UNIT 1 INTRODUCTION TO SALES MANAGEMENT

Objective

After studying this unit you should be able to:

- explain the scope of sales functions
- describe the interdependence between sales and distribution functions
- identify the components of strategy formulation in sales management-.
- evolve a framework of joint decision making in sales and distribution functions.

Structure

1.1 INTRODUCTION

You are already familiar with the functions and scope of sales and distribution management through your exposure to units of MS-6, *Marketing for Managers. This* unit, deals with the inherent interdependence of sales and distribution management and takes you, step by step, through the strategy formulation process, in the sales and distribution management, If also give a general framework within which joint decisions for sales and distribution are made.

1.2 SALES AND DISTRIBUTION STRATEGY - ROLE IN THE EXCHANGE PROCESS

Sales and distribution management constitutes one of the most important parts of marketing management. As you have already seen, "Exchange" is the core, aspect of marketing, and it is the sales and distribution management.which facilitates it. Sales Management has been defined as the management of a firm's personal selling function while distribution is the management of the indirect selling effort i.e. selling through extra corporate organisations which form the distribution network of the firm. The sales management task thus includes analysis, planning, organising, directing and controlling of the company's sales effort. Distribution Management comprises management of channel institutions as well as physical distribution functions.

The exchange process i.e., the sale and delivery of goods/services from the manufacturer to the consumer can be consummated directly i.e. by the firm itself through its own sales force or indirectly through a network of middlemen such as wholesalers and retailers. The importance of the sales and distribution function varies across organisations depending upon its nature and variety of products, target market, consumer density and dispersion, and the competitive practices among other things. For example, you may recall that in mail order companies (where the major exercise is distribution in response to orders received) virtually no personal selling effort is utilised. While, most organisations selling capital industrial equipment (say earth moving equipment, mainframe computers, CNC machine tools) do so through a team of their own sales engineers, involving little or no intermediary support. Notwithstanding, whether the sales and distribution function is organized internally, externally or jointly, the following essential tasks need to be performed in order to consummate successful exchange.

a)	Contact	—	Finding and communicating with prospective buyer
b)	Prospecting	—	Bringing together the marketers offering and the prospective buyer
c)	Negotiation and transaction	—	Reaching an agreement on price and other terms of the offer so that ownership and possession can be transferred.
d)	Promotion	—	Of the marketers offerings, and his satisfaction-generating potential.
e)	Physical Distribution	—	Actual transfer of possession i.e. timely and safe delivery
f)	Collection	—	Of relevant consumers information and revenue in exchange of goods or services

Except for extreme instances of organisations which make exclusive use of either their own sales force or distribution channels, most organisations get the above functions performed through a combination of their own sales force and the distribution net work they choose to hire. A major decision in sales and distribution therefore becomes the judicious allocation of the above tasks between the sales force and channel members. The determinants of task allocations are: competitive practice, product and market requirements, (including market size, frequency of purchase and customer concentration) preference and buying practices of the target customers, and certainly the management philosophy towards control.

1.3 INTERDEPENDENCE OF SALES AND DISTRIBUTION

After going through the above section you would have realised how interlinked distribution and sales management are. Apart from the important fact that in most organisations both sales management and the management of channels of distribution are *the* responsibility of the sales manager and should be viewed as jointly contributing to the accomplishment of the marketing task, some other pointers towards the interdependence of these two vital functions are as under:

a) All organisations use their own sales force or distribution network to reach out to their customers. The emerging practice is to use own sales force to sell to wholesalers/serniwholesalers who in turn sell to retailers. Very few firms (unlike say Brooke Bond) use their own sales force to reach upto the retail level). As both the sales and distribution functions are simultaneously performed to accomplish the firm's sales objectives their dependence on each other for the effective attainment of overall marketing goals becomes obvious. In other words,, activities of the sales organisation would have to be coordinated with channel operations if sales goals haves to be effectively realised.

b) The decision of the organisation to allocate certain responsibility in the exchange process to its channel members would define the scope of responsibility of its own sales force and thereby would determine the type of personnel and training required.

c) Even though, an organisation may decide to deal directly with its wholesaler, semiwholesaler, retailer or consumer, it is required to decide upon the type of help it will provide to the first and subsequent level of intermediaries. Since the requirements of each of the above types of first level contact entities are different from that of the other, the company's sales task would have to be defined in context of first level of contact chosen by it.

d) The choice before an organisation to have direct distribution, indirect distribution or a combination of the two is of strategic importance and depends upon factors such as the degree of control, flexibility, costs and financial requirements etc. Marketing through channels implies lower degree of control but would also mean lesser funds tied up in maintaining inventory and lower fixed and variable costs of managing the channels. Depending upon it *own set of* variables the organisation would try and optimise the effectiveness of the exchange process through the use of some combination of the two. Necessarily then the scope of one (i.e. distribution) would define that of the other (sales management).

e) To implement overall marketing strategy, the manufacturers need the cooperation of distribution outlets in terms of adequate stock maintenance, in-store displays, local advertising, point of purchase, promotion. Within the corporation, the sales organisation is the initiator as well as the implementor of these dealer support operations. The effective functioning of dealer-sales organisation relationship often becomes the key to successful working operations within the organisation. This would mean that the sales management has the responsibility of structuring organisational relationship within their own department and with interacting organisational entities so that the sales task can be performed and co-ordinated with the overall marketing goals.

Before understanding the framework for developing the sales distribution strategy in an integrated way let us look at some of the important aspects of the two functions.

1.4 SALES MANAGEMENT - FORMULATION OF SALES STRATEGY

The sales management function, as noted earlier comprises the management of the sales personnel and activities that make up the corporate sales effort. Sales managers are entrusted with the 'task of organising, planning and implementing the sales effort so as to achieve corporate goals related to market share, sales volume and return on investment. The task involves the sales manager in a set of activities both within the organisation, and outside with other organisations.

Within the organisation he has the responsibility of structuring relationships both within his own department and with interacting organisational entities so that the sales task can. be coordinated with other marketing tasks and performed effectively. It also includes allocating and operationalising the sales effort among the sales personnel.

Outside the organisation, his task would include developing and maintaining channel relationships effectively so that the flow of goods and service, and also promotion and feedback is facilitated.

Embodiment of all these functions can be seen in the development of sales strategy which often proves vital to the success of the organisation. To reiterate what you have already ,learnt about Sales Management while going through your MS-6 course (Unit - 19 Block 6), key decision areas in sales management which are particularly relevant to strategy formulation are:

a) Deciding upon type and quality of sales personnel required

b) Determination of the size of the sales force

c) Organisation and design of the sales department

d) Territory design

e) Recruitment and training procedures

f) Task allocation

g) Compensation of sales force

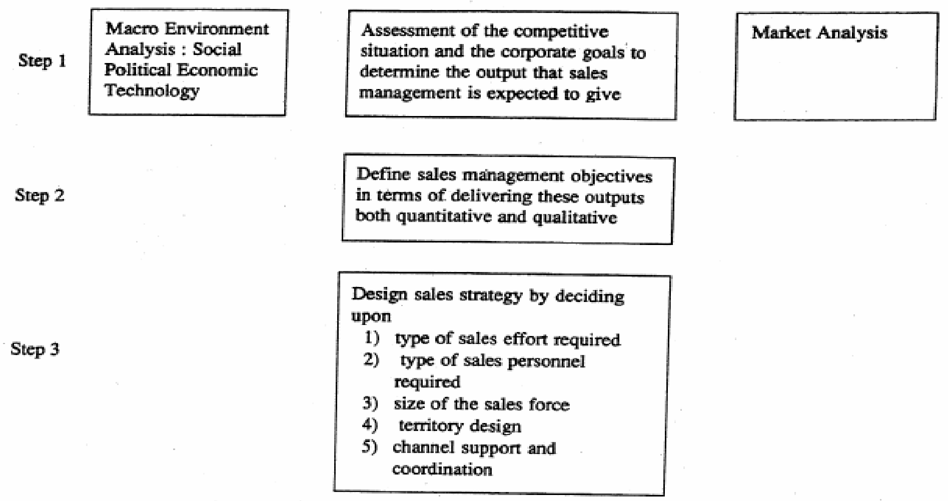
h) Performance appraisal and control system

i) Feedback mechanism to be adopted

j) Managing channel relationship'

k) Coordination with other Marketing department

The above decisions give a fair idea of the scope of the sales management function. Strategy formulation in case of sales would involve identification of the sales goals and. designing of a gameplan, using the organisational resources at hand, to achieve those goals. The strategy formulation process can therefore be summarised as



Let us go through the sequential stages of this process.

1.4.1 Assessment of Competitive Situation and Corporate Goals

The sales objective is directly affected by the corporate mission or goal which in. turn identifies the specific set of common needs and wants the company would like to satisfy. Another input in objective setting is the macro business environment. Variables in the political, economic, social and technological environment have significant bearing on what and how much the company would be able to sell. The environmental scan thus provides pointer to a company's specific opportunities and threats, strengths and weaknesses.

A sound market analysis, is also a prerequisite to objective, setting for sales strategy. Specifically the company would need to know.

i) Current size and growth rate of the market. In. multiproduct companies this analysis would have to be made by product/market and by geographical territories covered:

ii) Consumer needs, attitudes and trends in purchasing behaviour

iii) Competitor analysis covering

- current strategy
- current performance, including market share analysis ® their strengths and weaknesses
- expectations as to their future actions.

It may be noted that the role and scope of the sales functions of an organisation is related to the competitive situations facing its products in each of the markets participated by it.

Under conditions of pure competition, each seller is too small to be able to influence prevailing market price. Identical undifferentiated products make it difficult to specialise sales effort. Under this sort of competitive situation, sales effort is..usually limited to maintenance of adequate market supplies.

Most of the markets today are competing under varying degrees of monopolistic competition where there are large number of sellers for a product but the offering of each seller, is capable of being differentiated in a discernible manner.

However, in the Indian situation most marketers seek to differentiate their products through variation in product attributes, packaging and promotional efforts. Under these market conditions sales efforts support the promotion and maintenance of market share objective of the firm and coordinate with the distribution and customer service needs of the product. Distribution function, on its part, complements the sales efforts in so far as the regular availability of products at almost every purchasing point is concerned. The market conditions characterised by oligopoly are also characterised by aggressive competition. Selling effort here becomes an effective tool of market cultivation, building dealer relationship and maintaining them, providing vital informational feedback on competitors and their market operations.

In case of new product, where the marketer is faced with little or no direct competition, selling effort plays a very vital role in market cultivation. Missionary `Salesmen' are used to familiarise and demonstrate the product, both to the channel members and the ultimate consumers.

These competitive situations affect the corporate goals relating to growth and profit which in turn affect the marketing goals. The sales related marketing decisions which significantly contribute to sales strategy formulation that affect both the quantitative and the qualitative sales management objectives are:

a) decision on what to sell - i.e. what products and what specific mix of products the company has decided to sell.

b) decisions on whom to sell - i.e. whether to sell directly to the ultimate consumer or to make the wholesaler or the retailer the first level to contact. This has vital implications for the size and type of sales force needed.

c) decision on the price.

These decisions define the scope of the sales effort, in the total marketing effort.

1.4.2 Setting Sales Objectives

Sales objectives, are intended to direct the available sales resources to their most productive use. These also serve as standards against which actual performance is compared. The sales objectives are stated in quantitative and qualitative terms. The qualitative goals generally relate to strengthening dealer relationships, developing good consumer support, nullifying product misinformation, attaining desired corporate image.

The qualitative sales objectives reflect the expectations the top management regarding .the contribution of sales function to the total marketing effort. They, therefore affect both the size and quality of the sales force. For example when a company selling high value, technical household products relies only upon its own sales personnel to carry out the entire sales function and take up part of promotional responsibility too, the quality and the size of the sales personnel it requires would be significantly different from that of a company where sales personnel are, only required to coordinate with and service channels. Examples of the products could be the Eureka Forbes salesman selling vacuum cleaners to consumer and the Summet salesman servicing Summet dealers. In the former case the salesmen are expected to carry out the entire selling and market cultivation function while in the second case, they are mainly expected to coordinate and service the distributors. The qualitative sales objectives are relatively long term one and emanate out of the marketing policy of the company.

Quantitative objectives on the other hand relate to the operating results that the company would like to achieve. They, like the qualitative objectives-are heavily dependent on a keen analysis of competitive situation and corporate goals, and obviously would vary over operating periods. Quantitative sales objectives could be in terms of sales volume, market share or number of back orders per operating period. Drawing from these quantitative objectives, goals can be set for the sales organisation in terms of

a) Sales volume in units or rupees

b) Sales cost

c) Accounts receivables

d) Inventory levels Basic. Functions
e) Dealer support
f) Feedback input

It would be worth noting here that both the qualitative and quantitative sales objectives, are set in context of the competitive position of the company. As we get down to the actual task of formulating the strategy we evaluate alternative plans, against the backup of the competitive strength and weaknesses of the company at the market place and try to build up the sales effort so as to achieve the desired goals. The important decisions involved in this task are given below.

1.4.3 (Determination of the Type of Sales Force Needed

The quality of the sales personnel needed, would depend upon the quality of contribution that top management expects the sales organisation to make as well as the actual workload that is expected to be generated. Specifically, it would depend upon the role that the salesmen are expected to perform. If the company has decided to do significant amount of preselling through its advertising the salesman's job is considerably simplified and this has implication for the type of salesmen needed. Companies like Instrumentation Ltd., Kota, manufacturing sophisticated technical equipment expect their sales engineers to carry out the entire span of activities from commissioning and installation of. equipment to after sales service. You can therefore clearly envisage that the type of sales personnel would vary across organisations, depending upon the role that has, been decided for them in the-organisation. Some of the factors that influence the type of sales person are product characteristics, customer characteristics, competitors practices channel design and corporate marketing policy.

A strategic choice which has to be made at this stage is related to the degree and kind of specialisation needed. Should the company go in for product specialists or market specialists or both? This is often a decision which is taken along with the decision regarding segmentation strategy.

Product specialists would be required when the product or its usage is highly technical, requiring demonstration and/or advice from the sales personnel. Marketing of banking services provides a good example. Service packages like agriculture financing, short and long term institutional financing etc. have package specialisation as the product on offer is typical.

Market specialisation would be needed when different groups of target customers need specialised service or different sales approaches. In still other situations salesman may need to be knowledgeable about more than one line of company's products and deal with more than one set of customers dictating a combination of market and product expertise.

Activity 1

Look at the type of selling effort of the sales personnel in your organisation or any other organisation that you are familiar with and try to analyse whether the type of specialisation of the sales force is by product or by markets or by both. Also find out as to what factors necessitated this kind of specialised selling effort.

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1.4.4 Determination of the Size of the Sales Force

Another key decision is the determination of the number of sales persons needed to achieve the sales objectives. Recruiting more than the optimum number would mean that the company 'is bearing unnecessary costs at-the expense of its net profits. Recruiting less than optimum would mean losing opportunities for exploiting sales prospects. It is not easy to prescribe an ideal sales force size as the important determinants of sales force size-market size, and potential, competitive activity, allocation of sales task between the channel and corporate organisation differ from company to company. With respect to their own set of variables, companies do try to arrive at an ideal figure by using various methods such as (a) the incremental method, (b) the workload method and the (c) sales potential method. The incremental method utilises incremental reasoning in that it suggests that salesmen should be added to the sales force if incremental margins exceed incremental sales costs. The sales potential method uses estimates of sales personnel units (which means the set of activities expected to be carried out by one personnel unit); expected productivity of sales personnel and the estimated sales volume to. arrive at the ideal size. In the workload method, through the computation using total market size, sales, volume potential and volume of non-selling activities like travelling the company arrives at the total workload. Dividing this by the work it expects one individual salesman to carryout, gives the sales force size. You will be reading more about all these methods in Block 2 of this course.

Activity 2

Study any three organisations using direct selling methods. What is the sales force size in these organisations? Analyse the reasons for difference in the size.

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1.4.5 Organising the Sales Effort - Territory Design

Personal selling objectives set the tone of the selling activities to be performed in an organisation. Defining these activities and their level of performance would lead you to an estimate of how many sales personnel at various levels are required in the organisation.

The strategic decisions here include the organisational structure of the sales force and the choice of the field sales organisation. You will study in detail about both these aspects in Unit. 3 of this course, here we will just provide you with a general understanding of the nature of these decisions.

Companies may treat their entire market as their total field of operation and assign sales duties to their personnel indiscriminately but more often than not they prefer to divide the market into sales territories either on the basis of geographical size or sales potential , or both because of valid reasons. Of these the customer related reasons are that the territories provide for a more intensive market coverage yielding to higher sales and better customer relations. For the salesperson they facilitate performance evaluation and foster a far higher degree of enthusiasm and clearly defined responsibilities resulting in lower turnover and higher morale. Managerially it becomes possible to have a better degree of control, reduce expenses and evolve coordinated promotion plans. Review of call pattern territorywise and evaluation of territory performance aided .by field visits may help managers in evolving effective future practices.

While creating territories sales managers can choose from different type of bases:

Geographical basis which utilizes the existing geographical boundaries and assigns them to the sales personnel.

Sales potential basis which consists of splitting up a company's customer base according to the dispersion of its sales potential.

Servicing requirement basis where the company splits up its total market according to servicing requirements of its current and prospective customers (servicing here means maintaining and developing the account).

Workload basis: This approach considers both account potential and servicing requirements and in addition reflects the difference in workload created by topographical, locational and competitive factors.

1.4.6 Establishing and Managing Channels Support and Coordination

The channels of distribution usually act as the only point of contact the final buyer has with the manufacturer. They together with the sales organisation of the manufacturers collectively bear the responsibility, of consummating exchanges with the final buyers. When indirect distribution-is adopted, it is -imperative that the sales organisation initiates dealer cooperation programmes. Dealer support typically has to be ensured in the area of maintenance of adequate stocks of the products and local promotion in the form of point purchase displays and local advertising. Another key area of support is the provision of market feedback the norms of which must be decided between the dealer network and the manufacturing organisation. The management of manufacturer dealer cooperation, includes inter alias

a) Choice of appropriate dealer incentive programmes to stimulate distributive outlets to greater setting effort.

b) Deciding upon procedures for sharing information with the dealer network.

c) Deciding upon measures to ensure and promote dealer loyalty.

Activity 3

Talk to one manufacturer each of

a) auto parts

b) food products

and their respective distributors. What are the methods that have been adopted to ensure

i) maintenance of stocks

ii) adequate feedback

iii) promotional support

in each case

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1.5 FRAMEWORK FOR JOIN' DECISION MAKING N SALES AND DISTRIBUTION MANAGEMENT

As assessment of the strategy f6mitilation in both sales and distribution would again bring you to the realisation that most of the Strategic both decisions in sales and distribution require compatibility.

Joint decision making would necessarily involve determination of the components elf the total marketing tasks to be allocated to sales management and distribution management, which essentially being a marketing mix decision need not be discussed here. What we-shall examine in the allocation of the distribution responsibility is the division of responsibility in relation to contacting, prospecting, negotiating and transaction, promotion, physical distribution and information collection. The' criteria of allocation of these tasks would evolve from an analysis of the end user behaviour, competitive practices, channel attributes and expectation, and company's strengths and weaknesses. These criteria as discussed earlier in context of channel selection could be quantitative - cost per rupee of revenue, financial commitment, sales volume achieved etc., and qualitative e.g. desire for control and channel adaptability. Though these criteria *would* differ from organisation to organisation, certain guidelines *for* decision making can be evolved from the following generalisation developed on the basis of, observed market behaviour and distribution trends.

The following chart shows that the various *sales* and distribution tasks that facilitate the exchange transaction may need to be divided between the two functions.

a)	Achievement of sales goals through :	— distribution channels — company's sales force
b)	Personal and Prospecting through :	— distribution channels — company's sales force
c)	Personal and non-personal promotion through :	— distribution channels — company's sales force
d)	Maintaining Inventory through :	— distribution channels — corporate organisation/ co-owned depots
e)	Accounts Receivables through :	— distribution channels — sales force/corporate sales organisation
f)	Information feedback through :	— distribution channels — company's own sales force

Between the two extremes of Mall order houses which have no corporate field sales organisation and the totally vertically integrated system which involve no independent middlemen, majority of our business enterprises today utilize the service of both - their own corporate sales department and the external distribution agencies in some proportion or the other. The decision making task in sales and distribution management, on most issues therefore has to be accomplished jointly, as decisions in one area necessarily have implications for the other. Let us then evolve framework for joint decision making insales and distribution management"

The allocation of specific sales and distribution tasks between company's sales personnel and independent channel depends upon consumer characteristics, product characteristics, company and competitive characteristics as well as the environmental factors. Based upon corporate practices some propositions could be put as under. .

a) The involvement of the company's own sales organisation would be higher in case of technically sophisticated high unit value products targeted at a small number of consumers. (e.g. Eureka Forbes, Mainframe Computer System, energy system by BHEL, etc.) Intensive competition or lack of appropriate channels to distribute such products may also favour direct distribution. Conversely the distribution channels will be utilized more in case of frequently purchased low unit value standardised products (various Brands of Coffee, Bread, Butter etc.,) where the geographical dispersion of the consumers is quite high.

b) As companies grow larger in size and generate resources to make their financial position strong, the tendency is to favour direct sales.

c) Market conditions characterised by a limited number of consumers and/or intense competition, necessitate a high degree of personal prospecting and personal promotion. In case of low or medium value, relatively standardised products, a higher proportion of this task would be assigned to the channel while in case of complex high value products requiring specialised service the direct sales force is much more likely to be given the responsibility. Another, trend here, specially in exclusive distribution is that the task may be performed by the dealer's staff provided the company pays for or provides for the training of the staff, e.g. Refrigerators, Water Coolers etc.

d) A greater allocation of the non-personal promotion would have to be carried out by these two functions i.e. sales and distribution function if mass media is not available or is unsuitable for reasons of adaptation to local preferences. A higher proportion of non-personal promotion may be assigned t® the ^distribution channels if they have easy access to local media.

e) A higher level of inventory would need to be carried in case of highly competitive goods and seasonal goods at the point of purchase. In case of non-postponable purchases like bread, butter, channel members may be required to participate to a higher extent in the inventory carrying task. This position, is modified to a certain extent when the supply logistics of the manufacturer is streamlined enough to manage replenishment at the retail outlets with a high degree of regularity.

f) In case of industrial products, where the consumers are few and products are technically complex, the information feedback task is generally assigned to the company's own; sales force or even to dealers where exclusive distribution is followed. In case of consumer products where the number and dispersion of buyers are very high a higher proportion of the feedback task is assigned to specialised agencies under the MR function.

g) As the company has much more to lose if reliable information about market position and trends is not collected, a larger proportion of the market intelligence task should be assigned to the company's own sales force.

h) While marketing to the rural markets, in case of both household consumption goods and low or medium value durables like electrical appliances cooking utensils etc., the middlemen, particularly the feeder town stockist becomes a vital factor in market cultivation. As the markets are far flung and the volume of consumption also varies from one rural area to another, the trend in rural marketing is towards a more extensive use of middlemen.

1.6 SUMMARY

In this unit you have learnt about the process of developing the sales and distribution strategy and the major determinants of each. As the two functions have a high degree of mutual dependence, a joint framework for decision making for both sales and - distribution management has also been discussed.

1.7 KEY WORDS

Channel of distribution: The route that the title to a product takes from the producer to the ultimate user.

Direct distribution: A distribution system in which the ultimate buyer acquires the title directly from the manufacturer of the product.

Exclusive distribution: A distribution system that involves territorial protection for authorised dealers.

Indirect distribution: A distribution system that uses middlemen i.e. wholesalers and retailers to reach the ultimate buyer.

Intensive distribution: A distribution strategy that strives to have the firm represented in the maximum number of outlets.

Monopolistic competition: A market situation where many sellers offer differentiated products to a large number of customers.

Territory: The geographical area a sales person is assigned.

Vertical integration: The strategy by the manufacturer, which involves acquiring ownership rights down the channel of distribution.

1.8 SELF-ASSESSMENT QUESTIONS

1. Discuss the factors responsible for interdependence of sales- and distribution.
2. How do the sales objectives affect the designing of says strategy.
3. Describe the key decision areas in sales and distribution management.

1.9 FURTHER READINGS

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