories and frequently have tremendous resources and knowledge to offer in a specialized area.

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**Case**

**Clarks: manufacturing and selling footwear since 1828**

C & J Clark is the UK's largest operator of specialist shoe shops, with over 600 outlets in the UK and Ireland. J C & J Clark’s 600-plus outlets in the UK and Ireland mainly operate under the Clarks banner but include other names such the fashion footwear chain Ravel. Clarks is the market leader in both dress and casual shoes for men and women and also dominates the children's footwear market. Worldwide, the brand is pre-eminent in casual, comfortable footwear, based on innovative technology. Last year, overseas sales of footwear for all genders totalled approximately 10 million pairs.

**The History of Clarks**

C & J Clark Limited was founded in 1825 when Cyrus Clark started a business producing sheepskin rugs. He was joined by his brother James in 1828, and it was through the latter's development of sheepskin slippers – using rug off cuts – that the company became a manufacturer and wholesaler of shoes, boots and slippers. In the early days, the reputation and growth of the business was fuelled by customer recognition of the good business sense of the Quaker Clark brothers. Working in isolation from the established shoe centres in Northampton, they developed distinctive shoemaking skills, producing comfortable shoes by combining the best materials with strict specifications and rigorous quality control. The brothers also often led the way with the adoption of new manufacturing and management techniques. The 1930s saw the first press advertisements to promote the Clarks brand and the acquisition of the Group's first retail shops. By 1935 production totaled 0.8 million pairs of shoes, of which 50,000 were exported. In the 1950s and 1960s the group expanded rapidly, with the development of children's footwear in fittings, and the launch of men's styles – in particular the desert boot. Additional manufacturing facilities were built, mainly in the south west of England, and a number of overseas subsidiaries were founded. The

**Revitalizing and repositioning the Clarks brand**

The Group's current strategy is underpinned by its strong portfolio of brands – Clarks (men's, women's and children's footwear); K (women's footwear for customers seeking additional comfort); CICA (children's fitted trainers in half sizes and width fittings); and Ravel (men's, women's and children's fashion footwear). In its domestic market, Clarks is the market leader in both dress and casual shoes for men and women, and the brand also dominates the children's footwear market. However, following major customer research in 1997 and the appointment of a new CEO, Clarks decided to embark on a programme of activities to reposition its adult brands. ‘Ravel was – and is – a premier fashion brand, mainly focused on 18-30 year olds, with 25 year olds as the core communication target,’ says Marketing Director Rosemary Carr. ‘We were happy to maintain and support that positioning, but the Clarks and K brands needed to be redefined because both were aimed at the 50-plus market. The Clarks brand, in particular, was not as appealing to a 30- to 50-year-old as we might have wished. ‘The decision was taken to reposition Clarks to appeal to younger consumers, with 35- to 45-year-olds as the core market, because a lot of growth potential was identified in that age bracket. They were natural customers for us to target because they were already visiting our shops to buy their children's shoes. The plan was to broaden the appeal of the Clarks brand, shifting the centre of gravity without moving too far or too fast. The K brand would remain targeted at the 50-plus market.’

**Updating Clarks’ products and image**

A series of initiatives were devised to achieve the Clarks brand transformation, including a radical updating of the products. ‘Our aim was to maintain the brand credentials of quality and good fit, while also offering some degree of extra performance benefit,’ explains Carr. ‘A lot of work also went into interpreting fashion for the 35- to 45-year-old market sector. ‘Qualitative research was used to enrich our understanding of customers' lifestyles and their attitude to buying shoes. The findings also helped to inform our creative product development work.’ Alongside a revamp of its product line-up, Clarks also invested in a new look for its shops. The clinical appearance created by the old green and white colour scheme and harsh lighting was replaced by a cleaner, more contemporary look, using oak floors, warm ambient lighting and accent lighting on the shoes. A neutral base of oak and cream was chosen to help to bring products to life. Window displays were also improved, with a move away from traditional terraces to a more theatrical backdrop with big graphic panels and flexible shelving. The redesign has been carried out in 150 of Clarks' 530 shops, with different grades of shop-fit to match the location. There are plans to extend this programme. These changes were supported by updated in-store presentations, designed to communicate a brand image that would appeal to the new, younger target audience.
Advertising and promotion

A major advertising campaign was run on TV in Autumn 1997 and Spring 1998. Based around the slogan 'Act Your Shoe Size Not Your Age', they were hugely successful, generating an enormous amount of press coverage that, in turn, also helped drive footfall to the stores. However, by Autumn 1999 market conditions had changed and the competitive pressures in the footwear market had become enormous. ‘Having run a campaign encouraging consumers to reappraise the Clarks brand, we decided to run a TV and press campaign reminding people how nice it was to buy new shoes,’ says Carr. ‘We researched a number of different concepts. Demonstrating that people should take pride and pleasure in buying new shoes was a fertile creative territory. The campaign ran for four weeks in April/May 2000, with a second set of TV ads running in September/October. Press ads in colour supplements and women's press featured individual products. ‘Our marketing strategy was totally integrated. The “new shoes” advertising, strongly reinforced in press and windows, pulled people in-store and delivered results for us.’ Meanwhile, the company's informational website – offering stockist lists and an edited selection of products, amongst other things – was achieving around 10,000 hits a month. ‘Our online activities were completely integrated with the overall marketing strategy,’ says Carr. ‘We are now working to create a global look to the site to reflect our worldwide retail presence.’

Promoting children's brands

Children's shoes are not being neglected. Clarks already enjoys a dominant position in the UK market, based on the proposition of providing expertise to ensure a great fit for active, growing feet. ‘Parents trust us to deliver these benefits, but we are also increasingly producing stylish, desirable shoes,’ says Carr. ‘Historically, the Clarks brand is known for school shoes, but the range of shoes available is being extended significantly.’ Database marketing plays an important role in promoting children's shoes. The names of all new mothers are collected from various sources and when their child is nine months old, Clarks invites them to visit their local store for a fitting. Those customers who take up this offer are given a Polaroid picture of their child in his/her first shoes to take home as a record of this milestone. They are also encouraged to sign up for seasonal mailings on toddler products. Following an Easter 2001 promotion to build the sports credibility of the CICA brand – a competition offering CICA Lights bikes as prizes – a Spring 2002 press campaign is due to be launched highlighting the fact that, contrary to competitors' offerings, CICA trainers are specifically made to fit kids' feet.

Requirement:

Recommend a suitable physical distribution strategy for the organization.
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Graduate/Postgraduate Diploma in Marketing

Intermediate Level
Distribution Management

Recommended Study Text

Module Three
Chapter 10
Customer Relationship Marketing

This chapter will cover the following areas

1. Targeting the Right Customer
2. The Nature of Service Relationships
3. Relationship Marketing and its Components
4. Creating and Maintaining Relationships
5. Customer Relationship Management (CRM)

1. Targeting the Right Customer

The Primary duty of a marketer is to target the needs and wants of customers. For example Intrawest is a Ski resort located in the Coast mountain range of British Columbia, catering to the interests of its customers. Despite the plethora of advantages that Intrawest offers, it ensures that its customers have a “heck” of an experience during their stay at the resort.

In this chapter we continue to examine the question “Which customer relationships are worth developing and preserving”. The objective of an organization is not merely maximizing its profits, but rather serving the customers who are a very essential asset to the business and are central to the organisation’s mission.

It is easy to attract customers but the challenge lies in establishing a bond with them, a bond of loyalty and trust. Over a long period of time. Nevertheless there are those customers who may not match the desired profile and hence be terminated than retained.

Many Service firms today focus on the number of customers they serve and neglect the value of the service that each enjoy. Marketing is about getting better business not merely more business. Generally speaking, if one buys large quantities of a good they are entitled to more privileges than occasional buyers. Consider your own situation, do you have dinner where you visit regularly with peer and family or a video rental which you resort to, for all your entertainment needs, or even a local grocery store from which you purchase your daily commodities. Without your knowledge you are a more valuable customer to the diner, Video rental salesman and the grocer than other infrequent buyers. You may even have been entitled to special privileges or discounts or credit facilities because of your loyalty to these businesses. Their services towards you encourage you to serve them longer. If on the other hand you feel that you are not catered to, well you will immediately make it a point to transact with a friendlier considerate salesman of another business. Hence, businessmen ensure that they satisfy the wants of their existing customers, to the fullest, than to invest in the search of new customers.
A couple of transactions do not build this relationship. Instead, a mutual understanding between the two transacting parties is a key priority. Nevertheless not all people are the same. Some dislike such close relationships with outsiders, some feel their privacy being invaded by these pesky businessmen who keep tracking their buying records, still others like to change: they like to have variety in their life hence they prefer a variety of shops from which to buy.

2. The Nature of Service Relationships

Even though certain transactions aren’t continuous, for example purchasing of furniture every five years, ongoing relationships can still be maintained. These varied relationships give an opportunity for categorizing services. For example “does the supplier of a continuous service maintain a formal relationship with customers?” (Like TV/ Cable subscriptions, Insurance). Such relationships offer potential benefits to both parties because both sides get to know each other better. Furthermore the firm has sufficient records of their customers, their spending patterns and trends. Such data enables a firm to adequately segment its buyers. The firm too can keep its buyers updated on events of the organization, through mail-postal or electronic, personalized calls or designated account managers who represent the link between the organization and its buyers. The formal relationship may consist of a discrete set of transactions, that is to say each usage involves a payment by an anonymous buyer to the firm. Unfortunately less information is available to marketers about such customers and their behaviour. However a certain degree of mutual understanding could be established if the customer concerned accepts to register with the firm so that their actions could be tracked. (e.g. repairs/servicing under warranty etc). On the other hand this discrete transaction may also require an informal bond (e.g. vehicle/video rental, public transportation, etc).

The different relationships highlighted above create an opportunity for pricing (for example a continuous service like rent or insurance which have a periodic charge. Small businesses like a local grocer should keep records of its frequent customers’ preferences and habits, hence services could be personalized. In large Businesses too transactions could be moulded into grounded relationships by opening personal accounts or databases for each customer.

3. Relationship Marketing and its Components

Robert Louis Stevenson asserted that “everyone lives by selling something.” We are familiar with sales forces used in businesses to sell products worldwide. Similarly all organizations possess a sales force; The US Postal service uses a sales force to sell EXPERSS mail and other mailing facilities to corporate customers. Nevertheless Personal selling or Transaction Marketing has today been overpowered by Relationship Marketing.
Relationship marketing refers to all activities aimed at developing long term relationships with customers for the long run benefit of both the transacting parties. Various approaches such as treating customers fairly or treating them as though they were a segment of one (mass customization).

Since today’s customers are large and globally dispersed they prefer suppliers who can sell and deliver a well coordinated set of products to many “Destinations”. They rely on suppliers who cater to their problems quickly and simultaneously seek to improve products.

However, in reality a majority of suppliers work independently to close a sale. Furthermore technical staff may not be willing to lend time educating the customer. The engineering/manufacturing department say it’s their job to build the products and the sales force to sell the product. However more recently companies believe that winning customers requires not only building new innovations but rather, gearing the whole company to have a relationship with the customers. A good salesman is one who is highly motivated to provide quality and help solve customer problems (See Highlight below) These good sales persons also have a constant contact with their clients who work with them to assist in problem solving and generally take an interest in customers as people.

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<td><strong>Great Salespeople -Drive Disciple And Relationship Building Skills</strong></td>
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What sets great sales people apart from all the rest? What separates the masterful from the merely mediocre? In an effort to profile top sales performers, Gallup Management Consulting, a division of the well knows Gallup polling organization, has interviewed as many as half a million sales people. Its research suggests that the best sales people possess four key Talents: intrinsic motivation, discipline work style, the abilities to close a sale, and, perhaps most important, the ability to build relationships with customers.

**Intrinsic Motivation**

“Different things drive different people – pride, happiness, money, you name it” says one expert. “But all great sales people have one thing in common; an unrelenting drive to excel.” This strong internal drive can be shaped and moulded but it cannot be taught. The Source of the motivation varies some are driven by money, some by hunger for recognition, and some by a yearning to build relationships. The Gallop research reveals four general personality types, all high sources of motivation. Competitors are people who not only want to join but crave the satisfaction of beating specific rivals, other companies and their fellow sales people. They will come right out and say right to a colleague, “with all due respect, I know you’re sales person of the year, but I’m going after your title.” The ego driven are sales people who want to experience the glory of winning. They want to be recognized as being the best, regardless of the competition.
Achievers are a rare breed who are almost self motivated. They like accomplishment and routinely set goals than what is expected of them. They often make the best sales managers because they don’t mind seeing other people succeed. As long the organization’s goals are met. Finally, service oriented salespeople are those whose strength lies in their ability to build and cultivate relationships. They are generous, caring and empathetic. “These people are golden,” says the national training manager of Minolta Corporation’s business equipment division. “We need sales who will take the time to follow up on the 10 questions a customer might have, sales people who love to stay in touch.”

No one is purely a competitor, an achiever, ego driven, or service oriented. There is at least a few features in each of the most top performer. “A competitor with a strong sense of service will probably bring in a lot of business while doing a great job of taking care of customers” observes the Managing Director of the Gallop Management Consulting Group.

Some essential components are as follows;

a) Database Marketing

Focus is on the transactions and the exchange of information. Information technology (internet) is used to establish this relationship and uphold loyalty. Nevertheless the bond between them is weak. I.T. is used in the following sequence of steps

- Identify and build databases of potential/current customers
- Encode varied messages to each, based on each one’s unique preferences
- Keeping records of customers and the frequency of his purchases
- Personalized e-mail may address the customer by name, yet the relationship may be distant.

b) Interaction marketing

The closer the interaction, the stronger is the relationship. For e.g. face to face or over the telephone. People are the essential “ingredient” to a strong mutual relationship. The basis of the trust is presented here. Similarly both parties invest resources to strengthen this bond. The investing of resources here refers to the sharing and recording of information. As they expand, technology promotes a shift from High to low contract service, hence maintaining satisfying relationships is cumbersome.

c) Network Marketing

A good net worker keeps individuals in touch with other individuals of similar interests. This marketing is between businesses wherein firms devote resources to enhance customer/distributor/supplier relationships etc. It may involve a team of individuals in the supplying firm who transact with another team in the customer’s firm, or it may just be customers who refer friends to the service provider who they transact with.
Companies have also discovered that losing a customer means losing not just a single sale but a lifetime’s worth of purchases and referrals. For example, the customer lifetime value of a Taco Bell customer exceeds $12,000. For LEXUS, one satisfied customer is worth $600,000 in lifetime purchases. Thus working to keep profitable customers makes good economic sense. The key to customer retention is superior customer value and satisfaction. With this in mind, many companies are going to extremes to keep their customers satisfied.

4 Creating and Maintaining Relationships

Managing demand means managing customers. A company’s demand comes from two groups of customers: New customers and Repeat customers. Traditionally the focus was on attracting new customers and maintaining transactions. Today, changing demographic, economic and competitive factors mean that there are few customers to go around. Finding customers is important but further emphasis is placed on building and enhancing relationships.

A service provider ensures that in maintaining a mutual relationship with the customer, he is also able to harvest vast profits. Besides the profits harvested, the seller also seeks the knowledge and pleasure attained by transacting. In fact, ultimately, a company wants to build a unique company asset called a marketing network. A Marketing network consists of the company and all its stakeholders (customers, employees, suppliers distributors, agencies, retailers, etc). Increasingly competition does not occur between companies but whole networks with the price going to the company which has built the better network. The Operating principle: “Build a good network of relationships with key stakeholders, and profits will follow”.

Despite the fact that Initial costs of acquiring customers could be high, the business proceeds in the prospect of earning profits at least in the long run. In the customers' perspective, a valued relationship is one that yields a benefit to them rather than the very cost of attaining the service. It is the Quality that is the essence of a valued relationship. Hence the service provider makes critical decisions on behalf of its clients.

Certain suppliers have such a high charismatic influence over their customers, that these customers develop a strong bond with them. Below are a few statements made by a few customers who were captivated by their service provider’s charisma;

- “I like him; he’s really funny and always cracks a lot of jokes. He is kind of a friend to me now”. <Hairdresser>
- “That grocer is so sweet; he always gives discounts on my purchases and furthermore always gives a packet of blueberry candy for my little daughter”.

The above responses were received by analysts who attempted to investigate customer-supplier relationships. Subsequently they were able to categorise three types of benefits;

1. Confidence benefits (Trust that nothing will go wrong),
2. Social benefits (a mutual reciprocal friendship) and

The firm should not primarily be establishing relationships with one’s customers, rather build good relationships by obtaining favourable publicity, building a good cooperate image and handling/heading off unfavourable rumours, stories and events. For e.g., a company’s website, butterball.com can be a good P.R. vehicle. It features carving and cooking tips and has received 500,000 visits in the year 2000.

4.1 Creating Loyalty

Loyalty or fidelity refers to one’s devotion towards another, a cause or a country. In today’s business context, it refers to a customer’s desire to continue patronizing a firm over a long period and recommending others to be customers of the firm. However, this loyalty effect continues if and only if the customer feels that the service he receives is worth the price and better than other suppliers.

Loyalty is a reciprocal effect. Service employees too should play their part by providing their clients with the desired products. The extent to which service employees view themselves as treated well by superiors or enjoy their work, provokes loyalty towards the firm and extends their period of service. Loyal service staff is more productive than new recruits. In knowing their customers well they are able to provide ‘preferential treatment' and hence, they in turn remain loyal. Therefore employee loyalty in turn caters for customer loyalty, through a series of links known as the service profit chain. In the mid 1900’s a defector was one who favoured the opposition party. Similarly, defection today refers to customers who transferred their brand loyalty to another. Zero defection occurs when a company aims to ensue that all customers are served. A soaring rate of defection defers to a defect in quality or a forerunner of future losses. Hence, observant firms keep watch over frequent customers and observe their buying behaviour so as to adjust readily to their rapidly increasing desires.

4.2 Profit Potential of a Customer Relationship

In a recent survey conducted by Reichheld and Sasser, the longer customers remained in a firm, the greater the profits for the firm. According to them four factors generate incremental profits over a time period.

(a) Profits from purchase: Overtime as customers grow or become more affluent, purchases too increase. These customers prefer to make all purchases from a unique high quality buyer rather that switching from place to place.

(b) Profits from lower overhead costs: As customers grow in experience, they avoid relying too much on suppliers. Their independent behaviour patterns enable firms to eliminate costs.

(c) Profits from referrals to others: Customer to customer recommendations save firms additional costs such as advertising and provides a means of free sales promotions.
(d) Profits from price premium: New customers benefit from introductory discounts unlike the existing ones. Similarly the existing ones too are willing to pay high at peak periods if they trust suppliers.

These economic benefits explain why one firm is more profitable than its competitors. Nevertheless, not all loyal customers are profitable. Certain organizations like banks or telephone companies create accounts for customers whose costs exceed revenues. Thus this model is most effective when there is a formal relationship between the two transacting parties. Even in the presence of an informal relationship, however, customers are free to window shop when making any transaction. Companies aim to achieve the full profit potential of each relationship, nevertheless the gap between the current and perceived performance is large. There exist three gaps between current and potential performance.

- The percentage of target customers already in the firm’s grip and the percentage it could grab hold of. The existence of a large group instigates firms to attract more.
- Current purchaser behaviour within each segment. The resulting impact on sales, had all services offered, been bought, paid for in full and not resorting to any other competitor’s sales.
- The period during which customers are unwaveringly loyal to the firm sometimes for life. If defection is experienced, immediate corrective action should be resorted to.

5. Customer Relationship Management (CRM)

The generally accepted purpose of Customer Relationship Management (CRM) is to enable organizations to better manage their customers through the introduction of reliable processes and procedures for interacting with those customers. In today's competitive business environment, a successful CRM strategy cannot be implemented by only installing and integrating a software package designed to support CRM processes. A holistic approach to CRM is vital for an effective and efficient CRM policy. This approach includes training of employees, a modification of business processes based on customer's needs and an adoption of relevant IT-systems (including soft- and maybe hardware) and/or usage of IT-Services that enable the organization or company to follow its CRM strategy. CRM-Services can even replace the acquisition of additional hardware or CRM software-licenses. The term CRM is used to describe either the software or the whole business strategy (or lack of one) oriented on customer needs. The second one is the description which is correct. The main misconception of CRM is that it is only software, instead of whole business strategy.

Major areas of CRM focus on service automated processes, personal information gathering and processing, and self-service. It attempts to integrate and automate the various customer serving processes within a company.
5.1 Architecture of CRM

There are three parts of application architecture of CRM:

- **Operational** - automation to the basic business processes (marketing, sales, service).
- **Analytical** - support to analyze customer behavior, implements business intelligence like technology.
- **Co-operational** - ensures the contact with customers (phone, email, fax, web, SMS, post, in person)

**a) Operational CRM**

Operational CRM means supporting the so-called "front office" business processes, which include customer contact (sales, marketing and service). Tasks resulting from these processes are forwarded to employees responsible for them, as well as the information necessary for carrying out the tasks and interfaces to back-end applications are being provided and activities with customers are being documented for further reference.

Operational CRM provides the following benefits:

- Delivers personalized and efficient marketing, sales, and service through multi-channel collaboration.
- Enables a 360-degree view of your customer while you are interacting with them.
- Sales people and service engineers can access complete history of all customer interaction with your company, regardless of the touch point.

The operational part of CRM typically involves three general areas of business:

- **Sales Force Automation (SFA)**: SFA automates some of the company's critical sales and sales force management functions, for example, lead/account management, contact management, quote management, forecasting, sales administration, keeping track of customer preferences, buying habits, and demographics, as well as sales staff performance. SFA tools are designed to improve field sales productivity. Key infrastructure requirements of SFA are mobile synchronization and integrated product configuration.

- **Customer Service and Support (CSS)**: CSS automates some service requests, complaints, product returns, and information requests. Traditional internal help desk and traditional inbound call-center support for customer inquiries are now evolved into the "Customer Interaction Center" (CIC), using multiple channels (Web, phone/fax, face-to-face, kiosk, etc). Key infrastructure requirements of CSS include Computer Telephony Integration (CTI) which provides high volume processing capability, and reliability.

- **Enterprise Marketing Automation (EMA)**: EMA provides information about the business environment, including competitors, industry trends, and
Integrated CRM software is often also known as "front office solutions." This is because they deal directly with the customer. Many call centres use CRM software to store all of their customer's details. When a customer calls, the system can be used to retrieve and store information relevant to the customer. By serving the customer quickly and efficiently, and also keeping all information on a customer in one place, a company aims to make cost savings, and also encourage new customers.

CRM solutions can also be used to allow customers to perform their own service via a variety of communication channels. For example, you might be able to check your bank balance via your WAP phone without ever having to talk to a person, saving money for the company, and saving your time.

b) Analytical CRM

In analytical CRM, data gathered within operational CRM are analyzed to segment customers or to identify cross- and up-selling potential. Data collection and analysis is viewed as a continuing and iterative process. Ideally, business decisions are refined over time, based on feedback from earlier analysis and decisions. Business Intelligence offers some more functionality as separate application software.

c) Collaborative CRM

Collaborative CRM facilitates interactions with customers through all channels (personal, letter, fax, phone, web, e-mail) and supports co-ordination of employee teams and channels. It is a solution that brings people, processes and data together so companies can better serve and retain their customers. The data/activities can be structured, unstructured, conversational, and/or transactional in nature.

Collaborative CRM provides the following benefits:

- Enables efficient productive customer interactions across all communications channels.
- Enables web collaboration to reduce customer service costs.
- Integrates call centers enabling multi-channel personal customer interaction.
- Integrates view of the customer while interaction at the transaction level.

5.2 Improving Customer Service

CRMs are claimed to improve customer service. Proponents say they can improve customer service by facilitating communication in several ways:

- Provide product information, product use information, and technical assistance on web sites that are accessible 24 hours a day, 7 days a week.
• Help to identify potential problems quickly, before they occur.
• Provide a user-friendly mechanism for registering customer complaints (complaints that are not registered with the company cannot be resolved, and are a major source of customer dissatisfaction).
• Provide a fast mechanism for handling problems and complaints (complaints that are resolved quickly can increase customer satisfaction).
• Provide a fast mechanism for correcting service deficiencies (correct the problem before other customers experience the same dissatisfaction).
• Identify how each individual customer defines quality, and then design a service strategy for each customer based on these individual requirements and expectations.
• Use internet cookies to track customer interests and personalize product offerings accordingly.
• Use the Internet to engage in collaborative customization or real-time customization.
• Provide a fast mechanism for managing and scheduling follow-up sales calls to assess post-purchase cognitive dissonance, repurchase probabilities, repurchase times, and repurchase frequencies.
• Provide a fast mechanism for managing and scheduling maintenance, repair, and on-going support (improve efficiency and effectiveness).
• Provide a mechanism to track all points of contact between a customer and the company, and do it in an integrated way so that all sources and types of contact are included, and all users of the system see the same view of the customer (reduces confusion).
• The CRM can be integrated into other cross-functional systems and thereby provide accounting and production information to customers when they want it.

5.3 Setting up a Framework for CRM

• When you start setting up your CRM segment for your business you first want to see what profile aspects you feel are relevant to your business. Which information will provide you the keys to serve your customers in the best way possible? If you can look at your financial history for this information then what would you have liked to know about your customers in the past? What would have been the effects? And what information is not useful? Being able to eliminate unwanted information is a big aspect in implementing your CRM systems.
• When designing your CRM's structure, always remember who your primary customers are. You want to keep more extensive information on them because they are your high-margin customers. You can keep less extensive details on the clients you identify as “low-margin”.
5.4 CRM in Business

In this day and age the use of internet sites and specifically e-mail, in particular, are highlighted as less expensive communication methods, compared to traditional methods like telephone calls. This revolutionary type of service can be very helpful, but it is completely useless if you are having trouble reaching your customers. It has been determined by some major companies that the majority of clients trust other means of communication, like telephone, more than they trust e-mail. Clients, however, are not the ones to blame because it is often the manner of connecting with consumers on a personal level making them feel as though they are cherished as customers. It is up to the companies to focus on reaching every customer and developing a relationship.

CRM software can run your entire business. From prospect and client contact tools to billing history and bulk email management. The CRM system allows you to maintain all customer records in one centralized location that is accessible to your entire organization through password administration. Front office systems are set up to collect data from the customers for processing into the data warehouse. The data warehouse is a back office system used to fulfill and support customer orders. All customer information is stored in the data warehouse. Backoffice CRM makes it possible for a company to follow sales, orders, and cancellations. Special regressions of this data can be very beneficial for the marketing division of a firm.

5.5 E-CRM (Electronic Customer Relationship Management)

Electronic customer relationship management (E-CRM) is defined as;

An organizational, strategic, and technical process of change through which a company can re-orient its entire business towards the customer by basing enterprise management on customer interactions. (Farhoomand A. F, ‘Managing the e-Business Transformation’)

The main essence of E-CRM has been on transforming the company’s information into a competitive intelligence source. The online arena has created an opportunity to develop deep relationships with customers. The process of its attainment is by filtering through customer preferences and observation of their purchasing behaviour over time. This enables gathering of individualized knowledge of the customer to accelerate their discovery process. The end result would be the customers feeling a deep sense of loyalty to the company because they feel the company know them so well.

For example Amazon.com has been customer centric from its inception. Jeff Bezos, CEO of Amazon.com explains it in the following manner;

“Our goal is to be Earth’s most customer-centric company. I will leave it to others to say if we’ve achieved that. But why? The answer is three things: The first is
that customer-centric means figuring out what your customer wants by asking them, then figuring out how to give it to them, and then giving it to them. That’s the traditional meaning of customer-centric, and we’re focused on it. The second is innovating on behalf of customers, figuring out what they don’t know they want and giving it to them. The third meaning, unique to the internet, is the idea of personalization: Redecorating the store for each and every individual customer. If we have 10.7 million customers, as we did at the end of the last quarter, then we should have 10.7 million stores.” (Gregory, Nina (1999), “Of Amazonian Proportions”, December, www.earthlink.net/partner/usaa/blink/dec99/celebrity.html

The above statement aptly explains the company’s focus on creating customer loyalty through customer relationship management.

The Web has redefined information architecture in a way that user interface plays a significant role. The information analysis can be used in a proactive way to offer customers promotions, cross selling and to up sell items. Amazon has had the advantage of creating a shopping experience that can never be created offline. Because Amazon can track and analyze every click of the mouse, how a consumer reaches the site and when they leave it.

Personalization and customization are marketing initiatives that can be capitalized on. The use of cookies enables the company to know when the customer returns to the site and what orders were placed by the customer the time before. The company uses collaborative filtering process to personalize the page for customers. The web site greets each customer by name when he or she logs in. The customer is provided with items recommended based on the customers preferences shown.

‘The page you made’ is another method of providing a service to the customer of the recently viewed portions of the site. Through the use of permission marketing a company could alert the customer via E-mail of upcoming new items even before being available to the public. Thus Amazon can be cited as a company that has taken the characteristics, values, market relationships and advantages of E-CRM to the fullest in giving its customer a valuable experience.

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Chapter 10 – Customer Relationship Marketing

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This chapter will cover the following areas

1. Defining Customer Service Excellence
2. Elements of Effective Customer Service Excellence
3. Achieving Service Excellence
4. The Role of Employees in Service Excellence

1. Defining Customer Service Excellence

One of the major world trends is an accelerating growth of services. The U.S. today is the world’s first service economy in which 74% of U.S. G.D.P is generated. In the 70’s service jobs accounted for 55% of all U.S. jobs. But in the 90’s it accelerated by 24% to 79%. The plethora of today’s service industries from banking and finance to entertainment and recreation accounts for 60% of the economy of a developed country worldwide.

Just as they are widely available, there is also a variety of services offered; from government services (courts, police-force) to Private Non Profit organizations (Museums, charities and foundations)

Generally customers have a psychological attachment to such businesses offering them satisfaction and concern. Nevertheless there still exists a majority of unsatisfied customers. Studies into customer experience reveals that there exist three types of Customer experience: Hospitable, Exceptional and/or friendly of which two and three account for 10/15 % of customers.

1.1 C.S. Model

Customers contact you in the prospect of receiving a solution to a particular problem or they just want to feel accepted and special. Focusing on the former, whatever the occupation, the service you provide is a solution to another’s dilemma. Usually the customer calls if the service isn’t upto the mark. E.g. TELEMARKETING™ like TELESEEN in Sri Lanka, offers a 30 day money back guarantee on a majority of items sold. Implementing such a tactic, enables them to satisfy a growing number of customers.

The latter suggest that when transacting with a customer, the marketer should uphold the customer’s pride. The customer should feel that he is “THE ONE”. Analysis into customer satisfaction in certain businesses in the U.S. exposed that many of the
unfavorable comments received were like “we just feel like we’re being processed, not served”!!

2. Elements of Effective Customer Service Excellence

The seven primary characteristics which attempt to make a customer recognized are; S.P.E.C.I.A.L.

2.1 Speed And Time: Is A High Priority Factor.

The speed within which delivery can be organized provides a high competitive advantage to the firm. The ability to satisfy customers quickly yields profits in the long run. However, it is not merely delivering the product quickly, rather the essence lies in the very contact between the customer and the supplier, from the tone of receiving a call to replying to mail to the duration a customer anticipates a reply from the supplier. The customer unconsciously records such detail which aims to strengthen or weaken the relationship.

*E.g. Tele Shopping Traders (T.S.T®) in Mexico City, delivers its hardware products to customers within a record breaking time of 08 minutes, after the order has been placed. This builds lasting relationships which actually enhance profitability.*

2.2 Personal Interaction with Customers.

The extent of the interaction depends on the size of the organization e.g. keeping in mind the customer’s interests, his voice, the products he frequently buys etc., for example certain bars and restaurants in England has trained its chefs and waiters to keep memory record of their frequent customers. In this way, customers need not wait for their order to be processed. It’s delivered the moment they enter.

It recent days garment outlets, in the USA have built a so called “Intimate” relationship with its clients. They ensure that all the customers that they serve have personalized Computer Data bases containing their measurements, tastes and fashions etc. Customers can personally enter these databases to modify or update the data. Hence transactions are quick and efficient.

A specialist Formula One car assembler does not assemble the automobile unless it is demanded. Personal customers digitally enter the details of their so called “DREAMCAR” via Bluetooth. These update of each the assemblers in a matter of seconds before which the work begins. Nevertheless, recent research suggests that 4 in 10 “Thoroughly Satisfied” customers are those who have experienced a face to face relationship.
2.3 Customer Expectations

Keeping up to one’s customer’s expectations is a priority of a successful business. The customer could be in one of the three emotional states: satisfied, delighted, happy and dissatisfied customers.

- **Dissatisfied customers:** refers to such customers who feel that the service they receive is way below what they expected—not necessarily what they ought to. A primary reason for the collapsing of many organizations today is their inability to keep to the expectations of their customers. For example, customers of certain local food outlets have poor expectations of the food quality they receive, that they don’t mind continuing with it. Furthermore, when they come across other suppliers who offer better service, they continue to remain with their current suppliers.

- **Satisfied customer:** Is one whose expectations are fulfilled by the service they receive? However, their service is never engraved in the customer’s minds over long periods because they are marginally satisfied. Similarly such service hinders them from recommending the firm to other customers. In order to capture people to your product or service, you ought to provide additional ‘accessories’ that other competitors can’t offer.

- **Delighted customers:** Such service is unique. The firm aims to offer service which is no match to competitors. In fact the customer receives more than what he expects. Creating “good will” about your firm is a trigger to future success. In providing such additional benefits, the firm will no doubt make profits in the short run. Imagine the boundaries it could cross in the long run with all those ‘hungry’ customers!! For e.g. Kelloggs cornflakes offers a complementary gift with every purchase. Naturally, their customers, especially kids, will be induced to buy Kelloggs rather than any other cereal. What is more amazing is that when kids hear that they could receive gifts with a cereal, they would coerce their parents to buy the product( just for the gift) even though they hate the contents!

In order to remain in business, many strive to acquire customers by offering them more than what they deserve could be in the form of praise or otherwise. The important thing is to ‘under promise and over deliver’. Nevertheless many firms impress customers by what they could achieve had they transacted with the firm, but are unable to fulfill their promises. A firm will be adding insult to injury by loosing their future customers. The way one puts his words is also important. The business should as much as possible communication in a less vague manner as far as possible; e.g. “it should be there in a couple of days” etc….

2.4 Courtesy:

Courtesy always accompanies competence. It’s a pleasure being served by a courteous amateur rather than a know-it-all expert ‘overflowing’ with pride. However the manner in which people behave depends on the culture within which they are bought up. E.g.,
Germans are more focused on getting a job done rather than being a friend to your employee. Competence means doing something right for the first time and doing it in the best way possible. Both competence and courtesy are the license to enhancing the time during which customers are loyal to the firm.

2.5 Information and Keeping Customers Informed.

As we venture into a sophisticated world of I.T. Our lives are thrown into further chaos. John Naisbit once said “We are drowning in information and starving for knowledge”. One of the prerequisites of maintaining customers is to make them feel accepted and special. Keeping them updated of whatever goes on concerning their products is a wise decision.

E.g. having to wait for a painter who never turns up, is very frustrating because having to wait itself, is having to forgo one’s other chores. Any attempt must be undertaken to keep one’s promises. The more faithful a firm is, the higher are its chances of keeping a firm grip and acquiring more customers. It may incur a slight burden on the firm by having to keep connected with customers via phone, e-mail and more recently SMS alerts. Keep your FOCUS on your TARGET your customer!

2.6 Attitude

Attitude does not refer to pomp and glory rather, it refers to an optimistic approach. Generally, a majority work just to earn a living and indulge in luxury. However, a genuine service person is one who is interested in his occupation, or at least pretends that he likes his boss and his position below him.

If the attitude developed is negative, then the customer develops an optimistic approach towards the firm and hence he would even look at awaiting opportunities with distaste.

Service personnel should be cautious about the expressions depicted, say a shrug of a shoulder or an “I don’t know” expression could rate the firm among the customers bad books even though help can’t be offered for the situation requested, an offer of assistance is preferable. In this way, the consumer feels that he is being honored. Whatever the customer’s position in the business, personnel should treat all customers equally importantly.

2.7 Long Term Relationships:

Any customer feels accepted in the firm within which he transacts, when he sees that the firm too feels privileged to have him as a customer. Loyalty should be a reciprocal issue. Nevertheless, usually all customers are loyal if they are able to receive what they expect.
However even though the service provider is not up to the mark, customers continue to agree that it would be better to continue with this inefficient firm after all. Thus since the very first transaction, all attempts should be made towards enhancing and innovating one’s service. Verbal gestures like a smile when a customer approaches, or any assistance that could be rendered “Can I be of any help?” etc.

Information Technology has assisted in this field immensely. For example, when you search for something online, not only what you asked for will be displayed, but also other related helpful websites. Yahoo search and Yahoo shopping, incorporates this strategy, like a number of others.

In sticking to these seven elements: S.P.E.C.I.A.L, firms place all their attention on their targets the customer. Similarly, a good feedback of information should be nourished between the two parties. In listening to customer comments, attempts could be implemented to improve service. “Have you experienced any difficulties/inconveniences when transacting with us?”

3. Achieving Service Excellence

The ability to meet one’s customer’s requirements and provide services beyond the expected is termed as Customer Focus. Doing so provides an advantage of retaining and profiting by one’s customers.

Customer Focus is managed by Moments of Truth, which refer to an event where a customer creates a positive opinion about the firm’s services/products. Hence, expanding Customer focused organizations try to build more Moments of Truth by increasing the frequency of contacts with the customer. Treating the customer well will also add to the Moments of Truth.

For example, Starbucks Coffee president says “We are in the business of filling bellies, we’re in the business of filling souls” 9 million customers visit nearly 2100 stores weekly. During the past five years, sales have grown on an average of over 34% annually. Profits have risen at an astounding 68% a year. Furthermore they are experimenting selling other foods also such as doughnuts and beverages.
3.1 Customer Interaction Cycle

The first few steps of the communication with customer are the sparks that fuel long term relationships. The provider welcomes the customer as he is, or at least pretends to show his concern for the customer. All effort should be geared at creating a good first impression. Receiving has two aspects to it:

- **Preparation for any unprecedented event** - However experienced a service person may be there are many unprecedented instances wherein he/she is unsure of how to act. Whatever the circumstances dealt with panic is the last option that should be resorted to. The moment Panic intervenes, even what they know will be alien to them. Secondly unforeseen events are uncommon issues and they are bound to occur at any moment, for this an assistant should be thoroughly prepared. Many a time multiple difficulties may arise simultaneously or in unison. For e.g., loss of a computer Database of an attached/frequent customer and the fiery complaints from another, on the inefficient service received. Whatever it may be, composure should be maintained so that one does not snap easily.

- **Making an outsider feel at home:** - Welcoming a customer with a great deal of hospitality, conveys an idea to them that they are bound to be wholeheartedly served. The tone of voice used ads a great deal to making one feel at home. Attitude is conveyed by the tone. Tone consists of clarity, speed and volume.
The emotion one has for another is proven by the tone. Whatever the pretence is to make the customer feel that he is being liked, the genuineness of the heart is displayed by the voice.

Selection of appropriate word is essential. If a service person is genuinely interested in his clients, he would instantly prove it through his courtesy and body language. Body language consists of the facial expressions a forced smile or an intended one. Usually addressing a customer looking intently at his/her eyes is very effective, say researchers of a recent survey.

Moreover the ambience that the firm creates, for the customers mean a lot – for e.g. an overflowing garbage bin at a reception shows the presence of an ineffective maintenance staff. Dusty tattered seats at the waiting room of a clinic give a first hand impression about what to expect inside the doctor’s cubicle. These things being so common even go unnoticed by the firm itself. It is the customers who attach meaning to them.

b) Understanding the Customer

Trying to provide to him more than what he deserves and excite him or her is a goal that a successful organization must pursue. It is difficult to focus entirely on everything on what the customer says, but he who does it pays attention also to the emotions of the customer and hence responds in a likely manner. Many a times the customer isn’t sure what he wants to purchase. Well as a matter of fact he does have an idea of what he wants to buy, but isn’t sure what will satisfy his current need, best. Therefore the salesperson should be able to decode the “gibberish” he receives and provide the customer with an appropriate item.

A simple example of a customer who requires a fitting for his newly constructed circuit board but is unsure of the exact component required; a mere description to the salesman should solve the issue.

In other words, service personnel should put himself in the shoes of his client and try to respond in a similar manner as that expected by the client. A frustrated customer’s questions are hard to deduce except through thorough concentration. Routine transactions with a particular client requires a brief dialogue and hence a less-comprehensive understanding. Normally, personnel restate the information received to ensure whether it was what was received in the first place….

• Asking Questions: The data received depends on the manner one asks the question.

Open Ended Questions:
Are those which “exhort” comprehensive information from the customer usually when an ambiguous crisis arises? “What insurance policy are you in search of?” or “At what instance does the problem arise?” Such questions asked here are: who, what, when etc. A branch of open ended questions, HIGH GAIN QUESTIONS, require analysis/speculative feelings on the part of the customer. It is more or less like getting a
customer to pour out his comments and opinions. E.g. “Would you find our service convenient, had we 10 more branches around your locality?”

Closed Ended Questions: are confirmation questions. E.g. Time/place of delivery. Usually such questions begin with such words as: is, do, will, how etc.

- Restating feelings and facts:

This is just a procedure of ensuring the customer that you, the firm, are in check with what he demands a satisfied customer is a profitable customer.

c) Helping the Customer

Every organization requires this. HELPING one’s customers is essential in retaining customers. In the point of view of customers, they feel satisfaction when they perceive others working toward catering to their needs by listing out a plethora of options. Firms must also cater to the wants of customers, not only to their needs.

Mc Donald’s or KFC may have ulterior motives in providing toys for the kids, with the purchase of every HAPPY MEAL, but indirectly, they are winning over kids by catering to their childhood wants. However ambiguous the situation may seem, service providers try to lend a helping hand and in doing so, create another satisfied customer. Nevertheless, firms do their best to give what is asked for, yet are unable to satisfy the customer sufficiently; perhaps because the customer wasn’t informed enough about the good in the first place. E.g. Hewlett and Packard (H.P.) introduce a very cost effective and efficient printer less than a decade ago but never mentioned to its customers that the print cartridges was as costly as the printer itself was. This resulted in people buying the attractive printer and regretting later when they realized the high maintenance charge. E.g. Nelson Hardware advertised many of its tools but failed to inform customers that another device, cheaper than 5 other devices combined, yet providing the same functions, was in stock too. The service provider’s duty is be informative. The customer should be the one who should extract the information from the service person.

- Offering options and setting expectations

Any customer like to have a choice in his or her purchases. Offering information on the part of the provider is a stem to take. The customer must be informed about the expectations they can provide him with. Furthermore, before telling customers what they could receive, firms should list out their potentials. The inability to provide as expected may result in an entire collapse of the business. The economist once mentioned that high performing businesses thrived because the offered realistic expectations to customers. Similarly, working hand in hand with customers is effective because firms can then improve on their weaknesses on the basis of the comments received, and furthermore they can provide exactly what is wanted without having to beat around the bush.
Example
The service provider in the sample situation is responsible for scheduling resources. The customer involved needs 600 hours of developer time in the next 30 days. This information is recorded on the top of the worksheet.

- The first column lists the customer’s specific priorities.
- The second shows the relevant information that could be provided by the administrator.
- The third are the options offered by the administrator to address customer’s priorities.

**SAMPLE WORKSHEET – OPTIONS & EXPECTATIONS**

<table>
<thead>
<tr>
<th>Customer Priorities</th>
<th>Information about products</th>
<th>Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project completed in 30 days</td>
<td>Two developers available now</td>
<td>Overtime</td>
</tr>
<tr>
<td></td>
<td>Two developers available in 15 days</td>
<td>Use senior developer to speed delivery</td>
</tr>
<tr>
<td>Budget limited</td>
<td>Rates vary</td>
<td></td>
</tr>
<tr>
<td>Technical competence</td>
<td>Developers are competent</td>
<td></td>
</tr>
<tr>
<td>Experienced with customer applications</td>
<td>2 available developers have experience</td>
<td>Train non experienced developers</td>
</tr>
<tr>
<td></td>
<td>2 developers available in 15 days</td>
<td></td>
</tr>
</tbody>
</table>

**Expectations to set with customers**

<table>
<thead>
<tr>
<th>What you can do</th>
<th>What You can't do</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide 480 hrs in 30 days</td>
<td>Provide 600 hrs of experienced development time for 30 days except by using overtime</td>
</tr>
<tr>
<td>Provide senior developer at start-up to provide design guidance</td>
<td></td>
</tr>
<tr>
<td>Have the senior developer commit ten hrs to advice</td>
<td></td>
</tr>
</tbody>
</table>
d) Keeping

A customer who is informed and most importantly satisfied is a pre-requisite for the final stage of the interaction cycle. In order to maintain customers, one must continuously monitor their satisfaction and offer plenty of favorable comments to them to keep them elated. Keeping to one’s promises is also important if one is attempting to climb to the top most rung in the ladder of success. Similarly if one extensively builds their customers expectations and ends up failing to keep to them, not only will he loose the current customer’s trust and, but also that customer will portray a negative recommendation to other prospective customers, which will in turn result in a decline in profits. Skills to be incorporated to build customers are:

- Ensure satisfaction
- Offering kind expressions and thanking whenever the need arises.
- Keeping customers informed about changes in the company
- Offer benefits now and then especially for long term customers

The act of maintaining loyalty and retaining customers is the trigger which instigates a prosperous future of profits. By catering to them at each stage of the interaction cycle, one should their customer how much they mean to them. This results in customers clinging onto that business even in the foreseeable future. For example the staff at Cargills are trained for courtesy. An average person may spend an estimate of Rs 2000 a day for an entire week. In a month, a sum of Rs 14000. In a year 168,000… and in a decade ….Rs 1,680,000… just for one customer in one outlet alone………. Amazed ……. Well that is how rewarding loyalty is ………

3.2 Process Mapping

It is important to review how well your processes really serve your customer’s needs and expectations, carry out the following exercise with your team or colleagues. Your focus is on the work process that is important to you and your customers. You create a map of current processed and the flow of tasks involved. Doing so improves your team work in meeting customers’ expectations.

STEP 1
Individually follow the guidelines below and create a map of the processes selected. Consider your main responsibilities and select a process that involves teamwork with other departments.

Guidelines:
✓ Identify the key process that is affecting your customer.
✓ Map the working of the current process
✓ On the left side of the map, list out the major functions in the process
✓ Major activities performed should be written in a sequential order from left to right in the row of the appropriate department. Time of tasks performed flow horizontally from left to right
✓ Connect, with an arrow, each activity to the next one in the sequence. The next activity may be within or outside of the function of the last one.

STEP 2
Respond to the questions on the process mapping worksheet.

STEP 3
With your partner, review the process and your observations for 20 minutes. Comprehend on ways you may be able to improve the process and the support needed.

4. The Role of Employees in Service Excellence

As mentioned above, courtesy is of primary importance when interacting with another especially for the first time. Irrespective of the attitude of the customers, the service providers must try their best to be as polite as possible. For example, the crew in the Boeing 747 and many other similar airlines address their customers with hospitality even though it isn’t sometimes reciprocal.

4.1 Employee Motivation and Service Excellence

<table>
<thead>
<tr>
<th>Case - Why Avis people try Harder</th>
</tr>
</thead>
<tbody>
<tr>
<td>It’s been a long time since Avis ran the rental car business. Its cherry-red booths in the airport terminals draw 30 percent of air travelers who rent cars. Its shuttle busses, which carry customers from rental counter to car, are late only 4 percent of the time. And customers complain about the service 40 percent less often than they did in 1987. In fact, when Pittsburg–based Westinghouse named Avis, its primary rental car agency, every Avis employee there signed a letter to the company’s travel managers, pledging to provide the best possible service.</td>
</tr>
</tbody>
</table>

What’s been happening at the “We Try Harder” company? In 1987 Avis’s 12,500 employees bought the company. Avis’s employee stock ship has sparked employees’ motivation to give customers the extra service that has made such a difference for Avis. Another secret behind Avis’s success is involving all employees, not just managers exclusively, in decision making. There are monthly participation group meetings that discuss everything from billing to car cleaning. If district managers want to upgrade the carpeting in their offices, employees are asked for their opinions on the suggestion before the final decision is made. Avis’s top managers have found that letting employees participate in decision making about their own jobs, has made their business more profitable than ever. For instance, one employee suggested that the AVIS SALESFORCE promote its own credit card rather than the American express card.
Making that move reduced the number of transaction fees paid to American Express as well as concession fees Avis pays to American Express and the airport for every paid(cash) rental. This improved profits by $40,444 a year. All employees and managers share equally in the profits. “We feel close contact with management”, says Roberta Beckelman, a telecommunications specialist at Avis’s World wide Reservation Center at Tulsa. That’s quite a change. In the past, people felt management didn’t listen to their ideas. Now employees are suggesting ways to tighten up performance standards.

“We feel close contact with management”
Roberta Beckelman

Much of the employee’s performance depends on managers efforts. In the 1900’s employees with managers worked jointly to enhance performance. At Hearing Technology, Inc., President Tom Huber uses successfully a team approach to motivation. At weekly meetings (held at 7.30 A.M. to avoid distractions) employees are encouraged to voice their problems freely for instance sales and marketing employees are encouraged to talk about problems, discussed customer feedback with employees in production.

Motivation is a driving force that instigates, excites and sustains an individual to perform so as to achieve desired goals. A thoroughly motivated employee is a satisfied and well focused individual who incorporated that motivation in providing service excellence.

a) Factors Affecting Motivation

Three of the main factors that may influence motivation are

- Individual Differences
  Each one is unique. Individual differences are those personal needs characteristics and interests that people bring to their Jobs. Because these characteristics vary from person to person, so will what motivates each one. One may get employed so as to find money, yet others may do so to find security. Still others may seek employment so as to stretch his or her skills to the maximum. Changing demographics of the workplace have made firms design plans to attract and motivate and retain the new diversity of workers.

- Job Characteristics
  Are the dimensions of the job that describe its limitations and challenges? They include the variety of skills required, the degree to which the employee can do the entire task from start to end (Task Identity), the significance attributed to the job, autonomy and the type of performance feedback that the employee receives. Different jobs may rate high on some characteristics and low on others. For example the job of an airport shuttle bus driver at Avis involves a repetitive task and would rate low on autonomy, skill variety, and significance but high on task identity. The driver also gets feedback from customers.
In contrast the job of a bus mechanic, rates high on skill variety and task identity. As avis and other organizations have found, an employee who derives satisfaction from the job and its particular characteristics will be more motivated to perform well than one who doesn’t.

- Organizational Practices

Are the polices and practices and the like of an organization. Policies defining Fringe Benefits and rewards are tools to motivate and attract new employees and attract older members to remain in business. Rewards do motivate, but when they are incorporated, they should be done fairly and not based on favoritism but actual performance. For example, Corning ,Inc. introduced a bonus program for everyone from the lowest running to the chairman. These bonuses are based on an individual hitting a target of the business. In 1998 the bonus payout was 7.5 percent of salary; in 1989 it was 8.7 percent.

Interaction of These Factors

The figure above shows the interaction of these factors. The interaction involves
- Personal qualities.
- The activities performed in respective situations.
- The organizations systems that influence the behavior of the employee either directly or indirectly

In working with humans with feelings in the work environment, the employer must be alert about the way certain rules are applied because they could either motivate or demotivate his or her employees.
Case - Delivering Motivation at Domino’s

Why would anyone want to deliver pizza for a living???? According to Tom Monaghan, President and CEO of Domino’s Pizza, people work for challenge, for the rewards of their efforts, and for the sense of belong. Even working at a somewhat routine and standardized job like pizza delivery, it’s possible for people to feel part of a group, a family, with the sense of belonging that families create.

Ninety eight percent of Domino’s franchise owners started out as delivery people, then moved up to store Managers. They are proud to be members of the Domino’s family. In addition, everyone here has a chance to try out his or her ideas, each of which will succeed or fail in its own merits. New products, such as a breakfast pizza with ham and bacon and a low-calorie pizza, reflect employee’s creativity and innovation. Monaghan knows that people are also motivated by rewards. In addition to generous performance incentives—such as free trips to the Indy 500 and the BMW’s for top managers – Domino’s headquarters provides other perks, such as a fitness center, a recreation lake, jogging and ski trails, and a sports medicine center, available to all employees.

b) Motivating Salespeople

Some sales people will do their best even without any urging from management. Selling, to them is the most fascinating job in the world. But many a time it can also be a frustrating job because salespeople usually work alone and far from home. Furthermore the customers they interact with may be on the ‘hard-to-deal-with’ side. Hence they require a lot of encouragement to do their best.

Management can boost sales force morale through its organizational climate and positive incentives. Organizational Climate describes the feelings that salespeople have about their opportunities, value and reward for good performance. Some companies treat salespeople as if they were not very important. Others treat them as their prime movers and hence allow virtual unlimited opportunity for income and promotion. Where salespeople are held in high esteem. They end up turning out to be high performers with fewer turnovers.

4.2 Job Design and Service Excellence

The application of motivational theories and greater understanding of dimensions of job satisfaction and work performance, have led to increasing interest in Job Design. The nature of the work organization and the design of jobs can have a significant effect on the job satisfaction of staff and on the level of organizational performance.

**Job design is concerned with the relationship between workers and the nature and content of jobs and their task functions.** It attempts to meet people’s personal and
social needs at work through reorganization or restructuring of work. There are two major reasons for attention to job design:

- To enhance personal satisfaction that people derive from their work; and
- To make the best use of people as a valuable resource of the organization and to help overcome obstacles to their effective partners.

The Job Enrichment Model

Attempts to improve intrinsic motivation must not only include considerations of job characteristics but also take account of individual differences and attributes, and people’s orientation to work. A popular and comprehensive model of job enrichment was developed by Hackman and Oldham. The model views job enrichment in terms of increasing five core job dimensions: Skill variety, task identity, task significance, autonomy, and feedback. These core job characteristics create three psychological states

- Experienced meaningfulness of work.
- Experienced responsibility for the outcome of the work.
- Knowledge of the actual results of the work activities.

The Five CORE Dimensions

- Skill variety- the extent to which a job entails different activities and involves a range of different skill and talents.
- Task identity- the extent to which a job involves completion of a whole piece of work with a visible outcome;
- Task significance- the extent to which a job has a meaningful impact on other people, either inside or outside the organization;
Autonomy- the extent to which a job provides freedom, independence and discretion in planning the work and determining how to undertake it.

Feedback- the extent to which work activities result in direct and clear information on the effectiveness of job performance.

An example of a job with little enrichment could be that of a production assembly line worker where all five core characteristics are likely to score low.

An example of an enriched model could be that of a parish priest who draws upon a wide assortment of skills, and whose job has a clear and important meaning and significance.

4.3 Recruitment and Service Excellence

When there aren’t enough candidates immediately available to meet the demand that Human Resource Planning predicts, the organizations must attract people to fill its jobs. Recruitment is the process of searching, both inside and outside the organization, for employees to fill vacant positions. Recruitment should also be concerned with identifying potential employees’ needs. In this way recruitment not only attracts individuals to the organization, but also increases the chances of retaining them once they are hired.

At Motorola, the Recruiting Department’s performance is measured by how well its recruits do the job. Are they well qualified for the job, or do they need a lot of remedial training? Have they been hired at the right salary, or do they leave within six months for a higher paying job at another company. The following passage relates how BURGER KING has tried to recruit people for its organization:

<table>
<thead>
<tr>
<th>Case - BURGER KING.....we recruit the best</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burger King has been very innovative when it comes to recruiting workers. At least seven approaches have been used:</td>
</tr>
<tr>
<td><strong>Agencies for the handicapped:</strong> The Florida region is experiencing great success with its “Be capable” program. More than 100 handicapped young people hired through various local agencies, are working in Burger King stores there.</td>
</tr>
<tr>
<td><strong>Senior citizens:</strong> This growing population is being reached by posting available positions at senior citizen’s centres. Burger King hopes that these older employees will have a positive influence on the younger ones and feel they represent a wealth of experience that can greatly benefit the fast food Industry.</td>
</tr>
<tr>
<td><strong>Theater commercial:</strong> Recruiting commercials are being aired before the main feature in movie theatres in Detroit and San Francisco.</td>
</tr>
<tr>
<td><strong>“Ask me” campaign:</strong> Using employees as recruiters is a proven winner. “Ask me about working for Burger King” buttons, T-shirts, posters and so forth are successful gimmicks in the Florida region.</td>
</tr>
<tr>
<td><strong>Crew Referral:</strong> Burger King offers cash incentives to employees for recruiting. Different regions handle this in different ways. In areas where young people are</td>
</tr>
</tbody>
</table>
exceptionally hard to recruit, cash is awarded simply for bringing in an applicant, in
others, only for a new hire.

Providing transportation: When a store can’t hire from its local community – perhaps
because it’s in an affluent neighborhood, where the kids don’t work- Burger King is
providing transportation or bus fare to entice recruits from out of the area.

TV shows: Burger king is working with an advertising agency to develop a fourteen-
minute television program that will promote the idea of learning through work. It will
not focus on Burger King , but rather on the fast food industry and many advantages it
offers to young people.

4.4 Training and Service Excellence:

A major purpose of training and development is to remove the performance limitations,
current level of anticipation that is causing an employee to perform less than the desired
level. Money may be saved by recruiting pre trained employees, but organizations today
prefer to hire workers and enhance their skill through training and development. The high
costs of training have made firms carry out training programs as effectively and
efficiently as possible.

Training refers to enhancing an employee’s skill to the extent where he or she can
perform the current job. Training is particularity important for firms that provide
standardized services to customers, such as Walt Disney. One of the reasons for Disney’s
success is the training that employees receive at the Disney University.

Case - Realizing Dreams at Disney

Walt Disney said that it takes people to make a dream come true. To make sure that
customer’s dreams come true, he founded Disney University in Anaheim , California in
1955. According to Bill Ross, manager for human resource planning at Disney
University, employees attending the University, learn how to play their roles, such as
Mickey and Snow White and play well. Disney trainers use audio-visual programs, role
playing and other training methods to teach employees proper Disney behavior.
Trainees are shown examples of both good and bad guest relations, and copies of guest
complaints are circulated to all trainees so that they can be taught which behavior to
avoid.

Training focuses on helping employees understand what customers expect to see and
what Disney wants its guests to experience. For example, to create a warm intimate
atmosphere, employees greet all guests at Disney hotels personally and call them by
their first names. Training in guest courtesy is required for all new Disney employees.
Telephone operators learn how to” Put a Smile in Their Voice”. Finally all the
employees experience the park as guests before starting to work. This gives them first
hand experience in being a guest and helps them appreciate how a guest feels about
standing in line for a long time or being served quickly and in a friendly way in a
restaurant.
Many organizations are spending considerable sums of money on remedial training programs for employees. There are about 25 million adults in the U.S. who are unable to read, write or perform simple arithmetic. Thus, organizations such as McGraw-Hill, Monsanto and Scott Paper, among others, have training programs designed to help employees write letters to customers, read warning labels on chemical containers, or understand machine operating symbols. These organizations believe that if employees can become proficient in these basic skills, they can perform a wide variety of jobs and better deal with new technologies.
Chapter 12
Customer Focused Selling & Marketing Skills

This chapter will cover the following areas

1. Principles of Customer Focused Selling
2. Customer Focused Selling Skills
3. Customer Decision Making Process
4. Customer Focused Selling Process

1. Principles of Customer Focused Selling

When handling situations involving customer interaction, marketers or salespeople should be especially careful. The objective is to believe that the ‘customer is the king’. Previously, business operated with the sole prospect of harvesting and reaping profits.

However, today, the concept has turned over a new leaf … A majority of organizations are doing their utmost to not only win over a customer, but also to attract him or her in such a way that he or she may be a loyal asset to the organization. The very result of success for many organizations is that they are showing customers how much they care. For example … Union Assurance, Sri Lanka has a spectacular tag line which says: ‘Come under our wing’

There are certain companies that focus primarily on satisfying the customer. Such companies, customer-centered companies focus on customer developments in designing its strategies. Clearly the customer centered company is in a better position to identify new opportunities and set long run strategies that make sense. By watching customer needs evolve, it can decide on what customer groups and what emerging needs are most important to serve, then concentrate its resources on delivering superior value to target customers.

The customer focused salesperson applies three principles at each step of the sales process. These are:

• Primary focus is on the customer: - View the customer as the center of the sales process and concentrate, not on upgrading your agenda, but your customer’s. Whatever is said or done should depict value to the customer.

• Establishing credibility/trustworthiness: - Ask and answer questions from the customer. Make him or her feel heard as much as possible.

• Persuasion through involvement: - Talk less, listen more to the information supplied by the customer. View opposition as a sign of involvement. Assist the customer solves his problem and achieve his need.
It is in receiving a positive experience from the company and its services that a customer continues to transact with that company.

2. Customer Focused Selling Skills

Six customers focused skills, each with a unique function, are a basic requirement for effective customer oriented selling:

- Connecting: To establish a mutual bond with customers.
- Encouraging: Keeping the customer participating in the sales call.
- Questioning: To extract sufficient information about the situation.
- Listening.
- Confirming.
- Providing.

2.1 Connecting

Few Firms today still practice true mass marketing – selling in a standardized way to any customer who comes along. Today most marketers are realizing that they don't want to just connect with just any customer. Instead the trend is to target those that are potentially profitable ones. Though we all live today in a global village with people of different ethnicities, nationalities, cultures etc, each of us have created connections with others by forming consumer communities.

Greater diversity and these consumer connections have meant greater market fragmentation. In response, most firms have moved from mass marketing to segmented marketing (targeting individual buyers or sub markets). ‘One-to-One marketing’ is also widely practiced today. This is similar to Database marketing where important aspects and preferences of customers are extracted and mass-customization is practiced.

At the same time companies are trying imaginative ways to deliver more value to customers. They want to connect with customers that they can serve profitably. Once profitable customers are identified, various schemes are developed to capture these customers and acquire their loyalty. For example after decades of casting a wide net to lure many customers, banks are mining their databases to identify winning customers and weed out loosing ones.

FIRST UNION: How we win over our customers,

Fielding phone calls at First Union’s huge customer service centre Amy Hathcock is surrounded by reminders to deliver the personal touch. Televisions hang from the ceiling so that she can glance at the weather channel to see if her latest caller just came in from the rain; a bumper sticker in her cubicle encourages, “Practice random kindness and senseless acts of beauty”. But when it comes to answering yes or no to a customer who wants a low credit card interest rate or to escape the bank’s $28 bounced –cheque fee, there is nothing random about it. The service all depends on the color of the tiny square - green, yellow, or red- that pop’s up on Ms. Hathcock’s computer screen next to the
customer’s name. For customers who get a red pop-up, she rarely budges; these are the ones whose accounts lose money for the bank. Green means the customers generate hefty profits for First Union and should be granted waivers. Yellow is for in-between customers: There’s a chance to negotiate. The bank’s computer system, called “Einstein”, takes just 15 seconds to pull up the ranking on a customer, using a formula that calculates customer value based on the account’s minimum balances, account activity, branch visits, and other variables. “Everyone isn’t all the same anymore,” says Steven G. Boehm, general manager of First Union’s Customer information centre. Such skill are not only required in satisfying a customer and his organizational needs, but rather, it is essential for the marketer himself when working with associates to focus on organizational needs.

2.2 Encouraging

Motivating the other person to participate in the discussion. For e.g. reinforcing (i.e. verbal/ non verbal signals) and supportive questions, empathizing (i.e. showing the other that you are aware of his/her feelings), accepting and showing the customer that his views are audible.

2.3 Questioning

Is required to obtain in-depth information about customer needs and problems. E.g. close ended, open ended and high impact questions.

2.4 Listening

A very important skill which enables the marketer to understand, evaluate and provide solutions to customers. Marketers must concentrate when conversing and retain as much as possible about the customer.

- Attentive listening is comprehending and remembering
- Reflective listening is retaining information pertaining to the customer.
- Active listening gives verbal/ non verbal feedback to speaker.

2.5 Confirming

Eventually result in agreement between the customer and the marketer. Summarizing and Checking are considered here.

2.6 Providing

Presenting the benefits the company has to offer and thereby generating a sense of enthusiasm in the customer so that he may be an asset to the organization.
That Old “Customer-Focused” Chestnut
by Boudewijn Pesch, Managing Director, Asia Pacific, CMG Wireless Data Solutions

Marketing departments have long been the bane of the IT and network organisations, demanding support for consumer-focused services. But many operators are still investing at a technological level rather than on fulfilling the requirements of the customers whom they ultimately aim to serve. Take the frantic activity surrounding content rating prior to the launch of MMS-based services and you’ll see a classic approach -- based on functionality rather than proactive consumer assessment. Content rating has been a subject for discussion by operators and billing vendors, but it’s the context in which consumers use, or will want to use, data services that requires serious attention.

There’s much discussion about how to price and promote GPRS and MMS services and make them understandable to the subscriber. There’s also talk about prepaid as a payment method, rather than a type of subscriber. Why? Because it’s anticipated that many contract subscribers will want a flexible payment method for ‘premium’ data offerings conducted in real-time to allow them greater spending control and maximum user satisfaction.

For example, advice on charge will be critical before a service is ordered, particularly in the premium messaging environment. Real-time prepaid charging offered to (traditionally) pre or post-paid subscribers is also attractive to network operators. It represents less of a credit risk, in terms of service provision and content value, as the services are paid for upfront. Real-time rating can also alleviate the prepaid fraud window that exists with hot billing. New legal guidelines implemented in the last few months mean that in some countries, negative prepaid balance recovery at recharge is against the law.

The focus of many operators on extracting maximum value from their subscribers for e.g. while roaming, further escalates the need for operators to implement an effective real-time prepaid billing solution now. Operators shouldn’t limit service offerings and hence their chances of improving customer satisfaction and loyalty due to limitations within their prepaid billing systems.

The common denominator in all this is of course the consumer. The basic marketing approach of understanding your customer’s needs has taken a back seat. In the FMCG world, CRM systems evolved to collect information about individual and collective consumer spending based on traditional demographics. An analysis of any operator network infrastructure shows that today, an infinite amount of ‘data’ is produced and then almost immediately ‘lost’. Either because its relevance is not understood, it is not captured in real-time, or the concept of actually collecting the data from various sources and aggregating it would give even the most conscientious network designer nightmares.
While many network operators have invested heavily in new CRM systems, these were not built with their specific needs in mind, as they revolve around voice services, not data services. Now consider that it’s primary data services that are helping operators to consolidate declining ARPU and the extent of the challenge is clear.

Today, it’s nearly impossible to identify the most relevant pieces of “data” in one’s network, let alone access this data and use it to attract and retain customers, profitably.

Messaging vendors such as CMG already offer solutions for real-time payment and data intelligence, so that operators can identify and deliver reliable, consumer driven services for data users as well as choice of payment method. The ability to deliver the ultimate consumer experience will, without a doubt, determine the winners in the operator arena.

And while operators are understandably excited about the potential of MMS, they can also tap into the potential of what’s available in the data (messaging) environment today – services such as premium SMS, that consumers have shown they want and are using right now. The data (messaging) industry is growing up. The company needs to identify and satisfy customers better than their competitors.

Customer Focused Selling (CFS) shows you how to identify the needs of your clients and prospects and how to relate to those needs, and how to present real marketing solutions that address those needs. Customer Focused Selling teaches you how to Super Serve the media buyer, so you earn the right to ask for help in moving along to other decision influencers at the agency and the advertiser.

**CFS is about shifting the focus away from your product.**

Customer Focused Selling training was designed to help transform your sales organization from the traditional ‘Product Focused’ approach to the more effective ‘Customer Focused’ method.

**Customer Focused Selling (CFS) is about opening doors.**
Do You Know What Your Customers Really Want?

We've probably all suffered through unsuccessful attempts to program a VCR. It is an engineering delight, but a customer's nightmare. It's the same in our businesses. Our associates can come up with ideas with unbridled enthusiasm about what the customer wants, yet how many ask a customer whether or not he really wants the value-added services? The customer may say yes, but the acid test is whether or not he'll pay more for the service. As a distributor or manufacturer, you must always look through the customer's eyes in order to be successful. More services are not always better. The key is selecting the ones that are important to the customer.

A classic example of delivering the services the customer wants was the major introduction of a new sports car, the Mazda Miata, a number of years ago. The car sold so well there was a four-month wait to purchase it, and if you were lucky enough to buy one, you could turn around and resell it at a profit. In fact, the car sold for $4,000 over sticker price.

How did Mazda achieve this success? Before Mazda came up with the idea, it asked customers and prospects: What services do you want and how do you form the perceptions that influence your purchasing decision? Customers explained that the car's sound was an important factor in answering these two questions. Which sound? "I'll know it when I hear it," customers said. So the engineers recorded the sounds of 10 of the most popular sports cars accelerating, audio taped it, and created 100 variations and hybrids of these sounds. The marketing people then asked the customers and prospects which sounds they liked best. Then Mazda created a car with this sound, but without excess frills the customer was not interested in.

Such customer intimacy is of prime importance. To succeed, you must know what your customer wants. Only by asking your customers what would make it easier for them to do business with you do you jointly reduce redundancies and costs and ultimately increase your competitive advantage.

-- A short-term solution
-- A quick fix program loaded with tactics, tricks and gimmicks
-- Training that views the client as an adversary

“Customer Focused Selling isn’t…”

And about making sellers feel welcome and wanted and about getting better results for clients.

It's about establishing and nurturing long-term relationships—based on performance—that earn the seller higher rates. CFS is about generating renewals and referrals from your best customers.

“Customer Focused Selling isn’t…”

A short-term solution
A quick fix program loaded with tactics, tricks and gimmicks
Training that views the client as an adversary
Yet, there will always be the customer whose only interest is in price and not value-added services. The intelligent distributor and supplier should recognize that the best thing he can do is let his competitor take this low-profit business. The more of this the competition has, the sooner it will go out of business, since very few operations can survive in the long run with primarily low-profit customers. Our industry is littered with remains of low-price organizations that did not recognize the value of customer intimacy, focus, and value-added services.

Your success is directly tied to your ability to make it easier for the customer to do business with you and provide the value-added services they'll appreciate and pay for. When you accomplish this, you won't have to worry about pricing, competition, or mergers. You then have the keys to a very successful relationship.

3. Customer Decision Making Process

3.1 Customer Buying Steps

At the initial sequence of the process, the buyer is uninformed about what to buy. He has yet not identified his need and the solution to satisfy it; hence he has No Interest in the product. It is the duty of the marketer to anticipate the need and cater to it respectively. The customer should be proactively contacted and interest built in him so he’ll pursue the product himself. The contact should be as personalized and customer friendly as possible. It should be so unique a feeling that the customer is able to differentiate its uniqueness among other products or brands.

Second, the buyer has been informed about the availability of a product but is illiterate about the features it offers. Thus he has a Low degree of Interest, the marketer’s duty here is to excite the customer towards buying the product. To so, the marketer or researcher must excavate and explore information about the customer, his general need description and the situation within which he is trying to address his need.

Unlike the other five steps, marketers focus a lot of their attention on respective customers and their needs. In exploring needs, the marketer, takes the position of the customer and differentiates between the current situation and the perceived one. Furthermore, the marketer evaluates the consequences and the benefits of bridging the gap between the current and the perceived need. Finally, still in the shoes of the customer, the marketer imagines the choice that the customer is likely to choose to bridge the gap and to assist him, the marketer, offers options for the customer to decide.

By offering various promotions or concessions to experience the product or service, the marketer tries to arouse a Strong Interest/attention and hence coerce him/her to buy the product or service. Some marketers compare their services to that of other competitors and genuinely generate a drive within a customer to go for the respective product. If the marketer’s attempts are successful the customer is Swayed/convinced that the product is a
solution to his/her need and thus buys the product or service. However the marketer should ensure that the customer is burden-free when trying to purchase the product.

Finally, the customer has bought the product. The marketer’s attempts are successful. He has been able to drill the product into the minds of his targeted customers. Furthermore, a **committed** customer will continue to satisfy his needs by using this product even if the marketer does not advertise it to him on a repetitive basis. Whatever strategies other competitors incorporate, the customer will remain in a fixed frame of mind “Their services are no match for these!!!” The marketer has an added advantage too: Since he has been able to satisfy one customer, he need not worry about satisfying that customer’s kin. The customer will instinctively provide that service. It is estimated that a satisfied customer boasts to 3-5 other people. But a dissatisfied one, gripes to 11 more!!!!!

During every step of the process, the marketer has his attention fully focused on the customer. The steps should be approached in a sequential manner. That is to say; if the customer is at the low interest stage, attempts to close a sale, will be unsuccessful. Remember also that every customer is unique. One cannot approach all customers using the same strategy. On evaluating the respective customer, adequate strategies should be implemented.

4. Customer Focused Selling Process

4.1 Customer Focused Prospecting - Making the most appropriate customer, your target

The first step in the selling process is prospecting, identifying qualified customers. Approaching the right customer is crucial to selling successfully. As one expert puts it: “If the sales force starts chasing everyone who is breathing and seems to have a budget, you risk accumulating a roster of expensive-to-serve, hard-to-satisfy customers who never respond to whatever value preposition you have. He continues, “The solution to this isn’t rocket science. You must train salespeople to actively scout the right prospects. If necessary, create an incentive program to reward proper scouting.

The sales person must often approach many prospects to get just a few sales. Although the company supplies some leads, salespeople need skills in finding their own. They can ask current customers for **Referrals**. They can build referral sources, such as suppliers, dealers, noncompeting salespeople, and bankers. They can join organizations to which prospects belong or can engage in speaking and writing activities that will draw attention. They can search for names in newspapers or directories and use the telephone and mail to track down leads. Or they can drop in unannounced on various offices (a practice known as cold calling).

Salespeople also need to know how to qualify leads, that is how to identify the good ones and screen out the poor ones. Prospects can be qualified by looking at the financial ability, volume of business, special needs, location, and possibilities for growth.
Marketers have to incorporate different strategies when targeting customers and when targeting businesses. For the latter marketers must consider the size, nature, location of the company and other influencing factors. As for dealing with customers, marketers may consider what time of day is best to catch one’s potential prospects in, their ages, backgrounds, hobbies and the like. In targeting the right customers and then acting on that basis, companies are able to save a great deal of time and money, than targeting those who are not likely to be influenced by the marketer’s persuasion.

**a) Staying in Touch**

This is essential, when dealing with customers. Usually the very first purchase made by an individual is only an evaluation purchase. It is when and only when the product’s benefits have been engraved in the buyer’s mind, will he continue to purchase from that customer. Hence in order to stimulate these customers, marketers have developed means to keep in touch with them, such that whenever an innovation springs out, these contacts are already informed. Furthermore such customers are giving the privilege to enjoy the offers of the business, e.g. promotions.

**b) Organized Persistence**

Is the process of keeping adequate records of customers especially the most frequent and vital ones, so that the firm may continue to keep in touch in the foreseeable future. Hence all adjustments made within the firm will be dependant on the likes and dislikes of those ‘business lifelines’. Every customer is unique, hence their buying patterns vary. It is the duty of the salespeople to cater to each one’s needs in their own respective way. Remember Be Customer Focused / Customer Driven!!

**c) Referrals**

A referral is simply a recommendation. Referrals are very important in every business. In fact companies are advised to keep in touch with as many existing customers as possible and listen to their suggestions on a regular basis and gather a few referrals too.

These customers should be evaluated and time, taken to listen to their comments and suggestions. Attempts must be taken to ensure confidentiality of these interviewees so that they could be contacted again.

<table>
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<th>Case - Kraft General Foods: In Pursuit of Customer Intimacy</th>
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<td>An investigation of your pantry or refrigerator will likely unearth a dozen or more Kraft products. Well known Kraft brands such as Miracle Whip, Kool-Aid, Jell-O, Maxwell House, Velveeta, Cracker Barrel, Philadelphia, Good Seasons, Country Time and Oscar Mayer have become household words to most of us. Not surprisingly Kraft peruses a strategy of customer intimacy. It gets to know its customers well, segments and targets its market precisely and tailors its products and merchandising programs closely to match the needs of targeted customers.</td>
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At the heart of Kraft’s customer intimacy strategy, is an extensive, centralized customer information system, which keeps track of who’s, what’s and how’s of customer buying. The information system consists of three databases. The first contains customer purchase information collected from individual stores. It also shows how purchases are influenced by price cuts and promotions.

A second database, by an outside research firm, consists of geo-demographic data by zip code. The final and most extensive database consists of demographic and purchasing information of 30 million Kraft customers who have supplied their names when sending in coupons or when responding to Kraft’s promotions. Kraft’s marketers use this info to create carefully tailored marketing offers. They develop direct marketing programs to increase customer purchasing and loyalty. For e.g. Kraft’s customers receive tips on health and nutrition along with recipes and coupons for specific brands. Kraft also uses this information to shape individual retail store assortments and merchandising programs.

Like most other customer intimate companies, Kraft has decentralized its marketing organization, empowering its marketers and salespeople with the information, authority and merchandising tools required to meet customer needs in specific segments. Thus in pursuit of customer intimacy, Kraft delivers superior customer value by first acquiring a detailed understanding of customer needs in precisely defined segments and then developing a flexible and responsive organization that closely meets those needs.

Harvard Business Review – Jan-Feb 1993

d) Building the Business Pipeline

This is merely creating a well organized link with one’s existing customers and hence offering tailor made solutions to cater to their needs? First list out ten companies each week, who meet your market profile, with their basic contact information. Indirectly contact the target and ensure his accuracy focus on how to benefit the prospect and send mails mentioning what is offered.

Personally contact each target and review the proposal. Allow for questioning and idea-sharing. Continue to keep them informed, preferably an hour a day. Maintain records which track the activity performed. After 10 weeks of contacting new suspects, reduce the new contacts by 50-80% and contact the previous customers. Stay in touch every three months. Business will pursue shortly ………

4.2 Making Good First Impressions

a) Opening the Call:

Prepare well how the contact is going to be established – through phone, web or face to face. A good opening creates a good impression in the customer. All prospects should be
viewed as long term customers. It is only then that marketers are motivated to serve them in the best possible manner. It consists of

Purpose: Reason for contacting
Benefit: Relate the benefits of transacting with the business.
Check : confirm if the customer agrees with you.

b) Capability Statements:

Describes the benefits of working with a customer from the point of view of the firm. For e.g. “our service not only attracts, but also motivates to spend more”

c) Preparing:

The capability statement should be prepared before the first call. It should answer two questions. WHY? And WHY YOU (the salesperson)? Guidelines: The statement should be brief, ensure a mutual understanding, and be able to supply as much information about the service or business. It should also be specific and the business must try not to overstate its benefits to the prospective customer, since the customer’s information is yet not clear.

4.3 Progressing a call

When dealing with customers marketers must be able to assure them that they will and can be helped in solving problems. Furthermore, the initial conversation must be brief and to the point. This call is aimed at making an appointment with the customer and not a means of informing the customer all what you have to offer. Do not get drawn into the nitty-gritty details.

When opening a call, state the purpose to the customer i.e. how you as a marketer aims at helping the customer achieve goals. During the conversation, information about products and services could be highlighted to the customer. The marketer should verify that an unanimous agreement is gained between the customer and himself. Providing real time situations wherein the company has rendered assistance to other customers is also an added advantage.

4.4 Objection Handling

Customers almost always have objections during the presentation or when asked to place an order. The problem can be either logical or psychological, and objections are often unspoken. In handling objections, the salespeople should use a positive approach, seek out hidden objectives, ask the buyer to clarify any objections, take objections as opportunities to provide more information, and turn the objections into reasons for buying. Every salesperson needs training in the skills of handling objections.
Objections must be resolved on immediate basis or customers may be lost. Many salespeople are uncomfortable about handling objections and feel threatened by them. Objections could be viewed as benefits, for e.g. it gives an opportunity to the marketer to know the customer better and hence motivate him or her to be involved in buying. Furthermore, relationships could be strengthened between customers and suppliers. The objection handling process follows the six steps of the sales process. Beginning from Encouraging, to Checking.

4.5 Exploring Needs

Exploring needs is the process of uncovering the gaps between the customer’s perception of his or her present state of affairs and the desired state? Where is the customer now? Where does he or she want to go? Hence a need is the gap between a customer’s present state and the desired state.

a) High Impact Questions:

Such questions maximize the sales call by returning high value information in an efficient period of time. Unlike others, high impact questions require a great deal of comprehension and analysis by the customer. Hence these questions are succinct, open ended and designed to extract direct responses from the customer. Customers are free to organize the information in their own manner and different meanings to them before reacting and responding. Effective High impact questions make customers answer in unique ways; e.g. “I never thought in those lines before”.

Furthermore since these questions involve a longer time during which customers talk, new insights into problems are generated and underlying issues, exposed. These questions, being successful a majority of the time, cause customers to believe the sales call, valuable. Customers who like to boast about their organization or themselves prefer open-ended questions. But such questions are unlikely to produce any value for them.

b) Listening:

Effective listening is required to build strong customer-focused relationships. There are three types of needs expressed by customers:

- Stated (clear statements by customers)
- Implied (Customers express their need in vague ways)
- Hidden (The marketer identifies the need, but not the one who requires it)

Marketers should ensure that certain listening behaviors are avoided. Such behaviors include:

- Pseudo (pretending to listen by demonstrating verbal actions)
- Selective (where marketers listen only to information that they are searching for)
- Reactive (Simultaneously offering responses while listening)
- Insensitive (Inability to read in between the lines)
c) Understanding Buying Criteria

It is not merely listening to the needs of customers that matters, instead marketers should aim to understand the process and criteria of customers. Marketers should evaluate their opportunities too, before catering to the customer’s;

- The budget and cost expectation,
- Other authority, besides the marketer, who are involved in the process.
- Alternatives used, especially if one turns out to be a failure,
- How sequentially will the decision be made?

4.6 Exploring and Developing Options

The driving principles, Customer-focus, earn the right to advance and persuade through involvement. Helping and working with customers to explore options allows them to be involved in selecting a solution that is tailored to suit their needs. By participating with customers, customers are eventually induced to select the choice that the marketer offers. Three steps are involved.

1. Developing Options: Gives opportunities to customers to decide as to whom to buy from. Marketers earn the right to differentiate their products from those of competitors.

2. Analyzing Options: There are many ways to analyze and organize options. One way is by using a tool called an Opinion Matrix, which is available in two versions. With potential objections and without potential objections. The latter, is used during face to face interaction. Whereas the former, is used during formal presentations at the close phrase of the sales process.

3. Discuss options with customers: Here also three steps are practiced.
   i. Review and summarize needs and consequences
   ii. Evaluate previously used options so that new options may be used this time.
   iii. Discuss potential benefits and drawbacks of each without supporting any particular one.

4.7 Proposing and Closing

After handling the prospect’s objections, the salesperson now tries to close the sale. Some salespeople do not get around to closing or do not handle it well. They may lack confidence, feel guilty about asking for the order, or fail to recognize the right moment to close the sale. Salespeople should know how to recognize closing signals from the buyer, including physical actions, comments and questions. For example the customer might sit forward and nod approvingly or ask about prices and credit terms. Salespeople can use one of several closing techniques. They can ask for the order, review points of agreement, offer to help write up the order, ask whether the buyer wants this model or that one, or note that the buyer will lose out if the order is not placed now. The salesperson may offer the buyer special reasons to close, such as a lower price or an extra quantity at no charge.
Proposing need not be a formal presentation. It can also be done informally—across the
desk from your customer or in a meeting with a few decision makers. Proposals should
generally always be brief and to the point and show a high regard for the customer.

a) Proposing Solutions:

The 5 E’s model:
At this stage the marketer should be able to explain how the benefits of the solution could
meet the client’s needs. The proposal is made realistic by using the 5 E’s:
1. *Examples*: Illustrate the customer’s situation in relation to the current customer’s,
   hence strengthening the case for the solution.
2. *Enthusiasm*: Ideas conveyed by feeling are more persuasive.
3. *Evidence*: Verifiable data could be used to prove the idea’s effectiveness.
4. *Experts*: Use references from experts to reinforce the ideas.
5. *Exemplify*: Use as much appropriate visual aids to ensure that the audience
   register the information.

b) Concluding the Call

This take usually 10 per cent or less of the total time of the conversation. But concluding
effectively is critical to the success of the buying process because it enables the marketer
to guarantee that the customer will continue to be an asset to the organization.