SALES AND DISTRIBUTION MANAGEMENT

"We may forgo material benefits of civilization, but we can not forgo right and opportunity to reap the benefits of the highest education to the fullest extent ......"

- Dr. B. R. Ambedkar

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PREFACE

This course deals with the topics in 'Sales and Distribution Management' included in the syllabus for the third year of B.Com., Programmes offered by the Dr. B.R. Ambedkar Open University. These topics generally cover the 'core' area of the subject to be studied in the Third Year Degree course in Commerce (B.Com). The syllabus for the sake of convenience is divided into blocks, each of which comprises a number of units. Each block generally covers a specific area of the subject. The units are prepared by specialists in accordance with a format so designed as to enable the student to study and understand them without much difficulty. Each unit begins with a statement of its objectives followed by the contents and has at its end, questions intended to test the students comprehension of its subject matter. Technical terms which the student may not generally be familiar with are given at the end of unit under the head, "Glossary".

Sales and Distribution Management has emerged as a very important, international aspects of marketing discipline. This course essentially deals with sales and distribution, governing the distribution system of marketing between seller and user. A firm offers a product or a service to the market or customers and takes various intermediaries or distribution channels to made available of products. This course essentially highlights the importance of sales and distribution management and its related aspects, like sales organisation and planning, sales force training, recruitment and selection, physical distribution, channel decisions issues. An understanding of this subject is relevant to the manufacturers, sellers, managers and marketing or selling professionals. The students, after studying this course, would be able to undertake a selling job in any marketing organisation effectively.

This course Sales and Distribution Management consists of 5 blocks, which has been divided into 21 units. The first block deals with the basics aspects of sales management. The second block discusses sales organisation structure and planning aspects. While block three covers sales force management, block four deals with various aspects of distribution management, including physical distribution. Block five is devoted to channel decisions such as channel selection and evaluation, conflict and control, etc.

The University hopes that this material will help the student to get acquainted with the basic issues of Sales and Distribution Management, which make for its distinctiveness and significance.

1.2 DEFINITION OF SALES MANAGEMENT

It is clear from the above definitions that sales management is basically the management of sales force, but this term has acquired significance now by the inclusion of marketing research, advertising, sales promotion activities within its scope. Sales management has been defined as the management of a firm's personal selling function.

In general Sales Management is the process of planning, organizing, staffing, directing and controlling an organisation's selling function within the context of environmental limitations and corporate and marketing constraints.

According to the **American Marketing Association,** sales management means "the Planning, Directing, and Control of personal selling, including Recruiting, Selecting, Equipping, Assigning, Routing, Supervising, Paying and Motivating, as these tasks apply to the personal sales force".

In the words of **Romano and Rachman,** "Sales management includes recruiting, selecting, training, supervising, motivating and evaluating the sales force.

In the words of **Zabin and Hampton,** "Sales management is primarily the direction of men with all the management functions of organisation, control, recruitment, training, supervision and motivation".

According to **Paul Hermann,** Sales Management was prevalent even in the Bronze Age. There used to be commercial representatives who set up branches and depots to sell their wares.

CHECK YOUR PROGRESS – 1

Define sales management.

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1.3 ORIGIN AND DEVELOPMENT OF SALESMANSHIP

Around 4000 B.C. the ARABS USED TO TRAVEL IN Caravans and traded at market centers in Mesopotamia and Egypt. It is widely believed that the Indian traders sold their goods in the streets of Rome and Athens. The Greeks and Roman traders also travelled from country to country to sell their goods. But the traders in those days were concerned about their immediate gains and indulged malpractices. Of course, the business transactions in those days were generally carried by the barter system. In fact, in ancient Greece the traders were despised. Even Aristotle and Plato have condemned the activities of traders. Commerce was considered to be a mean and worst profession.

The salesmen in the ancient times did not enjoy good reputation. The Romans called them cheats. It was only during the middle ages that the attitude towards commerce and trade changed slightly. Many Italian businessmen, during the middle ages, travelled through Europe and other countries of the Far East to sell their goods. Many countries of the Far East used to sell their goods. Many centuries later it was recognized that the seller had a right to a trading profit because he added certain utilities like form, time, place etc.

The salesmen in the modern sense have only emerged in Europe, Asia and America in the later half of the eighteenth century. In this period, due to the industrial revolution in England and Europe transportation facilities were improved and industrial production was increased. The European imperialist powers like England started sending their travelling salesmen to other countries to sell theirs goods. In the modern age revolutionary changes have been brought about in the field of selling. The departmental stores have become the order of the day in big cities. The mail-order houses have come into existence. In Europe and U.S.A., big firms have established the chain stores.

In the twentieth century a great improvement has been made in the selling methods through scientific sales management. Now-a-days, all big organisations try to give systematic training to the salesmen. They recruit competent salesmen who understand the principles of modern salesmanship and who can make use of the latest methods of selling. In reality the trained salesmen today are highly professional business representatives of their organisations. Their responsibilities include the discovery of the wants and the needs of the customers and translation of these wants and needs into products and services specification for their establishment which is mutually beneficial, establishing and long term relationships between the customers and their firms.

Prior to the Industrial Revolution, small-scale enterprises dominated the economic scene and selling was no problem. The chief problem was to produce enough goods for nearby customers. Orders were obtained with minimum effort, and they were on hand before goods were produced. In most firms a single individual supervised all phases of the business, including both manufacturing and selling. Manufacturing problems received the most attention; selling and other marketing problems were handled on a part-time basis. Salesmanship from the point of view of persuasion, is as old as history and is the oldest of arts. The New World was sold to Ferdinand and Isabella by Christopher Columbus. Salesmanship has been used by all the leading personalities in history whether they be businessmen, scientists, statesmen to exploit their genius.

The early written records and relics relating to commerce show that the origin of selling or retailing goes far back into ancient times. The ancient cities of Athens, Carthage and Rome were trading centers for their own population as well as for the trading areas around them. The early Greeks and Persians were great merchants who exchanged their products with those of other neighboring countries.

Origin of Markets

Selling in ancient times, before the introduction of money as a medium of exchange, consisted of **barter,** that is, goods were exchanged for goods. Later, buyers and sellers began to meet at convenient places. This was the origin of what are now known as **Markets.** As trading advanced, it was realized that the barter system was very inconvenient. This was because the seller had not only to find a buyer who wanted what the seller had to sell but also one who was prepared to give commodities in exchange which the seller himself required. Again, the seller could not afford to take in payment too much of one article, especially if the article was likely to deteriorate. Thus arose the need for an article which would not only retain its value but which would be acceptable generally by all. If, for example, the seller accepted horses in payment, he would have to incur expenses in feeding them and run the risk of their dying in his hands. Thus beads, shells and other tokens began to be used until the introduction of currency as the medium of exchange.

Origin of the Travelling Salesman

As it was not possible for every one to visit the markets for his purchases, itinerate merchants or pedlars visited the markets, purchased goods and brought them to the people in their homes. This may be described as the origin of the "traveling salesman" of today although the local pedlar had really become a middleman.

In England, as early as the 7th century there were two kinds of salesman. One was the seller of staple goods such as farm produce and goods made in his own workshop. The second type dealt with speciality goods, travelled greater distances and had to use higher and more elaborate salesmanship and was known as the 'chapman'. He generally made his purchase at towns near the seaports and travelled great distances selling his luxury articles mainly to the upper middle class. He was the prototype of the modern door-to-door speciality-salesman. The pedlar played a very important part in the distribution of articles. He helped people to dispose of their surplus goods and obtain other goods which they could not have done themselves. The chapman rendered a still greater commercial service than the ordinary pedlar salesman, particularly because in those early days people were afraid of travelling more than a few miles due to bad roads, neglected bridges, robbers and highwaymen. In addition, there were the tools and taxes enforced by the feudal barons. In spite of these great hardships, the chapman brought a large variety of highly priced merchandise to the residents of inland towns, castles and houses.

Emergence of Shops

The earliest retail shops stores were known as "stalls" or "shops". In the earlier days, the people living in a village or town were economically self-sufficient except for the few articles which were not produced locally and had, therefore, to be purchased at a nearby town, market or fair. As towns grew in number and civilization advanced, the local markets were found to be inadequate. They offered too irregular and infrequent opportunities for making purchases. This was particularly so for daily consumption articles. Thus arose the necessity for shops or stalls. The earliest stores were open stalls and were used to display goods made in the town market or goods made in the domestic factory from raw materials purchased in the market. The names of these shopkeepers often clearly showed their occupations, e.g., Goldsmith, Mason, Carpenter, Butcher, Baker, Cooper, Draper, Tinker, etc. Thus we have in India, Sodawaterwalla, Lokhundwalla, Book Binder, Suterwalla, Reshamwalla, Mithaiwalla, Kapadia, Shah, etc. These family names have their origin in the occupation of the head of the family. These were handed down from generation to generation until a person became commonly known by that particular name. Originally most of these persons were themselves proprietors or owners as well as the operators of their domestic factories. These shopkeepers were similar to the present day salesman, except that they themselves generally made the articles they sold and were also the proprietors of the shops.

The Influence of Guilds

In the Middle Ages, the general practice was to make goods only on receipt of orders. Thus production of goods in anticipation of orders was almost unknown. The Shopkeeper also used very little selling effort owing to the strict regulations during the guild period which even forbade merchants to compete with one another. One of the regulations, it is interesting to note, was that the shopkeeper was not allowed to stand up to greet the likely purchaser entering the shop. This was because such behaviour would amount to showing great eagerness to sell the goods. (We are very often reminded of these non-existent regulations by some salesmen who seem to think that this rule still exists).

These early shopkeepers in England exerted a good influence upon the growth of salesmanship in many ways. They knew how the goods were made and every other detail about the goods, as they were made by themselves. The check placed on their aggressive selling effort by guild regulations made these Shopkeepers concentrate on quality and reputation built up by rendering satisfaction.

The Commercial Adventurer

The history of selling effort would be incomplete, if the commercial adventurer were not given his due importance. The commercial adventurer played even a more important role in the development of commerce than the shopkeepers or the chapman. He had to perform the hazardous and difficult task of bringing speciality goods to the markets from which the chapman made his purchases. The Phoenicians, Persians and the Parsis of India were noted for the services they rendered as commercial adventurers. These ocean going merchants were termed "commercial adventurers" as, owing to the risk they undertook almost every time they left the shores, the venture was like an "adventure in commerce". The ships used by them were small and ill-equipped whilst the seas were full of pirates, storms and typhoons. Many of these adventurers lost their lives whilst trying to bring luxuries from distant places to their country. As if these hazards were insufficient, these merchants had to cope with dishonest officials in the ports, entered by them.

In spite of these difficulties, these "merchant princes" (as they are very often referred to in India) carried the commerce of the world as was then known in their small ship. They were prepared to buy or sell as occasion demanded. The commercial adventurer may, therefore, be described as the first travelling wholesale salesman. It is very likely that he was required to use more selling technique as known today than any other early type of salesman.

Emergence of Honesty in Selling

The ethics of the early salesman, prior to the period of guilds, were quite different from those of modern times. In the earlier days, fraud and dishonesty were the characteristic note of commerce. The word used by the Romans for the salesman meant "cheater". The word used by the Greeks for the retailer meant "falsifier".

Money charges and tradesmen were often described as "robbers and thieves" because of their greed and dishonest tactics. Many of the ancient commercial adventures took up a combined profession of pirates and merchants. They used to attack merchant's vessels and sell-plundered the cargo and scuttled the ship and thus removed all traces of their criminal act. There were no fixed prices in those days for commodities. Very often, exorbitant prices were charged as the goods were scarce and the demand was heavy. It is for this reason that the profession of selling was considered as dishonest and degrading as in the case of usury or money lending. However, the influence of the guilds had a great deal to do with bringing into being the ethics of selling during the Middle Ages on a higher level.

The early salesmen, such as the Yankee Pedlar in America and salesmen all over the world, felt justified in his dishonest practice such as charging exorbitant prices and planning of unsuitable goods to the unsuspecting buyers. This belief was based on the assumption that as the salesman would never return to sell to the same customer again he was justified in taking as much from the buyer as he could. It was as late as towards the beginning of the 20th century that businessman were convinced that honesty was the best policy in the long run. They realized that the fruits of dishonesty were not as enjoyable and lasting as those obtained through honest business methods.

The Dropping of "Buyer Beware" Philosophy

The early day salesman believed in the philosophy of "let the buyer beware" (popularly described as *caveat emptor*). Relying on this philosophy, the early salesmen were not averse to mixing dust in pepper, sand in sugar and so on. In those days, the customer made his purchases at his own risk and selling was a battle of wits and considerable haggling over the price. In case of haggling, the customer is always at a disadvantage. This is because the salesman knows the true cost of the goods and the price at which he can afford to sell. Very gradually this philosophy of the early salesman changed. A new consciousness of the obligation on the seller to render service to the buyer was realized by the salesman. The modern philosophy of the professional salesman of rendering service and satisfaction to the customer emerged.

The Common Law rule of *caveat emptor* lays down that where the buyer does not rely on the skill and judgement of the seller in making his purchases, he does so at his own risk and it is therefore, his own duty to satisfy himself that the article he purchases is suitable for the purpose for which he desires it. The seller is also not bound to disclose that the article is unsuitable unless the buyer makes such an inquiry. If, however, the purchaser makes known his requirements and the object for which he is making his selection, the seller would no doubt be liable in caser the article supplied was not reasonably fit for such purpose. This is also the law in India as expressed in Section 16(1) of the Indian Sale of Goods Act, 1930.

A good salesman, however, realizes that although to a great extent he is a free agent, he owns considerable responsibility to his customers and that sharp practices do not pay. He believes in acting honestly with his customer to the mutual benefit of himself and his employers and advantage to his customers. He realizes that exaggeration, fraud and dishonesty towards his customers would result in loss of all possibilities of permanent success. Modern salesman tries to build up a reputation for honesty and dependability, thus bringing salesmanship to the higher plane of a great profession.

Consumerism

In the field of selling, one often comes across the expression that the "consumer is the king". However, in actual practice, both in India and abroad, he has suffered immensely at the hands of traders and industrial organisations. This is particularly so in a seller's market which does prevail in many products in India. Enjoying a sort of monopolistic situation, manufacturers have kept on increasing their prices. The consumer having no choice is forced to purchase low quality products at high prices. It is but natural that the consumer must ultimately react against businessmen and industrialists for exploiting him. In different parts of the world, the consumer has now raised his head and he is in a militant mood. His watch word has become "Let the seller beware" as against the businessman's philosophy of "Caveat emptor" or "Let the buyer beware".

Competition is increasing in the Indian context; and in many products we are already in the **buyer's market.** Take the soft drink industry. Look at the constant advertisement, particularly on the television. The customer has a dazzling **variety of brand names** to choose. In the soft drink industry, there is Thumps Up, Gold Spot, Limca, Campa-Cola, Sprint and the latest entrant Double-Cola, not to forget tetra packs – Frooty, Appy, Volfruit, Great Shake, Amul Shake and the soft drink concentreates – Rasna and Ju-C. Similarly, in the two wheeler industry, there are so many manufacturers today that the buyer has begun to get a choice even in this industry.

Whilst the consumerism movement abroad is fairly strong in India the consumer is in a more vulnerable position in spite of the Government's recent efforts to protect him. It has been indicated by **Mr. A.C. George,** the then Union Minister of State for Industries and Civil Supplies, that according to the results of a survey conducted recently, the consumer in India was being cheated to the tune of rupees 2000 crores per year, merely on account of short weights and measures. There were even spurious drugs in the market. Adulteration of drugs, etc., has even caused permanent disablements or mass deaths.

A survey conducted by the Consumer Council of India has indicated that there was large scale adulteration in petrol, diesel oil, etc., resulting in the disablement of 40% of trucks and tractors in Northern India. Thus, it is obvious that the consumer needs to be protected in a large majority of products even of daily consumption or uses several legal measures, therefore, were taken by the Indian Government, some of which will now be mentioned.

In India the consumer is often taken for a ride. For example a large number of units produce match boxes. A large percentage of the match sticks however of not light. Our domestic Airline considers the consumer interest as coming last and more concerned with profitability and convenience of the employees. Simple solutions are adopted by the management here of raising the fares, as the industry enjoys a monopoly situation. Public buses race past the bus stops and are dependent on the whims of the bus driver. Television sets and consumer durables are sold without having an infrastructure, prepared in advance, so that proper after sales service and repairs can be provided to the consumer. All this can be changed only through consumer movement, and activists. The consumer activists try to get for the consumer a fair deal. It is not a question of high or low price but the customer's right to have proper information, so that he can decide himself more accurately.

The government promulgated the **Packaged Commodity (Regulation) Order, 1975,** which came into force on October 2nd 1975, to protect the consumer. Under this legislation, manufacturers were required to display on the labels and packages of all packaged commodities the date of manufacture, the ceiling price, the weight contents and the complete address of the manufacturer. The **Prevention of Food Adulteration Act, 1954,** which had hither to provided six year's imprisonment as the maximum punishment for the offender, in connection with food adulteration, had an important amendment made to it in 1976. The amendment provides for life punishment and a fine of Rs. 5000/- incase of adulterated food, considered either injurious to health or likely to cause death or grievous hurt.

Central Consumer Council has been constituted under the chairmanship of Mr. T.A. Pai as an apex body and a National Consumer Protection Council is being set up to act as watch dog to ensure price stability and quality control in connection with mass consumer goods. In some cases, the consumers themselves have formed several consumer guidance associations. **The Consumer Guidance Society of Bombay,** for example, has even introduced a scheme for testing consumer goods. Thus, several have been taken us with a view to protect the consumer.

It is unfortunate that the consumer movement in India is still not strong enough. For instance, consider the membership of the CGSI (Consumer Guidance Society of India), Bombay, which is only a few hundred in a city with a population of eight million. If more people do not join such societies, no amount of legislation can help. There will only be the stray voices in the dark of say Manubhai Shah in Ahmedabad and of activists such as Mrs. Krishna Basrur, Puspa Motwani, Kamal Sohonie and Leela Jog, and of course, the indomitable M.R. Pai of Bombay. However, the consumer movement is catching on. Many social organisations, such as Rotary, are putting their shoulders to the wheel of consumerism.

The most powerful legislation is perhaps **the Consumer Protection Act, 1986** which is comprehensive legislation aimed at protecting rights, particularly the right to redress. Consumers are sought to be protected through official legal machinery before which consumers can place their complaints and seek protection. (Apart form this Act, the govt. has also amended the other seven Consumer Protection Acts like the prevention of Food Adulteration Act and the Essential Commodities Act to make them stricter and more favourable to consumers). The Consumer Protection Act provides not only for the consumer to make a complaint but also gives him the right to can then fight the case. The Act can even be used against Govt. which runs utilities like the telephone department, nationalized banks or the electricity board, apart from against adulterators and manufacturers. In this sense, the Indian consumers are now more powerful than they were ever before.

Everyone connected with selling, whether he is a salesman or a marketing man, will now have to beware of and realize his social responsibility to the consumers. He must develop a professional attitude in selling, as otherwise more legislation is likely to ensure. Good organisations must even go to the extent of thinking of protecting the consumers and helping him in his purchasing decision.

1.4 CHARACTERISTICS OF SALES MANAGEMENT

The sales management possesses the following characteristics:

a) The underling objectives of sales management include achievement of sufficient sales assignments giving major contribution to profits and experiencing continuous growth.

b) It is also responsible for the effective functioning of personal selling activities.

c) The functions of sales management include planning, organizing and controlling of the activities related to recruitment, selection, supervising, motivating and evaluating the performance of sales personnel.

d) Sales management is one of the basic functions of business enterprise.

1.5 IMPORTANCE OF SALES MANAGEMENT

The importance of Sales Management must be clearly spelt out and should be in line with company's marketing strategy Sales management is designed to achieve overall objectives of marketing department i.e., through particular sales executives as a team. Therefore to make the sales department effective the following pints are to be considered:

1. Second Business Planning
2. Direction and Control of Sales

3. Creation of Goodwill
4. Consumer Satisfaction and Delight
5. Win over the Competition
6. Setting up of Sales Organisations
7. Dynamism and Energy of Economy
8. Integration of Social and Business Objects
9. Acts as Coordinator
10. Increase foreign trade (Exchange earnings)
11. Contribution towards achieving the Original Objectives.

CHECK YOUR PROGRESS – 2

Explain the importance of sales management.

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1.6 ORIGIN OF SALES MANAGEMENT

With the Industrial Revolution, which began about 1760 in England and shortly after the American Revolution in the United States, it became increasingly necessary to find and sell new markets. Newly built factories were turning out huge quantities of goods of every description. Their continued operation which demanded great expansions in the area of sales coverage of adjacent markets could not absorb the increased quantities being manufactured. But even under these circumstances other business problems took precedence over selling. These were problems associated with hiring large numbers of workers and acquiring land, buildings and machinery. To solve them, large amounts of capital had to be raised. The result was that more and more business adopted the corporate form of organisation – the day of large – scale – manufacturing enterprises had arrived. First hand administration of all phases of the operation being beyond the capabilities of most individuals, authority was increasingly delegated to others. Separate functional departments were established, but sales departments were set up only after the activation of manufacturing and financial department.

The advent of specialized sales departments helped to solve the organizational problems of market expansion, but another problem remained i.e., communicating with customers. Little by little, manufacturers shifted portions of the marketing function to middlemen. At the start, goods were sold to retailers who resold them directly to consumers. Eventually, some large retailers began to purchase for resale to other retailers, and as time passed, many of these evolved into wholesale institutions. Other wholesalers developed out of import-export business. The manufacturers' sales department was becoming more remote from customers, and it was increasingly difficult to maintain contact with final buyers and users of the product and to control the conditions under which wholesalers and retailers made their sales. Thus, in some respects, the addition of middlemen to the channel of distribution complicated the problems of market expansion.

Meanwhile, marketing activities conducted by the manufacturer's sales department grew in importance. Many tasks, such as advertising and sales promotion, became increasingly complex. One solution was to split the marketing function, a trend that is still continuing. New departments were and are being organized for the performance of specialized marketing tasks. Marketing activities today are carried on not only by the sales department, but by such departments as advertising, marketing research, export, sales promotion, merchandising, traffic and shipping, and credits and collections. In spite of this growing fragmentation of marketing operations, the sales department still occupies a strategically important position. The underlying responsibility for the marketing of sales has not shifted elsewhere. Business continues to rely upon their sales departments for the inward flow of income. It has been aptly said that the sales department is the income-producing division of business.

1.7 OBJECTIVES OF SALES MANAGEMENT

There are three general objectives of sales managements; They are:

1) Sales Volume, 2) Contribution to Profits, and 3) Continuing Growth.

1. Sales Volume

Sales executives, of course, do not carry the full burden in the effort to reach these objectives, but they make major contributions. Top management has the final responsibility, because it is accountable for the success or failure of the entire enterprise. Ultimately, top management is accountable for supplying an ever-increasing volume of "Socially responsible" products that final buyers want at satisfactory prices.

Top management delegates to marketing management, which then to sales management, sufficient authority to achieve the three general objectives. In the process, objectives are translated into more specific goals – they are broken down and restated as definite goals that precedes goal setting, sales executives provide estimates on market and sales potentials, the capabilities of the sales force and the middlemen, and the like. Once these goals are finalized, it is up to sales executives to guide and lead to sales personnel and middlemen who play critical roles in implementing the selling plans.

2. Contribution to Profits

Sales management is influential in charting the course of future operations. It provides higher management with informed estimates and facts for marking marketing decisions and for settling sales and profit goals. Largely on sales management's appraisal of market opportunities, targets are set for sales volume, gross margin, and net profit in units of product and in rupees, with benchmarks of growth projected for sales and profits at specific future dates. Whether or not these targets are reached depends upon the performance of sales and other marketing personnel.

Sales management and financial results are closely related. Financial results are stated in terms from two basic accounting formulas:

Sales – Cost of Sales = Gross Margins

Gross Margins – Expenses = Net Profits

Sales management influences the "numbers cranked into these formulas". Sales, gross margins, and expenses are affected by the caliber and performance of sales management, and these are the major determinants of net profit. The cost-of-sales factor cannot be affected directly by sales management, but it can be affected indirectly since sales volume must be large enough to permit maintenance of targeted unit costs of production and distribution. Periodically, these formulas become the company operating statement and used by the board of directors, and by stockholders, in appraising top management's performance. Moreover, top management uses these formulas in judging the effectiveness of sales management.

Sometimes, sales executives stress sales volume while neglecting gross margin and expenses. In these instances, eventhough sales volume increases, gross margin declines, expenses increase proportionally, and net profits are reduced. If these conditions prevail for long, profits disappear and losses prevail. Often the best treatment for this situation is to shrink sales volume and expenses. Even with a lower sales volume, skilled sales management can reduce expenses and raise gross margin sufficiently to convert a loss into profit.

3. Continuing Growth

It is also possible to err in the opposite direction, to overemphasize high gross margins and low expenses-because of a preoccupation with percentage relationships. Percentages of gross margin and expense are important, but sales management should be more concerned with rupee relationships. The important net profit is rupee net profit, not the percentage of net profit. It is small consolation to have satisfactory gross margin and expense percentages, if total sales volume and net profits are inadequate. Sales management should worry more about sales and profit rupees than about percentage relationships.

The company maximizes its net profits, if it obtains an optimum relationship among the four factors. Sales management, both in its planning and operating roles, aims for an optimum relationship among the three factors it can directly affect : sales, gross margin, and expense. Sales management works with others (such as those in charge of production and advertising) to assure that sales volume is sufficient to attain targeted cost of sales, the fourth factor.

CHECK YOUR PROGRESS – 3

State the objectives of sales management.

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1.8 ROLE OF SALES MANAGEMENT IN MARKETING

As already discussed the definition and meaning of sales management refers to the direction and control of salesmen. The planning, selection, training organizing, supervision, compensating and co-ordination of the sales force all these come under sales management. It is a part and parcel of marketing management.

On the contrary, the term "marketing" refers to the business activities through which ownership of products is transferred from the producer to the consumers. The marketing problems are many and have been carefully analysed, described and interpreted so that producers and consumers alike may be benefited to the maximum extent. Consumers want to pay the lowest possible price while producers and middlemen or marketing men strive for the maximum possible profit. For this the cost of production is to be reduced considerably. Marketing includes sales management as well as other important functions.

Marketing Management refers to many activities of marketing, i.e. pricing, promotion, physical distribution, product and sales personnel management. Marketing management is a broader term which covers sales management and marketing functions. The sales manager is a subordinate of the marketing manager. He advises the marketing manager on the areas of sales force management in particular, and on other marketing functions in general when specifically requested to do so by the marketing manager. "Sales management effort may be exerted in the direction of securing, maintaining, motivating, supervising, evaluating and controlling an effective field sales force". The modern concept of sales management revolves around the development of human resources.

Selling under the Marketing Concept

The marketing concept places emphasis on customer-orientation and profitability of the operations. It does not in any way reduce the concept of selling job, say of the sales force. The job remains basically the same. The important difference is that selling and the sales effort become a part of the overall marketing effort of the organisation. Selling is still concerned with the "Order-getting" aspect, and sales management with the managerial task of selecting, training, motivating and controlling salesmen, but the emphasis has changed from sales volume to profitability. It has become necessary for salesman of today to become profit-conscious rather than sales volume conscious. It is the duty of the sales manager to see that the salesmen appreciate how they fit into the total marketing activity and contribute to the strength and health of the whole company.

In management language, the sales manager of today performs both a staff and a line function. As a staff planner, he will participate with other assistants to help the marketing director develop marketing objectives and plans, particularly being aimed with specialized knowledge of selling and the requirements of the market. He will perform the line responsibility in effecting sales through the sales force in the execution of such plans. In fact, the marketing effort would help the selling effort. For example, marketing research would supply the necessary information so that the salesman could be armed with knowledge of the psychological and sociological influences affecting a customer and leading him to decide in favour of one product as against another. Factual information regarding product characteristics considered relevant and important by the customers would again simplify the job of selling. This information can result in advertising themes and messages being developed around such psychological considerations so that there can be an integration of the total selling effort made by both the sales force and the mass media communication through advertising.

Take another element of the marketing mix, namely product planning. It is not the function of product planning to dictate what will be sold by the salesman. More appropriately, it is the function of product planning to develop a product in consonance with the customer's preferred characteristics as communicated by both the sales department and the marketing research activities. Thus the objective of product planning is to provide the sales personnel with the most effective tool in selling – a quality product suitable to the needs and wants of the customer. It provides the salesman with what he is looking for, namely, a better product to sell, a newer product to sell, a different product from the others and, therefore, easier to sell.

Thus the recent emphasis on marketing and marketing concept as well as the elements of the marketing mix should not result in the overlooking of the importance of the role of the selling. Whilst emphasizing the importance of marketing, one is inclined to stress that marketing is aimed at satisfying the needs of customers, whereas selling is concerned with turnover/volume. This would be an exaggeration as it is the duty of a good salesman to aim at supplying satisfaction to the consumer in terms of his needs. Whatever emphasis is placed on marketing, it cannot be overlooked that in the ultimate analysis, sales are the end results of marketing and this requires the participation of the sales force and of advertising i.e. the selling effort.

Take again the example of product planning and development which is an important function of marketing. Whilst this cannot be disputed, it is equally important to remember that selling particularly industrial selling, represents an important route for transmitting research information as well as for improvement in the manufacturing techniques or purchases. Industrial salesman, for example, constitutes an important source of information which might result in further product development. Apart from this, once a new or improved product has been manufactured, unless it is communicated and that is done through the sales force and advertising the advantage of contributions of the research and design teams cannot be enjoyed. Merely because a product is excellent, it does not ensure its sale. Inertia and resistance to change have to be overcome and the change process speeded up to make them buy newer, better products. This is where again the selling effort plays a vital role.

Thus the modern salesman, unlike the traditional one, is not merely concerned with moving the products. The hard-hitting aggressive salesman is being replaced by the soft-sell, or the salesman with a softer touch but with greater breath. Instead of merely pushing product, the modern salesman is a part of the complete marketing activity and the distribution pipeline. His thinking must start with the customer's needs and effort and must terminate with a rendering of total service. Mere product knowledge has become insufficient. It must be supplemented with consumer knowledge.

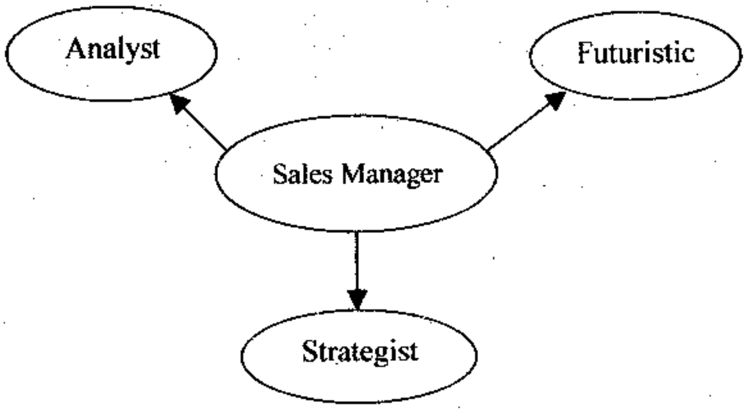
Selling and Distribution

The distinction between selling and distribution should also be borne in mind as these two terms are very often confused and treated as the same. In case of articles which are scarce, it may be difficult to practice salesmanship. For instance, during the war and after, due to shortage, manufacturers had to ration their products to customers irrespective of the latter's needs. This was purely distribution and not selling even in case of scarce commodities, salesmanship should not be ignored for the same goods are bound to the further to glut the market.

Role of a Sales Manager

The sales manager plays an important role in the overall objectives of sales department. In this context the sales manager has to perform his duties to make marketing management a crucial function in the organisation. The sales manager performs the following. These are fundamentally three.

1. **Futuristic:** Today's sales manager must analyse the future sales in the current trends in marketing challenges and how to overcome these challenges to make more sales in not only today's market but also in tomorrow's competition. In view of thi,s the sales manager should be able to analyse the future for his product, or sales.



2. **Strategist:** Futuristic function does to mean that the sales managers are day dreamers. But they should be a visionaries, tacticians and strategists in their roles to understand their strategies which helps then in pushing the sales at different cessions and consumer information on market. So he/they must be strategists in their role in marketing.

3. **Analyst:** A sales manager should therefore analyse the market situation even in the light of LPG context. Because in many MNC's are existing. In view of this the sales manger should analyse the needs and requirements of the consumers and go in that i.e., direction in the way he can achieve the marketing benefits. As a good analyst he can plan good market for their potential customers as he does with the existing one.

CHECK YOUR PROGRESS – 4

What is the difference between sales and distribution?

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1.9 SUMMING UP

In today's competitive environment the sales personnel should be capable of the professional approach to sales management. Sales executives are accountable to soc... to the prospective and existing consumer and to their (Organisation) company. Sales managers make major contribution to achieve the general objectives of sales manag..ment continuing growth, sales volume and contribution to profits. The performance of sales and other marketing personnel influences sales, gross margin and expenses, which in turn affect the net profit. Some organisations emphasise on the importance of achieving maximum sales volume. Even with a lower sales volume, professional and skilled sales management can reduce expenses and raise gross margin sufficiently to convert a loss into a profit.

The duties of a sales manager include planning of sales, estimating demand, budgeting and forecasting sales. Undertaking the sales organisation, setting sales targets or quotas, motivating, compensating and leading, analyzing sales cost volume and profits measuring and enhancing the sales force and monitoring the marketing environment. Moreover, they have to coordinate with other marketing functions while implanting the overall marketing strategy.

The major challenges/trends affecting sales management include rising customers expectations, intense foreign competition, increasing buyer expertise, revolutionary developments in communication and information technology, influx of growing emphasis of controlling costs and lady entrepreneurs into sales career.

1.10 CHECK YOUR PROGRESS : MODEL ANSWERS

1. The sales is basically managing the sales force/people which includes the management process of planning, organizing, staffing, directing and controlling of organisations selling function within the context of marketing.

2. The importance of Sales Management must be clearly spelt out and should be in line with the company's marketing strategy Sales management is designed to achieve overall objectives of marketing department i.e., through particular sales executives as a team. The sales department can be made effective with the following:

   a) Second Business Planning, b) Direction and Control of Sales, c) Creation of Goodwill, d) Consumer Satisfaction and Delight, e) Win over the Competition, f) Setting up of Sales Organisations, g) Dynamism and Energy of Economy, h) Integration of Social and Business Objects, i) Acts as Coordinator, j) Increase foreign trade (Exchange earnings), k) Contribution towards achieving the Original Objectives.

3. There are three general objectives of sales management. They are: a) Sales Volume, b) Contribution to Profits, c) Continuing Growth.

4. The distinction between selling and distribution should also be borne in mind as these two terms are very often confused and treated as the same.

1.11 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. Explain the objectives of sales marketing?
2. What is selling? Explain its importance?
3. State the role of sales management in marketing management.

II. Answer the following questions in about 15 lines each.

1. Define sales management with examples.
2. State the characteristics of sales management.
3. Describe the importance of sales marketing?
4. Explain the origin and role of sales marketing?
5. What is the role of a sales manager?

1.12 RECOMMENDED BOOKS

1. Eugene M Johnson : **Sales Management**
2. Richard R Still, Edward W Cundiff, Norman A P Govoni : **Sales Management**
3. Philip Kotler : **Marketing Management**
4. JC. Sinha : **Sales Management**

1.13 GLOSSARY

Advertising : Any paid form of non personal presentation and promotion of ideas, goods, or services by an identified sponsor.

Sales Manager : Is an executive who looks after the sales departments' functions.

Marketing : The business activities through which ownership of products is transferred from the producer to the consumer.

UNIT – 2 : FUNCTIONS OF SALES MANAGEMENT

Contents

2.0 AIMS AND OBJECTIVES

The main aim of this unit is to introduce the functions of sales management and how they recruit, train, supervise, and compensate its employees i.e., sales people.

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

- understand the concept of sales management;
- explain the functions of sales force;
- know the recruiting and selection procedure for its sales force;
- discuss the training methods;
- explain the compensating plans for sales force; and
- describe the need and objectives monitoring sales force.

2.1 INTRODUCTION

The industrial revolution generated specialized activities in the area of business. The production no longer remained to twin action of marketing because of large-scale production and world-wide marketing. Production is not being guided by the existing market but by the untapped markets and uncovered by the marketing people. New and fresh demands are created by them. The specialized activities of marketing led to the establishment of several departments. Advertising, sales promotion, marketing research, distribution, pricing, merchandising, packaging, transporting, communicating – these were the several activities which acquired special significance in the world of business.

Production and the marketing activities were divorced from each other. Middlemen came in between the producer and the consumers. Wholesalers, Import-Export houses, Retailers, and several other channels were developed for the smooth and quick distribution of production. Advertising, research, merchandising, transporting etc. became complex and required a proper management of the sale of products. The meaning, objectives, planning, recruitment and selection, training, organizing, supervision, compensating and coordinating are discussed to give the reader a broader idea of sales management.

2.2 CONCEPT OF SALES MANAGEMENT

Sales management is solely concerned with the direction and control of the sales force. Sales management refers to the management of sales and sales force. Sales management refers to the management of sales personnel, though sometimes, in a broader sense, it covers advertising, distribution, pricing and product designing, all elements of marketing management. It may be called sales force management. .The management has manifold responsibilities. Controlling and guiding the sales force is one of the important activities of management.

Sales management is already mainly to the management of the sales department which is an important organizational unit of management. The sales force may communicate effectively with the other departments of the company, if it is a well-planned organisation and has an appropriate distribution network.

The industrial revolution generated specialized activities in the area of business.

2.3 FUNCTIONS OF SALES FORCE MANAGEMENT

Sales force management has three dimensions like planning, implementing and evaluating the activities of the sales function. The process starts with sales planning and budgeting, followed by fixing up of sale territories and setting quotas for the salespeople.

In order to meet the planned targets, we must recruit and select the sales people, train them properly, supervise their work, compensate them and evaluate their performance against the target set.

Sales force management is a part of marketing management and planning which itself is a part of a strategic corporate planning. Sales force planning is a component of promotion planning in which we also have other components like advertising, publicity and sales promotion. The strategies adopted in sales force management depend on the promotion mix.

The overall marketing planning also affects company's strategies of sales force management. A company may increase its sales volume by expanding its market geographically or by penetrating the existing market intensively. In both the cases, there will be a different set of sales force management strategies.

Some of the important functions of sales force management are:

- recruitment and selection of sales force;
- training of sales force;
- compensating and motivating the sales force;
- supervising the sales force;
- evaluating the sales force.

CHECK YOUR PROGRESS – 1

Explain the functions of sales force management?

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2.4 RECRUITING AND SELECTING SALES PEOPLE

At the heart of any successful sales force operation is the recruitment and selection of good sales people. After the management has decided on needed traits, it must recruit sales people. The human resources department looks for applicant by getting names from current sales people, using employment agencies, placing classified ads, and contacting college students. Another source is to attract top sales people from other companies. Proven sales people need less training and can be immediately productive.

Recruiting will attract many applicants from whom the company must select the best. The best selection procedure can vary from a single informal interview to lengthy testing and interviewing. Many companies give formal tests to sales applicants. Tests typically measure sales aptitude, analytical and organizational skills, personality traits and other characteristics.

Selection Process

The selection of unskilled and semi-skilled workers is not a very difficult task but it becomes necessary to use sophisticated selection procedures for the selection of supervisory and higher level personnel and for selection of personnel for special jobs. Now the selection procedure differs from one organisation to another and also within the same organisation depending on the situation and needs of the organisation as well as the level for which selection is done. Moreover, the selection process to select lower level workers is least expensive; while the selection of top-level employees would be much more expensive because it requires the use of complicated selection tools.

The following procedure can be considered as a systematic **selection procedure** for the selection of middle level personnel.

1. Reception of applicant	2. Application form	3. Selection test
4. Interview	5. Inspection of past career	6. Primary selection
7. Final selection	8. Middle check-up, and	9. Placement

1. **Reception of Applicant:** The selection process begins with the inviting of applicant. The candidate will form his first impression about the firm by the reception he receives and the

saying that '*the first impresson is the best impression*' is too familiar to be mentioned. There may be a receptionist to receive the applications, who will gather certain basic information about the candidate by asking the applicant short questions. This can be considered as a preliminary interview, which a receptionist only takes to decide whether to issue application form to the applicant. Such an interview reduces the work of personel officer. Certain number of inefficient candidates may be eliminated at this stage. There may be a well-furnished reception hall with a number of magazines, newspapers etc.

2. **Application Form:** It is an application form, which is composed in a manner so as to gather all the relevant information about the candidate. The application form helps the interviewer in interviewing the candidates. It should not be too long and complicated. Asking irrelevant questions in the application form is not going to benefit the applicant or the firm in any way. Generally the application form covers the educational qualifications, experience, present salary drawn and references. Other items on application forms vary considerably from one organisation to another organisation and from job to job depending upon the requirements of an organisation and also the job. The interviewer gets preliminary information from the application form, which helps him to analyse and ask further questions.

3. **Selection Tests:** The basic assumption underlying the use of tests is that individuals differ in their job-related abilities and skills, and these skills can be accurately and adequately measured for comparison. Various types of tests such as performance tests, intelligence tests, attitude tests, personality tests, psychological tests etc., are used in the selection of personnel depending upon the type of job and the level in the organisation. Many companies, particularly, the public sector enterprises widely use written test for the selection of the staff. At this stage also certain number of candidates, with poor performance in the tests, are eliminated.

4. **Interview:** Nowadays, selection of any employee without his interview can rarely be observed. Interview is used so much widely that ordinarily recruitment or selection is interpreted as interview. Every employer wants to see and to talk with everyone, who is being considered for a job. The interview has been described as '*the conversation with a purpose*'. The main objective of the interview is to obtain additional information over and above that is given in the application form and to compare the information obtained in interview with the information given in the application form so as to find out any serious inconsistencies that may exist.

5. **Inspection of Past Career:** Mostly in the application form itself the name of the former employer and references of one or two reputed persons are given. The validity of information given by applicant can be judged by getting reports about him from his past employer. The adverse report of the former employer should be considered thoughtfully. However, it should not be forgotten that it can be periodically written favourable report will increase the possibility of selection.

6. **Primary Selection:** If a candidate is found to be proper after the above mentioned long procedure, he will be selected on probation period. During this period, a candidate gets the real on-job experience.

7. **Final Selection:** If the performance of a candidate, during the probation period, is found satisfactory, he is assigned a particular job or duties. It should be remembered that the final selection is the work of a line-manager and not of the personnel manager. Personnel

manager acts only as an adviser; and authority regarding the final selection rests with the line manager, because, after all, he is the person who is responsible for the work of a new recruit.

8. **Medical Check-up:** Medical examination can be done before or after the selection process is over. Physical fitness is highly necessary for many jobs. For example, in a coal-mine perfectly fit physical condition of the laborer is a must because of the hazardous working conditions. Medical examination is helpful to both parities-the-employer and the employees. Sometimes, the candidate can find out his suitability for a particular job by medical examination. The advantage to the employer is obvious. If the employee is perfectly fit, productivity will increase, rate of absenteeism and labor turnover rate would decrease. Therefore, most of the industrial units nowadays insist upon medical examination.

Thus, the selection process ends the final stage in the process of recruitment, i.e., placement takes place.

CHECK YOUR PROGRESS – 2

Explain the selection procedure for sales personnel?

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2.5 INDUCTION AND PLACEMENT

When a new recruit is formally assigned his duties and educated about his duties the selection process comes to an end. The general tradition is such that the supervisor the immediate boss of the new recruit takes him to the place of work and explains his work. He also informs him about the history, development and traditions of company. He also explains the opportunities for promotion and the promotion policy of the company. The new recruit may also be introduced to his colleagues. The necessary facilities such as bathroom and canteen would also be shown. The hours of work time of recess are also made known to the new recruit.

The selected employee, on being placed, is inducted in the industry by being acquainted with the overall organisation structure, aims and objectives, his place in the organizational set-up, his reporting authority, his responsibilities etc. He is giver of the organisation. He is introduced to his superiors, peers and subordinates made comfortable, and put at case. No employee should be asked to do his job without proper induction.

2.6 TRAINING METHODS FOR SALES FORCE

There is a wide variety of training methods. A company has to choose either one or generally a combination of these methods. The methods chosen should be consistent with the training needs and the contents of the training programme. Thus, if a company wants to inform what its policies on holiday plans, just the lecture method followed by audio-visual presentation would be sufficient. Training in sales techniques may require demonstration and role-play method. The methods chosen must communicate the desired contents in the most effective manner.

There are two methods in vogue for training sales representatives, (i) On-the-job methods, (ii) Off-the-job methods.

On-the-job methods

Here, the principle of learning by actually doing is used.

On-the -job training

Here, the sales representative has to accompany the sales supervisor and perform the selling job in his presence. He is made aware of the problems in practical situations, and is trained by the supervisor by suitably briefing before and after each call. Sometimes, the supervisor himself demonstrates what he preaches. He gives oral and written explanations to the sales representative being trained. Tape record may be used to give voice training.

Demonstration and examples

The supervisor does the detailing, and explains later why, how, and what he is doing. Demonstrations are supported by lectures, visuals, discussions etc.

Off-the-job methods

Here training is not on the field. It may be conducted in a classroom of a company's training center. An outsider organisation may be involved to impart such training.

Lectures

These are delivered on specific topics by qualified trainers/instructors. It is the most widely used method to teach theory and concepts. The lectures are supplemented by group discussions, question-answer session, film shows, case studies, role-plays etc.

Conference method

According to a well-decided plan, a conference is held to discuss problems and to pool different ideas to tackle these problems. Buzz sessions divide participants into small groups. These reports back to the whole groups with their inferences and questions. It makes the participants learn from each other and to reduce dogmatism. They also help in modifying attitudes and in developing conceptual skills.

Seminar

Here a paper is presented on a topic, which is later discussed.

Case study

A real or imaginary situation is presented to a group. The group is asked to identify problems and discuss alternatives to tackle them. Each alternative is analysed to arrive at the optimum decision. The trainer only guides the discussion. It promotes analytical thinking and develops problem-solving ability. This method is more suitable for supervisory/managerial training.

Role playing

Here the trainees have to enact a role, which is given to them, e.g., one trainee becomes a medical practitioner and another trainee details before him. The role players have to quickly respond to the emerging situation. It is a method of human interaction.

Programmed instruction

It has two important components; they are:

i) Step-by-step series of bits of knowledge, each bit/unit building upon the previous ones.

ii) A mechanism of presenting the series and to check trainee MR's knowledge. Programmed learning is done through a manual, or independent worksheets. It is primarily used to teach factual knowledge such as Pharmacology, Biology etc.

Training sales force

Many companies used to send their new sales people into the field almost immediately after hiring them. They would be given samples, order books, general instructions. To many companies, a training program translated into high expense for instructors, materials, space and salary for a person who was not yet selling, and loss of sales opportunities because the person was not in the field.

Training programs have several goals. Sales people need to know and identify with the company, so most training programs begin by describing the company's history and objectives, its organisation, its financial structure and facilities and its chief products and markets. Sales people also need to know the company's products, so sales trainees are shown how products are produced and how they work. They also need to know about customer's and competitor's characteristics so the training program teaches them about competitor's strategies and about different types of customers and their needs, buying motives and buying habits. As sales people must know how to make effective presentation, they are trained in the principles of selling. Finally, sales people need to understand field procedures and responsibilities. They learn how to divide time between the active and potential accounts and how to use an expense account, prepare reports and route communications effectively.

Executive and Evaluation of Sales Training Programmes

Executive of a training programme is not just a matter of pedagogy. It is also concerned with administrative skill of planning the programme and housekeeping. We have to consider what our training philosophy is, what our infrastructure for importing the training is, how we schedule our training programmes and what pedagogic tools we use.

Training Philosophy

Training brings about a change in behaviour. When the behaviour changes on account of training, so that a standard response is generated, it constitutes the philosophy of training.

Another philosophy attempts to generate situation-related response by developing analytical skills of the trainees. Here the response is individualistic.

The philosophy chosen depends upon the nature of the organisation. Standard-response selling is more routine. Analytical skills development training is more appropriate for highly marketing-oriented organisation operating in competitive environment with a fairly complex product line. Approach towards career advancement in the sales department also influences the choice of the philosophy. Those with analytical skills are better suited to carry out the higher responsibilities of an executive position in future.

Evaluation of training programme

Evaluation measures how effective training was. A training programme, as it costs-time, money and effort, this investment must pay back. It is, however, not so easy to measure how far the programme contributed to the effectiveness of the individual. Yet the effectiveness of the programme itself can be measured. What we can do is to match the aims expected and the results achieved. But such follow-up is mostly ignored. Results may not be immediate. They may show later on. We can compare the performance levels of those who are trained and those who are not. It will be a great help in evaluation. But sales results are not just because of training. There are many other factors at work. How to isolate these is a moot point.

Yes, a programme can be measured for effectiveness by giving a written examination to candidates. Trained persons are put in the field and are observed by experienced supervisors. They record the difference, if any, after training. They also let the company know how far the trainee is applying the knowledge acquired in the training programme to the field situation. Customers can be questioned about the effectiveness of the persons.

All these approaches are not foolproof. Evaluation is done both during the course of the training programme, and after it is over. Mostly retention tests are used. Role-play can be used to test communication skills. Ratings can be given during group discussions, case-analysis and role-plays. Though subjective, these ratings provide incentives to the trainees. It is also necessary to evaluate the trainers' performance. This is, however, a debatable issue. Some feel that trainees lack the competence to evaluate the trainers. Still programme comment sheets arc fairly common. Some companies ask the feedback from the trainees after a certain period of time, when they return to their jobs.

CHECK YOUR PROGRESS – 3

What are the methods available for training the sales force?

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2.7 COMPENSATING SALES FORCE

To attract sales people, a company must have an appealing compensation plan. These plans vary greatly from industry to industry and form company to company within the same industry. The level of compensation must be close to the going rate for the type of sales job and needed skills. To pay less than the going rate would attract too few quality sales people, to pay more would be unnecessary.

Compensation is made up to several elements like a fixed amount, a variable amount, expenses, and fringe benefits. The fixed amount, usually a salary, gives the salesperson some stable income. The variable amount which might be commissions or bonuses based on sales performance rewards the sales person for greater effort. Expense allowance repays sales people for job related expenses for undertaking needed and desirable selling efforts. Fringe benefits such as paid vacations, sickness or accident benefits, pension and life insurance, provide job security and satisfaction.

Management must decide what mix of these compensation elements makes the most sense for each sales job. Different combinations of fixed and variable compensation gives rise to 4 basic types of compensation plans – straight salary, straight commission, salary plus bonus and salary plus commission. The sales force compensation plan can both motivate sales people and direct their activities. For example, if sales management wants sales people to emphasize new account department, it might pay a bonus for opening new accounts. Thus, the compensation plans should direct the sales force towards activities that are consistent with overall marketing objectives.

Types of Compensation Plan

We have already seen the four components of the compensation plan. These can be combined in several different ways. Let us ignore the reimbursements and perquisites. What remains essentially leads to three basic compensation plans – straight salary, straight commission and a combination of salary and the variable element.

Straight Salary Plan

In this plan, a salesman is given a fixed sum as a salary to regular intervals of say a week, a fortnight or a month irrespective of his performance. It is compensation for the services he rendered during this period. It is one of the simplest methods, and very popular. Of late, however, its popularity as the sole salary plan is on the wane. It works fine for a company marketing industrial products. It is not so suitable for a fast moving consumer goods (FMCG) company. These days most firms combine straight salary with a variable element. This plan is most logical. Sometimes results of the sales job are not visible immediately. A salesman may be selling educational or technical products. In such situations, this is a good plan. Here much more than selling, a salesman has to perform non-selling tasks of advice and counselling.

Order-takers, trade salesmen, distributors' salesmen are put on straight salary plan. This plan allows management to exercise financial control. It is most accommodative plan it elicits sales people's co-operation. It provides a stable income to sales persons. The supervisor schedules and plans the itinerary. The sales persons are *relieved* of this burden. Sales persons understand the plan very well on account of its simplicity.

While administering straight salary, the relative performance is considered, which, however, is difficult to measure. Management has to be clear what actually it considers performance, and how it defines its degrees. Such appraisal may allow management to develop performance-linked salaries. One method is to consider the ratio of selling expenses to the total sales. This is, however, a too cost-oriented approach. Appraisal should be based on job description. Sales persons must be appraised on several dimensions – sales targets, cost budgets, goals assigned for each duty. Final appraisal is the sum of these individual ratings. Average persons are entitled to draw average salary. We can reward above-average persons, and pay less to below-average persons. Appraisal should be reviewed, continuously, and corrections made according to the improvements or decline related to performance.

Straight Commission Plan

Pay should be linked to productivity. This is the basis of the commission plan. Here there is a direct link between the remuneration and the sales performance. In pure form, this plan is also as simple as the straight salary plan. Commissions can increase with increase in sales, and decrease with decrease in sales. There can be different products, product categories, customers served, and seasons in which sales are generated. Such elaboration makes the commission plan complex.

Straight commission may be paid expecting first the sales persons to spend their own money. Advances may or may not be given. Sometimes, commissions are paid and also the expenses of job. Here also advance can be made or not made against earned commissions.

Straight commission plans are not very popular. Such plans are useful when selling is more important than non-selling tasks. Orders are the most sought after thing and such plans are common in book trade, hardware, textiles, wholesale medicine; insurance policies, shoes, securities and so on. Straight commission plans are also popular with office furniture and equipment companies.

A person working on commissions is not, however, under the total control of the company. Company simply send orders. Their reporting or territory servicing is very poor. They employ high-pressure selling techniques. Unless differential commission system is used, die sales persons tend to promote low-margin easy-to-sell products rather than high margin deloucious Uo-cell products. Correction through differential system means more record keeping. Checking records is a difficult task. The system may cause a sense of insecurity amongst many. Motivating them is quite a challenging task.

On what basis commissions must be paid is to be decided. It depends on the policy of the company. Sometimes it is the sales volume. Sometimes it is on collections. Sometimes, commissions are paid on dispatches or billings, or payments. Commissions can be paid on gross margins, or net profits.

Combined Salary and Incentives

Majority of compensation plans are combinations of salary and commission. Here a basic *salary* provides the sales person the basic necessities of life. Commission in addition makes him enjoy and is to maximize the advantages of both, and minimize the disadvantages. As we know only the salary means no incentive to put in more work. Only the commission means weak control over the sales force. When these two are wisely mixed, it seeks to attain both control and motivation. The real benefits come from how the management actually administers the plan. If not properly executed, we may come across the weaknesses of both the plans put together.

These plans generally are favoured as they are motivational and provide a sense of security. Management can direct the sales force even for the non-selling tasks like reporting. The plan has more flexibility as it has both the fixed and variable components. Management can change the territories, which is very difficult in the straight commission plan. Combination plans have certain demands. They involve more clerical work, more record-keeping and complications. Sometimes the commission element is so low that it is not an incentive sufficient enough. When incentives are increased, the salesmen tend to neglect those activities for which there is no direct payment. Thus the ratio between the basic salary and the incentive component is critical.

Deferred Wage (Bonus)

This is an altogether different concept, it is considered in India as a deferred wage – wage that is not paid at the moment but is deferred to a future date. Another school of thought considers bonus as a part of profit. Bonus payment is governed by payment of Bonus Act. Even when there are no profits from which bonus can be paid, organized work force claims bonus as a matter of right once a year. Here, bonus becomes ex-gratia payment. Bonus thus becomes an additional financial reward Bonus can be linked to productivity and promotional activity. Bonus appears with any payment methods in combination eg. Companies pay 20% of employee's annual income or two months salary as bonus.

Fringe Benefits

These constitute almost 25-40% of the compensation package. They have no relationship to job performance. Some are statutory benefits like ESI subscriptions, contributions on the part of employees and workers' compensation. Most fringe benefits are, however, voluntarily introduced to be considerate to workers and to be competitive in the industry. Fringe benefits lack the motivational force. They take care of safety and security needs. Some take care of prestige needs like giving a corporate American Express card, contribution to membership of a prestigious club, subsidized canteen facility sponsored by companies etc. Some fringe benefits which are given to all irrespective of performance help prevent job dissatisfaction, but do not necessarily lead to job satisfaction.

Companies are becoming more and more innovative in introducing a wide variety of fringe benefits. Some fringe benefits are related to time like paid leave, maternity leave, study leave etc. Some are part of retirement, including the golden handshake at the time of voluntary retirements. Some are related to insurance cover and medical needs. Some fringe benefits are in the form of organizational contributions. Miscellaneous benefits include car and car allowance, laundry allowance, over time allowance, entertainment allowance, secretarial services allowance, housing, tax counselling, child care, servant allowance, social events programmes, transfer allowances etc.

Cafeteria approach to fringe benefits means a combination of statutory benefits and traditional benefits. Out of the rest the employees select a few based on credit points. Employees can then choose the benefits which suit their needs.

CHECK YOUR SPROGRESS - 4

State the compensation plans for sales force.

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2.8 SUPERVISING SALES PEOPLE

New sales people need more than a territory, compensation and training. They need supervision. Through supervision, the company directs and motivates the sales force to do a better job. Directing sales people depends on everything from the company's size to the experience of its sales force. Thus companies vary widely in how closely they supervise their sales people.

Many companies help their sales people in identifying customer targets and setting call norms. In addition, companies may specify how much time their sales force should spend prospecting for new accounts. Companies may also direct sales people in how to use their time efficiently. One tool is the annual call plan that shows which customers and prospects to call on which months and which activities to carry out. Activities include liking port in trade shows, attending sales meetings and carrying out marketing research. Another tool is time and duty analysis. In addition to time spent selling, the sales person spends time travelling, writing, and other administrative practices.

Supervision

Supervision method is also extensively used to control the sales force. Its ultimate aim is performance improvement. A Head of the Department is a link between the sales force and management. He has to build up good rapport with his working team. He observes the working of sales people. He reports about their activities to the company. He suggests how to overcome the problems. He clears the role ambiguity. He informs the sales people about the changing nature of environment and company policies. He solves the actual problems faced in the filed. Hence takes suitable action on behalf of the management to align the standards and actual performance.

What amount of supervision is called for? Perhaps neither too much nor too little. It is difficult to spell out the precise quantum of supervision. But supervision is necessary when sales turnover rate is high, customer dissatisfaction is more, order-to-sales ratio is low, total calls made are less, sales expenses to sales ratio is high. A low morale also indicates the need to have effective supervision. Though the above mentioned factors show something wrong with supervisory method, it cannot, however, be solely attributed to faulty supervision. Then; may be other factors. Cultural change in the organisation also calls for a review in supervision. An organisation with a highly educated sales force cannot strictly adhere to the traditional autocratic supervisory style. Supervisory style thus depends upon who are being supervised.

Supervision can be exercised by office persons such as branch managers or district managers or field supervisors. In other words, executives can be assigned and additional responsibility of supervision or a specialist supervisor can be appointed. A small company exercises supervision through its top executives or their assistants. In a decentralized company, a branch manager or district manager undertakes (the responsibility of supervision. It may be noted that field supervision is only one of the functions of the branch manager. He has to look after many other activities and so tend to neglect supervision.

Sales supervisors are mainly drawn from the field sales force. They should be able to act as a friend, philosopher and guide to the sales persons. They should be able to train the deficient persons. They should be able to serve the interests of both the management and the force. They should have good HR skills. They should have an ability to deal with the problems faced in the field. They may be expected to do some selling themselves. In so doing, they act as role models to the salesmen. This job is quite an dangerous/difficult task and does not command commensurately high salary, but still may aspire to the supervisory positions, which can be used as a launching pad for the higher level jobs.

Motivating sales people

Some sales people will do their best without any special urging from management to them, selling may be the most fascinating job in the world. But selling can also be frustrating for e.g. putting rigorous effort on product selling, but due to high prices and complex product market may not be accepting. Also when sales people travel long distance family members are sick; due to lack of motivation and required training. Sales people often work alone, and they must sometime travel away from home. They may it may also be face aggressive competing sales people and difficult customers.

They sometimes lack the authority to do what is needed to win a sale and may thus lose large orders they have worked hard to obtain. Therefore, sales people often need special encouragement to do their best. Management can boost sales force morale and performance through its organisation climate, sales quotas and positive incentives.

Organisation climate describes the feeling that sales people have about their opportunities, value and rewards for a good performance within the company. Some companies treat their sales people as their prime movers and allow virtually unlimited opportunity for income and promotion. Not surprisingly, in companies that hold their sales people in low esteem, there is high turnover and poor performance. In those companies whose sales people are held in high esteem, there is less turnover and higher performance.

Many companies motivate their sales people by setting sales quotas which state the amount they should sell and how sales should be divided among the company's products. Compensation is often related to how well people meet their quotas. Companies also use various positive incentives to increase sales force effort. Sales meetings provide social occasion, breaks from routine, chances to meet and talk with company boss and opportunities to air feelings and to identify with a larger group. Companies also sponsor sales contests through the sales force to make a selling effort above what would normally be expected. Other incentives include cash awards, trips and profit sharing plans.

Sales meetings and sales contests

A man works beyond the normal call of duty if there is enough motivation. Achievement oriented individuals have a desire to excel. They exert more to get a sense of achievement. Majority of sales persons, however, need motivational programmes, especially where their social needs are fulfilled they are also conscious about their career growth. Sales meetings and sales contest are such motivations tools.

When we perform any job, we expect to derive satisfaction of it, but it is equally true that if there is job satisfaction, it leads to a better job performance. But high degree of satisfaction may also lead to lethargy. Several companies, therefore, plan programmes which make the sales persons strive towards higher goals. May be, there is some amount of job dissatisfaction. That by itself may lead to improvement in performance.

Mostly, efforts are made to concentrate on job performance, rather than on job satisfaction. Sales meetings have communicative as well as motivational value. Sales job is mostly a field job. Meetings provide a forum to interact with the employer, ideas and views can be spelt out. It also provides stimulation to climb the ladder.

2.9 SALES MANAGEMENT PROCESS

Planning, organizing, staffing, directing and controlling constitute what is known as the management process. Some authors put it into three basic elements -- planning, integrating and controlling. It is not necessary to carry out the managerial functions of planning to controlling in a linear sequence. It is in fact a circular process.

All decisions as to what is to be achieved – standards of performance –are set in the planning function. Planning provides a direction to the sales function. The strategies guide us as to how we can travel on the direct path.

All the performance standards are to be achieved through the sales organisation. The capability of the sales organisation itself affects the standards set. Sales plan and a derived sales programme must be co-ordinated with the sales efforts. To begin with, we exercise the first three aspects of control in the dynamic control function. Management brings about the necessary changes in the planning, organizing, staffing and directing process and their co-ordination with each other.

Setting standards

We have taken into account the nature of the selling task to set these standards. In short, it calls for sales job analysis. We can get objectives, duties and responsibilities and other aspects form the job analysis. Some companies have to obtain more and more business from the existing customers. Some have to obtain sales growth from new customers. Sales standards in both these situations will be different. Promotion strategy also affects the setting of standards. We have to formulate standards for the key result areas (KRAs) and activities carried out under each KRA.

A bank manger must be evaluated in terms of deposit growth as well as growth in advances. A computer sales person is evaluated in terms of sales and advice he renders. A credit card company measures both the growth in the number of cards in circulation and the costs spent per card. Thus setting performance standards calls for a deep understanding of the market. We have to consider the total market or sales potential and the contribution that each territory could make. Customer classification should be done properly in terms of their potential. Selling expenses necessary to achieve these standards must be taken into account.

Sales plans are revised keeping in pace with the changing environment. Sales plans are revised for their suitability to the changed environment. We have to correct the plans depending upon the capability of the sales force and their working condition. Performance standards must be aligned with the overall business environment and corporate plan.

Sales objectives

Both the organisations has some specific sales objectives which are derived from the overall marketing objectives. Performance standards are so set that we realize our sales objectives. Thus we can say that to have an additional sale of Rs. 100 crore, we have to secure 1000 new accounts. In other words, the sales objective is broken down into an operational objective. The extent of reconciliation of these two shows our performance.

All organisations consider the total sales potential of which a particular level is to be achieved by way of sales volume. Sales department considers sales volume as the starting point because the attainment of other objectives is possible, if sales volume objective is realized. A standard is, therefore, set for sales volume performance. To realize a certain amount of profit, we will have to set standards for all those factors, say for example, sales expenses, calls made, call frequency, cost per call and the order size. Growth objectives are set with reference to the capability of the sales force, and the overall fundamental of the economy. It is necessary to keep out marketing policies and programmes adapted to the changing environment to realize the growth objectives. It is also necessary to upgrade the skills of the sales force. Standards to measure growth are then set in terms of sales to existing customers and new customers, calls on new customers, sale of new products and improvement in sales effectiveness by coverage.

Performance standards

Performance standards are quantitative defining both the magnitude and the nature of performance. These standards are measurable. These standards reflect the expectations of the management in terms of performance. Everyone should be clear about what is being measured and how. A particular level of sales volume shows the total performance of an individual sales person. In some fields, sales occur at a future date as a result of selling efforts taken today. There are many variables of sales which are beyond the control of an individual salesman, like promotional support, potential of territories.

2.10 NEED AND OBJECTIVES OF MONITORING

The objectives of monitoring the sales force to know the actual work done by them and this work will be measured by certain methods available with the Marketing Management. Then these two most important methods of monitoring are:

1. Through sales reports

2. Through field visits by the supervisors or field sales managers.

The details required in reporting vary from company to company. A company with a large number of sales representatives (SRS) and wide geographical market needs more detailed reporting than a company with increasing is complicated form a few SR's enjoys in planning/scheduling his sales effort, the greater is the need for detailed reporting.

Salient Features of a Report

i) The report should be concise.

ii) It should be in a printed format, where a check-mark (√) should suffix as an answer rather than lengthy writing.

iii) Information collected must be amendable to analysis and interpretation. All information which is of no use should not be generated.

iv) A copy must be retained by a salesman.

Contents of a Sales Report

A variety of sales reports have been designed by different companies. However, many of the following components are to be commonly found in the reports of all organisations. These components are:

a) Work-plan Component

Usually for a week (or a month) in advance, the SR is expected to submit his schedule or work-plan. Here he lists the doctors he is going to call on, the chemists he is going to visit and the routes he will take. He also lists the non-selling tasks he will undertake, this report helps the SR himself, and the company too, which keeps track of his whereabouts. It also helps to evaluate SR's achievement against the plan made.

b) Progress Report

It is a report on the day-to-day work done. It is prepared after each call, or collectively for calls made during a specific time period. It provides information about a company's position in each territory and for each account. The progress report indicates the response of doctors of different categories, extent of competitive activity etc.

c) Expense Component

SR's are given reimbursement of expenses incurred, or else they may be put on expense account. Most reports have an expense component to keep a check on the nature/extent of his expenses.

d) Complaint and Adjustment Component

This component is related to the specific complaints the doctors/the chemists have in relation to the company, its products, its policies and the detailing of the SR's. Attending this component improves the products, services and distribution.

e) New Business or Potential Business Component

Here the SR informs the new doctors and those who have the potential of becoming our patrons in future. It gives the information about the prospecting capability of an SR.

f) Lost Business Component

We may lose certain prescribes who start prescribing competitive products. We have to consider the improvements in product, service and training of SR's to take care of this component. Sales reports are thus good controlling tools. They become the basis for discussion and debate. These are also useful for developing the manpower. Field sales reports provide information to measure performance. They also provide additional information for performance appraisal, sales planning, customer feedback and competitive scene.

CHECK YOUR PROGRESS – 5

List out the contents of a sales report.

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2.11 SUMMING UP

Sales Management which means recruitment and selection of sales people constitutes one of the primary responsibilities of sales management. After a thorough analysis of each sales job, the sales manager prepares a list of qualifications to be used in recruiting. Depending upon the type of job to be filled and company policy, the sales manager then seeks applicants through various sources-educational institutions, other departments within the company, employment agencies, advertising and even competing or non-competing firms. Managers must evaluate the pool of applicants in order to select the most promising candidates. The selection process involves the use of application forms, interviews, references and psychological tests in order to identify those persons meeting the job qualifications. The final step in the hiring programme requires that the sales manager decide which, if any, of the candidates should be offered selling positions.

The various dimensions of compensation scheme for a sales force can assume. Both direct and indirect compensation play a vital role. However, indirect compensation is assuming greater importance, of late. Factors like demographic characters of the salesforce; sales strategy, competitors practices, company policy on motivation and retention; budgeted amount for compensation etc. We can say in the conclusion that maintenance of sales force through adequate compensation schemes is imperative for the growth of any company. Sales force compensation plan should be simple enough for every sales person to understand and fair enough for every salesperson to remain motivated.

Motivation of salesmen which forms the other aspect of this chapter is among the most important responsibilities of salesmen. It involves basic relationships that are built into the organizational structure. Behavioural scientists have classified motivational needs. According to them, each individual is a different entity and hence to understand what would motivate the salesperson, individually the nature, character and needs of the individual have to be understood. Within the available resources of the organisation and the limitations, these have to be fulfilled to achieve the results with high productivity. The sales manager/supervisor plays an important role in motivating his sales force as he interacts most with his sales force and can understand, empathise closely with the sales personnel. His role as a primary source of understanding his team and motivating his team is of great importance. In order to be a good motivator, he has to be a capable leader with the leadership style suiting the particular environment and conditions.

2.12 CHECK YOUR PROGRESS : MODEL ANSWERS

1. The functions of sales force management are:

   - recruitment and selection of sales force;
   - training of sales force;

- compensating and motivating the sales force;
- supervising the sales force;
- evaluating the sales force.

2. The procedure for selecting sales personnel are:

   a) Reception of applicant b) Application form c) Selection test
   d) Interview e) Inspection of past career f) Primary selection
   g) Final selection h) Middle check-up, and i) Placement

3. The methods available for training of sales force are :

   a) Demonstrations b) Lectures c) Conferences
   d) Seminars e) Role playing f) Case study etc.

4. The compensation plans for sales force are:

   a) Straight salary plan b) Commission plan c) Incentives
   d) Bonus e) Other benefits.

5. The contents of sales report are the following:

   a) Setting standards b) Target sales c) performance

2.13 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. Write an essay on "Designing and Managing Sales Force".
2. Explain the difference between Sales Management and Sales Force Management.

II. Answer the following questions in about 15 lines each.

1. List out the steps in selection procedure for one selection of sales personnel.
2. Discuss the on-the-job methods training to sales personnel.
3. How do you set the sales personnel, sales representatives?

2.14 RECOMMENDED BOOKS

1. Eugene M Johnson : **Sales Management and Cases**
2. Richard R Still, Cundiff & Govoni : **Sales Management**
3. Philip Kotler : **Marketing Management**
4. Biplab. S. Bose : **Hand Book of Marketing**

2.15 GLOSSARY

Customer Sales Force Structure	:	A sales force organisation under which sales people specialize in selling only to certain customers or industries.
Demands	:	Human wants that are backed by buying power.
Demonstration and Presentation	:	This is the stage where the salesman tries to effect a sale by actually showing the product and demonstrating it in use.
Interview	:	Is one of the selection method employee.
Case Study	:	It promotes analytical thinking and develops problem-solving ability.
Straight Salary Plan	:	A fixed sum of payment or salary for a employee irrespective of his performance.
Progress Report	:	It is a report of day-to-day work done by an employee or group of employees.

UNIT – 3 : PERSONAL SELLING

Contents

3.0 AIMS AND OBJECTIVES

The aim of this unit is to introduce the concept of personal selling, which is important in sales management.

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

- explain the concept of personal selling;
- bring out the importance of personal selling;
- explain the objectives of personal selling;
- describe the personal selling processes; and
- discuss the role of personal selling in marketing.

3.1 INTRODUCTION

Personal selling is an important element of promotion mix which makes selling of goods and services in the market. The concept of personal selling is a new one but it has been the oldest form of Marketing which the peddlers moved from house to house to sell their products and created demand and analysed the purchasing capacity of prospective customers. They used to carry the goods on their heads, sometimes on cycles; they are called in those days as Travelling Merchants or Street Merchants.

In the present, competitive Market, product selling is becoming a tough job before the manufacturers and this task can be made simple through sales personnel. Moreover, personal selling effort has the least amount of wastage as compared to other promotion tools like advertising, sales promotion etc. Personal selling concentrates directly on target market and it may lead to getting goods sold. Advertisements may attract customers, create an awareness among the customers about the products or services, but personal selling may activate them to desire to purchase the product directly from the sales person, because the sales person can have a time to interact, explain about the product features, usage, benefits of his product. So personal selling makes it a tool for promoting their product in the market directly.

In this unit, we will explain the importance of personal selling, objectives of personal selling, process of personal selling and also explain the role of personal selling in marketing.

3.2 THE CONCEPT OF PERSONAL SELLING

As products become more and more complex, personal selling becomes more important, because as we know, the personal selling is a distinct form of communication which can be treated as a two-way rather than a one-way communication. Personal selling is sometimes called as salesmanship. Salesmanship is selling initiated effort that gives an excess to understand the customer's need and requirements and offers the products to its user, or perspective user. Personal selling as well as advertising makes use of salesmanship techniques which can be used to persuade and influence consumers to buy certain products.

Personal selling is the overall activity and salesmanship is one of the aspects of personal selling. Personal selling in a simple term, it refers to an individual-to-individual selling. It has been defined differently by different experts.

According to **American Marketing Association**

Personal selling as "an oral presentation in a conversation with one or more prospective customers for the purpose of "Making Sales".

Philip Kotler says personal selling is "personal presentation by the firm's sales force for the purpose of making sales, building customer relationships.

In the words of **I.J.Shapiro** "It is the art of successfully persuading prospective customers to purchase products or services from which they can desire suitable benefits, thereby increasing their total satisfaction".

William J.Stanton defines personal selling "as the personal communication of information to persuade a perspective customer to buy something a product, service, idea or something else. This is in contrast to the mass impersonal communication of advertising, sales promotion and other promotional tools".

From the above definitions, we can draw the following features of personal selling.

- personal selling involves direct personal relation among the buyers and sellers.
- it makes two-way communication
- it is a process by which a verbal or non-verbal presentation will be made between the message receiver and sender.
- it has social (behaviour) interaction, etc.

Personal selling Vs. Salesmanship: Both the terms, personal selling and salesmanship are after used as one, but these differ from each other, the important differences are:

i) personal selling is basically a two-way communication, whereas salesmanship involves the seller that provides prospective buyers with information and motivates them to react positively.

ii) personal selling is involves not only individual to individual selling but also social behaviour, whereas salesmanship involves in stimulating developing brand preference and also negotiating price etc.

iii) personal selling aimed at bringing the right products to the right customers. Salesmanship aims at creating product awareness to the market.

CHECK YOUR PROGRESS –1

Define personal selling.

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3.3 IMPORTANCE OF PERSONAL SELLING

Growing sophistication and competition of the producers has increased the importance of personal selling. In personal selling company's sales persons are often referred as sales representatives or salesmen or sales' executives. The sales person acts as a middleman in between the producer of the product or services and the actual consumers who wish to purchase the products/services. In the words of **Edward W. Cundiff and Still**, sales people are in many respects the "unsung heroes" of marketing. Success in marketing for many, perhaps, most companies, depends importantly upon the sales representatives skills in meeting firms products with customer needs and of course, in marketing sales. Therefore, establishment of personal selling and managing them are not only difficult but challenging tasks.

The growing in diversity of products has gained the greater **importance** of personal selling they are as under.

- Low level literacy rate and lack of information regarding various goods and services and personal selling makes efforts in this category particularly in rural markets.
- Personal selling because, companies may not offer advertising as a promotional tool on regular basis and it finds is more expensive than communication through its sales people.
- Personal selling makes more personal contact and market information about products as well as competitors' products directly in person.
- Personal selling makes the company and its customers to save time in knowing customer reactions and the quality of products, which they actually desire to buy or provide.
- Personal selling is more important during product launching stage to bring awareness among the customers.

BLOCK – I

BASICS OF SALES MANAGEMENT

UNIT – 1 : INTRODUCTIN TO SALES MANAGEMENT

Contents

1.0 AIMS AND OBJECTIVES

This unit aims at introducing the evaluation of salesmanship and gives brief coverage about the objectives and the importance of sales management.

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

- know the definition, origin and development of salesmanship;
- explain the importance and characteristics of sales management;
- discuss the objectives of sales management; and
- understand the role of sales management in marketing.

1.1 INTRODUCTION

Sales Management or Sales Force Management means the planning, implementation, analysis and Control of Sales force activities. In includes designing and setting sales force strategy; and Selecting, Supervising and Evaluating the firms sales people. The concept of sales management has come up with the objectives of increasing the sales volume by which it would contribute to the profits and growth of the organisation. The unit includes all the basics of sales management like meaning, definition, importance, origin, role etc.

1.2 DEFINITION OF SALES MANAGEMENT

It is clear from the above definitions that sales management is basically the management of sales force, but this term has acquired significance now by the inclusion of marketing research, advertising, sales promotion activities within its scope. Sales management has been defined as the management of a firm's personal selling function.

In general Sales Management is the process of planning, organizing, staffing, directing and controlling an organisation's selling function within the context of environmental limitations and corporate and marketing constraints.

According to the **American Marketing Association,** sales management means "the Planning, Directing, and Control of personal selling, including Recruiting, Selecting, Equipping, Assigning, Routing, Supervising, Paying and Motivating, as these tasks apply to the personal sales force".

In the words of **Romano and Rachman,** "Sales management includes recruiting, selecting, training, supervising, motivating and evaluating the sales force.

In the words of **Zabin and Hampton,** "Sales management is primarily the direction of men with all the management functions of organisation, control, recruitment, training, supervision and motivation".

According to **Paul Hermann,** Sales Management was prevalent even in the Bronze Age. There used to be commercial representatives who set up branches and depots to sell their wares.

CHECK YOUR PROGRESS – 1

Define sales management.

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1.3 ORIGIN AND DEVELOPMENT OF SALESMANSHIP

Around 4000 B.C. the ARABS USED TO TRAVEL IN Caravans and traded at market centers in Mesopotamia and Egypt. It is widely believed that the Indian traders sold their goods in the streets of Rome and Athens. The Greeks and Roman traders also travelled from country to country to sell their goods. But the traders in those days were concerned about their immediate gains and indulged malpractices. Of course, the business transactions in those days were generally carried by the barter system. In fact, in ancient Greece the traders were despised. Even Aristotle and Plato have condemned the activities of traders. Commerce was considered to be a mean and worst profession.

The salesmen in the ancient times did not enjoy good reputation. The Romans called them cheats. It was only during the middle ages that the attitude towards commerce and trade changed slightly. Many Italian businessmen, during the middle ages, travelled through Europe and other countries of the Far East to sell their goods. Many countries of the Far East used to

- To meet growing domestic foreign competition, personal selling is important in the marketing efforts of a firm.
- Personal selling creates personal contact with customers. In case of high value and complex products, it is essential to convince them proper about the product quality and utility.
- Many Indian companies find it, i.e. personal selling, as to achieve their promotional objectives.

The importance of personal selling tremendously increased after the mid-twentieth century, because it became more professional, in sales promotion and marketing as such.

CHECK YOUR PROGRESS –2

Explain the importance of personal selling?

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3.4 OBJECTIVES OF PERSONAL SELLING

The objectives of personal selling are as follows:

i) to find prospect;

ii) to convert these prospects to customers;

iii) to keep them satisfied as customers;

iv) to undertake the entire selling job;

v) to generate new enquiries and new prospects;

vi) to keep customers informed on changes in the product and product line;

vii) to provide technical advice and assistance to customers

viii) to maintain market share and competitive edge;

ix) to achieve sales volume and satisfy the company's satisfied customers;

x) to keep the personal selling expenses within the standards and services, customers cooperation in promotion goods and services.

xi) to submit management reports on time to meet company's policies.

Achieving these objectives requires three types of personal selling tasks; a) order-getting tasks, b) order-keeping tasks, and c) sales support tasks.

The above objectives of personal selling could be quantitative or qualitative. The quantitative objectives would be concentrating on short term objectives, whereas qualitative objectives could be concentrating on achieving company's long term objectives.

CHECK YOUR PROGRESS –3

State the objectives of personal selling.

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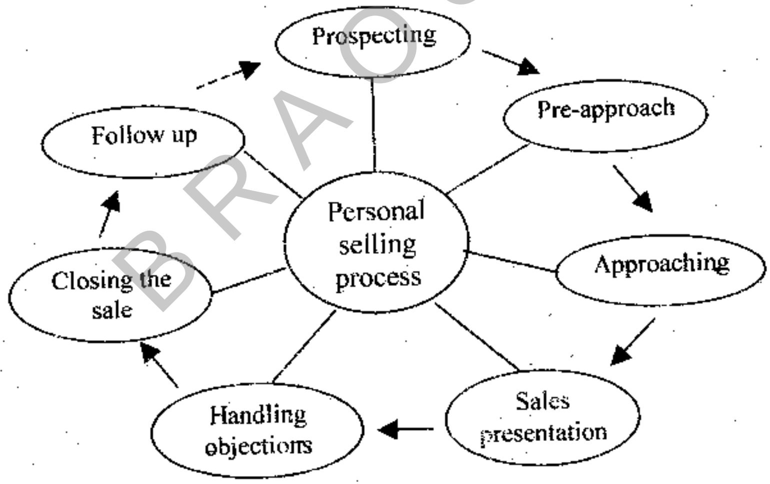
3.5 PERSONAL SELLING PROCESS

Successfully salesmanship is often used in marketing while planning the selling process under which the sales people recognize or locate the prospective buyers. Then the process of selling refers to selling sequence or ordering selling pattern by them.

There are many methods available to seller to sell his goods and services. However, whatever may be the technique used in selling process it is composed of the following seven steps in personal selling process which help in creating attention, interest, desire and action (AIDA) on the prospects part the steps are: 1) Prospecting, 2) Preparing the pre-approach, 3) Approaching the prospect, 4) Making the sales presentation, 5) Handling objection, 6) Closing the sales, 7) Following up the sale.



1. Prospecting

It means searching for potential buyers who have the need, want and willingness or ability to buy the products is called prospecting. The step of prospecting varies from company to company because some companies may serve a limited number of customers and the company. For instance, prospecting for potential buyers of computer system is different to success in the sales process. A good prospecting requires significant investments in time and effort in getting correspondence. The prospecting steps involves two major activities a) identifying the potential customers; and b) qualifying them if, they are valid prospects.

2. Preparing the preapproach

In this approach, the sales person collects information about prospects and this helps in quality, the prospect and increases heads and then increases the sales. The information collected is aimed at company's annual performance, other sales persons, market share and intelligence. The sources of the above information are as detailed as possible and may help the sales person in ranking the prospects on the company's requirement and clarifying those prospects into different categories, and attention will be given accordingly.

3. Approaching the prospects

This step arises when the sales person contacts prospects personally at first time and gains the customers attention to their goods or services. In this approach there are other tools used like the benefit approach, the reference approach and sample approach **from there approaches which type of approach different from situation to situation**, but it is always critical for the visiting prospect first time.

4. Making the sales presentation

The core aim of selling is sales presentation. When a sales person presents the goods and services, demonstrates its features, utility and benefits to the customer, the sales person starts showing how the goods meet the customer's needs and aims at clarifying the prospects desire and conviction for the goods/product. All of these strategies attempt to move the prospect through the steps in the purchasing process, from recognition to action. A product will be purchased only when the sales person is convinced that the sellers product material with the identified need and the prospect can offered it. Once the prospect takes the decision, then sales person asks for an order and closes with the sale.

5. Handling objection

In our daily life we use resistance as prospective buying in being any kind of product and not only resisting to buy but also put some objection affect to the product. But sales persons have to be well prepared to overcome buying resistance and reiterate the benefits of the product's soundness. In this way the salespersons have to have a capacity to handling objections and have to anticipate good response form them.

6. Closing the sale

For every sale has an end i.e. close. The sales people deal with the customer, finalizes the transaction and asks for an order. The closing of sale will happen when its sales people succeed when customers desire to buy the goods, and services throughout the stage in selling process should be closed in an orderly manner.

7. Following up the sale

The selling process does not come to an end by accepting an order. But the follow up stage of product keeps the customer to whom the product is sold and make or build favourable feelings, strong buyer-seller relationship through their respective after sale services and get feedback from the prospects i.e customers, then they are called consumers.

CHECK YOUR PROGRESS – 4

State the steps involved in personal selling.

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3.6 ROLE OF PERSONAL SELLING IN MARKETING

The companies have a variety of ways in which they can communicate with potential buyers. Personal selling as the name implies is an individual-to-individual selling, and it is an effective communication to for the consumer and industrial products as such. Among the other kinds of promotional/communication tools like advertising, direct marketing, sales promotion etc, but the personal selling plays the role of an important and instant method of selling goods and services through social interaction, direct contact with prospective customers. In order to make more sales, customers satisfaction is required towards our product/service. And it therefore, carries the distinguished advantage as mention below.

i) personal selling from its two-way communication;

ii) personal selling offers door to door selling through its salespeople or force, distributors, stockiests, selling agents etc.

iii) personal selling offers self introduction, customer feelings, grievances, satisfaction and suggestions, if they are actually felt through our goods and services.

The role of personal selling is becoming more important for the many companies facing strong competition from multinational (foreign) and also from other domestic marketers. Generally, selling function required to handle/perform certain basic tasks as listed here under.

- to obtain a targeted sales volume;
- to decide the size of sales force;
- to monitor sales force performance through implementing the promotional schemes or programmes etc

Since, it is personal, it has the highly desirable characteristics of flexibility.

Personal selling, in contrast to advertising, lends itself to the promotion of complex and expensive products. In promoting such products, personal salesman can ascertain what aspects of a complex product are difficult for the prospect to understand and dwell on them in greater details by employing such visual aids as diagnosis and demonstration. Personal selling is actually a general term for there are a number of types of salesmen. They range from carriers to the supermarket to the very aggressive door-to-door salesmen.

Sometimes, personal selling provides readily available uses and helps marketing managers in achieving their selling objectives. In this situation, personal selling plays its role in the following ways.

1. Analyzing market situation

2. Analyzing product situation
3. Analyzing company situation
4. Analyzing consumer behaviour
5. Analyzing sales man's role

1. Analyzing market situation

Personal selling company analyses the market situation regarding similar companies and how they are running to meet their customers or market requirements, even it is more expensive, time consuming but, it is effective tool for promoting companies and existing companies when, a company sells its products in small, local market or wide customer market.

2. Analyzing product situation

Personal selling aims at introducing the product in the market and the need to explain its features, status, and how the market response to our product can be analysed through only personal selling method. So the company may produce on customers demand, modifying its product features or packaging and usage, or sometimes changes the product or product line and market it for satisfied customers.

3. Analyzing company situation

It is relating to an effective tool for marketing manger to analyse the company stands where? How? And why? Then, this personal selling approach is suitable to our company, not because few small companies cannot offord it whereas, a large company can offord relating to other companies. Thus, personal selling plays an important role in analyzing our company's place in the market.

4. Analyzing consumer behaviour

In marketing, consumer behaviour is an important aspect to market its product or service. There is a saying that the customer is god for the business, i.e. customer need or requirement is important, and then go for manufacturing the goods, if the company produced the goods it may or may not be accepted or used by the customer because his requirement is not what you supplied. So a similar such situation creates study of consumer behaviour which is very important before you be in the market. Therefore, the personal selling is not only selling individual to individual but also helps the company to study or analyse the need/requirement through its sales people directly.

6. Analyzing salesman role

At this contest it is necessary to note that the salesperson has no obligation to the customer and his company in promoting the company's product or service. The salesman plays his role in selling process as described hereunder:

- salesman as problem finder;
- market analyzing though direct contact with customers;
- information furnisher or research scholar;

- sales people are real soldiers of the company;
- sales persons are change agent in the market;
- business developers etc.

3.7 SUMMING UP

With growing complexity of product, competitive marketing importance of personal selling has been increasing. Personal selling concentrates much more on selling the goods and services directly to create and build on awareness among the customers. Personal selling refers to an individual to individual selling. Personal selling is one important aspect among the other like advertising, direct selling, sales promotion etc. Hence, personal selling plays an important role in achieving selling objectives through immediate feedback, grievances and also suggestions offered by the customers. Personal selling has the following objectives; as to find prospects, to convert the prospects into customers, to undertake the entire selling job, to keep customer informed on changes in the product, and production to achieve sales volume, etc.

Personal selling helps in creating customer attention, interest, desire and action on the prospects and to maintain specific steps such as prospects, preapproach, approach, sales presentation, handling objection, closing the sale including follow up by the sales persons. Personal selling playing its role in achieving its two-way communication, door-to-door services through its sales force, dealers and agents and it offers suggestion from its customer and their grievances. The role of personal selling in marketing is undoubted because the function as analysers of market situation, product situation, company situation and as problem solvers/finders, soldiers, information providers, change agents and also business developers.

3.8 CHECK YOUR PROGRESS: MODEL ANSWERS

1. Personal selling may be defined as a highly distinctive form of communication like other forms of promotion. It involves not only individual to individual buying but social behaviour each of the persons in fact face contact in sharing or communicating each other and reaching a common understanding of needs and goals.

2. The importance of personal selling is as follows:

   a) low level literacy of customers
   b) introducing the company's products to the customers directly;
   c) it makes effective tool for two-way communication;
   d) it gains market information; etc

3. The objectives of personal selling are:

   a) to find prospect;
   b) to convert these prospect to customers;
   c) to undertake the entire selling job;
   d) to achieve sales volume
   e) to keep customers satisfied;

f) to maintain market shares;
g) to keep the expenses within the limits;
h) to manager the selling report on time and accordingly.

4. The personal selling process involves the following steps:

a) Prospecting
b) Preparing the pre-approach
c) Approaching the prospect
d) Making the sales presentation
e) Handling objection
f) Closing the sales
g) Following up the sale

5. The role of personal selling in marketing can be understood in the following manner.

a) analyzing market situation
b) analyzing product situation
c) analyzing company situation
d) analyzing consumer behaviour
e) others like, problem finders, information providers, soldiers, change agents, business developers, Etc.

3.9 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. Personal selling is a two-way communication best suited to company marketing, consumer products and business. Discuss.
2. What is personal selling? and explain its role in marketing.
3. Explain the various steps involved in personal selling.
4. Discuss the importance of personal selling.

II. Answer the following questions in about 15 lines each.

1. Define personal selling.
2. Distinguish between personal selling and salesmanship.
3. List out the objectives of personal selling.
4. How are sales people soldiers?
5. What is the role of salesman in selling process?

3. 10 RECOMMENDED BOOKS

Philip Kotler	: **Principles of Marketing**
J.C. Gandhi	: **Marketing**
J.C. Sinha	: **Sales Management**
E.W. Cundiff, R.R. Still & Govoni	: **Sales Management**
John, Kurtz & Scheuing	: **Sales Management**

3.11 GLOSSARY

Personal selling	: Is a method of selling the product individual to individual or person to person.
Salesmanship	: Professionals in initiating, motivation and introducing the products to the prospective buyers but not selling the products as personal selling.
Prospect	: A lead who can be both benefited from the use of product and afford to buy it.
Approach	: Sales person personally contracts the prospect for the first time.
Sales presentation	: Physically presenting the product to the customer.
Handling objections	: Clarifying the customer objections during sales presentation by the sales person.

UNIT – 4 : SELLING METHODS

Contents

4.0 AIMS AND OBJECTIVES

The aim of this Unit is to introduce the selling methods, types of sellings and selling of services, which help the marketer in selling the products.

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

- know the types of selling;
- explain the selling of services;
- discuss the selling methods; and
- understand the qualities a good salesman should have.

4.1 INTRODUCTION

The success of selling mostly depends on the company's selling methods and types of selling adopts to promote its sales in the market that gives access to achieve the sales goals and objectives in long-run. There are different methods of selling available to the manufacturing companies and a few of them are success in their business, among companies which are not even surviving in the market because of, faulty selling practices.

4.2 TYPES OF SELLING

Modern job of sales people is quite different from that of days gone by. Now a-days no one style of selling is fixed and it is changing along with days or times changing. Take an example of cellular companies like Nokia, Samsung, Motorola, Reliance, Hutch, etc. They are changing their selling job from formal to informal selling, therefore, the sales executives who sell a system·by reaching the buyer is a significant factor.

The companies are adopting the selling jobs on the basis of the creative selling style/skills required from the sales person and through which seller can make selling job complex to simple even in the complex situations taking place in the market. And also companies choosing the right and suitable types of sales executive, they are classified and suggested by Robert Mc Murry as follows.

1. Sales engineers
2. Missionary salesman
3. Creative salesman
4. Inside salesman
5. Outside salesman
6. Deliverer

1. Sales engineer

This is a types of sales people who are often having some academic knowledge in engineering and who are technically trained in handling called as technical seller because they handle selling job of technical or industrial products.

2. Missionary salesman

A sales person is one who is not expected to be an order taker but whose major role is to build goodwill and to educate the potential buyer. For instance, medical representatives. Their missionary sales people mainly deals with industrial customers or professional customers, rather they act as an instrumental in creating future sales.

3. Creative salesman

A creative salesman involves in creating the demand for the products or services and especially selling of intangible products (services) because we cannot see, touch, taste or smell them. These customers often not educated/awake their need for a seller's product. Sometimes we call them demand creators. For instance, selling of tangible products like refrigerators, computers, televisions and intangible products like education services, insurance, etc.

4. Inside salesman

Actually this type of salesmen are not professional sellers or full time sellers, but they perform inside the office as against the field salesmen. They operate the selling by telecommunications and deal with established customers.

5. Outside salesman

The sales person goes to the customer in the field and gets orders. For instance, hardware and retail hardware store sellers sell their products to the local dealers, like soaps seller.

6. Deliverer

A sales person whose major job is the delivery of a product and these people will not move from their selling points. For instance, Milk, Oil and Petroleum products etc.

CHECK YOUR PROGRESS –1

What kinds of sales people are involved in personel selling?

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4.3 SELLING OF SERVICES

These services are an important part of our economy and account for job creation and gives rise in service sector growth. Service sector plays an important role in generation of employment opportunities. Developed countries like USA are creating 18 percent employment.

Many services like air travel, hotel services, financial services by banks, communication services etc., are the service selling firms; also promoting in the market through advertising, sales promotion, doorstep orders placed by the user is called selling of services.

The services and services selling firms are listed as under.

- **Educational services** : Universities, colleges, schools etc.
- **Government services** : Police Insurance, Companies, Judicial etc.
- **Financial services** : Management consultancies, accounting, Auditing, Advertising agencies, etc.
- **Health care services** : Hospitals, Yoga centers, etc.
- **Transport services** : Railways, Roadways, Waterways, Airways.

Services and service providers are different in the services, but similar in nature.

These services are characterized as intangible, perishable, variable, and separable because, these are unseeable, unstorable. Providing services are different from one seller to another and we can not separate them from its provider.

Several techniques for selling of services required certain suggestions that help the selling and profit generation. These are:

- Extrinsic and intrinsic apples
- Being knowledgeable
- Managing appearance
- Identifying and building potential relationship
- Stressing benefits, etc.

4.4 SELLING METHODS

Effective selling methods depend on matching the seller's style with the buyer's style.

Many types of selling (jobs) have their strengths and weaknesses but successful and suitable method selling satisfies the customer need and solves the sellers problems and improves the company's sales volume.

In order to sell more and more goods the companies have to choose/select one or the other combinations of the following methods. These are as follows.

1. Tender selling
2. Auction selling
3. Counter selling

4. Direct selling
5. Door step selling
6. System selling
7. Negotiation selling
8. Team selling
9. Relationship selling

1. Tender selling

Under this method, the company invites its tender from prospective buyer and the it sells he goods to that buyer whose tender/offer is most profitable. For instance, Government agencies adopt this type of selling to sell a bid of work or goods.

2. Auction selling

The company organizes this types of activity at a place and asks them to quote their bids after examining the goods or, sometimes cash, steel and textile industries undertake to dispose their scrap, etc.

3. Counter selling

Selling of products may sometimes sell through or at their retail shops owned by its salesman. These retail shops demonstrate the products and offer certain products at discounted prices. For instance, the Bata India Ltd, Reabok shoes, Liberty shoes companies are selling their products at the same price at different retail shops.

4. Direct selling

The companies like Citicorp, IBM, American Airlines are using direct selling and offering services directly to the customers to build profitable relations. Some other companies are selling products by sales force to avoid the intermediaries.

5. Door step selling

By increasing competition, the companies like Reliance cellular company (R1M) are selling their Mobile phones at the users door step. This type of selling practices are increase tremendously to do more marketing.

6. System selling

Certain companies are doing the business through systems i.e through internet orders, e-mail, SMS etc., for the selling of products or services.

7. Team selling

Selling of goods/services the companies becoming a team/group marketing, this is called syndicate selling. For example, fertilized companies.

8. Tele selling

The companies are also adopting to sell the product through the call centers, for example, products like cosmetics to electronic products, and it is growing mostly in cities.

9. Relationship selling

The process of creating, maintaining and enhancing strong value- laden relationships with customers is known as relationship selling or customer relationship marketing (CRM). It aims at long time association between the parties involved.

CHECK YOUR PROGRESS – 2

State the methods of personal selling?

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4.5 QUALITIES OF A GOOD SALESMAN

Many sound organizations succeed in their marketing of products because of their own sound or quality staff i.e, efficient sales people. The availability of such sales people depends on its (company) quality products and services to the customers and its sales people. Finally, the philosophy, aptitude, attitude, habit, ideology help the company in making a successful sales person; and also the creativity and imagination are two important factors that help the salesman in motivating the potential customers.

This happens only when the sales people possess the following qualities and these qualities make them successful salesman.

1. Good physique
2. Intelligence
3. Mortality
4. Empathy
5. Tactfulness
6. Patience
7. Other qualities

1. Good physique

A physique is an essential quality of a salesman. This quality helps the salesman in promoting the product. Physique stands for sound and clear mental status and helps the person to be a confident one.

2. Intelligence

A non-physical quality will be encouraging the individual in their work achievement and to become a successful one. Such person's services are required in the field of marketing of goods.

3. Morality

The mental quality makes up the salesman to be a successful. Even if the physical quality fails in achieving targets, if he/she has morality, honesty etc, it makes a salesman successful in dealing in selling the product.

4. Empathy

A salesman should have certain qualities like ability to emphasise on an issue in which he is dealing with. A salesman shows his ability in focusing on the feelings, moods etc. Such people can able to perform their roles in the field of marketing to make more sales.

5. Tactfulness

There is a saying that, the man who speaks more can make more sales even if it is sand but, who speaks less can not the product even if it is gold or silver. Hence, a salesman required tactfulness in order to perform his job, especially in selling the product or service.

6. Patience

Of course, this is the essential quality for any person to survives and succeeds in his life and job achievements. Similarly, the people working in the marketing field should have more patience in handling the situations, works or even in handling or managing the people. In the same manner, the sales person should have patience to convince the customer to make purchase or at least to listen you. It is a very significant quality for a significant person in any significant aspect or activity.

7. Other qualities

A salesman should pocess not only the above qualities but also other qualities, such as:

- inter personal skills, decision-making skills, technical and human relation skills etc.
- communication skills, leadership skills, etc.
- futuristic, ambitious and positive thinking abilities or skills, etc in handling marketing or selling job in the business field.
- motivating skills, a salesperson should motivate the others and he himself be motivated through peers and other in performing the job successfully.

CHECK YOUR PROGRESS – 4

State the qualities a salesman should have.

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4.6 SUMMING UP

Successful selling depends on its methods implemented in marketing of products not only the methods of selling but also the types of selling and sales people involved in capable selling process. The personal selling is an important tool for marketing products or services to its potential customers.

The types of selling include different kinds of sales people who have certain qualities suit which the company in promoting its products through the individual to individual selling i.e., personal selling. The types of selling consist of sales engineers, missionary salesman, creative salesman, inside salesman, outside salesman, deliverer etc, that helps in sales, people and services selling is also an important aspect of selling. Finally, the methods of selling includes:

tender selling, auction selling, counter selling, doorstep selling, system selling, negotiation selling, team selling, teleselling and relationship selling, aides in selling the products or services to the potential and existing customers.

4.7 CHECK YOUR PROGRESS : MODEL ANSWERS

1. The various kinds of personal selling are:

   a) sales engineers
   b) missionary salesman
   c) creative salesman
   d) inside salesman
   e) outside salesman
   f) deliverer

2. Services are not the physical goods but those services that can satisfy the customers want as products. The services are nothing but product which are not seen, tasted, touched and smelt which makes customers satisfaction that even a physical product cannot provide.

   The examples of services are:

   a) educational services;
   b) government services;
   c) financial services;
   d) health care services;
   e) transport services; and
   f) consultancy services, etc.

3. The methods of selling are as follows:

   a) tender selling
   b) auction selling
   c) counter selling
   d) direct selling
   e) door step selling
   f) system selling
   g) negotiation selling
   h) team selling
   i) relationship selling.

4. The qualities a salesman are:

   a) good physique
   b) intelligence
   c) mortality
   d) empathy
   e) tactfulness
   f) patience
   g) other qualities.

4.8 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. What type of sales people makes marketing effective?
2. Discuss the various methods of selling.
3. Successful sales force makes selling more? Discuss.

II. Answer the following questions in about 15 lines each.

1. What are the services and explain with examples.
2. Distinguish between direct selling and tender selling.
3. Write a brief note on the following:
   a) Missionary salesman.
   b) Deliverer.
   c) Tele selling.
   d) Counter selling.

4.9 RECOMMENDED BOOKS

Philip Kotler	: **Principles of Marketing**
Cundiff, Still & Govoni	: **Sales Management**
J.C Sinha	: **Sales Management**
J.C. Gandhi	: **Marketing**
William J.Stanton	: **Fundamentals of Marketing**

4.10 GLOSSARY

Selling methods	: Various approaches through which seller sells the goods and services.
Sales engineers	: Is a type of sales people who have some academic and technical knowledge and trained in handling industrial products.
Deliverer	: A salesperson who deals with delivery of products from manufacturing point.
Tender Selling	: The company invites tenders from the prospective buyer whose tender is profitable.

Doorstep Selling	: Company's product reaching at customers' doorstep through their representatives to sale unreaching customers.
Empathy	: A person quality to emphasise on the job in which he is dealing and this quality makes company to sell its goods and services.

BLOCK – II
SALES ORGANISATION AND PLANNING

UNIT –5 : CONCEPT AND STRUCTURE OF SALES ORGANISATION

Contents

5.0 AIMS AND OBJECTIVES

The aim of this Unit is to explain the objectives of sales organisation, importance of sales organisation, developing sales organisation, types of sales organisation and centralization and decentralization.

After studying this Unit, you should be able to:

- understand the concept of organisation;
- know the importance of sales organisation;
- identify steps involved in developing sales organisation;
- explain types of sales organisation; and
- explain the concept of centralization and decentralization.

5.1 INTRODUCTION

The main objective of this Unit is to give a detailed idea about the concept and structure of sales organisation. In this unit the importance of sales organisation in total structure will be examined. The process of developing sales organisation is probably more important in marketing management. The unit highlights how to develop and design a sales organisation.

In this unit you will also understand the different types of organisation designed on the basis of product, functions, market, matrix etc. In addition in this unit we shall discuss in detail the nature and the working of centralization and decentralization of sales organizations. You will also know about their relative merits and demerits and the extent of balance required between them.

5.2 IMPORTANCE OF SALES ORGANISATION

The significance of a separate and sound sales organisation cannot be over-emphasised. It is the foundation because it is the sales on which the prospects of a company depend. It is the edifice of managerial objectives. Infact, how the sales organisation works effectively is more important, than how it is expected to operate. Sales organisation should direct its main efforts towards an effective set up to achieve the objectives.

Organisation is definitely the backbone of the entire management through which cash realization of an enterprise center revolves. Without a suitable sales structure the objectives cannot be achieved. Infact, a good organisation can contribute greatly to the success of the organisation. A logical organisation avoids waste and widens market potential.

However, the importance of sales organisation may be emphasized from the following discussion.

1. It Helps Development of Specialists

The marketing and selling activities are many; they involve use of world class specialists in handling sales activities. In case of large and expanding concerns these activities multiply and become increasingly complex. The organisation's principles promote delegation of authority, fixing responsibility. This process helps the development of specialists. The functions are assigned to specialized personnel.

2. It Promotes Efficiency

Sales organisation increases managerial efficiency in several ways. It creates an in-built mechanism to avoid delay, duplication, fixes responsibilities and accountability. The objectives of sales functions are clearly defined and specific persons are held responsible. Duties which help to add certainty and promptness in discharging their work are clearly defined.

3. It Helps in the Growth of Enterprise

Sales organisation encourages growth of an enterprise by increasing its capacity to handle increased level of sales activities. Without sales organisation it cannot consolidate growth and expansion of the enterprise. It helps to expand the size of market to an ever increasing level.

The continuity and success of an enterprise depends always on expansion and diversification of the enterprise. The sales organisation structure permits the growth and expansion. It is a frame work of flexible nature which helps to accommodate changes to meet challenges and creating opportunities for future growth.

4. It Helps Co-ordination

Sales organisation greatly facilitates an effective co-ordination or balance. There are different departments, sections, jobs, functions, divisions etc., whose activities are welded together by structural relationships of the organisation. All will perform their functions in a closely related pattern. The principles of sales organisation exert their influence and promote balanced emphasis on the co-ordination of various activities. The people will work as a team rather than individual and the organisation as a whole works collectively. The common objectives, working together will help in achieving co-ordination.

5. It Helps in Using Technology

A good sales organisation helps to use improved and modern technologies. As an organisation is based on the principle of flexibility, it permits to make the best possible use of latest technology. For instance, many organizations adopted information technology and accordingly, modified the existing structure of organizational relationships in the wake of new technology. An organisation which is not able to adopt new technologies is unfit to continue in industry in view of competition where the rivals are adopting new technologies. Thus an organisational structure should be developed according to the changes in technology.

6. It Helps in Executive Development

An effective sales organisation provides wider scope for executive development. The structure facilitates the scheme of training and development of managers. They are trained continuously to acquire new and varied experiences in new activities involved. For the success of a sound organisation there is bound to be an effective management development programme in the enterprise.

7. It Helps in Communication

Organisational structure establishes lines of communication. When the size of an organisation expands, the lines and directions of communication multiply and become increasingly complex. One object of organisation of sales function is to establish lines of communication. It provides channel and media for quick and correct transmission for timely decision making.

The flow of information mav be horizontal, vertical and diagonal with several media with the growing complexity of an organisation with a number of functional departments, and grouping activities, the lines of communication may be more complex and varied.

8. It Helps in Stimulating Creativity

Without stimulating creativity, an organisation is just like a head without mind. Good organisation contributes a great deal to stimulate creativity. A sales organisation is a frame with connection and inter-connection, and inter-dependence is a source of creative thinking, and initiation of new ideas etc. The structure of an organisation is that it stimulates creative thinking. The delegation of authority involves a sense of responsibility in them which demands creative thinking.

9. It Helps in Saving Executive Time

A sound and well conceived sales organisation structure greatly economises the executive time. The top executives, as a result, can spend more time on planning strategies and formulation of broader objectives. The organisation's principles allow effective use of specialization, delegation, decentralization, span of control etc., which will help in saving the time of executives.

10. It Helps in Utilising Human Resources

Good organisation ensures an optimum use of human resources of the organisation, by utilizing their specializations. It is possible because of job specification, job evaluation and placing right persons on right jobs. Therefore, the man power is not allowed to waste time and energy on other than job work.

11. Other facilities

- An effective sales organisation facilitates to achieve the objectives set by the administration. It avoids wastage, idle time, duplication of work and inefficiency.
- Sales organisation indicates the direction in which their future careers may grow. The organisation chart depicts the promotion routes.
- It ensures good co-operation and promotes mutual goodwill.
- It ensures identification of specific sales activities and control over them to achieve the targets.
- It identifies the nature of authority and responsibility. A sound sales organisation defines the relationships between people in terms of authority and responsibility.
- Location of decision centers is necessary to fix accountability. It is the organisation pattern which determines the location of decision making centers in the organisation.

CHECK YOUR PROGRESS - 1

Describe the importance of sales organisation.

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5.3 DEVELOPING SALES ORGANISATION

An organisation is composed of a group of persons who contribute their talents towards achievement of organizational goals. It establishes the authority and responsibility relationships between various positions and inter-relationship between them. A sales organisation has certain objectives to achieve. For this purpose firstly a suitable sales organisation structure is to be developed. But it is not an easy task to design a sales organisation. Infact, developing a sales organisation cannot entirely be designed from scratch.

In every organisation there is bound to be some structure originally developed. In some cases of new organisations it is to be developed or to be carved out from the grass root level. In some cases the already developed sales organisation may need a re-look, redesigned with some alterations and modifications as required. The development of sales organisation is mainly concerned with the decision to have a centralized sales organisation or decentralized sales organisation.

Developing a particular design of sales organisation primarily depends on the policy of expectation of top management. The functions, and the type of structure are the two important dimensions to be considered in development of sales organisation.

Whatever may be the structure of a sales organisation the steps necessary for developing a sales organisation must necessarily be followed. However, the following are the **major steps** involved in the development of sales organisation.

1. Setting Objectives

Every organisation has before it certain specific objectives to be achieved. So the first step in developing sales organisation is to identify the objectives of the sales department. It is the task of top management to identify the objectives of the sales organisation. The objectives may be long-term objectives, medium-term objectives and short-term objectives. Again the objectives may be qualitative objectives and quantitative objectives.

Generally long-run objectives are qualitative objectives, while short-run goals are quantitative objectives. Defined objectives will help to formulate strategies to achieve objectives. The aims of sales organisation may include growth, survival, market share, leadership, customer relations etc.

2. Identifying Activities

Delineating necessary activities is the second major step in shaping the sales organisation. It is a process of identifying main activities to be performed. The entire work is to be broken down into several small segment activities which are to be performed by the personnel of the sales organisation. All functions of sales nature are identified and separated for fixing responsibilities such as advertising, copying, sales campaigns, consumer grievances etc.

3. Grouping of Activities

The activities so identified should properly be classified and grouped. It is a process of grouping of activities into various jobs or positions. Next to the identification of activities, grouping of activities is necessary. Grouping helps people to know the exact work expected from the members. It involves identifying closely related and similar activities to be grouped into divisions and departments. The activities of each division or department are further distributed to different sections or jobs. There are several scientifically developed methods for grouping the activities.

4. Assigning the Duties

After identification and grouping of activities, as discussed above, the next step is to allocate duties to defined and suitable personnel. In other words, it is the allotment of duties to a particular individual, who is responsible for his performance.

Specific jobs are assigned to specified individuals, whose duty it is to achieve the task. A right job is assigned to a right person. It involves not only assigning of duties but also each job is to be staffed by the placement of qualified personnel. Assigning duties to definite persons carries along with it adequate authority to do the job.

5. Authority

A duty so assigned cannot be achieved without adequate authority. So in developing sales organisation the principle of delegation of authority should be considered. An official authority is necessary for enabling the subordinates to do work performance. A duty without authority is an empty duty. We are aware that responsibility and authority are correlates terms. Without delegation of authority relating to responsibility, the accountability cannot be enforced. Authority and responsibility must go hand in hand.

6. Authority Responsibility Relationship

The basic principle of sales organisation is creating authority and responsibility among the sales personnel for the accomplishment of objectives of sales organisation. A relationship is to be established between authorities. A sales organisation depicts structural relationship. An organisation consists of individuals, duties, tasks with formal relationship.

A structure cannot be designed without relationship between them. Here you must understand the scope for formal relationship and informal relationship and line and staff, relationship. Every sales personnel must have authority relationship to discharge the responsibility entrusted to him.

7. Control

Sales organisation consist of a number of sales executives, salesforce and other personnel and working. The salesforce, salesmen and other subordinates and field representatives work under sales executives and report to them. Their functions, activities and movements should be checked and controlled. The development of sales organisations should have an in-built mechanism of control.

It ensures controlling the actual performance as against set standards. The step of controlling involves establishment of standards, measurement of performance, to know the variations and for taking remedical measures.

CHECK YOUR PROGRESS - 2

Explain the steps necessary for developing an effective sales organisation.

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5.4 TYPES OF SALES ORGANISATION

In discussing about sales organisation it will be wise to bear in mind the fundamental nature of an organisation. A sales organisation structure may be considered to be a way of obtaining job specialization. In any method of marketing organisation the activities of the similar nature, requiring the sale or similar skills, are grouped together in a unit manned with personnel who are specialists.

Sales organisation may also be looked on as a system of source of communication for transmission of information. The first step in setting the sales organisation is to classify it into groups of activities that are similar. The activities of marketing tend to cluster around products, sales, geography and functions.

Based on these activities, on the whole, the bases of organizational structure relating to sales activities are classified as follows:

1. Functional organisation
2. Geographic organisation
3. Product organisation
4. Market organisation
5. Matrix organisation

The nature and working mechanism of various methods of sales organisation are described below.

1. Functional Organisation

Based on various functions of the sales department, functional organisation is designed. The various functions performed as part of the overall marketing function constitute the basis for organizing the marketing structure. The various functions are looked after by functional specialists. Accordingly, each function is assigned to a specialist who finally reports to the marketing manager.

It is a common form of marketing organisation. Under functional base of organisation it is the functions which determine the form, structure and size, vertical or flat of an organisation. Marketing specialist, called marketing manager, or director of marketing, is in a top position of the marketing organisation. It confers upon the holder of a functional position, powers of command over the people of the sales organisation.

2. Geographic Organisation

An enterprise operating in a national market often organizes its sales activities along a geographical line. Practically every firm producing consumer goods, its sales organisation structure must to some extent reflect the influence of geography. It is wise to have the marketing organisation on geographical basis when the area of sales coverage is very wide and scattered. In such markets there are clear differences in the market and buyer characteristics in each area. As such, the entire market is divided into several divisions or regions or zones as may be called, as per convenience and each region as its own salesforce. Generally, the consumers or customers are scattered over a wide area and they are to be served effectively and economically.

Accordingly, marketing organisation based on geography is created or a structure is created on territorial basis. Many firms whose significant customers are geographically widespread and decentralized give importance to geography, and geography forms the basis for marketing organisation. Usually, geography is much more likely to be the central factor in the organisation structure of consumer goods marketers.

3. Product Organisation

It is also called as brand management organisation. An enterprise producing a variety of products or services, may be closely related to products or product line organisation. A product management organisation involves grouping of activities on the basis of brand or brand line. It is suitable for multi-line product companies. Under this method all the activities relating to a particular product or product line are grouped together.

Organisation based on product category allows exclusive authority over product line. A brand or a product is an important basis of management organisation because it creates a product division. The product category managers are assigned all the responsibility relating to that group of products. It means, in brand management organisation, all the activities relating to product or group of products are controlled by only one hand. The product category managers will have an extensive authority over the sale of that particular product or group of products.

4. Market Organisation

This method is also called as customer organisation or market centered organisation. Market is a basis for this type of organisation. Based on user groups, the basis for differentiation is shifted from product organisation to market or customer organisation. Under this type a product is sold to a diverse set of customers, a group of customers with similar needs and a common link between them constitute a market. Different customer groups or different markets form the basis for differentiating the market, and hence called as market management organisation.

The organisation structure of market orientation can be designed in the same way as a product management organisation. But here instead of product managers with detailed knowledge of the products, there would be market managers each having thorough knowledge their specific markets or group of customers. Each market is, therefore, considered as to be separate profit centre and its specialist is assigned the role of business manager with full responsibility and accountability for generating profits.

5. Matrix Organisation

The various types of marketing management organisations, namely functional, geographical, product and market form of organisations, have been discussed above. They have their own merits and demerits. In them companies with different products serving to the same market or the same products to different markets.

The marketing manager has to formulate and implement strategies suitable for each marketing organisation. To solve the problems a new marketing organisation is designed. The new structure of marketing organisation is known as matrix organisation. This method is known as grid method. It is the latest method of marketing organisation structure. It has been developed to establish a flexible structure to achieve a series of project objectives. It is designed to meet the growing size and complexity of undertal ings. A dynamic firm requires an organisation structure which is more flexible to accomm odate changes and technically oriented.

CHECK YOUR PROGRESS - 3

Explain various types of sales organisation.
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5.5 CENTRALISATION AND DECENTRALISATION OF SALES ORGANISATIONS

There are two separate types of sales organisations. They are:

1. Centralised sales organisation
2. Decentralised sales organisation

Based on structures of sales organisation, there are four variant forms based on the degree of centralization and decentralization. They are:

1. There will be no marketing structure at corporate head quarters.
2. Moderate centralized marketing.
3. Strong centralized organisation.
4. Minimal centralized sales organisation.

In every company, of any size, there are different levels of salesforce performing different functions. The decision making process and responsibility are the two crucial functions of sales organisation. The decision making responsibilities greatly vary depending on the pattern of sales organisation, namely, centralization and decentralization.

As a matter of fact, centralization and decentralization of sales organisation may be viewed in relative rather than absolute terms. The only distinctive feature is the degree and extent of delegation of powers. Complete decentralization and complete centralization may not be possible. Simply in a decentralized set up it increases the importance of those who are operating at branch level. And, on the other hand, everything which reduces the importance of top level is decentralization.

5.6 CENTRALISATION OF SALES ORGANISATION

Sales routines by top level sales manager on behalf of the entire company is called centralized sales. The type of organisation facilitating centralized sales is called centralization of sales organisation. The word centralization of sales organisation refers to the degree of concentration of decision making power at central level. It is the level at which the authority for decision making relating to sales is centralized. Centralisation describes the sales pattern in which certain decision making powers and responsibilities are not divided among many at hierarchical divisional levels.

Under this pattern the decision on all sales matters are taken by the higher authorities at company level. In this everything goes to increase the importance of the role of superiors at higher level. It facilitates personal leadership, uniformity of action and provides a mechanism for integration. In this type of highly centralized sales organisation, the sales function and all the responsibilities associated with it are operated and managed from corporate headquarters. The company retains major sales functions at corporate head quarters only. All major sales activities and services are performed and controlled by the centralized sales organisation located at head office. Such organisations have their own structure with adequate marketing staff.

When the powers of making sales decision are retained by higher management level at the head office it is termed as centralized sales organisation.

5.6.1 ADVANTAGES

In large concerns, sales organisation is centralized to obtain certain advantages. Under centralized sales, the sales department is headed by a specialist in marketing management called sales manager to discharge the functions of sales. When the activities of sales for the entire concern are concentrated, the organisation is said to be centralized sales organisation.

The following are the advantages of centralization of sales organisations:

1. Locational

Centralised sales structure ensures spacious accommodation, location, layout. Bins, racks, and other equipments are arranged so that they are distinctly identifiable, classified and graded. Wastage and under utilization of space is avoided.

2. Specialisation

Centralised function means sales operations by a specialist of a sales department. In the field of sales a qualified sales manager with special knowledge is responsible to make efficient sales operations.

3. Personal Leadership

The success of small scale organisations depends on leadership qualities. Personal leadership is also essential in sales operations. Under centralization, the top manager related to sales can keep the entire authority with himself. It also ensures quick decisions, creative and imaginative action and innovative ideas which are essential for the success of the business.

4. Uniformity

The system has the advantage of uniformity of action. The authority at head-quarters can take decisions which can bring uniformity of action by operating branches.

5. Economy

The central type of sales organisation ensures economy in different areas of activities like recording, accounting, stationary man-hours.

6. Effective Control

It helps to exercise an effective control over products in storage. Effective control is not possible when closing stock is held in various dispersed locations. Wastage, spillage, damage, poor protection are the common problems in decentralization.

7. Less Clerical Work

A centralized sales organisation helps to avoid wasteful duplication of work and excess staff.

8. Stock Taking

It facilitates easy stock taking at one place. Also effective security and safety of stock is possible.

9. Integration

The system has an in-built merit of providing integration. It is the centralization that helps to unite and integrate the total operations of the enterprise.

10. Emergencies

Centralisation of functions is essential when the business conditions are uncertain and there are chances that emergency conditions may affect the existence of the company itself. The system will help n taking rational decisions to handle emergencies, crisis etc.

5.6.2 DISADVANTAGES

1. Centralised type of sales organisation is not suitable for big size concerns.
2. The cost of establishment and maintenance of separate sales organisations at branch levels is not only complex but also or prohibitive cost, and hence all concerns cannot afford it.
3. It is known for fixed and rigid procedure not suitable in a dynamic and competitive world.
4. This method is known for delay in implementing decisions and communication.
5. Risk of heavy loss is possible in case of fire and other accidents.

5.7 DECENTRALISATION OF SALES ORGANISATION

Sales routines effected by various managers at different regional or branch levels is called decentralized sales. The type of organisation that facilitates sales decisions at delegated levels is called decentralized sales organisation. When a corporate business grows and expands, it often establishes branches in order to market its products over a large territory. There is no alternative for a corporate body except to decentralize its activities by establishing separate divisions and branch offices. Multi-product and multi-market companies, whose business grows, convert their wide market groups into separate divisions.

In order to meet increasing coverage of territory, corporate houses are required to make their products over a large territory. As a result, corporate houses generally split their marketing activities into certain divisions. The various divisions are located in different parts of the territory. The main object of converting their larger product or market groups is dependent on the nature of the product and market groups and their needs of a particular branch. The marketing organisation to be adopted for the branch area depends on the size, the nature of the branch and the degree of centralization and decentralizations and the degree of control needed by the head-office. The branches or divisional organisations set up their own departments and services.

In such a cases some of the marketing operations necessarily have to be handed over to the divisions and branch offices. Here two important issues arise as to marketing activities. There are two organisations namely:

1. Corporate marketing office
2. Marketing organisation at the branch

When selling organisation is decentralized, a number of factors should be considered such as distance, time, transportation etc. Under this type of sales organisation powers are delegated to branch or divisional level salesforce except those which can only be exercised at head-quarters. Local branches are made autonomous to work with all powers, authority and responsibility for their sales operations delegated to a head of autonomous centers.

5.7.1 ADVANTAGES

Though management experts in the early days conceived the centralized pattern of sales organisation as the best way, but during the years, management found the problems inherent in this system. This has led to a system of decentralization in sales organisation. However, the following are some of the advantages of decentralization of sales organisation.

1. Reduces the Burden on Top Executives

The entire burden of decision making will be on top executives under centralization. It is due to many decisions, many problems and pressure of work. When powers are delegated in a decentralized set-up, the top managers become free from burden of taking work load. As a result, top executives can concentrate and spare time on strategic things and can think for future and make plans for the future.

2. Speedy Decisions

Red tapism is a serious problem in organisations. When the authority for decision making is decentralized, it avoids problem of red tapism. The salesforce who are closely associated with the problems can make reasonably sound, quick and accurate decisions. Actually, at ground level they are fully aware of realities of the problem.

3. Diversification

Another merit of decentralization is that it facilitates the growth, diversification of products, activities, product lines and markets. There may be many product lines; the decentralized sales set up will give importance to growing items. In the centralized set up, a sales department may not give equal importance to all products.

4. Development of Managerial Personnel

In a decentralized sales organisation the salesforce at lower level get the opportunity to develop themselves by improving their qualities and talents. The structure provides a testing and training ground for all round development, as a result they become qualified for higher managerial positions. They get practical knowledge from grass root level to highest level of sales administration.

5. Motivation and Morale

The decentralized pattern of sales organisation improves motivation. The concept of delegation of powers of management promotes initiative, responsibility and morale of subordinates. Local managers are given higher degree of authority which improves their motivation and heightens their morale. It also fosters team spirit, group cohesiveness and relationship.

6. Better Co-ordination

Under decentralization it is possible to achieve effective co-ordination of operations. All functions and activities are well co-ordinated at the branch level. The nature of set-up demands co-ordinated efforts to achieve the objectives. Co-ordination is a serious problem in a centralized type of sales organisation.

7. Effective Control

The principle of span of control can effectively be implemented in decentralized sales organisation. The span of control will be more effective by virtue of higher degree of decentralization. Because of the responsibility center concept, accountability and profit center concept will facilitate effective control and supervision. The executives at lower level are held responsible for their decisions.

8. Transportation

In a decentralized type of sales organistion it takes less time for transportation of products from divisional stores to the sales point. Transportation under centralized selling may sometime lead to loss of orders.

9. Centralized risks

Keeping all varieties of product lines at one place under centralized system is associated with the problem of risk.

10. Suitable

The decentralized sales structure is more suitable for emergency sales.

5.7.2 DISADVANTAGES

Decentralization of sales organisation may lead to the following limitations.

1. The decentralization is associated with high cost of operation. It increases the establishment expenses because it requires the employment of many talented personnel.
2. The small organisations cannot afford to set up such an organisation which involves highly paid and talented personnel. It is suitable only to larger organisations.
3. It is not always feasible, unless the product lines of the company are broad enough.
4. Practically securing better co-ordination of operations is not possible among the various autonomous branches.
5. The freedom of operation, action, decision making of diversified nature create problem of policy control. It leads to serious losses for some organisations, as a result, companies were forced to recentralise the operations.
6. Decentralisation is not workable due to operation of uncontrollable external factors and uncertainties.
7. Uniformity, consistency in respect of procedures and implementations are not possible.
8. There is a wide scope for wastage, pilferage and insecurity.
9. Economics of large scale selling and transportation cannot be obtained.
10. It is costly, time consuming and involves heavy labour cost due to heavy and duplicate clerical works.

CHECK YOUR PROGRESS - 4

Discuss the merits of centralization and decentralization of sales organisation.

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5.8 BALANCE BETWEEN CENTRALISATION AND DECENTRALISATION

So these two types of sales organisation are related to patterns which indicate the extent to which the decision making and controlling powers of sales organisations are delegated to various levels. The authority for making decisions on important matters is centralized at head-quarters level; the salesforce of various levels at divisional level or branch level are free from major responsibility.

On the other hand, strong centralization of decision making is also not desirable in the light of expansion and growth. Top management at head quarters alone cannot take all decisions when an organisation grows in size and expands activities. The number of decisions will be more and dynamic and it will take more time to decide and solve.

In real life situations we do not come across exclusively, an absolute centralization or absolute decentralization. It is the organizational necessity to delegate and disperse some of the areas to lower level for making decisions. Both have their own merits and demerits. These structures are to be considered in relative terms rather than absolute terms.

The degree of centralization and decentralization depends upon the size, product, distance, transportation, effectiveness and competitive necessity. The trend in recent years is towards delegation of powers in a rapidly growing organisation. There are many organisations which have both centralized and decentralized pattern of sales organisation.

Thus, both are mutually dependent structures. No structure be sustained without the other. What the management requires is between the unity of purpose and integrity also freedom of operation under decentralization will decide the type of sales organisation.

5.9 SUMMING UP

In this unit we have examined four topics relating to sales organisation and planning. The importance of sales organisation has been emphasized from different dimensions. Developing sales organisation is of various types which may vary in case of a new company, an existing company, and remodelling existing structures. We have noted the various steps involved in developing a sales organisation.

We have also indicated several types of organisation structures based on functions, product, customer, geography, matrix etc. Finally we have presented a detailed discussion on the centralization and decentralization of sales organisation and their relative merits and demerits.

5.10 CHECK YOUR PROGRESS : MODEL ANSWERS

1. The importance of sales organisation may be emphasized from the following dimensions:

   a) It helps development of specialists
   b) It promotes efficiency
   c) It helps in the growth of enterprise
   d) It helps in executive development
   e) It promotes co-ordination.

2. The following are the major steps involved in the development of sales organisation:

   a) Setting objectives
   b) Identifying activities
   c) Grouping of activities
   d) Assigning the duties
   e) Establishing authority responsibility relationship
   f) Control mechanism.

3. Based on the activities, the bases of organizational structure relating to sales activities are classified as follows:

   a) Functional organisation
   b) Geographic organisation
   c) Product organisation
   d) Market organisation
   e) Matrix organisation.

4. The following are the merits of centralized sales organisation:

   a) Locational advantages
   b) Specialisation
   c) Personal leadership
   d) Uniformity
   e) Effective control
   f) Less clerical work
   g) Integration
   h) Handling emergencies.

   The following are the merits of decentralized sales organisation:

   a) Speedy decision
   b) Reduces the burden on top executives
   c) Diversification
   d) Development of managerial personnel
   e) Motivation and morale
   f) Better co-ordination
   g) Effective control
   h) Transportation cost.

5.11 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. Explain the steps in developing sales organisation.
2. Describe the features of various types of sales organisation.
3. What do you understand by centralization of sales organisation? Explain its advantages and disadvantages.
4. Identify and discuss the relative merits and demerits of decentralization of sales organisation.
5. How to maintain balance between centralization and decentralization?
6. Explain the limitations of decentralized sales organisations.
7. Describe the working mechanism of centralized system of sales organisation.

II. Answer the following questions in about 15 lines each.

1. Define sales organisation.
2. Sales organisation structure is an essential pre-requisite of efficient management. Discuss.
3. What do you understand by sales organisation structure?
4. Discuss the importance of sales organisation.

5.12 RECOMMENDED BOOKS

1. Shapiro, Benson P. : **Sales Programme Management**
2. J. Taylor Sims, J. Robert Foster, Arch G. Woodside : **Marketing Channels**
3. Henry Minzberg : **The Structure of Organisations**

4. Richard R. Still, and E.W. Cundiff AP Govoni : **Sales Management**

5.13 GLOSSARY

Sales organisation	: An enterprise which undertakes the selling as a main aspect and which designs as product, functional, geographical and matrix organisation.
Centralised sales organisation	: At which the authority for decision making relating to sales is centralized.
Decentralised sales organisation	: Sales decisions delegated at different levels i.e. lower level is decentralized.
Product organisation	: An organisation which produces a variety of products or services, or the same type of products.
Specilisation	: Sales operations are operated by a specilist and one having special knowledge is responsible.
Diversification	: The activities which facilitate the growth and lead to change its operation from one to another product or product line happens to result in diversification.

UNIT - 6 : SALES PROMOTION

Contents

6.0 AIMS AND OBJECTIVES

The aim of this unit is to explain the objectives of sales promotion and different methods of sales promotion.

After studying this Unit, you should be able to:

- understand the concept of sales promotion;
- explain the objectives of sales promotion;
- describe the methods of sales promotion;
- explain in particular the /aricus consumer promotion methods;
- identify trade promotion methods; and
- understand sales force promotion methods.

6.1 INTRODUCTION

Sales Promotion is one of the forms of communication in Marketing Management. In other words, sales promotion invariably acts as a complement to advertising and personal selling. Therefore, sales promotion is one of the components of promotion mix. The steps taken to increase the sales, which are indirect and non-personal is termed as sales promotion. There are four major variables which act as media of communication of information about the products between the seller and buyer with the object of changing the buying behaviour of the customers.

One of the major variables with which the marketing manager operates is 'Promotion'. The other variables are product, price, and physical distribution. When a marketing manager takes a marketing mix decision, it includes promotion decision also. The success of marketing efforts will depend to a great extent upon the effective utilization of the promotion mix. The most important objective of sales promotion activities is to identify and contact prospective customers with a promotional message.

Sales promotion activities are quite opposite to personal selling which is quite direct and personal. The idea of sales promotion is to stimulate customers and dealers effectively. Customers promotion is quite different from dealer promotion. Sales promotion, from the viewpoint of customers, may be in-home promotional schemes. It may include promotional steps like distribution of samples, arranging demonstration and dramatization, premium offer etc. Sales promotion is an activity operating adjacent to personal selling and advertising. The essence of sales promotion is that it may be used either at consumers, sales force and the channel members. Though an effective measure, sales promotion technique is used only as a short-term measure to stimulate customers to buy.

Selling may be regarded as a '**Pushing**' process when sales effort is devoted directly to those to whom the transfer of goods is to be made and as a 'Pulling' process when the endeavour is made to help sell for, or to reduce the difficulty of selling for those who resell. All selling efforts directed at consumers who buy the goods from retailers are 'pull' or indirect methods. Accordingly, sales promotion provides an incentive to buy the product. There are many promotional tools, of them some are uniformly used by all organisations and while some are used by manufacturers, non-profit organisations, retailers, trade associations.

In selling and marketing efforts, there are popularly **five techniques** followed generally by most organisations. These are:

1. Advertising
2. Personal Selling
3. Direct Marketing
4. Sales Promotion
5. Publicity.

Among them, sales promotion occupies second important place, i.e., next to advertising. Many organisations have been spending heavily on sales promotion activities, which may account for nearly 70 per cent of budget expenditure. The technique of sales promotion has become more popular in recent years, particularly in consumer product market. There are several factors for the increased use of sales promotion technique, an effective sales tool.

CHECK YOUR PROGRESS -1

Explain the concept of sales promotion.

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6.2 DEFINITION OF SALES PROMOTION

According to Philip Kotler "Sales promotion consists of a diverse collection of incentive tools, mostly short-term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade".

"Promotion encompasses all the tools in the marketing mix whose major role is persuasive communication.

Mason and Ruth says that "Promotion consists of those activities that are designed to bring a company's goods or services to the favourable attention of customers".

In the words of **Willim J.Stanton** "Promotion is an exercise in information, persuasion and influence".

According to **American Marketing Association** "These marketing activities, other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness such as display shows and exhibitions, demonstrations and various non-recurrent selling efforts not in the ordinary routine".

Stanely M.Ulanoff defined sales promotion, that " All the marketing and promotion activities other than advertising, personal selling and publicity that motivate and encourage the consumer to purchase by means of such inducements as premiums, advertising specialties, samples, cents-off coupons, sweep stakes, contests, games, trading stamps, refunds, rebates, exhibits, displays and demonstration.

It is employed as well, to motivate retailers', wholesaler, the manufacturers' sales forces to sell through the use of such incentives as awards or prizes (merchandise, cash and travel), direct payments and allowances, co-operative advertising, and trade shows".

6.3 OBJECTIVES OF SALES PROMOTION

Every organisation going for sales promotion must first establish clear objectives to be achieved. Without having the objectives before a marketing manager, it is not possible to identify tools, develop programmes, implement, execute control and evaluate sales promotion technique. The source for establishing objectives for sales promotion is basic marketing objectives broadly developed for the product. Some of the sales promotion objectives may emerge from broader promotion objectives.

However, the objectives for sales promotion may slightly differ from one organisation to another organisation such as commercial organisations and non-profit organisations and other service providers. Thus specific sales promotion objectives may vary with type of product, reputation of the product, degree of competition and target market. For instance, the objectives are quite different particularly in consumer market comparing industrial product.

Objectives may also differ in case of stimulating and encouraging purchase of large size units, promotion among non-users, and holding existing consumers. Similarly, in case of dealers and retailers promotion, the objectives may include to persuade them to include their product in their inventory building brand loyalty etc. However, objectives may generally include to create awareness, stimulate buyers to buy, and dealers and to promote credibility.

However, the following are the sales promotion objectives:

1. Increase in Sales

This objective is the short-term benefit. The essence of sales promotion is that it is intended as a very effective influence on sales. Promotion is adjunct to personal selling and advertising can be used as an effective measure of increasing the sales further. Volume generating promotional exercise always brings some additional sales for non-user consumers, attractive switchers away from competitors brand. This objective changes the elasticity of

...and of the product by adopting various measures such as samples, coupons, gifts, prizes, ...ee trials premium, discounts etc.

2. Providing Information

An effective sales promotion activity provides useful information to the consumers. Without information the consumers cannot make any decision to buy a product. As a matter of fact sales promotion technique is designed to bring about desired change in the behaviour of consumers towards product buying decision. The producer providing information to the consumers may include quality of the product, price, used to compare advantages, features, and other utility aspects.

The overall objectives of commercial organisations are to provide as much detailed information as possible repetitively. Today most organisations devote immense efforts, allowing heavy budget on providing information to the customers. However, companies also need to be aware of their external environment and its current and potential effects. Information is needed to inform the customers about the changes in quality, design, size, packing or any other features.

3. Reducing Seasonal Decline

One of the main objectives of sales promotion is to eliminate or reduce seasonal decline. Generally, during slack season the promotional activities help in maintaining the sale of a product. During such seasons consumers, middlemen and other dealers are offered attractive incentives such as prizes, gifts, samples, coupons, discounts, free trials with their products with a view to induce the customers to buy their products.

4. Lasting Memory

To keep the memory alive, sales promotion technique is adopted. It is a persuasive communication which enables the sales promoter to keep the memory of the product alive in the minds of the customers. But its operative activity is the work of advertising to keep the memory alive.

5. Inducement to Middlemen

It is the objective of the sales promotion to induce middlemen to keep products in their inventory. The middlemen may include wholesalers, retailers, distributors and others. They are induced to buy more and keep more stock by offering more incentives such as credit facilities, higher trade and cash discount and free gifts.

6. Creating Awareness

Consumers do not have full information about the availability of products or services. The important objectives include educating the customers or users. Unless awareness is created, the customers may not decide and make good choice.

7. Brand Loyalty

Loyalty of consumers with reference to a product implies faithfulness to a product. It is subjective and personal in nature. Sales promotion is an effective tool to build up brand image and brand loyalty and to make them strong enough not to change a particular brand. This can be achieved through constant and repeated incentives about the brand. In a country like India where nearly 70 percent of population is illiterate, the purpose of sales promotion should be to increase loyalty to a product or service.

8. Defining Target Audience

Any sales promotion effort should be designed in such way to be targeted to specific groups. Unless target audience is defined, it is not possible to attain the very objectives of marketing. The target audience specially may include retailers and their customers. The target for sales promotion should be directed to the customers by offering higher incentives.

Defining target audience is particularly important to decide the type and intensity. Defining target audience will be decided by age, sex, income, social status, customer behaviour, social environment as well as geographical location.

9. Impact on Repeating Purchase

Sales promotion can be targeted to achieve specific objectives such as increasing repeat purchases. This effort is duplicated with increasing volume of sales promotion. In this, coupons are issued on the products, giving discount on the next purchase and specific incentives for multiples purchases. For instance, multiple purchases like buying, five bottles of clinic all clear would get one extra bottle as free. Another example is the collection of few empty caps or bottles or empty packs and send them for some benefits to be offered by the companies.

10. Indirect Roles

The other objectives of sales promotion may include efforts to face a severe competition successfully from the competitors' product. Another objective is to change the marketing strategies and policies keeping in view the strategies and policies of the competitors. It promotes immediate sales, build primary demand, introduce a price deal, helps salesmen by building an awareness of a product among customers, dealers etc.

11. Other Objectives

a) To make slow moving product to move speedily.

b) Widening usage of product.

c) To explore new territorial areas, identify and attract new customers.

d) Creating interest and educating customers as to the utility of the product.

e) Avoiding delay in launching a new product.

f) Buying activity is associated with risk and uncertainties. It reduces the perception of risk associated with buying.

g) Build image and impression.

h) Motivate sales force and to improve the relationship between manufacturers and dealers.

CHECK YOUR PROGRESS – 2

State the objectives of sales promotion.

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6.4 METHODS OF SALES PROMOTION

Sales promotion methods, or tools to be used, should be complementary. The most effective strategy often includes an integrated mix of several methods of promotion. This situation arises because there are several methods of sales promotion. Although such a mix of methods is an expensive one, but customer satisfaction is important, because finding a new customer is costlier than the cost of retaining the existing customer. A number of factors should be considered by the promotion manager in selecting a method such as type of market, type of product, objectives of sales promotion, the position of the competitors and the cost of each tool. Again the methods may vary between consumer promotions, trade promotions and sales force promotions.

The sales promotion method is always more effective when it is selected objectively and sales promotion method should normally be an adjunct to personal selling or advertising. It is the responsibility of sales promotion manager to choose the right and suitable method of promotion with his world class professional talent. Selecting a consumer promotion method may also vary widely in case of launching a new product, an existing product and a product passing through different stages of its life cycle. The various methods of sales promotion can be broadly classified under the following three categories and methods which can be identified under each category. For the sake of convenience of identifying promotion methods, they are classified as follows:

- Consumer Promotion Methods.
- Trade Promotion Methods.
- Sales Force Promotion.

The various methods under each of the above category of promotion are as follows

6.4.1 CONSUMER PROMOTION METHODS

Consumer promotion methods are used to persuade and induce the existing customers or to attract new customers to the company's product. However, consumer promotion methods, or tools, may include:

1. Samples

Sampling is a tool which involves free distribution of product samples to the ultimate users. Sampling method is used when a new product launched is in early stages. It is the most powerful tool of consumer promotion. It is a small amount or portion of a product given away freely to the ultimate customers by the marketers. For instance, handout free samples of the detergent soap or a perfume, a sample pack, bottle, sachet, samples of a product or service are delivered:

i. Door to door;

ii. Sent in the mail;

iii. Picked up in a store;

iv. Attached to another product etc.

It is a non-price method of consumer promotion. This method is widely used in case of products possessing unique features. Sample method is the best tool to communicate a new utility, taste, product performance but sampling method is a costly device, though it is the most effective, direct and immediate way of attaining consumer trial.

2. Coupons

The word coupon in a commercial world is used to mean a small and usually detachable piece of paper that gives the holder the right to enjoy certain benefits attached to the product. It is a certificate which entitles the bearer to a prescribed saving on a purchase of a specified product. Such certificates may be given:

- door to door distribution
- mailed to the customers
- enclosed in other products
- attached to other products
- inserted in a magazine
- inserted in news paper advertisements
- by dealers on purchase.

They are printed forms, often cut-off from a newspaper, magazine or product. Customer coupons are issued by both the manufacturers and the dealers for sales promotion. Coupon method is effective in stimulating sales of mature brand and inducing early trial of a new brand. Coupons are most effective when the promotion aim is to penetrate or trial of the product to new customers. The objectives of using coupons is to encourage product trials, build loyalty, trade up regular users, stimulate re-purchase rate as well as solicit enquiries.

3. Cash Refund Offers

Money refund offer generally from the retailer or by mail is also a popular consumer promotion method. It is a way of offering a controlled price reduction. The method offers a refund of money to the consumer on the basis of a coupon which is the part of the package. There will be a procedure of proof of purchase of a particular product and the manufacturer refunds full or part of purchase price, if the product is not upto the satisfaction of the consumers.

Cash refund offer scheme is generally and widely published in media advertisements. The object of this scheme is to induce trial from primary users, motivate several product purchases, obtain displays at the retailers, help retailers tie in with other product etc. Though an important consumer promotion tool, however, the actual cash refund procedure is complex and involves lengthy procedure and time consuming. Besides, cash refund is also expensive and sometimes the refund may be as much as the whole purchase price.

4. Prizes

The scheme includes contests, sweepstakes, games etc. In this, awards are given to the winner of the competition of the consumers. Prizes are given on chance activities to win cash, trips or merchandise as a result of purchasing something. Contest is an event in which the buyers compete against one another for a prize. In this scheme the consumers have to submit an entry to be examined by a panel of judges. Sweepstake is a type of gambling in which all the money bet on the result of a contest is divided among those who by chance have selected or been given tickets corresponding to the eventual winners. In this, the consumers have to submit their names in a drawing.

A game is a form of a play such as missing letters, bingo numbers which help the consumers to buy products. The object of this tool is to create brand awareness and to stimulate interest in the brand and educate the consumers with brand usage and benefits. All consumers are invited to participate in this scheme.

5. Free Trials

Free trial scheme is designed to enable the consumers to lose the product without cost in the best hope that the consumers will buy the product. The perspective consumers are invited to take the product without cost and use. For instance, it is popular in durable products and auto-mobile industry. The ultimate object of free trials is to encourage and stimulate purchase interest.

6. Premiums

In this, products are offered comparatively at a low cost or free as incentive to purchase a particular product. Premiums are also called gifts. For instance, with pack premium accompanies the product inside or on the package. There is another scheme under this method called as a free in the mail premium. Like this there are several premium schemes, namely, package premium, branded premium, over-the-counter premium, container premium, self liquidating premium and personality premium.

The objectives of premium scheme are to encourage purchage, stimulate loyalty, off-season sales promotion, induce trial of new product.

7. Patronage Awards

Patronage is a support and encouragement given by the consumer. It is a customer's support for a shop, patronizing a product. The awards or values in cash or in other forms are proportional to patronage of a certain company or group of companies.

8. Point of Purchase (POP) Displays

It operates at the point of purchase or sale. Displays are those special displays, racks, banners, exhibits that are placed in retail store to support the sale of a brand. The objectives of this scheme are to attract the customers at retail store, remind customers, encourage impulse buying, ensure additional visibility to the advertising campaign. Retailers usually handling several displays, signs and postures are received from manufacturers. To solve the problems, manufacturers are creating POP materials. They are tying them in with television or print messages to set them up.

9. Cross Promotion

A consumer promotion tool uses one brand to advertise another non-competing brand.

10. Bonus Stamps

The retailers or the manufacturers issue bonus stamps to the consumers in proportion to their purchases. The consumer goes on collecting stamps until he has sufficient quantity to obtain a desired merchandise in exchange of the stamps.

11. Tie-in Promotion

The object of this scheme is to increase the pulling power where in two or more brands or companies, team upon coupons, refunds and contests. Multiple sales forces are adopting this method in promotion to retailers. Two or more currents of products are wrapped together and offered at a lower price unless co-operation is available from the retailer, tie-in promotions may not be successful.

12. Demonstration

Demonstration is a consumer promotion tool wherein doing skills are exhibited which show and explains how the product works or used. It is a display for public entertainment. Demonstrations are used when a new brand is promoted. It is seen that the demonstrations are arranged in store at fairs, exhibitions, temple festivals or even on a door-to-door basis. These are widely employed for household appliances, but demonstrations are employed for all purposes.

13. Product Warrantees

It means customers to whom a warranty is promised by the seller. A product warrantee may be explicit or implicit promises by the vendor assuring that the product will perform the utilities as specified. In this the vendor will fix it or refund the customer's money during a specified period.

6.4.2 TRADE PROMOTION METHODS

This method is also called trade promotion or middlemen promotion of dealer. Manufacturers offer these trade promotions, certain promotion incentives to induce them to keep large stock of their products in their inventory. Trade promotion tools are adopted when the products are sold through intermediaries like wholesalers, retailers etc. Trade promotion tools constitute major promotion comparing to consumer promotion tools.

Manufacturers offer money and non-money awards to the middlemen with a view to carry the brand, to carry more units than normal quantity and to encourage to promote the brand by featuring, display and price reduction. However, the following are such trade promotion methods.

1. Allowances

It is a buying allowance, discount offered to the middlemen to induce them to promote vendor's brand and to carry more inventory in their stock and to push the product. It is a discount which may either be deducted on invoice price or on cash. These allowances are temporary price deductions or reimbursement of expenses incurred by the middlemen in full or part. There are several types in trade allowances, such as:

i. Buying allowance

ii. Buy-back allowance

iii. Count and recount allowance

iv. Display allowance

v. Co-operative advertising and promotion

The objectives of all these tools are to increase the trade, encourage and stimulate purchase, to move stock faster, to create enthusiasm, and to improve product and retail identity.

2. Free Goods

The vendor offers more products for the same price. For instance, two products for the same price. It encourages the customers to stick to the product or buy more than usual for the same price. Free goods scheme offers an extra case of products to intermediaries who buy a certain quantity. Vendors usually offer push money or free speciality advertising items to retailers that carry the vendor's name. So it is a trade promotion tool, as it offers a certain amount of product free of cost. It has several advantages. However, the consumers must remember that such price offer is only a temporary one.

3. Off-Invoice

It is price off or off-list offer, offering a product at a lower than the normal price. It is a straight discount, off the list price on each unit of product during a specified period. The objective of this method is to encourage immediate sales, attract non-users, induce new product trial, counter competition, inventory clearance at the retail level. The price off scheme also encourages middlemen to buy a quantity which they might not ordinarily buy.

4. Incentive on Next Purchase

It is called money off next purchase to extend buying patterns and promote customer loyalty. The scheme is a part of the product label.

5. Loss Leader Pricing

With a view to attract customers a product to be sold may actually be priced below the cost of the product. In this scheme it is hoped that customers buy the product.

6. Credit

Chief credit facility may be used as a trade promotion tool instead of price reduction. Such offer is advantageous to the vendor who has access to lower cost of credit offers of chief credit are often found in domestic durable products like furniture business. In this, the problem of bad debts should not be ignored. Similarly, chief credit may encourage the customer to the use of credit facilities.

7. Display and Advertising Allowances

The dealer arranges to display the product of the manufacturer. For this purpose allowance is offered to the dealer for displaying the manufacturer's product. It is a type of point of purchase advertising which uses window display of the dealer. The allowance is given on the basis of space provided to display the manufacturer's product in the shop. Window display gives best opportunity to expose the product of the manufacturers. So the object of dealer display method is to provide product exposure at the point of purchase, generate traffic at the center and infuse enthusiasm among the dealers.

8. Push Money

The object of this scheme is to push a specific product or product line. Offer of push money is an incentive payment in cash or in kind to the retailers or salesmen to push the sales at a fixed rate for each unit. It is an additional compensation being offered to trade or sales force for pushing additionally a specific product.

9. Sales Contest

This is non-price promotion offer not directly related to price. In this scheme the buyers will have the right to one or more entries in a competition. It creates interest in the purchase. The objective of the scheme is to stimulate, encourage and motivate distributors, dealers and their sales force. The retailers will be offered cash prizes who will win the contest, who actually have made highest sales of the company's product.

10. Dealer Listed Promotion

It is an offer to the dealers wherein the name and address of the dealer are given in the advertisement and other publicity material such as calendars, diaries etc. Dealer listed promotion scheme not only educates the consumers but also help in convincing retailers, when their co-operation is needed in promotion.

6.4.3 SALES FORCE PROMOTION METHODS

Manufacturers spend more money on sales force promotion also out of their budget. The role of the sales force and their importance has been increasing because of their ability in pushing sales. The companies greatly depend on sales force in increasing their sales. Personal selling method has been greatly recognized in recent years as the most important method of sales promotion. Companies are spending crores of rupees on sales promotion tools. These methods are used to gather business leads, impress and reward customers and to encourage the sales force to greater effort.

However, the following are some of the sales force promotion tools in popular use.

1. Bonus

Bonus is offered to the sales force whose sales are more than a target. Generally every salesman is assigned a fixed quota of sales to be achieved during a specified period. For any amount of sale over and above the fixed quota, made by salesmen, they are eligible for bonus. Bonus is fixed generally as a fixed percentage on sales or per unit. This scheme encourages salesmen to sell more quantities of the product.

2. Sales Force Contest

This method is designed to induce the sales force to increase their sales during a fixed period. It takes the form of giving prizes to those who succeed. Companies organize periodically sales contests among salesmen locally, regionally, State and National levels.

It stimulates salesmen to increase their interest and efforts over a stated period. Salesmen who recorded top performance may be given cash prizes, gifts, trips and a variety of prizes and incentives.

3. Conventions and Trade Shows

Conducting sales meeting, salesmen's conventions and conferences and trade shows as a sales force promotion device. Companies today are spending a sizeable percentage of their annual sales promotion budget in organizing trade shows, conventions etc. They are conducted by the manufacturers for the purpose of making all the sales force to meet at a platform, educating them, inspiring and rewarding the salesmen.

At this occasion salesmen are given free hand to express their problems, plans etc. They are best tools when new products and new selling techniques are discussed and explained. Commerce and industry associations organize periodically such trade shows, sales meetings, conventions and conferences. Vendors of the products buy space to build pavilions and display to demonstrate their products.

Sales promotion methods are summarized in the following chart.

TRADE PROMOTION METHODS

Consumer Promotion Methods	Trade Promotion Methods	Sales Force Promotion
1. Samples	Allowances	Bonus
2. Coupons	Free goods	Sales force contest
3. Cash refund offers	Off invoice	Conventions and trade shows
4. Prizes	Incentive on purchase	
5. Free trials	Loss leader printing	
6. Premiums	Credit	
7. Patronage Awards	Display and advertising allowances	
8. Price packs	Push money	
9. Point of purchase displays	Sales Contest	
10. Cross promotion	Dealer listed promotion	
11. Bonus stamps		
12. Tie-in promotion		
13. Demonstration		
14. Warrantees		

CHECK YOUR PROGRESS – 3

What are various methods of sales promotion?

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6.5 SUMMING UP

In this unit we have discussed the subject of sales promotion. One of the marketing functions is promotion. Promotion is one of the variables like product, price, physical distribution. The success or failure of marketing efforts will depend to a great extent upon the effective utilization of promotion mix. In recent years sales promotion technique is being widely used particularly in case of consumer goods. Promotion is quite opposite to personal selling which is direct and personal. The object of sales promotion is to offer something extra both in monetary and non-monetary incentives to motivate the consumers to buy. Sales promotion technique operates at the level of consumers, trade and sales force.

Sales promotion is a secondary promotional mix channel. It is a sort of communication process in marketing field. Among four important types of promotional activities sales promotion tool is an important one. The other promotional activities are advertising, personal selling and publicity. In this unit you will know the concept, the objectives of sales promotion and methods of sales promotion.

6.6 CHECK YOUR PROGRESS : MODEL ANSWERS

1. Sales promotion is one of the forms of communication and it is a complement to advertising and personal selling.

   Promotion is a major variable, comparing other variables like product price and physical distribution.

   The sales promotion includes the following elements

   - advertising
   - personal selling
   - sales promotion
   - direct marketing
   - publicity

2. The following are the objectives of sales promotion:

   a) Increase in sales.
   b) Providing product information.
   c) Eliminating or reducing seasonal decline in sales.
   d) To keep the memory of the product alive.
   e) To induce middlemen to keep product in their inventory.
   f) Creating awareness among the customers or users.
   g) To build up brand image and brand loyalty.
   h) To create an impact of increasing repetitive purchases.
   i) To face competition.

3. The various methods of sales promotion can be broadly classified under the following three categories and tools identified under each category:

   I. Consumer Promotion Methods:

   a) Samples, b) Coupons, c) Cash refund offers, d) Prizes, e) Re-trials, f) Premiums, g) Bonus stamps, h) Tie in promotion.

   II. Trade Promotion Methods:

   a) Allowances, b) Free goods, c) Off invoice, d) Incentive on next purchase, e) Loss leader pricing, f) Chief credit facilities, g) Push money, h) Sales contest, i) Dealer listed Promotion, j) Display and advertising allowances.

6.7 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. What are sales promotion activities?
2. Discuss the objectives of sales promotion.
3. Explain various tools of consumer promotion methods.
4. What are trade promotion methods? Explain.

5. What are different methods of sales promotion?
6. State various sales force promotion techniques.
7. Discuss the importance of sales contest in sales promotion.

II. Answer the following questions in about 15 lines each.

1. Explain coupons as a sales promotion method.
2. What is demonstration? State its features.
3. What are free goods?
4. What do you understand by sales promotion?

6.8 RECOMMENDED BOOKS

Luick F. John and William Lee Ziegler : **Sales Promotion and Modern Merchandising**

Lodish M. Leonard : **The Advertising and Promotion Challenges**

T.F. Dodd : **Sales Forecasting**

Eugene J. Kelley and William Lazer : **Managerial Marketing - Perspectives and Viewpoints**

6.9 GLOSSARY

Coupons : A certificate for a product free or in part payment to encourage product drive.

Premium : Is an incentive to sell product by way of offering an article free of cost.

Trade allowances : A temporary price reduction.

Gifts : An article given free of cost to attract customers.

Trade promotion : Activities at the level of wholesaler and retailer.

Brand loyalty : Faithfulness to a product.

Patronage : A support and encouragement given by a customer.

Push money : An incentive payment in cash or in kind to the retailer.

UNIT - 7 : SALES FORECASTING TECHNIQUES

Contents

7.0 AIMS AND OBJECTIVES

The aim of this Unit is to explain the importance of sales forecasting and methods of sales forecasting.

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

- explain the meaning of sales forecasting;
- understand the importance of sales forecasting;
- know the types of forecasting; and
- discuss the various methods of sales forecasting.

7.1 INTRODUCTION

Among several special areas of marketing management sales forecasting is one of the gray areas. It occupies a very important place in marketing management. It plays a crucial role because without a proper sales forecasting, marketing, planning and programming cannot be formulated to attain desired sales and marketing objectives. Business organisations are increasingly adopting forecasting methods in marketing management. In order to know what a marketing manager will do, you must first know about future trends. This philosophy of marketing management places greater emphasis on sales forecasting.

It is the basis for the marketing executives, to design marketing strategies and programmes, marketing efforts to achieve realistic and predetermined objectives. The technique of sales forecasting will greatly help management in implementing the marketing management approach. It forms as a basis for developing coordinated and goal directed systems of marketing which is one of the crucial and vital tools. Adequate marketing programmes and the effective formulation of various related marketing strategies are based on sales forecasting data.

7.2 MEANING AND DEFINITION

Meaning of Forecasting

The literary meaning of the word forecast means telling in advance about what is expected to happen. It is a process of prediction with the help of information. Forecasting with reference to sales is a process of preparation of statement that predicts about sales potential with the help of market and consumer information. So sales forecast predicts the value and the quantity of sales over a period of time. The figures so derived by adapting a suitable sales forecasting methods become the basis of marketing mix, sales planning and formulation of strategies.

It is the prediction about the consumer buying behaviour and market trends. Forecasting of future events is a popular tool now-a-days in every activity in view of severe competition, uncertainties, fast changing habits and tastes of the consumer, instability of economic and political matters and globalisation of marketing.

It is the forecasting that aids the marketers to make an effective design of plan of action on the basis of anticipated future events relating to marketing. In this the data and information relating to products or services, consumers and industry inferences are drawn scientifically by applying sophisticated statistical and other quantitative techniques. It relates to calculation of market, market potential during a particular future period.

It is the function of the marketing manager to forecast what is likely to happen in the future in order to formulate suitable marketing strategy. The future estimates and future situations relating to sales also would guide the planning of other functional areas such as production, finance, purchasing, stores, advertising, etc.

According to American Marketing Association

Sales forecasting is "an estimate of sales in dollars or physical units for a specified future period under a proposed marketing plan or programme and under an assumed set of economic and other forces outside the unit for which the forecast is made. The forecast may be for a specified item of merchandise or for an entire line".

Philip Kotelr says that "the company sales forecast is the expected level of company sales based on a chosen marketing plan and assumed environmental condition".

CHECK YOUR PROGRESS -1

Explain the concept of sales forecasting.

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7.3 IMPORTANCE OF SALES FORECASTING

Marketing managers attach great importance to sales forecasting. Forecasting is a potential tool that commands high significance not only to the firm but also to the industry as well as the society as a whole. The sales manager cannot plan, the production manger cannot schedule production operation, the material manager cannot maintain economic size and financial manager cannot budget effectively unless sales forecasting and demand analysis are made.

Nothing will take place in the company until something is known about the consumers and somebody sells the finished products. It provides goods and services to the consumers according to their needs and taste. Forecasting is helpful to plan the production, utilizing scarce resources effectively by not investing in stores, sound business planning and taking sound decisions. In a competitive market conditions, fast changing taste and habits and consumer behaviour production activities should be planned based on sales prediction but not according to the installed capacity of the company. A company should produce only as much as it can sell.

This is possible only when sales forecasting is made scientifically. All the activities of various functional departments like planning, production, stores, finance, sales, advertising etc., revolve round the sales prediction. Sales forecasting has a special significance in under developed countries. An effective sales forecasting system alone can bring the fruits of production to the consumers. Its importance is greatly emphasised both in sellers' market and buyers' market.

However, the importance of sales forecasting can be understood from the following dimensions.

1. Helps in Trade Cycle

Sales forecasting protects the business of adverse impacts of slump. Every marketing manager has to face the adverse effects of trade cycles. Sales prediction ensures smooth selling in the market. Trade cycles cause wide fluctuations in activities. Trade cycles are giving birth to a period of depression followed by the period of boom. Such fluctuations are very harmful to the company. Business cycle is one, which is very likely to spell its final doom.

Marketing uncertainties and instabilities are not conducive to the marketing activities. When there is a decline in demand for the product sometimes the firms stop production, which may lead to widespread unemployment and other social evils. So, a sound sales forecasting exercise can give protection against business slump by discovering new territories, diversification, improving the product, reducing the cost of production etc.

2. Helps Budgeting

An effective sales forecasting effort is undoubtedly the most important single budgeting tool. It is a basis for budgeting. Preparation of other budgets like production, material, finance, advertising are all based on sales forecasting figures. It is the predicted sales volume on which development activities are based like expansion of plant and machinery, modernization, adoption of new process of production and new use of raw material.

If the sales are not predicted budgeting of production, resources, cash budgets, manpower budgeting, raw material purchasing and preparation of other budgets are not possible. Budgets are prepared for all functional activities which in turn depend on sales potential.

3. Help Co-ordination

Sales forecasting lets the company to achieve the unity of direction toward the objectives. Sales forecasting can aid the management greatly on developing co-ordinated and goal directed system of marketing action.

It influences almost every other prediction of operations of other functional departments. It is a useful tool for coordinating the integral aspects of business operations. The activities of all the departments are directed towards the common goal. There will be an integrated and coordianted effort throughout the organisation. A company without sales forecasting exercise is like a company with closed eyes.

4. Helps Planning

Sales forecasting provides detailed information for designing and planning. A comprehensive sales forecasting exercise is one of the ingredients in planning. The prediction of sales is one of the vital tools of marketing planning, since effective planning and adequate deployment of marketing resources and formulation of strategies are all based on sound sales forecasting.

Planning of sales prevents costly mistakes and makes the sales organisation more effective. Planning is the determination of course of action to achieve the desired results. So, the system adjusts the internal condition to the predicted environment.

5. Help Controlling

Sales forecasting system facilitates an effective control of operations. Prediction and controlling are inter-related and inseparable in the sense that unforeseen actions cannot be controlled. Effective control of internal and external activities demand keeping sales on predetermined activities. Control functions can be effectively performed when sales are predicted in advance. Sales control is a function of forecasting process concerned with forecasting sales figures and then comparing the forecasted figures with the actual sales achieved for the purpose of calculating variance between actuals and forecast figures. So forecast helps greatly to control the activities.

6. Helps in Developing Countries

The importance of sales forecasting in developing countries has great relevance. Marketing on modern methods is still in its infancy. An effective prediction of possible sales in these countries alone can bring the fruits of production to the people. India provides the best example in this connection where there is good scope for sales forecasting as the market is wide having potential. Sales forecasting is the most important multiplier and an effective engine of continuous production and marketing. Thus the concept of sales forecasting in under-developed countries has to go a long way to catch up with the requirements of rapid population growth.

7. Foresight

Demand analysis in advance by its nature is more foresighted. It foresees future events to formulate strategies. Effective sales forecasting eliminates all wastages both of material and human resources. According to demand analysis it is possible to discover new marketing opportunities and throw light on the future marketing risks. The marketing manager can guard the sales strategy against such risks on the basis of sales forecasting. It gives an in-built mechanism to face challenges of new situations in an improved way on the basis of prediction. Forecasting also reduces loss by modifying and making necessary changes in marketing programme.

8. Helps in Increasing Profit

Without the efforts of sales forecasting a company's financial operations may not have targets. Profit planning and profit maximisation both are based on sales forecasting. In the absence of possible demand estimate, the principle of survival in the industry as well as profit maximisation cannot be translated into practice. A sound forecasting analysis alone can help profit planning to meet various costs and reasonable dividends to the shareholders. Every company carries on production activities with some degree of profit motive. Forecasting helps in increasing profits or in maintaining profits. Sales forecasting helps in working anticipated potential demand for the product, and accordingly, production activities and other functional operations are scheduled.

9. Management by Objectives

An effective sales forecasting exercise helps to implement successfully the concept of management by objectives. The scheme is directed towards achieving the objectives of the enterprises by concentrating only on those critical areas. The overall objectives of the company are formulated by taking into account the sales projection as base.

10. Helps crisis

A business organisation without an effective sales forecasting is unfit for any market crisis, emergencies like war, national emergency and other natural calamities. These emergencies can be tackled with an effective sales forecasting exercise to solve the emergency situations. The risk and uncertain situations can be solved with forecasting exercise to solve the emergency situations. The risk and uncertain situations can be solved with forecasting measures. Predictions of future activities reduce risk taking situations and uncertainties of future, because prediction involves anticipation of activities.

CHECK YOUR PROGRESS -2

Discuss the importance of sales forecasting.

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7.4 TYPES OF FORCECASTING

The marketing manger before taking up sales forecasting exercise has to necessarily identify the specific purpose for which the forecasts are to be made. Based on the specific objectives, a suitable type of sales forecasting should be adopted. It is because there are several types of forecasting measures. The sales forecasting types will give different interpretations and uses in the purpose of forecast.

Therefore, selection of a particular type of sales forecasting exercise demands defining the objectives of forecasting. Consumers behaviour for various kinds of products is generally classified on the basis of kinds of consumers of a product, suppliers, types of products, substitute products, competition, period of demand etc.

There are at least six types of sales forecasting. We now discuss here the various types of sales forecasting which are in popular use in the business world.

1. Individual Demand Forecasting

Individual's demand for a commodity means a person willing to buy a fixed quantity of a product. It is an individual demand at a fixed price at a specified time period. Sales forecasting of this type takes into consideration an individual's income, purchase power, propensity to consume, his tastes and habits, availability of substitute products, prices of other products etc.

2. Market Demand Forecasting

The concept of market for a particular product or service covers all the consumers of a product or service. Market demand forecast type analyses the total quantity demand by all the consumers. All the consumers of a product who are actually willing to buy at a price ruling in the market, their income, taxes, prices of competitive products and other given factors.

The forecasting of the demand of all the consumers of a product is termed as market demand for the product. In other words, the market demand for a product is the sum total of demands of all the consumers of products with reference to a given price and time. The aggregate of demand for the product of all the firms of an industry is generally known as market demand.

3. Company Forecast

A firm or company demand forecasting is yet another type of forecasting. Generally a large manufacturing company makes forecasting of its own products irrespective of the rest of the companies in the industry. A firm or company is only a unit among many units in the industry producing the same product. Every company has to consider the special qualities, features, price, utility properties of the product to make demand forecast.

Forecasting based on these factors reveals whether or not the company is well placed in the industry and has given better share in the industry. The market share is an important indicator for forecasting. The demand for a company's product indicates the sum total of a company's product that can be sold at a given price and at a given time. In preparing a firm's sales forecast it is necessary to review all influencing and favourable factors, competitive product and finally determine the final product mix. It requires to analyse the determinants of the forecasting and an awareness of limitations of forecast.

4. Industry Forecast

It is sum total of demand for the products of all the firms operating in an industry is known as forecast for industry's product. After the firm's forecast the marketing manager has to forecast the total sales of the industry having many firms in which the product of an individual firm is to be one. The demand for industry's product or market demand forecast is useful from the marketing manager's decision-making point of view. So, the industry demand forecasting is to be distinguished from company demand. But there is a close relationship between industry forecast and company forecast.

For example, a projection of industry sales influence in forecasting company sales. An industry consists of a group of closely competitive companies producing identical products which are close substitutes for each other. An industry forecasts can give indications to a company the direction in which the whole industry is working. Within the folds of the industry a firm has to follow and maximize its sales by introducing special features in its product. The industry forecasting is, however, a useful bench mark for analysing a firm's demand. Generally, a firm's forecast and an industry's forecasting goes hand in hand.

5. Economic forecasting

The macro economic factors also influence sales forecasting. The prevailing and anticipated economic conditions are the major factors influencing prediction of future sales of a product. The demand for a product of future and its forecasting reflect the general economic conditions prevailing and expected during the forecast period. Unless the marketing manager predicts accurately the economic conditions, he can not prepare his own sales forecast. So the marketing manager must have an adequate understanding of the working of the economy, Government policies, political stabilities. particularly the working of higher plans, per capita income, national income statistics etc.

Macro economic forecasting is concerned with business operations over the whole economy. The economic indices like industrial production, wholesale price, retail price, exports and imports, national income etc., greatly influence on sales forecasting. The official, non-official and other autonomous agencies calculate these which can be treated as basic ground on which sales forecast can be made. The other economic indicators such as gross national product, consumer spending, employment opportunities, Government spending etc. The prevailing and anticipated economic conditions can indicate a bench mark as to what is likely to happen in the future.

6. Period of Forecasting

Forecasting based on the length of period in also a type of forecasting. Under this the marketing manager has to decide about the length of the period for which forecasting is to be done. Sales forecasting can be taken up either for 6 months, one year, two years or even more. Most of the consumer product organisations forecast their business activities for one year period. While industrial product manufacturers make forecasting for a long period of 5 to 10 years. As a controlling mechanism many organisations prepare monthly or quarterly forecast. The annual forecasting period may co-inside with the financial year or accounting year of the company as the prediction is utilized for planning and control.

Based on time periods, forecasting is prepared for fixed periods. The time length for forecasts are as follows:

- Short- term forecasting
- Medium- term forecasting, and
- Long-term forecasting.

The distinction between these three forecasts based on the length of periods is discussed below:

1. Short-term Forecasting

Short run sales forecasting exercise is more useful for many operational problems. It is prediction for sales that are in demand over a short period. The period for forecasting may generally extend from weeks to months, quarterly, half yearly or at the most for one year. The forecasting for short period will be more accurate and factors can be controlled. In this type of forecasting products like consumer goods, seasonal products, fashionable products are included. For instance, the demand for rain coats, umbrellas, cool drinks, ice-creams, consumable goods etc., are seasonal nature products.

These and some other products are in demand for a short period, so sales forecasting for such goods is short- term. Short range refers to demand of goods which has short period reaction to price change, income fluctuations, competitions etc. These factors are always subject to quick changes. So short term sales forecasting is necessary for such products. Such short predictions are more flexible which can be revised in the light of changes taking place and anticipated with accuracy.

2. Medium-term Forecasting

Medium term forecasting generally covers a period of prediction which may extend from one year to about 3-4 years. Medium term demand refers to the existing demand, with its reaction, may likely take place during this period. The impact of internal policies and external policies can be witnessed not in the short period but can be predicted during medium- term period.

The strategies of quality improvement, monetary and tax policies of the Government will have their impact which cannot be predicted in the short period, but usually can be predicted for more than a year. Medium term demand forecasting is important for profit planning, budgeting, dividing policy control of expenses and schedule of operations. The marketing while making medium term sales forecasting has to consider several internal factors like quality improvement, price and external factors like Government policies, tax, competition etc.

Because of these reasons making medium range forecasting is some times more complex due to some factors which are not under the control of the organisation. A clear distinction is to be made between short and medium term sales forecasting. Many marketing managers failed in their exercise to make an accurate medium term sales forecasting due to some external uncontrollable factors. The external factors which are important in such forecasting are difficult.

3. Long-term Forecasting

The length of the period for which the forecasting exercise is to be made under this may extend to at least 5 years and above into the future. Big organisations targeting mass consumers and industrial products generally make sales forecasting extending over a long period. The long run forecasting is quite different compared to the short and medium range forecasting. On account of this long range type of projections shifts the emphasis to planning policy decisions affecting the operations. The factors which influence long range demand forecasting are not cyclical or seasonal fluctuations which have only insignificant impact on demand.

Factors like capital expenditure, timings of capital, cash flow from sales, new methods of production, new process of production, raw materials etc., are long range growth factors which should be considered in arriving at long range forecasting. A demand forecasting for considerably a long period would affect a company's total long term strategy, policy decisions etc. it also requires adopting sophisticative statistical and quantitative techniques.

Other factors like psychological, sociological, political, global etc., should also be considered in the forecasting because they are likely to influence future sales. As against this the long range forecast is generally revised or received periodically to see its implications, so that on the basis of actual results such predictions can be revised. Pricing, promotion, product development, placing, timing factors, demand let the market to adjust itself in the long run.

CHECK YOUR PROGRESS -3

What are various types of forecasting?

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7.5 METHODS OF SALES FORECASTING

As said earlier, sales forecasting, though crucial, is one of the grey areas of marketing function. It is grey area because it is based on a number of assumptions regarding customer and competitor behaviour as well as the market behaviour. Therefore, different marketing experts have designed different methods of sales forecast. Accordingly, its reliability depends upon the extent of culmination of uncertainity and risk as predicted.

Under any method of forecasting reliable and adequate information is necessary. Before making actual forecast of sales let us look at the sales forecasting methods in use.

1. Survey Method

A sales survey is conducted to study a sales problem which provides useful information. Marketers must be interested to find out the position of the market which provides useful information regarding practical problem. A survey may be carried on by the business organisation itself or may be entrusted to some specialized bodies that carry on such marketing surveys. In the survey a number of subject matters are studied such as demographic characteristics, social environment, social activities, economic matters, opinion attitudes and consumer behaviour.

There are several types of surveys namely general survey, specific survey, regular survey, adhoc survey, preliminary survey, final survey, census survey and sample survey. The important base on which forecasting is followed is about what people say. What the people say about the product and their opinions can be obtained by conducting survey of buyer's intentions. Under this method, the following are various specific tools.

2. Surveys of Buyers Intentions

The intention of the buyers on the existing products, new products their intention for repeat buying of the products or service is necessary for the marketing manager to prepare sales planning and strategies. Under this method of forecasting, the actual buyers of the product are contacted and they are asked to submit their intentions of buying the product.

The total sales forecast of the product is based on buyer's intentions. The consumer behaviour in recent years is very complex and dynamic in these competitive days, hence it may not be possible to make an accurate estimate of sales without surveying buyers and getting their intentions. The survey of buyers intention is the most common technique for consumers, industrial and service oriented products.

It is a process of integrated and averaging the opinions and views of the consumers. The intentions are sought from the buyers directly, and based on their intentions, forecasts are made.

3. Survey of Salesforce Opinion

Salesmen and their opinions constitute an important method from the view point of sales forecast. The salesforce actually have the intimate knowledge about the market and the buyers. Therefore, survey of salesforce opinion is reliable and authoritative based on practical knowledge of the market and consumers. The marketing managers can evaluate and integrate individual salesmens' estimation into an overall estimate for a particular area.

Since salesmen have first hand information, direct contact with the customers, hence they can correctly find out the consumer behaviour and their purchase intentions. The targets and quotas fixed for the salesforce for the territory or region will help in sales forecasting. So this method greatly helps in the calculation of sales volume both in monetary and physical terms.

Marketing management, therefore, cannot ignore the tool of survey of salesforce opinion.

4. Expert Opinions

Surveys can be conducted with a view to solicit the opinions of experts. The survey may include to collect opinions both from internal experts and external experts. Most managements are making allowances for this opinion in its own assessment of the salesforce composite forecast. The internal experts may include the chief marketing executives, senior marketing subordinates, public relation officer, advertising experts etc. They are considered to be internal experts and their knowledge of the company's products or services, substitute products, competition, foreign products and their impact on domestic products constitute their expert opinion.

On the other hand, the external experts generally consist marketing consultants, advisers, advertising agencies, senior personnel in customer organisation, opinions appearing in news papers, trade journals, wholesalers, distributors, agencies, professional experts, opinions of market research institutes etc.

The assessment of opinions of these experts based on their knowledge have usually a significant impact in most approaches to the sales forecasting. They have the ability to make a comparative assessment of various products. By analyzing their expert opinions, forecasting may be done. This method is not only economical but also time saving.

5. Executive Judgement

This method is also called as jury of Executive Opinion. It is an efficient method of sales-forecasting. Under this method the opinions and the views of top executives are integrated and averaging and evaluating with some statistical tools. Opinions are solicited from the executives of not only marketing department but also finance, advertising, pubic relations and other divisions of the company and based on their opinions forecasts are made.

The top executives predict future sales based on personal knowledge to the best of their judgement and opinions collected from other managers, customers and other sources like magazines, newspapers, consultants etc. Based on the past performance, insights gained and intuition of the executives, forecast is made. This method is suitable particularly when the market is stable to make sales forecast.

The advantages of this method of sales forecasting are that it is easy, simple, speedy forecast, economical, time saving and specialists opinion are incorporated in making sales forecast. However, this method generally suffers from the difficulty in realistically reflecting changes in the market. It is not a scientific method because it is not based on any factual data. Therefore, accurate forecasting cannot be made.

6. Test Marketing

Test marketing is a marketing research operation to access product suitability customer acceptability and finally assessing the demand for the product. Test marketing forms the basis for forecasting. Under this method by testing the marketing, the marketing manager wants to know by trial and error method, what is likely to happen when a product is finally introduced in the market. So a test market is designed to provide the value of a projected plan of action.

A test market is testing out a marketing plan designed for national implementation. Test marketing tool is used basically for developing one time forecasts particularly relating to new products. A market test provides data about customers' actual buying and responsiveness to the various elements of the marketing mix. On the basis of the response received a sample market, test product, sales forecast is prepared.

7. Correlation Analysis

Correlation analysis is also a statistical technique to sales forecasting. Under this method the marketing manager attempts to examine the relationship between past sales and one or more influencing variables. When more than one variable influences buying behaviour the other methods are not useful. For instance, population, per capita income, purchasing power, savings, etc. The degree of relationship between the variables under consideration is measured through the correlation analysis.

The measure of correlation is called correlation co-efficient. It measures whether an association exists between company sales and one or more factors influencing the man. Thus, it establishes the cause and effect of the variables. In business, correlation analysis enables to estimate sales on the basis of other variables like income, price, competition etc.

Correlation can be studied from three different angles such as:

- Positive correlation,
- Negative correlation, and
- Linear and non-linear correlation.

It is a measure of co-variance between two or more series.

There are various methods of studying correlation such as graphic method, scattered diagram method, Karl Pearson's Co-efficient of Correlation, Rank Correlation, and method of Least Square.

8. Regression Analysis

The correlation analysis measures the degree of covariability between two series. It is merely a tool of ascertaining the degree of relationship between two variables and therefore, we can not exactly say that one variable is the cause and effect on sales. The marketing managers may be interested in predicting the value of sales based on another variable. Regression analysis helps to predict the future sales value from know value of another variable. It is a branch of statistical theory that is widely used in almost all the business functions. The tool can also be used to estimate sales based on three or more variables.

The variables may have either liner or non-linear relationship. The sales whose value to be predicted and is influenced is called dependent variable. The variables which exerts the influence is called the independent variable. The independent variables explain the reasons for variation independent variable. The sales which are dependent on influencing factors is called dependent variable. Independent variables are explanatory variables and form the basis for prediction.

9. Time Series Analysis

Time series analysis is a statistical technique of estimation of future sales. Past sales figures of some years are used to find out trends into the future. This method is the most scientific and popularly used because the above methods of sales forecasting are based on personal judgement. The accuracy of sales forecast can be achieved by time series analysis.

Under this method the historical sales data are used to discover a pattern or patterns in the firms sales volume over a time. It is a set of observation of sales taken at specified times. For example, a company is interested in finding out his likely sales in the year 2006, so that the company could adjust its production accordingly. So observing sales volume numerical data at different points of time of a set of observations is known as time series analysis. By understanding past behaviour it helps future sales.

There are four types of patterns or movements which help forecasting. They are:

- Secular trend
- Seasonal variation
- Cyclical variation
- Irregular variation

The trend can be determined by graphic method, semi-average method, moving average method and method of least square.

10. Combining Forecasts and Using Judgement

Forecasts based on adapting a method integrating forecast as well as judgement is considered to be an appropriate method. The experience shows that the individual method is not the explaining forecasts scientifically. So the use of multiple method in a combined way greatly surpasses most individual methods of sales forecast. Past experiences of some companies also supports the combined use of quantitative and qualitative methods of sales forecasting.

Forecasting done by a method combining one or more methods can provide accuracy of forecast. For instance, the methods which can be used for combining forecasts are a simple average of two or more forecasts and by assigning historical or subjective weights to such forecasts which more costly, reflect the changing reality.

11. Past Sales

The sales figures of previous years can be taken as base for forecasting sales of future periods. Past 3 or 5 years sales can be used to find out whether sales show any trend. The projection of past sales recognizes the basic fact that today's sales activities flow into future's sales activities. It means past years sales extend into current years sales. This method is also one of the widely used techniques in sales forecasting. The reasons are that it is simple to use and understand, easy to apply, economical, time saving and does not require any expertise.

Projection of future sales is made by adding or deducting a set percentage to test the sales of a year. This technique can be used in more or less in stable industries. Though the method is highly unreliable but it is in use. Similarly, this method is not suitable to new companies and to new products.

12. Exponential Smoothening

In a trend projection, exponential smoothening is a refined and a new technique of time series analysis. The tool uses three periods of information in forecasting sales for a particular period. The three periods of information are:

- Current period's smoothened sales.
- Current period's actual sales.
- A smoothening parameter.

It means the most recent data are taken and analysed to have greater typically feature than the historical data. Arithmetic weights are assigned to the more recent data. The special feature of this technique is to adopt the smoothing constant. The 'a' in the equation is called the smoothening constant and is set at a value between 0.0 and 1.0, which would indicate the smallest casting error. Under this technique the calculation of the value of 'a' is the main task in forecasting. The 'a' value lead into the smallest forecast error is then chosen for future smoothening.

13. Econometric Model Building

This technique is a mathematical approach which is considered to be a scientific way of forecasting sales. This model is an implied abstraction of real economic situation expressed in equation form, and employed as a prediction system that will provide numerical results. Though a mathematical approach, these econometric models do not necessarily depend entirely on correlation analysis. But in practice very little use has been made of econometric models in forecasting sales of a particular company. The successful use of this method would depend to a great extent upon the availability of detailed information. But this model gives accurate results, less costly and is known for speed.

14. Delphi Technique

Forecasting by this method is based on simple expert opinion poll method. It canvases opinions from experienced executive members of the company. Under the Delphi method a structured questionnaire is administered and opinions are solicited according to market research method. Different experts will give different opinions on demand forecasting. It is the task of Delphi technique to integrate and consolidate the different expert opinions to infer estimated future demand. Different experts may predict on future sales differently.

The unanimous opinion on the forecast given by various experts will constitute the final forecast. Experts are supplied statistical details on estimates of other experts. The experts may revise, review, alter their own predictions in the light of forecasts made by other experts.

15. Box-Jenkins Method

To make short-term estimates, Box-Jenkins method is adopted. It is widely used for forecasting sales with only stationary time series sales data. It is usually followed for demand forecasting where time series sales data reveal the seasonal variations. Stationary time series data as used in this technique will reveal only short-term trend but does not reveal long-term trend.

The models used for estimating are auto-regression, moving average and auto-regressive moving average. They explain movements in the stationary series with minimum error. G.M.Jenkins in his book Time Series Analysis, Forecasting and Control has designed this technique. Computer programmes on box-jenkins method are also available for use.

16. Vendors or Suppliers Opinion

The suppliers or vendors constitute an important group of business parties who have considerable, reliable knowledge about the demand for the product. The suppliers or vendors have close touch and contact with the companies so that they have reliable information about product performance, demand for the product. In case of industrial products they constitute crucial source of information. This method involves soliciting and using their opinions for assessment of future demand. They are outside experts and forecasting in this way involves the tapping of the opinions of group of vendors or suppliers within the industry. This method may be desirable like executive opinion.

However, forecasting on their opinions alone is risky because there is an element of bias and guess work.

17. Barometric Technique

Barometric method of forecasting is used generally to forecast business cycles. It is developed by the National Bureau of Economic Research and widely used in the US. Originally it was developed and used by the Harvard Economic Service. Marketing managers use economic indicators as a barometer to forecast trends in marketing activities. Barometer is a device used to forecast weather conditions on the basis of movements of mercury in the barometer. The meteorologists use this device in forecasting weather. On similar lines and logic of this method marketing experts are using barometric technique to forecast demand prospects for a product. Under this method an index is constructed on relevant economic indicators.

Based on it the marketing managers have to forecast prospects of future trends on the basis of movements worked out in the index of economic indicaters. There are three specific indicators designed under this method of forecasting namely leading indicators, co-incidental indicators and flagging indicators.

CHECK YOUR PROGRESS - 4

Discuss the methods of sales forecasting.

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7.6 MAKET AND SALES POTENTIAL

Introduction

In the study of prediction of sales, we often come across several marketing terms bearing special meanings. Like-wise, market potential and sales potential are the two expressions to be understood clearly. These terms are used in marketing literature, which we have to understand. The demand prediction is estimate of sales of a product during a given time and at a given price. Marketing managers ordinarily have to estimate the potential for the entire market and market potential and sales and sales potential.

Forecasting can be made for market potential and sales potential. A forecast can be to an entire market or a firms product line or an individual brand. It can apply to an entire market or a specific segment. The impact of studying market potential reflects on sales potential.

Market

Before examing the concepts of market and sales potential, basically let us be clear in our minds about the concept of market. The word market has been defined as 'the aggregate demand of the potential buyers of a commodity or service'.

Potential

The literary meaning of the word potential means possible. Potential with reference to market means possibility of market being developed. It is market level that exist but has not been developed and exploited. Quantities that can be sold and can be developed. So potential when applied to market refers to a maximum level of sales. It requires two assumptions such as marketing plans and prospective customers with propensity to consume and ability to buy.

The marketing managers must endeavour to achieve their full potential. However, full potential does not mean final outcome of demand forecasting. Sales potential is the segment of market potential. The marketing executives should move from market potential to sales potential to likely sales. The likely sales are nothing but prediction by preparing forecasts.

Market Potential

The expression market potential means the total sales quantity that all companies producing a product are selling during a given time period, given price and environment. It is a specific market in which all producing organisations could expect to achieve in a given environment under ideal conditions. In other words market potential refers to an entire industry.

Therefore, the market concept may encompass the entire country, say India or even the Globe. The market may be smaller market, sub-divided on the basis of demographic factors like population, sex, religion, income or on some other basis. For instance, we may consider the market potential for televisions on the regional basis of the sales potential for television Onida in homes with incomes of Rs. 1,00,000 to Rs. 1,50,000. Sometimes market potential and sales potentials are the same in some economic environments.

For example, when a company has a monopoly in its market, such as public utilities. The term marketing potential, according to Glossary of Marketing Terms means 'a calculation of maximum sales opportunities for all sellers of goods or service during a stated period'. Market potential is a source available for all sellers of their individual brand. An individual company alone may not claim the whole market potential. Every seller may have his own share in market potential. Marketing executives in evaluating opportunities, have to estimate market potential or industry potential.

There are a number of segments that make up market demand. Thus market potential for a product is the total volume that would be sold to all the prospective customers in a given market environment during a given time and price. Therefore, market potential is the highest possible level of market demand. It is a given market environment, in which any further increase in marketing effort would have a little effect in stimulating further demand.

Sales Potential

The term sales potential, on the other hand is a segment of market potential. It represents a share or portion of market potential that a specific firm could expect to sell or achieve the portion under ideal conditions. In other words sales potential means and applies to one company's product line or an individual brand of the product. For instance, sales potential refers only to a single brand of television or refrigerator. When a company's sales to the total industry when expressed in units or rupees is described as the sales potential of the individual brand. It thus simply represents the portion of the total industry sales that an individual brand expects to secure for itself.

Therefore, a sales potential is that part of the market potential that a company can reasonably achieve 100 per cent [potential of market] except in monopoly situations. A company must take into consideration a number of international and external factors and to make additional market efforts to increase its portion of market potential.

There is a scope for increasing sales potential. The sales promotion measures, quality of product, reasonable price, better utility, features in the product, comparing competitors product etc., would have a significant effect in increasing sales potential. Thus, sales potential is a quantity of an individual brand that can be disposed of at given price, over a time period. The aggregate demand for the product of all the companies of an industry is market potential. The distinction between the two kinds of potential is not of much use in a highly competitive and global market. Since these two terms signify the distinction between a sum total and its parts.

Market Share

A market share is the ratio of a company's sales to the total industry sales on either or actual or potential basis. The expression market share as used frequently in marketing literature refers to the proportion of total sales of a product during a given period of time in a given market environment. It is a portion or share of a total sales booked or captured by a single brand. Thus, for instance, Onida sold 2,00,000 television sets in 2003 and that total industry sales that year were 4,00,000 sets, then Onida's market share was 50 per cent.

Sometimes, market share and one company's share are the same, when a firm has a monopoly in the market, as some public utilities namely railways, airlines etc.

CHECK YOUR PROGRESS - 5

Explain the concepts of market and sales potential.

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7.7 SUMMING UP

In this unit we have indicated the importance of sales forecasting and the functions of the marketing manager in forecasting field and have outlined some of its benefits. We briefly discussed the general types of forecasting. In addition, we discussed several methods of sales forecasting along with their respective merits and demerits. We also outlined market and sales potential. We concluded our treatment with a shorter description of some of the problems and steps in sales potential.

7.8 CHECK YOUR PROGRESS : MODEL ANSWERS

1. a) Sales forecasting is one of the grey areas. It is the base for formulation of marketing planning.
   b) It is an estimation about sales potential with the help of market and consumer information.
   c) Forecasting is the prediction with the help of some base information.
   d) The forecasted figures form the basis for marketing mix sales, planning and formulation of strategies.
   e) It is the function of marketing manager to forecast the likely sales potential.

2. The importance of sales forecasting can be understood from the following points:

   a) Helps in trade cycle
   b) Helps in budget preparation
   c) Promotes co-ordination
   d) Facilitates to design planning
   e) Effective control of operation is possible
   f) It has great relevance in developing countries
   g) Eliminates all waste

h) Helps in increasing sales and profit
i) The concept of management by objectives can be implemented
j) It helps in crisis situation.

3. The following are the various types of forecasting:

   a) Individual demand forecasting, b) Market demand forecasting, c) Company forecasting, d) Industry forecasting, e) Economic forecasting, f) Short-term, medium-term and long-term forecasting.

4. The following are the popular sales forecasting methods:

   a) Survey method, b) Expert opinions, c) Executive judgment, d) Test marketing, e) Correlation analysis, f) Regression analysis, g) Time series analysis, h) Past sales exponential smoothening, i) Economic model.

5. **a) Market:** Market is the aggregate demand of the potential buyer of a commodity or service.

   b) Sales Potential: Potential means possibility of market being developed. Sales potential is a segment of market potential. It represents a share or portion of market potential that a specific firm could expect to sell or achieve the portion under ideal conditions.

7.9 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. What is sales forecasting? Explain its importance.
2. Discuss the importance of sales forecasting.
3. Explain the utility of executive judgement method for sales forecasting.
4. What are the methods used in sales forecasting?
5. What is forecasting? Discuss the types of forecasting.
6. Discuss the role of sales forecasting in marketing planning.
7. What do you understand by market and sales potential?

II. Answer the following questions in about 15 lines each.

1. Explain the meaning and concept of forecasting.
2. How sales forecasting is useful during trade cycle periods?
3. Distinguish between industry forecasting and firm forecasting.
4. What is executive judgement?

7.10 RECOMMENDED BOOKS

1. Phillip Kotler : **Marketing Management**
2. Wiliam J. Stanton : **Fundamentals of Marketing**

3. T.F. Dodd : **Sales Forecasting**

4. Cundiff and Still : **Sales Management**

7.11 GLOSSARY

Sales Forecast	: A prediction that a firm actually expects to sell a product at a given price at a given time.
Market Potential	: Possible maximum sales of all sellers.
Sales Potential	: Maximum possible sales for a firms product.
Market Demand	: The total quantity demand by all the consumers.
Economic Forecasting	: Macro economic analysis in which a firm is operating.
Executive Judgement	: Opinions and views of top executives on sales.
Test Marketing	: Trial and error method to know what is likely to happen.
Exponential Smoothening	: A technique of time series analysis.
Delphi Technique	: Final opinion on demand of all experts.
Barometric Method	: A technique used to forecast business cycle.

UNIT - 8 : SALES BUDGETING AND CONTROL

Contents

8.0 AIMS AND OBJECTIVES

The aim of this unit is to explain the objectives of sales budgeting and control, the concept of budget, budgetary control, types of sales budgets, procedure and steps involved in the preparation of sales budget, and emerging trends in sales budgeting.

After studying this Unit, you should be able to:

- explain the meaning of the terms of budget and budgetary control;
- list out the types of budgets;
- identify internal and external factors impacting sales budget;
- describe the importance of limiting factors in sales budget;
- describe the procedure and steps in preparation of sales budget; and
- examine emerging trends in sales budgeting.

8.1 INTRODUCTION

As already referred above, the sales budget is one of the functional budgets. A sales budget is prepared to estimate the future sales expressed in written form. It is made both in physical and financial terms. It is the core budget based on which all other functional budgets are prepared. Hence it is the most complicated budget to prepare.

Obviously a sales budget must be coordinated with the production and other functional budgets.

objective to point out weaknesses and errors in order to verify them and prevent recurrence. It operates on everything, things, people, actions'.

According to J. A. Scott, 'It is the system of management control and accounting in which all operations are precasted and so far as possible ahead and the actual results compared with the forecasted and planned ones'.

ICMA, London, defines budgetary control is, 'the establishment of the budgets relating to the responsibilities of executives to the requirements of a policy and continuous comparison of actual with budgeted result, either to secure by individual action the objectives of that policy or to provide a basis for its revision.

The analysis of above definitions reveals the following **essentials** of a budgetary control.

- Establishment of budgets for each individual function and department of the organisation.
- Continuous comparison of actual figures with that of budgeted figures.
- To identify the variance, if any, between the actuals and budgets figures.
- To fix the responsibility of executives for achieving budgeted figures.
- To take suitable remedial measures to achieve the desired objectives.
- Revision of budgets if necessary.

Objectives

The following are the objectives of budgetary control:

1. Planning
2. Coordination
3. Control
4. Communication
5. Direction
6. Motivations

8.4 CLASSIFICATION OF BUDGETS

Budgets are classified into various types, according to their purpose and nature. Accordingly, the following are the various budgets usually prepared.

1. According to Time

- Long-term budgets
- Short-term budgets
- Current budgets
- Basic budgets

2. According to Function

- Functional or Subsidiary budgets
  - i. Sales budgets
  - ii. Production budgets
  - iii. Cost of production budgets

iv. Materials budget
v. Direct labour budget
vi. Personnel budget
vii. Manufacturing overhead cost budget
viii. Cash budget

- Master budgets.

3. According to Flexibility

- Fixed budgets.
- Flexibility budgets.

8.5 TYPE OF SALES BUDGET

Sales budget is a plan for coordinating the marketing operations, both in financial and qualitative or physical terms. It is an important budget because the ultimate object of all efforts is towards sales. The forecasted quantities of sales and values of sales are presented in this budget. Sales are one of the limiting factors. Hence this budget should be prepared accurately because preparation of all other budgets is based on sales budget. It is prepared by the sales manager.

The important factors to be taken into consideration in its preparation are present sales, trends, salesmen, assessments, estimated production capacity, availability of raw materials, trade prospects, competition, financial resources, orders on hand, fluctuations etc. A varied form of the sales budget is the **sales forecast budget**, which guesses at the sales without taking any influencing factors.

A detailed budget for the selling expenses can also be prepared. On the same lines an advertising budget is also prepared. There may also be a need to prepare a budget for general overhead expenses and administrative expenses. A capital expenditure budget may also be prepared for capital expenditures, additions, replacement etc. A master budget is prepared consolidating all individual budgets.

1. Selling and Distribution Cost Budget

A sales budget can be prepared in physical terms that is quantity and in financial terms. A sales budget should consider selling and distribution cost element. The sales budget is usually accompanied by the cost budget reveals revenue while selling and distribution cost budget gives sum of total cost of sales. The difference between these two budgets gives the net sales revenue expected during a budget period. The overhead budgets and sales budgets are prepared in the same manner. The general principles followed for the preparation of sales budget are equally applicable to selling and distribution cost budget.

Like sales budget preparation it is the responsibility of sales manager to prepare cost budget also. The cost budget is a forecast of the of selling and distributing the goods during the budget period. The elements of cost budget is generally based upon the sales volume as estimated in sales budget.

2. Sales Budget by Product

It is also called as brand sales budget. An enterprise producing a variety of products may be closely related to product sales budget. The budget is based on the qualities of various types of products. Sales budget by product is usually prepared by a multi-line product companies. A brand or product is an important basis for preparation of product based sales budget. When a company has a wide range of products, each significantly differs from the other, a sales budget is usually prepared on product base or product group base.

3. Sales Budget by Territory or Area

In the case of a firm operating in a wide geographical area, sales budget is prepared based on area or territory. The customers are geographically widespread and dispersed. This gives scope for preparation of sales budget for each territory or area. The entire market is divided into several divisions or regions or zones, as may be called as per convenience and a budget for each area is prepared. Accordingly separate sales targets are fixed for different salesforce working in different geographical territories. The demand for the product may vary from one area to another area. So when a sales budget is prepared on area basis it is called as sales budget by geography. Sales budget on territory basis is often prepared when the customers are geographically dispersed in different locations.

4. Sales Budget by Customer

The sales budget prepared under the above methods may further be classified as to the type of customers. Hence, this budget is also called as sales budget or market-centered budget. Customer is the basis for this type of sales budget. A product is sold to different set of customers. The customer groups are wholesalers, retailers, foreign market, installment selling, foreign customer, government departments educational institutions, banks, business houses etc.

Sales budget by customer reveals the market share of each customer group to total sales of the business firm.

5. Flexible Sales Budget

This type of sales budget is also called by various other names such as variable budget, sliding scale budget. Flexible sales budget is prepared when the total quantity of production and sales are likely to vary during the budget period. As the name indicates that the changes in sales or in production can be accordingly adjusted in this variable flexible budget. This budget is a tool in the hands of the management to have a proper control over production.

It is the most suitable budget particularly for the sales function, as it permits to introduce change in budgeted sales and production in accordance with the level of activity. Hence, it is called variable sales budget. It is a budget which predicates different budgeted sales quantity or value for different levels of demand.

6. Fixed Sales Budget

A static budget is called fixed budget. It is prepared under the assumption that the predicated future sales quantity will remain unchanged irrespective of the level of activity actually attained. Under this type of budget the management can estimate with a reasonable degree of accuracy for a period. It ignores changes in the actual level of activity.

Fixed sales budget is a rigid budget which does not take into consideration any changes in the demand. It ignores changes in demand for the product during a period. The sales budget of this type assumes that there will not be any change in the budgeted sales quantity.

7. Periodic Budgets

A budget is to be prepared for a particular future period. Generally, there is not any set pattern of time. Sometimes a budget is usually prepared co-including the financial year. It means a sales budget is prepared at regular intervals. For instance, weekly, monthly, quarterly, half-yearly, annual budgets on for any long period, a budget can be prepared. Based on periodicity of budgets, they may be of various types. They are:

a) Short-term Sales Budget

A sales budget can be prepared for a short period ranging from a sales period of one week for a period not exceeding 12 months period. The period can be further divided into half-yearly, quarterly, monthly as may be required. It is a current budget which is prepared for a short period of time. It is a annual budget and a control budget.

b) Medium-term Sales Budget

A sales budget prepared for a period generally does not exceed 3-5 years. In preparing medium term sales budget a number of factors should be considered such as market trends, economic policies, consumer behaviour, changes in social, economic and political conditions etc. A medium-term sales budget should be more reliable as predictions for reasonably long period.

c) Long-term Sales Budget

Long-term sales budgets are prepared when major changes are to be introduced in marketing management. They are prepared to make some permanent changes like improvement in product, change in product line, new product development, introduction of new methods and process of production etc.

Obviously the changes in sales efforts are vety large. It will take long time to reach a maturity stage in a life cycle of a product. So sales budgets are made for a period over and above 10 years. Such a long period is required for introduction of new product modifications in existing product and similar changes in production methods.

CHECK YOUR PROGRESS - 2

What are various types of sales budgets?

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8.6 FACTORS INFLUENCING THE PREPARATION OF SALES BUDGET

The factors influencing the preparation of sales budget can broadly be classified as follows:

I. Internal factors
II. External factors

In preparing sales budget a number of internal factors should be considered. Some of the factors, which are purely internal, may include:

I. Internal Factors

1. Production process

2. Installed capacity
3. Level of activities
4. Sales policies of the management
5. Financial resources
6. Strength of salesforce
7. Availability of raw material
8. Sales promotion
9. Advertisement
10. Past sales
11. Profitability of the product
12. Prompt reports by salesmen
13. Incentives to salesmen
14. Sales organisation
15. Quality and Standard of the products
16. Frequent revision of prices.

II. External Factors

The external factors may include:

1. Macro economic
2. Competition
3. Government policies and regulation
4. Trade cycle
5. General industry prospects
6. Political conditions
7. Technological developments
8. Socio-economic aspects
9. Consumer behaviour
10. Impact of global market
11. Market conditions
12. Conditions within the industry
13. Demographic factors
14. Change in tastes and habits of customers.

CHECK YOUR PROGRESS - 3

What are the factors internal to the firm impacting sales budget?

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8.7 LIMITING FACTORS IN SALES BUDGET

It is necessary in sales budget to consider the limiting factor and overcome. If sales themselves happen to be limiting factor, efforts should be made either to increase the budgeted sales or to revise sales budget itself. It requires a change in production budget also. The various functional budgets are interlinked and independent. The budgeted figures fixed for any function will have impact on other budgets.

A factor which influences all other budgets is termed as 'key factor' or 'limiting' or 'principal budget factor' or 'governing factor'. The limiting factor has been defined by the ICMA as 'the factor the extent of whose influence must be accessed in order to ensure that the functional budgets are reasonably capable of fulfillment'.

Sales will be a key factor, which will influence the other functional budget. [Sales as a key factor indicating limiting demand, change in taste and habits of the consumers, poor advertisement, inefficient salesforce.] There may be a limitation on the quantity of produce, which can be sold. So when sales act as limiting factors, they influence the other functional budgets like production, advertisement and sales force budget.

Sales is a key factor in the business and it is essential that suitable measures should be taken to eliminate the limiting factor. It requires an effective co-ordination and deliberations among the people involved in the preparation of sales budget. As regards sales budget we may visulaise two different situations. They are:

1. When sales is a key factor
2. When sales is not a key factor

The nature of these factors is as follows:

1. When Sales is a Key Factor

If the demand for the product is a limiting factor, the preparation of sales budget is very complex in terms that other function budgets like production budget is affected. The production budget is prepared after preparing the sales budget. Sales budget is the base for production budget, which deals with inventory budget, scheduling of operation and plant and machinery budget. Both the internal and external factors should be carefully examined. The short-term and long-term effects of these factors should also be examined.

2. When Sales in not a Key Factor

When sales are not a limiting factor, the preparation of other functional budgets may not be affected. Since sales budget is not a basic budget there is no need to follow the sales budget in the preparation of production budget. When sales is not a limiting factor, the prediction of sales quantities is not a difficult task. It is assumed that the entire quantity of production can be easily sold.

Sales volume is equal to total units of production. In such a case the production budget is first prepared and accordingly the level of stocks and sales are adjusted.

8.8 PREPARATION OF SALES BUDGET

The data is basis for preparation of a sales budget. The reliable data and information usually come from individual salesmen, district sales manager, divisional or regional sales manager, upwards to the committee preparing the sales budget. The quantity and value of past sales by products, consumers and territories provide an important source of data for sales budgeting. Sales executives should critically analyse the past sales behaviour and co-relate it with future market environment and production facilities available in the company.

Both quantitative as well as qualitative analysis should be adopted for the preparation of sales budget. These techniques enable the sales executive to establish relationship between sales and industry and economic indicators. Modern quantitative techniques assist sales executives in making budgets.

The principal object of preparing sales budget is to maximize sales volume and revenue. A good sales budget should be common considerable share of the market. It requires critical analysis of existing market situation and projection of one's ideas. An accurate prediction of quantities to be sold and the reasonable prices at which the products are sold are the two important parameters in preparation of sales budget. The fixing of the price is a very sensitive issue because price itself may affect the expected sales. The determination of quantity also depends on competitors' product.

However, it is the responsibility of the sales manager to prepare sales budget. He is assisted by various budget officers, staff of the accounting department and staff of his own department. The sales manager should consider the following matters and follow the procedure narrated below for the preparation of sales budget.

1. Analysis of Past Sales Figures

Sales figures of past years should not be ignored and they form the basis for future sales budget for future periods. Past data of sales will indicate trends in sales, seasonal fluctuations which enable to determine future sales. Sales budget should be based on trend analysis which helps to make sales budget for future.

2. Collection of Data

The salesmen operating at grass root level actually are in close touch with the customers. They can estimate sales potential of the following year. They submit this data to their area supervisors. Like-wise the data is passed through various levels like divisional managers, zonal managers. Thus the preparation of sales budget begins with executives operating at the lowest level of the organisation.

3. Elements of Cost in Sales Budget

The sales manager is also required to prepare an estimate of sales expenses and overhead expenses for the budget period. The elements of sales budget may include rent, light, secretarial cost, advertising and office expenditure.

4. Projection for the Future

Sales budget can be made as a projection on the basis of past statistics and on the basis of estimates made by salesmen and other levels like district sales manager and zonal sales managers. Thus projection may enable the firm to prepare sales budget for the future period. But conditions may change in the market, such budgeted figures sometimes may not be reliable. Sales budget should be prepared with constant touch with the market changes.

5. Market Analysis

Such analysis will indicate scope to ascertain potential market demand, market share, availability of substitute products, the degree of competition, impact of the foreign market and price to be charged and changed from time to time. The market analysts will do this job effectively. Sometimes a company may have its own market analyst. In a case a firm does not have such analysts it may hire such services from an outside firm of market analysts.

6. Survey of Consumers

Unless the pulses of the consumers are known an effective sales budget cannot be prepared. A special survey is to be conducted from time to time to collect data regarding the consumer preference, tastes, habits and changes in tastes and habits. This special survey invariably should be conducted in case of existing product or when a new brand is announced. A close watch and intimate touch with consumer behaviour in their views, preference and tastes is necessary.

This gives most valuable information for the preparation of sales budget.

A sales budget is usually prepared according to the products, territories, consumers and time.

7. Raw Material

In preparation of the sales budget, an analysis of availability of raw material should not be ignored. To some extent it is relating to production budget. If adequate raw materials are not available, the sales budget will become ineffective. In some cases raw material is a limiting factor. The sales manager cannot predict sales figures for the budget period based on the availability of adequate quantum of raw materials. Moreover, the uninterrupted supply of raw material is necessary to achieve the target of sales budget.

8. Installed Capacity

There must be an effective co-ordination between sales function and production function. Unless budgeted units of products are produced, the sales manager cannot achieve targets of sales. Unless goods are produced by the production department, the sales manager cannot achieve budget programme. Here, the plant installed capacity should be examined. Without considering the works capacity for producing budgeted units, a sales budget cannot be prepared.

9. Macro Business Conditions

The general business and economic conditions should also be considered by the sales manager. Reports of salesmen, analysis of past sales figures alone are not sufficient for the preparation of a sound sales budget. The impact of trade cycle should be considered in estimating sales potential for a budget period. The national economic condition, international economic developments, global markets, political conditions, government policies, business legislations and technological changes form part of general business conditions.

10. Considering Production Budget

A sound production budget schedule is to be considered which is essential for preparation of sales budget. It reflects the number of physical units to be produced. Production budget will ensure smooth sales operations. Infact, a sales budget is prepared in relation to production budget. The sales manager can sell only whatever is produced but not beyond, though he may have good marketing ambitions and more sales orders on hand.

A production budget will provide guidelines for sales planning. If both budgets are not matching, there may arise some problems relating to either sales, or production.

11. Work-in-progress and Closing Stock

In preparing sales budget the extent of stock quantity to be held should be considered. Certain quantity of finished products are generally held in stock. The quantum of closing stock of finished goods to be held will depend upon a number of factors like demand for the product, availability of storage facilities and cost of the stock.

12. Considering Internal Factors

The impact of internal factors in the preparation of sales budget should be considered. Change in internal factors, conditions, methods, policy also should be taken into account. For example the use of new raw material, the introduction of new product, change in product line, introduction of new process of production, distribution mechanism, the quality of salesforce, organisation of advertising campaigns etc.

CHECK YOUR PROGRESS - 4

Explain the steps involved in the preparation of sales budget.

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8.9 EMERGING TRENDS IN SALES BUDGETING

The practice of preparation of sales budget in India is comparatively of recent origin. But the sales budgeting and its importance has become part and parcel of general budgeting efforts. In recent years, due to severe competition, extension of geographical territorial areas, product specific, customer specific and area specific, the preparation of sales budgeting has received widespread attention.

The sales management philosophy is based on sales budgeting system perspectives of decision making. The sales budget has a substantive impact on the development of overall marketing budget. The sales budget provides a conceptual frame-work for market planning, determination of marketing mix, physical distribution and use of operational research technique. Future organisations will be characterized by preparation of various sub-budgets within the sales budget.

The rendering of sales management services by sales manager by preparing sales budget has transformed the marketing function into one element. Thus the management has to carve out a place specific in its organisation chart as a major function in the entire organisation. Preparation of sales budget is the new responsibility such as planning, operation research, electronic data processing, cost accounting, educational and experience backgrounds of the people involved in such a sophisticated field of sales budgeting. A group of people are involved in such preparation of regional budgets. The purpose of such a group is to organize the budget process into a sophisticated sales information system, which would require the information of various other functions.

Sales budgeting has become co-ordinatior of all the production control mechanism. The **emerging trends** in the area of sales budgeting may include.

1. Companies started online marketing, e-tailing, e-commerce and internet trading. Different types of new technologies have emerged, which introduced a revolutionary change in the preparation of sales budget.

2. The concept of collaborative sales management has evolved. Under this, both the sales executives and salesforce have understood each other, and both must understand the organizational goals and requirements with a common and collaborative mind.

3. Now-a-days computer based preparation of sales budget and management have been developed. Separate softwares are available for preparation, implementation and control of the entire process of budgeting.

4. Emphasis is shifted to critical analysis of actual performance in relation to sales budgeting.

5. Shift in emphasis from hierarchy of marketing management to more on sales management through the mechanism of budgeting.

6. Significance is shifted from general budget to budget specific to time, product, customer, area etc. Yet another emerging trend in sales budgeting is customized performance management system.

7. In view of increasing emphasis in privatization, global market, prospects of the company greatly depends on dynamic budget efforts. Change is the order of the day where efficiency, profitability and productivity greatly depending on sales budgeting.

8. Companies sales operations through e-business has created virtual data bank that can be accessed over the internet.

9. Retail chains for setting up online store fronts in a bid to counter the possibility of competition. Logistic firms are getting on to the net to offer better sales budgeting services.

10. Organisations have started using performed sales budgets as a mechanism of production and career planning.

11. The unprecedented development in competition and wide expansion of territorial areas brought and amazing change in the field of sales budgeting of a corporate enterprise.

12. In addition, the business process, re-engineering enterprise, resource planning and supply chain management enabled the sales budgeting to conduct production operations more efficiently in short a time.

13. A number of developments have taken place consequently upon globalisation, emerging trends in information technology, competitive environment. These developments introduced revolutionary changes in sales management.

14. Some of the modern organisations, in order to accommodate unforeseen conditions in market and change in consumer behaviour, started preparing flexible budgets. This solved the problems associated with the fixed sales budget.

CHECK YOUR PROGRESS - 5

Identify the emerging trends in sales budgeting.

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8.10 SUMMING UP

Sales budgeting and control is rapidly gaining importance as a tool of marketing performance, since it should include a detailed statement of objectives and targets to be achieved. Budget targets are much more useful as control standards. Sales budgeting is the important tool of management. In any organisation, budgeting has become a way of life of management. Sales budget has become an integral part of sales promotion activities of business enterprises. A budget is a quantitative statement prepared both in physical terms and financial terms. It is prepared on territory basis, product basis and customer basis.

In this unit we have indicated the importance of sales budgeting. We have also, in detail, discussed the types of sales budgets. In addition, we have referred to procedures involved in the preparation of sales budget. We have outlined several steps required to be followed in the process of preparation of sales budget. We have concluded the unit with a short description of emerging trends in sales budgeting.

8.11 CHECK YOUR PROGRESS :-MODEL ANSWERS

1. A sales budget is:
   - A quantitative statement of sales
   - It is one of the functional budgets
   - Prepared to estimate the future sales
   - It is made both in physical as well as financial terms
   - Preparation of all other budgets depends on a sales budget
   - First sales budget is prepared and next the production budget
   - A sales budget is not similar to sales forecast.

2. The types of budgets are:

   a) Sales budget by product, b) Sales budget by territory, c) Sales budget by customer, d) Flexible budget, e) Fixed budget, f) Selling and distribution cost budget.

3. The internal factors influencing sales budget are:
   - Installed capacity
   - Sales policies of the management
   - Strength of salesforce
   - Advertisement budget and campaign programme
   - Sales organisation
   - Quality and standard of the product
   - Working capital management.

4. Preparation of sales budget requires to follow various steps and procedure. The steps are sales analysis, past sales figures, budget period, market analysis, the installed capacity, volume and quantity etc.

5. a) Preparation of flexible budget
   b) Starting of e-tailing, e-commerce and e-marketing
   c) Collaborative sales management
   d) Computer based preparation of sales budget
   e) Sales information system
   f) Online marketing and tele-marketing, etc.

8.12 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. Discuss the importance of sales budgeting.
2. What are various types of sales budgets?
3. Explain the steps involved in preparation of sales budget.
4. Explain the meaning of flexible sales budget.
5. What are functional budgets?
6. What do you understand by functional budget?
7. List out various functional budgets.
8. Explain the factors influencing the preparation of sales budget.

II. Answer the following questions in about 15 lines each.

1. What is meant by budgeting?
2. Explain the meaning of sales budgeting.
3. What do you understand by budgetary control?
4. What is limiting factor?

8.13 RECOMMENDED BOOKS

1. M.R. Czinkota and M. Kotabe : **Marketing management**
2. W.J. Stanton, M.J. Etzel and B.J. Walker : **Fundamentals of Marketing**
3. L. J. Rosenberg : **Marketing**
4. Philip Kotler : **Principles of Marketing**
5. R. R. Still, E. W. Cundiff and A.P. Govoni : **Sales Management**

8.14 GLOSSARY

Budget : A financial and/or quantitative statement for a future period.

Budgetary Control : A mechanism to direct the execution of budgetary programme.

Sales Budget : A prediction of future sales and co-coordinating the marketing operations.

Master Budget : A summarized budget incorporating within it the components of various related budgets.

Flexible Sales Budget	:	A type of budget which permits change in accordance with the level of activity attained.
Budget Period	:	It refers to periodicity for which a budget is prepared.
Limiting Factor	:	A factor which influences other budget. It is also called key factor.

BLOCK – III

SALES FORCE MANAGEMENT

Unit – 9 : Concept of Sales Force

Unit – 10 : Structuring the Sales Force

Unit – 11 : Recruitment and Selection

Unit – 12 : Training and Compensating Sales Force

UNIT – 9 : CONCEPT OF SALES FORCE

Contents

9.0 AIMS AND OBJECTIVES

The aim of this unit is to introduce the concept of sales force, types of sales force, qualities of sales executives.

After studying this unit, you should be bale to:

- understand the sales force meaning and definition;
- know the sales force process;
- discuss the sales policies;
- explain the factors affecting the determination of sales force;
- discuss the sales force as a specialized personnel management;
- discuss the size of the sales force; and
- explain the ideal qualities of good sales executives.

9.1 INTRODUCTION

Selling is a business transaction that can be pursued in between the seller and buyer in a "fair and honest" manner. Selling is an enterprising job.

It is a commercial profession with an act of persuading the people. Selling is identifying, and also sometimes, creating the need for the people in an advanced stage and finally satisfying the people by offering the product at the right time. It is a scheduled promotion of a product in the market.

Selling has become increasingly professionalised. Organisations recognize the need for sales planning and control. Sales objectives are set, and sales strategies are designed to achieve them. Sales profession is responsible for achieving a particular level, or volume and is responsible for achieving a particular level or volume of sales so as to contribute profits to ensure planned business growth.

Selling is one of the philosophies of marketing. The selling profession is as old as Industrial Revolution. Small-scale enterprises dominated the economic scene, and the selling scene was considered as an important activity in it. During the Post-industrial Revolution, when factors system developed, we got products made on a massive scale, which could not be sold just in the neighbouring markets. Though initially the problems of mass production engaged business people, they soon realized that this also meant mass distribution and selling. The first to emerge were the separate manufacturing and finance departments, followed by selling. Gradually selling job became an income generating source for the organisation.

9.2 SALES FORCE : MEANING AND DEFINITION

The group of associated dynamic personnel, who are specially assigned to look-after the selling job is called "sales force". The art of managing sales force is referred to exclusively as "sales management'. The sales force will lead the sales persons by giving time-to-time training and orientation in order to offer right product to a right group of people. The sales force needs specially dedicated staff to exercise all promotional activities of the company. The sales department contains a group of dynamic target-oriented challenging force.

The major activities which are promotional in nature are advertising (mass communication) marketing research, physical distribution, pricing and product merchandising.

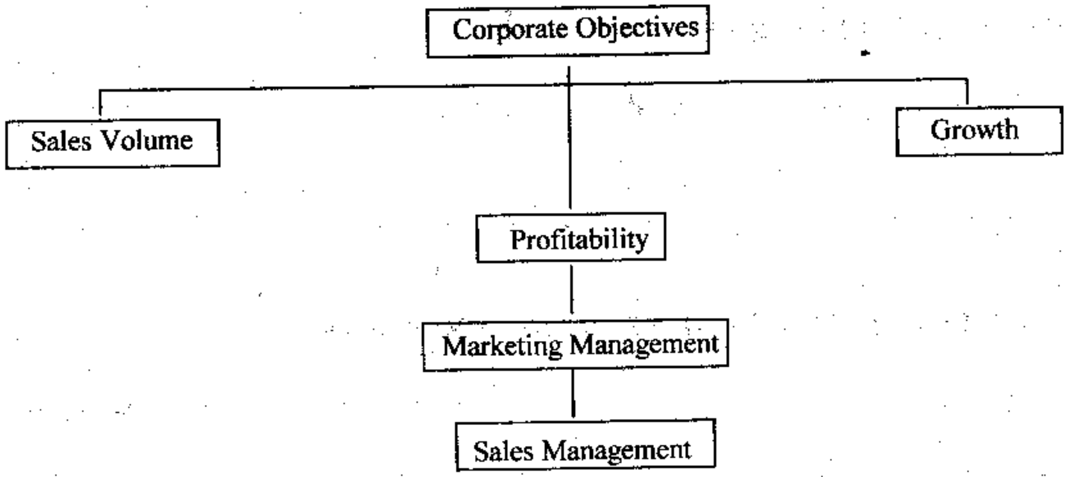
The **American Marketing Association** describes the Sales Management as, "the planning, directing and control of personal selling including: recruiting, selecting, equipping, assigning, routing, supervising, paying and motivating as these tasts apply to the personal sales force".

The job of sales force in the organisation is to select suitable persons and offering proper training in order to achieve sales target in a rapid action plan. Sales managers are responsible for organizing the sales efforts, both within and outside their companies. Within the company sales managers build formal and informal organizational structures that ensure effective communication not only inside the sales department, but in its relations with other organizational units. Outside the company, the sales managers serve as a key contact with customers and other external publics and is responsible for building and maintaining an effective distribution network.

The sales force is responsible to achieve three **objectives** of the organistion. They are:

- Sales volume;
- Contribution to profits; and
- Continuing growth.

The hierarchy of corporate objectives is presented with the help of the following chart.



In order to satisfy the corporate objectives, the following **specific tasks** are to be followed by sales force, in particular, and by sales management, in general.

a) **Prospecting:** Searching for expected people to generate right prospects and leads. At this point the sales force has to identify the right group of people, who are definitely expected to purchase the product.

b) **Targeting:** Deciding, how to allocate the time of sales force among prospects of customers. In order to get a through follow us by the sales representatives and converting the prospect people as full customers.

c) **Communicating:** Providing the actual information pertaining to the product to targeted people. At this level, an effective and alternative communication styles are required. Those, communication styles must be convincing in nature, which influence the people to buy the product.

d) **Selling:** It is turning point for both seller and buyer. At this level, effective convincing of the people result in closer of the sales. A strong trust in selling will play a result-oriented contribution.

e) **Servicing:** Providing various after sales services to the customers. It includes, free consultation service on problems, rendering technical assistance and arranging financial assistance if necessary.

f) **Information gathering:** Conducting time-to-time market survey to gather information on changing trends in market. The research and development activities help the company to change its production, marketing and selling policies.

g) **Allocating:** It involves demand analysis of the product in the market. The main purpose of this activity is to maintain a standardness in respect of product availability.

Thus, selling involves task-oriented, challenging and competitive activities. Sales persons have responsibilities for co-ordinating, i) the organisation, ii) the planning and iii) other elements in marketing strategy. There are some similar names which are used to designed sales rorce viz., sales representative, sales officers, sales executives, etc.

CHECK YOUR PROGRESS – 1

What are the tasks performed by sales force?

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9.3 DETERMINANTS OF SELLING PROCESS

The process of selling involves following activities which are performed by sales force:

1. **Understanding the need:** The sales force will basically study and understand the requirements of the people. This activity is known as the heart of sales process. It can be made practical by studying the psychological pattern and behaviourial pattern of the people. But, no guess work is useful. To make it more accurate and technical, the market study pulse reading, demand analysis will help the sales force in promoting the product successfully.

   The production process will be processed on the basis of perfect understanding about the people. But, on the basis of the life styles and life standards of the people and nature of the product, an advanced selling process such as, "creating need" is exercised.

2. **Recommending a proper solution:** It is a critical stage in selling process. In this process the company's product will be recommended as a solution of requirement. But this process is performed. Subject to the knowledge of sales force on the market and consumer behaviour. In operation, this process involves counselling and consulting the different consumer segments.

3. **Clarifying the doubts:** This is the third stage of the selling process. At this stage the sales force requires to study the behaviourial pattern of the people. There is a necessity to clarity the doubts of customers in their purchasing decisions. Every purchaser normally develop some doubts before purchasing a product.

   Hence, eliminating the doubts from the minds of customers is a challenging job of the sales persons. It is very doubt of the sales force to clear all such doubts about the product and the company. In this process the success of sales force is how far the trust is developed among the consumers, by offering proper advices. Sometimes, the risk is involved for sales force to educate the people to achieve complete awareness.

4. **Completing the sales:** This stage is the final stage in selling process. At this stage the customers purchase the product after taking purchase decision. When the customer decides to purchase a product, then the sales process will be completed. This process is known as "fate deciding point" by the customer. That is the reason why the customer is considered as "God" "King" and "Ultimate".

CHECK YOUR PROGRESS – 2

Explain the process of selling activities.

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9.4 SALES POLICIES

Sales policies are some code of conduct to market the goods effectively. Sales managers have to formulate efficient selling policies. A sales manager should possess complete awareness and knowledge about the company's product-line and competitor's product-line. In this respect the sales policies will be framed in a strategic manner to exist permanently in the competitive market environment. The main activity in sales policy formulation is market research programme. This policy will be backgrounded with Customer Relationship Management (CRM). The main objective of this policy framing is "monopolization". Selling policies should be framed in co-operation with the buying and production departments. These policies in general, will be updated on a time-to-time based upon market survey.

The **sales policies** are discussed below:

a) Price policy
b) Business policy
c) Major and minor policies
d) Credit policy

a) Price policy

The fixing of the selling price is a major policy decision that the sales manager will have to take. The level of price will have an impact upon the profitability turnover of the company. The sales manager will have to consider the following factors in determining the final selling price:

b) Business policy

The marketing is a totally external promotional activity of any business organisation. The nature of marketing is challenging. In the competitive business environment, a strategical policy composition will fetch goods results for the company. Any business organsiation will form certain positive, productive, logical and reasonable rationale policies to exist in the market for a longer period. In this aspect, every policy will be composed with strategy and vice versa. General policy and strategy are two different sides of the same coin of planning.

The general business policies are formulated on the areas, such as production or manufacturing research and development, pricing, promotional, customer satisfaction and relationship, customer retaining techniques, brands position and loyalty etc. these policies are generally competitive in nature and from time-to-time they are reviewed through marketing research programmes.

c) Major or minor policies

In business operations, depending upon the importance of transactions, policies are inter-dependent. The policies which are related to production, research and development and marketing are major policies, while the grant of credit, liberal discounts, advertising, branding and packaging are minor policies. When framing major or minor policies, the policy constitution should bear the following aspects:

i) The purpose of having particular types of products.

ii) The demand (Present and future) for the proposed product.

iii) The probable competition that is to be faced.

iv) The nature and technique of production.

v) Sources of capital available for the firm.

vi) The availability of technique and administrative staff.

vii) General market conditions, particularly where the main business is concentrated.

viii) Government outlook and political situation in and outside the counter.

d) Credit policies

It is a common practice that, ever business has to depend upon credit practice and credit relations with certain group of regular consumers in the market. For example, in the case of wholesaler, the bulk of the sales is made on credit only. This can be done purely on trusting the traders and dealers. It is called "sales on trust".

It helps the business people to increase the sales and enables the purchaser to enter into business transactions without having to part money immediately.

But it involves major risk. If the money is not paid or if credit sales turns to be bad debts, it is a net loss to the firm. Hence, the credit manager must be careful in deciding about giving credit to direct customer and indirect customer. While framing credit policies of the company, one must have complete knowledge of the financial standing of the customer groups. The main objective of formulating credit policy is minimizing bad debts. The financial background of the customer groups will be reviewed time-to-time. In order to overcome this risk of bad debts, some companies are following security deposit schemes on stock. These deposits will be acknowledged as a token of business relations for strong rapport.

While forming the credit policies, any business organisation must have an aptitude of strategical, competitive credit policies in order to cover the market successfully with a proper flow.

CHECK YOUR PROGRESS – 3

State the sales policies?

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9.5 SALES FORCE: A SPECILISED PERSONNEL MANAGEMENT

Sales force management is a kind of personnel management function applied to a special field. Managing sales force is a challenging job. The job involves reviewing the sales force techniques, according to the market trends. But the problems may be encountered accordingly. Sales job in sales force involves perfect independent and individual in decision making. A sales person individually plans the market everyday. In this aspect, sales job is so competitive and dynamic set of functions. Sales persons are completely dedicated to the company, and sometimes they are deprived of the family life.

Actually sales people are above self-respect and ego feelings. They may face hostile or discouraging responses. That is the reason why selling is not at all an easy job. Therefore, the motivational factors are very important. In this respect it can be regarded as a specialized personnel management.

In the area of Human Resources or Personnel Management, sales force management stands as a specilised activity. The following diagram illustrates the activities in personnel management observed in the selling field.

Job analysis → job description → job specification → job evaluation

↓ Recruitment
↓ Selection
↓ Training, supervision and development
↓ Performance appraisal
↓ Compensation and motivational programmes

Fig. The activities in sales force management

Effective sales management contributes a great deal to the economics. The whole thing static with job analysis. The objectives of the job, the duties and responsibilities it entails with the result expected, the reporting structure - all these are studies.

A suitable job description is developed. This guides us to those characteristics and qualifications required in a person to give justice to job description. It is called job specification. Then begins the search for suitable conditions. It is a question of recruitment from different sources. Out of those who are before us for consideration, we select as per our needs and expectations. This is known as selection. By the organisation suitable briefing, they are suitably placed. They receive induction training, and then are continuously trained throughout. They are suitably directed and supervised. Then the motivation level is maintained. The force will be compensated appropriately.

When sales people start working, they are controlled through sales supervisors, and by calling for their reports. Their performance is measured against the set yard-sticks. The whole field of sales management works as a system.

Effective sales management contributes a great portion of revenue to the companies. If for example, an organisation has 100 sales persons each making 7 calls a day, it amounts to 700 calls in total. Supposing five calls out of 7 made are productive to an average sales of Rs.1000, it leads to an average sale of (500 x1000) Rs. 5,00,000. Now if the company increase the calls to 9 calls a day out of which 6 calls fetch an average business of Rs. 1000, the daily average sales becomes (600 x 1000) Rs. 6,00,000.

Then coming to sales expenses, there are two types of sales expenses. They are fixed expenses and variable expenses.

The fixed expenses are salaries of salesmen, travelling equipments like auto, scooter, sales foils, sales manuals, literature, etc., and advertising to assist the sales force with sample products.

The variable expenses are sales incentives, commission, training costs, motivating costs, supervisions costs and controlling costs.

9.6 SALES FORCE TURNOVER

This is an index of how good the sales management is working. Mathematically the personnel turnover in terms of percentages is given below.

$$\frac{\text{Number of separations}}{\text{Average total sales force}} \times 100$$

It shows, how many personnel leave the company per every 100 sales people. A company with 300 sales people witnesses 30 separations during the year. It has a sales personnel turnover ratio of 10 per cent.

The reasons for such turnover in sales department are faulty recruitment, and selection, faulty training, lack of proper motivation and supervision, lack of communication skills and good performance, discharges on valid grounds, transfers and promotions, retirements, death, medical causes, personal problems, lack of aptitude, competition and higher aspirations, etc.

9.7 DETERMINING THE SIZE OF SALES FORCE

The 'Sales Management' has a basic responsibility of identifying and forming sales persons to establish a good 'force'. Then the sales force will identify the productive customer group. It is a challenging job for sales department in the organisation. The sales force will be refreshed time-to-time by updating and upgrading the selling techniques and skills. The size of sales force will be planned and decided by the management at top level. It is purely dependings on the company's policies and nature. Every organisation will have some profit objectives and plans through sales. These objectives and plans will influence the type of sales force.

There are three basic approaches to justify this activity. They are,

1. The work-load method,
2. The sales potential method, and
3. The incremental method.

Each approach provides a right direction for "right size" of sales force to meet the requirements. Now, let us examine these approaches in the following analysis/discussion etc.

1. Work – load method

In this approach the basic assumption is that all sales personnel should take equal responsibility in sharing work loads. Management first estimates the total work-load involved in covering the company's entire market and then dividing by the work-load that an individual sales person should be able to handle. The main idea of this approach is to meet the requirement of customer size, sales volume potential and travel lead.

In the work lead approach a six steps formula is adopted. The details of this formula are as follows:

a) Classify customers, both present and prospective, into sales volume potential categories.

b) Decide on the length of time per sales call and desired call frequencies on each class.

c) Calculate the total work load involved in covering entire market.

d) Determine the total work time available per sales person.

e) Divide the total work time available per sales person by task.

f) Calculate the total number of salespeople needed.

Thus this approach provides a guideline to decide the sales force size in terms of work load.

2. Sales potential method

The sales potential method is based on the assumption that performance of the set of activities contained in the job description represents one sales personnel unit. A particular salesperson may be responsible for either more or less than one sales personnel unit. This approach can be worked out by applying the following equation:

$$N = S/P + T\,(S/P)$$

This reduces to,

$$N = S/P\,(1+T)$$

Where,

N = Number of sales personnel units

S = Forecasted sales volume (expected sales volume)

P = Estimated sales productivity of one sales personnel unit

T = Allowance for rate of sales force turnover.

If the individual's performance is excellent, that individual may do the job of more than one unit; if the individual's performance is below par, he, or she may do less. If management expects all company sales personnel to perform as specified in the job description, then the number of sales persons required equals the number of unit of sales personnel required.

3. Incremental method

This method is the best approach to determining sales force size. It is based on one proposition: net profits will increase when additional sales personnel are added, if the incremental sales revenue exceeds the incremental costs incurred. To apply this method, we require two important items of information: incremental revenue and incremental costs. This method is also known as Incremental Reasoning or marginal equivalary, as it deals with major decision-making at micro level in industry.

9.8 QUALITIES OF GOOD SALES EXECUTIVES

The specially assigned, trained sales persons in sales force, are called sales executives. They are so called because their particular job is to execute selling job successfully in "fair and honest" manner. Sales executives are well-qualified, selected, trained and experienced sales persons to achieve sales targets in a given time. They generate revenue to the company to exist and develop in the market. The fate and future existence of the company will be rated according to the efforts made by sales executives as a promotional activity.

The **ideal qualities** of good sales executives are as follows:

a) Ability to study the market perfectly in terms of the following:

   i) Segmentation

   ii) Macro and micro economic environment

   iii) Social trends and social environment

   iv) Cultural trends and cultural environment

   v) Individual requirements and demands in the society with respect to all market segments

   vi) Geographical conditions of each and every region

   vii) Demand pattern and profit analysis

   viii) Constitutional awareness and Govt. policies

   ix) Corporate structure and money valuation schedules

   x) Consumer behaviourial knowledge through time-to-time survey

   xi) Science and technological advancements

b) Having excellent personality complex of:

   i) **Physical attributes:** Health, appearance, voice sight and sense etc.

   ii) **Human qualities:** Mental maturity, tactfulness and positive thinking, and time punctuality, etc.

   iii) **Intelligent skills:** Communication skills convincing and negotiation skills, smart decision making, etc.

c) Knowledge about the organisation

d) Knowledge of the product or service

   i) Nature of the product;

ii) Methods of production or manufacturing;
iii) Ingredients;
iv) Packaging;
v) Promotional plans and advertisements;
vi) Scope of usages.

e) Ability to select and give proper training to newly recruited sales trainees and achieving good leadership.

f) Ability to review logically on production, consumption sale ability and demand pattern.

g) Ability to compose company's policies and plannings in strategic styles.

h) Ability to extend good public relations with people in all walks-of-life.

By possessing the above mentioned good qualities a sales executive can develop the company in terms of generating good revenue. Simultaneously the sales executive will automatically develop with the company.

CHECK YOUR PROGRESS – 4

Explain good qualities required for a sales executive?

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9.9 SUMMING UP

Selling is providing a need for customer and company in a monetary exchange. Selling is a linning activity between seller and buyer. The specially assigned team which performs the selling activity is called sales force. An organisation has to plan for good sales force by adopting ideal approaches like, work load approach, sales potential method and incremental method. The size of sales force depends on the nature of the organisation. Managing a sales force is itself a specialized personnel management. To achieve sales targets by sales force a close track monitoring is required to supervise them. A sales executive should have good, ideal, productive qualities in order to develop the company, as well as personally by good prospering plans.

9.10 CHECK YOUR PROGRESS : MODEL ANSWERS

1. The following tasks are to be performed by the sales management:

a) Prospecting
b) Targeting
c) Communicating
d) Selling
e) Servicing
f) Information gathering
g) Allocating.

2. Process of selling involves the following activities:

a) understanding the need
b) recommending a proper solution
c) classifying the doubts
d) completing the sales.

UNIT – 10 : STRUCTURING THE SALES FORCE

Contents

10.0 AIMS AND OBJECTIVES

The aim of this Unit is to introduce sales force structure and its classification.

After studying this Unit, you should be able to:

- understand the meaning and types of sales forces;
- explain the setting up of sales territories; and
- describe the product-wise sales force.

10.1 INTRODUCTION

A sales force structure is a perfectly scheduled in a well-planned classification. It is an ordering point for cooperative endeavor and a structure of human relationships. Any sales force organisation is composed of a group of eligible individuals striving jointly to reach qualitative and quantitative personal selling objectives, and bearing both informal and formal relationship to one another.

The sales force strategies and planning have positive implications on the sales force structure.

Effective sales executives appreciate the importance of sound organisation. A sales organisation must be capable of achieving pre-set qualitative objective – these concerning personal –selling's expected contributions to achievement of overall company's objectives. Therefore, the structural sales force must be capable of attaining the quantitative personal-selling objectives – not only with respect of sales volume but others related to "profit" and to the company's "competitive" position.

The structure of sales force depends on the sales activities of the firm. If the company sells one product line to one end using industry with customers in many locations, it would use a territories sales force structure. Then, if the company sells many products to many types of customers it might need a product or market sales force structure. This process of activity is called "Major Account Management" (MAM) which is known as a marketing insight.

10.2 STEPS IN SALES ORGANISATION STRUCTURE

In sales organisation, a sales force structure can be established – by applying five major steps. They are:

1. Defining the objectives

This is an initial step which defines the sales department's objectives. Top management of-course, defines the long-run objectives for the company, and from these the general or long-run objectives for the sales department are derived. Considered collectively general objectives constitute top management's vision of the company at some future time. Top management for instance, may want the firm not only to survive but to achieve industry leadership, develop a reputation for outstanding technical research, diversity its product lines, provide excellent in service to customers, furnish investors with a generous return, establish an image of publ'c responsibility, and so on. From such composites, sales management, working in computation with top management, determines the implications for the sales department and articulates a set of qualitative personal-selling objectives. Quantitative personal-selling objectives, in turn, are set with an example on the qualitative objectives. Survival, for instance, is undoubtedly the most basic qualitative objective of any enterprise as well as its sales department, and this requires, among other things, a continuing flow of sales revenue; so, securing a given level of sales volume is an important sales-department quantitative objective.

Survival also requires profits. Hence, a second important qualitative personal-selling objective is to produce profits, not only by making profitable sales but by controlling departmental costs and expenses.

Further more, survival generally requires eventual growth in both sales and profits. The qualitative objectives are set for the sales department on the basis of the general policies governing its performance over extended periods.

2. Grouping activities into positions

It is allocation of the sales department on a logical basis to different positions. The organizational planner must keep in mind the fact that activities are aimed at achieving certain objectives – ultimately the composite provides the raw material from which job descriptions are compiled.

Activities should be classified and grouped so that closely related tasks are assigned to the same position. Each position should contain not only a sufficient number of tasks but sufficient variation to provide for job challenges, interest and involvement. Activities of lesser importance are assigned to lower – level jobs.

3. Assignment of personnel to positions

It involves logical analysis of the sales department's objectives and required activities.

However, this brings up the question of whether to recruit special individuals to fill the positions that have evolved or to modify the nature of these positions to fit the capabilities of available personnel.

4. Provision for coordination and control

Sales executives who have others reporting to them require means to control their subordinates and to coordinate their efforts. Those with line authority should not be so overburdened with detailed and undelegated responsibilities that they have insufficient time to devote to coordination. Nor should executives have too many subordinates reporting directly to them – this weakens the quality of control and prevents the discharge of other assigned duties. Control and coordination of subordinates is obtainable through both informal and formal means.

5. Reviewing the income generating sources

This step is feed-back oriented activity. Time-to-time the performance of sales executives in sales force will be reviewed matching to the actual market environment and competition. Even sales executives must achieve minimum of survival target in a stipulated time bound period. Based on achieving targets successfully, the sales force will be rewarded appropriately.

CHECK YOUR PROGRESS – 1

Explain the steps involved in structuring sales organisation.

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10.3 TYPES OF SALES ORGANISATION STRUCTURE

Sales force will be structurally organized into four basic types. They are, line, line and staff, functional and committee. The grouping of activities into positions and the charting of relationships of positions causes the organisation to take on structural form. The first two types (line and line) are by far the most common. Functional organisations and the pure form of committee organisations are rare. Most sales force departments have hybrid organizational signatures, with variations to adjust for personalities and to fit specific operating conditions. The sales force structural types evolve from the need of the business.

No two companies have identical sales force structures, because they do not have identical needs. The different types of sales organizational structures are discussed below:

1. Line sales force organisation

It is an oldest and simplest structural type, which is widely used in smaller firms and in firms with small numbers of selling personnel – for instance, in companies that cover a limited geographical area or sell a narrow product line.

General Manager
|
Sales Manager

Assistant Sales Manager Division 1	Assistant Sales Manager Division 2	Assistant Sales Manager Division 3	Assistant Sales Manager Office
Sales people	Sales people	Sales people	Office staff

The chain of command runs from the top sales executive down through various subordinates. All executives exercise line authority, and each subordinate is responsible only to one person on the next higher level. Responsibility is definitely fixed, and those charged with it also have the power to make decisions and to take action.

The line sales organizational structure sees its greatest use in companies where all sales personnel report directly to the chief sales executives. Lines of authority run vertically through the structure, and all persons on any one organizational level are independent of all others on that same level.

2. Line and staff organisation

It is found most frequently in large and medium-sized firms, employing substantial numbers of sales personnel and selling diversified product lines over wide geographical areas.

President
|
Vice-President (Marketing)

Advertising Manager	General Sales Manager	Manager, Marketing Research

General Sales Manager:

Director of sales training	Sales personnel director	Assistant general sales manager	Sales promotion manager	Director of dealer and distributor relations

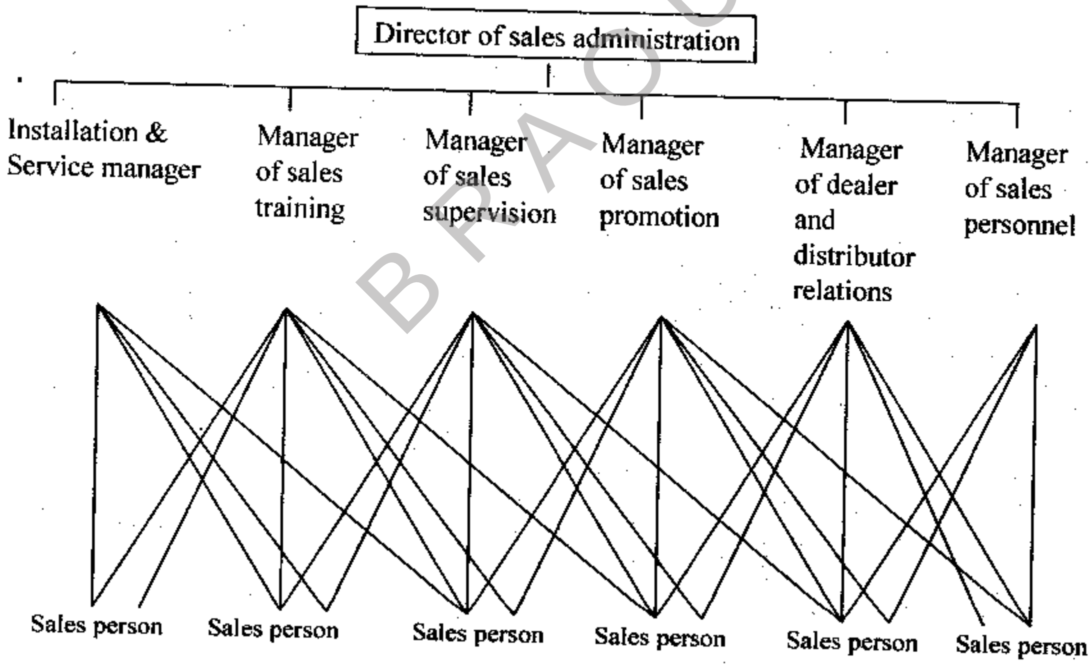
Assistant general sales manager
|
Direct sales managers (6)
|
Branch sales managers (32)
|
Sales personnel (450)

In contrast to the line organisation, the line and staff organisation provides the top sales executives with a group of specialists – experts in dealer and distributor relations, sales analysis, sales organisation, sales personnel, sales planning, sales promotion, sales training, service, traffic and warehousing and similar fields. The general sales manager reports to the vice-president in charge of marketing as does the advertising manager and the manager for marketing research. Six subordinates report to the general sales manager, but only one, the assistant general sales manager, is a line executive. Four of the five staff executives have responsibilities in specialized fields; the fifth, the assistant to the general sales manager, is given more general assignments. The difference will be identified in between the assistant to assistant. The 'assistant to' is a staff executive who is given a beases operating area than those staff specialists with more descriptive titles. In contrast, the 'assistant' has general line authority delegated by the superior. The assistant general sales manager is an understand of the general sales manager who performs assignments of a line nature in the name of the superior. The assistant to the general sales manager carries past of the general administrative head that would otherwise be serve by the general sales manager.

The advantages of the line and staff organisation are mainly these of specialization.

3. Functional sales organisation

Some few sales departments use functional organisation. It is sometimes utilized for the enterprise as a whole. It is used principally in highly centralized departments, such as manufacturing. This organisation is derived from the management theory developed by Frederick W. Taylor. It is based upon the premise that each individual in an organisation, executive and employee should have as few distinct duties as possible. The principle of specialization is utilized to the fullest extent. Duty assignments and delegations of authority are made according to function.



The coordinating executive is the director of sales administration; all executives on the next level are specialists. As indicated, sales personnel receive instructions from six different executives.

The outstanding advantage claimed for the functional sales department is improved performance. Specialized activities are assigned to experts, whose guidance should help in increasing the effectiveness of the sales force.

4. Committee sales organisation

The committee is never the sole basis for organizing a sales department. It is a method of organizing the executive group for planning and policy formulation while leaving actual operations, including implementation of plans and policies to individual executives.

Many firms have a sales training committee which comprises of the general sales manager his/her assistants, the sales training managers, and perhaps representative divisional or regional sales managers. The committee meets periodically to draft training plans and formulate sales training policies. Implementation of these plans and policies, however, is the line and/or staff executive responsible for sales training in their own jurisdictions.

Other committees found in sales organisation include customer relatives, operations, personnel, merchandising and new product development. The use of committee in the sales department has several advantages in promotional plans.

CHECK YOUR PROGRESS – 2

How do you classify the sales organisation structure?

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10.4 TERRITORYS WISE SALES FORCE

Sales territory process is the main step involved in sales force management. A sales territory is a geographical area for which one or more sales people are responsible for selling. A sales territory can be a region of a country, a province, a state or some other geographic break-down, depending on the sales potential. Some firms have only a few sales people who are assigned to an entire country. Whereas others have hundreds of sales people having a classified sales force, assigned to specially defined geographic regions.

A company's sales territories are usually divided into components which are suitable for operating. They are known for selected sales potential kingdoms. Then the main challenging job of sales force is to generate sales income in given territories to meet the periodical targets. A sales territorial division also brings out an element of effectiveness in the sales operations. It also helps the appraisal of the sales effort.

Conceptually a territory may represent:

a) a particular geographical area

b) a group of customer accounts or prospects e.g hospitals, hotels and institutions.

c) a potential market

d) an industry, i.e. pharmaceutical, formulation units are a territory of bulk drug-manufacturers.

10.5 OBJECTIVES OF SALES FORCE

The primary objectives of sales fore are:

- to cover the market property.
- to deploy the sales people effectively.
- to serve the customer grouping efficiently
- to evaluate the sales representatives individual performance pattern.
- to facilitate higher production in selling and market effort.
- to control selling expenses structurally.
- to coordinate personnel selling and advertisement in a planned strategic ways.

CHECK YOUR PROGRESS – 3

State the objectives of sales force?

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10.6 STEPS IN TERRITORY WISE SALES FORCE EVALUATION

Different territories have different problems of coverage and so require different selling efforts and expenses. The steps in evaluation of territory wise sales force performance will be exercised through following steps:

1. Estimation of how many customers are available, where they are located, and what type of customers they are in each tentative territory.
2. Estimation of time duration of each call.
3. Estimation of travel time taken between calls.
4. Decide call frequencies.
5. Computing the number of calls possible in a given time period.

$$\text{No. of calls per day} = \frac{\text{average time per call + average time between calls}}{\text{No. of working days}}$$

6. Correction for the number of calls possible in a given time to accommodate the desired call frequencies for different classes of customers and prospects.
7. Correction on the basis of feed back given by sales people who have served the territories.

10.7 PRODUCT WISE SALES FORCE

There are different types of products with different categories to meet the requirements of different people in the market of different segments. A company has to compose some product wise sales strategies and plans with a standard policy. While studying about product wise sales force, an organisation has to study the following items of market.

1. Nature of the products

The nature of the products has an influence on what the structure of the sales organization should be like. Consumer single use goods of everyday life like soap, cosmetics that are bought repeatedly require more complex organisation than a luxury article like colour T.V., air conditioner, motor cars, etc. which have no repeat market. Still, comparatively their sales are not repetitive. A perishable article must be sold soon. It would require a larger sales force and close supervision. This can be noticed in the case of milk and milk products, fruits and vegetables. The quantity of product sold also has an important impact on the structure of the organisation. The sales force will be determined based upon such elements by sales management.

2. Ability of the executives

Ability of the executive would also determine the structure in as much as a very capable and efficient executive would tend to make an organisation a line type. Where as with less capablemen authority would have to be dispersed.

3. Size of the company

The size of the company itself would affect the sales organisation. A line type of organisation is best suited if the company is small while line and staff type is suitable for a very large concern.

4. Method of distribution

Another factor which is material for the sales organisation is the methods of distribution employed for the products. This is purely planned according to the requirement analysis in firms of demand pattern, subject to the nature product. If the company is having Fast Moving Consumer Goods (FMCG) type of product line, the company definitely requires more dealership networks, agents, retailers with scheduled number of distributors.

5. Finance

Finance plays an important role in deciding the structure of sales force. Since, finance is considered as a life-blood of any organisation, the total structure will have its impact.

When capital is limited a manufacturer would naturally prefer to entrust the whole selling function to outside agents, because of affordability.

6. Selling policies

The selling policies of the producers are also a determining factor. If the manufacturer decides to follow an aggressive sales policy, then the company must have a large and complex sales structure. Some companies emphasise the research function in which case the sales structure will have research staff to advice the sales executive at difference covers. However while forming sort of sales force, the sales plannings and strategies will have direct impact on the sales management to compose different selling policies.

CHECK YOUR PROGRESS – 4

List out strategies of product-wise sales force.

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10.8 SUMMING UP

A sales force structure is a classified and perfectly scheduled organisation to meet selling job requirements in sales management. The company can fetch good sales outcome only through well planned sales structure. The main objective of the sales structure in sales force to examine profitability and moshetability in the competitive environment. It is definitely a war-footing and challenging in terms of generating sales revenue. While forming ideal structures in sales force there are certain steps to be followed. They are, defining the objectives, grouping activities, assignment of personnel, provision for coordination and reviewing the income generating sources. No sales force will have similar sales structure. Because no company will have identical needs and growth plans. Then the sales force will be planned according to the product, nature of the nature. While planning for product-wise sales force, the company has to review, the product nature, marketing abilities, size of the company and methods of distribution, finance, and selling policies.

10.9 CHECK YOUR PROGRESS : MODEL ANSWERS

1. The steps involved in structuring the sales organisation are:

   a) defining objectives
   b) grouping activities into positions
   c) provision of coordinately and control
   d) reviewing income generating sources

2. The types of sales organisation structure are:

   a) line sales force organisations
   b) line and staff organisations
   c) functional sales organisations
   d) committee sales organisations

3. The objective of sales organisation structure are:

   a) to cover the market property.
   b) to deploy the sales people effectively.
   c) to serve the customer grouping efficiently.
   d) to evaluate the sales representative's individual performance pattern.
   e) to facilitate higher production in selling and market effort.
   f) to control selling expenses structurally.
   g) to coordinate personnel selling and advertisement in a planned strategic ways.

4. The strategies for product-wise sales force are as follows:

a) nature of the product
b) ability of the executives
c) size of the company
d) method of distribution
e) financial ability
f) selling policies

10.10 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. What do you mean by sales force structure and explain different types of sales organisation structures.
2. Examine product-wise sales force and explain different items of influencing factors on sales force.
3. Discuss the different stages in the sales force structure.

II. Answer the following questions in about 15 lines each.

1. Define sales force.
2. What are the steps involved in organisation structure?
3. State the objectives of sales force organisation.
4. Discuss the territory-wise sales force.

10.11 RECOMMENDED BOOKS

1. Philip Kotler : **Principles of Marketing**
2. Cendiff Still & Govoni : **Sales Management**
3. S.A. Chunawalta : **Sales Management**
4. Rajen Sexena : **Marketing Management**

10.12 GLOSSARY

FMCG : Fast Moving Consumer Goods

Call : Personal selling company in market field to generate perspectives. Each and every day every sales executive have to make some selective calls in the market.

UNIT – 11: RECRUITMENT AND SELECTION

Contents

11.0 AIMS AND OBJECTIVES

The aims and objectives of this unit is to introduce recruitment and selection of sales force.

After going through this unit, you should be able to

- understand the meaning of recruitment and selection;
- describe the policies and process involved in recruitment and selection;
- how a firm recruits and selects its manpower for its betterment;
- explain the various techniques adopted to recruit and select its staff members; and
- know basic differences involved in the recruitment and selection.

11.1 INTRODUCTION

The function of any organisation basically depends upon its manpower. Therefore the primary duty of personnel department of the organisation is to process and maintain adequate, qualified working force. The success of the organisation depends up on the procurement of efficient personnel. Procurement function of personnel department includes recruitment, selection and placement of the job.

11.2 RECRUITMENT – MEANING AND IMPORTANCE

Recruitment is a process of searching for the prospective employees and stimulating them to apply for the job, it can also be stated that it is the total process of locating the sources of manpower and selection of them for the required job. **Kempner** points out, recruitment forms the first stage in the process which continues with selection and ceases with the placement of the candidate. It starts with both information regarding and contact with source of supply of the varied categories of candidates needed for filling the jobs.

According to **Heneman** "Recruitment is the process of seeking out and attempting to attract individuals in external labour markets, who are capable of and interested in filling available job vacancies. Recruitment is an intermediate activity whose primary function is to serve as link between human resources planning on the one hand and selection on the other"

The **importance** of recruitment of sales force are as follows:

1. To attain the organisation is objective, the required manpower has to be recruited.
2. Discover and locate the sources of manpower to meet the required job recruitment.
3. To match the personal qualities with that of vacant position.
4. To fulfill the recruitments created by the vacancies due to promotion, transfer, termination, retirement, permanent disability or death.
5. For further organisation's legal and social obligations regarding the composition of work force.
6. To meet the organisation's legal and social obligations regarding the composition of work force.
7. To appoint a right person for the right job.

CHECK YOUR PROGRESS -1

What is the importance of recruitment of sales force?

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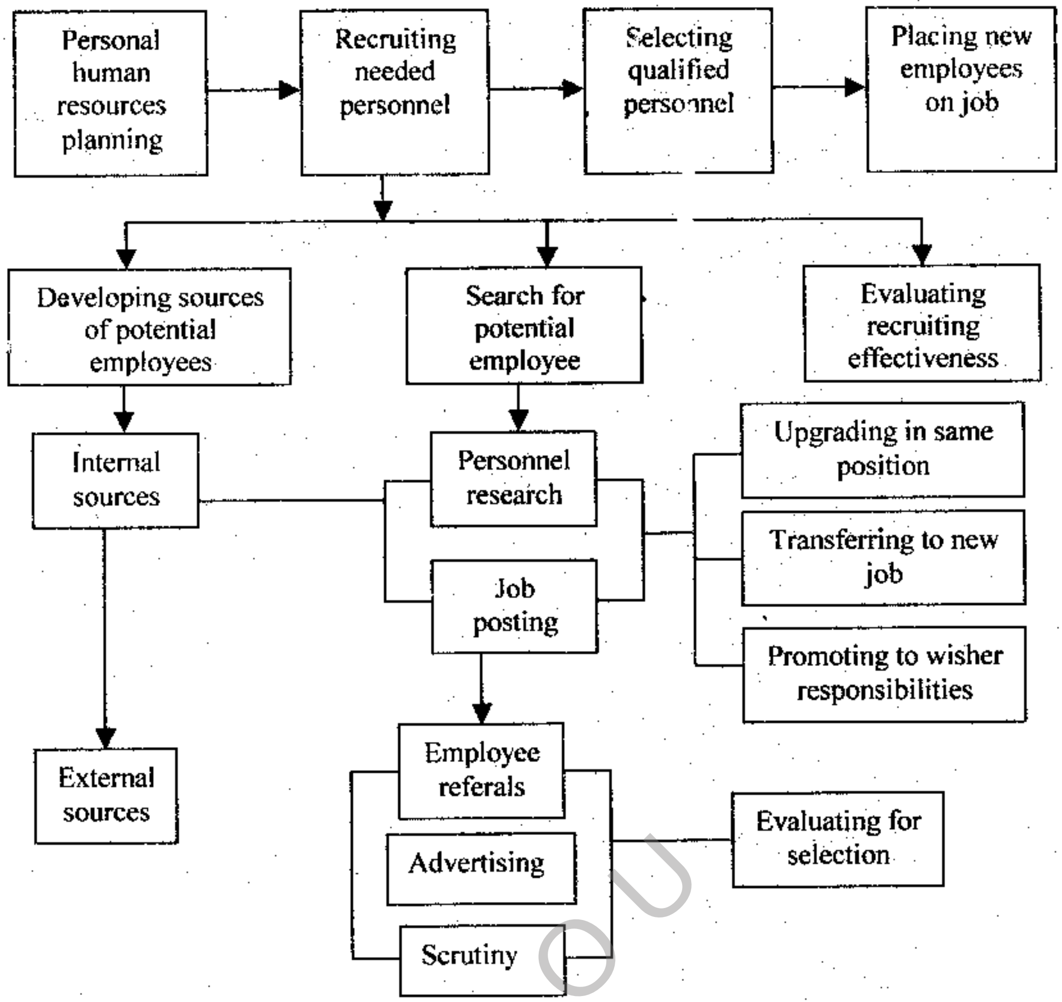
11.3 PROCEDURE OF RECRUITMENT

Recruitment has been regarded as the most important function of personnel administration unless the right type of peop.e are hired, even the best plans, organisations charts and control systems will be of no avail. A company cannot prosper, grow or even survive without adequate human resources. Need for trained manpower in recent years has created a pressure on some organisations to establish an efficient recruitment function.

According to **Famularo** "The personnel requirement process involves five elements including a recruitment policy, a recruitment organisation a forecast of manpower requirement, the development of manpower sources and different techniques for utilizing these sources, and a method for assessing the requirement programme. It is a vital function of personnel department and forms a prerequisite to the effectiveness of an enterprise. The place of recruitment in the entire selection process is as follows.



Recruitment Policy: The general purpose of recruitment is to provide a pool of potentially qualified candidates to meet the organizational needs. Thus it is necessary to have a proper recruitment policy for the organisation.

A good recruitment policy involves the following elements.

a) Organisation's long term and short-term objectives.

b) Identification of the recruitment needs.

c) Preferred sources of recruitment.

d) Criteria of selection of recruitment.

e) The cost of recruitment and financial implication of the same.

Further a recruitment policy in its broadest sense involves a commitment by the employer to

- Find the best qualified person for each job.
- Retain the best and most promising of those hired.
- Offer promising opportunities for lifetime working careers.
- Provide programmes and facilities for personal growth on the job.

Recruitment organisation: There is no general procedure for recruiting new personnel which is applicable for all organisations. Some may follow informal methods, some may follow formal methods for recruiting their staff members. The most commonly used method is to centralize the requirement. This centralized office is generally known as the employee office or the recruitment section. The main factor to have centralized the recruitment is that they can concentrate only on the recruitment function and become efficient in the use of various recruitment techniques.

Forecast of manpower recruitment: The indents for the requirement are given with all the particulars such as jobs available, duration of the employment, salary to be paid etc. Finally jobs specification and main specifications are determined in consultation with the live managers.

Sources of recruitment: Before an organisation begins the recruitment it should attract the people to apply. The managers should have knowledge about the sources of supply of the type of employee it needs and the methods of tapping them. This implies that the manpower managers should have knowledge about the local, statewide and national factors responsible for the variability of sources. The sources of supply of manpower can be divided into two sources viz internal and external

i) **Internal sources**: Internal sources are the most obvious sources that can be tapped before going outside to attract the new candidates. **Yoder and Otter** suggest two categories of internal sources including a review of the present employees.

Effective utilization of internal employee skills needs an understanding of the relationship of jobs. This makes the possibility of recruiting the internal staff to upgrade, transfer or promote or some time demote. Thus, providing opportunity for the horizontal or vertical transfers. Some times the employees themselves can suggest promoting candidates. The internal sources includes:

a) **Present permanent employees** - For high level jobs, organizations consider these candidates to motivate the employees, meet the trade union demands or availability of suitable candidates.

b) **Present temporary/casual employees** - For lower level jobs organisations considers these candidates to either motivate them or availability of suitable candidates.

c) **Retrenched or retired employees** - Organisations retrench the employees due to lay off. It may be because of their loyalty to the organisations, to postpone some interpersonal conflicts for promotion or trade union pressure.

d) **Dependants of deceased, disabled, retired, and present employees** - Some organisations to develop the commitment and loyalty of not only the employees but also his family members may provide employment for these candidates.

Merits: - The use of internal sources has some merits.

i) Employee morale will be improved.

ii) Employees get an opportunity to improve themselves.

iii) Employees will have better opportunity to evaluate the employed persons than an outsider.

iv) It promotes loyalty, commitment and sense of belongingness among the employees.

v) Employees require little training when compared to outsiders, as they are already familiar with the rules, regulations, operating procedures and policies of the organisation.

vi) They are already tried people therefore can be relied upon.

vii) Cost of recruitment is minimizal.

viii) It can be used for less number of vacancies.

ix) Organisation lacking posts can be filled in without any problem.

x) It can be used as a technique of motivation.

xi) Employees psychological needs, economic needs can be provided.

xii) Trade unions can be satisfied.

Demerits: This system also suffers from certain demerits.

i) It discourages new blood from entering the organisation.

ii) It is difficult to find the right candidate within the firm for the right job because the employee efficient in one job need not be efficient in another.

iii) For the jobs which involves innovative things of advertising, designing, we cannot go for internal sources.

iv) As promotion is based on seniority, there is a danger of not selecting the able candidate.

ii) External sources: Though suggestions from the employees are obtained, it is not always possible to recruit the manpower for all the vacancies through internal sources. So the organisation searches for the required candidates outside the organizational pursuits. The **reasons** may be

a) The suitable candidates with skill, knowledge, talent etc are generally available.

b) Candidates can be selected without any bias which ensures expertise, excellent and experienced candidates brought for the organisation.

c) Long run benefit for the organisation including qualitative human resources.

d) Cost of employees can be minimized, because new candidates will be placed in minimum pay scale.

e) Existing will also broaden their personality.

External sources includes:

1. **Contacts through present employees** – present employee recommend the qualified and potential candidates to meet the companies standard of expectations.
2. **Former employees** – employees having good record on their credit can be selected if they are eager to return.
3. **Intermediaries** – through contractors, jobbers, mukaddams etc, but this is not a reliable source.
4. **Recruitment at the gate** – this is adopted to employ unskilled workers.
5. **Unselected applications** – candidates reputation plays a vital role in getting a stream of unsolicited applications.

6. **Advertisement** – applications from the right candidates may be obtained for the right posts.
7. **Schools, colleges and technical institutions** – provide promising young talents for employment when asked for.
8. **Employment exchange** – exchanges provide prospective candidates to the organisation.
9. **Private agencies** – they may deal with professional or specialized personnel for jobs like sales, office, engineers, executives etc.
10. **Professional bodies** – some professional institutions like MBA, CA, ICWAI, ACS provide qualified persons.
11. **Personnel consultants** – these agencies provide professionals some times by doing screen tests interviews etc.
12. **Leading** – for some specified period to fulfill the industrial needs personals may be taken from other industries like Government departments, public sector etc.
13. **Trade union** – sometimes trade unions recommend candidates for the jobs.

Merits

a) External sources provide the right persons for the right posts.
b) Best selection can be made because of large source.
c) In the long-run this source provides economy because the potential employees do not need extra training for their jobs.

Demerits

a) It suffers from brain drain.
b) The recruitment depends on the reputation of the organisation.

CHECK YOUR PROGRESS –2

State the merits and demerits of external source for recruitments?

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11.4 METHODS OF RECRUITMENT

Method of recruitment deals with the tapping of manpower from various sources. Dunn and Stephens follow three tier classification of recruitment methods- direct, indirect and third party.

- **Direct method:** The most frequently used methods is at schools, colleges, management institutions and university departments. Usually this type of recruiting is done in co-operation with the placement office of the educational institutions. The recruiter should keep abreast of terms in recruiting authorities of other companies, so that he plans his visits in time to recruit students before they are signed up with some other enterprise. Other direct methods include sending recruiters to establish exhibits at job fairs, using mobile camps to visit shopping centers in rural areas and places where the unemployed might be contacted.

- **Indirect method:** The most frequently used methods is giving advertisement in news papers, magazines and trade journals as well as technical and professional towards. The efficiency of a firm is determined by other choice of the type of advertisement, form, place, time and choice of media they chose to publish. Indirect methods include radio advertising and television announcements. Another method is to display the vacancies on the notice board at the gate of the company.

- **Third party method:** Usually it is done through public and private employment agencies. These agencies provide consultancy services for different categories of operators, office workers, salesmen, supervisory, and management personnel, offer methods includes trade unions.

11.5 SELECTION – MEANING AND IMPORTANCE

The most valuable asset for any organisation is the highcalibre personnel. The appointment of such persons should be done with great care. The management should perform such functions of selecting the right candidates at the right time. The obvious guiding policy in selection is the intention to choose the best qualified and suitable candidates for each unfilled job. The objectives of the selection board is to choose the individual who can most successfully perform the job from the pool of qualified persons who have applied for the job. **Daleyoder** says, *"Selection is the process in which candidates for employment are divided into two classes- those who are to be offered employment and those who are not".*

Picking out the qualified person for the job from the applicants who have applied for the job is said to be selection. The selection procedure is the system of functions and divides and adopted in a given company to ascertain whether the candidates specifications are matched with the job specifications and recruitments or not. The selection procedure cannot be effective until and unless:

a) clearly specified, requirement of the job to be filled.

b) employee specifications have to be clearly specified.

c) candidates for screening have to be attracted.

Thus, the development of job analyses, human resource planning and requirement are necessary prerequisites to the selection process. A breakdown in any of these processes can make even the best selection system ineffective.

Importance

As said earlier the valuable asset to the organisation is the right person in the right job. If facility selection is made, the employee turns to be a liability to the organisation. Hence, it becomes essential, crucial, complex, and continued effort for an organisation to select the able personnel. The ability of an organisation to attain its goals effectively and to develop upon the effectiveness of its selection programme. If the right personnel are selected, the functions such as employee contribution, commitment be easier and at optimum level and employee and employer relations will be congenial but on the contrary if the right person is not selected the above said relation will not be effective. The **importance of selection** may be judged on the following facts.

1. **Procurement of skilled workers possible** - Initially candidates will be selected for all the applicants. From the selected candidates few will be choosen for the job, others are denied.

2. Good selection reduces the cost of training proper selection of the candidate reduces the cost because a) qualified personnel have better grasping power, b) organisation can develop different training programmes for different persons based on individual differences.

3. **Solution to personnel problems** - problems like labour turnover, absenteeism and monotony will not be at severe rate, if right persons are selected.

11.6 SELECTION POLICY AND PROCESS

Selection policy

Any organisation to select the right candidate should have a selection policy. Yoder and others have suggested goals, technological issues, cost factors, extent of formality etc. In other words, an effective policy must aspect the 'why' and 'what' aspects of the organizational objectives.

Essentials of selection procedure

The selection process can be successful, if the following requirements are satisfied.

- some one should have the authority to select.
- there must be some standard with which a prospective employee may be compared.
- there must be sufficient number of applications to select the required number of candidates.

Steps in selection process

There is not a standard selection process that can be followed by all the companies in all the areas. Hence, a company can follow any method of selection depending on its size, nature, kind, Government regulations and number of persons to the employed. Thus, each company may follow any one method or combinations of various methods of selection, convenient to it. The following are the necessary **steps** generally followed by the companies.

a) preliminary interview
b) application blank
c) employment tests
d) employment interview
e) reference check
f) medical examination
g) final selection

1) **Preliminary interview:** When a large number of applicants are available, it is better to have preliminary interview to screen the required candidates. Through the interview preliminary information can be detailed so that undesirable candidates can be eliminated. This can be done at the receptionist office or by the personnel departments.

2) **Application blank:** This is the second step to screen out the candidates. The successful candidates in preliminary interview are supplied the application blank to get a written record of the following information.

a) identifying information.

b) information regarding education.

c) information regarding experience.

d) expected salaries and allowances.

e) information regarding community activities.

f) other information.

3) **Employment tests:** The basic assumption underline the use of tests in personnel selection is that individuals are different in their abilities. The main advantage of these tests is to uncover the talent which would not be detected by interviewers by listings of educational and job experience. A variety of tests are used as selection tools to assess the potential of the candidate. Now-d-days psychological and other tests are becoming popular as the part of the selection process. There are two types of tests viz. Trade tests and Psychological tests.

a) **Trade tests** – The purpose of this test is to assess the capabilities of candidates for the type of job which is being offered to them. e.g. To recruit a stenographer in an office test can be conducted to check the speed of both dictation and typing.

b) **Psychological tests** – As one individual differs from the others, psychologists have devised certain tests to analyse the performance of the candidates. Some of the tests are:

- **Aptitude test** – Aptitude of the applicant is tested and is useful for clerical and trade positions.
- **Intelligent tests** – It is used to test the individual learning ability to grasp or understand instructions, reasoning ability, make judgement, and their mental capacity. There are various verbal and nonverbal intelligent tests.
- **Interest tests** – It helps to determine the preference of occupation of the applicant.
- **Knowledge tests** – This is used to test the knowledge and proficiency in certain skills used in engineering and accounting.
- **Projective tests** – This test will give the measure of the personality of the applicant through his free responses to the pictures shown to him.
- **Personality tests** – It determines the characteristics of the conditions.
- **Judgement tests** – This measures the ability of the candidate is solving the problem.
- **Dexterity tests** – This is used to discover the ability to use the different parts of the body in a co-ordinated manner. It is useful in those areas where accidents are more.

4) **Employment interview:** Basic objectives of the employment interview are:

- **Obtain the additional information for the applicant** – Complete information regarding the applicant is obtained to have a sound selection, if any additional information such as skill is also obtained.
- **Provide information regarding the firm** – The applicant will be given the necessary information regarding the firm, job, policies of the company, its products, services to be provided by the applicant are communicated with the applicant by the firm during the interview.

- **Sell the company** – The applicant should have realistic view about the firm. So as to avoid the disappointment of the employee.

- **Make new friends** – The applicant should feel comfortable during the interview and leave with the positive attitude about the company.

The different **types** of interviews are broadly grouped as under.

- (i) Preliminary interview
  - (a) Informal interview
  - (b) Unstructured interview
- (ii) Core interview
  - (a) Background information interview
  - (b) Job and probing interview
  - (c) Stress interview
  - (d) The group discussion interview
  - (e) Formal structured interview
  - (f) Panel interview
  - (g) Depth interview
- (iii) Decision making interview

5) **Reference check:** Once the applicant passes through the above hurdles, the firm can go for the references given in the form which the applicant has furnished. This can be done through telephone or through letters.

6) **Medical examination:** This is conducted to all suitable applicants as a part of selection process. After taking the final decision, this test is conducted. It is very important to know the health status of an individual, or else the training given to him may waste. Thorough physical examination is essential to be sure that the candidate is able to handle the job efficiently.

7) **Final selection:** Once the candidates clear all the hurdles, the applicant is declared as selected. The appointment letter will be given to him. The selection process is not rigid. It varies from firm to firm.

CHECK YOUR PROGRESS – 4

State the steps involved in selection process.

11.7 RECRUITMENT Vs. SELECTION

The basic differences can be understood with the help of the following table.

Recruitment	Selection
1. It is a process to discover the sources of manpower.	1. It is the step following recruitment.
2. It aims at attracting as many job applicants as possible.	2. It aims at eliminating unsuitable candidates.
3. Freedom to applicants, any person can apply.	3. Gives only little freedom to applicants.
4. No attempt is made whether a candidate is a suitable candidate.	4. Applicants must meet the selection criteria. They will be tested and carefully scrutinized.
5. It is very simple.	5. It is a complex process.
6. Candidates are not required to cross several hurdles.	6. Candidates are required to cross several hurdles.

11.8 SUMMING UP

The growth of any organisation basically depends on its manpower. Recruitment is the discovering of potential applicant for actual on anticipated organizational vacancies. It involves seeking and attracting qualified candidates for a wide variety of internal and external sources for job vacancies. Each has unique advantages and disadvantages depending on the position to be filled. An efficient recruitment programme necessitates a well defined policy, proper organizational structure, effective procedures to adopt proper techniques and methods for tapping the right person for the right job.

Selection means choice, choice of a suitable person for a suitable job. The primary purpose of selection activities is to predict which job applicant will be successful, if hired. During the selection process candidates are also informed about the job and organisation. Proper selection can minimize the cost of replacement and training. In the discrete selection process, several stages are involved which make the process a complex one and failure of the candidate at any level may result in rejection

11.9 CHECK YOUR PROGRESS : MODEL ANSWERS

1. The important aspects of sales force recruitment are:

a) To attain the organisation's objective, the required manpower has to be recruited.
b) Discover and locate the sources of manpower to meet the required job recruitment.
c) To match the personal qualities with that of vacant position.
d) To fulfill the recruitments created by the vacancies due to promotion, transfer, termination, retirement, permanent disability or death.
e) To further organisations' legal and social obligations regarding the composition of work force.
f) To meet the organisation's legal and social obligations regarding the composition of work force.
g) To appoint right person for the right job.

2. The merits and demerits of external source recruitment are:

Merits

a) External sources provide the right persons for the right posts.
b) Best selection can be made because of large source.
c) In the long run this source provides economy, because the potential employees do not need extra training for their jobs.

Demerits

a) It suffers from brain drain.
b) The recruitment depends on the reputation of the organisation.

3. The methods of recruitment are:

a) direct method
b) indirect method
c) third-party method.

4. The steps in selection procedure are:

a) preliminary interviews
b) application blank
c) employment tests
d) interview
e) reference checks
f) medical examination
g) final selection.

11.10 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. What are the various sources of recruitment? Explain briefly.
2. Explain the process of recruitment.
3. Outline the steps in personnel selection process.
4. What are the methods of recruitment?
5. What are the merits and demerits of recruitment through internal and external sources?
6. What is an interview and what are different types of employment interviews?
7. Discuss some psychological tests used in selection of personnel.
8. Explain the differences between recruitment and selection.

II. Answer the following questions in about 15 lines each.

1. What do you understand by recruitment.
2. What is selection?
3. What is reference check?

4. What is application blank?
5. Explain the importance of recruitment?
6. Explain the importance of selection?

11.11 RECOMMENDED BOOKS

Philip Kotler	:	**Marketing Management**
Cundiff, Still & Govoni	:	**Sales Management**
C.B. Mamoria	:	**Personnel Management**
Chakravarthy	:	**Human Resources Management**
Biplab S. Bose	:	**Hand Book of Marketing**

11.12 GLOSSARY

Recruitment	:	The process of training conditions for job.
Personnel department	:	The department which handles the activity to recruit the staff of the organisation.
Tapping	:	To take the right candidates.

UNIT - 12 : TRAINING AND COMPENSATING SALES FORCE

Contents

12.0 AIMS AND OBJECTIVES

The aims of this unit are to discuss the need for training, objectives of training, methods of training, recent developments in sales training and enumerate the need for motivation and compensation.

After reading this Unit, you should be able to:

- define the concept of training;
- describe the contents of training programmes for new recruits;
- explain the methods of training;
- identify the recent developments in sales training;
- enumerate the various motivation techniques; and
- understand the different compensation methods.

12.1 INTRODUCTION

After the selection, placement and induction of the employees, the next function of personnel management is to provide them proper training. Training function, infact, is the corner-stone of sound management. The complexities of modern industrialization and technological changes have very much increased the need for training.

Employee training is the process whereby people learn the skills, knowledge, attitudes and behaviour. It fosters employee's self and development versatility. No big industrial organisation can long ignore the training and development needs of its employees without seriously inhibiting its performance. Even the most careful selection does not eliminate the need for training. Since people are not moduled to specification and rarely meet the demands of their jobs adequately.

12.2 DEFINITION OF TRAINING

Training is the act of increasing knowledge and skill of an employee for doing a particular job. The term training refers to any process by which the aptitudes, skills, and abilities of employees to perform specific jobs are increased.

According to **I.P.Cambell** 'Training refers only to instrumentation in technical and mechanical operations". In the words of **L.L. Sterinmetz,** " Training is a short term process utilizing by which non-managerial personnel learn technical knowledge and skill for a definite purpose."

The major outcome of training is learning. A trainee learns new habits, refined skills and useful knowledge during the training that helps him to improve performance. Training enables an employee to do his present job more effectively and prepare himself for of higher level jobs. Basically, it is a learning experience that is planned and skilled task behaviour by the trainee. Training imports the ability to detect and correct error. Further more, it provides skill and abilities that may be called on in the future to satisfy the organisation's human resource needs.

12.3 NEED AND OBJECTIVES OF TRAINING

The effective operation of an organisation requires that the individuals involved learn to perform the functions of their current jobs at a reasonable level of exists systematic training programmes in the organisation. Training is needed not only for newly recruited employees who learn as to how to perform their jobs but also for the already existing employees, because of rapid technological changes requiring new skills and expertise. Training is a continuous process because, on one hand, it imports knowledge and skills to the newly recruited employees and on the other hand, it serves as a refresher course in updating existing employees in the organisation. Training is needed to achieve the following purposes.

1. Training is necessary to prepare existing employees for higher level jobs.
2. Training is necessary when a person moves from one job to another.
3. Training is necessary to make employees mobile and versatile
4. Refresher training is required for existing employees to keep themselves abreast of the latest developments in job operations.
5. Training is required for newly recruited employees to perform their tasks effectively.

Objectives

The training objectives are laid down keeping in view the organisation's goals and objectives. But the general objectives of any training programme are;

1. To train the employee for promotion to higher job.
2. To train the employee towards better job adjustment and higher morale.
3. To train the employee to improve his ability and quality of output.
4. To train the employee to meet the changing requirements of the job and the organisation.
5. To train the employee to reduce suspension, wastage and accidents.
6. To train the employee in the company's culture pattern.

CHCK YOUR PROGRESS –1

1. What is the need for training?

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CHECK YOUR PROGRESS –2

State the objectives of training.

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12.4 CONTENTS OF TRAINING PROGRAMMES FOR NEW RECRUITS

Training programmes should be designed to suit the organisation's requirements. Each organisation has its own problems and products. It has own techniques. For an initial training programmer to contribute maximally towards preparing new recruits, it must cover all key aspects of the job. The contents of training programme vary from organisation to organisation. Because of difference in environment, working ambitions, policies, organisation mix, products, markets, trainees ability and experience and training philosophies. But every training programme should devote some time to each of the four areas; production policy, sales policy and techniques, market and organisation information.

The course content of the training programme can be determined on the basis of job analysis, job description and job specifications. This indicates to what extent training should be intensive. The programme is formulated according to the course content. However, the following contents should generally be included in the following programme.

1. knowledge about the organisation and its environment;

2. knowledge about the working conditions;
3. the importance of industry;
4. knowledge about the markets
5. product knowledge;
6. general channels of distribution; and
7. the sales and distribution techniques.

12.5 METHODS OF TRAINING

The efficiency of training programme depends upon the training method. There are various methods of training, but all these can be broadly divided into the following two ways;

1. on-the-job-methods
2. off-the-job-methods

I. On-the-Job Methods

In 'on-the-Job method of training', the worker learns to master the operations involved on the actual job situation under the supervision of his immediate boss. This type of personnel. Numerous training methods can be used while the man is engaged in the process of productive work. The various methods of on-the-job training are as follows:

1. On specific job
   a) Experience
   b) Coaching
   c) Under study
2. Position rotation
3. Special projects
4. Selective reading
5. Apprenticeship
6. Vestibule school
7. Multiple management

1. **On specific job:** The most common and formal on-the-job training programme is training for a specific ob. Current practice in job training has been strongly influenced by the war time training within industry, which was first designed to improve the job performance through job instruction. Training within industry also includes training for supervisors to improve job performance. There are following methods of training on specific job:

   a) **Experience:** This is the oldest method of on-the-job training. Learning by experience is a self-trained activity. It is wasteful, time-consuming, and inefficient. But, in some cases, this method has proved to be very efficient though it should be followed by other training methods to make it more meaningful.

   b) **Coaching:** On-the-job coaching by the superior is an important and potentially efficient approach, if the superior is properly trained and oriented. The advantage of this method is increased motivation for the trainee and the minimization of the problem of learning transfer from theory to practice. The disadvantage in this method lies in the possible neglect to coaching by superior.

c) **Understudy:** The understudy method makes the trainee an assistant to the current job holder. The trainee learns by experience, observation and imitation. If decisions are discussed with the understudy, he can become informed on the policies and theories involved. The main advantage of this method is the training is conducted in practical and real situations. However, disadvantages are many.

2. **Position rotation:** The primary aim of job rotation training is the broadening of the background of trainee in the organisation. If the trainee is rotated periodically from one job to another job, be acquires a general background. The training takes place in actual situation, competition can be stimulated among the rotating trainees, and it stimulates a more co-operative attitude by exposing a man to other employees or colleagues problems and view-points. However, the productive work can suffer, because of the obvious distribution caused by such changes.

3. **Special projects:** It is a very flexible training method. Under this method, an executive may be assigned a project that is closely related to the objectives of his department. While, the trainee performs special assignment, he learns the work procedure and acquires the knowledge of allied subjects also.

4. **Selective reading:** Under this method of training the trainee can gather and advance his knowledge and background through selective reading. This is a good method for assimilating knowledge. The reading may include professional journals and books various business organisations for the trainees in libraries for their own executives. However, it is very difficults to find time to do much reading, other than absolutely required, in the performance of their jobs.

5. **Apprenticeship:** This type of training is used in those trades, crafts and technical fields in which proficiency can be acquired after a relating long period of time in direct association with the work; and under the direct supervision of experts such training is either provided by the organisations, or it is also imported by government agencies. Most states now have apprenticeship laws with supervised plans for such training.

6. **Vestibule school:** Vestibule schools are widely used in training for clerical and office jobs as well as for factory production jobs. Generally large organisations frequently provide what are described as vestibule schools, a preliminary to actual shop experience. As far as possible, shop conditions are duplicates, but instructions, not output, is the major objective with special instructions provided. This training method is relatively expensive, but these costs are justified, if the volume of training is large.

7. **Multiple management:** Multiple management focuses on the use of committees to increase the flow if ideas from less experience or managers and to train them for job positions of greater responsibility. In this method, a junior board is authorized to discuss any problem that the senior board may discuss, and its members are encouraged to put their minds to work on the business as a whole, rather than on concentrate to their specialized areas.

II. Off-the-job methods

Under these methods the trainees have to leave their work place and their entire time to the development objective. In these methods the development of trainees is primary and any usable work produces during training is secondary. The following are the various methods used in the off-the-job training.

1. Special courses
2. Role playing
3. Case study
4. Conferences
5. Management games
6. Sensitivity training

1. **Special courses:** It is a popular method, the executives may be required to lendergo actual special courses which are formally organized by the enterprise with the help of experts from educational institutions. However, only big enterprises can send their executives to the management development courses run by management institutes, because the fee of these courses is very high.

2. **Role playing:** The main objectives of this method are to give trainees an opportunity to learn human relation skills through practice and to develop insight into one's own behaviour and its effect upon others. It can be used in human relations training, leadership training and sales training, because all these involve dealing with other people.

3. **Case study:** This method gives the trainee an opportunity to apply his knowledge to the solution of realistic problems. The trainees may be given a problem to discuss which is more or less related to the principles already taught; case studies are extensively used in teaching law, personnel management, human relational, marketing management and business policy in various educational institutions. The trainee's perception is different, so that the answer of each trainee may differ.

4. **Conferences:** A conference is a group meeting conducted according to an organized plan in which the members seek to develop knowledge and understanding by obtaining a considerable amount of oral participation. **It is an effective training for** persons in the positions of both conference members and conference leaders. The conference is ideally suited to learning problems and issues and examining them from different angles.

5. **Management games:** A management game is a class-room exercise in which teams of trainees compete against one another to achieve common objectives. The game is designed to be a close representation of real-life conditions. A variety of business and management games have been discussed and are being used with varying degrees of success in development programmes.

6. **Sensitivity training:** Sensitivity training means the development of awareness and sensitivity to behaviour patterns of oneself and others. In this method the training groups are called "T- Groups". T-Groups are helpful in un-learning and learning certain things. They help the participants to understand how groups actually work and give them a chance

to discuss how they are interpreted by others. The sensitivity training programmes are generally conducted under controlled laboratory conditions.

CHECK YOUR PROGRESS – 3

Explain off-the-job training methods.

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12.6 RECENT DEVELOPMENTS IN SALES FORCE TRAINING

The increase in complexity of products has increased the importance of personal selling. Manufacturers of highly technical products such as computer, electronic typewriters, digital phones, microwave kitchen appliance, remote control equipments etc. depend more heavily on personal selling. Therefore, the salesmen are given training so that they may know the nature and quality of the products, and the routine involved in putting through a deal. They are trained in the art of salesmanship, and in handling customers and meeting their challenges.

The following are the recent developments in sales training:

1. **Communication strategies:** At the lowest level of personal selling, the sales representative is an alternate medium for communicating information about the product or service offered by company. This strategy is aimed at to increasing sales. At this level there is more walking and more talking.

2. **Persuasion strategies:** The persuasion level requires the sales representatives to go beyond the role of a mere communicator to the role of understanding at least the immediate and narrow needs of the customers. So, the sales representative tries to fit the customer into the existing product or service mix by skilfully anticipating and overcoming objection.

3. **Negotiation strategies:** During negotiation, the product and commercial firms are adjusted to meet the customer's needs, rather than just attempting to skilfully overcoming objections as practised in previous stages. Here, the salesman requires skills at this stage of selling in analyzing and understanding the customer needs and determining how the company's products and services can meet these needs.

4. **Client profit – planning strategies:** This type of strategy is applicable in industrial product selling. As per this strategy, the representative is put to work with a clients team to learn about profit-planning system, product, finance, marketing, research and development, so that the product meeting the clients' needs could be developed.

5. **Business management strategies:** As per this strategy, the professional representative is responsible for a managing territory as a strategic business unit – investing time and expenses in most the profitable manner. Territory representatives along with sales managers and accounts managers, develop business strategies and bottom line responsibility to meet objectives of the organisation.

12.7 MOTIVATION AND ITS CHARECTERISTICS

Management is often defined as the art of getting the right things done through people in an organisationised setting for achieving certain goals. Getting things done through people involves motivating them, inducing in them the willingness to do work and to behave as desired by the manager and persuading them to put in the needed effort and skill to perform things.

Motivation may be defined as an intrinsic ability and desire for positive effort towards performance for purpose of fulfilling certain needs and objectives and preserving certain values and interests. The word "Motivation" is derived from "Motive" which is defined as an inner state that energises, activates and directs behaviour towards goals. It is the certain task of management to motivate the attitude and behaviour of organizational members towards working for and meeting organizationally relevant goals and needs considered necessary by management.

Motivation is the product of anticipated values from an action and the perceived probability, and these values will be achieved by the action. The anticipated value is called "Value' and it is defined as the strength of a person's preference for one outcome in relation to others. The perceived probability is called "expectancy' and it is defined as the strengths of belief that a particular act will be followed by a particular outcome. Thus, motivational relationship can be expressed in the formula:

Motivation = Valence x Expectancy

Based on the definition of motivation, we can derive the following **characteristics** of Motivation;

1. **Motivation is an internal feeling:** Motivation is a psychological phenomenon which generates within an individual. Needs are feelings in the mind of a person that he lacks certain thing. Such feelings affect the behaviour of the person.

2. **Person motivated in totality:** A person is motivated in totality and not in part. Each individual in the organisation is a self – contained unit and his needs are interrelated. These affect his behaviour in different ways. Moreover, feeling of needs and their satisfaction is a continuous process. As such, these create continuity in behaviour.

3. **Goal-directed behaviour:** Feeling of needs by the person causes him to behave in such a way that he tries to satisfy himself so that he does not feel the lack of that particular thing. Motivation has profound influence on human behaviour, in the organisational context, it harnesses human energy to organizational requirements.

4. **Affected by motivating:** Motivation is affected by the way the individual is motivated. The act of motivating channelises need satisfaction. Besides, it can also activate the latent needs in theindividual, that is, the needs that are less strong and somewhat dormant, and harness them in a manner that would be functional for the organisation.

5. **Complex process:** Motivation is a complex process. Complexity emerges because of the nature of needs and the type of behaviour that is attempted to satisfy those needs.

CHECK YOUR PROGRESS – 4

What are the characteristics of motivation?

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12.8 MOTIVATION TECHNIQUES

Since human motives governing human behaviour and attitude towards work are multiple, management can employ a variety of techniques to motivate its staff. The following are some of the important techniques:

1. **Monetary Techniques:** These techniques are based on the popular belief that a man works for money. Hence, an attraction of getting more money will prove to be the most powerful motivator. Incentives like more pay, fringe benefits, security of tenure, conditions of services, etc., are some examples of the monetary techniques.

2. **Leadership styles:** Leadership styles or supervisory techniques have also a great role in motivation of employees. Autocratic, democratic, and free-rein techniques of leadership are important styles and they have their own implications for employee motivation,morale and productivity. The management must try different supervisory styles in different circumstances for different employees.

3. **Job based techniques:** These techniques are based on social, human, and psychological beliefs. Job simplication, job rotation, job enlargement, job enrichment, freedom in planning for work, sense of recognition, responsibility and achievement are some examples of such technique.

4. **MBO technique:** Peter F. Drucker has developed this technique which emphasizes on self control and self-motivation. It is a participatory technique of motivation whereby managers and their subordinates jointly participate in achieving the common goals. It requires an emphasis on management by objective policy in the concern.

5. **Group – based techniques:** Horber Bonner has adovacated group based techniques for motivating the employees. Motivation is an individual variable. Certainly its force and direction are functions of the social situation in which it arises and is exercised. Hence, management should foster group consciousness and cohesiveness among individual employees by laying down general norms and guidelines of work for the group as a whole.

6. **Sensitivity training technique:** This is another technique of training given to groups of managers themselves so that they behave with and motivate their subordinates better. The sensitivity training is imparted to make the managers understand themselves better, becoming more open-minded, developing insight into group process, and cultivating a systematic approach towards the problem of motivation.

As a matter of fact, motivation is more a psychological problem than a financial or managerial one. It is impossible to understand and administer motivation without considering what people want and expect from their jobs. Hence, the study of needs, aspiration and individual motives behind the work is very important. Undoubtedly, financial incentives can provide the necessary encouragement for employees to work harder, but social and psychological factors also play a vital role in the process of motivation. Actually, both types of incentives, financial as well as non-financial are essential for motivating employees.

12.9 MEANING AND OBJECTIVES OF COMPENSATION

Good compensation plans, well administered, have a positive effect on the entire enterprise. Employees are happier in their work, if co-operation and loyalty are higher, productive output is up, and quality is better. In the absence of such compensation, plans are determined subjectively on the basis of haphazard and arbitrary decisions. This creates several iniquities which are among the most dangerous sources of friction and low morale in an enterprise.

Employee compensation is a comprehensive term which includes wages, salaries, all other allowances and benefits. The process of compensation is a complex net-work of sub-process directed towards remunerating people for the services rendered and motivating them to attain a desired level of performance. Among the intermediate components of this process are wage and salary payments, the awarding of other cost items such as allowances, leave facilities, housing, travel, leave travel concession, house travel concessions and also the provision of essential non-cost rewards such as recognition, privileges and symbols of status.

The following are the basic **objectives** of compensation:

1. To attract and retain qualified personnel in the organisation.
2. To motivate the employees to higher level of performance.
3. To control the labour turnover in the organisation.
4. To boost the morale of the employees towards the work culture.
5. To reduce the chances of grievances and frictions over wage matters.

12.10 NEED FOR COMPENSATING SALESFORCE

A properly designed sales compensation plans fits an organisation's special needs and problems, and from it flows attractive returns for both the organisation and its sales individual. A good plan of remuneration for sales force motivates them to do their job most effectively and achieve the objectives of the organisation. Sales personnel receive high pay as a reward for effective job performance, and "esprit de corps" is high. Sales compensation plans are aids to rather than substitutes for, effective motivation. However, carefully designed payment plan is an important part of the total motivational programme for sales personnel. The plan of payment should give fair returns.

Every individual is in need of a sufficient income for a contented life. All people strive for a reasonable standard of living for themselves and for their families. This standard of living depends on various factors, but chiefly on income. It should be enough to provide not only the basic necessities of life but a reasonable amount of comfort. It should be enough to provide for the education of children, medical treatment, and recreation, and occasionally, for a vacation.

The efficiency of an employee only depends on his skills and experience and on his way of life style. Generally, the employee's life style is determined by what he earns. His status and standing in the family and society depend on his earnings. The remuneration he draws determines his position in the organisation. Most of the people want to live a peaceful and reasonably comfortable life. Therefore, the income earned by a person has a profound effect on his way of life. Hence, a plan of remuneration should mainly provide for two things.

i) A regular or steady income, and
ii) An incentive to the employee to do better.

A regular income for a salesman is an important matter for him. He has to provide for his family, and it should be sufficient enough for a fair standard of living. He should be assured of a steady income, so that he can well look after his family. Then, the scheme of payment should include an element of incentive for better performance. Incentive is necessary to motivate the salesman to perform better. Therefore, the management should include an incentive element in the scheme of remuneration. The ideal plan of remuneration would be to provide both a regular income for the average salesman and an incentive to do better for all the salesmen.

12.11 COMPENSATION METHODS

There are different methods of payments. The following are the common methods of compensation, payment:

1. Straight salary method
2. Straight commission method
3. Salary and commission method
4. Commission and bonus method
5. Salary and bonus method
6. Salary, commission and bonus method.

1. Straight Salary Method

The straight salary method is the simplest and most universal compensation plan under this method; sales persons receive fixed amount of compensation. The payment does not depend upon the quantum of work done. Payment is fixed and does not vary according to fluctuations in business. Besides salary, a salesman may be paid his traveling expenses and the other expenses incurred by him while performing his duties.

2. Straight Commission Method

Under this method the compensation is payable according to salesman is performance. He is paid commission on the value of the sales effected by him or units of products sold by him. The income of the salesman depends on his total sales. He may be paid commission on percentage basis on the net sales, or percentage basis on the total number of units of products sold by him. He may be also paid a fixed amount of commission on every item of products sold. Besides commission, the management will pay all other expenses such as travelling, boarding and lodging expenses.

3. Salary and Commission Method

Salary and commission method is a popular method of remuneration. It combines the elements of a regular income and an incentive to do better. It satisfies both the types of salesmen. The salesmen, who are not satisfied with a fixed income, show initiative and drive, if they are properly motivated. For such salesmen, the salary-plus-commission payment method is very attractive. Since they are assured of a fixed income by way of salary which takes care of their personal and house-hold expenditure, they are willing to work hard and take the initiative to earn a little more by selling more than they are required to sell, for they know that they will be adequately rewarded for their extra effort. Therefore, this method of remuneration is suitable for enterprising salesmen.

4. Commission and Bonus Method

This method is a combination of commission and bonus plan. Generally, bonus is paid for reaching a sales quota, performing promotional activities, obtaining new accounts, following up leads, setting up displays, or carrying out other assigned tasks. In other words, the bonus is an additional financial reward to the salesperson for achieving results beyond a predetermined minimum. This plan is adopted by a company when it wants to eliminate the drawbacks of straight commission. It can be profitably used to promote the sales of products which fall in the high margin category.

5. Salary and Bonus Method

Bonus is the payment which is over and above the usual salary paid to the salesman for achieving certain results beyond a certain specified limit. The commission is based on the value or the volume of the total sales, while a bonus may be paid for fulfilling a certain sales quota. The bonus may be combined with the salary, or it may be combined with the commission, or it may be combined with salary plus commission, but, bonus is never paid alone. This method of payment may be very advantageously employed by a company which wants to encourage certain activities for a short period of time. Generally, salesmen prefer the salary-plus-commission method rather than the salary-plus-bonus plan.

6. Salary, Commission and Bonus Method

This method combines the merits of all the three plans. This method be usefully adopted when a company wants to stimulate some slow-selling items. It is also good when it wants its salesmen to do promotion work with some missionary zeal and sell a particular product line for both the organisation and its sales individual. The organisation can employ a variety of methods to compensate its staff, such as straight salary, straight commission, salary and commission, salary and bonus and salary, commission and bonus methods.

CHECK YOUR PROGRESS – 5

State the compensation methods for sales force.

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12.12 SUMMING UP

After the selection, placement and induction of the employee, the next function of personnel management is to provide them proper training. Training function, infact, is the corner-stone of a sound management. Training is the act of increasing knowledge and skill of an employee for doing a particular job. Training is needed not only for newly recruited employees who earn how to perform their job but also for the already existing employees, because of rapid technological changes requiring new skills and expertise. Training programme should be designed to suit the organisation's requirements. The efficiency of training programme depends upon the training method.

It is the certain task of management to motivate the attitude and behaviour of organizational members towards working for and meeting organizationally relevant goals and needs considered necessary by management. Motivation is the product of anticipated values from an action and the perceived probability, and these values will be achieved by the action. Management can employ a variety of techniques to motivate its staff.

Good compensation plans, well administered, have a positive effect on the entire organisation. Employee compensation is a comprehensive term which includes wages, salaries, all other allowances and benefits. A properly designed sales compensation plan fits a organisation's special needs and problems, and from it flow attractive returns.

12.13 CHECK YOUR PROGRESS : MODEL EXAMINATION

1. Needs for the training are:
   a) Training is necessary to prepare existing employees for higher level jobs.
   b) Training is necessary when a person moves from one job to another.
   c) Training is necessary to make employees mobile and versatile
   d) Refresher training is required for existing employees to keep them abreast of the latest developments in job operations.
   e) Training is required for newly recruited employees to perform their tasks effectively.

2. The objectives of training are:
   a) To train the employee for promotion to higher job.
   b) To train the employee towards better job adjustment and higher morale.
   c) To train the employee to improve his ability and quality of output.
   d) To train the employee to meet the changing requirements of the job and the organisation.
   e) To train the employee to reduce suspension, wastage and accidents.
   f) To train the employee in the company is culture pattern.

3. Off-the-job training methods are:

   a) Special courses, b) Role playing, c) Case study, d) Conferences, e) Management games, f) Sensitivity training.

4. The characteristics of motivation are:

   a) it is an internal feeling, b) motivated in totality, c) goal direction behaviour, d) affected by motivation, e) it is a complex process.

5. The sales force compensation methods are:

   a) Straight salary method
   b) Straight commission method
   c) Salary and commission method
   d) Commission and bonus method
   e) Salary and bonus method
   f) Salary, commission and bonus method.

12.14 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. What is the importance of training to workers? Explain the various methods of training.
2. How will you evaluate the training effectiveness in an organisation?
3. Explain the contents of training programme for new recruits.
4. What is motivation? Discuss its importance in management.
5. Discuss, in detail, the various methods of motivation.
6. What is meant by employee compensation? Also point out the objectives of employee compensation.
7. Examine critically the factors affecting employee compensation.

II. Answer the following questions in about 15 lines each.

1. What is training?
2. List out the objectives of training?
3. What is motivation? Discuss its importance in management.
4. State the motivation techniques?
5. Write a brief note on the following?
   a) on-the-job training
   b) off-the-job training
   c) MBO concept
   d) Straight salary method of compensation

12.15 RECOMMENDED BOOKS

1. Tripathi : **Personnel Management & Industrial Relations**

2. Acharya, Goverkar, Krishna, Ravindranath : **Field Sales management**

3. R. Still, W. Cundiff, A.P. Govoni : **Sales Management**

4. Rajan Saxena : **Marketing Management**

5. Philip Kotler : **Principles of Marketing**

12.16 GLOSSARY

Training : Training is the act of increasing knowledge and skill of an employee for doing a particular job.

Motivation : Motivation is an intrinsic ability and desire for positive effort towards performance for purposes of fulfilling certain needs and objectives and preserving certain values and interests.

Compensation : Compensation is a comprehensive term which includes wages, salaries, all other allowances and benefits. The process of compensation is a complex net work of sub-process directed towards remunerating people for the services rendered and motivating them to attain a desired level of performance.

BLOCK – IV
DISTRIBUTION MANAGEMENT

UNIT – 13 : CONCEPT OF DISTRIBUTION

Contents

13.0 AIMS AND OBJECTIVES

The aim of this Unit is to introduce the concept of distribution and its explain how this distribution works in the process of making availability of goods to the market.

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

- explain the concept of distribution;
- discuss the significance of distribution;
- explain the objectives of distribution;
- state the elements of distribution; and
- explain the managerial issues of distribution.

13.1 INTRODUCTION

The producer or manufacturer produce their products in their manufacturing unit and those products will have no use unless they reach the ultimate consumers. The producer may serve some part of the market by transporting those goods and selling them through their sales points to the customers directly but this is not enough if the goods are consumed by a large segment of the market. So, for making effective and continuous distribution of goods, producer need some better helping hands to make the good available to all corners of the market i.e, large market.

Distribution is concerned with the activities like transportation, storing of goods and other legal, financial, promotional and selling activities to meet the distribution objectives. The distribution channels help the manufacturer to move products and services from one place to another. Hence, they will be added the place utility and bring products to the consumer when the consumer wants them, hence, they add time utility also. They bring the products to the consumer in a convenient shape, unit, size, style and package; hence, they add convenience value. They make it possible for the consumer to obtain goods at a price he is willing to pay and under conditions which bring satisfaction and pride of ownership; hence, they add possession value.

In this unit we will explain the concept and significance of distribution, objectives of distribution, elements or activities of distribution and also explain the managerial issues of distribution.

13.2 DISTRIBUTION – MEANING AND DEFINITION

Products and services produced in one part of the country or world or even at a village need to be transferred to other parts. The product manufactured in one place or location need necessarily be consumed in different places or locations. Therefore, distribution of goods often takes place to reach the consumption place. This act of moving products from the manufacturing site to the consuming centers is amongst the most important function of marketing management.

As production we have noted that the process of marketing involves the distribution system which consumed with movement of products from the point of production to the point of consumption.

The word distribution means to distribute, disseminate or spread about. This means employed by the producer and the seller to get their products to market and into the hands of the users. So distribution is a tool for marketing the goods and used to move products from production to consumption. And thus, distribution has been defined in different ways.

According to American Marketing Association, the distribution channel as the structure of intra company organization units and extra company agents and dealers, wholesalers and retailers through which a product or service is marketed.

In the words of **Richard Bushkirk**, distribution channels are the system of economic institution through which a producer of goods delivers them into hands of users.

According to **Philip Kotler**, a channel of distribution is a set of independent organization involved in the process of marketing a product or service available for use or consumption.

On the other hand, **William J. Stanton** says that, a channel of distribution for a product is the route taken by the title of the goods as they move from the producer to the ultimate consumer or industrial users.

Thus, it is clear from the above definitions that the channels of distribution are the means employed by producers and sellers to get their products/goods to the market in order to reach the hands of the users.

CHECK YOUR PROGRESS –1

What do you mean by distribution?

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13.3 SIGNIFICANCE OF DISTRIBUTION

Channel distribution plays a pivotal role in the successful marketing of most products and services. These products may be consumer products or industrial, but they have their own significance in achieving marketing objectives.

Basically certain aspects make distribution important, they are:

i) transactional efficiency;

ii) product/services assortment;

iii) functional specialization; and

iv) certain time, place, and possession of utilities.

The presence of an intermediary between producer and retailers can substantially reduce the number of trading links in the marketing system. this system can reduce the number transaction to the sum of the numbers of producers and retailers.

Intermediaries assemble a wide variety of goods drawn from many different producers and sort them into mixed orders for distribution agencies or to customers.

By specializing on distributive functions, intermediaries can develop greater expertise in the field than the producers and provide a supervision marketing service.

Distribution of channel creates time value, place, utility and also possession of other utilities as such -

Consumer Goods-Channels Distribution

Distribution channel is a very important aspect of marketing, which made availability of goods and services near to the user or consumers. Therefore, this channel distribution is required because of the following reasons.

1. **Provide efficiency in distribution:** Distribution channels bring together the marketers and users in an efficient and economic manner. It is very important for any producer to organize a network of his own selling points through out the market and sell his goods directly to customers totally availability outside distribution channel.

2. **Channel provide merchandise the product:** This is another role played in the distribution channels. Through this seller can make the awareness about the product among customers. When a customer visits a retail shop, his attention can be attracted

by displaying of a new product, brand to increase his awareness of the product and get his interest in the product.

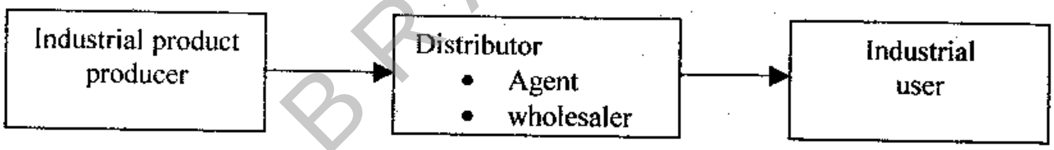
3. **Provide salesmanship role:** Distribution channels also provide the important input of salesmanship because, they help in establishing new products in the market. Distributors promote the products through their word-of-month communication. They also provide the pre-sale and after-sale services to the consumers. In addition, to that, they also provide market intelligence and feedback to their principals.

4. **Distribution acts as demand generator:** Channel distribution facilitates the sales process by being physically close to customers and creates (or) generates the demand for the product. They also accept responsibility for the transfer of technology, in the case of agricultural products.

5. **Helps in price mechanism:** Distribution channels also help in implementing the price mechanism in the market. They will suggest price level that is acceptable to the marketer as well as the buyer. This is a very important decision before the marketing management.

Industrial Goods – Channel Distribution

Like distribution of consumer products, the industrial products also require the channel distribution system but as comparative the consumer product it requires less distribution because most of the industrial user plans, to get directly from producer but it is not possible always. The distributor spreads the costs associated with relationships over several products and product lines, often from many different suppliers. Small to medium sized purchases can receive better customer service from modern industrial distribution within this context, distribution will become important to serve customers in many ways and this can be understood with the help of a figure.



1. **Provide fast delivery:** Distributors maintain a local inventory of the product from suppliers they represent. Arrangements can be made with customers to provide regular just-in-time (JIT) delivery and allowing the customer to avoid a long money commitment to incoming inventory.

2. **Provide local credit facility:** Small business producers often find it difficult to obtain financial resources, particularly during periods of tight money. Most distributors provide trade credit facilities for established customers. In many circumstance, the credit granting capability is major strength with the distributor.

3. **Provide product information:** Distributors are main sources for the industrial users because, they require certain information and advice on the application of components, may need instructions of the proper use of products. The distribution not only will be a source for the seller, but also will be able to advise regarding their proper usage.

4. **Helps to buy and hold inventory:** Some times the distributor purchases goods from the producer on behalf of its customers. In such cases, the distributor provides local inventory for the industrial customer and hold the same with him.

5. **Helps in sharing credit and selling risks:** Distributors also share certain risks on behalf of or to help customers, he himself comes forward and provides credit terms and enables them to carry and hold inventory. This becomes a service to the user of the product. They are also served by risks and partnership responsibilities in selling the purchase product further. In this way distributor helps the customer by sharing selling risks too.

6. **Other services:** The distributor not only provides the above service to the customer but also the following.

   a. forecast market needs

   b. provide user training

   c. provide segment based product assortments etc.

While understanding the above issues he helps the producer in distributing his produce, which leads to achieving marketing objective. Thus, new we understand how distribution plays an important role in the marketing of consumer and industrial products.

CHECK YOUR PROGRESS –2

How distribution of consumer products is important?

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13.4 OBJECTIVES OF DISTRIBUTION

From the producers point of view, such a distribution network, distribution channel is required to send the produced goods and services to the users point (or) place and this is a definite aspect which takes place in reaching the public. Now-a-days we are hearing oftenly about factory sale, this is nothing but the producer's outlets and making sales without involving the middleman i.e., distribution. For this reason, to avoid other expenses and also with some objectives. These distribution objectives can be broadly as follows:

1. to make convenience of consumer to get the product
2. to make choice in selection of products
3. to avoiding or minimizing damages during transportation and storing
4. to maintain optimal distribution costs
5. to provide effective promotional activities of distribution
6. to minimize environmental dangers
7. to motivate channel members

8. to develop proper co-ordination among the channel members

These objectives can be observed with the help of the following chart:

i) Factory —— Transport ——→ Selling point

ii) Factory —— • Transport • Distribution warehouse ——→ Selling point

iii) Factory —— • Transport • Wholesaler • Retailer ——→ Selling point

The sales manager or department should consider the distribution objective where, they have any distribution decisions in the long-run.

CHECK YOUR PROGRESS –3

State the objectives of distribution.

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13.5 ELEMENTS OF DISTRIBUTION

Like marketing elements, product, price, promotion. Distribution has few elements such as i) physical distribution, ii) marketing channels, iii) institution, iv) flow, v) pathway, vi) composition, and vii) functions.

1. Physical distribution: This element is concerned with the actual movement and storage of goods after their production and before their consumption. The physical distribution involves planning, implementation and controlling the physical flow of materials and final by goods from the point of origin to point of use to meet customer's need at a profit. Physical distribution mainly depends on the following sub-elements such as:

- warehousing
- transportation
- inventory
- acquisition
- packaging
- order processing.

2. Marketing channels: Is a combination of direct and indirect transfer of ownership to goods, as it moves from a manufacturer to the final user or industrial users. Each marketing channel having one or more transfer points such as:

- one line/single line distribution (producer)
- two lines distribution (producer and wholesaler)
- three lines distribution (producer, wholesaler and retailers)
- four lines distribution (producer, wholesaler, retailers and agent).

3. Institutions: The distributor of goods flows from one place to another with the help of certain professional institutions such as:

- manufacturing enterprises
- extractive industries
- cooperative marketing association
- wholeselling and merchant wholesalers
- retailer and field retailer
- cooperative retailers
- consumer cooperatives
- super markets and discount houses
- house-to-house selling
- automatic selling (through machines)
- franchising and shopping centers.

4. Flow: The flow of products and other services is sequential.

5. Pathway: Channel distributions is a pathway through which goods and services move from producer to user or industrial user.

6. Composition: Channel distribution is composed of few intermediaries such as wholesaler, retailer etc who facilitate different types and who facilitate the flow,

7. Functions: The distributors/channel members perform certain functions which facilitates/helps in transfer of ownership and possession of goods and services from producer to the user.

CHECK YOUR PROGRESS –4

Explain the elements of distribution.

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13. 6 MANAGERIAL ISSUES OF DISTRIBUTION

After a company has chosen a system of channel or best alternative channel, the manufacturer has to choose a middleman and they must be selected, motivated, and evaluated and modified some times. These issues are involved in distribution but these are under the control of management and thus, these are called managerial issues or decisions which help to achieve the firm's marketing objectives.

The issues of distribution are as follows:

1. selecting the channel members
2. motivating the channel members

3. compensating the channel members
4. coordination and control of channel members.
5. types of conflicts and competition

Let us discuss them in detail.

1. Selecting the channel members

Selecting right and suitable i.e., qualified middleman among the combination of intermediaries, the company must select a better channel which is more profitable. This varies from one company to another company's ability to attract qualified middleman within the selected channel. For this the following approach helps the company while selecting the channel member.

- Management science member
- Lambart's financial approach
- Mathematical approach
- Judgement approach

2. Motivating the channel members

After selecting the channel member for serving the target market effectively, the firm must keep these intermediaries continuously motivated to perform in a better manner. For this, they head training and encouragement and make or develop channel members favorable towards the firm and perform such functions to the best of their abilities as required to achieve the channel objectives. Some of the motivation approaches/methods available before the firm are:

- partnership approach
- cooperation approach
- conducting channel audits
- setting distributing advisory council
- distribution programmes
- use of power

3. Compensating channel members

By offering compensation or remuneration to such selected channel member, in order to render more services to the producer then they should be paid out for what they actually do within the system. Therefore, different functions performed by different intermediaries should serve as the basis of compensation. The various forms of compensation to the channel members are shown here:

- commissions
- trade discounts
- quantity discounts etc.

4. Coordination and control of channel members: Coordination here in this context, integration of channel members and company goal achievement. These coordination of distribution usually assumes two dimensions; i) coordination between the company and intermediaries; ii) coordination between the channel members.

Control of channel members

The company can exercise its control over wide-ranging activities which includes; i) resale pricing with the company, ii) consumers and channel members. In order to control the channel members, company has to understand the behaviour of intermediaries may be corrected by exercise of power at the command of the company.

i) reward power
ii) expert power
iii) coercive power
iv) referent power
v) legitimacy power

These powers can be exercised for controlling the behaviour of intermediaries, hence, these need to be corrected

5. Types of conflicts and competition

Very often, the conflict arises between two channel members like, Horizontal channel conflicts exists when there is conflict between members at the same channel within the channel. Vertical conflicts exists when there is a conflict between different levels within the same channel. For instance, General Motors came into conflict with its dealers for trying to enforce policies on pricing, servicing and advertising. Sometimes not only the above horizontal and vertical conflicts but also Multi channel conflicts exist when, the producer has established two or more channels that compete with each other in selling in the same market. These conflicts arises because of the following reasons. They are:

i) goal incompatibility
ii) differences in perception
iii) heavy dependence
iv) unclear roles and rights etc.

In order to minimize these conflicts the management has to adopt certain management/resolving strategies they include:

i) bargaining strategy
ii) cooperation strategy
iii) adoption strategy
iv) interpenetration strategy
v) boundary strategy, etc.

CHECK YOUR PROGRESS –5

What are the management issues of distribution?

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13.7 SUMMING UP

As we know that the goods needs distribution because these goods are produced at one place and consumed at another place. The intermediaries exist for creating time, place and possession utility. This distribution is important for not only consumer goods but also for industrial goods. The intermediaries provide many kinds of services like providing efficiency in distribution, providing market demand and supply information, help in price mechanism, fast delivery, credit facility etc.

Distribution helps in achieving marketing objectives through their professional activities which creates more sales and relevant elements of distribution such as physical distribution, channels institutions, etc. Producer has to make certain decisions or managerial issue are i) selecting channel member, ii) motivating channel members, iii) compensating channel members, iv) coordinating and controlling channel members, v) types of conflicts and competition. etc.

13. 8 CHECK YOUR PROGRESS : MODEL ANSWERS

1. Distribution is a set of independent organization involved in the process of marketing a product available for consumption, in other words, distribution through which goods move from the producer to the ultimate consumer.

2. Distribution of consumer products are very much needed because these products are produced at one place and consumed at another place in between these two places the distributor creates time, place and possession utility for the product. This distribution provides certain facilities such as, a) efficiency in distribution, b) helps in merchandise the product, c) provide salesmanship role, d) it generates demand, and e) helps in price mechanism.

3. The objectives of distribution are::

a) to make it convenient for the consumer to get the product;
b) to make choice in selection of products;
c) to avoid or minimize damages during transportation and storing;
d) to maintain optimal distribution costs;
e) to provide effective promotional activities of distribution;
f) to minimize environmental dangerous;
g) to motivate channel number; and
h) to develop proper co-ordination among the channel member.

4. The elements of distribution are:

a) physical distributing,
b) marketing channels,
c) institution,
d) flow,
e) pathway,
f) composition, and
g) functions.

5. The managerial issue of distribution are as follows:

a) selecting the channel members
b) motivating the channel members
c) compensating the channel members
d) coordination and control of channel members
e) management of conflicts and competition.

13.9 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. Define distribution channel? State its objectives.
2. Explain the significance of channel distribution.
3. Discuss the various managerial issues of distribution.

II. Answer the following questions in about 15 lines each.

1. How distribution is important?
2. Explain the importance of distribution for consumer goods.
3. What are the elements of distribution.
4. Write brief notes on the following
   a) physical distribution
   b) selecting channel member
   c) conflict resolving strategies.

13.10 RECOMMENDED BOOKS

Philip Kotler : **Principles of Marketing**

Louis W. Stern : **Marketing Channel**

Cundiff, Still & Govoni : **Sales Management**

Acharya, Goverskar Krishan & Ravindranath : **Field Sales Management**

Robert Reeder : **Industrial Marketing**

13.11 GLOSSARY

Distribution : Is a pathway through which product flows from producer to user.

Physical distribution	:	Physical handling and movement of through and among the channel participants such as producers, wholesalers, retailers and agents facilitators usually takes place.
Pathway	:	Particular way of transporting goods and services moves further.
Channel conflict	:	Misunderstanding between the producers and distributors or among the distributors.

UNIT - 14 : ROLE AND IMPORTANCE OF CHANNEL DISTRIBUTION

Contents

14.0 AIMS AND OBJECTIVES

After studying this unit, you will be able to:

- understand distribution mix;
- explain the importance of channels of distribution;
- discuss the role of wholesaler; and
- explain the role of retailer.

14.1 INTRODUCTION TO DISTRIBUTION MIX

We are aware that distribution mix refers to the selection of a mix of different types of distribution channels for transmitting the goods from the produces to the final consumer. Goods may reach the consumers through wholesalers, retailers or through company's own sales showrooms. Hence, the company has to decide the channel through which it intends to make available the goods to the consumers.

The distribution decisions are very critical which will affect the firm's survival. These decisions should be responsive to the changing market conditions. Distribution decisions are vital from the corporate perspective and from the customer's point of view. From the corporate perspective, distribution decisions reflect the company's long term commitment with the channel members. Decisions would also affect the firm's market share and market penetration. The profitability of the firm would be reflected by distribution decisions. From the customers point of view, convenience, cost and communication are important facts of distribution decisions. These aspects will influence the customers to buy a specific by and only.

Hence, there is a need to study the role and importance of distribution management undertaken by the firms.

14.2 IMPORTANCE OF CHANNELS OF DISTRIBUTION

Channels of distribution are the pipelines through which the goods flow from producers to consumers. Channels facilitate link, between the producers and consumers. The middlemen in channels of distribution perform number of functions such as transfer of title to the goods, physical movement of goods from the point of production to the point of consumption, storage of the goods, communication of information concerning availability, characteristics and price of the goods in transit, inventory etc. Thus, the functions of concentration, equalization and dispersion of goods may be summarised as follows:

1. Time and place utilities

The channel helps the consumers to buy goods at right time, at right place and in right quantity. Thus, the channels create time and place utility to the buyers by providing them at a time when they are needed and at a place where they are required.

2. Convenience in purchase

The channels help the consumers to purchase the goods in required quantities or lots and packs. It is because the members of channels are available at the location of the product. This saves the purchase time of the buyer and he can purchase goods in convenient units.

3. Avoids storage of goods

The channel help the consumers to avoid the storage of goods for future requirements. It is because the channels enable the consumer to provide goods at a reasonable cost and without a greater purchase risks. Since the goods are made available whenever they are needed, consumers need not purchase in quantities. When the goods are not purchased in bulk quantities, consumers need not buy the goods for a future period.

4. Adequate information to consumers

The channels enable the consumers to get adequate and relevant information in making the choice in purchase of selective brands of goods. They also get proper information about the product composition, uses, prices and availability. This information is highly desirable for a proper purchase decision.

5. Producers free from problems

The channels enable the producers to be free from the problems of distribution, insurance, storage, transportation of manufactured goods. Hence, the manufacturers can concentrate fully on the new techniques of production and new variety of goods, which, suit the requirements of the consumers.

6. Provide information to producers

The channels provide adequate information to the manufacturers regarding the needs of the consumers, competition in the market, the type of products needed to increase sales volume etc. This information is highly desirable for formulating production and marketing strategies to take the competition efficiently.

7. Greater market share

The channels participate in advertising and other sales promotion efforts of the manufacturer for greater market share in sales and market coverage of the product. Hence, the selling efforts of the channel members and sales promotion programmes of the manufacturer shall increases the sales volume and profits of the firms.

8. Financial assistance

Some of the channel members are also financially assisting the manufacturer before sale of goods. Hence, the firm can over come problems of working capital and formulate a effective financial planning whereby the firm would be in sound position.

9. Price determination

In pricing a product, the manufacturer has to invite suggestions from the channel members who have direct contact with the ultimate consumers. The channel members will be in a position to give information on competitor's price and paying capacity of the buyers which is very much required for price determination. Pricing may be different for different market and products and depends on availability of members.

11. Marketing demand and supply

The channel members' chief function is to assemble the goods from many producer in such a manner that a customer can effect purchases with ease. Alderson rightly said that the goal of marketing is the matching of segments of supply and demand. This matching process enables the middleman to perform the functions such as concentration, equalization and dispersion of goods of the manufacturer.

Thus, the channels of distribution help the producer to market the product, increase the volume of sales, position the product in the market, increase the profitability and market share of the firm.

CHECK YOUR PROGRESS – 1

What is the importance of distribution?

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14.3 ROLE OF CHANNELS OF DISTRIBUTION

The channel of distribution always includes producer and ultimate consumer. The producer is at the starting point in the flow of goods and the consumer is at receiving end. In between the provider and ultimate consumer, middlemen play a vital role in transmitting the goods from manufacturer to consumer. Hence, there is need to study the role played by middlemen i.e wholesaler and retailer in the distribution of goods. The role played by the wholesaler and retailers and how they perform can be understand in the following lines:

14.3.1 ROLE OF WHOLESALER

Wholesaler is a link in the channel of distribution of goods between the manufacturer and retailers. The wholesaler is the middleman engaged in the business of wholesale. Wholesale is selling the goods in bulk quantities to any person or organisation other than ultimate consumers. His services are inevitable to the manufacturers, retailers and consumers. He plays an important role in performing carious marketing functions such as posting, selling, warehousing, financing, transacting, risk bearing, collection of market information etc.

Let us discuss the role played by wholesaler in the distribution of goods.

a) Assembling and buying

Wholesaler collects small lot of scattered agricultural products for economic bulk buying. He brings together stocks of different manufacturers for their distribution to consumers. This process is called as assembling. Buying comprises of the activities of selection of manufacturers and placing orders on them. This will help the manufacturers to sell the goods to needy customers.

b) Selling

Wholesaler plays the role of a seller in distribution of goods to consumers. He may sell goods to retailers or consumers in smaller units. The selling function of wholesaler makes the marketing activity of producer complete. Hence, the identification of retailer or consumer, transposition of goods etc., are undertaken by wholesaler in the distribution of goods.

c) Warehousing

The gap between production and consumption is covered by warehousing. This involves capital lockup and also risk. The warehousing by wholesaler retailers both the producer and retailer from the problems of storage.

d) Transportation

In the process of buying and selling, wholesalers have to undertake the responsibility of transportation of goods from producer to their warehouses and back to the retailers or consumers. Wholesalers undertake transportation of goods on most economic lines, either through their own fleet or through hired common carriers. This will reduce the burden of manufacturers to a great extent.

e) Financing

Wholesalers undertake marketing finance function also. They grant credit to the retailers on liberal terms and conditions. They also reduce the financial burden of the manufacturers by taking early delivery of stock from them. Thus, the wholesaler reduces the credit quota of manufacturers to ultimate consumers.

f) Risk bearing

Risks are inherent in business. Wholesalers bear the risks of loss of change in prices, damage of goods, determination in quality, pilferage, theft, fire etc. They also bear risk of non or underpayment by the retailers. Thus, they shoulder the risk of manufacturer in number of ways.

g) Grading

Grading is the act of separating or inspecting the goods according to established specifications to determine the grade. The specifications are set by the standard established such as size, weight and quality. Grading enables buyers to repose confidence on the quality of the product and buy them. Wholesalers undertake this function on behalf of the manufactures with the result they would be plying manufacturers, retailers and ultimate consumers.

h) Packaging

The wholesalers purchase in bulk quantities from the producers according to the requirements of the retailers. Bulk breaking is done with a view to meet the small lot requirements of the retailers. Infact, they repack for the consumers as per the orders of the retailers. Thus, the small packing is undertaken by wholesalers according to the requirement of retailers which reduces the packaging work of the manufacturer.

i) Market information

Marketing managers need constant and required information on market trends. Then only it would be possible to assess rightly the wants of the consumer, the competition in the market and changes in the behaviour of the consumers. Wholesalers are the vital link between the retailers and manufacturers. They provide relevant and up to date information to the retailers affecting their trade interest. They also transmit the information provided by retailers to the manufacturers on changing market conditions. Hence, the wholesalers would be providing required information for taking business decisions.

Thus, the wholesaler plays a key role in the success of the manufacturers and retailer.

14.3.2 ROLE OF RETAILER

Retailer is one whose business is to sell to consumers, a wide variety of goods which are assembled at his premises as per the needs of ultimate consumers. Retailer is the last link in the chain of distribution, and performs to good many functions of marketing. The success of the manufacturer and wholesaler depends on the functioning of the retailer. Retailer is the key person in the development of the company. He associates himself in various marketing functions which are listed out below:

a) Assembling and buying

Retailer has to assemble products from different manufacturers and wholesalers. It is because he has to possess a wide variety of products to meet the varied and small requirements of large number of customers. Thus, assembling of goods is to be done by retailer which is possible by buying. Buying is a continuous process which involves selection of the best and the most economic and dependable sources of supply. If this function is effectively discharged by the retailers, the marketing goals of the manufacturer can be adhered to very easily.

b) Warehousing

Retailer is safety valve releasing the goods in required quantities and price according to the consumer needs. Warehousing's function undertaken by the retailer makes it possible to hold the stocks to match between the consumer demand and manufacturer's supply conditions. This will help the manufacturer to have adequate and uninterrupted supply of goods to consumers.

c) Selling

Retailer plays a role of buying agent of consumers. It is because, he disposes the goods to the consumers on behalf of manufacturers and wholesalers and collects the sale proceeds. The salesmanship of retailers enable the producers to achieve their sales targets.

d) Risk bearing

The basic responsibility of any retailer is to undertake the risk of physical deterioration of goods and changes in prices. Risk is unavoidable to retailers as he holds sufficient and variety of inventories. He runs in risk right from the time they are bought till they are sold to the consumers. The risk may be in the form of fire, spoilage, deterioration, changing fashions, etc. All these risks are undertaken by the retailers on behalf of the manufacturers and wholesalers.

e) Grading

As the consumer requirements are different and ever-changing, retailers have to possess products of different qualities, price, shape and quantities. Hence, classification of goods into different grades and lots is called grading..

f) Packaging

Retailer sells in loose packs according to ------ required quantities of consumers. He undertakes this responsibility which assumes great significance in marketing of goods. packaging is highly standardized to suit the individual requirements.

g) Financing

Since the retailers are in direct contact with the consumers, they play a vital role in consumer financing. Retailer financing consists of credit granted on liberal terms to consumers, investment made in large variety of stocks, the expenses of holding stock, salaries of clerks, trade expenses etc. Retailers would be able to judge properly the credit worthiness of the consumers for extending the credit facility to them. It reduces the bad debts and paves the way for prosperity of retailers and in turn the development of wholesaler and manufacturer.

h) Advertising

Retailers undertake the advertising of a product on behalf of the manufacturer. They undertake window display, distribution of sales literature, information of new products in a convincing way, recommending right product to right customers etc. All these activities enable the manufacturer to publicise his products in the market. The advertising expenditure can also be minimized with the efforts of retailers advertising.

i) Market information

Retailers are in direct contact with consumers. This enables them to observe and study the consumer behaviour, changes in the textiles and fashions, competitor brand and its features and demand for the product. Normally, the market information is passed on to the wholesalers and manufacturers for their perusal and necessary changes in the marketing programmes and strategies. Thus, the close relations of retailers with consumers results in getting all the required information for the manufacturer.

Hence, the role of channels of distribution is seen in its capacity to add value. It is known for creating utilities whereby every one is benefitted in the society.

CHECK YOUR PROGRESS - 2

What is the role of wholesaler in distribution?

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14.4 SUMMING UP

Distribution decisions are very critical which will affect the firm's survival. These decisions are based on the market information provided by channel members. Channels of distribution are the pipelines through which the goods flow from provider to consumers.

The importance of the channels in the distribution of goods may be highlighted on the grounds such as time and place utility, convenience in purchase; avoids storage of goods; adequate information to consumers, manufacturers; producers are free from problems; capturing greater market share; provide financial assistance, stabilizes the prices; helps in determining the price and matches the demand with supply.

The role of channels of distribution is reviewed from the point of view of wholesaler's and retailers services to the manufacturer. They help the manufacturer in assembling, buying, selling, warehousing, transporting, risk bearing, grading, packaging and marketing information.

14.5 CHECK YOUR PROGRESS : MODEL ANSWERS

1. The importance of channel distribution as follows:

   a) time and place utility,

   b) convenience in purchase,

   c) avoid storage of goods,

   d) adequate information to consumer,

UNIT - 15 : CLASSIFICATION OF DISTRIBUTION CHANNELS

Contents

15.0 AIMS AND OBJECTIVES

The aim of this unit, is to explain the distribution channels, selection of distribution channels, policies and levels of channels.

After studying this unit you should be able to:

- explain the types of channels;
- understand the factors determining the channel selection;
- describe the distribution policies;
- explain the marketing channel systems; and
- identify the levels of channels.

15.1 INTRODUCTION

A distribution channel consists of the set of people and firms involved in the flow of title to a product as it moves from producer to ultimate consumer or business user. Distribution channel always includes both the producer and the final customer for the product as well as any middlemen. Besides, the producer, middlemen, and final customers, other institutions aid the distribution process. Among these intermediaries are banks, insurance companies, storage firms and transportation companies. However, because they do not take title to the products and are not actively involved in purchase or sales activities these intermediaries are not formally included in the distribution channel.

15.2 DEFINITON

According to **William J. Stanton**, "marketing channel is a path traced in the direct or indirect transfer of title to a product, as it moves from producer to ultimate consumers or industrial users".

The **American Marketing Association** considers a marketing channel as, "the structure of intra-company organisation units and extra company agents and dealers, wholesale and retail through which a commodity, product or service is marketed".

Thus, a marketing channels or distribution channel refers to various agencies through which the goods flow from the seller to the buyer and facilitates the transfer of title to goods. Hence, the distribution channel refers to the following:

a) It is the path through which goods are allowed to flow from producer to the ultimate consumer.

b) It is the route through which the goods travel from manufacturer to the ultimate consumer.

c) The middlemen or intermediaries will facilitate the transfer of title to goods.

d) It is the structure of intra company organisation units and extra company agents and dealers, wholesalers and retailers.

15.3 TYPES OF DISTRIBUTION CHANNELS

We have different distribution channels for consumer and industrial goods which are presented in the following diagram:

Distribution Channels

- Consumer goods
  - Direct channel
    - a) Mail order
    - b) Manufacturer's rental outlet
    - c) House to house selling
  - Indirect channel
    - a) Producer – agent to ultimate consumer
    - b) Producer – wholesalers – retailers – ultimate consumers
    - c) Producer – agent – retailers – ultimate consumers
    - d) Producer – retailer – ultimate consumer
    - e) Produces – agent – wholesaler - retailer – ultimate consumer
    - f) Producer – wholesaler – ultimate consumer
- Industrial goods
  - Direct channel
    - Producer
  - Indirect channel
    - a) Producer - wholesaler - industrial user
    - b) Producer – agent – industrial user
    - c) Producer – agent – wholesaler – industrial user

A manufacturer can use multiple channels of distribution to reach different market segments and ultimate consumers or industrial users. The above distribution channels are explained below:

Distribution Channels for Consumer Goods

The distribution channels for consumer goods may be classified as direct channel and indirect channel. Under direct channel, the manufacturer directly supplies goods to the consumers through mail order system, manufacturer's retail outlet (sales show room) and house to house selling. In indirect channel, the manufacturer reaches the consumer through intermediaries such as agents, wholesalers, retailers etc.

1. Direct Channel for Consumer Goods

The various direct channels are discussed below:

a) Mail order system

Under this method, the manufacturer contacts the consumer through advertisement. Customer gets the product information through advertisement in news papers, journals, magazines etc. They do not visit the seller's premises nor there is personal inspection of goods before they purchase them. The transaction is completed through postal media i.e. VPP or registered post. Since goods are sent through post parcel, they must be durable, popular and much is demand.

b) Manufacturer's retail outlets

Manufacturer opens his own retail outlets in different cities and towns to sell at prices which are quite fair. However, this method may not be suitable for producers dealing with large number of customers. The cost of distribution will be heavy and uneconomical.

c) House to house selling

Under this method, the manufacturer employs, sales representatives to sell their products. They go around door to door, bring product awareness among consumers, convince them to purchase the product and effect the sale at a reasonable price. This method helps the consumer to clarify all their apprehensions in the use of a product.

The direct channel may be suitable in the following situation when:

a) there is no active selling by middlemen

b) product requires demonstration, tests and negotiations before sale of a product

c) product requires after sales service

d) the buyers are few in the market

e) the market is concentrated in a particular area

f) the channel costs are too high in comparison with direct marketing costs

g) the middlemen are not prepared to undertake a new market

h) the middlemen are reluctant to introduce the new product in the market

i) the goods are of small quantity

j) the producer decides to eliminate the middlemen

k) the producer intends to have total control over the marketing operations

l) the middlemen are few in number and insist on high commission.

Thus, the direct channel is adopted by the manufacturer on the clear analysis of the above factors. However, when the size of the market is large, the cost of distribution will be heavy and uneconomical.

2. Indirect Channel for Consumer Goods

The various indirect channels are discussed below:

a) Producer – agent – ultimate consumer

In this channel, the manufacturer reaches the consumer through the brokers, manufacturer's agents, commission agents and export merchants. This channel is used by manufacturer when he cannot afford to invest the amount required to develop a sale force of his own.

b) Producer – wholesaler – retailer – ultimate consumer

This channel is traditional and very old. Under this channel, the producer sells the goods to the wholesaler and inturn the wholesaler sells the same to the retailers who inturn sells the same to the consumer. This distribution channel is a very long chain and scope for market coverage is very wide. The producers that have a large market need such al channel. This channel is found to be suitable when the product line narrow, the producer is unable to finance distribution directly to the retailer, retail outlets are more and widely soread, wholesalers are willing and capable of product promotion, the product will not perish due to physical deterioration.

c) Producer – agent – retailer – ultimate consumer

Under this channel, the agent acts on behalf of the producer. He negotiates purchase or sales or both but does not take title to goods. He can negotiate on behalf of the buyer or retailer. Thus, the producer reaches the ultimate consumer through the efforts of agents and retailers. The agents play an intermediary role and do not take possession of the goods, whereas the retailers take title to goods and sells them to the ultimate consumers.

d) Producer – retailer – ultimate consumer

Under this channel, the producer sells his goods to retailer and retailer in turn sells them to the ultimate consumers. Retailer will be in direct contact with the producer. Hence, the other two intermediaries i.e. wholesaler and agents are eliminated from the distribution channel. The selection of this channel is based on factors - Such as perishability of the products, changing fashions, availability of large number of retail outlets, dislike of the wholesalers to promote the goods, developing close contact with consumers, financial support of retailers etc.

e) Producer – agent – wholesaler – retailer – ultimate consumer

It is the largest channel adopted by the producer. The producer employs an agent before reaching the wholesaler. The agents of the producer sell the goods to the wholesaler, who inturn sells them to retailers and inturn the retailer sells them to the ultimate consumers. The agents of the producers may be commission agents, export merchants who manage the sales on behalf of the producer. Hence, the producer is relieved of the burden of marketing, who can concentrate on production only. This channel is adopted by those producers who produce consumer non-durable goods on large scale enjoying national and international market.

f) Producer – wholesaler – ultimate consumer

Under this channel, the retailers are eliminated. The goods move from producers to wholesalers and inturn to ultimate consumers directly without having recourse to retailers. This channel is normally applied to institutional customers and not individual customers. For example, hospitals, schools, colleges, government agencies, public enterprises, sports clubs etc., buy their goods through this channel.

3. Direct Channel for Industrial Goods

Under this channel, the producer directly reaches the industrial user. A number of industries are adopt this distribution channel. This channel helps to maintain regular contract with present and prospective customers and create more opportunities for increased sales. This channel is highly useful in the market where the industrial product is concentrated, specialized technical services are needed, company has its own sales force, product is manufactured as per industrial user's specifications, market is limited for the product, expensive warehousing facilities are required, after sales services are inevitable, frequent product modifications are required to suit the requirements of industrial users.

4. Indirect Channels for Industrial Goods

The producer can also adopt indirect channels to distribute the industrial goods. He can make use of the services of intermediaries in this channel i.e. wholesalers and agents for the effective delivery of goods to the industrial users. The various indirect distribution channels are discussed below:

a) Producer – wholesaler – industrial user

Under this channel the producer reaches the industrial user through wholesaler. This method is highly useful when the market is scattered and volume of sales in each area is thin. This channel is used in the distribution of accessory equipments which are frequently required by industrial users. The users cannot always approach the manufacturer for their requirements. Hence, area wise wholesalers are to be arranged by the producer. Small scale manufacturers of equipment for airconditioning plants, building construction, small tools etc., adopt this channel of distribution.

b) Producer – agent – industrial user

Small sized manufacturers who donot have their own marketing departments find it convenient to have agents at different market segments. The agent may be a broker or commission agent or sales agent. The producer relies on one agent in each market segment for the sales. Producers with a low profit margin prefer to use agents to keep cost of distribution low. This channel is highly useful to introduce a new product in the market.

c) Producer – agent – wholesaler – industrial user

This channel is desirable to those manufacturers who donot have marketing department of their own. The producer depends on the agent for distribution of industrial goods, who inturn sells the goods to wholesalers and inturn reaches the industrial users. This channel is useful to introduce a new product into the market or to enter new markets.

CHECK YOUR PROGRESS – 1

How do you classify the channels?

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15.4 SELECTION OF CHANNELS

In order to make available the goods to the potential customers in most economical and efficient manner, the manufacturer has to consider various factors which will influence the choice of channel. Some of the factors which determine the choice of a channel are as follows:

i) Market considerations

ii) Product considerations

iii) Middlemen considerations

iv) Company considerations

v) General considerations.

i) Market Considerations

The nature of the market should be the key influence in management's choice of channels. Here, the company should consider the needs, structure and buying behaviour of target markets. Hence, the following aspects are to be considered by the management in selecting a channel.

a) Type of market

Company should examine whether the market is ultimate consumers' market or industrial users market. The buying behaviour of ultimate consumer is different from that of the industrial consumer. Therefore, separate distribution arrangements must be made to reach the different markets and consumers.

b) Potential customers

A manufacturer with relatively few potential customers may use his own sales force to sell directly to consumers or business users. For a large number of customers, manufacturer may use the middlemen i.e. wholesalers and retailers.

c) Geographic concentration

Geographic concentration of the market shall also determine the choice of a channel. In some segments buyers may be concentrated highly where the manufacturer can establish his own sales branches and in other areas i.e. in less density populated areas he can make use of the services of middlemen.

d) Size of the order

Fr the larger order size, the manufacturer can prefer to sell directly, whereas to reach the small stops whose orders are usually too small to justify the direct sale may prefer the wholesalers and retailers.

e) Need for credit

If the consumers demand for the credit facility, the manufacturer may prefer the indirect channel wherein the middlemen will undertake such responsibility.

f) Facilities required

If the consumers require after sales service, technical assistance and frequent information on the product, direct channel is desirable. Similarly, if consumers donot require any product assistance, the manufacturer may prefer the services of middlemen.

ii) Product Considerations

The following are the important product considerations for deciding the channel of distribution:

a) Unit value

The price attached to each unit of a product affects the amount of funds available for distribution. Products with low unit value usually distributed through long channels and products with high unit value are distributed through direct sales.

b) Perishability

Some goods including many agricultural products, physically deteriorate fairly quickly, other goods such as clothing perish in a fashion sense. Perishable products require direct or a very short channel.

c) Technical nature

A product which is highly technical is often distributed directly to business users. The producer's sales force must provide pre-sale and post-sale service, therefore, direct selling is preferable rather than middlemen.

d) Bulky and weight

A product of bulky nature and heavy weight requires direct selling, as the producer himself has to provide transportation of such goods in special containers and carriages.

e) After sales service

A product that requires after sales service from the manufacturer, needs direct selling. The representatives of the manufacturer provide after sales service to attend to repairs and grievances of the customers.

f) Ordered products

The products which are manufactured on a customers' specific orders require direct selling. Here, the producer can directly deliver the goods to the customers.

iii) Middlemen Considerations

The various middlemen considerations in selecting a channel are as follows:

a) Services provided by middlemen

The producer should select middlemen who provide those marketing services that the producer is unable to provide as a specialist can provide. Hence, adopting indirect channel depends on the services that are offered by middlemen to the producer.

b) Availability of desired middlemen

The middlemen preferred by a producer may not be available. They may be carrying competitive products and may not want to add another line. If sufficient number of middlemen are available and intend to market the producer's products, the manufacturer may adopt indirect channel.

c) Attitude of middlemen

The attitude of middlemen toward producer policies would also affect the choice of a channel. Sometimes manufacturers' choices of channels are limited because their marketing policies are not acceptable to certain types of middlemen. For example some wholesalers and retailers may be interested in carrying a line only if they receive assurance that no competing firms will carry the line in the same territory.

iv) Company Considerations

For a choosing a proper channel, the company should consider the following factors:

a) Desire for channel control

Some producers establish short channels because they want to control the distribution of their products, even though the cost of direct channel is higher than the indirect channel. By controlling channels, producers can achieve more aggressive promotion and can control better both the freshness of products and the retail prices of their goods.

b) Services provided by sellers

Producers base channel decisions on their ability to carry out the distribution functions demanded by middlemen. If the sellers provide better service as desired by the company, it can sell through the middlemen.

c) Ability of management

Channel decisions are affected by the marketing experience and ability of the firm's management. Many companies lacking marketing know how prefer to turn the distribution job over to middlemen.

d) Financial resources

A business with adequate finances can establish its own sales force, grant credit or warehouse its own products. A financially weak firm would have to use middlemen who could provide these services.

e) Unproven product

The company may find desired length unavailable, if the company's product is unproven having low profit potential. Therefore, the company has no other option except to try to distribute the product directly to its target market.

v) General Considerations

The other considerations to be made by producer in selecting a channel are as follows:

a) Suitability

The suitability of a particular method of channel for a given product determines the channel to be adopted. For example for a perishable product direct channel is preferable.

b) Efficiency

The expected result of a particular channel and how it operates efficiently to achieve the desired goal influences the choice of a channel.

c) Flexibility

A channel which is chosen must have flexibility. The market conditions may force the manufacturer to go for a change in channel. Hence, the channel must have flexibility.

d) Competitors' channel

Sometimes, the channel of distribution adopted by the competitor may have an impact on company's channel decision. The company may be forced to choose the same channel that is followed by the competitor.

e) Social consideration

The attitude of society towards a particular channel will influence the channel to be adopted by a company. If the people develop a negative attitude about a channel and distrust it, the company will have to go for other alternate channels in which they have faith.

Thus, the market, product, company, middlemen and general considerations will determine the choice of a channel of a manufacturer. A proper analysis of these factors helps in selecting an efficient and useful channel of distribution.

CHECK YOUR PROGRESS – 2

State the factors which determine choice of channel.

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15.5 DISTRIBUTION POLICIES

Before selecting a particular type of channel, the management of the company, has to consider the policies of the distribution. The selection of a channel may be influenced by a number of factors such as product, market, middlemen considerations etc. But all these factors are not static and they change very frequently. Hence, the manufacturer must review the distribution policies of the company from time to time. The various distribution policies are as follows:

a) Intensive distribution

b) Selective distribution

c) Exclusive distribution

d) Consignment, and

e) Franchising

a) Intensive distribution

Under this policy, the company intends to supply the goods in all the markets to serve the needs of all customers. Manufacturer operates as many outlets as possible at different places. Hence, this policy is considered as 'maximum expansion' policy of the company. This policy is generally adopted for convenience of goods.

b) Selective distribution

Under this policy, the manufacturer selects a limited number of wholesale or retail distributors and closely works with them in the sale of his products. Hence, the manufacturer must be careful in selecting the middlemen who have to possess thorough knowledge of market. He can leave out the unimportant and non-profitable channels and concentrate on few useful channels. This method is highly useful when goods require after sales service and also carry a higher unit price.

c) Exclusive distribution

Under this policy, the manufacturer enters into an agreement with the distributor to sell the goods in the territory that is allotted to him. The distributor also agrees not to deal with any other competing product. Thus, the goods of the manufacturer are distributed through 'exclusive distributor'.

d) Consignment

Under this policy, the goods are placed in the hands of the middlemen with the title and control remaining in the hands of the manufacturer. The distributors are neither wholesalers nor retailers but occupy a position of agent. They get a commission on sales effected together with all the charges incurred in the sale of goods. The manufacturer specify the guidelines for sale i.e. time, price, credit facility etc. Thus, under this policy, the distributors neednot invest any money and they donot run the risk of buying.

e) Franchising

Under this policy, the manufacturer arranges distribution of goods with some individual outlets providing the required machinery for selling. When the owners of outlets lack capital and knowledge of marketing the products, the manufacturer provides the necessary help to them. He provides loans, design for buildings, training for owner and his sales personnel. He also helps in advertising and promoting the business. Thus, franchise selling refers to method of selling under which the manufacturer provides required machinery for selling goods to the owners of outlets.

CHECK YOUR PROGRESS – 3

Explain distribution policies.

15.6 LEVELS OF CHANNELS

We have seen that the distribution channels are of two types viz., direct marketing channel and indirect marketing channel. The levels of channels of distribution can be determined on the basis of the number of intermediaries between producer and ultimate consumer. The levels of channels can be summarized as follows:

a) Zero-level channel

b) One-level channel

c) Two-level channel

d) Three-level channel

e) Four-level channel

a) Zero-level channel

This type of channel has no intermediaries. In this distribution system, the goods flow directly from manufacturer to the ultimate consumers.

Zero-level	=	Producer → Consumer

b) One-level channel

This type of channel has only one intermediary between manufacturer and consumer. The intermediary may be an agent or wholesaler or retailer.

One-level = Producer → Agent → Consumer

OR

= Producer → Wholesaler → Consumer

OR

= Producer → Retailer → Consumer

c) Two-level channel

This type of channel has two intermediaries between manufacturer and consumers. The intermediaries may be agents wholesalers and retailers.

Two-level = Producer → Agent → Wholesaler → Consumer

OR

= Producer → Wholesaler → Retailer → Consumer

OR

= Producer → Agent → Retailers → Consumer

d) Three-level channel

This type of channel has three intermediaries between the manufacturer and consumers. The intermediaries may be agents, wholesalers and retailers.

Three-level = Producer → Agent → Wholesaler → Retailer → Consumer

e) Four-level channel

This type of channel has four intermediaries viz., agent, distributor, wholesaler and retailer. This channel is used for consumer durable goods.

Four-level = Producer → Agent → Distributor → Wholesaler → Retailer → Consumer

Thus, the levels of channels can be summarized as zero-level, one-level, two-level, three-level and four-levels which are highly useful for distributing the goods to the consumers.

15.7 SUMMING UP

A distribution channel consists of the set of people and firms involved in the flow of title to goods from manufacturer to ultimate consumers. The distribution channels available for consumer and industrial goods may be classified as direct channel. Under direct channel, the producer can adopt mail order system, open his own show rooms and house to house selling can be undertaken. In indirect channel, the produc.. takes the services of agents, distributors, wholesalers and retailers. The five levels of channels can be classified as zero level, one-level, two-level, three-level and four-level channels.

The selection of a channel depends on number of factors such as market, product, middlemen, company and general considerations. The various distribution policies are intensive, selective, exclusive distributions, consignment selling and franchise selling.

15.8 CHECK YOUR PROGRESS : MODEL ANSWERS

1. Distribution channels can be classified in two types.

   a) Direct channel
      - Producer – User

   b) Indirect channel
      - Producer – Middlemen – User

2. The factor which determine the choice of channel are:

   a) market considerations
   b) product considerations
   c) middlemen considerations
   d) company considerations
   e) general consideration

3. The distribution policies are as follows:

   a) intensive distribution
   b) selective distribution
   c) Exclusive distribution
   d) consignment distribution
   e) franchising distribution

15.9 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. Define marketing channel. Discuss the different types of distribution channels available for consumer goods.
2. Under what situations the direct channel and indirect channel are suitable to the manufacturer.
3. What considerations are to be made in selecting a efficient channel of distribution? Explain.

II. Answer the following questions in about 15 lines each.

1. Explain the different methods of distribution channels for industrial goods.
2. Discuss the distribution policies to be adopted by the manufacturer.
3. Examine the different levels of channels of distribution.

15.10 RECOMMENDED BOOKS

1. Still, Cundiff and Govoni : **Sales Management**
2. Varshney & Gupta : **Marketing Management**
3. C.N. Sontakki : **Marketing Management**

4. Rajan Saxena : **Marketing Management**

5. Philip Kotler : **Principles of Marketing**

15.11 GLOSSARY

Marketing Channel : It is a path traced in the direct or indirect transfer of title to a product.

Direct Channel : It refers to a channel wherein the manufacturer directly supplies goods to the consumers.

Indirect Channel : It is a channel, wherein the manufacturer reaches the consumers through intermediaries.

Intensive Distribution : It refers to distribution of goods in all markets to serve all the customers.

Selective Distribution : It refers to distribution of goods through selected limited number of wholesalers and retailers.

Exclusive Distribution : It refers to a system of distribution of goods, where in the manufacturer distribute goods through exclusive distributors in the territory allotted to them.

Franchise Selling : It refers to method of selling under which the manufacturer provides required machinery for selling goods to the owners of outlets.

Zero-level Channel : It is a channel under which the goods flow directly from manufacturer to the ultimate consumers.

UNIT – 16 : PHYSICAL DISTRIBUTION

Contents

16.0 AIMS AND OBJECTIVES

The main aim of this Unit is to introduce physical distribution and its components which helps the distributor.

After studying this Unit, you should be able to:

- understand the meaning of logistics management;
- explain the components of physical distribution;
- discuss issues of materials handling; and
- explain the cost involved in physical distribution.

16.1 INTRODUCTION

Logistics is an essential features of all economic activities. It has been developed as an integral part in business in the last 25 years. In simple terms Logistics refers to the "process of strategically managing the movement and storage of materials, parts, and finished inventory from supplier through the firm to the customers".

Logistics is related to all activities which facilitate the flow of goods from the point of raw material acquisition to the point of final consumption. It also deals with information flow that helps the production in motion to provide customers service at a reasonable cost. Thus, the term logistics involves two aspects.

i) flow of raw materials to the plant i.e. materials management.

ii) flow of finished products from plant to the ultimate customers i.e. physical distribution.

Logistics = Materials Management + Physical Distribution

Definition of Logistics

According to **Philip Kotler,** logistics management can be defined as "*planning, implementing and controlling the physical flow of materials and finished goods from point of origin to the print of use to meet customer requirements at a profit*".

Thus, the logistics management is concerned with the integration and co-ordination of marketing activities in a way that end markets are served with utmost satisfaction.

16.2 PHYSICAL DISTRIBUTION

Creating a customer is a major task of marketing and delivering the goods to such customers at right time and at right place is the most critical task. Physical distribution is a marketing activity which is concerned with handling and movements of goods. It includes all those activities connected with the efficient movement of goods from the place of production to the place of consumption. It encompasses a wide range of interrelated activities such as order processing, materials handling, inventory control, packaging, transportation, warehousing, plant and warehouse location, marketing forecasting, customers services etc.

According to **Prof. William J. Stanton**, physical distribution involves "*the management of physical flow of products and establishment and operation of flow systems*".

Thus, physical distribution refers to the movement of goods from producers to customers. It is one of the biggest influence on a company's product, and managers responsible for distribution are playing a crucial role in marketing.

Objectives

Physical distribution has two broad objectives, viz;

a) Consumers' satisfaction
b) Profit maximization.

a) Consumer satisfaction

Physical distribution is concerned with providing the right product, at the right place, at the right time, at a reasonable price. Consumer satisfaction about a product depends on prompt and dependable distribution is not only a cost but a powerful tool of competitive marketing. Companies can attract more customers by offering better service and lower prices through improvements in physical distribution. Firms should take steps to early processing of orders, proper transportation of goods, packaging, warehousing and quicker delivery of goods for the satisfaction of the customers. Thus, the physical distribution improvements helps in the enhancements of consumers, satisfaction.

b) Profit maximisation

The profits of the firms can be increased by making the physical distribution more effective and efficient. This distribution system paves the way for decreasing the cost of delivery and increases the profit margin. The cost of production, cost of delivery, and administrative costs are included in the price of a product. Therefore, any saving in delivery costs will result in lower price, higher sales and improvement in profit.

CHECK YOUR PROGRESS - 1

State the objectives of physical distribution.

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16.3 COMPONENTS OF PHYSICAL DISTRIBUTION

The various components of physical distribution are as follows:

a) order processing, b) inventory management, c) material handling, and d) transportation.

16.3.1 ORDER PROCESSING

Physical distribution starts with a customer order. Ordering processing is considered as the key to customers' service and satisfaction. It includes receiving, recording, filling and assembling of products for dispatch. The amount of time required from the date of receipt of an order upto the date of dispatch of goods must be reasonable, and as short as possible. The goods must be delivered to customer within eight days which is considered as a reasonable time.

A firm must have standard procedure for handling orders i.e. grant of credit, invoicing and collection of account. Delay in the execution of orders spoils the relations with customers. Electronic data processing expedites order processing and minimizes possibility of errors and omissions. This is because, an increase in customer service can provide an increase in customer patronage.

Customer is interested in consistency or uniformity of delivery time. Buyers tend to shift their orders to suppliers who can provide superior order processing service. Therefore, the serving time can act as a competitive advantage in the marketing mix. Customer is primarily interested in prompt, punctual and reliable delivery services. Thus, the order processing procedures followed in a firm have dual impact on consumer service level, namely, it affects order time that is the time interval between two orders of a customers, and the consistency and uniformity of delivery time i.e., regular and, dependable deliveries.

16.3.2 INVENTORY MANAGEMENT

Inventory refers to raw materials' component parts, suppliers work in progress and finished goods. Inventories are reservoirs of goods held in anticipation of sales. Incoming quantities of finished goods increase the inventory, whereas the outgoing quantities of a product reduce it. Thus, inventory fluctuates with every unit of production and sale. Marketers would like their companies to carry enough stock to fill all customer orders immediately. To make available the goods to consumers in right quantities, at right place, at right time and at a reasonable price, there is need for effective inventory management.

Inventory management is the basic task of planning and controlling of finished goods after they have been brought out from production centers and before their deliveries to end users. Inventory management covers various aspects relating to warehousing and inventory controlling.

a) Warehousing

Warehousing is an act of storing and assorting the finished goods so as to create maximum time utility at a minimum cost. It creates not only time utility but it can stabilize prices over a certain period. It can regulate market suppliers according to changing market demand. Company may keep some stock at plant and the rest is located in warehouses around the country. For this, the company might own private warehouses and public warehouses.

Private warehouses Vs. Public warehouses

Private warehouses are owned by the company, but they tie up their capital and face inflexibility, if desired locations change. Public warehouses on the other hand charge for the rented space and provide additional services for inspecting goods, packaging them, shipping and invoicing them. The choice between the two depends on various factors such as amount of sales originating in a particular market, fixed and variable warehousing costs, degree of flexibility, relative warehousing efficiency and the market channels. If the volume of goods moved is substantial with little seasonal fluctuations, the manufacturer should prefer owned warehouses. In using public warehouses such as central warehousing, state warehousing etc, the companies have a broad choice of locations and warehouse types, including those specializing in cold storage.

Storage warehouses

Companies may use storage warehouses and distribution warehouses. The word storage means, holding the stock of goods for a relatively longer period, as the goods are not immediately in demand. Warehousing involves more than storage. Warehouses perform many functions such as dispatch of smaller consignments to retailers holding the stocks for retailers regulating the goods flow to retailers providing market intelligence and many other merchandising services of manufacturers.

The company must also decide on a desirable number of stocking locations. More stocking locations means that goods can be delivered to customers more quickly. However, warehousing costs go up. The number of stocking locations must strike a balance between customer service levels and distribution costs.

Distribution warehouses

Distribution warehouses are also deemed as 'Distribution centers'. A full service warehouse is called as distribution center. It is a new idea developed after world war- II. It is a full time warehouse, primarily related to market. It emphasizes the movement of goods rather than their storage. A distribution center provides services with the help of a computer.

Therefore, it reduces cost of inventory, storage, handling and transport. Products are shifted from the factory to the distribution center directly and to a storage warehouse. With the new distribution system we can cut both storage time and delivery time to a minimum. Therefore, many companies are shifting steadily from storage warehouses to distribution centers in their plans of physical distribution.

b) Inventory controlling

Inventory levels represent a major physical distribution decision affecting customer satisfaction. Marketers would like their companies to carry enough stock to fill all customer orders immediately. The relationship between inventory investment and customers service levels points out that inventory cost increases at an accelerated rate as the customer service level accelerates. A reconciliation should be made in inventory costs and desired customers services. Therefore, inventory control is necessary to bring a balance between the inventory costs and desired customer service.

Inventory control aims at avoiding out of stock position, excessive stock position, buying in small quantities. The most relevant techniques of inventory control are setting stock levels, such as minimum stock level, maximum stock level, re-order level, average stock level, danger stock level etc., determining economic order quantity, exercising control by importance and exception i.e. Always Better Control analysis (ABC analysis), perpetual inventory control, and periodic inventory control systems.

16.3.3 MATERIAL HANDLING

Material handling as a human activity is as old as mankind. It is undertaken at every stage of logistics activity i.e. during production, storage, transportation and packaging. It is the sub-system of physical distribution system of a firm and is an agent of cost reduction and improved customer service. Hence, the efficient and effective materials management helps in improving the physical distribution system. A sound management of material handling avoid damage in product handling, prevents unnecessary and irrelevant movement, facilitates order processing and enables efficient product movement to satisfy the needs of the consumers.

The two major changes that took place in the area of material handling are elimination of manual handling and containerization. The first improvement in material handling is replacement of manual handling with machine handling. The mechanical material handling methods involve use of machines driven by power. The automatic material handling materials are fully automotive operated by automatic machines and computers. The second improvement is material handling is containerization. It is a methods by which a large number of units of a product are combined into a single compact unit for storage and transportation. It reduces the material handling cost and time spent. The use of improved handling equipments and containerization will increase the efficiency and reduce the wastage and costs. It also helps in the best utilization of space in storage.

16.3.4 TRANSPORTATION

Transportation is the last component of distribution system. It is the system of commerce which removes the hindrances of distance in trade. Transport is the movement of goods from one place to another. Marketing of goods is possible only when they are made available from the place where they are produced to the place where they are demanded. The decisions on storage and inventory location are based on total transportation costs. Order size decisions, material handling costs and order processing methods are interrelated to transportation activities.

Functions of transportation

Transport performs various functions which are as follows;

a) it widens the market
b) it increases the exchange process of goods and services
c) it creates mobility of labour
d) it helps in dispersal of capital investment
e) it stabilizes the prices through quick movement of goods
f) it transforms the economy from agricultural to industrial
g) it transfers the culture of people
h) it helps to maintain a high standard of living
i) it generates employment opportunities
j) it helps in the physical distribution of goods.

Modes of transport

The goods are moved through different channels from producer to the consumer. For physical movement of goods, transportation is inevitable. We have five transport modes in shipping the goods to warehouses, dealers and customers. The most common five modes of transport are- railways, road-ways, airways, waterways, and pipelines.

Choice of transport

The choice of transport depends on various factors which are as follows:

a) cost of transport
b) distance to be covered
c) risk involved in transportation of goods
d) material handling costs
e) facilitates of loading and unloading of goods
f) time of delivery
g) the speed at which the goods are to be delivered
h) availability of mode of transport
i) government controls and regulations
j) nature of the goods to be transported
k) characteristics of the goods
l) value of the goods
m) the terms and conditions for the delivery of goods

n) size and nature of package of the products

o) suitability or applicability of mode of transport

p) regularity of service

Weighing all these factors in coordinating them will result in selection of the most appropriate mode of transport.

Thus, physical distribution management has assumed great importance as it can reduce the costs of transport, storage, material handling, order processing and holding on inventories. Marketers give special attention to physical distribution, as it can assure competitive level of serving the demand while holding down the total cost of distribution as much as possible.

CHECK YOUR PROGRESS – 2

i) Explain the components of physical distribution.

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ii) What are the functions of transportation?

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16.4 PHYSICAL DISTRIBUTION COSTS

The various studies conducted by marketing experts revealed that Physical distribution costs account for nearly 50% of the total marketing costs. There has been steady increase in the Physical distribution costs over the years, particularly after 1960s. It is because there was energy crisis and costs of fuel increased abnormally. Though managements were successful in controlling the production costs, marketing costs, particularly the Physical distribution costs could not be controlled. Hence the marketing manager has two specific objectives for Physical distribution, viz., minimizing the costs to the firm and providing a satisfactory level of customer service.

In order to attain the these objectives there is a need to classify and analyse the physical distribution costs. The specific reasons for such analysis may be summarized as follows:

a) to determine cost of sales of different products

b) to determine the extent of profitability of each of the products

c) to help in fixation of optimum sales level

d) to control the distribution costs

e) to determine the profitability of different sales outlets

f) to help in formulating short term and long term marketing policies.

Analysis of physical distribution costs

The marketing manager is expected to apply total cost approach to the management of physical distribution. This approach views physical distribution as a total process and strives hard for optimum balance between costs and customer service.

The various elements of total cost in physical distribution are as follows:

a) Transportation costs

b) Inventory costs

c) Warehousing costs

d) Material handling costs

e) Packaging costs

f) Customer service costs

a) Transportation costs

Transportation costs include the cost of mode of transport adopted by the company. It may include railway cost, freight rate in road transport, cost of airways, cost of seaways. In each of these modes of transport, the costs may be classified as fixed costs and operating costs.

b) Inventory costs

Inventory costs may be classified as ordering cost, cost of material and carrying cost. Ordering costs includes cost of stationery, postage telegram etc., in placing an order. Cost of materials include purchase price of material, transport and insurance during transit and taxes, if paid; carrying cost includes space cost, storage cost, insurance, taxes, wastage and loss etc.

c) Warehousing costs

Warehousing costs refers to those costs which are related to maintaining a warehouse building or premises. Most of the warehousing costs are fixed in nature. They are land, building cost, administrative cost material handling, insurance, taxes etc.

d) Material handling costs

The cost of material handling includes the cost of protective packaging, the cost of material handling equipment and goods damaged in handling. Labour costs associated with packing, loading and unloading of inventory constitute an important element of material handling costs.

e) Packaging costs

Packaging costs are influenced by the mode of transport followed, and material handling equipment. Mode of transport is again influenced by type of packaging used for the products.

f) Customer service costs

The manufacturer has to make available the goods to the consumers whenever they demand, which increases the inventory costs. He has to set limits upto which he can satisfy customer demand and trade off the cost of lost sales against the inventory carrying costs. One important dimension in customers service is the service after sales i.e. attending to repairs, preventive inspection, replacement of parts etc.

CHECK YOUR PROGRESS – 3

Explain the physical distribution costs?

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16.5 SUMMING UP

Logistics is an essential feature of all economic activities. Logistics involves materials management and physical distribution. Logistics management is planning, implementing and controlling the physical flow of materials and finished goods from point of origin to the point of use to meet customer requirements at a profit. Physical distribution involves the management of physical flow of products and establishment and operation of flow systems. The objectives of physical distribution are two fold i.e., consumer satisfaction and profit maximization. The various components of physical distribution are order processing, inventory management, materials handling and transportation. Inventory management includes warehousing and inventory control. The physical distribution costs include transportation costs, inventory costs, warehousing costs, materials handling costs, packaging costs and customer service costs.

16.6 CHECK YOUR PROGRESS : MODEL ANSWERS

1. The objectives of physical distribution are

   a) consumers' satisfaction

   b) profit maximization.

2. i) The physical distribution is nothing but the management of physical flow of goods and establishment and operation of four systems. And this sytem consists of the following components or activities.

   a) order processing   b) material handling
   c) inventory management   d) transportation.

   ii) The functions of transportation are:

   a) it widens the market

   b) it increases the exchange process of goods and services

   c) it creates mobility of labour

d) it helps in dispersal of capital investment

e) it stabilizes the prices through quick movement of goods

f) it transforms the economy from agricultural to industrial

g) it transfers the culture of people

h) it helps to maintain high standard of living

i) it generates employment opportunities

j) it helps in the physical distribution of goods.

3. The physical distribution costs are:

a) transportation costs
b) warehousing costs
c) material handling costs
d) packaging costs
e) customer service costs
f) inventory costs, etc.

16.7 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. Explain the concepts, logistics and logistics management.
2. What is physical distribution? Explain its objectives.
3. Discuss the various components of physical distribution.
4. What is warehousing? Explain its importance in physical distribution?
5. What is transportation? State its functions.

II. Answer the following questions in about 15 lines each.

1. Discuss the factors to be considered in the choice of a channel.
2. What is the importance of physical distribution costs in marketing.
3. Explain the total cost approach in the management of physical distribution.

16.8 RECOMMENDED BOOKS

1. Rajan Saxena : **Marketing Management**
2. Philip Kotler : **Marketing Management**
3. R.L. Varshney & SL Gupta : **Marketing Management**
4. Sontakki : **Marketing Management**
5. Cundiff, Still & Govoni : **Sales Management**

16.9 GLOSSARY

Logistics : It refers to process of strategically managing the movement and storage of materials, parts finished inventory from supplier through the firm to the customers.

Physical Distribution : It refers to the movement of goods from producers to customers.

Order Processing : If refers to receiving, recording, filling and assembling of products for dispatch.

Inventory : It refers to stock of raw materials, component parts, supplies, working progress and finished goods.

Storage : It refers to holding the stock of goods for a relatively longer period when the goods are not immediately in demand.

Distribution Centre : A full service warehouse is called as distribution warehouse, or center.

Transport : It is the movement of goods from one place to another.

UNIT – 17 : DISTRIBUTION SYSTEM IN INDIA

Contents

17.0 AIMS AND OBJECTIVES

The aim of this Unit is to introduce the distribution system in India.

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

- explain the wholesale and retail trading;
- describe the traditional distribution system adopted in India; and
- identify the non-traditional distribution arrangements in India.

17.1 INTRODUCTION

In western countries, the distribution system is dominated by supermarkets, departmental stores, net work marketing, tele marketing, online marketing, etc. But in India, the distribution system is dominated by conventional wholesale-retail trade. The non-traditional arrangement for distribution of goods is gaining momentum in the recent years. Some of the experts in the fields of distribution of goods and services are predicting that India too will see the massive growth of distribution companies. The distribution system that is prevailing in India can be presented with the help of following chart.

Distribution system in India

- Traditional arrangement
  - a) Wholesale trade
  - b) Retail trade
- Non-traditional arrangements
  - a) Exclusive retailing
  - b) Non-store retailing
  - c) Direct market retailing

The above chart indicates that in our country, the manufacturers are adopting both traditional and non-traditional methods for distributing the goods to the ultimate customers. In traditional arrangement, wholesaling and retailing are dominating the Indian market. In non-traditional arrangement the marketers are adopting the new retailing methods such as exclusive retailing, non-store retailing and direct marketing. The details are discussed in the subsequent pages.

17.2 WHOLESALE TRADING

Conventional wholesale trading continues to dominate the Indian market, though supermarkets, retail trade and shopping malls are making a mark in the distribution system. Wholesale trading is to do with marketing and selling merchandise to retailers, to other wholesalers or to individuals - commercial and professional or other institutional users in contrast to household consumers, to individuals for personal use. The wholesaler in our country is performing a number of functions such as assembling and buying, warehousing, packaging, providing market information etc. Hence, the services of the wholesalers have become inevitable in the distribution system of merchandise in India.

Types of Wholesalers

The wholesalers are mainly of three types in India. They are full-line wholesaler, converter and drop-shipper.

1. Full line wholesaler

Full-line wholesaler is an intermediary who buys and sells goods on his own, assembles products on large scale, undertakes warehousing, sell the goods in smaller quantities, offer credit and provide market information to the manufacturers and retailers. Thus, he undertakes various functions for smooth distribution of goods for which he is called as full-line wholesaler.

2. Converter wholesaler

A converter wholesaler is a wholesaler who buys or assembles products and sells them to the subsequent channel members after processing them. Thus, the converter wholesaler creates required form utility to the products which he buys in the market before they are sold to the other channel members.

3. Drop-shipper wholesaler

A drop-shipper wholesaler is one who neither stores the products nor delivers them to the next channel members. He takes the orders from the buyers and directs the manufacturers to deliver the goods to the buyers. If the buyer fails to take the delivery of goods, the drop-shipper has to accept the goods delivered by the manufacturer.

These three wholesalers are very popular in our country and they are playing a vital role in the distribution system of almost all the industries.

CHECK YOUR PROGRESS – 1

Mentioned the types of wholesalers in Indian context.

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17.3 RETAIL TRADING

One of the several dimensions on which the Indian market differs from western and European markets is the retailing structure. Retailing is the business in which retailer sells to consumers a wide variety of goods which are assembled at his premises as per the needs of ultimate consumers. Retailer is the last link between the final user and the wholesaler/manufacturer. Thus, in retail trading, retailer buys goods from preceding channel members in small associated lots and sells than in the lot requirements of end users. Retailers in India undertake a number of functions of marketing such as buying and assembling, warehousing, selling, risk bearing, grading, packaging, financing, advertising, supplying market information etc. The essence of distribution management is to provide place, time, form and possession utilities to consumers. Retailing helps to attain these objectives of distribution management.

Types of Retailers

The retailers can be classified in a number of ways. They may be classified on the basis of scale of retailing, exclusive retailing, non-store retailing and direct marketing. The classification of retailers is presented in the following chart.

Types of retailers

- I - Scale of retailing
  - a) small scale retailers
  - b) large scale
- II - Exclusive retailing
  - a) exclusive dealers
  - b) exclusive showrooms
  - c) exclusive shop-in-shop
  - d) franchising
- III - Non-store retailing
  - a) direct selling
  - b) network marketing
  - c) marketing by vendor machines
  - d) consumer fairs
- IV- Direct marketing
  - a) mail order marketing
  - b) direct response marketing
  - c) database marketing
  - d) tele-marketing
  - e) tele-shopping
  - f) online marketing

17.4 SALE BY RETAILERS

The most popular way of classifying the retailers is based on the size of the business they undertake depending on the scale of operations of business, the retailers are classified as small scale retailers and large scale retailers.

1. Small scale retailers

The different types of small scale retailers are as follows:

a) Unit stores

Unit stores are the retail stores run on proprietary basis. They deal in general stores or single product like clothes, steel utensils, shoes, books etc. The unit stores or single line stores are also called as speciality shops as they carry on business in one product line only.

b) Street traders

Street traders are the retailers who display their goods on foot-paths of busy centers of the cities and towns. They carry on the business the in bus-stands, railway stations, trade centers or junctions, gardens etc. We find trading of fruits, flowers, betel leaves etc., on the foot-paths of busy market centers.

c) market traders

The market traders are the retailers who open their shops on fixed days in the specified areas. The time interval may be a week, fortnight or a month. These retailers deal in general or special line stores. The retail outlets have fixed type of arrangement with built in flexibility. They move from one place to another on the specified days and cover all the market segments.

d) Hawkers and pedlars

Hawkers and pedlars do not have any fixed place of business. They carry the goods from one place to another on hand cart selling the goods door to door. They go round all the localities and change their business with the change in the seasons. They do not carry business in a specific product and it will vary from period to period.

f) Cheap-jacks

Cheap-jacks are the retailers who have fixed place of business in a locality but goes on changing their place to exploit the market opportunities. Change of locality is the common characteristic of these retailers. They deal in cheap varieties of ready made garments, plastic items, shoes etc.

g) Syndicate stores

Syndicate stores are known for the widest varieties of goods in a product line. The retailers of the stores buy most of the unbranded goods and sell them under their name.

2. Large scale retailers

Large scale retailers are the retailers who carry on the retailing on a large scale. The retailers carrying on business on a large scale may be classified as departmental stores, multiple shops, mail order houses, fair price shops under public distribution system,. Consumer co-operatives, civil supplies corporation, shopping malls etc. The details are discussed below:

a) Departmental stores

It is a large retail store dealing in a wide variety of goods under a single roof. It is essentially an urban-based retail outlet wherein all varieties of goods required for the consumers are made available. For example, Akbarally's stores, Spencers kid kemp are the best examples of departmental stores. Departmental store is located at a central place under unified control. It is known for orderly arrangement of products in separate departments and emphasizes on the consumer service.

b) Multiple shops

Multiple shops are also called as chain stores. It is a system of branch shops operated under a centralized management and deals with similar type of products. It works on the principle of centralized buying and administration and decentralized selling. The important features of these retail outlets are cash sales, limited lines of products, consumer durables are offered, decentralized selling in limited localities. The best examples of multiple shops are Bata shoes, Raymond's show rooms, Kumar's show rooms etc.

c) Mail order houses

Under this type of retailing, the seller contacts the buyer through advertising. Customers do not visit the seller's premises. They do not inspect the goods before the purchase. The transaction is completed through post office's service VPP or registered post. Hence, this type of retailing is also called as selling by post. As goods are sent through post, the articles must be well known for quality, durability and possess high value. The best items of mail order business are patent medicines and chemicals, ready made garments, leather goods, books etc.

d) Fair price shops

Fair price shops are retail outlets which are designed to meet the requirements of the weaker sections of the society. The retailers offer the goods to the consumers at a very low price. Fair price shops are run by private individuals and by the state governments. To ensure regular, equitable and adequate supply of essential commodities at just or fair prices, the state governments 'public distribution system' is introduced. It is the largest distribution network in the world. The physical distribution seeks to stabilize prices of essential goods in the market. It is supervised, guided, regulated and subsidized by the central and state governments. The physical distributions has been increasing owing to abnormal increase in prices of all essential commodities such as rice, wheat, oil, dal, onions etc. Hence, physical distribution remain to be a significant component of the total distribution system in the country for a very long period.

e) Consumer Co-operatives

In India, consumer co-operatives have been playing a major role in retaining. These co-operatives spread throughout the country. They are owned by a group of consumers and run on co-operative principles. It is an association of consumers to obtain their requirement of goods by bulk purchase and selling through the stores to its members. It is run on the principle of wholesale buying and retail selling at reasonable prices. Almost all towns and cities of India have these consumer co-operatives. Co-operative supermarkets have become very popular in many parts of our country. The common name chosen by these consumer co-operatives or supermarkets are 'Apna Bazar', 'Janatha Bazar', 'Super Bazar', 'Kendriya Bhandar' etc. The Apna Bazar of Mumbai has a full time staff of 1200. It keeps a margin of 7 to 8 per cnet on the sale of goods.

f) Civil supplies corporation

Besides consumer co-operatives, state civil supplies corporations of some states have been engaged in the retailing business. These corporations have institutional character and government support. For example, Kerala state civil suppliers corporation's supply company reaches consumers through a network of 643 Maveli stores, 18 supermarkets and 21 maveli stores. This supply company provides food items and consumer products at prices below the open market rate. It also supplies petroleum products and cooling gas through its exclusive outlets.

g) Shopping malls

In recent times shopping malls are occupying an important place in the Indian retailing markets. We are aware that need-based shopping is inspired by supermarkets and discount stores. But malls inspire fashion-based shopping. They position themselves as destination shopping locations. They deal with several anchors and categories, and provide a large variety of merchandise to the customers. A number of malls have been established in our country which include Ansar plaza in Delhi, Spencer plaza in Chennai, crossroads in Mumbai, number one shoppers city in Kolkata etc.

CHECK YOUR PROGRESS – 2

Classify the small scale retailers.

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17.5 EXCLUSIVE RETAILING

In India, many firms have been following exclusive retailing system for the last three decades. In recent years, many firms have realized the inadequacies of wholesaling and retailing system and gradually switching on to the exclusive retailing. Under this system, the goods are made available to the consumers exclusively through dealers, showrooms, shop-in-shop and franchising. Hence, the different forms of exclusive retailing can be classified as:

1. Exclusive dealers,
2. Exclusive showrooms,
3. Exclusive shop-in-shop,
4. Franchising.

1. Exclusive dealers

Exclusive dealer is the pivot in the marketing effort. He is the real interface between the firm and its customers. His interaction with the customers give rise to sales. He plays a crucial role in market penetration, market development, merchandising and promotion. Hence, a firm's success or failure is decided to a large extent with the dealer's active role in marketing the goods.

The company undertakes the services of dealers for specific areas and he enjoys the rights to distribute the goods in the area entrusted to him. The dealer has to put in harder effort to sell the products and he also has to service the customer properly.

2. Exclusive showrooms

Exclusive showrooms are the retail shops which can be setup by the firm itself. They are managed by its own staff. Showrooms help the firm to be more close to the customers and in direct contact with them. They help the firm to get feedback directly from the customers. Exclusive showrooms have been in existence in India for many years now. For example, Raymond textiles announces that it has India's finest and largest exclusive showrooms for men's clothing. By 2002, it had more than 280 exclusive show rooms spread over 125 cities, of which 30 were company owned.

3. Exclusive shop-in-shop

Today most of the giant stores reserve special areas in their shops exclusively for certain brands. The space reserved exclusively for shopping of the special brands is called shop-in-shop. For example the Louis Philippe line is sold through the shop-in-shop in the super stores of 'Shoppers stop'.

4. Franchising

We have seen in the preceding chapter that franchising is one form of exclusive retailing. Franchisee who is an independent business man, follows the marketing policies of the franchiser and pays him a fee for the use of his brand and know how. For example; NIIT which dominates the computer education in India has a network of over 100 branches across the country under the arrangement of franchising.

17.6 NON-STORE RETAILING

In India, more than 80% of the retail marketing is done through retail stores. But in recent times non-store retailing is also gaining popularity in Indian markets. In non-store retailing, no store is involved. The consumers secure the product without making any visit to the stores. The various non-store retailing options are as follows:

1. direct selling
2. network marketing
3. marketing by vending machines
4. consumers fairs.

1. Direct selling

It is also called as Home selling or door-to-door selling. It is the most ancient method of marketing. Before marketing channels came into existence, the producer used to sell his products to the consumers directly at their door steps. Today, direct selling is taking goods like cosmetics, home care and personal care products. Avon, Amway, Encyclopedia Britannica etc, are some of the largest direct selling outfits in the world. In India, the originators of direct selling concept is Eureka Forbes, who were the first to sell their vacuum cleaners on a door-to-door basis. In recent firms, Avon, Amway, Oriflame, Tupperware, Aviance range of cosmetics (Hindustan Lever) have been catching up in India rapidly.

2. Network marketing

Network marketing is a method of marketing where in a third party – an external independent agency or service provider provides direct selling service to the consumers. There are many manufacturers who prefer to keep away from marketing activities. They entrust the marketing task to a suitable outside independent agency. These agencies undertake the direct selling of the products of different companies to the needy, their own system of direct selling are able to direct by sell their products to the consumers. They get the benefit of quicker sales and faster recovery cash in the network marketing. The consumer also gets several products from the same direct seller at his doorsteps. The Bangalore based Fresh Force is the best example for network marketing. It established a commercial, direct selling network with a team of sales persons of its own. This 'Fresh Force' provides direct selling service to any company that wishes to sell its products trough direct selling to consumers.

3. Marketing by vending machines

Automatic vending machines are very common in Europe and North America. These are coin-operated machines and are found in thickly populated urban areas. Today, the automatic vending machines are selling hot beverages, soaps, soft drinks, milk, edible oils i.e., at major airports and commercial centers in the country. Automatic vending machines provide freedom to the customers to buy the goods particularly 'buy on impulse' category products like soft drinks, cigarettes etc. Hence, these machines are likely to be popularized in urban Indian markets.

4. Consumer fairs

One of the popular non-store retailing methods in India is to sell goods through consumer fairs. These fairs are organized by independent promoters and trade associations in which various manufacturers participate and sell their products to the consumers. For example, the 'Book fair' organized by the Book Publishers Association at Hyderabad is very popular consumer fair, where in all the publishers participate to display their titles and sell them to the readers at a special discount.

17.7 DIRECT RETAIL MARKETING

In direct marketing, the marketer approaches the consumers individually, communicates with them and offers products that are modified to suit the requirements of the chosen customers, it depends on customized production, individualized distribution and individualized communication. We are aware that conventional marketing is mass marketing, but direct marketing is demassified marking. Thus, direct marketing is an interactive system of marketing in which the marketing establishes direct relations with the customers via interactive communications. Direct market requires that a direct relationship be established between seller and buyer and a two-way information flow must exist between both parties.

Earlier in India, direct marketing was being used mostly in industrial products and services. But, it slowly spread to soft drinks and durables also. Wipro, Modi Xerox, Philips India, Madhura coats, TVS- Suzuki etc., have been using direct marketing to a great extent.

The various **direct marketing channels** are as follows.

1. mail order marketing
2. direct response marketing
3. data-base marketing
4. tele-marketing
5. tele-shopping
6. online marketing

1. Mail order marketing

Mail order marketing is also called as catalogue marketing or mail order business. It is one of the established methods of direct marketing. The manufacturer sends catalogue and order forms giving details of products offered for sale. The mode of payment shall be VPP, cash, cheque, demand draft, money order or credit card. The other details are already discussed in this chapter under large scale retailers.

2. Direct response marketing

Another innovative method of marketing adopted by Indian markets is direct response marketing. In this marketing, the marketer uses multi media/instruments such as letter, telephone, radio, T.V., computers etc., to get response of the consumers for the products promoted the Escorts – Nanz chain K. Rahaja group promoted shopper's shop, Tatas have gone into retailing business through Trent limited.

17.9 SUMMING UP

In our country, the manufacturers are adopting both traditional and non-traditional methods for distributing the goods to the ultimate consumers. In traditional arrangement, wholesaling and retailing are dominating the Indian market. In non-traditional arrangement, the marketers are adopting exclusive retailing, non-store retailing and direct marketing.

The wholesalers in India are classified as full-line wholesaler, converter wholesaler and drop-shipper wholesaler. The retailers are classified on the basis of scale of retailing, exclusive retailing, non-store retailing and direct marketing. On the basis of scale of retailing, the retailers are classified as small scale and large-scale retailers. On the basis of exclusive retailing, the retailing is classified as exclusive dealers, exclusive showrooms, exclusive shop-in-shop and franchising. Non-store retailing is classified as direct selling, network marketing, marketing by vending machines and consumer fairs. The direct marketing is classified as mail order marketing, direct response marketing, tele marketing, tele shopping and online marketing.

17.10 CHECK YOUR PROGRESS : MODEL ANSWERS

1. The various types of wholesalers are:
   a) full-line wholesaler
   b) converter wholesaler
   c) drop-shipper wholesaler

2. The small scale retailers are:
   a) unit stores
   b) street traders
   c) market traders
   d) hawkers and pedlars
   e) Cheap-Jacks
   f) syndicate stores

3. The various direct marketing channels are:
   a) mail order marketing
   b) direct response marketing
   c) data-base marketing
   d) tele marketing
   e) tele shopping
   f) online marketing

17.11 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. Explain the wholesaler trading in India. How are they classified in the Indian market?
2. Explain the retail trading in India.
3. How do you classify the retailers on the basis of their scale of operations? Explain.

II. Answer the following questions in about 15 lines each.

1. What are the types of wholesalers?
2. Define exclusive retailing. Discuss the various types of exclusive retailers in India.
3. What is non-store retailing? Explain the different methods of non-store retailing adopted by Indian marketers.
4. Define direct marketing? What are the methods adopted in direct marketing in Indian markets?
5. Discuss the contemporary distribution scenario in India. Why the distribution system in India is dominated by conventional wholesaler-retail trade? Discuss.
6. How do you classify exclusive retailing?
7. Write a brief note on the following.
   a) fair price shopping
   b) street traders
   c) direct marketing.

17.12 RECOMMENDED BOOKS

Rajan Saxena : **Marketing Management**

V.S. Ramaswamy & S. Namakumari : **Marketing Management**

Dr. RS Varshney & Dr. SL Gupta : **Marketing Management**

C. N. Sontakki : **Marketing Management**

Cundiff & Still : **Sales Management**

17.13 GLOSSARY

Full line wholesaler : He is one who undertakes various marketing functions for smooth distribution of goods.

Converter wholesaler : He is one who creates form utility to the products which he buys and before they are sold to the other channel members .

UNIT - 18 : ROLE AND IMPORTANCE OF INTERMEDIARIES

Contents

18.0 AIMS AND OBJECTIVES

The aim of this unit is to give an idea about channel decisions and explain the role and functions of market intermediaries which are part of channel system.

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

- understand major channel decisions to be taken by a company in distribution of its products;
- discuss the role of intermediaries in the process of distribution;
- understand various participants in the channel system;
- discuss the functions of wholesaler; and
- explain the functions of retailer.

18.1 INTRODUCTION

In the previous block, various types and levels of distribution channels and the role of channel members is explained in general.

In continuation of what is discussed in the earlier units, this unit explains about major channel decisions, role and functions of market intermediaries, particularly about the functions performed by wholesalers and retailers. This will help you to understand how the goods are distributed through various intermediaries in the channel system and also about the tasks performed by these intermediaries.

18.2 CHANNEL DECISIONS

Channel decisions are most crucial part of marketing management. As the success of marketing, to a great extent depends on its distributive efficiency, channel decisions should be taken carefully after considering and analyzing various related factors like, company objectives, resources, marketing mix, competitor practices, customer needs and expectations etc. Sometimes, even the well-designed product, which is priced and promoted suitably, may not be successful in the market, if the distribution system and channel management is defective.

Channel decisions assume importance because these decisions relate to the working and cooperation of several independent intermediary firms. Establishing mutually cooperative and beneficial relationships and maintaining such relationships for long period is a challenging task of channel management.

Channel management covers many aspects ranging from identifying the channel alternatives to managing the channel members, motivating and building cooperative relations with the channel members.

The important channel decisions include the following:

1. Channel Design Decisions

These decisions relate to designing a channel system for distribution of company products. Designing a channel system calls for the following decisions.

a) Deciding channel objectives and identifying the constraints.

b) Identifying the major channel alternatives for the company. It involves identification of types of intermediaries available and required for the company, deciding the number of intermediaries needed and setting the terms and responsibilities of each intermediary in the channel system.

c) Evaluating the major channel alternatives in terms of economic, control and adaptive criteria.

2) Channel Management Decisions

Channel management decisions are concerned with selecting the intermediaries, motivating them and evaluating their performance from time to time. Further, it includes decisions for modifying the channel arrangements whenever necessary.

3) Decisions for Channel Cooperating and Conflict

It is very important for every company to promote cooperation among its channel members. Such cooperation will ensure smooth flow of goods from manufacturer to consumer. Company has to take required measures to develop cooperative relations.

But, for various reasons, there will be some conflicts among the channel members. The company should identify the reasons for such conflicts and take required decisions to resolve these conflicts to the possible extent.

These decisions will be discussed in detail in this unit and subsequent units.

CHECK YOUR PROGRESS – 1

State the important channel decisions.

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18.3 MEANING OF MARKET INTERMEDIARIES

Market intermediaries may be defined as a set of interdependent organisations involved in the process of making a product or service available of ruse or consumption. Every intermediary organisation may be distributors, wholesalers, retailers or any other. The intermediaries can be seen as a network that creates value for consumer by generating possession, time and place utilities.

18.4 EMERGENCEOF MARKET INTERMEDIARIES

For understanding the role of market intermediaries and the base for channels of distribution, it is necessary to find the underlying reasons for the emergence of channel structures. Theoretically speaking, it is always possible for a manufacturer to distribute products himself to the consumer. There are several advantages of such direct distribution like direct rapport with customers, avoiding costs of margins to distributors, better control in distribution etc. But, despite these advantages, why the use of intermediaries in the channels of distribution becomes necessary in many situations?

The answer to this question is – it is mainly the economic and efficiency criteria, which is responsible for the emergence of channels and various types of intermediaries.

The emergence and arrangement of a wide variety of distribution oriented institutions and agencies called intermediaries can be explained by the following **reasons.**

1. Intermediaries emerged because they can improve the efficiency in the process of exchange.
2. Channel intermediaries arise because they adjust the discrepancy of assortments through the performance of sorting process.
3. Market intermediaries together in the channel arrangement provide for the routinisation of transactions.
4. Intermediaries and channels facilitate searching process.

Each of these is explained in more detail.

1. Improving Efficiency of Exchange Process

Marketing activity depends upon how best consumer needs are satisfied through exchange process. For this exchange process must take place smoothly without any barriers. The first barrier is spatial discrepancy, i.e. the sources of supply and centers of demand are located at widely different locations. Most of the products being marketed now, have their factories are located at some place in the country. but they are marketed to every corner. This brings the problem of transportation and transportation cost.

The second barrier is temporal discrepancy. It means gap between time of production and the time at which the goods are needed for consumption. For example, most of the agricultural products are produced during certain seasons but they are used throughout the year. Due to this time gap, need for storage and associated risks are involved.

The last barrier to exchange comes from the intention to buy. Many times though right product is supplied at right time to right place, desired exchanges may not take place because of lack of proper marketing communication to influence buying.

Market intermediaries emerged because they can effectively overcome the above barriers to exchange process. How they do this is explained below:

a) The Spatial Discrepancy

In primitive society most of the household needs were met through self-production or procurement. But, with the development of economic activities exchange process was used as a means of satisfying individual needs. The development of exchange was facilitated when there is surplus in production over consumption and when this surplus can't be stored for future consumption due to perishable nature of product or lack of storage facilities or the surplus is more than future requirements. Thus if numerous households are able to effect surpluses for different products, the basis for exchange will take place. As the number of such house holds, and number of products to be exchanged goes on increasing, the exchange process becomes more complicated as mutual interactions (transactions) increase between households.

To illustrate the above, let us take an example of 5 holds, each specializing in one product namely pots, baskets, knives, clothes and footwear. In a decentralized exchange process (exchange at each production point) ten transactions result for meeting their needs. If an intermediary who presumes is appointed from these households and supplies to the same households, the number of transactions can be reduced to only five [see fig. 1(a) and 1(b)].

Figure 1(a)

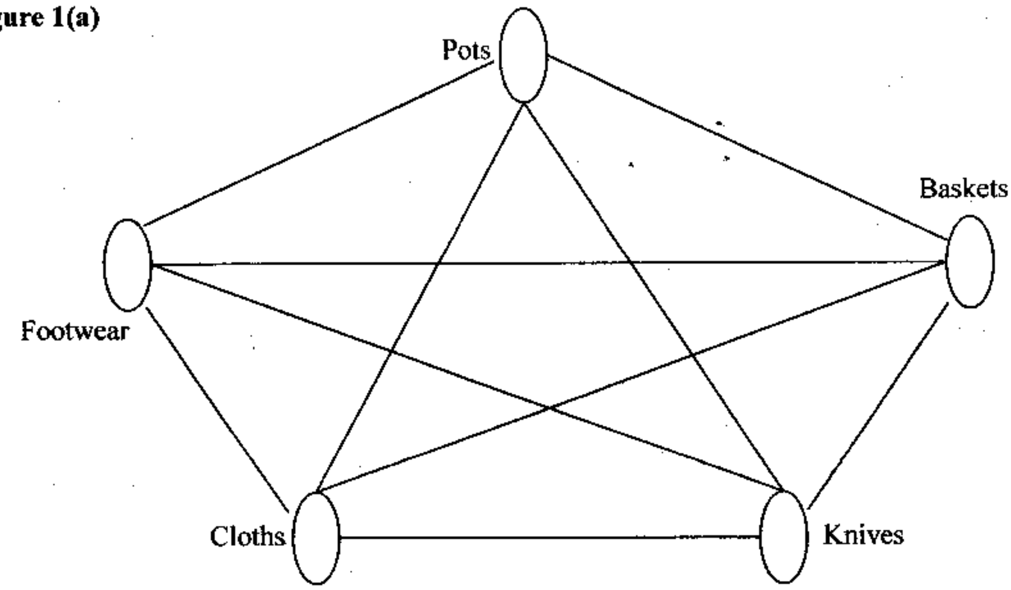


Figure 1(b)

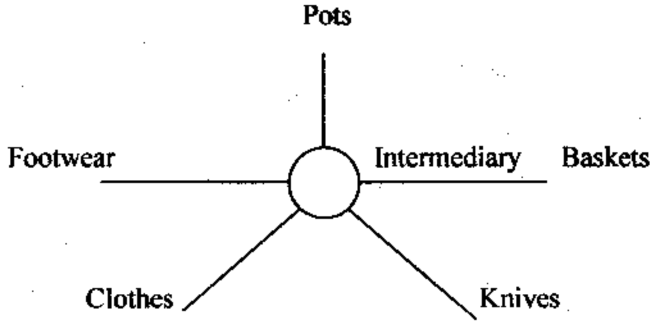


Figure 2(a)

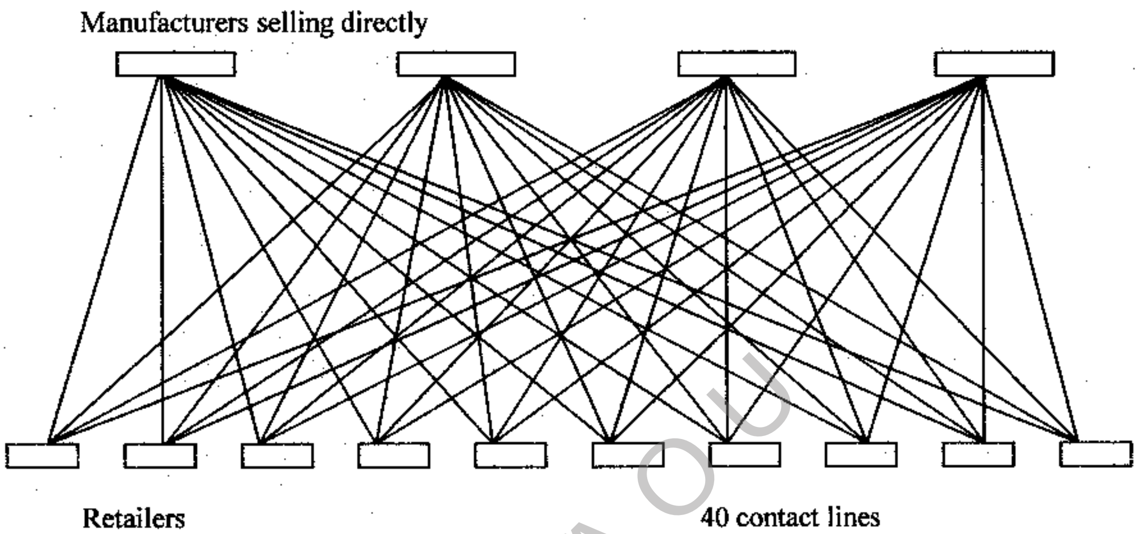


Figure 2(b)

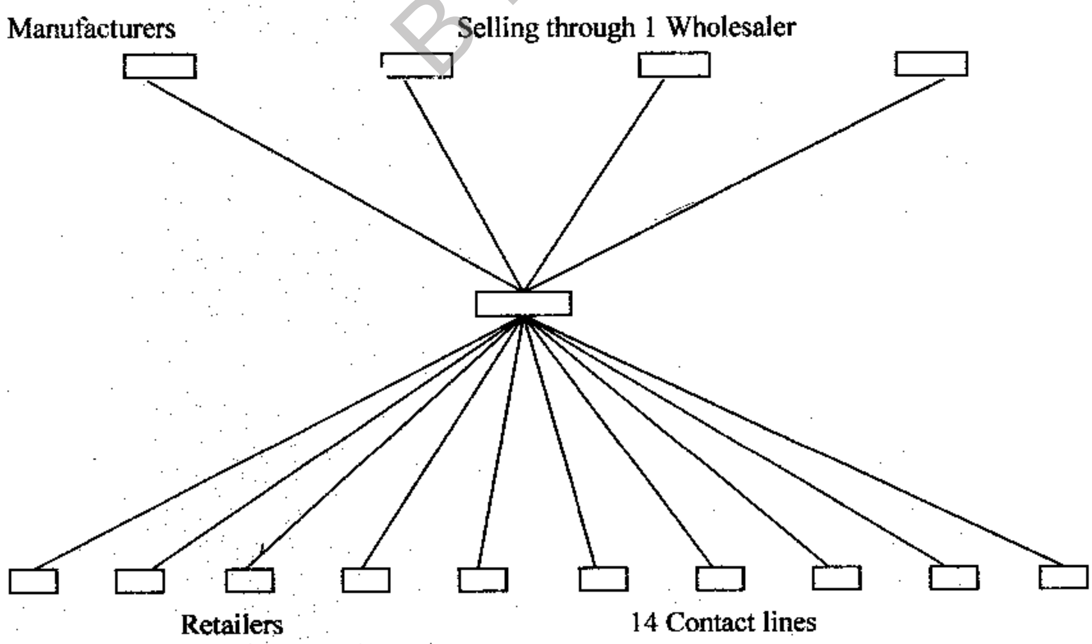
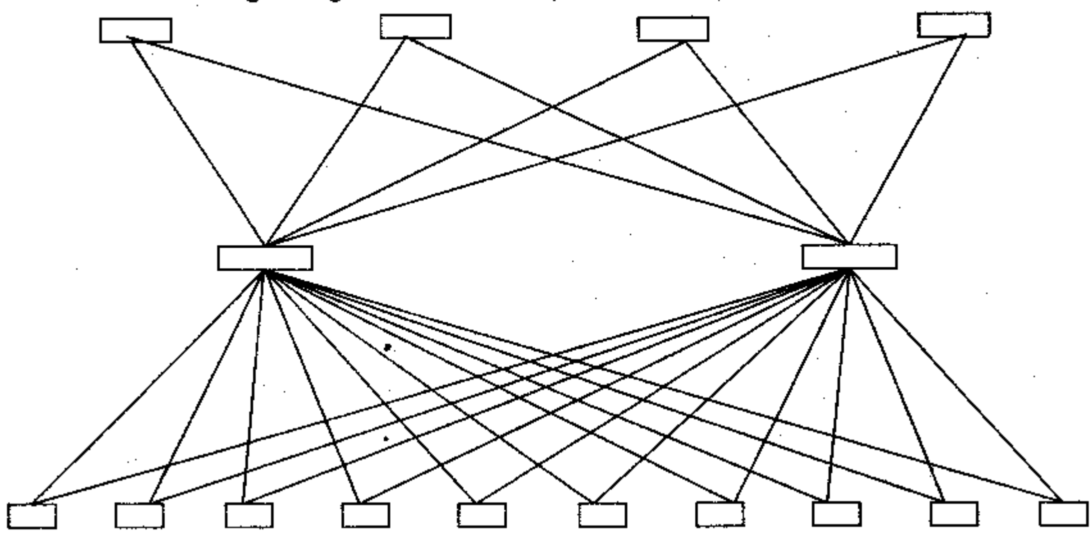


Figure 2 (c)

Manufacturers selling through 2 wholesalers



Retailers 28 Contact lines

Same rationale can be extended to direct selling from manufacturers to retailers. In fig. 2(a), a case of 4 manufacturers and 10 retailers who buy goods from each manufacturer is shown. The number of contact lines in such selling amounts to 40. If the manufacturers sell through one wholesaler, the number of contacts will be reduced to 14 [Fig. 2(b)]. If two wholesalers are appointed, the number of transactions goes to 28 [Fig 2(c)].

b) Temporal Discrepancy

Since production time and consumption time are not necessarily concurrent, two discrepancies arise. The first one is about storage of goods during this time gap and the second is organizing flows of goods and services through out the system, so that exchanges at the time of consumption can be facilitated. Both necessitate the carrying of inventories.

Increasing the number of intermediaries lowers the total inventory needed to be carried in this system. In an efficiently working multi stage system, by organizing a flow of products, a minimum total inventory stock can be maintained to meet demand and increase buyer convenience.

2. Discrepancy of Assortment

The intermediaries help to overcome the discrepancy related to assortment through the process of sorting. The following **activities** are involved in sorting function.

a) **Sortuigent:** It means breaking down heterogeneous supply into separate stocks that are relatively homogenous. For example, sortuigent mangoes according to size and color from a heterogeneous supply of different varieties of mangoes.

b) **Accumulation:** It refers to bringing similar stocks from a number of sources together into a larger homogeneous supply. For example, a wholesaler accumulates supplies of soaps from different sources to retailer, and retailer in turn performs same activity to consumers.

c) **Allocation:** It consists of breaking down the homogeneous supply in relation to specific demand. For example, a wholesaler receives truckloads of products from manufacturers, and allocates caseloads of products to retailers according to their demand. The allocation power accompanies geographical dispersal and the onward movement of the supplier to the points of consumption.

d) **Assorting:** It refers to the task of building up a final assortment by each channel. For example, retailers will build assortments according to the expectations of consumers, and wholesalers will build assortments according to the needs and demand of retailer.

In the above-mentioned sorting activities, sortingent and accumulation are predominant for agricultural goods whereas allocation and assorting predominate in the marketing of manufactured goods.

3. Routinisation

In exchange process, each transaction involves ordering of, valuation of, and payment for goods and services. The cost of distribution can be minimized if the transactions are routinised; otherwise, every transaction is subject to bargaining with a concomitant loss of efficiency. Routinisation facilitates development of exchange system and standardization exchange relationships between buyers and sellers. Because of routinisation, a sequence of marketing agencies can hang together in a channel arrangement structure.

Searching

Buyers and sellers are always engaged in the search process in the market place. The process of search involves uncertainty because producers are not sure of consumer needs, and consumers are not certain that they will be able to find what they are looking for. Marketing intermediaries facilitate the process of searching.

18.5 PARTICIPANTS IN CHANNEL SYSTEM

The channel system for any product includes various agencies or institutions known as intermediaries. Each of the participants in the system perform certain functions in the exchange process.

The participants in the channel system may be broadly grouped as:

1. Primary participants
2. Secondary participants

Primary participants are directly involved in the process of buying and selling products from producers and consumers. The primary participants could be further classified as:

1. Merchant middlemen
2. Agent middlemen

The secondary participants include facilitating agencies. These agencies facilitate smooth flow of goods across the channels. A brief mention of role and functions of these participants is discussed below. As the wholesalers and retailers are key participants in the channel system, their functions are discussed in detail separately.

Primary Participants

a) **Merchant middlemen:** Merchant middlemen are those who buy and take title and possession of goods for the purpose of reselling to retailers or to other wholesalers or agents. This group of intermediaries may be further classified into the following types:

1. Wholesaler
2. Semi-wholesaler
3. Retailers

1. Wholesaler

The Wholesaler is one who buys goods in bulk from manufacturers and sells them to retailers or industrial buyers or semi-wholesalers. There may be again different types of wholesalers such as:

- Full function wholesaler buys and sells products on his own account and performs all the functions of wholesaler.

- Converter wholesaler buys goods and sells them to other channel members after processing/converting the form of product purchased. For example, he may buy rice from farmers and sell it to retailers after duly processing it.

- **Drop shipper:** A drop shipper is that merchant wholesaler who neither stores products nor delivers them to buyers from his own stock. Instead, he books orders and directs manufacturers to dispatch products to buyers at the places and times indicated in the orders so booked. He takes delivery only when the buyer fails to purchase as per agreement.

2. Semi-wholesaler

A semi-wholesaler is that merchant middlemen who buys products mostly from wholesaler and at times, from manufacturers in loss smaller relative to wholesalers and sells in assorted packs to retailers and consumers after assembling various lines of products of different manufacturers as per their requirement. For example, in case of cotton textiles, semi-wholesalers buy from other wholesalers of manufacturers, sort out them and repack and supply according to the requirement of retailers.

3. Retailers

A retailer is that merchant intermediary who buys products from preceding channel members (wholesaler, distributor, manufacturer etc.) in small assorted lots and sells them to consumers in still smaller assorted lots to suit individual consumers. There are several types of retailers as given below:

a) **Consumer cooperative stores:** These are retail outlets established by consumers themselves in the form of cooperative society. They buy in bulk from manufacturers and wholesalers and sell them through their outlets. The profits earned are distributed among members in the form of dividends. Consumer cooperatives are playing important role in selling various goods to consumers at reasonable prices with service motto.

b) **Fair price shops:** These are retail outlets established usually to distribute essential commodities through public distribution system. These shops may be in private cooperative or state sectors. The objective of these stores is to supply products at fair prices.

c) **Departmental stores:** A departmental store is a big retail store with many departments under one roof. It offers wide range of products so as to suit different consumer tastes and preferences. In India, these types of shops are popular mostly in metropolitan cities.

d) **Chain stores or multiple shops:** These are network of retail shops owned and operated by a manufacturer or an intermediary. In this system purchases are centralized and selling is decentralized. The shops have identical display methods and merchandise strategies.

e) **Mail order houses:** These are the outlets, which sells goods to consumers on mail order. These shops do not have direct contact with consumer. Mail order houses procure products and advertise them through different media and expect consumers to send orders for supply. Mail order system is gaining popularity in recent times.

I. Agent Intermediaries

Agent intermediaries are those channel members who help in carrying transaction of sale or purchase without buying or selling and possessing the title. They perform several marketing functions as agents and get the commission for their services. They are of the following types:

1) **Brokers:** They are the agents who bring buyers and sellers and negotiate purchase or sale on behalf of others. They receive their remunerations in the form of brokerage.

2) **Commission agents:** They sell goods in the name of and at risk of the other person known as principal in exchange of an agreed commission.

3) **Factors:** Factors are the agents who keep the goods of others for sale. They can sell goods in their own name, pledge goods in their possession and do all such acts as can be done by the principal, whose goods they keep.

4) **Auctioneers:** An auctioneer is an agent who sells the goods on behalf of his principal through the auction method.

5) **Selling agents:** Selling agents are those agent intermediaries who are given exclusive franchise only for a limited market segment. They work solely for the company so far as the assigned territory, products or consumers are concerned.

II. Facilitating Intermediaries

A large number of establishments facilitate smooth distribution without participating in buying or selling. These include financial institutions (provide finance to channel members), public warehouses (provide storage, space and facilities to owners of inventory), public carriers or transport carriers (these are transport agencies which help in physical movement of products which flow in the channel system) and advertising agencies (these agencies help in creation of awareness and promote products through advertisements).

CHECK YOUR PROGRESS – 2

Explain various types of agent intermediaries.

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18.6 FUNCTIONS OF WHOLESALER

A wholesaler is a merchant middleman who sells goods mainly to other merchants and business units who buy primarily for the purpose of resale or business use. A wholesaler purchases goods in large quantities directly from manufacturers and sells them in small quantities to retailers, institutional buyers and industrial users. He operates between the producer and retailer and does not deal with ultimate consumer directly. He usually specializes in one line of products and keeps large stocks.

A wholesaler may be of various types as mentioned below:

1. **Merchant wholesalers:** These are the merchants whose main business is buying goods in large quantity and reselling the same to other traders or consume the goods for business purpose. A merchant wholesaler's margin is the profit made on sale of goods.

2. **Full function or service wholesaler:** These are the wholesalers who perform almost all marketing functions normally associated with wholesaling. They perform wide variety of functions as mentioned below:

   i) **Physical possession flow:** A wholesaler forecasts demand for goods and procures them from different agencies. He takes possession of goods purchased from manufacturers, or other agencies and maintains storage facilities at his level. He maintains sufficient stock of goods of different varieties and quantities needed to supply to retailers or other customers on a regular basis.

   ii) **Ownership flow:** A wholesaler takes legal title (ownership) from the supplier. He passes it on to his customer when sale is affected.

   iii) **Promotion:** A wholesaler performs advertising and sales promotion activities to promote sale of his products. Some wholesalers employ expert sales representatives for this purpose. He may participate in manufacturers, advertising allowances and may print catalogues for trade.

   iv) **Negotiations:** A wholesaler performs negotiation with supplier as well as customer. He makes contact and negotiates over prices, quality, quantity, terms of sales etc.

   v) **Risk taking:** A wholesaler bears risks of changes in demand and prices, bad debts and spoilage of goods in the course of transportation and storage. By undertaking various risks, he simplifies the process of distribution.

vi) **Ordering:** A wholesaler anticipates the needs of retailers and orders such quantity of needed products from manufacturers in advance. This will help him to fulfill the orders placed by retailers for supply of products needed for them.

vii) **Financing:** The wholesaler generally buys goods from manufacturers on cash basis and sells them to retailers on credit basis. In this way he will provide financial assistance to both producers and retailers.

viii) **Packing and Grading:** A wholesaler packs and repacks goods in convenient lots. He sorts out goods in different grades on the basis of specified standards. In some cases, wholesaler may give his brand to the products packed by him and also fix the price.

CHECK YOUR PROGRESS – 3

What are the functions of whole saler?

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18.7 FUNCTIONS OF RETAILER

A retailer is a trading intermediary who cuts bulk purchases of consumer goods into small lots and sells them directly to ultimate consumers. Retailing includes all activities directly related to the sale of goods or services to the ultimate consumer. Retailer is the last link in the chain of distribution. He generally purchases from wholesalers or manufacturers. He carries wide assortment of goods because he has to supply products to ultimate consumers according to their varied tastes and requirements.

Retailers perform several functions of marketing. These are mentioned below:

1. **Physical possession flow:** A retailer anticipates needs of customers and assembles goods from different sources like wholesalers or products. He takes possession of goods and stocks them in required quantity to meet the demand from ultimate consumers. He maintains adequate storage facilities to store such products at his level. He maintains desired assortments in both required variety and quantity to supply to consumers.

2. **Supply:** Retailer provides ready supply so that consumers can buy conveniently and quickly in small lots. By ensuring uninterrupted supply of goods, he saves the consumers from the trouble of buying goods in bulk and storing them. Thus, he performs dispersing function.

3. **Title flow:** Retailer takes the title from wholesaler or producer when he buys goods from them. He will transfer the title to consumers by selling the goods to them.

4. **Promotion:** Retailer will undertake store level promotions by display of products point of purchase promotions. He will participate in manufacturer's sales promotion programmes by implementing them at the store level.

5. **Negotiation:** Retailer negotiates with wholesalers/manufacturers over price, quality, quantity to be stocked and terms of sale. Similarly he will negotiate with customers about prices, terms of sale etc.

6. **Financing:** Retailers sometimes finance ultimate consumers by agreeing to sell products on credit. In most of the retail shops, retailer supplies goods to customers on credit and collects such money every month or week according to the financial position of customers.

7. **Risk bearing:** As risk is associated with ownership, the retailers assume all the risk inherent in ownership of goods. He bears risk of storage, bad debts etc.

8. **Order flow:** Retailers anticipate the needs of customers and direct the backward flow of orders through the wholesalers or other agencies.

9. **Payment flow:** Retailers accept payment from customers and pass on payment to wholesalers/manufacturers after deducting their expenses and margins. Some times retailers make payment even before selling the products to customers.

10. **Information flow:** Retailers are important source of passing information about consumer tastes, demands, reactions, satisfaction etc. to the wholesaler or manufacturers. Similarly, they discriminate product and promotional information to consumers.

11. **After sales services:** Sometimes, retailers provide after sale service to customers such as providing repairs, maintenance services etc.

CHECK YOUR PROGRESS – 4

Explain the functions of retailer?

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18.8 SUMMING UP

Market intermediaries are set of interdependent organisations involved in the process of making a product or service available for use or consumption. These intermediaries form network in the channels of distribution. Management of channels involves some decisions, which are very crucial in marketing management. The important decisions include:

1. Channel design decisions (deciding channel objectives, channel alternatives)
2. Channel management decisions (selection of intermediaries, motivating, evaluating performance, modifying channel arrangements etc.)
3. Decision for channel cooperation and conflict.

The emergence of wide varieties of intermediaries is due to the reason that they can improve the efficiency in the process of exchange, adjust the discrepancy of assortment through performance of sorting process, provide for reutilization of transactions and facilitate the searching process.

The participants in the channel system may be broadly grouped as primary participants and secondary participants. Primary participants could be further classified as merchant middlemen and agent middlemen. The secondary participants include facilitating agencies like financial institutions, public warehouses, public carriers, advertising agencies etc. Among the intermediaries, wholesaler and retailers play a major role.

The functions of wholesalers include: Physical possession of goods procured from different agencies, owning, undertaking promotion activities, negotiation with manufacturers/retailers, risk taking, ordering, financing, packaging, grading etc.

The retailer is the last link in the channel of distribution. They perform various functions such as: procurement of goods, storage, supply of goods to consumers, transfer of title on sale of goods, promotion activities at retail level, negotiation, financing, risk bearing, ordering, payments, collection and passing on information and after sale services to consumers.

18.9 CHECK YOUR PROGRESS : MODEL ANSWERS

1. The channel decisions are most important because of the following decisions or reasons:

   a) Design decisions: deciding channel objectives and limitations.
   b) Channel management decisions: management of marketing intermediaries.

2. The types of agent middleman are:

   a) brokers
   b) commission agents
   c) factors
   d) auctioneers
   e) selling agents

3. The functions of whole salers are:

   a) merchant wholesaler
   b) service wholesaler
   c) promotion
   d) negotiations
   e) risk taking
   f) ownership flow
   g) physical flow
   h) ordering
   i) financing
   j) packing and grading

4. The functions of retailers are following:

   a) physical possession flow
   b) supply
   c) title flow
   d) negotiation
   e) financing
   f) promotion
   g) risk bearing
   h) order flow
   i) information flow
   j) after sale services etc.

18.10 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. Explain major decisions involved in channel management.
2. Discuss the reasons for emergence of market intermediares.
3. How channel intermediaries can improve efficiency of exchange process?

II. Answer the following questions in about 15 lines each.

1. Discuss the functions of retailer.
2. How intermediaries can overcome discrepancy related to assortment?
3. Distinguish between merchant middlemen and agent middlemen.
4. Explain various types of retailer organisations.
5. What are the functions of wholesalers?

18.11 RECOMMENDED BOOKS

1. Louis W. Stem and Adel I. El-Ansany : **Marketing Channels**
2. J.C. Gandhi : **Marketing**
3. Cemdiff, Still and Govoni : **Sales Management**
4. Philip Kotler : **Principles of Marketing**

18.12 GLOSSARY

Intermediary : Are the people or organisations involved in the process of marketing a product/service available to the user.

Whole Saler : Is a another type of seller but he buys the goods in a bulky and sells to the retailers.

Retailer : Is an individual who sells the goods directly to the consumers individually.

Commission Agent : Seller of goods and services on behalf of others for a remuneration/consideration.

UNIT – 19 : CHANNEL SELECTION AND EVALUATION

Contents

19.0 AIMS AND OBJECTIVES

The aim of this unit is to introduce the channel selection and evaluation.

After studying this Unit, you should be able to:

- explain the need for selection of intermediaries;
- identify different criteria for selecting channel members;
- suggest possible alternative channel structures;
- identify different approaches in selecting the best combination of intermediaries;
- identify measures to evaluate the performance of channel members; and
- explain the consideration of performance for channel members.

19.1 INTRODUCTION

In the last unit, we have already discussed the role and functions of channel members. In this unit, we will be discussing the selection and evaluation of intermediaries. Experiences show that effective and efficient structure of channels of distribution is directly related to the proper selection and evaluation of intermediaries. Selection of intermediaries is a very important task because it affects goals of profits, growth and survival of an organization. In addition to this, the organization has to evaluate various factors affecting these decisions and alternative options available for selection and evaluation of intermediaries. This lesson mainly discusses these aspects.

19.2 NEED FOR SELECTING CHANNEL MEMBERS

In company marketing decisions. channel decisions are very crucial. But in India, most of the companies do not have sufficient information regarding types, locations, and number of channel members. Due to lack of information, some companies make wrong decisions for channel development. The company's chosen channels intimately affect all the other marketing decisions. The companies' pricing depends upon whether it has used extensive distribution or selective distribution. Likewise, sales force and advertising decisions depend on how much training and motivation the intermediaries need. **Need for channel selection** decision is left more in the following cases:

1. When a new product or product line is introduced by the company.
2. When an existing product is limited at a new target market.
3. When there is major environmental change.
4. When customer services are to be provided at expected level.
5. For exercising required degree of channel control.
6. For fulfilling the long term commitments in market.
7. For using marketing mix variables effectively.

CHECK YOUR PROGRESS –1

What is the need for selecting channel member?

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19.3 CRITERIA FOR SELECTING CHANNEL MEMBERS

Selection of an appropriate distribution channel is very important, because several elements of the marketing mix like price and promotion are closely interlinked with, and are inter-dependent on the distribution channels. Each channel member involves some cost, which automatically gets included in the price of the product and is ultimately borne by the consumer.

The choice of an appropriate channel of distribution is not a simple task. **Dugles M. Lambert** has suggested the following criteria for selecting intermediaries.

Table - I
CRITERIA FOR SELECTING INTERMEDIARIES

No.	Major Factors	Sub-factors
01.	Size of prospective channel member	Sales, financial strength, number of salesman
02.	Sales strength	Sales and technical competence, Competitive products
03.	Product lines	Compatible products
04.	Reputation	Complementary products, qualities of line carried
05.	Market coverage	Leadership
06.	Sales performance	Well-established geographic coverage, outlets for market area
07.	Management	Industrial coverage
08.	Advertising, Sales promotion	Channel-frequency or intensity of coverage
09.	Sales compensation	Performance with related lines
10.	Acceptance of training assistance	General sales performance
11.	Transportation savings	Growth prospects
12.	Inventory	Kind and size
13.	Ware housing	Safety stocks
14.	Lot quantity costs	Reduction in manufacturer's inventories, supplied in piles. Ability to handle shipments efficiently.

The management must take into consideration a number of constraints which may affect channel decision. From experience, it is seen that each manufacturer selects the intermediaries in the context of constraints stemming from market, product, customer, company and other characteristics. Often, these constraints are cited with a number of alternatives. For example, if a product is technically complex, the manufacturer should sell directly to its users.

The following aspects are used as **criteria** for selecting channel members.

a) Product: For selection of intermediaries, product characteristics are important elements which should be taken into consideration. The product characteristics such as nature, value, degree of differentiation from competitive products certainly influence the channel selection. The products which physically deteriorate fast will require more direct channel. In case of non-perishable products, company may go in for indirect channel.

b) Market: The market size and location plays an important tole in the distribution strategy of the company. If the buyers are concentrated in a particular area, then distribution can be achieved with a few middleman. If the buyers are scattered, then many middlemen are required to cover up the area.

Lucas P. Bucklin in his model states that, other things being equal, the greater the distance between a producer and markets, the less expensive is the probability of channel structure using intermediaries. Hence, the company has to keep restructuring their channel design according to geographical changes in the market and locating new markets.

c) **Value of product:** The value of product decides which channel will be used in the distribution of products. Through experience it is seen that the higher the cost per unit of the product, the larger the investment to keep the inventories in the market. In this case, manufacturers may go in for intermediaries to ultimate user. High cost per unit value also tends to restrict the availability of middlemen, owing to high profit margin per unit value.

For example, consumer durable goods like Refrigerators, Television, Scooters, Sewing machines, Typewriter, Computers, Xerox machines are generally marketed to Government departments and big industrial houses directly. Companies choose indirect channels in case of low unit products.

d) **Technicality:** The products which are more technical in nature require direct channels. For marketing highly technical products, companies employ technically qualified sales and service personnel for product demonstration, pre-purchase sales service. For example, a company dealing in Air-conditioners, Generators sets, Ovens, Music system generally tends towards direct channels and selective or exclusive distribution policies.

e) **Substitutability:** Brand loyalty has more effect on channel decision. Brand loyalty is closely related to the degree of product substitutability; brand loyalty is highest in speciality goods and lowest in convenience goods. In case of low brand loyalty products, substitutability is very easy and the company has to employ intensive distribution. In order to provide support for such products, the company offers more than normal margins to intermediaries. Some companies even use selective or exclusive distribution system to provide necessary channel support.

f) **Market acceptance:** A brand mark of a particular product plays an important role in the market acceptance of the product. The brand name helps a customer in instant recall, differentiating it thereby from the competing products of similar nature. Generally, well established brand name products gain the high customer acceptance. For example, if a product is new to the market but associated with a recognized brand name followed by planned introductory advertisements, generally customer acceptance is likely to be high. Middlemen will be eager to accept the new product, as in the case of Amul company adding butter, ice cream to its existing product line. However, for new products with low brand image, market acceptance will be generally low. In this case, aggressive selling at each level of the channel is required to push the products, for example, local Delhi made fans, heater, gas appliances etc.

g) **Customer service:** Customer service is an important ingredient of the physical distribution system. It can be used to differentiate the products, and may influence the pricing policy of the market. If customers are willing to pay more for better service owing to its complex nature, it requires careful elaboration.

h) **Product information:** The company should provide required product information to customers, if they are willing. If the company wants to arrange more information, more number of channel members are required. In the same way, when limited information is required, there is no need of appointing more number of channel members.

i) **Speed and consistency:** It refers to the time required from placement of orders to the receipt of the same by the customer and the ability of the supplier to meet consistently the targeted order cycle time. It is seen that most customers generally prefer consistent service to fast service, because in the former case it allows them to plan inventory levels to a much greater extent than is possible with a fast and highly variable order cycle.

ii) **Company's characteristics:** The channel selection decision is also affected by the company's characteristics. These characteristics include the following:

- **Size of the company:** It is generally seen that the size of a company plays an important role in deciding the size of the market, thereby evolving desired channels of distribution.

- **Financial capacity:** If a company has sufficient financial resources, then it does not depend upon intermediaries. It can establish its own outlets to sell their products. Even small firms with limited market coverage also sell the products directly.

iii) **Competitors characteristics:** Design of a channel is influenced by competitor's channel. In some cases, manufacturer may want to complete in or near the same distributive outlets of competitors products. For example, Bata and Carona shoes or Liberty shoes outlets are often situated near each other. But in some industries, manufacturers want to avoid the channels used by competitors because of scarcity of display place, unhealthy competitions etc.

iv) **Environmental characteristics:** When the environmental characteristics such as depression, manufacturers want that their product should reach the market in the most economical way. In other words, economic environment has direct effect on channel selection. In this case, the company has to choose shorter channel to avoid extra cost to be incurred on marketing the product. Since the functioning of the intermediaries is influenced by the performance of non-member participants, the company should analyse the impact of economic, competitive, technical and legal environment.

CHECK YOUR PROGRESS – 2

What are the criteria for selecting channel members?

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19.4 IDENTIFICATION OF CHANNEL STRUCTURES

Marketing managers face two sets of decisions while developing marketing channels. The first set of decisions leads to a selection of one or more channels. The second set deals with the extent or intensity of distribution. Because of the wide variety of channel arrangements that exist, it is difficult to generalize the structure of channels across all industries. However, distribution channels are usually of two types.

I. Direct distribution (or zero level) and
II. Indirect distribution

Direct marketing channel or (Zero level)

This type of distribution has no intermediaries. In this distribution system, the goods move directly from the producer to the customer. For example, Eureka – forbes offers vacume cleaners through direct selling by its sales force. In this system no middleman is involved.

Producer ⟶ Consumer

Indirect distribution

In this system, distribution takes place through intermediaries. The number of intermediaries may vary from situation to situation. Following are different types of indirect distribution methods.

One level channel

In this type, there is only one intermediary between producer and customer. This intermediary may be a retailer or a distributor.

Producer ⟶ Retailer ⟶ Consumer

If the intermediary is a distributor, this type of channel is used for speciality products like washing machines, refrigerators or industrial products.

Producer ⟶ Distributor ⟶ Consumer

1. Two level channel

This type of channel has two intermediaries, namely wholesaler and retailer.

Producer ⟶ Wholesaler ⟶ Retailer ⟶ Consumer

2. Three level channel

This type of channel has three intermediaries namely distributor, wholesaler and retailer. This pattern is also used for convenience goods.

Producer ⟶ Distributor ⟶ Wholesaler ⟶ Retailer ⟶ Consumer

3. Four level channel

This type of channel has four intermediaries namely, agent, distributor, wholesaler and retailer. This channel is somewhat similar to the previous two. This type of channel is used for consumer durable products also.

Producer ⟶ Agent ⟶ Distributor ⟶ Wholesaler ⟶ Retailer ⟶ Consumer

In addition to the above mentioned types another type of channel is possible. There is no watertight classification of channels. The use or selection of a channel also depends upon the product under consideration. Basically there are three or four types of products viz., (i) Consumer non-durables (ii) Consumer durables (iii) Industrial products and (iii) Agricultural products.

Distribution channels of different types also depend on the nature of product and services. Therefore, we can say that for different products there are different types of channels.

To select appropriate combination of intermediaries among the existing channel alternatives, the company has to consider primary operational requirement in the form of captive and independent outlets, product and geographic differentiation etc.

i) Captive outlets

These are wholly owned by the manufacturer. For example Coromandal India Ltd., Bata, Nirula's Singer etc. In case of Singer, it combines the sale of sewing machines and serving accessories into a specialized retail offering.

ii) Independent outlet

In the case of companies wholly owned by individuals as in the case of Raymonds, Vimal, Bajaj, Kwality etc., some manufacturers may successfully combine captive and independent outlet.

iii) Product differentiation

The manufacturer may go in for product differentiation and utilize more than one channel. This is commonly known as dual distribution, where manufacturers sell directly to outlets but use wholesalers to reach small retailer also.

iii) Product differentiation

The manufacturer may go in for product differentiation and utilise more than one channel. This is commonly known as dual distribution, where manufacturers sell directly to outlets but use wholesalers to reach small retailer also.

iv) Geographic differentiation

A company has to choose alternative channel structure to implement distribution objectives in different geograp!.ic areas. For example, in a densely populated area, manufacturers may go in for direct marketing, using sales force and company operated distribution warehouses. However, in less populated areas the company can go in for wholesalers or retailers.

19.5 APPROACHES IN SELECTING THE COMBINATION OF INTERMEDIARIES

The companies must choose the best combination of intermediaries in the channel structure alternative which is more profitable and optimum. In recent years, quite a good number of approaches have been evolved to aid the selection of intermediaries.

a) Lambert's financial approach

Lambert considers the financing aspect as the most important variable for selecting a channel structure. According to him, choosing an intermediary is analogous to an investment decision of capital budgeting. For the selection of most profitable channel structure comparison of estimated earnings on capital is 'one which results from given alternative channel structure in light of cost of capital. This approach is a very convenient technique for selecting the best combination of intermediaries, but it has got its limitation. In this approach, it is difficult to get simple rate of return, expected cash flows, future earnings and cost for alternative structure. Thus the firm has to evaluate every factor of product to select appropriate set of intermediaries.

b) Management science approach

Management science approach such as operations research, simulation and decision theory have been used extensively to design optimal marketing channels. For example, Balderston and Hoggatt came up with simulation model which was used to study channel structure. In case of manufacturer --------Wholesaler ------- retailer type of distribution channel, wholesaler mainly performs information, risk taking and financing task while the retailer creates desired assortments and performs tasks incidental to final sale. This realism which is sometimes lacking in simulation model.

c) Mathematical model

It is developed by Artle and Berland. This is a model in which the cost of performing distribution tasks for alternative channel structure is calculated. Selection among the alternative is done in such a way that it offers maximum profit at the lowest total cost to the company.

d) Comprehensive operational mode

Henry H.Ralergh, allows for determination of the combination of inputs that lead to channel control, and therefore affect revenues and costs.

e) Judgemental – Heuristic approach

This approach relies an managerial judgement or rule of thumb. The method allows the evaluation of various decision factors like long run profit and cost, channel control issues, long term growth potential. There are, however, variations in the degree of precision of this method. Some attempt to formalize the decision making process to some degree while others attempt to incorporate cost and revenue data.

CHECK YOUR PROGRESS – 3

State the approaches for selecting intermediaries.

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19.6 EVALUATION OF PERFORMANCE OF CHANNEL MEMBERS

Evaluation of channel performance is an important aspect of channel management. This is usually discussed in two different ways. The first adopts a macro or social perspective and asks how distribution outputs that the population as a whole or population sub segments desire. The focus is on such questions as (1) Does distribution costs too much? (2) Are there people who are disadvantaged by the current distribution system, such as those who live in rural areas? (3) How do channel members at various levels of distribution compare, in the aggregate, in terms of productivity per employee? (4) Has productivity been increasing more rapidly in manufacturing, wholeselling or retailing? By and large, answers to these questions can be found only after assessing performance on a number of dimensions, including effectiveness, equity and efficiency as among the most important, as indicated in Fig –I.

FIG –I : PERFORMANCE MEASURES IN MARKETING CHANNELS

PERFORMANCE MEASURES

EFFECTIVENESS		EQUITY	EFFICIENCY	
Delivery	**Stimulation**		**Productivity**	**Profitability**
A short term legally oriented measure of how well the channel members meet the demand for service out puts placed on them by end users	A long term goal oriented, of how well members stimulating the latest demand to reach optimal levels of demand for service outputs	The extent to which marketing channels serve problem ridden markets and market segments, or geographically isolated consumers.	The efficiency with which is generated from resources and inputs are used or extended. In essence, productivity is a measure of physical efficiency.	A general measurement of the financial efficiency of channel members, in terms of return on investment, liquidity, leverage and growth patterns and growth potential in profits, among other things.

The second way of discussing performance adopts a purely micro or managerial perspective. Interest here focuses on questions of profitability and costs relative to figuring out which channel members are solidly run, which channels seem to produce the highest returns, which suppliers/intermediaries will help a firm to generate the greatest end-user satisfaction, or which of the marketing flows is best performed by specific channel members, generate the greatest end-user satisfaction, or which of the marketing flows is best performed by specific channel members.

In an organisaiton, individual channel members should go about evaluating its own financial performance. Primary attention is focused on retailers and whole sellers, because in contrast to manufacturers, the entire business of wholesalers and retailers is devoted to distribution. In other words, whatever a retailer or wholesaler accomplishes can be directly attributed to its role as a distributor.

Evaluating Channel Members

The producer must regularly check the channel members, performance against standards as sales quotas, average inventory levels, customer deliver time, treatment of damaged and lost goods, cooperation in company promotion and training programmes, and services to the customer. The company should recognize, and reward intermediaries who are performing well. Those who are performing below the expectation should be assisted, or as a last resort replaced. A company may periodically evaluate the performance of its intermediaries and prune the weaker ones.

Finally, manufacturers need to be sensitive to their dealers. Those who treat their dealers lightly risk not only losing their support but also cause some legal problems.

To evaluate the performance of channel members, it follows some standards. A standard is a criterion against which performance results of the individual are measured, or judged. It should possess the following characteristics.

- Standards should be capable of achievement with reasonable amount of effort and time.
- Standard should concentrate on results and not on the procedures.

19.7 CONSIDERATION OF PERFORMANCE FOR CHANNEL ALTERNATIVES

Among the channel alternatives available to the company, some are profitable and others are unprofitable. A method for systematic comparison of channel alternatives is desired. The following methods are used for performance considerations of intermediaries:

i) **Ranked performance method:** In this method, important elements responsible for success of the channels are listed in order of importance to the company. In addition to this, minimum and maximum acceptance level of performance is determined for each element like product features, investment coverage, competition etc.

ii) **Cost revenue analysis:** This technique is more refined than ranked performance method. The following procedure is adopted to determine the cost revenue analysis for the company.

a) Market research is conducted to estimate revenue needed for each alternative channel.

b) Marketing costs are estimated from marketing and physical distribution costs, as commission on sales, warehousing, transportation etc.,

c) Inventory requirements and accounts receivable are projected along with manufacturing cost estimated.

d) The corporate cost of capital applied to accounts receivable and inventory carrying costs are added to inventory investment.

e) Assignable non-variable costs incurred for each segment are added to each alternative.

f) The corporate opportunity cost of capital is used as charge for all other assets required by each alternative channel structure.

g) The size of the net segment margin is taken into consideration to determine which alternative is the best option from financial performance standard point.

The above information along with estimates of future growth for each channel alternative helps to select the most profitable channel alternative.

19.8 SUMMING UP

Selection and evaluation of intermediaries is a major marketing decision for a company because, it determines the ability to fulfill the desired marketing goals. But finding the prospective intermediaries generally poses a few problems, as there are number of factors affecting their selection. There are different approaches in selecting the best combination of intermediaries. Performance evaluation of channel members is another important aspect. Different methods are used for performance evaluation of intermediaries.

19.9 CHECK YOUR PROGRESS : MODEL ANSWERS

1. The need for selecting channel member are:

   a) When a new product or product line is introduced by the company.
   b) When an existing product is limited at a new target market.
   c) When there is major environmental change.
   d) When customer services are to be provided at expected level.
   e) For exercising required degree of channel control.
   f) For fulfilling the long term commitments in market.
   g) For using marketing mix variables effectively.

2. The criteria for selecting channel member are:

   a) Product
   b) Market
   c) Technicality
   d) value of product
   e) substitutability
   f) market acceptance
   g) customer service
   h) product information
   i) speed and constancy
   j) company, customer, competition environmental characteristics etc.

3. Approaches for selecting intermediaries are:

   a) Lambert's financial approach
   b) Management science approach
   c) Mathematical approach
   d) Comprehensive operational mode
   e) Judgemental approach

19.10 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. Explain the need for selecting channel members.
2. Explain the criteria for selecting the channel members.
3. Describe different approaches in selecting the best combination of channel members.
4. Explain the consideration of performance of channel members.

II. Answer the following questions in about 15 lines each.

1. What do you mean by substitutability?
2. What are company's characteristics which influence channel decisions?
3. What is product differentiation?
4. What is geographic differentiation?

19.11 RECOMMENDED BOOKS

Philip Kotler	:	**Principles of Marketing**
Cundiff, Still and Govoni	:	**Sales Management**
J.C. Gandhi	:	**Marketing**
Louis W. Sten & Adel I. El – Ansany	:	**Marketing Channel**

19.12 GLOSSARY

Direct Distribution	:	The form of product/service from producer to user directly without involving intermediaries.
Ranked Performance	:	The elements of causes for successes of the channel are listed orderly.

UNIT – 20 : CHANNEL CONFLICT AND CONTROL

Contents

20.0 AIMS AND OBJECTIVES

The main aim of this Unit is to discuss how conflicts arise and need to be controled.

After studying the Unit, you should be able to:

- explain types of conflicts that arise in the process of distribution of goods;
- understand the causes of conflict, remedial measures to control conflict and need for cooperation among channel members; and
- discuss control issues relating to establishing standards and tools for control.

20.1 INTRODUCTION

Managing channel conflicts and control are important issues in channel management. No matter how well channels are designed and managed some conflicts re bund to arise in channel system. In this unit we examine issues related to channel conflicts and their resolutions similarly for achieving channel objectives, there should be effective control system Various aspects related to channel control are also discussed in this unit.

20.2 TYPES OF CONFLICT

The channel conflict may be grouped as three types.

i) Vertical channel conflicts
ii) Horizontal channel conflicts
iii) Multi-channel conflicts

vi) **Supra-organisational strategy:** When conflict is chronic or acute the parties may have to resort to diplomacy, mediation or arbitration. Diplomacy, takes place when a person or group from each side meets with their counterpart from the other side to resolve conflicts. Mediations refer to resorting to a neutral third party who uses his skills in conciliating the interests of two parties. In arbitration, the parties submit their dispute either voluntary or under an agreement or law to a third party whose decision is final and binding. Most of the Indian companies usually prefer arbitration.

CHECK YOUR PROGRESS –1

What is conflict? State the reasons.

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20.4 COOPERATION AMONG CHANNEL MEMBERS

The best way of preventing and resolving channel conflicts is by promoting cooperation among channel members at vertical as well as, horizontal levels. All the channel members should realize that the tasks performed by each member is complimentary to the other, and unless there is required cooperation among channel members, the marketing goals cannot be achieved.

Therefore, channel members should realize that the returns from cooperating with one another do outweigh any reasons for conflict. They must treat distribution channel as a total system. They must consider the channel as an extension of their own internal organization. As part of cooperation manufacturers should not the sort out things for retailers that they would do for their own marketing organization. Manufacturers can provide advertising aids, training for dealers, salesman, managerial assistance etc. retailers can also reciprocate by carrying adequate inventories, promoting the products and building consumer goodwill etc.

20.5 CHANNEL CONTROLLING

Control of channel operations is essential and as well as a difficult task in channel management. Control in respect of distribution channels may be defined as manufacturer's efforts to ensure that intermediaries behave with the company consumers and channel members in the manner desired by it. The extent to which a company may control its intermediaries is determined by promotion of firm's decisions, which the channel members implement. In other words, it refers to company's say and participation in channel member's decision-making process.

Effective channel control is necessary to achieve company's marketing goal. It would also discourage intermediaries to indulge in hoarding and speculative activities directed at creating artificial shortages in the market. Channel control also helps to prevent and regulate channel operations and prevent conflicts.

A company may wish to control wide-ranging activities of channel members, but it may not be possible as intermediaries are independent and resist control in some areas. Some of the areas over which control can be exercised includes resale pricing shop location, minimum order size, product-mix ordered, sales quota, dealers advertising, credit to customers, salesman training, handling competing brands, store layout, territorial selling policies etc.

20.6 ESTABLISHING STANDARDS FOR CONTROL

In order to control, it is necessary to have some measure against which we can compare the performance. If we want to establish criteria for the purpose of control it is necessary to fully understand the purpose for which these standards have to be developed.

Basically it is necessary to control

a) Channel structure
b) Channel members

Therefore standards to be established should be capable of measuring the performance of the structure and the performance of the individual channel members.

Establishing standards for channel structures

Normally we measure the performance of the system-by-system profitability. Therefore, various aspects relating to channel profitability may be used to establish standards. These aspects may be listed as under.

a) Measurement of the size of potential trading areas.
b) Sales potential for each trading area.
c) Potential for product in any trading areas.
d) Salesman required to achieve this potential. This would also require time and duty analysis.
e) The calculation of cost of getting ratio by product lines, salesmen, territories in terms of both direct and indirect costs.
f) The alternative costs.
g) The sub-division of cost estimates by various classes of customers.
h) Comparison of real figure with budgeted figures.

The entire channel system might be functioning profitability and not yet an individual channel member may not be performing according to the accepted forms of the channel. In which case he has to be controlled, otherwise the rest of the members may become deviants. We would there have an uncontrollable system on our hands. Therefore, it becomes necessary to control not only the channel system but also individual channel members.

In order to control channel members it is very important to understand the decision variables. The risk return analysis provides a comprehensive view into these variables. This would mean that the standard for measuring performance would orient themselves around these variables and can be briefly enumerated as under the transaction and movement measures:

Transactions measures	Movement measures
a) Cost of stock out	a) Total distribution cost
b) Percent of bad debt	b) Transaction cost per unit
c) Customer service level by product and by market segment	c) Warehousing cost
d) Accuracy of sales forecasting	d) Production costs
e) Number of errors in order filling	e) Percentage of absolute Inventories
f) Number of new market entered	f) Percentage of damaged merchandise
g) Percentage of sales volumes in new market	g) Percentage of stray shipments
h) Percentage of move down volumes	h) Percentage of shipment
i) Size of orders	i) less than truckload v/s truckload
j) Number of complaints	j) Less than carload v/s carload

On the basis of the above-mentioned measures, we can measure their performance often using costs. Here we must point out the fact that product and services offered are related to the costs provided and therefore, by controlling costs we can hope to control service offered for a particular product and vice-versa.

20.7 TOOLS FOR CONTROL CHANNEL MEMBERS

There exist three conventional methods for the purpose of controlling. These are: a) contract, b) power, and c) structure.

A) CONTRACT

Contract is perhaps the oldest and the most commonly used tool for control in the Indian context. Contract can be defined as, 'An agreement enforcement by law'. It may be in writing or oral or even implied. In relatively long term, commercial relationships like channel contracts, the agreement is generally put in writing so as to import clarity and avoid ambiguity.

This tool of control is most commonly used for controlling channel system. A contract as a tool for control must be very carefully drawn up. Some of the **major elements** of contracts can be enumerated as under.

i) Product Handled: The items in the line that are to be handled by exclusive wholesaler or retailers must be clearly delineated. If they are not clearly delineated then the firm would not have clear picture of how its products are moving in the market.

ii) Classes or types of customers to be covered: Agreements regarding who is responsible for various types of customers be arrived at to prevent dysfunctional conflicts. Thus for example H.C.L manager handles large accounts (for sales purpose) on his own whereas smaller accounts are handled by their channels members.

iii) Territory to be covered: Geographical territories must be clearly specified which must include, if possible, names and number of out tents. If this is not undertaken and another channel member encroaches into a channel members territory then sales related commission cannot be allocated without making an issue of it.

iv) Inventory level to be carried: The equation of inventory to be held at each level or by each member has to be clearly specified. The place where they have to be held has also to be clearly specified. Buy back arrangements if any, must be spelled out in clear items. This is done to avoid hoarding and creating artificial scarcity within a given market place.

v) Installation & Repairs services to customers and replacement of products: This is relevant for durable goods in both industrial and consumer sectors. Here questions about handling warranties and guarantees is crucial. The rights and obligations of suppliers and distributors must be very clearly specified in terms of resources both monetary and personnel. Normally the issues that arise are who is going to bear the cost of maintenance, if the manufacturer is going to bear the cost how will the channel member recover such costs.

vi) Prices and Margins: Price guarantee and margin guarantee must be very clearly spelt out, in order to ensure proper support from channel members.

vii) Advertising & Sales promotion obligations: Advertising and sales promotion obligations must be spelt out in terms of how much money will be spent in local advertising both by distributors and company. This can be fixed as a percentage of sales subject to certain constraints, which again must be spelt out. Also the amount to be spent on interior decoration of the shops, and other display agreements must be clearly defined. This issue is similar to the issue of warranty or maintenance contract.

viii) Sales Quotas: Sales quotas are normally fixed keeping in mind the realistic conditions existing in the market and the economy as a whole. Data is also maintained regarding the past performance of each member. This helps in knowing how each individual channel member is performing, and also for further sales forecasting.

ix) Duration of the contract period: Terms of renewal and cancellations must be very clearly decided upon and specified. For, as the environment changes the terms and conditions must also change and it becomes necessary to define the term. Also if the channel member continues to be deviant then it becomes necessary to terminate that member. The term period of tenure could be used as a tool to achieve this objective.

x) Mode of payments: Payment terms and conditions must also be specified in the beginning if possible. If this is not undertaken than cash planning will become an issue and also there will be no coordination amongst various channel members.

These and many other elements must be very clearly spelt out in the contract.

B) POWER

Power is another tool available for controlling the channel of distribution. Power arises out of the dependency of one member on another such that either one of them or both members are capable of affecting the achievement of objectives of the others.

The following power tools focus upon the sources they arise from:

i) Reward power

ii) Coercive power

iii) Referent power

iv) Legitimate power

v) Expert power

However the most commonly used sources of power in the Indian conditions are a) Reward power, and b) Coercive power. Let us, therefore, explain further the powers used most frequently.

i) Reward power

Reward power arises when one member possess the ability to grant other members some thing of value which helps in achieving his goals. Thus for example, when the company decides to assign a greater sales quota for a particular retailer on a premium product in shortage, then it has exercised reward power.

However, the drawback of this tool is that it loses its significance if it is continued. Discounting initially was such a tool but today it is accepted as normal business practice. This drawback leads us to the next source of power and that is:

ii) Coercive power

Coercive power is said to be exercised when normal rewards are withheld. It is a sort of a punishment given to the member i.e, the sanctions granted to a member are of a negative nature.

In the Indian context this is more commonly used source of power. The company carrying premium products has open to it a large number of takers and when it chooses to remove any client from its priority list then it has exercised this power.

The above example hold valid even in case for dealers who do no get desired quotas in times of shortages.

The above two types of power are normally in the contract of the manufacturer. However, in a channel any member of it may, through the dynamics of channel operations assume power or drive it from the uniqueness of his own position. Thus middlemen or wholesaler or retailers in market situation may assume a position of power.

This brings us to the next aspect of the problem and that is how manufacturers, wholesalers and retailers derive this power in reality.

The Manufacturer

Manufacturer derives his power from the following factors:

a) **Product Specialisation**: The manufacturer because of product specialisation can be command a lot of power especially if his product has good market acceptability and also when he manufacturers a product which has a demand greater than supply. The manufacturer is then sought after both by wholesalers and retailers. This gives the manufacturer considerable clout in bargaining.

b) **Size:** Size of the producer also accounts for his sphere of influence that he exercises. If the financial resources available to the manufacturer are of a large order then he becomes a force to reckon with for he has the alternatives of generating captive outlets. When wholesalers and the retailers perceive that this option exists there is power for the manufacturer. Power also arises for the manufacturers when they create a brand image or a company image.

In India it is the public limited companies with acceptable products who wield maximum power and use this power in designing the channel system.

The Wholesalers

The wholesalers in the Indian context derive their power from the following factors:

a) **Market proximity:** The wholesalers are uniquely placed in the distribution system such that they know what the manufacturers have in mind and also what the market demands through their retailers. It is through this information that they gain some degree of power within the channel system. Thus because of the their unique position in the distribution system they gain power through the information they possess.

b) **Number:** In some areas where wholesalers are not easily available both the manufacturer and retailers are forced to deal with specific members, if they decide to enter in to that area or product range. This affords the wholesalers a better bargaining position with reference to transactionary objectives of both manufacturer and retailer.

c) **Size:** Size is yet another base available to wholesalers. Often size is reflected in financial strength and employees strength.

Some of the wholesalers provide supplemental services like backward and forward inventory financing, while others provide sales support facilities to the manufacturer and retailers. This places them in a unique position where other members become virtually dependent on them or their sales forces to achieve their objectives. Thus they occupy a position of considerable power within the channel system.

d) **Continuity and Intimacy with market:** The wholesalers have an acute understanding of costs associated with inventory because of their tasks and past experience. Besides this the wholesalers have the advantage of specialization and local entrepreneurship which allows them to focus on marketing issues without getting involved with production aspects and therefore, they occupy a position where it is relatively easy for them to influence the manufacturer and the retailer. The wholesalers in India represent a very powerful community because many producers are small and the consumers are widely scattered. This puts them in a position, which allows them to co-ordinate the activities of both the producers and the retailers.

The Retailers

In the Indian context the retailers derive their power sources from any one or more of the following factors:

a) **Market proximity:** In the distribution link it is the retailers who is closes to the consumers, therefore, he is in a position to gather market information and, therefore, he derives expert power through this information. It is through this that the retailer can influence the objectives of the manufacturer and the wholesaler because they cannot frame their sales forecast for their next period without this information. They become dependent on the retailers for this information and it improves the retailer's bargaining power vis-à-vis the manufacturer and the wholesalers.

b) **Local monopoly:** This refers to geographical location of the retailer, the clienteles handled and product line handled by the retailer.

For distribution of a product in any given area the manufacturer must approach a given set of retailers either directly or through a wholesaler. Thus the manufacturer becomes dependent on that set so far as distribution of his product in that area.

Customer Franchise

Since a particular retailers possess a goodwill in the market and handles a large volume of goods, each manufacturer would like to include him as a part of his distribution system. The manufacturers would have to compete with one another for the limited shelf space and display area available in these retailer's shops. This power gives a better bargaining position to the retailers.

Also in the Indian context specially in the rural areas the retailers also help their clients by granting finance and helping them in the marketing activity. Thus they develop a fixed clientele, which can be captured only through these retailers. In such cases the retailers have absolute power to affect the market they cater to and the manufacturer is dependent on them to move his products. All these factors give the retailers a certain power also known as franchise power.

Private labels

Another means available to the retailers for obtaining a better bargaining position vis-à-vis the manufacturer is that the retailer has the option of developing a private brand or private label and through this a set of permanent clientele.

This mode is not very popular in India. Although we do have some such members. An example is S.Kumars, which is basically a retailing firm, which sells fabrics made by various manufacturing firms.

This is yet another mode available to retailers for gaining power within the distribution system. Retailers by grouping together and forming a society or by integrating themselves backward can draw upon his power. Although this mode is used profusely in India this does not affect individual retailer's position but rather affects a class of retailers. This mode loses its significance for individual retailers because transactionary impact on individuals is insignificant.

All these explain the various bases of power available to the retailers for drawing powers.

Here it must be pointed out that so far there is hardly an example to show that in India retailers have made use of their power in the channel to affect a channel change. In the Indian context the use of their power base has been limited to affect better contractual terms.

C) STRUCTURE

The third tool available for control is the structure of the system itself and also the structure of the intermediary situation. This point has already been reiterated that longer the channel lowers the control; also the larger the number of members lower the control. This rule also is applied within the individual institutions. If the institution does not have a clearly defined authority structure then it is most likely to be manipulated by the outsiders and the environment.

Having discussed the available tools the actual control would be a function of specific situation i.e., any member would use any of the tools available to him to get what he wants i.e, the manufacturer would generally use his tools to achieve his channel goals.

CHECK YOUR PROGRESS –2

State the tools for control channel members.

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20.8 RECOGNISED CONTROL PROBLEMS

In order to control one must know where the problem lies. Normally problems are reflected in poor profitability of either the controlling institution or other member institution. It is for this reason that the most commonly advocated approach for information gathering is ratio analysis. Normally the problem identification process starts with ratio analysis and since the purpose of ratio analysis here is control, we begin with identifying major controllable variables that affect the profit function.

It has been pointed out by authors that controllable return on net worth is a function of a) net profit b) asset turnover c) financial leverage d) financial coverage.

However these ratios work only at the macro level to broadly define where the problem might i.e if we have to get down to a macro-level view, we must again redefine our controllable variable.

Some of the other controllable variables may be:

a) Inventory
b) Accounts receivables
c) Account payables
d) Percentage of market captured
e) Turnover to employee
f) Customer to employee
g) Customer to cost ratio
h) Product to cost ratio
i) Territory to cost ratio
j) Sales to cost ratio

Of all these ratios the most significant work..g capital ratios are the inventory turnover ratio, account payable and account recoverable.

Inventory turnover ratio

It gives a brief idea about the operating cycle of a firm i.e., how many times is inventory converted into sales during a particular year. If this ratio performance is lower than last year's then we say that our performance is falling i.e., we have not been able to generate adequate sales during the year in relation to our product in function or purchase function.

Another important aspect of this ratio is that it shows the time taken for goods produced to be turned into cash in other words. It gives us a brief idea of the period for which the goods remain within the distribution system. (Also it points out the degree of accounts receivable we will have, which must always be kept lower than this cycle).

This concept can also be applied to a particular product class. There by, we have an idea about how each product is performing. Applying this conceptual distribution point we can have a clear idea about product acceptability within a particular segment.

Accounts Receivable (A/R)

This ratio tells us what quantum of money is outstanding and for how long managing accounts receivables is very important towards off the liquidity risk.

Accounts Payable (A/P)

This ratio gives us a clear picture of the amount of Money payable and how often these payments have to be made. Managing this ratio is also important for controlling the liquidity risk. Normally a businessman tries to match the inflow and outflow of his cash and therefore he must also co-ordinate between his A/R and A/P.

These are the major ratios, which have derived their significance from working capital management and therefore may be used to manage the liquidity risk and to some extent the business risk.

Cost/Customer and cost/product are other capital measures. Territory cost ratio and sales cost ratio, analysis- the capital productivity and problem associated with the use of capital. However, we are also interested in analyzing the labour productivity and recognizing where the problem lies in labour productivity.

For analyzing the labour productivity we use the following ratios:

a) Turnover of Employee

$$\frac{\text{T.O.}}{\text{No. of Employees}}$$

This ratio indicates how many employees are required to achieve the given level of Turnover. This helps in 2 ways.

i) By helping us in predicting future employee relation ship and

ii) For control purposes, by knowing the turnover per man, we can employee with past performance.

b) Customer to employees

$$\frac{\text{No. of Customers}}{\text{No. of Employees}}$$

This ratio indicates the number of employees necessary to serve a given a set of clientele within the assumption of geographical layout.

Order to Employee ratio

$$\frac{\text{No. of Orders}}{\text{No. of Employees}}$$

This ratio is necessary to know the number of employees necessary to serve the number of employees necessary to serve given set of orders. For this geographical boundedness prevails. This is often compounded with the ratio of order to customers.

There are some other ratios to measure the system effectiveness. They may be listed as under.

a) $\frac{\text{No. of Order received}}{\text{No. of Orders shipped}}$

b) $\frac{\text{No. of Orders received}}{\text{No. of Orders wrongly shipped}}$

c $\frac{\text{No. of Orders received}}{\text{No. of complaints received}}$

d) No. of customers serviced to number of complaints received.

e) Cost of complaint servicing.

f) Time of complaint servicing.

Dynamic of channel control

Channel control is a dynamic process the dynamic of channel system may change from time to time due to changes from time to time, due to changes in the structure, power and environment. So far, we have discussed mainly about controlling from manufacturer point of view over channel members. But, if channel members are powerful and inevitable, the control may be exercised the other way thus dynamics of control depends on shift in power from manufacturer and wholesalers to retailer. Therefore, channel control should be looked upon as an interesting and dynamic process.

20.9 SUMMING UP

Channel conflict means the misunderstanding among channel members and misunderstanding between management and the channel members. The conflict is of three types. These are vertical channel conflict, horizontal channel conflict, and multi-channel conflict. There are many causes of channel conflict. Adapting cooperative methods can control these conflicts. This unit also explains the concept of the channel as a system and evaluation and control of the different components of the system.

20.10 CHECK YOUR PROGRESS : MODEL ANSWERS

1. The conflict refers to the means of disagreement or misunderstanding among the channel members and between the management and the channel members.

For this there are many reasons as stated here:

a) goal incompatibility
b) role ambiguity
c) difference in perceptions of the market.

2. The tools for controlling channel members are:

a) Contract : Product handled, types of customers, price and margins, advertising and sales promotion obligations, duration of contract, payment modes etc.
b) Power: Reward power, referent power, expert power etc.
c) Structure : System structure, intermediary structure, individual structure etc.

20.11 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. Explain the different types of conflicts?
2. Discuss the reasons for conflict?
3. Explain the remedial measures to control channel conflict?
4. What are the tools of control? Explain.

II. Answer the following questions in about 15 lines each.

1. What is a conflict?
2. What is Horizontal conflict?
3. What do you mean by multi-channel conflict?
4. What do you mean by channel co-operations?

20.12 RECOMMENDED BOOKS

Philip Kotler : **Principles of Marketing**

Cundiff, Govoni & Still : **Sales Management**

J.C. Gandhi : **Marketing**

Louis W. Sten & Addl EL Ansong : **Marketing Channel**

Biplab. S. Bose : **Hand Book of Marketing**

20.13 GLOSSARY

Conflict : Contradiction between the management and employee or among the employees so on.

Contract : An agreement enforced by law, it may be in writing or oral.

Power : Is a tool for controlling the channel of distribution.

UNIT – 21 : MANAGING THE DEALER NETWORK

Contents

21.0 AIMS AND OBJECTIVES

This unit aims at explaining various issues involved in the management of dealer network, which is a vital part of marketing of goods and services.

After going through this unit, you will be in a position to understand:

- role and importance of dealer network in the channel setup;
- know the selection of dealers;
- discuss the aspects of dealer's motivation; and
- understand the need of dealer training and development.

21.1 INTRODUCTION

So far, we have discussed about role and importance of various intermediaries in the distribution of products in the market. Among intermediaries, dealers at retail level form a crucial part of distribution system. In order to penetrate into markets, companies have to operate through wide network of dealers. In this unit, various issues related to managing dealer network are discussed.

21.2 ROLE AND IMPORTNACE OF DEALER NETWORK

In many marketing situations, dealer plays a very important role in the marketing effort. Since dealer's interaction with consumer results in sales, dealers performance and cooperation forms a determining factor for the marketing success of a company. Many times, even if the company offers a good product and spends on promotion effort, it may not be translated in to sales if the dealer is weak and the competitor's dealers are strong.

The dealer in a particular locality can become a force to reckon as he knows the customer's needs, local conditions and expected services better than the company itself. Naturally, he can influence the consumer is decision and provide required services. He can not only retain the existing customers but also can attract a stream of new customers. With his cooperation, the firm can generate sales from existing and new customers at a progressively lesser unit cost. Especially, as competition gets tougher, it is the dealers who provide the cutting edge. Earlier, there were few brands in the market. But now, markets are flooded with large number of competing brands. For promotion and survival of brands in the present competitive scenario, the dealer plays a vital role.

To day, dealer is not a mere 'out let' for selling goods and services. He plays an important role in market penetration, market development, merchandising, promotion, new product launching, customer relationship management and host of marketing tasks of a company. That is why business firms are increasingly paying more attention for developing and managing effective dealer network.

21.3 MANAGING DEALERS NETWORK

Since most of the companies distribute their products through wide network of dealers, several managerial issues in the day to day management of dealers assumes great importance in channel management. Management of dealer network includes dealer servicing, dealer compensation, dealer training and dealer development. If all these issues are properly managed, it results in superior loyalty of dealers. A firm that is able to win the dealer loyalty will usually get a bigger market share.

However, management of these issues is not that easy. The fact that dealers are spread over large marketing territory and also that dealers are independent business entities add problems of communicating and controlling in the management of dealer network. More important one is motivating the dealers and keeping them happy which is always a challenging task to the companies.

Several components in the management of dealer network are as follows:

a) Determining the trade relations between the business firm and dealer
b) Servicing the dealer
c) Securing shelf space and merchandising support from dealers
d) Motivating the dealers
e) Dealer training and development
f) Resolving conflicts.

CHECK YOUR PROGRESS –1

State the elements of management of dealer network.

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21.4 MANAGING TRADE RELATIONS WITH DEALERS

The trade relations between the business firm and the dealer are governed mainly by the following factors:

a) Territory of operation of dealers
b) Compensation/margins to dealers
c) Functions to be performed by dealer towards business firm
d) Functions to be performed by business firm towards dealers.

These are further discussed below:

a) Territory of operation

One important issue is whether a dealer can be assigned with specified territory for marketing operation or not. Generally, in case of fast moving consumer goods (FMCG) like soaps, biscuits, cigarettes, oils etc., manufacturing firms assign territories to wholesale traders like distributors, stockiest, C & F agents etc., for retail distribution, they may not impose any territory restrictions to dealers. Typically, FMCG products are extensively distributed through every possible retail outlets as the customers expect them at their door step. But, in case of consumer durables like TV's, Two wheelers, steel almirahs etc., marketers prefer to operate through limited number of dealers/retailers in a territory. Usually, in such situations, territories are assigned to dealers. Even where territories are not assigned exclusively an understanding is often worked out.

In some cases, manufacturers may directly supply products to customers on their request, bypassing the dealers/wholesalers who are assigned with that territory. In such cases, some times manufacturers allow some commission for such sales and some times they may not allow any such commission. It is always better, if the firm develops a policy of territorial assignment to dealers, and terms and conditions for such agreement.

b) Trade margins/compensation to dealer

Trade margin/dealer margin is the prime element in dealer principal relations. Dealers generally look for a juicy margin which allows good profit margin in their trade. The business firms, on the other hand try to manage with modest margins, as higher margins will hike distribution costs. One point to be remembered while deciding the margins is that the margin must be sufficient to enable the dealer to gain a reasonable return on investment.

In recent times, dealers are expecting higher margins than what they were expecting earlier. Main reasons for such high expectations are:

i) They are investing more on trade infrastructure (shop layout, decoration, renovation etc.,) and training sales people.

ii) Due to increased competition, selling is becoming tough.

iii) Profit expectations of new generation dealers are high.

In view of higher expectations of dealers, manufacturers are forced to settle for a higher out flow on dealer margins. They are also required to collaborate with their dealers and help them achieve a larger turnover and greater retailing productivity so that at a given level of trade margin, their retained earnings are higher.

In the matter of deciding margins, it is important to see how total quantum of margin is structured and allocated among different levels in the channel because in many cases companies suffer because of poor structuring of margins among various channel levels.

c) Functions to be performed by Dealers

The functions to be performed by dealers are generally determined by agreement between the firm and dealer and also the existing trade practices followed by dealers. Generally dealers have to perform the following functions.

i) Facilitate selling by being close to customers.

ii) Provide distribution efficiency by linking manufacturer with user efficiency and economically.

iii) Break the bulk and cater to the requirements of buyers

iv) Assemble products in the assortments to meet buyer needs.

v) Share financial burden of the principle-provide deposits, finance stocks and external credit to customers.

vi) Provide pre-sale and after sale service to customers.

vii) Assist in sales promotions.

viii) Assist in merchandising.

ix) Assist in introducing new products.

x) Assist in implementing price mechanism.

xi) Provide market intelligence and feed back.

xii) Help to achieve sales targets.

xiii) Provide adequate shelf space.

The scope of these functions and other specific requirements should be made clear through return agreements or implicit, and understandings or implicit, and understatings between dealer and manufacturer.

d) Functions to be performed by business firm towards dealers

The business firms also will have to perform certain functions towards dealers. The important functions which the dealer expects the principals to performs are:

6. Sales training

Sales training may be imparted to the sales man of the dealers.

7. Direct enquires

Some times companies may receive direct enquires to supply products. Such enquiries may be redirected to the concerned dealer or credited to his account when entertained.

8. Credit facilities

Some times, credit facilities may be extended to dealers to finance their marketing activities.

9. Communication

Maintaining effective communication with the dealers is another element of dealer motivation. Company news letters, direct mailing, dealers meetings and other such measures may help to build good communications. Such communication will help to create better understanding between the company and dealers.

21.8 PERFORMANCE APPRAISAL OF DEALERS AND DEALER NETWORK

Performance appraisal of every dealer is another important aspect of dealer management. Performance appraisal serves as the basis for offering incentives, extending dealership or even terminating the dealership. It will help to identify the strengths and weaknesses of dealers. It will also indicate the areas in which dealer has to improve his performance.

Any performance appraisal has to be based on pre-agreed standards of performance. The standards agreed upon may vary from company to company, product to product and situation to situation. However, achievement of sales target is the main criteria in every case. But, ranking made solely on this criteria may not always reflect the contribution of the dealer. The fact that dealers face varying environments in their operation should be taken into account while appraising their performance.

The common aspects considered for performance appraisal **criteria** for dealers are

1. Sales volume
2. Market share
3. Sales intensity
4. Storage space provided
5. Inventory holding support
6. Quality of services provided to consumers
7. Enrolment of new accounts
8. Market intelligence support
9. Promotion support
10. Prompt payment
11. Maintenance of business records
12. Promptness in submission reports
13. Public relations

Performance can be measured usually against quantitative targets assigned. In addition, customer surveys may also be conducted to evaluate the quality of services provided by the dealer.

Apart from evaluating the performance of individual dealers, the firm must also review the performance of the entire dealer network from time to time. Such review helps in identifying the weaknesses in the dealer network. The following could be the **weaknesses** of dealer network.

1. The network size is inadequate size.
2. The network is not properly spread over.
3. The interior markets are not adequately covered.
4. A part of the network is inactive.
5. Few links in the network are not viable.
6. The network is excessive to be properly managed.

The weaknesses identified must be properly analysed and attended to if the dealer network has to serve as a vital instrument of marketing.

CHECK YOUR PROGRESS – 4

What is the criteria for dealer performance appraisal?

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21.9 DEALER TRAINING AND DEVELOPMENT

Dealer training is an integral part of channel management. Training helps the dealers to sharpen their selling skills and product knowledge. Ultimately it returns in improved dealer performance.

The main purpose of training is to impart to the dealers the knowledge about customers, products, competition, merchandising, sales techniques, inventory management, credit management, sales promotion etc. The training programmes should be structured to suit the background of dealers and the contextual requirements.

The training could be conducted as in house programme or through professional training institutes.

Period of training, frequency of training, place of training, contents, methodology etc., are other aspects of managing dealer training programmes. It is also necessary to evaluate the effectiveness of training programmes and improve them from time to time.

21.10 RESOLVING CONFLICTS

Some times, there may be unhealthy competitions and conflicts among the dealers of a firm. There could be reasons like encroaching into other's territories, under cutting of prices and other unhealthy trade practices. The firm should try to take care for reducing the scope for such conflicts through clear cut alignment of market segments/territories to dealers. When conflicts occur, the firm should try to resolve them in a fair and firm manner. It is also necessary to see that dealers are not lost in the process of such settlements. Management of channel conflicts is already explained in earlier unit in detail.

21.11 SUMMING UP

Dealers play a crucial role in the channel system. Since dealers' interaction with customers results in sales, their performance and cooperation are crucial to the success of a company. Many companies aiming at extensively distributing their products, maintain wider network of dealers. Day to day management of such dealers' network forms an important task of channel management. From a company's point of view, managing dealers network includes several components like determining trade relations, servicing of dealer, securing shelf space and merchandising support, motivation of dealers, dealer training and development, resolving dealer conflicts etc.

Determining and maintaining trade relations with dealers mainly includes aspects like – fixing trade margins to dealers, territory of operation, functions to be performed by dealer and functions to be performed by the firm towards dealers. Servicing dealers is an important aspect as many dealers rate the firms on the basis of services rendered.

The companies also must strive to secure shelf space and merchandising support from dealers through offering several incentives. To secure dealer cooperation and loyalty, they should be adequately and continuously motivated by offering attractive margins and other incentives. Appraisal of performance of dealers and dealer network in terms of agreed criteria helps company to identify weaknesses of dealers and dealer network. Dealers also must be trained adequately to develop necessary trade and selling skills. The company should also try to resolve the conflicts that may arise among dealers in a fair way.

21.12 CHECK YOUR PROGRESS : MODEL ANSWERS

1. The elements of management of dealer network are:

   a) Determining the trade relations between the business firm and dealer
   b) Servicing the dealer
   c) Securing shelf space and merchandising support from dealers
   d) Motivating the dealers
   e) Dealer training and development
   f) Resolving conflicts.

2. The factors considered in trade relations between the business firm and dealers are:

   a) Territory of operation of dealers
   b) Compensation/margins to dealers
   c) Functions to be performed by dealer towards business firm
   d) Functions to be performed by business firm towards dealers.

3. The elements/components of motivating the dealer are as follows:

   a) trade margins, b) dealer margins, c) visits by sales force, d) dealer advisory council, e) co-operation advertising, f) sales training, g) direct enquiries, h) credit facilities, i) communication.

4. The criteria for dealer performance appraisal are:

   a) Sales volume, b) Market share, c) Sales intensity, d) Storage space provided, e) Inventory holding support, f) Quality of services provided to consumers, g) Enrolment of new accounts, h) Market intelligence support, i) Promotion support, j) Prompt payment, k) Maintenance of business records, l) Promptness in submission reports, m) Public relations

21.13 MODEL EXAMINATION QUESTIONS

I. Answer the following questions in about 30 lines each.

1. Discuss the role and importance of dealers in the channel system.
2. What are the main elements deciding trade relations between a company and dealers? Explain.
3. Discuss different methods used to motivate dealers.

II. Answer the following questions in about 15 lines each.

1. What are the functions to be performed by a firm towards its dealers?
2. Explain the criteria that can be adopted for appraisal of dealers performance.
3. Discuss the need for securing shelf space of dealers.
4. Discuss the reasons for conflicts among dealers.

21.14 RECOMMENDED BOOKS

Rama Swamy V.S and Namakumari : **Marketing Management**

Gandhi J.C. : **Marketing**

Louis W. Stern and Adel I El Ansang : **Marketing Channels**

Philip Kotler : **Principles of Marketing**

21.15 GLOSSARY

Dealer network : Having number of dealers to a company to distribute their products through wide network of dealers.

Trade margin : The company allows good profit margin in their trade to distribution of goods.

Credit facility : Is a motive for the company's to assists the dealers by offering credit facility to extended their marketing activities.

DR. B.R. AMBEDKAR OPEN UNIVERSITY

SALES AND DISTRIBUTION MANAGEMENT

B. COM., III YEAR

SYLLABUS

BLOCK – I	:	**BASICS OF SALES MAANGEMENT**
Unit – 1	:	Introduction to Sales Management
Unit – 2	:	Functions of Sales Management
Unit – 3	:	Personal Selling
Unit – 4	:	Selling Methods
BLOCK – II	:	**SALES ORGANISATION AND PLANNING**
Unit – 5	:	Concept and Structure of Sales Organisation
Unit – 6	:	Sales Promotion
Unit – 7	:	Sales Forecasting Techniques
Unit – 8	:	Sales Budgeting and Control
BLOCK – III	:	**SALES FORCE MANAGEMENT**
Unit – 9	:	Concept of Sales Force
Unit – 10	:	Structuring the Sales Force
Unit – 11	:	Recruitment and Selection
Unit – 12	:	Training and Compensating Sales Force
BLOCK - IV	:	**DISTRIBUTION MANAGEMENT**
Unit – 13	:	Concept of Distribution
Unit – 14	:	Role and Importance of Channel Distribution
Unit – 15	:	Classification of Distribution Channels
Unit – 16	:	Physical Distribution
Unit – 17	:	Distribution System in India
BLOCK – V	:	**CHANNEL DECISIONS**
Unit – 18	:	Role and Importance of Intermediaries
Unit – 19	:	Channel Selection and Evaluation
Unit – 20	:	Channel Conflict and Control
Unit – 21	:	Managing the Dealer Network

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UNDER GRADUATE COURSE – B.COM., III YEAR

GROUP – C(II), PAPER - 4

COURSE: SALES AND DISTRIBUTION MANAGEMENT

ASSIGNMENT – I

N.B.

1. Do not copy the answer directly from any of the books.
2. As far as possible try to answer the questions independently in your own words.
3. If it is necessary to quote from any source, give the correct reference.
4. Use your own foolscap pages for writing the assignment.
5. Leave sufficient margin for the comments of the evaluator.
6. Completion of this assignment normally should not take more than two hours time.

SECTION – A

I. Answer the following questions in about 30 lines each.

1. Define sales management? Explain its importance.
2. What is personal selling? State the steps involved in personal selling.
3. Explain various types of sales organisation?

SECTION – B

II. Answer the following questions in about 15 lines each.

1. What are the functions of sales management?
2. Discuss the various methods of selling.
3. What do you mean by sales promotion? Explain sales promotion tools/strategies.

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UNDER GRADUATE COURSE – B.COM., III YEAR

GROUP – C(II), PAPER - 4

COURSE: SALES AND DISTRIBUTION MANAGEMENT

ASSIGNMENT – II

N.B.

1. Do not copy the answer directly from any of the books.
2. As far as possible try to answer the questions independently in your own words.
3. If it is necessary to quote from any source, give the correct reference.
4. Use your own foolscap pages for writing the assignment.
5. Leave sufficient margin for the comments of the evaluator.
6. Completion of this assignment normally should not take more than two hours time.

SECTION – A

I. Answer the following questions in about 30 lines each.

1. Answer the concept of sales force in detail.
2. Discuss the need and importance of recruitment of sales force.
3. Define the concept of distribution? State its objectives.

SECTION – B

II. Answer the following questions in about 15 lines each.

1. What are the steps involved in sales organisation structure.
2. Discuss the various methods of training sales force.
3. What are the factors, which determine the choice of channel? Discuss.

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UNDER GRADUATE COURSE – B.COM., III YEAR

GROUP – C(II), PAPER - 4

COURSE: SALES AND DISTRIBUTION MANAGEMENT

ASSIGNMENT – III

N.B.

1. Do not copy the answer directly from any of the books.
2. As far as possible try to answer the questions independently in your own words.
3. If it is necessary to quote from any source, give the correct reference.
4. Use your own foolscap pages for writing the assignment.
5. Leave sufficient margin for the comments of the evaluator.
6. Completion of this assignment normally should not take more than two hours time.

SECTION – A

I. Answer the following questions in about 30 lines each.

1. What do you mean by physical distribution? State its elements.
2. How channel distribution important? Discuss.
3. What is the role of wholesaler?

SECTION – B

II. Answer the following questions in about 15 lines each.

1. Write a brief note on distribution system in India.
2. What are the causes for channel conflict? And suggest the remedial measures.
3. How do you maintain dealer motivation? Explain the main elements.

DR. B. R. AMBEDKAR OPEN UNIVERSITY

B.COM., III YEAR (GROUP – C(II): PAPER – 4)

SALES AND DISTRIBUTION MANAGEMENT

MODEL QUESTION PAPER

Time: 3 Hours **Max. Marks : 100**

SECTION – A (4 × 15 = 60)

Instructions to candidates:

i) Answer any **FOUR** of the following questions in about 30 lines each.

ii) Each question carries **15** marks.

1. Define sales management? Explain its importance.
2. What is the role of personal selling in Marketing?
3. Discuss the various techniques of sales forecasting.
4. What are the objectives of sales organization structure?
5. Explain the various policies of recruitment and selection.
6. Define distribution? Explain the managerial issues of distribution.
7. How channel intermediaries can improve efficiency of exchange process?
8. What are the reasons for channel conflict? Explain remedial measures.

SECTION – B (5 x 8 = 40)

Instruction to candidates:

i) Answer any **FIVE** of the following questions in about 15 lines each.

ii) Each questions carries **8** Marks.

9. What are the qualities should have a sales manager?
10. What are the functions of sales management?
11. Explain the methods of personal setting?
12. Define sales promotion?
13. What is training? State its objectives.
14. How distribution is important?
15. What are the functions of wholesaler?
16. Discuss the criteria for selecting channel member's.
17. What is the role of transportation in physical distribution?
18. Explain the reasons for conflicts among the dealers.