MBA Third Year

(Marketing) Paper I

SALES AND DISTRIBUTION MANAGEMENT

मध्यप्रदेश भोज (मुक्त) विश्वविद्यालय — भोपाल

MADHYA PRADESH BHOJ (OPEN) UNIVERSITY - BHOPAL

COURSE WRITERS

Dr Jayant Sonwalkar, Vice Chancellor, MP Bhoj Open University, Bhopal, and Former Professor, Institute of Management Studies, DAVV, University of Indore

Dr Chandan Maheshkar, Senior Consultant, Centre for Internal Quality Assurance (CIQA), Madhya Pradesh Bhoj (Open) University, Bhopal, and Former Research Fellow, Management, Directorate of Distance Education (DDE), University of Indore

Vimi Jham, Former Associate Professor - IMT, Ghaziabad

Siddharth Anantharam, Retired Vice President (Marketing & Operations), Indian Subsidiary of Coal & Oil DMCC

Jaspreet B Chandok, Faculty MBA, New Era Institute of Professional Studies, Delhi

Dr Aanchal Amitabh, Former Head and Associate Professor, Department of Management, SRM University, Modinagar, UP

Published by Registrar, MP Bhoj (Open) University, Bhopal in 2020

VIKAS

Vikas® is the registered trademark of Vikas® Publishing House Pvt. Ltd.

VIKAS® PUBLISHING HOUSE PVT. LTD.
E-28, Sector-8, Noida - 201301 (UP)
Phone: 0120-4078900 • Fax: 0120-4078999
Regd. Office: A-27, 2nd Floor, Mohan Co-operative Industrial Estate, New Delhi 1100 44
• Website: www.vikaspublishing.com • Email: helpline@vikaspublishing.com

SYLLABI-BOOK MAPPING TABLE

Sales and Distribution Management

Syllabi	Mapping in Book
Unit-I: Nature and Scope of Sales Management; Setting and Formulating Personal Selling Objectives; Recruiting and Selecting Sales Personnel.	**Unit-1:** Overview of Sales Management **(Pages 3-41)**
Unit-II: Developing and Conducting Sales Training Programmes; Designing and Administering Compensation Plans; Motivating Sales Personnel.	**Unit-2:** Compensation, Training and Motivation **(Pages 43-70)**
Unit-III: Sales Meetings and Sales Contests; Designing Territories and Allocating Sales Efforts; Objectives and Quotas for Sales Personnel; Developing and Managing Sales Evaluation Programme; Sales Cost and Cost Analysis.	**Unit-3:** Sales Evaluation and Cost Analysis **(Pages 71-99)**
Unit-IV: An Overview of Marketing Channels, their Structure, Functions and Relationships; Channel Intermediaries -Wholesaling 'and Retailing; Logistics of Distribution; Channel Planning, Organisational Patterns in Marketing Channels; Managingr Marketing Channels.	**Unit-4:** Overview of Marketing Channels **(Pages 101-170)**
Unit-V: Information System and Channel Management; Assessing Performance of Marketing Channels; International Marketing Channels.	**Unit-5:** Evaluation of Marketing Channels **(Pages 171-201)**

CONTENTS

INTRODUCTION 1

UNIT 1 OVERVIEW OF SALES MANAGEMENT 3-41

1.0 Introduction
1.1 Objectives
1.2 Nature and Scope of Sales Management
 1.2.1 Scope of Sales Management
 1.2.2 Importance of Sales Management
 1.2.3 Sales-related Marketing Policies
 1.2.4 The Sales Management Process
 1.2.5 Management
 1.2.6 Nature and Responsibilities of Sales Management
1.3 Setting and Formulating Personal Selling Objectives
1.4 Recruiting and Selecting Sales Personnel
 1.4.1 Organization for Recruiting and Selection
 1.4.2 Selection of the Salesperson
1.5 Answers to 'Check Your Progress'
1.6 Summary
1.7 Key Terms
1.8 Self-Assessment Questions and Exercises
1.9 Further Reading

UNIT 2 COMPENSATION, TRAINING AND MOTIVATION 43-70

2.0 Introduction
2.1 Objectives
2.2 Developing and Conducting Sales Training Programmes
 2.2.1 Content of Training
 2.2.2 Methods of Training
 2.2.3 Evaluation of Training Programmes
 2.2.4 Objectives of Sales Training
2.3 Designing and Administering Compensation Plans
 2.3.1 Compensation of Salesforce
 2.3.2 What is a Pay Structure?
 2.3.3 Defining Features of a Pay Structure
 2.3.4 Objectives of Salesforce Compensation
 2.3.5 Types of Compensation Plans
 2.3.6 Finalising Compensation Plans
 2.3.7 Plans for the Expense of Salesforce
2.4 Motivating Sales Personnel
 2.4.1 Theories of Motivation
 2.4.2 Impact of Motivation on Sales Productivity
 2.4.3 Motivation and Career Stage
2.5 Answers to 'Check Your Progress'
2.6 Summary
2.7 Key Terms
2.8 Self-Assessment Questions and Exercises
2.9 Further Reading

UNIT 3 SALES EVALUATION AND COST ANALYSIS 71-99

3.0 Introduction
3.1 Objectives
3.2 Sales Meetings and Sales Contests
 3.2.1 Sales Contests
3.3 Designing Territories and Allocating Sales Efforts
 3.3.1 Shape of Territory
 3.3.2 Territorial Adjustments
3.4 Objectives and Quotas for Sales Personnel
3.5 Developing and Managing Sales Evaluation Programme
 3.5.1 Salespersons' Performance Evaluation
 3.5.2 Key Issues in Evaluating and Controlling Salespersons' Performance
 3.5.3 Methods of Performance Evaluation
 3.5.4 Using Performance Information
3.6 Sales Cost and Cost Analysis
 3.6.1 Cost Concepts
 3.6.2 Sales Concepts
3.7 Answers to 'Check Your Progress'
3.8 Summary
3.9 Key Terms
3.10 Self-Assessment Questions and Exercises
3.11 Further Reading

UNIT 4 OVERVIEW OF MARKETING CHANNELS 101-170

4.0 Introduction
4.1 Objectives
4.2 Overview of Marketing Channels: Structure, Functions and Relationships
 4.2.1 Role and Functions of Marketing Channels
 4.2.2 Designing the Distribution Channel
 4.2.3 Conflict, Power and Relationships in the Channel
 4.2.4 Conflict Resolution Mechanisms
4.3 Channel Intermediaries: Wholesaling and Retailing
 4.3.1 Retailing
4.4 Logistics of Distribution
 4.4.1 Distribution System
 4.4.2 Channel Members
 4.4.3 Supply Chain Management
 4.4.4 Channel Control and Management
4.5 Channel Planning
4.6 Organizational Patterns in Marketing Channels
4.7 Managing Marketing Channels
4.8 Answers to 'Check Your Progress'
4.9 Summary
4.10 Key Terms
4.11 Self-Assessment Questions and Exercises
4.12 Further Reading

UNIT 5 EVALUATION OF MARKETING CHANNELS 171-201

5.0 Introduction
5.1 Objectives
5.2 Information System and Channel Management
 5.2.1 Selection and Recruitment of Channel Members
 5.2.2 Channel Motivation
 5.2.3 Channel Relationships Management
 5.2.4 Information System for Channels
5.3 Assessing Performance of Marketing Channels
 5.3.1 Channel Evaluation
 5.3.2 Outcome of Channel Performance
5.4 International Marketing Channels
5.5 Answers to 'Check Your Progress'
5.6 Summary
5.7 Key Terms
5.8 Self-Assessment Questions and Exercises
5.9 Further Reading

INTRODUCTION

NOTES

Sales and distribution management is gaining importance due to the fact that today every business is facing great changes. Every business organization has to have a clear idea of where it wants to sell and how. The manifestation of liberalization, privatization and globalization has put businesses in a situation where markets face competition faster than ever before. Technology too is changing every day. Businesses, therefore, have to adapt to the changing needs of customers. Concepts such as sales management, personal selling, sales quota and sales territories, distribution mix, and so on, have assumed great significance.

A sales manager plays a major role in sales and distribution management. He is expected to shoulder, organize, lead and motivate his sales teams. Personal selling is a part of the total promotional activity of a firm that along with product, price and place management goes a long way in meeting the overall marketing objectives of the organization. The process of recruiting and selecting salespeople in an organization is an important duty of the sales manager and the Human Resources department of an organization. In today's extremely competitive environment, only a motivated, focussed and energetic sales force can hope to fulfil the sales targets required to maintain profitability. The sales team, therefore, has to be recruited with extreme care and caution. Training of salespersons in any organization is an important and ongoing activity. Training helps salespersons acquire the necessary skills to help them perform better. At the same time, the sales manager has to decide a remuneration policy that should take care of the resources of the organization's funds as well as motivate the sales teams to give their best. The compensation plan could thus meet the objectives of both the parties—the sales manager and the organization on one hand, and the objectives of the salesperson. The idea behind the creation of sales territories is to give a group of similar customers and prospects for servicing to one salesperson for the purpose of efficient management. The role of territory management in quota setting, planning, implementing and controlling the tools of the salespeople becomes significant in this context. Channels are the backbone of the marketing function and, hence, it is necessary to understand the importance of distribution and logistics in managing the various channels.

This book, *Sales and Distribution Management*, has been written in the Self-Instructional Mode (SIM) wherein each unit begins with an Introduction to the topic followed by an outline of the Objectives. The detailed content is then presented in a simple and an organized manner, interspersed with Check Your Progress questions to test the understanding of the students. A Summary along with a list of Key Terms and a set of Self-Assessment Questions and Exercises is also provided at the end of each unit for effective recapitulation.

UNIT 1 OVERVIEW OF SALES MANAGEMENT

NOTES

Structure

1.0 Introduction
1.1 Objectives
1.2 Nature and Scope of Sales Management
  1.2.1 Scope of Sales Management
  1.2.2 Importance of Sales Management
  1.2.3 Sales-related Marketing Policies
  1.2.4 The Sales Management Process
  1.2.5 Management
  1.2.6 Nature and Responsibilities of Sales Management
1.3 Setting and Formulating Personal Selling Objectives
1.4 Recruiting and Selecting Sales Personnel
  1.4.1 Organization for Recruiting and Selection
  1.4.2 Selection of the Salesperson
1.5 Answers to 'Check Your Progress'
1.6 Summary
1.7 Key Terms
1.8 Self-Assessment Questions and Exercises
1.9 Further Reading

1.0 INTRODUCTION

Sales management, as a concept, has garnered greater significance than ever—especially with the changes that are taking place in the economy. It is the act of applying the knowledge of management to the profession of selling. Sales management—in addition to focusing on combined efforts—also comprises ways and means of improving the personal selling efforts of individuals. The basic idea of implementing management in the sales arena is to achieve organizational goals and objectives. Sales management is a part of an organization's overall marketing plan. In its simplest form, selling pertains to all the actions undertaken in delivering the products or services to the customer with a motive to make profits. These actions include establishing a team (salesforce), training and motivation, creation of plans, implementation, measuring output, and reviewing against goals with the basic objective of earning a profit.

This unit will discuss the nature, scope, and responsibilities of sales management. Apart from providing details about the setting and formulation of personal selling objectives, the unit also discusses the processes of recruiting and selecting sales personnel and the development and organization of sales training programmes. The process of recruiting and selecting salespeople is an important one for an organization. The selection process is conducted with the help of recruitment policies formulated by an organization, by analysing the job requirements and reviewing the candidates. The applications received are screened through the selection process which is described herewith. Training is also an important aspect of management as the salespersons need to have a thorough knowledge of the product they are selling.

NOTES

1.1 OBJECTIVES

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

- Understand the nature and scope of sales management
- Explain the responsibilities assigned to sales personnel
- Discuss the process of setting and formulating personal selling objectives
- Describe the recruitment and selection process of sales personnel

1.2 NATURE AND SCOPE OF SALES MANAGEMENT

Apart from the management of personal selling, sales management encompasses marketing activities like advertising, sales promotion, marketing research, physical distribution, pricing, merchandising, and so on. The American Marketing Association defines sales management as: 'The planning, direction and control of personal selling, including recruiting, selecting, equipping, assigning, routing, supervising, paying and motivating as these tasks apply to the personal salesforce.'

The three major objectives of the sales function are:

i. Sales volume
ii. Contribution to profits
iii. Growth

Organizational objectives are communicated to the marketing department which, in turn, become the responsibility of the sales department, as depicted in Figure 1.1.

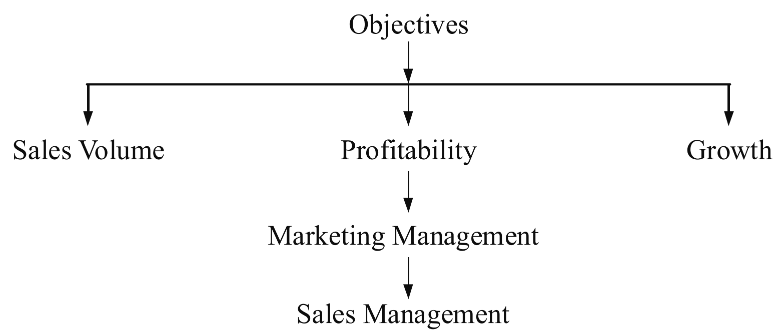


Fig. 1.1 *Objectives of Sales Management*

NOTES

Sales Management and the Environment

Sales management is affected by several factors. The factors affecting sales could be behavioural, technological, or managerial in nature.

(I) Behavioural factors

In the past few decades, the customers have changed dramatically in terms of what they purchase and how do they purchase it. Additionally, they have also become increasingly conscious of the environment. Therefore, it is important for the sales to adjust to a variety of influences like rising consumer expectations, expanding power of major buyers, customer's avoidance of buyer-seller negotiations, globalisation of markets, fragmented markets, and so on.

(II) Technological factors

The major technological factors that affect sales are:

- Salesforce automation
- Virtual sales offices
- Electronic sales channels

Salesforce automation comprises laptop and palmtop computers, cellular phones, faxes, e-mails, and other advanced sales software that assist in account planning, recruitment, selection, and evaluation of sales personnel. Electronic data interchange (EDI) provides computer links and allows direct exchange of information between the manufacturers and resellers such as retailers, wholesalers, and distributors. Technological innovations have facilitated desktop videoconferencing, enabled sales meetings, and facilitated training and customer interaction without requiring people to leave their offices. Technological innovation has not only helped in facilitating sales but has also helped organizations in saving cost and time. It has also led to improved job satisfaction for salespersons.

(III) Managerial factors

Managers respond to changes in the environment by developing new strategies and tactics to enhance sales effectiveness. They employ direct marketing techniques, improve cooperation between sales and marketing, including the management of training and development needs of the salespeople. Sales management responds to new challenges by recognising the importance of professional qualifications. Sales organizations depute salespeople to institutes such as the National Institute of Sales (NIS) (situated in cities like Mumbai, Delhi, and Chennai) for training and enhancement of their professional qualifications and helping them meet the challenges of the present day's competitive environment.

Sales and Other Departments

Sales personnel coordinate with the marketing departments for promotional activities and market planning. In addition, salespeople also coordinate with the distribution channels pre and post-introduction of products. It is the sales department that has to balance the interests of trade and the manufacturer. Coordination between the sales and overall marketing strategy is absolutely essential, especially when a new product is introduced.

NOTES

1.2.1 Scope of Sales Management

Sales management directs the salesforce. People involved in sales management need to know the art and science of personal selling. Personal selling is accomplished through salesmanship. Therefore, sales executives need to be aware of the activities of the salespersons and the problems faced by them. They should also be aware of the methods and skills used in selling products.

From the organization's viewpoint, there are three objectives of sales management, achieving sufficient sales and volume, providing ample contribution to profits, and experiencing continuing growth. The top management delegates responsibilities to the marketing management, which then delegates responsibilities to the sales management. During the planning phase, sales executives provide detailed estimates on market and sales potential, the capabilities of the salesforce, and the middlemen.

The entire gamut of activities involved in sales management is depicted in Figure 1.2.

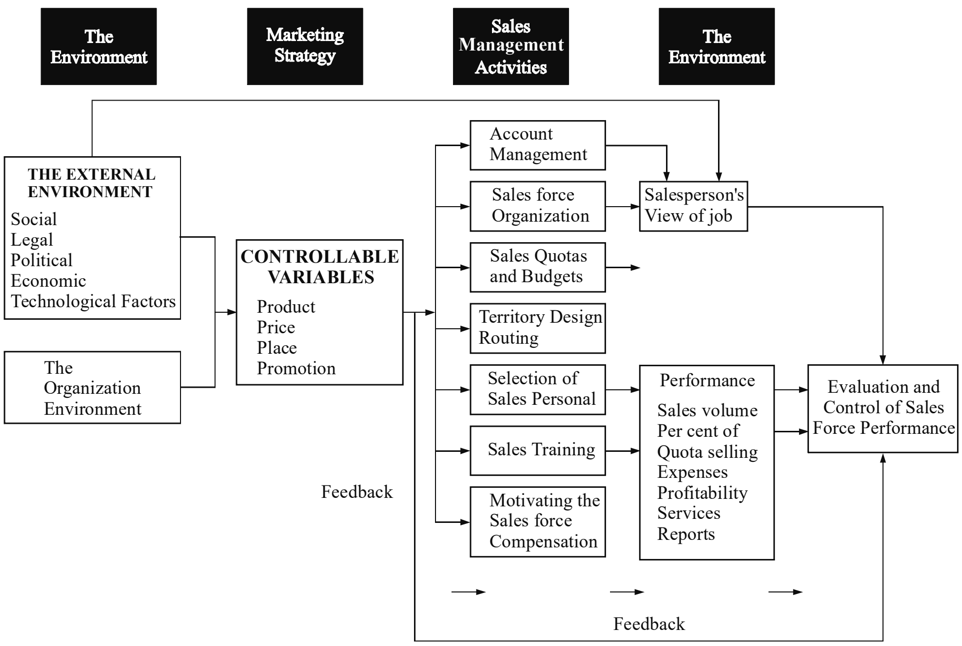


Fig. 1.2 *Flow of Activities in Sales Management*

Characteristics of a salesperson

There are several distinguishing features of a salesperson. A salesperson acts as an ambassador of their company for the external world. Other people form an opinion of a company basis their interaction with the salespeople. Salespeople are usually diplomatic in their approach and have better interpersonal skills compared to others as they interact with a variety of people in diverse situations. Salespeople are tactful and have great listening skills. They listen to the problems of customers and help them navigate through them by providing the best available solution.

NOTES

Types of salespeople

Salespeople can be categorised on the basis of the creative input required to perform various sales jobs. The different categories are listed below:

Delivery

Delivery salespeople are concerned with delivering the products. For example, a van driver responsible for delivering soft drinks, a milk vendor or people working at the petrol pumps.

Order taking

The salespeople behind the counter of a grocery store or a bookstore listen to the requirements of the customers and serve them the right products. These salespeople serving customers by taking orders are found in several fields such as as restaurants and hardware stores.

Missionary selling

Missionary selling is a type of indirect selling in which salespeople provide information about a particular product to a potential customer instead of directly selling the product to them. Missionary selling is used to build a good image of an organization and generate goodwill for it. Salespeople in the field of pharmaceutical, insurance, etc. often use missionary selling.

Sales engineers

Sales engineers are salespeople who sell technological products and services to other businesses. Sales engineers have a thorough knowledge of the technological products they sell.

Creative selling

Salespeople who use creative selling use well-planned strategies to sell their products. Creative selling is commonly used while selling computers, aircraft, insurance, consultancy services, advertising services, etc.

The role of a salesperson

A salesperson is accountable to their employer as well as to those who buy and use the products of their firm. The top management entrusts them with the responsibilities of:

i. obtaining sufficient sales volume,

ii. providing ample contributions to profits, and

iii. continuing business growth.

Sales managers are in charge of personal selling activity, and their primary objective is the management of the salesforce. Apart from that, they are also responsible for organizing sales efforts, both within and outside their organization.

Within the organization, sales managers build a formal as well as an informal organizational structure that ensures effective communication not only inside the sales department but with other organizational units as well. Outside the organization, the sales managers serve as one of the company's most important contact points for the customers.

NOTES

A sales manager is responsible for building and maintaining an appropriate and effective distribution network. They provide the critical information required in making key marketing decisions, such as budgeting, quotas, and territories. They participate in marketing decisions regarding products, marketing channels and distribution policies, advertising, and other forms of promotion and pricing. Thus, the modern sales manager is both an administrator in charge of personal selling activity and a member of the executive group that makes all kinds of marketing decisions.

1.2.2 Importance of Sales Management

In an ever-evolving world, it has become imperative to talk about the changing economy. Businesses are operating in a global economy where markets face more competition than ever. In addition to that, technology is also evolving every day. Present-day businesses have to adapt to the needs of the customers, who now enjoy tremendous buying powers as well as a wide variety of goods and services to choose from.

Therefore, marketing needs to adapt itself continuously to identify and meet human and social needs. Marketing is often defined as the art of selling products. A simple marketing system is shown in Figure 1.3.

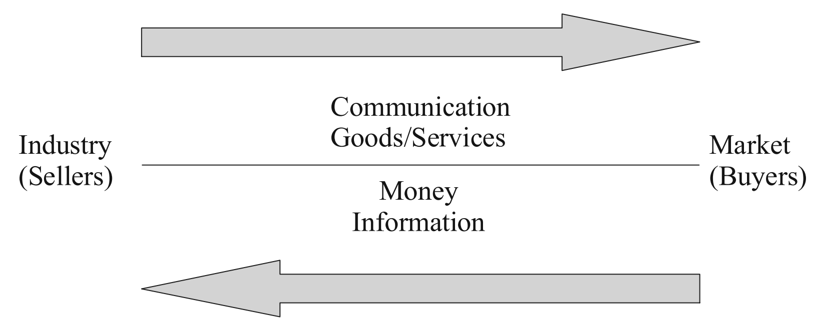


Fig. 1.3 *A Simple Marketing System*

Due to competition in the marketplace, marketers are now building a mutually satisfying long-term relationship with their key customers, including suppliers and distributors. Sales management is a part of the marketing mix strategy. The concept of sales management focuses on the seller and is set up to achieve the aim of making a profit, whereas the concept of marketing is devoted to satisfying the needs of the customer, the governing elements of which are separately depicted in Figures 1.4 and 1.5.

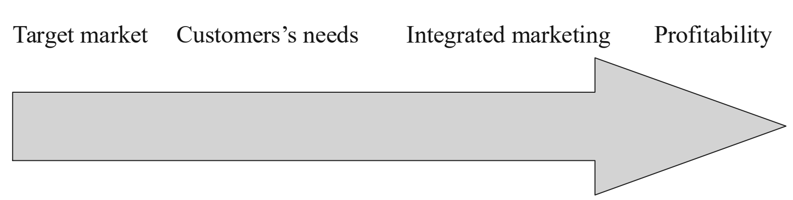


Fig. 1.4 *Elements Governing Marketing Management*

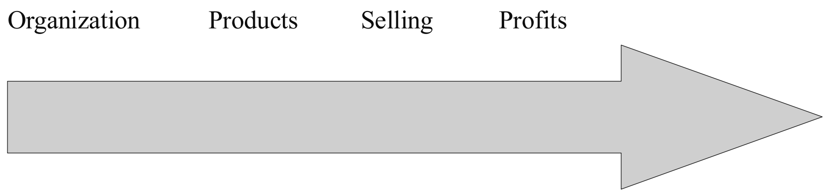


Fig. 1.5 *Elements Governing the Sales Management Concept*

NOTES

1.2.3 Sales-related Marketing Policies

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

Sales and distribution

Sales executives are concerned with coordinating the personal-selling effort with the marketing efforts of the middlemen. Among the most important aspects of this coordinating activity are gaining product distribution, obtaining dealer identification, reconciling business goals, and sharing promotional risks. In augmenting the chances of personal-selling effort, the salesperson ensures that the final buyers know which local outlets stock the product. Even if the manufacturer's advertising succeeds in pre-selling the product, no sales will result if the final buyers are unable to find the outlets that stock it.

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

Sales and pricing

Pricing of a product can be done with the help of two pricing strategies, penetration pricing strategy and skimming pricing strategy. The penetration pricing strategy is used for products that are not very costly and are meant for the masses; whereas the skimming pricing strategy is used for expensive products. A salesperson is the best judge of the marketplace as he is in touch with the customer and knows the pulse of the marketplace. An organization decides upon the pricing strategy to be adopted according to the needs of the market and the customer's decision. This is depicted in Figure 1.6.

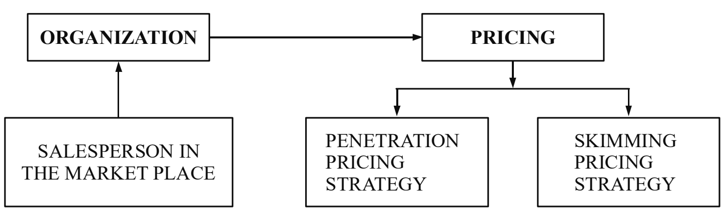


Fig. 1.6 *Sales-related Pricing Strategy*

NOTES

1.2.4 The Sales Management Process

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

The effective management of a company's salesforce involves three interrelated sets of decisions or processes:

1. **Formulation of a strategic sales programme**

   The strategic sales programme should consider the environmental factors faced by the firm. It should organize, plan and integrate the company's overall personal- selling efforts with the additional elements of the firm's marketing strategy.

2. **Implementation of the sales programme**

   The implementation phase involves selecting appropriate sales personnel along with designing and implementing policies and procedures that channelise their efforts towards the objectives.

3. **Evaluation and control**

   The evaluation phase comprises of developing methods for monitoring and evaluating the performance of the salesforce. In the following section, we will discuss the implementation of the sales programme.

Implementing the sales programme

Implementing a sales programme involves motivating and directing the behaviour of other people—the members of the salesforce. In order to be effective, a sales manager must understand why the people in their salesforce behave the way they do. The sales manager should be aware of the factors that influence a salesperson's behaviour and performance on the job.

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

A salesperson's ability to perform activities related to the job is also influenced by their individual characteristics such as personality traits, intelligence, and analytical ability. A salesperson cannot achieve a high level of job performance unless motivated to make the necessary efforts. A person's motivation is determined by the kind of rewards expected for achieving a given level of performance—such as a higher salary or promotion.

A sales manager can use several policies and procedures to influence the aptitude, skill levels, role perceptions, and motivation of the salesforce. Implementing a sales programme involves designing policies and procedures in a way that the job behaviours and performance of each salesperson direct them towards the specified objectives and performance levels. The sales manager must decide what kind of aptitude is required for the firm's salespersons to do the kind of selling involved and achieve the programme's objectives.

NOTES

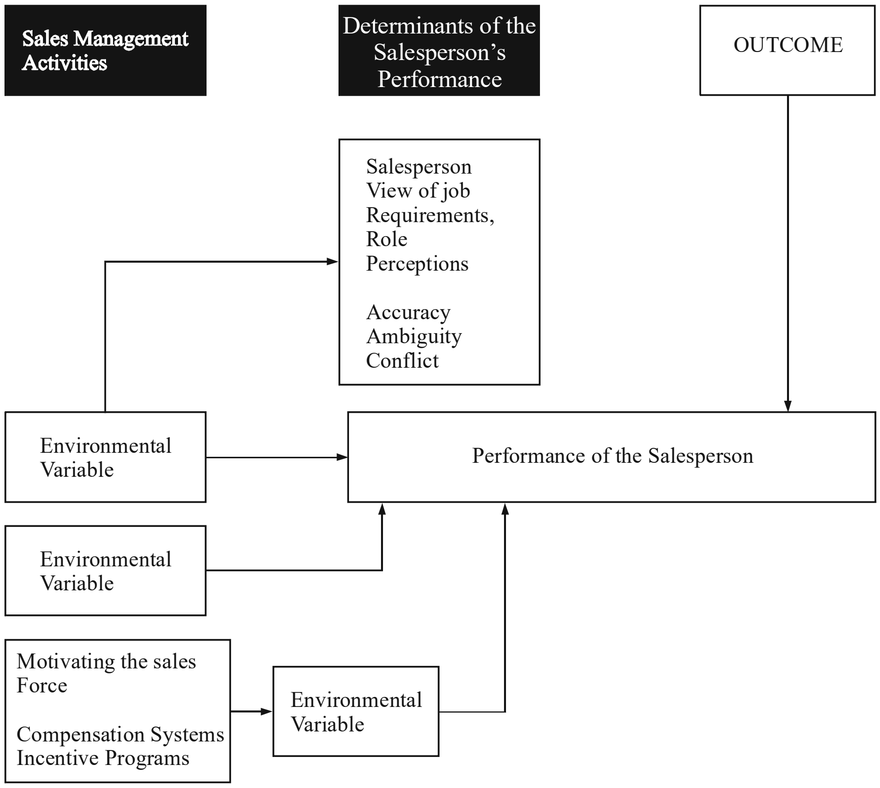


Fig. 1.7 *Implementation of a Sales Programme*

Evaluation and control of the sales programme

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

Sales management and control

Planning and control go hand in hand. Sales objectives are reviewed to examine where we stand today, how we travelled up to this point, where we are headed, and how to reach there. Sales plans are examined along with policies and procedures. The control process starts by setting performance standards. The actual performance is measured and the results are compared with the set standards. Variations are deeply examined and last of all, corrective action is taken to set the matter right.

NOTES

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

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

Formal control

An organization needs written sales and marketing policies to ensure substantial uniformity of action. Written policies also conserve executive time which is a matter of great importance to sales executives. Because policies are written, more time can be used for planning and making decisions regarding problems not covered by existing policies. Estimating how much of a product can be sold in a specified future period is a prerequisite both for planning and control. Sales-volume performance is best appraised by comparing it with the potential sales volume. The 'sales or market forecast', therefore, serves as a standard for evaluating sales performance. Ultimately, formal control requires the installation of sales budgetary controls and the setting up of sales territories. Budgetary control represents an extension of control over margins and expenses, and hence over profits. When control reaches this stage, sales management can project individual profit-and-loss statements for such units as sales territories, products, marketing channels, and classes of customers.

1.2.5 Management

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

Key account handling requires a special kind of attention from the seller that may be beyond the capacity of the regular field salesforce. Some of the key responsibilities of key-account managers are planning and developing relationships with a wide range of people in the customer firms, mobilizing personnel and other resources in their own firms to assist the account, and coordinating and motivating the efforts and communication of their company's field salespeople in their calls on the various departments, divisions and geographical locations of the key account.

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

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

Table 1.1 *Distinctions between Transactional Selling and Key Account Management*

	Transactional Selling	***Key Account Management***
Overall objective	Sales	Preferred supplier status
Sales skills	Asking questions, handling objections, closing	Building trust, providing excellent service
Nature of relationship	Short, intermittent	Long, more intense interaction
Salesperson's goal	Closed sale	Relationship management
Nature of sales force	One or two salespeople per customer	Many salespeople often involving multifunctional teams

Building relationships with key accounts

You are already aware of the importance of relationship-building with customers. However, there are certain ways in which suppliers can build relationships with key accounts. Five ways of building strong customer relationships are described below:

1. Personal trust

The objective is to build confidence and reassurance by:

- Ensuring that promises are kept

NOTES

- Replying swiftly to queries, problems and complaints
- Establishing high (but not intrusive) frequency of contact with key account
- Arranging factory/site visits
- Engaging in social activities with customers
- Giving advance warning of problems

2. Technical support

The objective is to provide know-how and improve the productivity of the key account using the following methods:

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

3. Resource support

The objective is to reduce the key account's financial burden by:

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

4. Service levels

The objective is to improve the quality of service provision through:

- Reliable delivery
- Fast/just-in-time delivery
- Installation of computerized reorder systems
- Quick and accurate quotes
- Reduction of defects (right first time)

5. Risk reduction

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

- Free demonstrations
- Free/low-cost trial period
- Product guarantees
- Delivery guarantees
- Preventive maintenance contracts
- Proactive follow-ups
- Reference selling

NOTES

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

Handling relationships with key accounts

Dos

- Work with the account to agree to an actionable account plan.
- Understand key account decision-making
- Employ key choice criteria
- Facilitate the role of the decision-making unit
- Only agree to what can be delivered
- Resolve issues quickly
- Confirm agreements in writing
- Communicate internally to identify unresolved problems (e.g., late delivery)
- Treat customers as 'experts' to encourage them to reveal information
- View issues from the customer's (as well as your own) perspective
- Ask questions: knowledge is power

Don'ts

- Don't let a small issue spoil a relationship
- Don't expect to win everything; giving a concession may improve the relationship
- Don't divulge confidential information from other accounts
- Don't view negotiations as win-lose scenarios. Try to create win-win situations
- Don't be afraid to say 'no' when the circumstances demand it
- Don't deceive; if you do not know the answer, say so

1.2.6 Nature and Responsibilities of Sales Management

'Sales' is that important activity of an organization that determines the 'topline' of the organization's income statement. Therefore, its importance can be judged from the fact that without this first line of entry, there can be no 'income statement'. Additionally, being a primary business function impacting the income of an organization, sales is also termed as a line function (akin to production, purchasing) as opposed to functions like finance or HR, which, due to their indirect linkage to income and support nature of activities, are termed as staff functions. Management of salespeople and their functions is, therefore, a core activity of an organization, and its efficacy impacts the organization's profitability in a significant manner.

The sales manager holds the primary responsibility of managing the sales of an organization and therefore they hold a position of immense responsibility in any organization. While it is important to understand that the responsibilities of a sales

NOTES

manager in modern organizations are multidisciplinary, their primary responsibilities consist of:

- Goal setting
- Planning and budgeting
- Organizing and implementing
- Controlling and evaluating

While these responsibilities pertain to an existing organization, in a new startup organization there is an added responsibility to conceptualize and finalize the 'structure' of the salesforce which will ideally meet the organizational selling objectives.

Goal setting

The role of the sales manager in goal setting can broadly be classified into two areas:

- Supporting the organizational goal setting
- Enumerating the goals of the salesforce

The role played by the sales manager is very critical due to the proximity and interface of the salesforce with the customers. This enables:

i. A first-hand understanding of the customer needs to be provided as feedback to the organization.

ii. Ascertaining market potential, which is defined as the total estimated sales for a product or service in a market over a period of time for the entire industry.

iii. Converting the market potential to the sales potential, which is nothing but estimating how much of the total market potential can be captured by the individual company through its products or services.

iv. Formalizing this sales potential through 'sales forecasting' to be used by organizations as a starting point in finalizing overall organizational objectives.

Through the above steps and feedback, the sales manager plays a key role in shaping and influencing the development of organizational strategy. However, once the overall organizational strategy is finalized, this, in turn, influences the goal-setting of the sales manager for the current plan period. Besides overall strategy, the nature of the industry and the competitive position of the company also impact goal setting.

The nature of the industry can be broadly classified as shown in Figure 1.8.

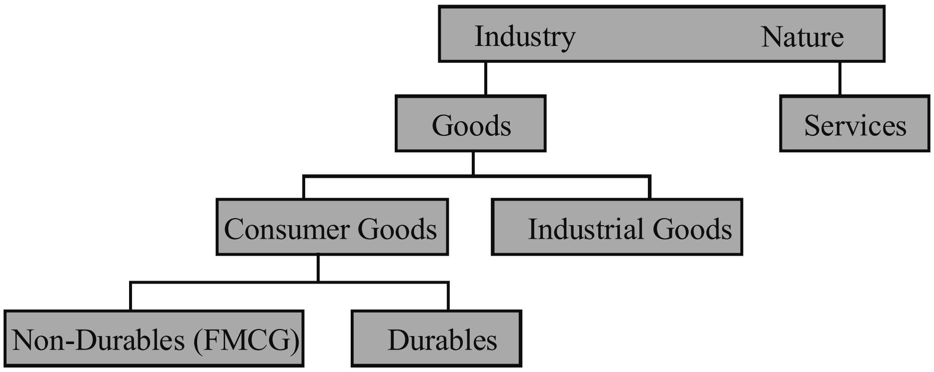


Fig. 1.8 *The Nature of Industry*

NOTES

The effort of personal selling has high weightage in the services and industrial goods selling scenario. This is because the product or the service is more technical in nature and requires the selling effort to be of direct interaction with the customer on a one-to-one basis. The critical task of the sales manager in such an environment pertains to the hiring of salesmen with higher personal capability, education and quality, followed by regular development through training and other inputs. Training and development goals form an important aspect of goal setting in such industries.

The efforts of personal selling in advertising and promotions and consumer durable sales need to be integrated with the key initiatives. By and large, the selling of non-durable goods involves indirect selling through channels and the salesforce caliber and is generally of a lower order. Marketing aspects of promotions, branding, and advertising play a key role here.

In aligning goals with sales management strategies, three common approaches are listed by Michael Porter in his seminal work *Competitive Strategy*. These approaches are listed below:

- ***Goal setting for low-cost strategy***: Organizations adopting a low-cost approach would vigorously focus upon each element of cost at each stage. Therefore, sales managers would have key goals in cost control and efficiency. Price would play an important part in such sales as a means to garner large volumes and the stress would be on achieving these sales with minimum expenditure. Companies that adopt a low-cost supplier strategy are usually characterized by a vigorous pursuit of efficiency and cost control. Gaining market share is commonly a major goal in such organizations.
- ***Goal setting for differentiation strategy:*** In organizations for differentiation strategy, the core rationale is to offer a product or service which is unique. This, therefore, requires the emphasis on the unique selling proposition (USP) of the product or service which normally calls for higher investment. Branding is a common methodology adopted for differentiation and this is often reinforced through patent protection of the products or manufacturing processes. In such an industry, goal setting

NOTES

would emphasise on the hiring of sales personnel with a relatively higher calibre and parameters, like generation of a higher number of prospects and, the prospect to conversion ratio; after-sales customer service would be stressed upon too.

- ***Goal setting for niche marketing strategy*:** In niche marketing, a very narrow segment of customers are targeted for sale, where the price is of least concern. As a consequence, goal setting here would be stressing on an extremely high level of service which is the requirement of this niche. In-depth research on consumer behaviour and using the inputs of such research for sharpening the goals would be the modus operandi here. Training and development of sales personnel to 'expert' levels would be a focus.

In appreciating the goal-setting role of sales managers for their salesforce, the position of sales (with reference to personal selling) within the organization must be understood first. As elaborated earlier, personal selling is one part of the organization's marketing function and is part of the promotions element of the marketing mix. Other supporting functions pertaining to promotions are sales promotions (above and below the line, discounts, price offs, contests, etc.) and advertising (television, radio, print media, etc.). The goal of the sales manager (in the personal selling aspect by his salesforce), therefore, would be dependent on the overall goal of the marketing function keeping in mind important considerations like the availability of resources (funds), nature of the product or service, capacity/ production output, etc.

Let us understand this further with the help of an example. Let us take, for example, the overall marketing objective (goal) of an organization is to improve the market share by 10 percent over the next three years, for which a marketing budget of ' X has been apportioned. This overall marketing objective would have evolved from the marketing strategy of the organization which in itself is a subset of the overall strategy of the organization. This could be depicted in a line diagram as below:

Organizational Strategy ⇨ Marketing Strategy ⇨ Marketing Objective

This marketing objective now needs to be fulfilled by suitable application of all the elements of the marketing mix and within the resource allocated. The objective of the promotions element of the marketing mix would then be determined, from which, the goals for the salesforce management will evolve.

Marketing Objective ⇨ Promotions Objective ⇨ Personal Selling Goal

Let us now suppose that the objective (goal) thus drawn for personal selling requires a 4 percent market share increase to be achieved, assuming that 3 percent market share increase can be achieved through advertising and another 1 percent through sales promotions. The sales manager now needs to ascertain the plan and actions that he believes will enable this goal to be achieved. Some of the decisions that could be involved in this case could be covering newer geographical markets, increasing the salesforce strength in specific higher potential markets, focusing on 'key accounts', and improving training inputs for the salesforce, all of which would need to be addressed in the planning and budgeting stage.

NOTES

Planning and budgeting

Once the goal(s) for the organization's salesforce has been finalised, the next step is to develop an action plan to achieve these goals. Some of the actions that could be decided upon have already been decided by this stage, but essentially annual sales planning pertains to drawing up the sales strategy for meeting specified goals and objectives. The annual plan could further be broken into monthly and quarterly plans, and it is the monthly sales plan that guides the day-to-day operations of an organization. Sales planning primarily deals with the following decisions:

1. ***Market coverage***: The decisions on which markets are to be covered, market extensions, ideal journey plan, frequency of visits, etc., are included here. Market-specific requirements would need to be understood while planning extensions which include suitable sales personnel, their knowledge about the market, etc.
2. ***Salesforce strength and composition***: The decisions involved here would be related to the number of sales personnel required for proper territory coverage and their composition (i.e., whether in-house or contract personnel) which have a definite bearing on the sales budget as well as sales output.

   Considerations like the quality and experience of a new recruit are also important. This determination would be dependent on the customer profile, their importance, and the sensitivity that could impact the sales expected from them. The type and size of the salesforce is usually a balancing act and depends on factors such as the quality of manpower, the required number of sales personnel, and the financial constraints that may exist. Normally, the requirement is estimated based on the workload, which, in turn, is based on factors such as the number of sales calls required to yield a sale, the number of calls that can be made by one salesperson, efficiency and efficacy of the salesperson, visit area coverage possible in a day, week, etc. The incremental approach is also adopted in some cases wherein the incremental sale resulting from each new hire is estimated. As long as the cost of the new hire is lower than the benefit, this process can be continued.
3. ***Capability building***: This deals with devising ideal sales call protocol, training for improved efficacy, demonstration, coaching on the field, etc. The level and content of training vary based on the product sold and the sales process adopted. For example, a complex product would require a more qualified salesperson to be hired, having an understanding of troubleshooting and solving product performance issues. The recruit can be subsequently trained in product knowledge, process knowledge, and application knowledge. Additionally, the nature of the product also determines the selling process adopted that can range from hard selling to consultative selling.

NOTES

4. ***Performance standards-setting*****:** This is a very important aspect of a sales plan which enables control and evaluation on an ongoing basis. Establishing milestones is also a common practice that assures that progress is in the right direction.

Organizing and implementing

Once the plan and the budget are frozen (usually by the end of the previous financial year), the next step calls for organizing and implementation. One common practice adopted by many organizations is to arrange for a roll-out of the budget to the sales team. 'Annual conference' and 'budget roll-out meeting' are some common terms used for such gatherings. The purpose of such a meeting is:

- To familiarize the entire team with the task at hand and the contribution of each team member desired (as per the plan) in the forthcoming performance period.
- To familiarise all concerned with the changes (if any) in operating norms, territory reallocation, policies, procedures, etc.
- To review and address gaps (if any) between the resources available and resources required, including manpower, funds, training inputs, equipment, and support systems.
- To review the detailed strategy and plan of the various sales teams to achieve their targets and add value to these.
- To provide a forum to announce special rewards (if any) for exceptional performance.
- To enable the launch of a well-planned and directed effort from the beginning of the performance period.

Once such a meet is over, the time is ripe for balance implementation activities to achieve all that had been planned and organized for the year. Balance implementation involves activities like designing territories, staffing, followed by motivating the salesforce on an ongoing basis. But it must be clearly understood that staffing, which includes organization structure finalization, recruitment, training, motivating performance appraisal, and feedback, is a key aspect of implementation in achieving the organization's goal. Once the actions relating to the provision of resources are taken care of, the principal responsibilities of the sales manager would be:

- To supervise and ensure that the team takes actions on a daily, weekly, and monthly basis in line with the agreed norms drawn up during the conference— pertaining to the current performance period.
- Provide creative inputs for the resolution of challenges that the team may be facing on the field and helping each member to meet their target/ objective.
- Intervene for coordination with different in-house teams (production, supply chain, finance, etc.), to deliver the requirements of the customer as enunciated by the sales team.

NOTES

- Provide after-sales service support.
- Provide complaint handling and resolution support.

The complexity during this implementation phase is directly proportional to the size of the organization. In fact, successful organizations have approached this issue by creating tailor-made systems and procedures so that no activity required for successful implementation gets overlooked. This action of drawing up proper systems to ensure implementation is absolutely vital and there are innumerable examples where seemingly good companies have floundered for lack of systems. Successful implementation is nothing but breaking down each activity into sub-activities and rigorously ensuring that all sub-activities are carried out on an ongoing basis. Without proper systems and support from IT, such tasks become prone to error, leading to failure. A few best practices adopted by successful sales managers are enumerated as follows:

- ***Maintaining customer contact*:** However busy a sales manager may be, they cannot afford to lose the first-hand feedback of the customer. This is vital in ensuring that decisions taken by them at the office are truly in line with the market needs and therefore strengthen the position of the company. Different managers go about this task differently. Some sales managers located at the head office have a system of talking to at least two customers every day over the phone. In this manner, they achieve a quarterly interaction with all of their top 20 percent customers who are responsible for 80 percent of sales.
- ***Market understanding*:** In a successful sales and marketing company, it is almost customary for all senior managers to visit the market and meet customers at defined intervals. Such visits reinforce the market-centered focus of these organizations. Senior managers also take this opportunity to train their juniors by practical, on-the-job demonstrations, besides using these for coaching interventions. Apart from enabling understanding of the 'market pulse', such visits also help them immensely in taking the correct decisions once they are back in the office.

Controlling and evaluating

This is the most important responsibility of the sales manager. In fact, once the goal-setting exercise is done, the key task of the sales manager is to establish a proper system for control and evaluation of the progress achieved on an ongoing basis. The systems and processes involved in controlling and evaluating vary across organizations and even across managers of the same organization. But there is a common thread in most processes. Essentially, the first step in control and evaluation is determining the elements that need to be reviewed for ensuring control. Also termed as performance metrics, establishing proper metrics is, in fact, a key activity based on which effective control can be exercised. Many organizations utilize the 'budget roll out meeting' or 'annual sales conference' to finalize and chart out the key annual metrics of each member of the sales team. A sample chart illustrating the sales targets and the corresponding performance metrics on each parameter (sales numbers, days sales outstanding, realizations, mark up, discounts and

NOTES

commissions, selling expenses on travel, telephone, other conveyance and local sale promotions) for a territory is depicted in Table 1.2.

The performance metrics chart covers the annual deliverables broken into quarters. This is essential for review, which is usually carried out on a quarterly basis with the entire sales team for the full gamut of the core deliverables. It can be observed that by incorporating the salary of the territory salesperson(s), the bottom line of the territory can be drawn with the data available. Thus, a territory manager himself can ascertain what value they are bringing to the organization on an ongoing basis.

Such evaluation and control documents based absolutely on data can have significant implications in motivating the salesforce and act as a prime driver for output and performance from the team. This is essential because of the transparent nature of the process which calls for a sign-off at the beginning of the performance period on the complete set of deliverables expected from a territory in a totally objective manner. In the absence of objective quantification, much time is lost during reviews in getting to an agreement vis-à-vis the level of performance. The next step is analysing what went wrong and the actions needed— the core objective of a review—is many times cut short due to time constraints as a consequence. Hence, one of the most important requirements for a productive evaluation and review mechanism is to have transparent and objective performance metrics, which have been agreed upon at the beginning of the performance period by all concerned.

Table 1.2 *Sales and Performance Metrics Territory – T1*

Actual FY07	BGT FY08	Actual FY08	Rs / Unit	BGT FY 09	BGT Q1	BGT Q2	BGT Q3	BGT Q4
8899	10143	10252	Sales (Nos)	11061	2440	2862	2956	2803
79.34	103.2	89.25	Realization (Rs L)	96.15	21.2	24.6	24.6	25.7
22.53	31.5	62.40	Mark Up (Rs L)	59.63	13.1	15.2	15.2	15.9
			Segment-wise Sales					
3708	3800	3710	• S1	4300	950	1100	1100	1150
5191	6343	6542	• S2	6761	1490	1762	1856	1653
8899	10143	10252	Grand Total	11061	2440	2862	2956	2803
51	50	90	DSO (O/S)	50	50	50	50	50
2140	2149	2406	Realization	2136	2136	2136	2136	2136
1608	1657	1682	Mark Up	1386	1386	1386	1386	1386
6	45	70	Disc. & Commissions	50	50	50	50	50
			Selling expenses					
13	10.5	6.84	Traveling	11.5	11.5	11.5	11.5	11.5
4	3.66	2.00	Telephone	4.01	4.01	4.01	4.01	4.01
3	2.47	0.48	Conveyance	3.00	3.00	3.00	3.00	3.00
4	10	0.00	LSP	10	10	10	10	10

The parameters just explained assist in control and evaluation on a quarterly and annual basis. However, as explained before, the key challenges in controlling the salesforce arise from the unique operational environment of the salesperson working far off from the head office, in isolation, i.e., working independently. Establishing control in such an environment requires an in-depth system of checks and balances and some common control reports used are as follows:

***Monthly plan*:** This is drawn up by each sales team member and is vetted by their superior. Essentially, the yearly targets are broken up into monthly deliverables and the plan is submitted to achieve the monthly target. Additionally, such a report would cover the geographical areas being visited, the customers in these locations, along with an estimate of what would be the estimated orders expected to be booked, payments collected, outstanding issues to be resolved, etc.

NOTES

Daily visit plan: Based on the monthly plan, the daily plan is submitted by the salesperson at the end of each day, detailing his/her visit plan for the next day. This could also contain the plan versus actual visits undertaken on the day along with a brief summary of the outcome/output.

Daily report: This is a summary of the output for the day and the plan of action for the next day that is submitted by the regional manager for his region. A sample format of the same is given in Table 1.3.

Table 1.3 *Format for Daily Report*

<table>
<tr><th colspan="7">Daily Report</th></tr>
<tr><td>Month :</td><td colspan="3">Zone:</td><td colspan="3">Date :</td></tr>
<tr><td colspan="7">Cumulative Zonal Summary</td></tr>
<tr><td></td><td>Month's Target</td><td>Today's ACH</td><td>ACH Till Date</td><td colspan="3">Remarks</td></tr>
<tr><td>Secondary Sales</td><td></td><td></td><td></td><td colspan="3"></td></tr>
<tr><td>Primary Orders Booked</td><td></td><td></td><td></td><td colspan="3"></td></tr>
<tr><td>Total Collections</td><td></td><td></td><td></td><td colspan="3"></td></tr>
<tr><td colspan="7">Customer wise Secondary Sales – Details</td></tr>
<tr><td>Customers</td><td>Months Target</td><td>Today's ACH</td><td>ACH Till Date</td><td colspan="3">Territory Manager</td></tr>
<tr><td>XYZ</td><td></td><td></td><td></td><td colspan="3">TM1</td></tr>
<tr><td>ABC</td><td></td><td></td><td></td><td colspan="3"></td></tr>
<tr><td>DEF</td><td></td><td></td><td></td><td colspan="3">TM2</td></tr>
<tr><td colspan="7">Customer wise Payment Collection & Orders</td></tr>
<tr><td rowspan="2">Customers</td><td colspan="3">Orders</td><td colspan="3">Collection</td></tr>
<tr><td>Month's Target</td><td>Today's ACH</td><td>ACH Till Date</td><td>Month's Target</td><td>Today's ACH</td><td>ACH till date</td></tr>
<tr><td>XYZ</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>ABC</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>DEF</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>TOTAL</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="7">Cumulative Visit Summary</td></tr>
<tr><td></td><td>Months Target</td><td>Today's ACH</td><td>ACH Till Date</td><td colspan="3">Remarks</td></tr>
<tr><td>TM1</td><td></td><td></td><td></td><td colspan="3"></td></tr>
<tr><td>TM2</td><td></td><td></td><td></td><td colspan="3"></td></tr>
<tr><td colspan="7">Visit Plan for : Tommorrow</td></tr>
<tr><td></td><td>Market</td><td>Activity</td><td>Visit Objective</td><td colspan="3">Name of the Clients</td></tr>
<tr><td>TM1</td><td></td><td></td><td></td><td colspan="3"></td></tr>
<tr><td>TM2</td><td></td><td></td><td></td><td colspan="3"></td></tr>
<tr><td colspan="7">Actual Visit on : Today</td></tr>
<tr><td></td><td>Market</td><td>Activity</td><td>Visit Objective</td><td colspan="3">Name of the Clients</td></tr>
<tr><td>TM1</td><td></td><td></td><td></td><td colspan="3"></td></tr>
<tr><td>TM2</td><td></td><td></td><td></td><td colspan="3"></td></tr>
</table>

Call report: This is submitted by the salesperson detailing the customers visited by them and the summary of discussions, agreements and follow-up actions required.

NOTES

Control and evaluation by the sales manager are based on these input reports received by the salesperson over various time periods. However, the sales manager may have their own set of report compilations done to assist them in gauging the situation of the market. One such report to analyse the market visits is depicted in Table 1.4.

Table 1.4 *Report to Analyse Market Visit*

MARKET VISIT ANALYSIS REPORT									MTH		YEAR
Name	Total wkg days	Leave Taken	Days in Mtgs /Trng	Net Av. Days	Visit Target	Actual Visit in Station	Actual Visits in Tour	Total Actual Visits	Cum. Visits	ACH %	Balance Target for Year
Zone											
TM1											
TM2											
TM3											
RM											
Total											

Thus, the sales manager achieves control through proper evaluation of the ground realities through the design and compilation of creative reports to measure all the different facets of actions and responsibilities of the sales team. The critical aspect in ensuring proper control is in choosing the proper parameters to measure its frequency and report structure, which ensures an objective assessment. However, care should be taken to ensure that the subjective aspects of a salesperson's responsibilities are not forgotten. One key subjective parameter is the aspect of relationship building. The sales manager needs to devise systems (personal visits, structured customer feedback, dealer meets, etc.) to gauge the subjective deliverables on a periodic basis as well.

The overall control exercised by the sales manager needs to bring out the key deliverable—profitability. In doing this, a simple assessment of sales achieved may not be enough and the manager needs to delve deeper to analyse the cost of such sales. This is done by estimating the expenses incurred and by juxtaposing this against the sales achieved, the richness of the sales mix, discounts offered, future income assured, etc. Such evaluations, besides enabling the estimation of profits achieved, are used as inputs for streamlining future strategy, therefore, influencing goal setting in the next plan period.

Check Your Progress

1. What is sales management according to AMA?
2. What are the three major objectives of the sales function?
3. What are the technological factors that affect sales?
4. What are the categories of salespersons based on the creative input they need to perform various sales role?
5. What is the primary responsibility of a sales manager?

1.3 SETTING AND FORMULATING PERSONAL SELLING OBJECTIVES

Personal selling is a method of communication—a salesperson communicates on an individual basis with the prospect of increasing sales. Personal selling is person-to-person communication. All successful people sell themselves. Selling oneself means selling what one stands for—one's value system, ideas, opinions, beliefs, and goals. Tom Hopkins describes the art of selling as 'the highest paid hard work, and the lowest paid easy work.' Thus, the returns from selling are commensurate with your efforts, skills, knowledge, and competence. A sales manager must have good knowledge of both personal selling and salesmanship. Figure 1.9 shows this relationship.

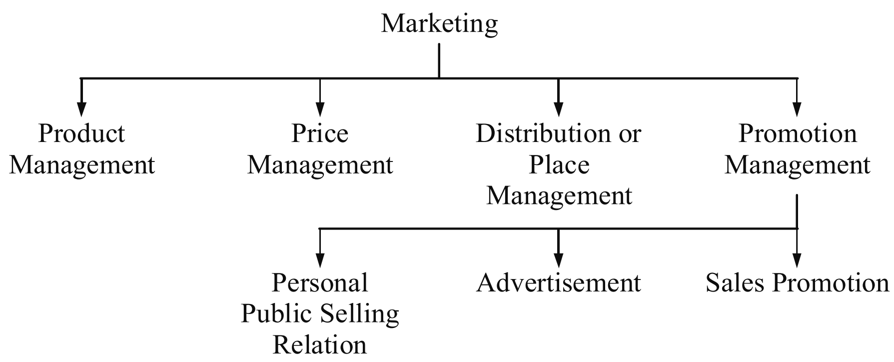


Fig. 1.9 *Personal Selling Relationship*

Personal selling is a part of the total promotional activity of a firm which along with product, price and place management goes a long way in meeting the overall marketing objectives of the organization. Personal selling, thus, contributes to the total product management, pricing and distribution, resulting in the implementation of the marketing programme. It is a broader concept and salesmanship is just a part of it. Salesmanship is defined by Shapiro as the 'art of persuasion that motivates the customers to buy products that provide them suitable benefits.' Salesmanship is initiated by the seller and provides information to the prospective buyers about the products and their benefits so as to persuade and motivate them to buy the product.

The ultimate objective of the marketing function is to increase the sales of want-satisfying products and services, thus leading to a healthy bottom-line. Out of the several tools available to stimulate sales, the most important tool is personal selling. Several companies spend 8-15 percent of the net sales on personal selling as opposed to 1-3 percent spent on advertising.

Infusing technology into personal selling

The use of technology by salespersons has been increasing, as witnessed by the overwhelming proliferation of salesforce automation (SFA), customer relationship management (CRM), and communication technology. However, not much is known about how and where technology is actually being used in the field, that is,

i. the extent to which technology is applied to organize, present, report, inform, support and process transactions, and communicate.

ii. the level of productivity of technology for each function.

iii. whether technology is employed by salespersons in the field.

iv. whether the application/use of technology is initiated by the companies or salespeople.

Salesforce technology, such as SFA, communication technology, and CRM, are capable of streamlining the selling process. They can help accomplish a lot more using fewer sales representatives. A survey by C&C Marketing Communications for the magazine *Sales and Marketing Management* revealed that 78 percent of people thought that technology was already making their work convenient and less difficult. However, more than 90 percent believed that technology would make their jobs more convenient in the future.

SFA or salesforce automation, as the name suggests is the conversion of manual sales activities into electronic processes using a number of combinations of hardware and software. However, this definition can cover anything from the introduction of technology by substitution of paper organizers with computer equivalents to complete integration of corporate-wide information systems allowing salespeople to not only prepare their own presentations but also communicate via e-mail, do pricing, enter and acknowledge orders, and also transfer payments.

Organization

In several organizations, salesforce technology has been adopted to decrease the time spent on managing contacts, scheduling sales calls, developing sales plans, planning sales routes, and similar activities.

Managing contacts is a task inclusive of maintaining information pertaining to not only current customers but also potential customers and other influential people in a network. Scheduling is yet another crucial task that has been affected by the introduction of salesforce technology. Innumerable benefits can be enjoyed from the use of technology such as lesser number of missed meetings owing to audible or vibrating alarm; facility of backing up essential scheduling information and the option of sharing information with managers and members of the sales team as well as administrative personnel. An automated sales planning software can help generate sales plans for each customer and automatically enter their contact and schedule information into a computer-based organizer. This helps salespeople manage several prospects at various stages of the sales process.

Information

The ability of technology to help salespeople collect, analyse, and distribute information has affected not just prospecting but also product information and product configuration information. Prospecting can be done with the help of the Internet. The Internet services market downloadable and customizable lists of prospects, including additional information that helps to qualify prospects. Once prospects are identified, information about them can be sorted and organized in contact management software and used to customize many aspects of sales calls and continuing relationships.

In the field, salesforce technology lets salespeople not only carry but also maintain CD catalogues comprising several books worth of product information, including sound and animation. This technology also equips salespeople with the ability to configure products to customers' specifications, check the availability of the product, confirm the price of any configuration, etc. while sitting with the customer. This results in a drastic reduction in the number of calls required to close a sale and also cuts down on backorders.

Support and processing transactions

Salesforce technology has the ability to handle huge volumes of data and also communicate. This significantly affects the manner in which transactions are handled, processed, and completed. The most positive impact is providing salespeople with all the tools required to successfully complete the sales process during the sales call. Accordingly, salesforce technology has had a significant effect on not just inventory control but also inventory inquiries and customer qualification. It allows salespeople to obtain the status of a customer's order without losing much time, and thus, satisfy customers.

Communication

Modern salespersons have a variety of technologies to choose from— all of which promise not only instant but accurate communication. In earlier times, pagers and cellular phones made it possible for customers as well as the home office to reach out to salespeople. E-mail makes it possible to transmit text, images, audio clips as well as videos almost instantly to not just any computer but also any pager, cellular phone or organizer in the network. It is not compulsory for any recipient to be present in order to transmit the e-mail messages. Therefore, it is possible for two individuals to converse 'virtually' even if both of them have different schedules. Fax machines made it possible to instantly transmit information on standard size sheets of paper, including legally binding signatures.

Technology is most frequently used in contact management with computers being the most dominant technology. However, in the early 1990s, electronic organizers managed to become popular. Salesforce technology was used by most salespeople to present the product to the customer. Companies also invest in presentation technology. Presentational software, like Microsoft PowerPoint, comes equipped with microcomputers that the companies purchase for their salesforces. The existence of this software on the computer creates the opportunity for experimentation on the part of salespeople promoting the use of presentational technology.

Computer technology facilitates easy storage and retrieval of huge volumes of data and information. The arrival of the Internet has enabled the sharing of information among geographically dispersed computers. Thus, it is not surprising that a large percentage of salespeople use technology for information gathering. Technology has made its way into transaction support too, albeit in a comparatively smaller manner. However, communications technology is more widely used than computer technology.

NOTES

The fact that a significant amount of technology is being initiated by companies rather than salespeople suggests the importance of companies in facilitating the use of salesforce technology. Some functions may never experiment with or benefit from technology unless and until the companies initiate their application, for example, inventory control, inventory inquiry, order status inquiry, product-configuration information, expenses reports, qualifying customers, and product information.

Steps Involved in Personal Selling Process

The following are the steps involved in the personal selling process:

Step 1: Preparation

Preparation adds to the confidence and performance when the salesperson comes face to face with the customer. Many customers face similar situations and certain questions and objections are raised repeatedly. In such situations, preparation helps. Salespeople benefit from gaining knowledge of their products and those of the competition, setting call objectives, and understanding buyer behaviour.

- ***Product knowledge*****:** Acquiring product knowledge means understanding both the product features and customer benefits conferred by them. Salespeople need to ask themselves about the benefits that a certain feature provides for the customers. The way to turn features into benefits is to view products from the customer's angle. A byproduct of this is the realization that some features may provide no customer benefit.
- ***Competitor's product***: Awareness regarding competitors' products help in comparing their strengths and weakness. Competitive knowledge lets salespeople emphasise on the differential advantage of their products as compared to the competition.
- ***Sales presentation planning***: Preparation helps in building confidence by ensuring that one does not forget to highlight the important aspects of one's products. It facilitates the making of presentations with the help of visual aids and demonstrations and allows one the room to anticipate the objections and counterarguments that may occur so that one can prepare the responses to them well in advance. However, a certain degree of flexibility in approach should be allowed because the needs of every customer are not the same. Salespeople may have to emphasize on a particular feature/ benefit for one customer and something totally different for another customer.
- ***Setting call objectives*****:** The call objectives of a salesperson should be phrased according to the salesperson's expectations from a customer instead of their own wish. For example, a call objective could be that a customer should define needs, or that the customer should visit a showroom, or try the product, or be convinced of the cost-saving of the product as compared to the competition, and so on. Whether a sales call/interview is successful or not, is entirely dependent on the customer. The end objective is to get the customer to proceed to the next level of the purchase process by convincing them.
- ***Understanding buyer's behaviour***: The salesperson should pose some questions to themselves. Who are the targeted key people? What could be

the choice criteria of the key people? What are the major requirements of the key people? Asking such questions to oneself and framing responses for them may help in providing some clarity regarding a buyer's behavior.

NOTES

Step 2: Opening

First impressions are always influential in setting the rest of the course. Initial impressions influence later perceptions. Perceptions can be positively shaped by the following factors:

- ***Demeanour***: The salespeople are endowed with the important task of representing their organizations in front of the clients. Therefore, their demeanour must be in sync with the values that their organization embodies. Since salespeople often conduct face-to-face meetings with the potential customers and clients, it is important for them they come across as knowledgeable and approachable.
- ***Friendliness***: Friendliness can be maintained without becoming overfamiliar. Even if a salesperson is friendly with prospective customers, they should maintain formal and businesslike conduct. The usual pleasantries should be exchanged even if the customer has managed to spare only a little time for the meeting.
- ***Attention to details***: Little things matter and a salesperson would never want to come across as a clumsy person. For example, trying to shake hands with the client while also holding a briefcase in the same hand. It is rather important for the salesperson to anticipate the sequence of events in a meeting so that their documents, equipment, etc. are organized properly and assist proper handling of the situation as it unfolds.
- ***Courtesies***: A salesperson should observe all common courtesies such as exchanging pleasantries and listening to their customers when they are making a point. In order to establish a cordial relationship with one's customers, it is important to keep a note of these little but important factors.
- ***Do not take sales interviews for granted***: It is important to realize that the customers have their own priorities. The customer may not always be able to meet on an intended day. The salesperson should not be affected by the customer's refusal to meet. A salesperson should be prepared for this in advance. So, whenever the meeting materializes, they should not let the refusal in the past affect the current meeting.
- ***Expression of gratitude***: A salesperson should be grateful for a customer's time. It is always good to take leave of a customer on a pleasant note even if nothing productive materialized from the meeting. The salesperson should realize that there is always a possibility of another meeting. Therefore, any kind of unpleasantness should be eliminated.

Step 3: Need and problem identification

People purchase products because they feel these products will fulfill their needs. Therefore, the first and foremost task would be to zero in on the needs and problems of each customer. This exercise can help salespeople connect with each customer's

NOTES

situation and help them choose the product that is most suitable to their needs. It also helps in emphasizing the appropriate benefits of the product. Benefits link customer needs to product features.

Customer needs ->benefits-> product features

A salesperson should address the issues faced by any customer regarding their products. If a customer wants to know of certain features of a product, a salesperson should be able to provide them with the required information. This helps the salesperson in gaining trust and establishing goodwill with the customers. Having knowledge of the competitor's products also help the salesperson in demonstrating how their products are better than others. The salesperson should convince customers of their product's differential advantage. Factual evidence of product superiority should be shown to customers. This is more convincing than mere claims.

Identifying the needs and problems faced by the customers requires a set of listening and questioning skills. People are a lot more prone to making statements than asking questions. Inexperienced salespeople are the ones who focus on doing all the talking themselves. Successful salespeople are the ones who let the customer talk most, and in the process gain all the information required to make a sale.

Step 4: Presentation and demonstration

Presentations and demonstrations help convince customers that the salesperson can provide them with solutions to their problems. Presentations should focus more on customer benefits than on product features. These can be linked by using the following phrases: (i) which means that…, (ii) which results in…,(iii) which enables you…

There should be evidence to lend support to the sales argument, i.e., scientific tests, satisfied customers' testimonials, setting up meetings with customers, etc. Salespersons should keep posing questions while the presentation is on. This is a good way of ensuring that the customer has registered what the salesperson has said and checking whether the information given by the salesperson is important to the customer or not.

Demonstration lets the customer see the product in operation and also verifies the claims made for the product. Demonstration gets the customer involved in the selling process through participation. It reduces the perceived risk of purchase and moves the customer towards purchase.

Step 5: Dealing with objections

Objections should not be considered in a negative manner because they only emphasise the issues important to the buyer. In order to deal with objections effectively, it is necessary to handle not just the substantive but also the emotional aspects. The argument supported by a greater weight of evidence may not always win since people resent being proven wrong. It is important to recognize the emotional aspects of objection handling. The buyer should not lose face or be antagonized during this process. The salesperson should be very subtle in solving the problems that the customers might face regarding a particular product.

NOTES

Two ways of minimizing this risk are to listen to the objection without interruption and presenting an alternative viewpoint to the customers.

A salesperson should listen to the objections of the customer and should not interrupt even when they do not agree with what the customer is saying. Interrupting the customer may give an impression to the buyers or customers that you consider their objection as wrong or trivial. The customer can feel offended and shut out the deal from their mind. Interruption denies buyers the respect they are entitled to and may lead to misunderstanding. The salesperson should listen carefully, attentively, and respectfully. The buyer will appreciate that the salesperson is taking the problem seriously and the salesperson will gain a clear and better understanding of what the problem is.

After listening to the customer's objections and viewpoints, the salesperson should agree with the buyer's viewpoint before putting forward an alternative point of view. It is the responsibility of the salesperson to create a climate of agreement rather than conflict and show that they respect the opinion of the buyer.

Step 6: Closing the sale

Effective presentation followed by convincing objection handling may not result in a customer order. A salesperson needs to close the sale. It may be necessary for the salesperson to take the initiative. Buyers may still have doubts and may delay the decision to purchase.

Buying signals

The key to closing a sale is to look for buying signals. These are statements by buyers that indicate that they are interested in buying. They all indicate a positive intention to buy without actually asking for the order. They provide excellent opportunities for salespeople to ask the buyer to make a decision without appearing pushy. It is not inappropriate or impolite to ask the customer to place an order. Most customers have lingering apprehensions about a product such as whether they should buy the product at all or later. Most customers feel relieved that they have been prodded by the salesperson to take a decision. Customers resent being pushed into taking a decision when they want more time to analyse the suitability of the salesperson's offer. So when a customer provides cues or explicitly says that he needs more time to take a decision, the salesperson should withdraw by politely asking when he could call next.

Closing techniques

Simply ask for the order—Would you like that one?

Summarize and then ask for the order—A salesperson should remind the buyer of the key points of sales discussion in a manner that implies that the time for decision-making has arrived and that buying is a natural next step.

- **Concession close**: By keeping back a concession to use in close, a salesperson may convince an indecisive buyer to place an order by offering the concession.

NOTES

- **Action agreement**: In some situations, it is inappropriate to try to close the sale. The sale may not always be in hands of one person but a decision-making unit.
- **In action agreements**: The seller or buyer agrees to do something like sending brochures and talking to clients before the next meeting. This technique helps in maintaining a relationship between the parties and can be used as a starting point of discussion when they meet next.

Step 7: The Follow-up

It is up to the salesperson to make sure that the order is executed well and there are no problems with the delivery, installation, product use, training of the customer's employees, and so on. The follow-up ensures that the customers realize that the salespeople actually care about them. Follow-ups can be used to reassure that purchasing the salesperson's product was the correct thing to do. It helps the customer to keep cognitive dissonance at bay.

Check Your Progress

6. Define personal selling.
7. What is salesforce automation?
8. What is salesforce technology capable of?

1.4 RECRUITING AND SELECTING SALES PERSONNEL

Recruiting sufficient highly skilled sales personnel who are capable of providing quality services to the customers is the key responsibility of a sales manager. Once the first strategic decision is made, recruiters need to conduct a thorough job analysis, have a clear job description and job specifications so that they have a clear understanding of the type of salespeople they need to hire. Besides that, the sales trainers should be aware of the additional qualifications the newly recruited sales personnel need to have and arrange proper training for them.

1.4.1 Organization for Recruiting and Selection

The organization for recruiting and selection of sales personnel varies from company to company. Companies with a small salesforce sometimes assign the sole responsibility for recruitment and selection of sales personnel to the company's personnel manager. On the other hand, for a large organization, the employer might outsource all or part of its recruitment process to the external service provider. The responsibility for recruitment and selection is the concern of regional or district sales offices, but it may vary from one company to another.

Sources within the organization

Many individuals apply for a particular job because they may already be aware of the work culture of that organization and the responsibilities of that position through

NOTES

someone who is already working in the company. Similarly, if an existing employee refers a candidate then it might be a good idea to consider them for the same reasons. Often such applicants already know something about the job and company policies, and their candidature for the job indicates a favourable disposition towards the company.

Recommendation by company executives for recruitment

Recommendations by the sales manager, president, and other company executives may help in the recruitment process.

Internal transfers for recruitment

Another great internal source of recruitment and selection is transfers from other departments.

Sources outside the organization: direct unsolicited application

Most companies receive some unsolicited 'walk-in' and 'write-in' applications for sales positions.

Placement agencies

Most sales managers do not find employment agencies promising when it comes to recruiting skilled professionals. However, some organizations do take help from these agencies.

Salespeople making calls on the company

The purchasing manager is in contact with sales personnel from other companies and is in a strategic position to evaluate their on-the-job performances. The purchasing manager meets high-calibre salespeople quite frequently. In well-managed companies, a purchasing manager serves as a 'centre of influence' and may help in giving inputs in the recruitment process.

Employees of customers

Some companies regard their customers as a recruiting source. Customers may sometimes recommend people who have reached the maximum potential in their currents jobs and are looking for a change.

Sales executives' clubs

Many sales executives' clubs operate placement services. Salespersons seeking new positions submit personal data sheets that are duplicated and forwarded to members. In club meetings, sales executives have opportunities for informal discussion and exchange of placement information.

Salesforces of non-competing companies

Individuals currently employed as salespersons for non-competing companies are often attracted to lucrative job positions.

Salesforces of competing companies

Having gained experience in selling similar products in similar markets, personnel recruited from competitors' salesforces may require only minimal initial training.

NOTES

Educational institutions

This source includes colleges and universities, community colleges, vocational-technical institutes, business colleges, etc. Colleges and universities have become increasingly important points of recruitment of sales and management trainees.

1.4.2 Selection of the Salesperson

The process of selection varies widely from a simple one-step system consisting of an informal personal interview to a complex multiple-step system incorporating many diverse mechanisms.

Initial screening before the first formal interview is conducted to filter through unqualified applicants, thus saving time for both the interviewers and applicants. During the pre-interview screening, the applicant is provided information about the company and general job details through a well-prepared recruiting brochure. Also, during the pre-interview screening, most organizations ask applicants to complete interview application forms which are designed to obtain information on the applicant's basic qualifications, education, experience, etc.

Figure 1.10 depicts the steps in the selection process in a simple manner.

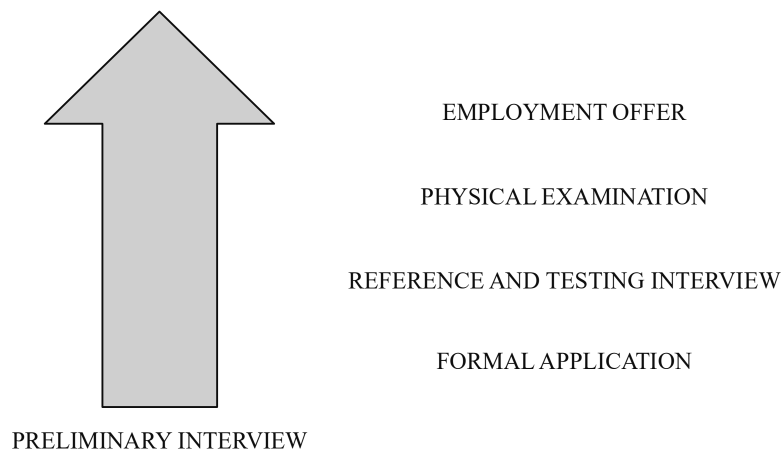


Fig. 1.10 *The Selection System*

Formal Application Form

The formal application form serves as a central record for all pertinent information collected during the selection process. A formal application form is filled after a preliminary interview. The application form may be filled by the applicant personally or by an interviewer who records the applicant's responses. Certain sections in the form such as reference and credit checks, testing, and physical examinations are reserved for later recording. On the contrary, sections that are required to be filled include present job details, dependents, education, employment status, time with the last employer, membership in organizations, previous positions, records of earnings, and reason for leaving the last job.

Interview

An interview is the most widely used selection process. Infact in some companies, it comprises the entire selection system. Some experts criticize interviews considering it as an unreliable tool, but it is an effective way to obtain certain

NOTES

information. No other method is quite as satisfactory as an interview in judging an individual's communication skills, demeanour, attitude towards selling, response in critical situations and personal impact upon others.

Interviewing Techniques

Various interview techniques can be employed while recruiting a personnel. The interview techniques depend on the post, candidate and employer. Some of these interviewing techniques are as follows:

Interviews based on a pattern

In this technique, the interviewer uses a prepared outline of questions designed to elicit basic information from the applicant.

Interviews without an outline

In this technique, the applicant is encouraged to speak freely about their experience, training, and future plans. The interviewer asks a few direct questions and speaks only enough to keep the candidate talking. Some experts say that a non-directive technique yields maximum insight into an individual's attitude and interests.

Stress interview

The stress interview simulates the stresses the applicant would meet in actual selling situations and provides a way to observe the applicant's reactions to them. Recently, stress interviewing has become a more complex and sophisticated technique. In this situation, two interviewers are required—one uses psychological techniques to set up the simulated situations while the other observes and records the applicant's reactions.

Rating Scales: Likert and Semantic Differential Scales

Personal interviews have a tendency to lack objectivity, an error that can be corrected through rating scales. These are constructed to channel the interviewer's ratings into limited choice responses. The Likert Scale is based on the agreement and disagreement of the interviewer while interviewing. Semantic scales are based on two opposite traits, e.g., does the interviewee shows interest in sports? The choice that the scale would give is yes, partially yes, no, completely no. The Likert Scale is a five-point scale and the Semantic Scale can be a five-, seven- or eleven-point scale, as shown in Figures 1.11 and 1.12 respectively.

completely agree	agree	neither agree nor disagree	disagree	completely disagree

Fig. 1.11 *The Likert Measurement Scale*

yes	partially yes	can't say	partially no	no

Fig. 1.12 *The Semantic Differential Scale*

References

References are used to secure information about an applicant which usually cannot be procured through other sources, and personal contact is the best way to obtain such information. For instance, when asked about the personal and professional details of a new recruit, the former employer may be able to talk more freely in person. When a reference is located at a distance, a telephone call may substitute for personal contact. References fall can be categorized as present or former employers, former customers, reputable citizens, mutual acquaintances, etc.

NOTES

Different types of tests administered on recruitment of salespeople

Three types of psychological tests are used in selection systems for sales personnel: tests of ability, habitual characteristics, and achievement. The diagrammatic representation of these can be seen in Figure 1.13.

Tests of ability

This measures how well a person can perform a particular task with maximum motivation. Tests of habitual characteristics help to gauge how a prospective employee performs their daily work. Achievement tests measure how individuals learn from their experience, training, or education. Tests of ability include tests of mental ability (intelligence tests) and tests of special abilities (aptitude tests). Tests of mental ability or intelligence tests are used satisfactorily in a wide range of applications. Certain tests are designed to measure special abilities or aptitudes such as spatial and perceptual abilities, speed and reaction time, mechanical comprehension and artistic abilities.

It is essential for a salesperson to have two basic qualities; empathy and passion. Empathy is the ability to feel what the customers feel, to put oneself in their shoes. An empathetic salesperson senses the reactions of customers and adjusts to these reactions, achieving real interaction with the customers. The second basic quality—passion—makes the salesperson get the job done by putting all the efforts needed to materialize the sale. A salesperson who is passionate about their job acts as a cheerleader of their organization and is better at pitching deals to the clients effectively.

Tests of habitual characteristics

These include attitude, personality, and interest tests. Attitude tests are more appropriate as morale-measuring techniques than as selection aids. They are used to ascertain the salaried employees' feelings toward working conditions, growth opportunities, etc.

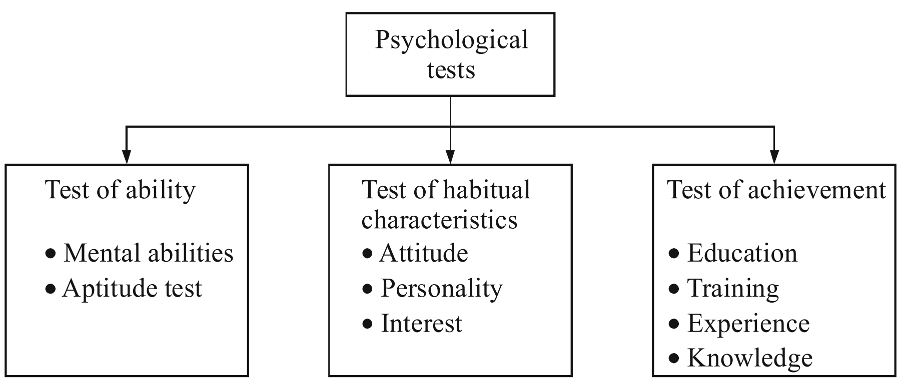


***Fig. 1.13** Different Types of Selection Tests*

Besides the mentioned tests, there are more psychological tests which are as follows:

Projective tests

A projective test is a personality test designed to enable a person to respond to ambiguous stimuli, presumably revealing hidden emotions and internal conflicts. Unlike an objective test in which responses are analysed according to a universal standard (for example, a multiple-choice exam), responses to projective tests are content-analysed for meaning. The best known and the most frequently used projective test is the Rorschach inkblot test, in which a person is shown a series of ten irregular but symmetrical inkblots, and asked to explain their observation. The responses are then analysed in different ways, taking into consideration what had been said, the time taken to respond and the aspect of the drawing which was focused upon.

Interest tests

An interest test helps one to define their field of interest and decide what they like the most. This, in turn, helps people in making a career choice. In most cases, a candidate is provided with two activities and they are required to choose which one interests them the most. This can help in identifying the interests of a candidate and choose the candidate whose interests are more aligned with the current job position.

Tests of habitual characteristics

These tests are true identifiers of a candidate's knowledge—both practical and theoretical. These tests help the interviewer to get a fair idea about various aspects of the candidate's personality such as their understanding of the subject associated with the job profile, their ability to react in diverse situations, their performance in previous organizations or college.

Achievement tests

Achievement tests seek to determine the knowledge of individuals about a particular subject.

Physical examination

Good health is a prerequisite for people's success. Most companies conduct a thorough physical examination of their employees or ask them to disclose any physical conditions they might have.

Job analysis and selection

The traits and characteristics required for performing a particular task may vary from organization to organization. There is no absolute set of traits and abilities that a sales manager can use as a criterion while hiring a new salesperson. Different sales jobs require different levels of involvement and characteristics. Therefore, the first step in the recruitment and selection process is to conduct a job analysis to determine what activities, tasks, responsibilities does a job include and the factors that influence that job. The second is to develop a statement of job qualification that determines and describes the responsibilities involved in the job.

NOTES

Check Your Progress

9. What is the purpose of a formal application form?
10. Why are references used by organizations?
11. Why is job analysis conducted?

1.5 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The American Marketing Association defines sales management as: 'The planning, direction and control of personal selling, including recruiting, selecting, equipping, assigning, routing, supervising, paying and motivating as these tasks apply to the personal salesforce.'
2. The three major objectives of the sales function are sales volume, contribution to profits, and growth.
3. The major technological factors that affect sales are salesforce automation, virtual sales offices and electronic sales channels.
4. The different categories of salespersons based on the creative input they need to perform various sales role are delivery, order taking, missionary selling, sales engineer, and creative selling.
5. The primary responsibility of a sales manager is the management of salesforce in an organization.
6. Personal selling is a method of communication—a salesperson communicates on an individual basis with the prospect of increasing sales.
7. Salesforce automation is the conversion of manual sales activities into electronic processes using a number of combinations of hardware and software.
8. Salesforce technology, such as SFA, communication technology, and CRM, are capable of streamlining the selling process.
9. The formal application form serves as a central record for all pertinent information collected during the selection process.
10. References are used to secure information about an applicant which usually cannot be procured through other sources, and personal contact is the best way to obtain such information.
11. Job analysis is conducted to determine what activities, tasks, responsibilities does a job include and the factors that influence that job.

1.6 SUMMARY

- The American Marketing Association defines sales management as: 'The planning, direction, and control of personal selling, including recruiting, selecting, equipping, assigning, routing, supervising, paying and motivating as these tasks apply to the personal salesforce.'

NOTES

- Sales management of any organization is affected by several environmental factors. The factors affecting sales could be behavioural, technological, or managerial in nature.
- Sales personnel coordinate with the marketing departments for promotional activities and market planning. It is the sales department that has to balance the interests of trade and the manufacturer.
- Sales management directs the salesforce. People involved in sales management need to know the art and science of personal selling.
- A salesperson is the ambassador of their company to the external world.
- Salespeople can be categorized based on the creative input needed to perform various sales jobs such as delivery, order taking, missionary selling, sales engineer, and creative selling.
- A salesperson is accountable to their employer as well as to those who buy and use the products of their firm. The top management entrusts them with the responsibilities of obtaining sufficient sales, providing ample contributions to profits, and continuing business growth.
- A sales manager is also responsible for building and maintaining an appropriate and effective distribution network.
- Sales management is a part of the marketing mix strategy.
- The personal-selling effort of a salesperson must be coordinated effectively with advertising, display, and other promotional efforts if the total marketing effort aims to achieve the desired results.
- Pricing of a product can be done with the help of two pricing strategies, penetration pricing strategy and skimming pricing strategy.
- The effective management of a company's salesforce involves three interrelated sets of decisions or processes; formulation of a strategic sales programme, implementation of the sales programme, and evaluation and control.
- Key account management is a strategy employed by suppliers to identify, target, and provide services to potential customers with complex needs by offering them special treatment in the areas of marketing, administration, and service.
- The primary responsibilities of a sales manager are goal setting, planning and budgeting, organizing and implementing, controlling and evaluating.
- Personal selling is a method of communication—a salesperson communicates on an individual basis with a prospect.
- The use of technology by salespersons has been increasing, as witnessed by the overwhelming proliferation of salesforce automation (SFA), customer relationship management (CRM), and communication technology.
- Recruiting sufficient highly skilled sales personnel who are capable of providing quality services to the customers is the key responsibility of a sales manager.

NOTES

1.7 KEY TERMS

- **Management:** Management is the act of getting people together to accomplish desired goals and objectives using available resources efficiently and effectively.
- **Sales volume:** Sales volume is the number of units sold within a reporting period.
- **Marketing mix:** The marketing mix refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market.
- **Risk:** Risk implies future uncertainty about deviation from expected earnings or expected outcome.
- **Budgeting:** Budgeting is the tactical implementation of a business plan.
- **Recruitment:** Recruitment refers to the process of identifying, attracting, interviewing, selecting, hiring and onboarding employees.

1.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the environmental factors that affect sales management in an organization?
2. What is the purpose of the sales department coordinating with other departments?
3. Write a short note on the role of sales management in an organization.
4. What are the characteristics of a salesperson?
5. What is the distinction between transactional selling and key account management.
6. What are the dos and don'ts of handling key accounts?

Long-Answer Questions

1. Discuss the nature and scope of sales management.
2. What role does good sales management play in increasing the sales of an organization? Discuss the process of sales management.
3. What are the various ways of building strong customer relationships?
4. What are the responsibilities of sales management? Discuss in detail.
5. Discuss the role of planning and budgeting in achieving the sales goals of an organization.
6. What is the process of selecting an ideal sales personnel? Discuss the steps involved in the process.

1.9 FURTHER READING

NOTES

Tapan Panda, Sunil Sahadev. 2019. *Sales and Distribution Management*. New Delhi: Oxford University Press.

Pingali Venugopal. 2008. *Sales and Distribution Management: An Indian Perspective.* New Delhi: SAGE Publications.

S.L. Gupta. 2009. *Sales and Distribution Management*. New Delhi: Excel Books.

Ramendra Singh. 2016. *Sales and Distribution Management: A Practice-Based Approach*. Noida: Vikas Publishing House.

Bholanath Dutta. 2011. *Sales and Distribution Management.* New Delhi: I.K. International Publishing House Pvt. Limited

Rahul Gupta Choudhury. 2019*. Sales and Distribution Management for Organizational Growth.* United States: IGI Global.

A. Nag. 2013. *Sales and Distribution Management*. New Delhi: McGraw Hill Education.

UNIT 2 COMPENSATION, TRAINING AND MOTIVATION

NOTES

Structure

2.0 Introduction
2.1 Objectives
2.2 Developing and Conducting Sales Training Programmes
 2.2.1 Content of Training
 2.2.2 Methods of Training
 2.2.3 Evaluation of Training Programmes
 2.2.4 Objectives of Sales Training
2.3 Designing and Administering Compensation Plans
 2.3.1 Compensation of Salesforce
 2.3.2 What is a Pay Structure?
 2.3.3 Defining Features of a Pay Structure
 2.3.4 Objectives of Salesforce Compensation
 2.3.5 Types of Compensation Plans
 2.3.6 Finalising Compensation Plans
 2.3.7 Plans for the Expense of Salesforce
2.4 Motivating Sales Personnel
 2.4.1 Theories of Motivation
 2.4.2 Impact of Motivation on Sales Productivity
 2.4.3 Motivation and Career Stage
2.5 Answers to 'Check Your Progress'
2.6 Summary
2.7 Key Terms
2.8 Self-Assessment Questions and Exercises
2.9 Further Reading

2.0 INTRODUCTION

A well-designed sales training programme does not only help in increasing the productivity of the salesforce but it also helps in saving costs. Sales training is a critical step in the functioning of a business which includes both, development of the trainee as well as the creation of new techniques to increase sales. In order for the salesforce to work efficiently, they must have the proper knowledge and expertise to perform their day-to-day tasks as well as handle difficult situations. Sales training helps these sales personnel to hone their abilities and learn the required skills. Several organisations also reward and motivate their employees to perform better by providing them compensations in monetary as well as non-monetary forms.

In this unit, we will understand the process of sales training and how it helps the sales personnel to perform better. We will also discuss the ways in which these sales trainings are developed and conducted. The unit also focuses on the various compensation plans that are offered to the sales personnel to motivate them to perform better. The importance of motivating sales personnel to perform efficiently is also discussed in the unit.

2.1 OBJECTIVES

NOTES

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

- Understand how sales training programmes are developed and conducted
- Discuss the process of designing compensation plans
- Examine the administration and types of compensation plans
- Describe the ways by which sales personnel are motivated

2.2 DEVELOPING AND CONDUCTING SALES TRAINING PROGRAMMES

Building a sales training programme requires five major decisions—aim, content, method, execution and evaluation. These are referred to as the A-C-M-E-E decisions, as shown in Figure 2.1.

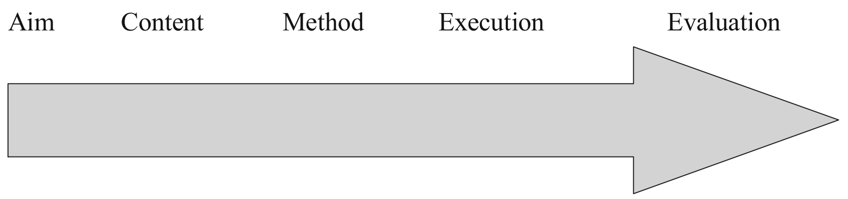


Fig. 2.1 *The ACMEE Approach*

The aim of training is to identify the experience and needs of salespersons. The content consists of product data, sales techniques, markets, etc. The method of training varies according to the situation and needs of an organisation. Execution of training includes how and where the training will take place. Evaluation of training finally judges the effect of a training programme on the organisation and salesperson. Training varies with the salesperson's career cycle, which is depicted in Figure 2.2. Salespersons have varied backgrounds, experience levels, learning abilities, etc., and therefore have their own particular training needs.

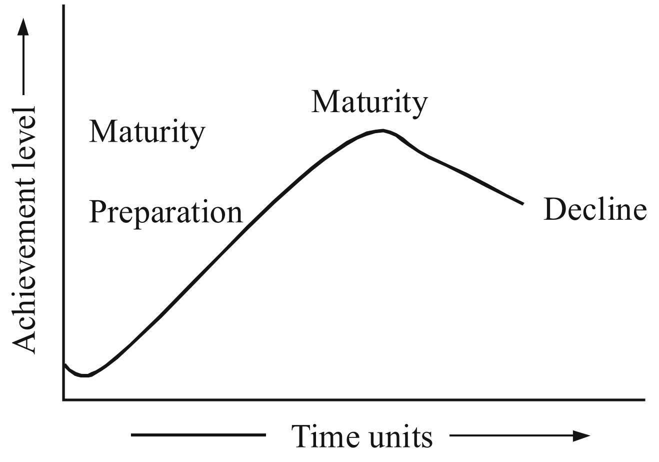


Fig. 2.2 *A Salesperson's Career Cycle*

Identifying Initial Training Needs

The initial training needs of a sales training programme can be identified by the analysis of three main factors, which are as follows:

NOTES

(i) Job specification

The qualifications needed to perform a job are detailed in job specification. The set of job specifications needs scrutinizing for clues as to the areas in which new personnel are most likely to need training.

(ii) Trainee's background and experience

The gap between the qualifications in the job specifications and those a trainee already has, represents the nature and amount of training needed.

(iii) Sales-related marketing policies

The analysis of sales-related marketing policies is also necessary to determine initial sales training needs because the differences in products, markets, and their selling practices and policies determine the differences in training programmes. For example, selling of highly technical goods involves training with a lot of product information while selling non-technical goods involves only initial sales training programmes.

Identifying Continuing Sales Training Programmes

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

2.2.1 Content of Training

The content of the training is not the same for all sales training programmes. It varies from company to company because of differences in products, markets, company policies, trainees' ability and experience, and organisational size. In every initial sales training programme, companies mainly focus on product data, sales techniques, markets and company information. Product training depends on the nature of the product—if the product is highly technical, more than half the programme would be devoted to product training; if the product is non-technical, then a minimal amount of product training is required.

The predominant view is that new sales personnel need basic instructions on how to sell. The salesperson needs to know who the customers are, their particular locations, and the particular products in which they are interested. Besides, the salesperson should also know about their buying habits, motives and financial condition. But the training in this context should not be stagnant; it should be continuous because markets are always changing. The company should essentially inform the salesperson about the company's pricing policy, product services, spare parts and repairs, credit extension and customer relations.

2.2.2 Methods of Training

Some of the important and appropriate methods of sales training are lectures, conferences, demonstrations, role-playing, case-discussions, impromptu discussions, gaming, on-the-job training, programmed learning and correspondence courses.

NOTES

Lecture

Lecturing is a method of learning through instructions from the trainer(s) to the trainee(s). Trainees observe and listen and ask questions at the end of the session. The trainer can personally interact with and solve any problems faced by the trainee. It is also an economical method of training salespeople. The trainer is easily approachable by the salespersons, and frank discussions result in the generation of new ideas and solving of problems faced by the trainees.

Role-Playing

In this method, the trainer first describes a situation and the different personalities involved. The trainee is then asked to play the role of those characters in different situations. Role-playing can be defined as a method of human interaction which involves realistic behaviour in an imaginary situation. Role-plays keep the interest alive as the trainee performs the role assigned to them and in the process learns how to act in real-life situations and gains experience in handling them effectively. It also provides the opportunity for introspection into the behaviour and mind of the trainee.

Case method

A case is a set of data (real or fictional, written). Miniature descriptions and summary of such data present the issues and problems calling for solutions or actions on the part of the trainee. When the trainees are given cases to analyse, they are asked to identify the problem and to recommend tentative solutions through group discussions. Real-life cases give first-hand information to the trainee about sales situations. They can analyse the case and give a solution in the case study. This gives them first-hand experience of the types of problems that exist in the marketplace and how these problems can/should be tackled.

Gaming simulation

Gaming simulation or a simulation game copies various activities in real life in the form of games and is used for training, analysis and prediction. This method is somewhat similar to role-playing. The game basically involves playing a character as in real life and does not have any set patterns or strictly defined goals. There are numerous examples of simulation games being used for both entertainment and serious purposes. For example, in a 'Crime scene Game', interviewing skills are taught in the context of a police investigation. It assigns the learners with the job of interviewing the witness of a bank robbery. At any point in the game, the learners can solve the mystery. Word puzzles are also another type of gaming simulation in which vocabulary and technical terms are taught in a playful and interesting manner. Word puzzles can be used to replace fill-in-the-blanks and other similar exercises.

On-the-job training

When a salesperson joins any organisation, they are given training in the product and its technical features, competition, and its customers in the marketplace and within the organisation. Under this arrangement, the salesperson is trained and

NOTES

instructed by skilled co-workers, supervisors or a special training instructor. Sometimes the first sales call made by the salesperson is made under the supervision of the trainer so that any mistake made by the salesperson can be rectified.

Programmed learning/electronic training

Electronic training, in the form of interactive videos and other such interactive channels, is often used by employers to train their employees.

Programmed instruction involves a sequence of steps that are often set up through the central panel of an electronic computer as a guide in the performance of a desired operation or service of operation. A trainee can practice calls with an on-screen actor whose response is a function of the trainee's approach.

Correspondence courses

Companies that have a wide variety of technical products but a limited sales force often use correspondence courses to acquaint experienced salespeople with new product development and applications. These courses provide written material to the trainees. If the initial sales training is a line function, then training is assigned to top sales executives but if it is a staff function, then the responsibility of initial sales training is given to the personnel department. The responsibility for continuing sales training lies with the top sales executives. Sometimes, external experts are also hired to conduct specialised training programmes for the employees.

Sales training programmes

The timing of initial sales training programmes depends on several factors such as the number of new personnel trained each year, the current size of the salesforce, turnover, and future goals of the higher management regarding the salesforce.

The principle of an effective sales training programme is that learning must be continuous—new information must be assimilated and other concepts should be modified in the light of new developments. This requires that the training of every salesperson should continue as long as they are working for the organisation.

Training helps in:

- Dealing with new selling techniques
- New product applications
- Knowing customer problems
- Knowledge over new selling aids

Training programmes are held either at centralized or decentralized points. The centralized programme generally provides better product training but higher costs are incurred in bringing trainees to a common point. On the other hand, decentralized training has even more serious defects. It cannot be executed properly unless supervised by the top management.

2.2.3 Evaluation of Training Programmes

Evaluation of training prgrammes involves comparing the aim of a training programme with the results and measuring its impact on the salesperson.

NOTES

There is no direct method of measuring the impact of training but certain methods are available for ascertaining whether the results are positive or not. These are:

- ***Market share percentages:*** These are judged by the increase or decrease in the market share of the product.
- ***Written tests:*** Making the trained salespeople take a written test.
- ***Observers who work with sales personnel:*** The performance of salespeople is judged by the trainer, who observes the actual selling situations.

2.2.4 Objectives of Sales Training

Although the specific objectives of sales training may vary from firm to firm, there is some agreement on the broad objectives. Sales training is undertaken to increase productivity, motivate, improve turnover, improve customer relations, and produce better management of time and territory.

Some of the objectives of a sales training programme are as follows:

Creating credibility in sales training

Many sales trainers believe their programmes lack credibility. Cost-cutting efforts are too often directed at existing sales training programmes. Sales training programmes have to be sold, just like any other product or service. Well-designed programmes are easier to sell to the management than those put together with little thought.

Analyse needs

The starting point in creating credibility is to analyse the needs of the sales force. One way to do this is to travel with sales representatives, observing them and asking what they need to know that will help them perform more effectively. The analysis of the needs of salespeople for training is depicted in Figure 2.3.

Determine objectives

Setting specific, realistic, and measurable objectives add to the credibility of a sales training programme. The objectives may include learning about new products, techniques or procedures. For example, the management of an organisation may want to aim for a 10 percent sales increase, which then becomes a broad objective of the training programme. The specific objective might be to teach sales representatives how to get more leads, which will eventually help in achieving the broad objective.

Develop and implement programme

Many companies, both large and small, use external agencies for conducting sales training programmes. Small companies may outsource most of their training needs. Large companies usually develop most of their programmes internally and use external agencies to handle specialized needs only.

NOTES

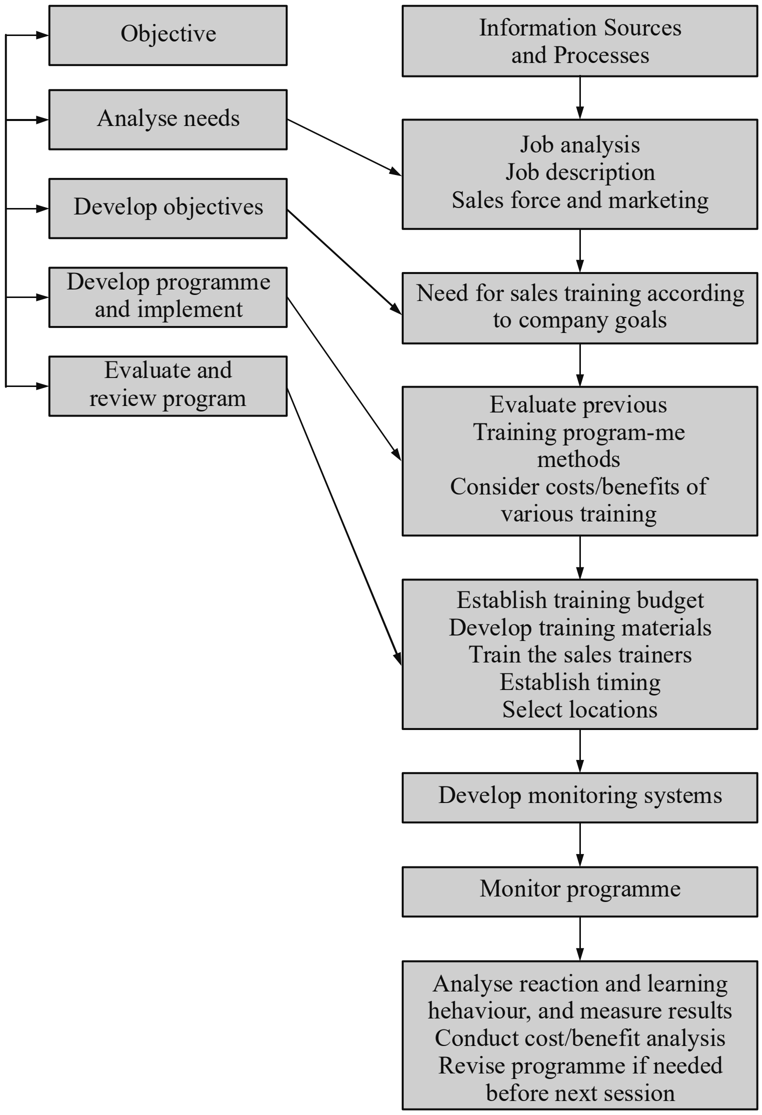


Fig. 2.3 *Analysing the Needs of the Sales Force*

Check Your Progress

1. Mention the five decisions required for building a sales programme.
2. What is the aim of training?
3. What does the evaluation of training programmes involve?

2.3 DESIGNING AND ADMINISTERING COMPENSATION PLANS

Let us begin by discussing compensation.

2.3.1 Compensation of Salesforce

The sales job is unique in its ability to provide an income to its personnel. In fact, to an extent (in line with organisational policies), influencing the quantum of one's earnings is in the hands of a salesperson. This unique feature is caused by two basic factors: (i) The easily measurable responsibilities and the output of the members of the sales team in an objective manner; (ii) The need for the organisation to continuously grow through increased sales and consequent linkage of salesforce compensation to the salesperson's performance. Designing compensation for the salesforce is, therefore, a very important factor and helps to mold the behaviour of the sales personnel in alignment with the objectives of the organisation. However, not all organisations understand the importance of compensation for the salesforce to help them perform better in the wake of changing needs. A well-designed compensation plan not only leads to the attainment of sales objectives but also enables the marketing plan to be implemented. For example, if one of the marketing objectives is to expand the market for existing products, the sales plan should focus on sales promotions and entry into new territories. The compensation plan for the year could then be made by focusing on incentives for promotion-related actions.

2.3.2 What is a Pay Structure?

According to Milkovich and Newman, 'Pay structure refers to an array of pay rates for different work or skills within a single organisation.' An organisation's pay structure is defined by:

- the levels of work or jobs,
- the pay differentials existing between the levels, and
- the criteria used by the organisation to determine the levels of work and the pay differentials.

In order to understand the pay structures of organisations, the defining features of pay structures are described in the following section. Another reason for discussing the defining features of pay structure is that it is due to the differences in levels, differentials, and criteria, that pay structures differ from organisation to organisation.

2.3.3 Defining Features of a Pay Structure

The features of a pay structure are as follows:

1. **Levels:** One of the defining features of any pay structure is its hierarchical organisation, i.e., it consists of numerous levels. These levels reflect the organisational structure, reporting lines and the order or ranking of jobs. The presence of a hierarchical pay structure is common to all organisations, but it is the number of levels where most organisations differ from each other. Some have few levels while others have multiple levels. For instance, GE plastics use five broad levels while Lockheed Martin, an American global aerospace, defense, security, and advanced technology company, headquartered at Bethesda, Maryland, USA, uses six levels for its engineering section alone. In GE plastics, the broad levels (Table 2.1) are; Executive—Director—Leadership—Technical/Managerial—Professional. The Lockheed Martin Levels are; Engineer—Senior Engineer—Systems Engineer—Lead Engineer—Advisor Engineer—Consultant Engineer. From

this illustration, it is clear that the pay structure hierarchy reflects the reporting relationships and the ranking of jobs. These differ from organisation to organisation.

NOTES

Table 2.1 *Managerial Levels at GE Plastics*

Levels	Description
Executive	Provides vision, leadership, and innovation to major business segments or functions.
Director	Directs a significant functional area or smaller business segment.
Leadership	Individual contributors leading projects or programs with broad scope and impact, or managers leading functional components with broad scope and impact.
Technical	Individual contributors managing projects or programs with defined scope and responsibility, or first-tier management of specialty area.
Professional	Supervisors and individual contributors working on tasks, activities, and/or less complex, shorter-duration projects.

(Source: Compensation, by Milkovich, Newman and Venkata Ratnam)

2. **Differentials:** Differentials refer to the pay differences which exist among levels within an organisation. Differentials exist primarily because the nature of jobs differ and the skills, knowledge and competency required to perform those jobs differ as well. Work that requires more competency is valued more by the organisation, hence such work receives higher salaries due to their high valuation.
3. **Criteria:** Following are the criteria used for determining the levels and the pay differentials by the organisation:

   ***I. Content and value*:** Every job requires an individual to perform some kind of 'work' by using their skills, knowledge, etc. and it is this 'work' that is referred to as 'content'. 'Value', on the other hand, refers to the contribution made by 'work' to the organisational objectives. An organisational structure based on content will arrange or rank jobs on the basis of skills, knowledge and competency required for the performance of the jobs. An organisation determines the value of a job on the basis of the job information, and this is called job evaluation. For example, a Ph.D. degree in Science should not be the criterion of selecting an incumbent for the job of a junior technician, which only requires a BSc degree. To control bias in job evaluation, a job evaluation committee comes into the picture. Many employers group jobs into grades so that the pay structure is easier to administer. The jobs within each grade are considered equal in value.

   ***II. Use value and exchange value*:** 'Use value' is the value of goods and services produced by an employee in a job, while 'exchange value' is the agreed wage or salary between the employer and the employee for the job. Here is an example that can help to understand the concept better. IBM is a software company with a worldwide presence. The company includes several engineers working for it from different locations such as New Delhi, Tashkent, Los Angeles, etc. These

NOTES

engineers work for the same company, have similar job content and internal job value. The only difference is that they live and work in geographically different locations. The products they produce in these diverse geographical locations have the same use value. But the wage and salary rates are different in New Delhi, Tashkent and Los Angeles, hence the exchange value varies. All employees work for the same company and produce the same use value but there is a difference in pay. This pay differential can be attributed to the wage market practices of the respective countries. In this way, use value and exchange value affect the pay differentials of an organisation.

III. ***Job-based and person-based structures:*** A job-based structure emphasises on the job content such as competencies, responsibilities, etc. While a person-based structure focuses on the skills, knowledge, and attitudes of the employees. For example, the engineering department at Lockheed Martin uses job performance (Table 2.2) as criteria while GE plastics uses employee competency as criteria for its structure.

Table 2.2 *Engineering Structure at Lockheed Martin*

Engineer	Limited use of basic principles and concepts. Develops solutions to limited problems. Closely supervised.
Senior Engineer	Full use of standard principles and concepts. Provides solutions to a variety of problems. Under general supervision.
Systems Engineer	Wide applications of principles and concepts, plus working knowledge of other related disciplines. Provides solutions to a wide variety of difficult problems. Solutions are imaginative, thorough, and practicable. Works under only very general direction.
Lead Engineer	Applies extensive expertise as a generalist or specialist. Develops solutions to complex problems that require the regular use of ingenuity and creativity. Work is performed without appreciable direction. Exercises considerable latitude in determining technical objectives of assignment.
Advisor Engineer	Applies advanced principles, theories and concepts. Contributes to the development of new principles and concepts. Works on unusually complex problems and provides solutions that are highly innovative and ingenious. Works under consultative direction toward predetermined long range goals. Assignments are often self-initiated.
Consultant Engineer	Exhibits an exceptional degree of ingenuity, creativity and resourcefulness. Applies and/or develops highly advanced technologies, scientific principles, theories and concepts. Develops information that extends the existing boundaries of knowledge in a given field. Often acts independently to uncover and resolve problems associated with the development and implementation of operational programmes.

(Source: Compensation, by Milkovich, Newman and Venkata Ratnam)

In practice, it is rather difficult to describe a job without talking about the job holder's knowledge and skills, and similarly, it is equally difficult to describe an employee's job knowledge without talking about the job content. These are the features that define an organisation's pay structure and are also the factors that distinguish every organisation's pay structure. Now that the pay structure and its features have been identified, we can move on to the factors that affect the pay structure of an organisation.

NOTES

2.3.4 Objectives of Salesforce Compensation

In designing the compensation plans, the viewpoints of both the organisation and sales personnel need to be considered. Some of the objectives of a compensation plan from organisation's point of view are:

- To attract, retain and motivate high-quality sales personnel
- To maintain a balance between being economical yet competitive
- To be highly flexible, so that it can be shaped around changing product markets, different sales territories with differing potential, new launch products, etc.

Likewise, the objectives from an employee's point of view could be:

- A judicial mix of fixed and variable incomes, which will help meet regular minimum sustenance expenditure while providing motivation for superior results
- A transparent and just plan which is easily understood and is based on performance factors, which are really under the control of the sales personnel

As a matter of fact, from the employee's point of view, a compensation plan which provides security, reinforcement of good performance, recognition and status would be ideal.

2.3.5 Types of Compensation Plans

Compensation plans can be varied to suit the purpose. We shall now look at the different types of plans and their rationale:

(i) Straight salary: When a compensation plan is fixed for a given period of time and has no relationship with the output of the salesperson, it is referred to as a straight salary plan; for example, ₹ 2 lakh per year, ₹ 20,000 per month or ₹ 5,000 per week, are a few types of plans. In some instances, compensation plans for the salesforce should be similar to those provided to the general staff of an organisation. When the sales job primarily pertains to prospecting, servicing or relationship building, then a straight salary plan is workable. Additionally, when the sale of a product is dependent on team selling then also such a plan may work. Like sales of a 'power plant' requires a team consisting of the salesperson, technical consultant, service engineer, product specialist, finance expert—as all of them collaborate to enable a successful sale. In such situations, a straight compensation plan would apply. The fixed compensation here could be based on parameters such as profile, qualification, and experience.

The following are the advantages of a straight salary plan:

a. The cost of salesforce compensation for the organisation is easily computable as it is fixed.

NOTES

b. Over time and with increasing expertise in the sales team, the sales would increase and result in a decrease in the cost of sales per unit sold.

c. It provides a sense of security to the salesperson as the amount is guaranteed to them irrespective of the sales achieved by them.

d. This also facilitates smooth transfers of salespeople from one territory to another due to no change in their compensation plan despite the transfer.

Since there is no direct link between compensation and performance, there are some disadvantages of a straight salary plan as well, such as:

a. A straight salary plan does not differentiate between performers and non-performers.

b. Salespersons do not have any motivation for putting in extra effort and may become complacent.

c. Salespersons may also focus on products that are saleable with ease and therefore, the more difficult (and possibly higher valued) products of the company would not get sold in the quantum as desired by the organisation.

(ii) Straight commission plan: In this plan, compensation is linked to the sales output of the salesperson. This linkage could be in terms of a fixed percentage of the sales revenue or profits. Sometimes, it is also linked to the sales quantum in terms of units sold. Plans could be designed wherein the commission kicks in only after a minimum quantum is sold, beyond which every sale is linked to a commission in a pre-specified manner. Such a plan is especially helpful for start-up organisations that do not have an idea of the market potential or the predilection of the customer for the company's products. Additionally, products that need differential effort for their sales are better served by such a plan, wherein the commission is provided to reward higher effort.

There are numerous advantages of such plans. Some of the advantages are listed below:

a. They are based on the basic philosophy of human motivation and therefore find easier acceptance.

b. The phenomenon of underpayment or overpayment (which cannot be avoided in a straight salary plan) is avoided here as payment is commensurate to output.

c. Facilitates target fixation for the sales force.

d. In many cases, with increasing sales the expense per unit of sale decreases.

Disadvantages of the 'commissions only' plan are:

a. The complete focus of the salesforce on output may be at the cost of providing service to the customer, relationship building, etc.

b. The focus is entirely short term and this may be detrimental on a longer time frame.

c. Commissions, when linked to sales revenue or sales unit numbers may sometimes lead to profit erosion as the sales force may compromise on price to effect sales to which their commissions are linked.

d. The potential for conflict amongst members of a team increases as different personnel earns differential commissions.

e. Transfers of sales personnel may be strongly resisted—especially by sales personnel located in high potential territories.

f. As sales are dependant on environmental factors (state of the economy, etc.) the earnings of the sales personnel could vary for factors beyond their control.

NOTES

(iii) Combination plans: As the name suggests, these are plans which consist of both salary and commission in a predetermined ratio. For example, a common plan consists of a combination of 90 percent salary and 10 ten percent commission. However, this ratio is fixed based on the product, industry standards, organisational objectives, etc., and therefore combination plans with 50 percent salary and 50 percent commissions are also not uncommon. By their very nature, combination plans have the advantages of both the straight salary and straight commission plans and are particularly relevant for large organisations with multiple product lines. Payment of salary and commission need not be together and some organisations have a cycle of paying commissions on a weekly basis while salary is paid on a monthly basis. This enables a continuous source of motivation for the salesperson while at the same time assuring security on an ongoing basis.

The combination plans have more advantages as compared to other plans due to which this is the most popular method of compensation:

a. All aspects of selling, viz., prospecting, lead development, achieving sales, customer service, relationship building can be encouraged through such plans.

b. Provides both, security and motivation to the salesforce.

c. Earnings would normally be higher in this plan as compared to the other plans discussed above.

d. Enables better control through the implementation of effort in desired areas (specific product, market, etc.).

Disadvantages of combination plan are:

a. The complexity involved in administering combination plans is much higher.

b. Such plans need constant monitoring to ensure that the ratio of fixed to variable proportion remains both realistic and motivating.

NOTES

2.3.6 Finalising Compensation Plans

The steps involved in designing a compensation plan are as follows:

i. The responsibilities and performance measures for each member of the sales team should be finalised through a proper job description.

ii. The quantitative and qualitative objectives for the performance period should then be finalised. These should be measurable and clear to all the team members.

iii. The level-wise compensation should be finalized next. The right compensation may help to overcome a whole lot of other deficiencies that may be present. Ideally, the compensation should be commensurate with the level of difficulty involved in achieving the targeted sales and generally, the following factors are instrumental in arriving at the compensation level:

   a. Sales volume and the difficulty in achieving the same

   b. Industry practices and competitive benchmarks

   c. Demographic and cost of living indices

   d. Organisation policies

   e. Candidate profile; for example, an intensely competitive product market would require candidates with a superior profile, which would automatically necessitate a higher compensation level keeping the other factors constant.

iv. The next stage is finalising the compensation mix. In working out the compensation plan of a salesforce, four components are generally considered, viz., fixed compensation, variable compensation, benefits, and expense accounts. A proper mix of these components is very important to achieve a win-win compensation structure. The mix is also determined by the product and market nature and in general, the variable component of the mix increases with the increased competitive nature of the business. In extremely competitive scenarios, it may not be uncommon to find the variable component to be several multiples of the fixed components. The benefits component of the compensation plan is generally maintained to encourage retention of the employee to the organisation while the expense accounts play a key part in assisting the salesperson in developing market relationships. The different types of compensation plans have been explained in Figure 2.4.

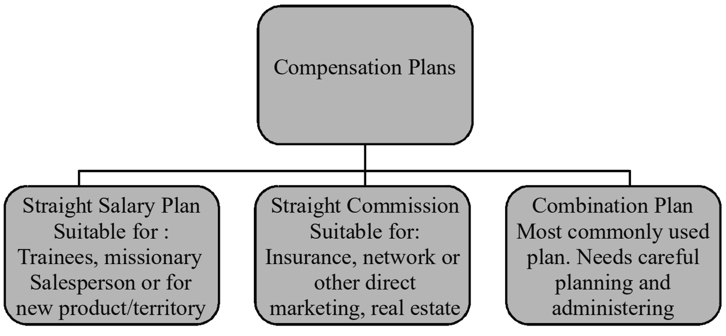


Fig. 2.4 *Types of Compensation Plans*

v. Once the compensation plan has been finalised, it is generally advisable to test it. Such pre-testing can be done either as computer simulations or by applying them in a smaller area (one branch or territory) for a specific period, involving all the relevant personnel. Once the testing is over, required corrections are incorporated. This changed plan can then be rolled out along with proper communication.

Sales Contests

A sales contest is an important compensation tool applicable only in short periods of time. These are relevant when management does not want to change the basic compensation structure and yet is required to encourage and motivate specific sales to push activities in the market. Usually, sales contests are meant for sales personnel, but on certain occasions, these are also applied over the distribution channel constituents and end customers. Incentives offered during sales contests could be monetary as well as in the form of privilege awards, travel, special prizes, etc.

The objectives of sales contests are:

- To improve short-term sales
- To shore up profits in the short term
- To emphasise sales of specific products from the total product range
- 'Push' strategy to obtain new customers

The plan, design, and evaluation of sales contests are very important for their ongoing success.

(i) Planning: Effective planning is the key to the success of sales contests and primarily deals with appropriate timing, theme, incentives and the number of winners. Properly planned sales contests inculcate the spirit of healthy competition amongst the sales personnel whilst achieving the goals of the organisation. The theme and award must create excitement amongst the participants and need not necessarily involve a high payout. Additionally, the contest should be planned at an appropriate time so that it does not spread over two performance periods. The sales contest should be promoted in a way that garners the maximum number of participants. The participants should also feel enthused throughout the contest.

(ii) Design: A successful sales contest needs to be designed keeping in mind factors such as feedback of the salespersons, their career stages, commitment, and unique activities that attract them. Feedback from the ones who win as well as those who lose helps in drawing a balanced conclusion. A sales contest should be able to create excitement among the participants ensuring participation from the maximum number of teams. The theme and rewards, to a large extent, depend on the designation and seniority of the sales personnel. Generally, young sales personnel appreciate rewards in the form of recognition. The sales contests are relatively novel schemes due to which there is a higher

NOTES

probability of things going wrong. Therefore, it is important to carefully design these sales contests avoiding the possibility of any mistake. The success of a sales contest depends on the quality to a great extent. Therefore, it is important to design quality contests to create zeal and excitement among the participants.

(iii) **Evaluation:** Evaluation is primarily necessary to gauge the impact of the sales contest on sales profitability, customer outlook, and morale of the salesforce. However, an important requirement is to evaluate the impact of the contest several times during the course of the contest and not only at the end. The initial evaluations help in correcting design errors and aligning the contest towards its objectives. The evaluation also includes assessing the impact on the different business functions of the organisation, the relative impact of the different aspects, and finally, the measurement of its achievements. Sales contests, when planned, designed, and evaluated properly deliver exceptional value as a promotional tool.

2.3.7 Plans for the Expense of Salesforce

A vital portion of plans for salesforce compensation is their expense plans. The constant need to travel, meet and interact with customers involves a significant amount of money being expended by the salesforce to meet their travel and communication requirements. As this forms a significant portion of the marketing budget, it is important to understand what types of expenses are normally incurred by the salesforce. The types of expenses are listed below:

(i) **All expenses paid by the company:** Here, the company pays all the expenses incurred by the executive for selling activities. This straightforward method saves the organisation from drawing out complex travel and communication norms and monitoring them. However, such plans do not allow estimation of the expense budget and may lead to a discrepancy in the performance period. The sales personnel may end up spending excessively for earning some extra money.

(ii) **All expenses paid by the salesperson:** This arrangement is set up in a way that the compensation to the salesperson is all-inclusive i.e., includes their expenditure towards tours, travel, communication among others. While such an expense plan enables accurate estimation of the sales and marketing budget, this may hinder the development of customer relationships, interaction, etc., as the salesperson may reduce their visits to save on expenses. Commissions-based compensation plans usually have such expense arrangements.

(iii) **Partial expenses paid by the company:** In this type of plan, the organisation usually pays a fixed amount towards expenses and the employee needs to bear expenditure incurred over and above this amount. While this helps in better estimation of the expenses, such plans may be unfair when similar amounts are fixed for different sale territories requiring different expenditures because of the differences in the geographical parameters.

NOTES

(iv) **Fringe benefits:** Salesforce compensation plans also need to factor in the fringe benefits that are provided to employees of an organisation. Fringe benefits refer to the indirect compensation that is provided by an organisation to meet the essential needs of the employees including salesforce personnel. These elements include:

a. ***Benefits under the framework of the Labour Act***—social security, compensation in case of layoffs, housing allowance, city compensatory allowance, etc.

b. ***Retirement benefits***—gratuity, pension, medical coverage, etc.

c. ***Insurance against unforeseen events***—medical, accident life insurance, etc.

d. ***Payments against leave***—vacations, medical leave, etc.

e. ***Other miscellaneous benefits***, such as the provision of a company car, telephones, customer entertainment reimbursement, club memberships, subsidised food expenses, housing, relocation expenses, and so on.

Check Your Progress

4. What is use value?
5. What is exchange value?
6. What is a straight salary plan?

2.4 MOTIVATING SALES PERSONNEL

Motivation is one of the principal objectives of a good training plan. Derived from the Latin word *movere* which means 'to move', motivation refers to that inner force that influences the behaviour and causes specific actions. Applied in the context of sales personnel, motivation is perceived to be vitally important for the completion of sales tasks. As only 10 to15 percent of sales personnel are deemed to be self-motivated, this aspect has become one of the critical factors for enabling the success of the salesforce and therefore of the organisation. Motivation usually consists of three dimensions:

i. **Persistence:** This refers to how long (time-period) a mental activity, accompanied by physical effort, is carried on. The longer the time, the higher the intrinsic motivation.

ii. **Intensity:** This determines the magnitude or the size of the mental effort and physical activity. Therefore, the higher the motivation, the greater would be the intensity of the mental efforts and physical actions.

iii. **Direction:** This refers to the decision (action) taken in a particular circumstance.

In effect, the motivation of a salesperson needs to be understood in terms of 'what' motivates them—which determines their persistence and intensity, as well

NOTES

as the 'how'— which impacts the direction, that is, the action taken in a particular circumstance.

2.4.1 Theories of Motivation

Various theories have been postulated for understanding motivation. Some of these have been discussed in the following section:

(i) Robert Owen's Approach

Propounded by Robert Owen in the early 19th century, this approach emphasised on the importance of human beings in an organisation. Owen believed that the employees of any organisation contribute as much to its success as the machines that these organisations own. Owen examined the working conditions and methods to suggest new ways of engaging employees in an organisation. His experiments yielded significant results. According to Owen, any organisation should care about the well-being of their employees as much as they care about the expensive machines they own. The way these machines need regular servicing, the employees need better working conditions, training and other things to perform efficiently and consistently. The fact that Owen provided housing to his factory workers and took care of their concerns proves the firm belief he had in this approach.

(ii) The Carrot and Stick Approach of Jeremy Bentham

Bentham was an English philosopher who formulated his thoughts around the principle of reinforcement in the 1800s, during the initial years of the Industrial Revolution. Bentham believed that people can be motivated to work better by rewarding them when they are working properly and punishing them in case of non-performance. Therefore, to make a person work, a reward should be given when they perform and punishment should be given if they do not work properly. This reward and punishment method is metaphorically called the 'carrot and stick approach' as it draws its origin from the old story of a donkey in which the best way to motivate a donkey to move forward was to give him a carrot or hit him with a stick.

Even though this is one of the earliest thoughts on motivation, it is still practiced by certain organisations. However, the organisations are required to keep in mind that both, reward and punishment should be monitored in a way that they have a positive effect on the employees. In an oraganisation, 'carrot' commonly refers to the salary, bonus, and other incentives besides promotion, recognition, etc., whereas the 'stick' refers to loss of income, bonus reduction, demotion, etc.

The problem with the carrot and stick approach is that it does not always motivate an individual. For example, if the rewards are distributed in an organisation without considering the performance of an individual (such as promotion based on seniority), it ceases to be a motivating factor. Similarly, the use of punishment may lead to other fallouts such as union formations, and indifference. The key that a sales manager must learn to adopt is maintaining a balance between the reward and punishment.

(iii) Maslow's Theory of Hierarchy of Needs

Abraham Maslow, a psychologist by profession, enunciated one of the most quoted theories of motivation. According to Maslow, the needs of human beings can be categorized into a hierarchy, starting from the lowest (or the most basic needs for survival) and ascending to the highest level. According to him, human beings get motivated only when these needs are fulfilled from the lowest to the highest levels. The hierarchical levels described by Maslow are:

a. **Physiological needs:** These are basic needs for survival and sustenance and comprise the needs for food, shelter, warmth, sleep, education and medicine. Until these primary needs are met, the human being would not be motivated by any other factor.

b. **Security or safety needs:** The need to be protected against physical danger or emotional harm, the need to be free from the fear of losing property, job, shelter etc.

c. **Social needs:** This category of needs pertaining to the social nature of human beings and includes the needs of acceptance, friendship and belongingness.

d. **Esteem needs:** The next higher order of needs pertaining to the needs of being held in esteem by the self and others. This need arises when the other lower-order needs have been fulfilled. These needs include both, internal esteem (self-respect, achievement and autonomy) and external esteem (recognition, attention, prestige, power, status, etc.).

e. **Need for self-actualization:** The highest level of needs has been termed by Maslow as 'self-actualization'. This basically refers to the need of human beings to accomplish one's true potential and growth.

Maslow further postulated that a human being can be motivated by suitable inputs to meet their needs. For example, to motivate a person whose physiological needs and security needs have been met, inputs have to be provided to meet his needs of belongingness. If the organisation takes steps to make its employees feel that they are integral part of the organisation, then they will surely be motivated to give their best output. The pictorial representation of need hierarchy is given as follows (Figure 2.5):

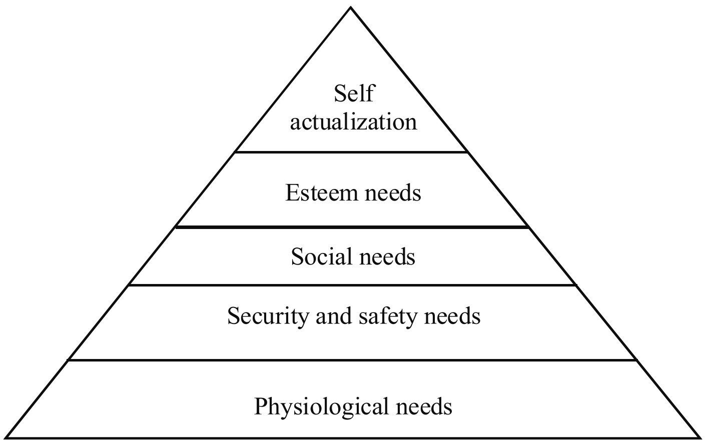


Fig. 2.5 *Maslow's Need Hierarchy*

Maslow's theory has no empirical basis and is purely intuitive. However, it has still received extensive recognition in various fields.

(iv) Douglas McGregor's Theory X and Theory Y

NOTES

According to McGregor, author of the book, *The Human side of Enterprise*, managers group their employees into two groups, referred to as Theory X and Theory Y. This categorisation is based on the assumptions regarding the characteristics of employees.

The assumptions of employees under Theory X would be:

a. Inherently, employees stop work when they do not like it.
b. Employees have to be coerced or forced to work by giving punishment.
c. These threats have to be followed up by issuing formal directions to make employees take up their responsibilities and work.
d. Employees normally seek security and are not ambitious by nature.

The assumptions under Theory Y are:

a. Work (both mental and physical) is a natural outcome just as play or rest.
b. Employees committed to goals exhibit clear direction and self-control.
c. Employees are not averse to accepting responsibilities and use creativity, imagination, and enterprise in resolving organisational problems.
d. Only a part of the potential and brainpower is normally used by an average employee in meeting their responsibilities.

Theory X seems to suggest that the 'lower-order needs' abound in human beings, whereas Theory Y suggests higher order needs to be prevalent. Organisations following Theory X are seen to be authoritarian, whereas the followers of Theory Y are participative. However, this rationalisation is found to be too generic and criticized severely.

(v) Clayton Alderfer's ERG Theory

The Alderfer theory, similar to Maslow's theory defines that there are three core needs i.e., existence, relatedness, and growth. The need to exist focuses on survival while relatedness refers to the need of individuals to form and maintain groups. The third need deals with the intrinsic desire to develop and grow. Aldefer differs from Maslow in postulating that at a given time more than one set of needs may be present in an individual. Also, if a higher set goes unfulfilled, then the urge to satisfy the lower need deepens. Alderfer also details the frustration dimension in the cases where need sets remain unfulfilled.

(vi) Frederick Herzberg's Two Factor Theory

Also referred to as the motivation-hygiene theory, Herzberg attempted to further modify Maslow's theory by classifying needs into two sets (factors), which he termed as hygiene factor and motivational factors. Examples of these are given in Table 2.3:

NOTES

Table 2.3 *Factors and Needs in Two Factor Theory*

Factor	Needs
Hygiene	Salary, security, relationship with manager and subordinates, organization's policy, status, work conditions, personal life, etc.
Motivational	Promotion, growth prospects, responsibilities, recognition, challenges, achievements, etc.

According to Herzberg, the presence of hygiene factors (also termed as external factors) do not motivate an employee, however, their absence would definitely fail to motivate them. Similarly, the absence of motivational factors (also termed as internal factors), would not create dissatisfaction or fail to motivate an employee, but their presence would definitely motivate them. Therefore, he contended that satisfaction should be considered as the opposite of dissatisfaction in the context of an organisation.

(vii) Elton Mayo's Contributions

Also called the Hawthorne experiments, Mayo based his conclusions on his study of behaviour at Western Electric Company. Terming motivation as a complex subject, he concluded that work and pay were not the only motivators and people's belongingness and recognition needs were important. A group influences work attitudes to a large extent.

(viii) Victor Vroom's Expectancy Theory

Vroom's Valence-Expectancy theory has found wide acceptance as a motivational theory. According to this theory, an individual will be motivated to act only if he believes that the action would lead to a certain result (or outcome), which is desired by the individual due to a preferred reward at the end of the task. Therefore, the tendency to take an action will be stronger depending on the probability of the desired outcome and desirability of that outcome to the individual. Mathematically,

Motivation = Valence × Expectancy

The relationship can be depicted linearly as:

Valence × Expectation = Motivation ? Action ? Rewards ? Satisfaction (in the form of rewards)

(ix) McClellands' Theory of Needs

Power, affiliation and achievement are the three sets of needs based on which people can be classified. This theory, enunciated by David McClelland, characterises these three types of people based on the above-mentioned motivating factor. The need for power characterises people who are generally dominating and like to be in control. Being demanding and ambitious in life, they can be motivated by the reward of power to deliver exceptional results. Affiliation-oriented people are social and loving by nature. They are involved in forming groups and are motivated by social recognition. Analytical people who take calculated risks are normally enthused by challenges. They get motivated by challenges, achievements and also the fear of failure. However, McClelland observed that once an individual reaches the top, the higher-order needs (power and achievement) cease to motivate them.

NOTES

(x) Locke's Goal Setting Theory

Clear goal setting is considered the best motivator by Locke. He also suggests that goals should be set at a high standard so that the efforts can be maximized. When an individual meets these goals, his self-confidence grows which results in positive motivation.

Some of the other motivation theories are B. F. Skinner's Reinforcement Theory and Cognitive Theory. Essentially, it is important to remember that motivation is the key factor in determining the performance of the salesforce. The extent to which supervisors and other senior members of a sales team are able to improve team motivation determines how successful the team will be. The prime requirement to be a successful salesperson is the ability to 'take no for an answer' from one sales call to another and yet operate with a completely positive attitude during the next call. Motivation is a key input that enables this positive attitude. While all salespersons are required to be self-motivated, external inputs provided by supervisors and the organisation to raise the motivation levels of its employees are invaluable.

Accomplished supervisors clearly understand this basic need and utilise a wide variety and means to motivate their team. While promotion and pay remain the primary motivators, these cannot be frequently utilised, especially within a performance period (generally, a year). Therefore, factors such as inculcating a sense of accomplishment, individual's growth, respect and recognition are utilised appropriately by seasoned supervisors. These factors also help in inculcating a spirit of competition and camaraderie within the team and thereby help in maximizing team output.

2.4.2 Impact of Motivation on Sales Productivity

Productivity is generally defined as the output achieved with a given input. It is mathematically expressed as:

Productivity = Output/Input

In line with this, sales force productivity is defined as the ratio of sales revenue generated by the sales force (output) for a given sales expense (input) and therefore can be expressed as:

Sales productivity = Sales revenue/Sales expenses

The sales revenue or the output is essentially a factor of the sales performance and is not only impacted by the sales expenses incurred, but also by a variety of intrinsic and extrinsic factors. The principal intrinsic factors are the ability and willingness of the salesforce to perform. While the knowledge, selling skills, and experience of the salesforce primarily determine the 'ability, it is the motivation that influences the willingness of the salesforce. However, the impact of extrinsic factors like the state of the economy, market volatility, customer expectations are also important elements impacting salesforce performance and therefore, sales revenue output.

Thus, the performance of a salesforce for a given market situation is significantly dependent on the motivation provided to salesforce as this is the only

NOTES

important influencing variable. As mentioned, the independently working environment (without direct supervision) of the sales personnel increases the need for increased self-motivation, without which achieving success becomes difficult. It is in this context that sales managers use various methods covering the broad areas of training, leadership development, basic compensation, special financial rewards, non-financial incentives, performance evaluation to improve the motivation in their sales team. Some of these methods are listed below:

- Introduction of sales quotas, sales contests, and other such schemes.
- A well-crafted compensation plan with transparent and simple norms for attaining rewards linked to performance.
- Innovative sales meetings and sessions where selling skills are enhanced in an interesting and joyful manner.
- Job enrichment, improved communication, fun workplaces, involving sales personnel in finalising decisions meant for their growth and welfare.

A well-motivated sales team can indeed provide the cutting edge competition to other market players. Forward-thinking organisations and their sales managers, therefore, dedicate a significant part of their resources in formulating ways and means to develop a motivated salesforce.

2.4.3 Motivation and Career Stage

The career of a salesperson has been conceptualized to pass through four major phases referred to as career stages, consisting of:

- Exploration stage
- Establishment stage
- Maintenance stage
- Disengagement stage

Fig. 2.6 *Career Stages and Career Growth of Salespersons*

Source: William L. Cron. 'Industrial salesperson development: A career stage perspective,', Journal of Marketing, 1984, Vol. 48, No. 4, pp. 41–52.

NOTES

During each of these stages of career movement, a salesperson does require motivation. However, the nature of motivation may change depending on the career stage of the salesperson. (Figure 2.6).

(i) Exploration stage: This is the initial stage of a career when a salesperson just enters their first job and is rather unsure if this would be the career they wish to undertake in the future as well. As a result, job-hopping is quite common at this stage and the focus of the salesperson is to understand whether their skills and competencies match the job requirement and are helping them in performing as per the expectations or not. A sales manager is best equipped to counsel the new employees by analysing the strengths and weaknesses of the individuals at this stage. Sometimes, it happens that the new salesperson has chosen the wrong career path. Under these circumstances, a little motivation may help in guiding the salesperson towards the right career choice. This ensures that till the time the salesperson is in the organisation, they deliver their best. If the career choice is correct, then the manager can motivate his team member by providing them insights on what will enable the salesperson to grow at a good pace. Along with these inputs, providing training to develop necessary skills, right approach, and attitude for the sales job can help in motivating the salesperson.

(ii) Establishment stage: The second stage of a salesperson's career occurs between the ages of thirty to forty years. By this time, a majority of sales personnel have identified this as their vocation. During this stage, salespeople think about how to grow quickly in one's chosen career. Sales managers have a crucial role to play in this stage as they enable sales personnel to understand their strengths and weaknesses and the way these factors impact their career growth. To help salespeople perform better, ensuring timely promotions is another important responsibility of the sales manager. The sales manager acts as a guide for salespeople and helps them by assisting them if they face issues. Such guidance from the sales managers, in addition to promotion, helps in maintaining the motivation levels of a salesperson.

(iii) Maintenance stage: This stage occurs between the age of forty to fifty years when the salesperson has achieved a lot and is past their peak levels in career, energy, and ambition. Their aim in this stage is to hold on to their current position and occupation and revel in the role of a senior trainer or mentor. Motivation, at this stage, is possible by sharing their skills and experience with people on junior levels. Besides this, due recognition and acknowledgment of a person's expertise is also another way of providing motivation.

(iv) Disengagement stage: In this final stage of their career, salespersons are in the process of disengaging from the organisation and are more involved in preparing for their retirement. Therefore, motivating them for improving their performance on the job becomes very difficult at this stage. Forward-thinking organisations and sales managers assist the employee in selectively utilising their expertise as per organisational requirements.

NOTES

Check Your Progress

7. Define pay structure.
8. What are the various types of compensation plans?
9. What is the definition of productivity?

2.5 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Building a sales training programme requires five major decisions—aim, content, method, execution and evaluation.
2. The aim of training is to identify the experience and needs of salespersons. The content consists of product data, sales techniques, markets, etc.
3. Evaluation of training prgrammes involves comparing the aim of a training programme with the results and measuring its impact on the salesperson.
4. Use value is the value of goods and services produced by an employee in a job, while 'exchange value' is the agreed wage or salary between the employer and the employee for the job.
5. Exchange value is the agreed wage or salary between the employer and the employee for the job.
6. When a compensation plan is fixed for a given period of time and has no relationship with the output of the salesperson, it is referred to as a straight salary plan.
7. Pay structure refers to an array of pay rates for different work or skills within a single organisation.
8. The types of compensation plans are straight salary plan, straight commission plan, and combination plan.
9. Productivity is generally defined as the output achieved with a given input. It is mathematically expressed as:

   Productivity = Output/Input

2.6 SUMMARY

- Building a sales training programme requires five major decisions—aim, content, method, execution, and evaluation.
- The aim of the sales training is to identify the experience and needs of salespersons. The content consists of product data, sales techniques, markets, etc.

NOTES

- The initial training needs of a sales training programme can be identified by the analysis of three main factors, which are job specification, trainee's background and experience, and sales-related marketing policies.
- The content of the training varies from company to company because of differences in products, markets, company policies, trainees' ability and experience, and organisational size.
- Some of the important and appropriate methods of sales training are lectures, conferences, demonstrations, role-playing, case-discussions, impromptu discussions, gaming, on-the-job training, programmed learning, and correspondence courses.
- Sales training is undertaken to increase productivity, motivate, improve turnover, improve customer relations, and produce better management of time and territory.
- A well-designed compensation plan not only leads to the attainment of sales objectives but also enables the marketing plan to be implemented.
- According to Milkovich and Newman, 'Pay structure refers to an array of pay rates for different work or skills within a single organisation.'
- There are three types of compensation plans; straight salary plan, straight commission and combination plan.
- A sales contest is an important compensation tool applicable only in short periods of time.
- Motivation is one of the principal objectives of a good training plan. Derived from the Latin word *movere* which means 'to move', motivation refers to that inner force that influences the behaviour and causes specific actions.
- Various theories have been postulated for understanding motivation. Some examples are Robert Owen's approach, the Carrot and Stick Approach of Jeremy Bentham, Maslow's Theory of Hierarchy of Needs, Douglas McGregor's Theory X and Theory Y, Clayton Alderfer's ERG Theory and Frederick Herzberg's Two Factor Theory etc.
- Productivity is generally defined as the output achieved with a given input. It is mathematically expressed as:

  Productivity = Output/Input
- The sales revenue or the output is essentially a factor of the sales performance and is not only impacted by the sales expenses incurred, but also by a variety of intrinsic and extrinsic factors.
- The career of a salesperson has been conceptualized to pass through four major phases referred to as career stages, consisting of exploration stage, establishment stage, maintenance stage and disengagement stage.

2.7 KEY TERMS

- **Marketing:** Marketing refers to all activities a company does to promote and sell products or services to consumers. ·
- **Training:** Training constitutes a basic concept in human resource development. It is concerned with developing a particular skill to a desired standard by instruction and practice.
- **Compensation**: Compensation is a systematic approach to providing monetary value to employees in exchange for work performed.
- **Commission:** Commissions are a form of variable-pay remuneration for services rendered or products sold. Commissions are a common way to motivate and reward salespeople.

2.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the steps involved in identifying initial training needs?
2. Write a short note on the different methods of training.
3. How is case method used in a training process?
4. What are the parameters of evaluating a training programme?
5. What are the objectives of salesforce compensation?
6. What is a straight commission plan?
7. Why is motivation important in a training programme?

Long-Answer Questions

1. Why is training important? What are the various methods of sales training?
2. Discuss the defining features of pay structure in detail.
3. What are the advantages and disadvantages of straight commission plan?
4. Write a short note on the following theories:
   (i) Lock's Goal Setting Theory
   (ii) Maslow's Theory of Hierarchy of Needs
5. How does motivation impact productivity? What are the different methods by which salespeople can be motivated?
6. Discuss the various career stages of a salesperson.

2.9 FURTHER READING

Tapan Panda, Sunil Sahadev. 2019. *Sales and Distribution Management*. New Delhi: Oxford University Press.

NOTES

Pingali Venugopal. 2008. *Sales and Distribution Management: An Indian Perspective.* New Delhi: SAGE Publications.

S.L. Gupta. 2009. *Sales and Distribution Management*. New Delhi: Excel Books.

Ramendra Singh. 2016. *Sales and Distribution Management: A Practice-Based Approach*. Noida: Vikas Publishing House.

Bholanath Dutta. 2011. *Sales and Distribution Management.* New Delhi: I.K. International Publishing House Pvt. Limited

Rahul Gupta Choudhury. 2019*. Sales and Distribution Management for Organizational Growth.* United States: IGI Global.

A. Nag. 2013. *Sales and Distribution Management*. New Delhi: McGraw Hill Education.

UNIT 3 SALES EVALUATION AND COST ANALYSIS

NOTES

Structure

3.0 Introduction
3.1 Objectives
3.2 Sales Meetings and Sales Contests
  3.2.1 Sales Contests
3.3 Designing Territories and Allocating Sales Efforts
  3.3.1 Shape of Territory
  3.3.2 Territorial Adjustments
3.4 Objectives and Quotas for Sales Personnel
3.5 Developing and Managing Sales Evaluation Programme
  3.5.1 Salespersons' Performance Evaluation
  3.5.2 Key Issues in Evaluating and Controlling Salespersons' Performance
  3.5.3 Methods of Performance Evaluation
  3.5.4 Using Performance Information
3.6 Sales Cost and Cost Analysis
  3.6.1 Cost Concepts
  3.6.2 Sales Concepts
3.7 Answers to 'Check Your Progress'
3.8 Summary
3.9 Key Terms
3.10 Self-Assessment Questions and Exercises
3.11 Further Reading

3.0 INTRODUCTION

Sales meetings are conducted to get or provide updates on the performance, update the sales personnel about any new objectives or information. Sales meetings also serve as good opportunities for sales personnel to interact with the top management. In this unit, we will broadly discuss the types of sales meetings and how do these benefit the top management and the salesforce. We will also discuss the process of designing territories, objectives of sales personnel and various ways by which sales personnel are motivated to perform better. The unit also focuses on how the sales evaluation programme is developed and managed. We will also learn about sales cost.

3.1 OBJECTIVES

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

- Understand various types of sales meetings and their importance
- Discuss the process of designing territories and allocating sales efforts
- Describe the objectives and quotas of sales personnel

- Discuss how the sales evaluation programme is developed and managed
- Discuss sales cost and analysis

NOTES

3.2 SALES MEETINGS AND SALES CONTESTS

Sales meetings are important both for communication and motivational purposes. Periodic group meetings help in exchanging valuable information and ideas. Sales meetings help in motivating individual salespeople by listening to the valuable insights provided by the seniors and other colleagues. Most importantly, they provide opportunities to the management to stimulate the group and motivate them to perform to the best of their capabilities, individually as well as a unit.

Structure of sales meetings

Planning a sales meeting requires five major decisions:

1. Defining the specific training aims
2. Deciding the content of the meeting
3. Determining the methods of conducting the meeting
4. Deciding how to hold the meeting
5. Deciding how to evaluate the results

The costs of bringing the entire salesforce to a central site are substantial, but national sales meetings are sometimes important. If, for example, comprehensive changes in marketing or sales policies are being made, a national meeting can introduce these changes rapidly and uniformly, providing standardised explanations and answers to questions. Moreover, most executives attend a national meeting but not a series of decentralized meetings, and their attendance provides more stimulation than written or recorded messages in decentralized meetings.

There are other advantages to holding national sales meetings. Sales personnel get an opportunity to interact with global colleagues and learn from their shared experiences. On finding that other employees also face similar problems and listening to their solutions, they are encouraged to find their own solutions. The size of a national meeting generates contagious enthusiasm and zeal among salespeople. It helps them to be better aligned with their goals. If a meeting is held in or near a factory, it can work as an opportunity for product training and acquaint sales personnel with technical manufacturing details.

However, the national sales meeting has some drawbacks as well—the most prominent being the expenses incurred in arranging such meetings. Additionally, it is often difficult to find a convenient time suitable for everyone unless the product line is seasonal. However, one cannot deny the fact that national meetings usually motivate salespeople by outlining the goals clearly in front of them. This results in more aggressive selling which compensates for the expenses and other minor inconveniences.

The trend these days is moving away from national sales meetings and focusing on regional sales meetings. There are several reasons for this. Instead of the salespeople converging to the headquarters for a national sales meeting, the sales executives in the headquarters attend the decentralised meetings, thereby bringing down the travel costs. Additionally, when the sales executives and personnel working in the headquarters attend these decentralised meetings, they are more in sync with the problems faced by salespersons at the regional level. Each regional meeting can have a section dedicated to emphasise the unique problems of that region. The smaller attendance also increases participation time per person.

Just like national meetings, regional sales meetings also have some disadvantages. Demand on the time of the executives may be quite high; due to which the top sales executives often rotate attendance in the regional meetings. The lower percentage of attendance by top management depreciates the importance of the meeting in the eyes of the sales staff, thereby making it more difficult to develop a spirit of contagious enthusiasm.

The pressure to economise further reduces the stimulating effect of the regional meeting. The total costs of holding several meetings may equal or exceed those of one large national meeting.

Sales meetings: Area-wise

Local sales meetings are conducted weekly or biweekly by district sales managers and last from fifteen minutes to several hours. The strength of the local sales meeting is its informality, each salesperson having an opportunity to pose questions and express their views. Local sales meetings are occasions for sales personnel to get together, become better acquainted and strengthen group identity.

3.2.1 Sales Contests

A sales contest is a special selling campaign offering incentives in the form of prizes or awards beyond those in the compensation plan. The underlying purpose of all sales contests is to provide extra incentives to increase sales volume, to bring in more profitable sales volume or to do both. In line with Herzberg's motivation-hygiene theory, sales contests aim to fulfill individual needs of achievement and recognition—both motivational factors. In terms of Maslow's hierarchy of needs, sales contests aim to fulfill individual needs of self-esteem and self-actualization—both higher-order needs. In addition, sales contests develop team spirit, boost morale (by making jobs more interesting), and make personal selling efforts more productive.

Specific objectives

Sales contests are aimed to accomplish specific objectives, generally one per contest, within limited periods of time. Most sales contests aim to motivate sales personnel. Some of the main objectives of these contests are as follows:

a. To obtain new customers
b. To secure larger orders per sales call
c. To push slow-moving items, high-margin goods or new products
d. To overcome seasonal sales slump
e. To sell a more profitable mix of products

NOTES

f. To promote seasonal merchandise

g. To obtain more product displays by dealers

h. To get reorders

i. To offer special deals to distributors, dealers or both

The contest can be divided into two broad categories: direct and novelty. Direct contests are quite straightforward. For example, it could be a contest aiming to achieve a 15 percent increase in sales, or 25 percent more direct business. In other words, direct contests aim to gain an edge over other competitors and try to achieve or exceed the given sales target. It is a contest in the real sense, i.e. it involves on-the-field effort to achieve the target and there is less scope for any errors.

Novelty contests are contests that are more fun. For example, contests such as 'Hunt for the Treasure' or 'Win the Jackpot'. Such contests involve a lot of fun activities and are used to sell seasonal packages, special events/festivals, or inventory.

There are four kinds of contest prizes: cash, merchandise, travel, and special honours or privileges. Cash and merchandise are the most common prizes. Many sales contests feature more than one kind of prize, for example, travel for a big award and merchandise for a small award.

Common themes of novelty sales contests are:

- games such as football, baseball, hockey, bowling, cricket, and golf
- races such as crew, cross-country, and relay
- card games such as poker, and bridge
- treasure hunts

Cash: Cash may not qualify as the best prize when it comes to sales contests, especially when the salespeople are already getting paid decently by their organisation. Since their financial needs are satisfied, it might be a good idea to satisfy their needs for recognition and acknowledgment. Contents can prove to be very effective in satisfying the self-esteem needs of salespeople. A prize in the form of a trophy, certificate, or merchandise may help in recognising the self-esteem needs of

Merchandise: Merchandise can be considered as a good reward and is better than cash in several respects. Winners have permanent evidence of their achievement. Most prganisations buy merchandise at wholesale prizes and thus can afford to give larger prizes as compared to when cash is given. For the same cost, more merchandise prizes can be offered than cash awards and hence, the contest can have more winners.

Travel: Travel awards are popular. A trip to a luxury resort or an exotic land is indeed a very lucrative reward. The concept of a 'trip of a lifetime' is a strong incentive, and a good way for salespeople to 'escape' the mundane job routine. Usually, these travel awards offer trips for winners as well as their spouses or other family members. The person contesting the competition often gets motivation from the family members in such cases.

NOTES

Special honours or privileges: This award can be provided in different forms; a letter from a top executive recognising the good performance of the winner, a customised cup, a special trip, or a membership of a special group or club that has certain privileges.

The duration of a contest is important for maintaining the interest of sales personnel. Contests are usually run from four to thirteen weeks. Promoting the contests effectively is also very important. For most sales personnel, a contest is not a new concept. Therefore, it is important to have a clever theme and attractive prizes to arouse interest. A carefully curated and planned promotion of the contest can help in developing enthusiasm. Launching a teaser before the final formal announcement can be a good idea. Sometimes, a dramatic announcement may also work. As the contest progresses, other strategies hold and intensify interest. Results are declared in sales meetings or the form of daily or weekly bulletins. The sales manager dispatches telegrams carrying news of important developments or changes in relative standings. Special prizes are announced in intervals. Management encourages individuals or groups to compete against each other.

Objections to sales contests

Only one in four sales departments uses sales contests due to some reservations about these contests. Some of the standard objections to sales contests are listed below:

i. Salespeople are paid for their services under provisions of the basic compensation plan, and there is no reason to reward them further for performing regular duties.

ii. High calibre and more experienced sales personnel consider sales contests juvenile and silly.

iii. Contests lead to unanticipated and undesirable results, such as increased returns and adjustments, higher credit loss, and overstocking of dealers.

iv. Contests cause salespeople to bunch sales during the competition, and sales slumps occur both before and after the contest.

v. The disappointment faced by the ones who do not win causes a general decline in the morale of the salesforce.

vi. A contest is a temporary way of motivating salespeople and if used too frequently, may have a narcotic effect. No greater results in the aggregate are obtained with contests than without them.

vii. The competitive atmosphere generated by a sales contest weakens team spirit.

Therefore, it is important to keep in mind the above points before organising these contests. Sales contests and meetings are integral parts of sales management in an organisation. The planning and correct implementation of these result in a better work environment and achievement of targets of salespeople.

Contest Prizes

One of the most important decisions about the sales contests is the huge number of prizes to be given away. The best strategy is to ensure that all the participants go

NOTES

back with some prize, in one or the other category. This is especially important if the number of participants is not high. It is okay to have several big winners but it is also important to announce small prizes for everyone. This is to ensure that all the participants go back feeling like winners.

Team prizes

Team prizes are a lot more popular and effective than individual prizes. If there are just two teams participating, for instance, it is a good idea to announce a couple of big prizes for members of the winning team and consolation prizes for members of the team that comes second.

Full-staff prizes

If a certain department has achieved a target, it would be a good idea to give away prizes to all the members of that department. This ensures teamwork and builds team spirit. All the members will work together to improve the department's performance and image. This s the best type of contest and is popularly used by organisations across the world to recognize the achievements of their sales teams. The contests which offer full-staff prizes help to motivate the team.

Prizes for improvement

All individuals/teams who have improved their performances or outdone their past records should be rewarded. The prizes should be awarded on the basis of the current performance of the person or team. In other words, a person should be awarded a prize for performing well at his or her productivity level. Therefore, a sales contest should ideally emphasise on some degree of improvement. The simple rule should be that all those who improve should get a prize and those who improve the most should get the most prizes or the biggest prizes.

Contests should require some extra effort on the part of the participants. They should not be used as a mere excuse to give extra money to the salespeople. They should be aimed at reinforcing the overall sales strategy for revenue maximisation.

It is not fair to announce prizes on the basis of total billing. This is because the total billing benchmark is almost always achieved by those sales personnel who have the best accounts.

Therefore, it is always fair to use percentage improvement as the rewarding criteria so that each participant has an equal opportunity to win.

Other aspects of contests

Duration: A contest should be short enough to sustain interest and excitement and long enough to effect billing. As mentioned in the previous section, the contests are usually run over a minimum of four weeks and a maximum of thirteen weeks.

Promotion: Contests should be promoted well in order to keep the level of enthusiasm high. The promotional activities should be spread across all departments of the organisation and not just one particular department. This ensures support and encouragement from all departments. The weekly progress of the contest should also be promoted. Weekly bulletins are capable of providing the necessary level of excitement and relevant updates.

Fairness: It is important for the participants to be convinced about the fairness of the contest to ensure their wholehearted participation.

NOTES

Simplicity: Sales contests should be designed in an easy-to-understand manner with clear objectives and a graphical representation of the progress made in the direction of the objectives.

Visibility: The progress of the contest should be made visible to one and all. Posting progress reports on a daily basis motivates the salespeople to win or buck up.

Frequency: Regular announcements of contests take the charm away from their 'special' nature. If there are contests every second day, they will cease to be special; and the rewards will seem like part of the salespeoples' usual compensation. Most organisations organise two sales contests in a year.

The setting of performance standards: Contests should ensure that nobody is made to feel like a loser. Also, the non-winners should be given relevant advice and tips on performance improvement. They should be trained to compete better in the next contest.

All said and done, contests alone are not capable of bringing about long-term performance. They are capable of bringing about improvements in the short term only. Although contests help to reinforce team values and sales principles, provide fun and motivation, they cannot help solve the problems being faced by the sales team. A properly designed contest can ensure that their salespeople feel like winners.

Check Your Progress

1. What is a sales contest?
2. Mention any two objectives of sales contests.
3. What are the two categories of sales contests?

3.3 DESIGNING TERRITORIES AND ALLOCATING SALES EFFORTS

The idea behind the creation of sales territories is to assign a group of similar customers and prospects to a salesperson for the purpose of efficient management.

A company has to establish a geographic control unit. For a multinational company, this could be a country and for a national company, it could be a region or zone consisting of one or several states. There can be further units in terms of cities or districts.

The next step is to determine the sales potentials of each control unit. The units are then combined into tentative sales territories.

NOTES

There are two basic approaches of dividing territories among salespersons:

i. Market build-up approach
ii. Workload approach

1. Market build-up approach

Let us take an example of a company selling computers. First, we will take into account the present users and potential users of the product. We will then also estimate their consumption capacity. Upon taking an aggregate, we get the total market potential. We shall then decide how many shares of this total market our company desires to have. That gives us sales potential.

The sales potential of the whole market is then broken down territory-wise. It is then given the necessary marketing back-up.

The following example illustrates the market build-up approach.

The total market for computers is 5000 units, out of which Maharashtra accounts for 1000 units, that is 20 percent. This organisation finds it desirable to dedicate 20 percent of its selling efforts to Maharashtra. Area-wise, total sales calls are then calculated. Each representative completes a certain number of calls, and the total calls required lead to the number of representatives required in that area.

2. W.J. Talley's workload approach

Territories are created in terms of the workload of salespersons. Customers are grouped into different categories.

i. Call frequency for each territory is calculated.
ii. Present and potential customers are then located geographically and arranged category-wise.
iii. The number of customers in each category is multiplied by the desired call frequency to get a total number of calls.

A geographical control unit is then established. It gives an adequate workload to each salesperson.

3.3.1 Shape of Territory

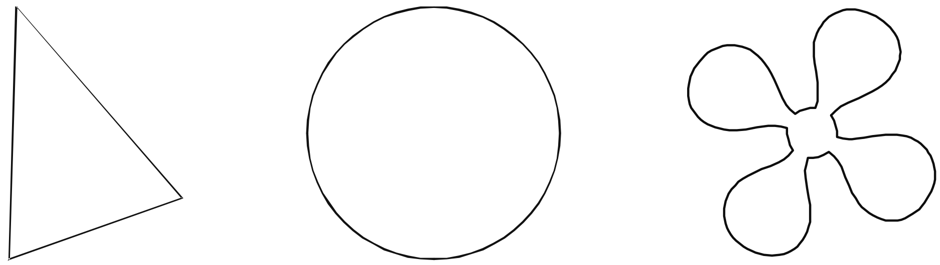
Territorial shape affects both its coverage and the selling expenses. It facilitates time management and stimulates salesforce morale. There are three widely prevalent shapes—the wedge, the circle, and the cloverleaf, as shown in Figure 3.1.

Wedge-shaped territories are suitable for urban as well as non-urban areas. They start from a thickly-populated urban centre. Many sizes of wedges are possible. Two neighbouring wedges can help equalise the travel plan by balancing urban and non-urban types of calls.

Scattered customers call for a circle-shaped territory. The salesman remains at the centre of the circle or near to it. It makes possible optimisation in the frequency of calls. He is far more in the vicinity of customers than a salesman in a wedge-shaped territory.

NOTES

Randomly located accounts call for a cloverleaf type of arrangement. Each cloverleaf represents a week's work. A salesman is home every weekend. Such arrangement is common in industrial marketing. It is also suitable for extensive marketing.



Wedge Circle Cloverleaf

Fig. 3.1 Shape of Territories

3.3.2 Territorial Adjustments

Different territories have different problems of coverage and so require different selling efforts and expenses. We cannot assume that all territories are uniform. Some territories are difficult to cover, almost bordering on hardship areas. Some metros have greater sales potential than the entire region. In territory optimization, we tend to seek an equalisation of additional sales per rupee of sales expenses among all territories. Therefore, we consider both the difficulties and the sales potential. Variations in coverage difficulty lead to variations in workloads. It is necessary to estimate the largest possible workload that does not cross the limit of the desired workload. This is a constraint on the territory's geographic limit. Workloads among salespeople differ, keeping in mind their individual abilities.

A sales territory represents a group of customers, markets, or geographical areas.

Territories can be formed on the basis of geographical locations, industry, product use, method of buying, and channel of distribution. By dividing into territories, organisations can achieve better coverage of potential markets because it permits better planning, proper coverage of potential markets, efficient call patterns, and better customer service. Some services like insurance and mutual funds are sold on personal contacts rather than by developing territories.

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

Developing territories

Designing a sales organisation is incomplete until territories have been formally defined. Territories can be formed according to:

i. geographical location
ii. industry

NOTES

iii. product use

iv. method of buying

v. channels of distribution

vi. sales of potential

vii. workload in territories

viii. arbitrarily

ix. rational basis

Territories help in better coverage because they facilitate:

I. Better planning

II. Proper coverage of potential markets

III. Efficient call patterns

IV. Better customer service

V. Choosing appropriate salespeople for specific accounts

Factors that affect the size of the territory are:

i. The number of customers and prospects in an area

ii. Call frequency on existing customers

iii. The number of calls that the salesperson makes in a day

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

Salespeople are not only responsible for individual accounts but a group of accounts (Territory Management). This is the first step in moving from selling to managing. It requires planning and control of the sales effort.

Procedure for developing territories

While developing territories, a procedure has to be followed and objectives are considered, such as workload and opportunity equalization.

Objectives and criteria for territory formation.

Proper territory formation is important because:

(a) It affects the salesforces' morale and performance. Results may be measured by sales volume, market share, or profits. The job of a sales manager is to form an optimum number of territories and their configuration. In case of insufficient territories, sales will suffer for lack of coverage.

(b) Another objective is the equalization of territory potential. This is to provide equal opportunities to the salespeople since territories differ in many aspects including the potential and they become big or small accordingly. Travelling requirement and coverage is another problem.

NOTES

Routing

Routing is a formal pattern of travel that has to be followed by salespeople as they go through their respective territories. This is reflected on a map or list that shows the order in which each segment of the territory is to be covered. Often firms ask their salespeople to prepare their own route or schedule as a part of their job.

Routing is the sequence of locations a salesperson will visit. The purpose of routing is more adequate market coverage, better coordination with the regional office and its requirements. It is also helpful in more vigorous market cultivation.

Redesigning and relocation of territories

In different situations, redesigning and relocation may have implications on profit contribution.

Situation I

Where the sales potential of territories is equal but the salespeople differ in their abilities, as shown in Table 3.1.

Table 3.1 *Situation I*

Territory	*Sales potential*	*Salesman's name*	*Ability index*	*Expected sales*	*Exp. Profit say 25%*
1	20,000	X	1.0	20,000	5,000
2	20,000	Y	0.6	12,000	3,000
3	20,000	Z	0.4	8,000	2,000
Total	60,000			40,000	10,000

Table 3.2 *Situation II*

Territory	*Sales potential*	*Salesman's name*	*Ability index*	*Expected sales*	*Exp. Profit say 25%*
1	30,000	X	1.0	30,000	7,500
2	18,000	Y	0.6	10,800	2,700
3	12,000	Z	0.4	4,800	1,200
Total	60,000			45,600	11,400

Profit is increased in Situation II, (see Table 3.2) where we have made an assumption that the ability index of the salesperson remains the same irrespective of the territory, which may not be true, salespersons have different effects in different territories. If this is also taken into consideration then the relocation task will become more complex.

Market changes are taking place very frequently, so the territories once formed do not hold relevance forever. The dynamics of the marketplace necessitate changes in territories as well.

This method estimates the potential product/service demand by looking at how the market is built up, i.e., who the present or potential users are, how much they consume, and at what frequency. This is not as easy as it appears.

NOTES

This method finds its use in industrial goods companies where available publications, such as annual surveys of industries, trade directories, state, district, and region-wise lists of a manufacturing establishment, and so on, are very handy.

Here we design territories that are equal in workload. This method was developed by W.J. Talley, as shown in Table 3.3. The step involved is:

Customers are grouped into class sizes A, B, and C according to the sales volume that the company has with them.

Table 3.3 *Reasons for and Benefit of Sales Territories*

Reasons	***Benefits***
Customer Related	
Provides intensive market coverage	Produces higher sales
Provides excellent customer service	Provides greater satisfaction
Salesperson related	
More enthusiasm	Leads to less turnover
Facilitates performance evaluation	Offers rewards related to efforts
Managerial	
Enchances control	Reduces expenses
Coordinates promotion	Gives more 'bang' for the 'buck'

Territories act as morale builders; they motivate salespeople to give their best and make it easy to evaluate performance as salespersons can shape their own destinies. Sales supervision can also control expenses in territories in a better manner.

Check Your Progress

4. What is the idea behind the creation of sales territories?
5. Mention the two basic approaches of dividing territories among salespersons.
6. What does a sales territory represent?
7. Define territory management.

3.4 OBJECTIVES AND QUOTAS FOR SALES PERSONNEL

Let us begin by discussing objectives.

Objectives

A sales quota is a quantitative goal assigned to a sales unit for a particular period of time. Sales quotas plan, direct, control, and evaluate the activities of a company. Quantity and accuracy of marketing information used in setting them depend upon the management's skill in administering the quota system.

Sales quotas provide a source of motivation, a basis for incentive, compensation, and increasing standards of performance of salespersons. They are set by the sales manager for individual salespeople or a sales district. The executives who set sales quotas must have experience and should be familiar with the territories.

NOTES

Types of Sales Quotas

There are basically four types of sales quotas that can be used separately, or in combination, depending upon their need.

The following are most commonly used and are based on sales volumes, measured by:

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

Sales volume quotas are also used to balance the sale of slow-and-fast-moving products. They may be set in terms of unit sales or value sales and either product-wise or overall for all product categories.

Check Your Progress

8. What is a sales quota?
9. What does a sales quota provide?

3.5 DEVELOPING AND MANAGING SALES EVALUATION PROGRAMME

Let us now discuss the various elements of developing and managing sales evaluation programme.

3.5.1 Salespersons' Performance Evaluation

As the name suggests, the basic objective of salespersons' performance evaluation is to determine how well individual salespersons have performed. However, the results of such evaluations can be used for many sales management purposes, as listed below:

i. To ensure that compensation and other reward disbursements are consistent with the actual performance of the salesperson.
ii. To identify salespeople who can be promoted.
iii. To identify salespeople whose employment should be terminated and to supply evidence to support the need for termination.
iv. To determine the specific training and counselling needs of individual salespersons and the overall salesforce.
v. To provide information for effective human resource planning,
vi. To identify criteria that can be used to recruit and select salespeople in the future.
vii. To advise salespeople on work expectations.

viii. To motivate salespersons.

ix. To help salespeople set career goals.

x. To improve salespersons' performance.

NOTES

These diverse purposes affect all aspects of the performance evaluation process. For example, performance evaluations for determining compensation and special rewards should emphasise on activities and results related to the salesperson's current job and situation. Performance evaluations aimed at identifying salespeople for promotion to sales management positions should focus on criteria related to potential effectiveness as a sales manager and not just current performance as a salesperson. The best salespeople do not always make the best sales managers. Thus, salespersons' performance appraisals must be carefully developed and implemented to provide the types of information necessary to accomplish all the desired purposes.

Evaluation of Salespersons' Performance

Although it is impossible to determine with precision all the performance evaluation approaches used by sales organisations, several studies have produced sufficiently consistent information to warrant some general conclusions. Some of these conclusions are as follows:

i. Most sales organisations evaluate salespersons' performance annually, although many firms conduct evaluations semi-annually or quarterly. Relatively few firms evaluate salespersons' performance more often than every quarter.

ii. Most sales organisations use combinations of input and output criteria that are evaluated by quantitative and qualitative measures. However, the emphasis seems to be placed on outputs, with an evaluation of sales volume results being the most popular.

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

iv. Many sales organisations assign weightage to different performance objectives and incorporate territory data when establishing these objectives.

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

vi. Most salespersons' performance evaluations are conducted by the field sales manager who supervises the salespersons. However, some firms also involve the manager above the field sales manager in the salespersons' performance appraisal.

NOTES

vii. Most sales organisations provide salespeople with a written copy of their performance review and have sales managers discuss the performance evaluation with each salesperson. These discussions typically take place in an office, although sometimes they are also conducted in the field.

These results offer a glimpse of current practices in evaluating salespersons' performance. Although performance appraisal continues to be primarily a top-down process, changes are taking place in some companies leading to the implementation of a broader assessment process. An increasingly popular assessment technique, dubbed as 360-degree feedback, involves performance assessment from multiple raters, including sales managers, internal and external customers, team members, and even salespeople themselves.

As part of its 360-degree review, sales managers at Knowledge Point, a human resource software provider, solicit feedback from co-workers in areas such as rapport with clients, time management, and presentation skills when evaluating salespeople.

Among its many benefits, 360-degree feedback helps to understand customer needs better, detect barriers to success, assess developmental needs, create job involvement, reduce assessment bias, and improve performance. As this evaluation method tends to make employees feel valued, they tend to stay with the organisation for a longer period of time. However, while using the process, it should be kept in mind that bias may still exist. Individuals may be less forthright in giving feedback and less accepting of feedback from others if they believe it will have damaging consequences.

Another evaluation approach that moves away from the traditional top-down appraisal is referred to as performance management. This approach involves sales managers and salespeople working together on setting goals, giving feedback, reviewing, and rewarding. With this system, salespeople create their own development plans and assume responsibility for their careers. The sales manager acts as a partner in the process, providing feedback that is timely, specific, regular, solicited, and focused on what is within the salesperson's control to change. Salespeople are compensated on the value of their contributions to the organisation's success. To facilitate the review process, sales managers may want to use software applications, such as Performance Now Enterprise Edition, which provide a framework for implementing a comprehensive performance management system.

3.5.2 Key Issues in Evaluating and Controlling Salespersons' Performance

A useful way to view different perspectives for evaluating and controlling salespersons' performance is presented in Table 3.4. An outcome-based perspective focuses on objective measures of results with little monitoring or directing of salespersons' behaviour by sales managers. In contrast, a behaviour-based perspective incorporates complex and often subjective assessments of salespersons' characteristics and behaviour with considerable monitoring and directing of salespersons' behaviour by sales managers.

NOTES

Table 3.4 Perspective on Salespersons' Performance Evaluation

Outcome-based Perspective	Behaviour-based Perspective
• Less monitoring of salespeople	• Considerable monitoring of salespeople
• Less managerial direction of salespeople	• High levels of managerial direction of salespeople
• Straightforward, objective measures of results	• Subjective measures of salespeople's characteristics, activities, and strategies

The outcome-based and behaviour-based perspectives represent the extreme positions that a sales organisation might take concerning salespersons' performance evaluation. Although our earlier review of current practices indicates a tendency toward an outcome-based perspective, most sales organisations operate somewhere between the two extreme positions. However, emphasis on either perspective can have far-reaching impacts on the salesforce and important implications for sales managers. The perspective that a sales organisation might take toward salespersons' performance evaluation and control lie in a continuum. The two extremes are the outcome-based and behaviour-based perspectives.

Criteria for Performance Evaluation

A typical salesperson's job is multidimensional. Salespeople normally sell multiple products to diverse customers and perform a variety of selling and non-selling activities. Therefore, any comprehensive assessment of salespersons' performance must include multiple criteria.

Although specific criteria depend on the characteristics of a given selling situation and the performance evaluation perspective, the performance dimensions illustrated in Table 3.4 should be considered: behavioural and professional development (behaviour-based perspective) and results and profitability (outcome-based perspective). Regardless of the specific evaluative criteria chosen, it is important that salespeople know and understand the criteria to achieve the desired performance. Moreover, sales managers should explain the rationale underlying the use of specific criteria. They may even want to let salespeople help in determining the evaluation criteria. When salespeople believe that the criteria upon which they are being evaluated are appropriate, they are likely to be more satisfied with their jobs.

Behaviour

The behavioural dimension consists of criteria related to activities performed by individual salespeople. The emphasis is on evaluating exactly what each salesperson does. These behavioural criteria should not only address activities related to short-term 'sales generation' but should also include non-selling activities needed to ensure long-term customer satisfaction and to provide necessary information to the sales organisation.

Professional development

Another dimension of considerable importance in evaluating the performance of individual salespersons relates to professional development. Professional development criteria assess improvements in certain characteristics of salespeople that are related to successful performance in the sales job. For example, if product knowledge is critical in a particular selling situation, the evaluation of the product knowledge of individual salespersons over various time periods should be conducted.

Many sales organisations incorporate multiple professional development criteria into their salespersons' performance evaluations. This is appropriate because salespeople have control over the development of personal characteristics related to success in their selling situation. The professional development criteria introduced a long-term perspective into the process of salespersons' performance evaluation. Salespeople who are developing professionally are increasing their chances of successful performance over the long run. Although the professional development and behavioural criteria might be combined into one category, we prefer to keep them separate in order to reflect their different perspectives.

NOTES

Results

The results achieved by salespeople are extremely important and should be evaluated. A potential problem with the use of 'results' criteria is that the overall results do not reflect the territory situations faced by individual salespeople. The salesperson with the highest level of sales may have the best territory and may not necessarily be the best performer in generating sales. In fact, some researches show that rewards for achieving results have a negative effect on performance and satisfaction because salespeople may view the rewards as arbitrary if the goals are beyond their control. Apart from the impossible task of developing territories that are exactly equal, the only way to address this potential problem is to compare actual results with standards that reflect the unique situations faced by each salesperson in their territories. As mentioned in a previous section, these standards are generally called sales quotas. A sales quota represents a reasonable sales objective for a territory, district, region, or zone.

3.5.3 Methods of Performance Evaluation

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

- *Job relatedness:* The performance evaluation method should be designed to meet the specific needs of each sales organisation.
- *Reliability:* The measures should be stable over time and exhibit internal consistency.
- *Validity:* The measures should provide accurate assessments of the criteria they are intended to measure.
- *Standardization:* The measurement instruments and evaluation process should be similar throughout the sales organisation.
- *Practicality:* Sales managers and salespeople should understand the entire performance appraisal process and should be able to implement it in a reasonable amount of time.
- *Comparability:* The results of the performance evaluation process should make it possible to compare the performance of an individual salespersons directly.

NOTES

- *Discriminability:* The evaluative methods must be capable of detecting differences in the performance of individual salespersons.
- *Usefulness:* The information provided by the performance evaluation must be valuable to sales managers in making various decisions.

Graphic Rating/Checklist Methods

Graphic rating/checklist methods consist of approaches in which salespeople are evaluated by using some type of performance evaluation form. The performance evaluation form contains the criteria to be used in the evaluation as well as some means to provide an assessment of how well each salesperson performed on each criterion.

Ranking Methods

Otherwise similar to graphic rating/checklist methods, ranking methods rank all salespeople according to their relative performance on each performance criterion rather than evaluating them against a set of performance criteria.

Objective Setting Methods

The most common and comprehensive goal-setting method is management by objectives (MBO). Applied to a salesforce, the typical MBO approach is as follows:

- The mutual setting of well-defined and measurable goals within a specified period.
- Managing activities within the specified period towards the accomplishment of the stated objectives.
- Appraisal of performance against objectives.

Behaviourally Anchored Rating Scales

The uniqueness of behaviourally anchored rating sales (BARS) is due to its focus on trying to link salespersons' behaviour with specific results. This link between behaviour and results becomes the basis of the evaluation of a salespersons' performance.

The development of a BARS approach is an iterative process that actively incorporates members of the salesforce. They are used to identify important performance results and the critical behaviour necessary to achieve those results. The critical behaviour patterns are assigned numbers on a rating scale for each performance result.

3.5.4 Using Performance Information

The use of different methods to evaluate behaviour, professional development, results, and profitability of salespeople provides extremely important performance information. The critical task of sales management is to use this information to improve the performance of individual salespersons, sales teams, and the overall operations of the sales organisation. Initially, it should be used to determine the absolute and relative performance of each salesperson. These determinations then provide the basis for reward disbursements, special recognition, promotions, and so forth.

NOTES

The second major use of this performance information is to identify potential problems or areas in which salespeople need to improve for better performance in the future. If salespeople are evaluated against multiple criteria, as suggested in this module, useful diagnostic information will be available. The difficulty exists in isolating the specific causes of low-performance areas. Once the areas of poor performance have been identified, the sales manager must work backward to try to identify the causes of poor performance.

After identifying the potential causes of poor performance, the sales manager must determine the appropriate action to reduce or eliminate the cause of the problem so that performance will be improved in the future.

Our discussion and examples have emphasized problems affecting many salespeople. The same basic approach can be used for performance problems that are unique to an individual salesperson. In fact, many sales organisations use performance reviews as a means for a sales manager to meet with each salesperson, analyse the salesperson's performance on each criterion, and suggest ways to improve future performance. These performance reviews provide the means to communicate – the performance feedback – that is so important to salespeople. Performance feedback is also an important determinant of a salesperson's job satisfaction.

Check Your Progress

10. What is the basic objective of salespersons' performance evaluation?
11. What are the benefits of 360-degree feedback?
12. What do the graphic rating methods consist of?

3.6 SALES COST AND COST ANALYSIS

The sole objective of sales control is to ensure that the sales efforts of a company are in accordance with its sales plan. It helps to measure the performance of the salesforce and identify the problems and opportunities that the firm is exposed to. In order to study the sales efforts of a company, a sales analysis, which involves comparing and studying the sales data, can be carried out.

The process of sales analysis decides on the purpose of evaluation, compares the sales figures with some standards, and processes the data to generate reports. The volume of sales by categories can be analysed which will be very helpful in identifying the root causes of the problems arising in the sales activities of a particular firm. Though a sales analysis helps to identify problems associated with the sales activities, it also has a few limitations as it depends on the accounting records, is unable to reflect the profitability of sales, and so on.

The total sales of a company in terms of territory, customer, and product category is determined through sales analysis. Occasionally, a sales audit is taken up by the sales management so that the entire selling operations of the firm can be examined.

NOTES

On the other hand, a cost analysis involves distributing the natural costs and allocating them to functional units, studying the profitability of the units, and implementing appropriate action depending on the findings of the analysis. Similar to a sales audit, a marketing audit evaluates and enhances the effectiveness of a firm's marketing operations by studying its marketing strategies, policies, and practices.

3.6.1 Cost Concepts

Cost is defined as a reduction in the value of an asset for the purpose of securing benefit or gain.

The cost of any item may be expressed in a variety of units: weight, volume, or total value. The cost of meat, for example, can be expressed as the value per piece, pound, or individual portion. The cost of liquor can be expressed as a value per bottle, drink, or ounce. Labour costs can be expressed as value per hour (an hourly wage, for example) or value per week (a weekly salary). Costs can be viewed in several different ways, and it will be useful to identify some of them before proceeding.

(I) Fixed and Variable Costs

The terms 'fixed' and 'variable' costs are used to distinguish between the costs which have no direct relationship to business volume and those that do.

(a) Fixed costs

Fixed costs are normally unaffected by changes in sales volume. These do not have a direct relationship to the business volume because they do not change significantly when the number of sales increases or decreases. Insurance premiums, real estate taxes, and depreciation on equipment are examples of fixed costs. All fixed costs change over time, sometimes increasing and sometimes decreasing. However, changes in fixed costs are not normally related to short-term changes in business volume. They are sometimes linked indirectly to long-term volume changes. For example, an increase in the cost of insurance premiums may be attributable to an insurance company's perception of increased risk associated with higher volume. Even though the increase in the insurance cost is somehow related to an increase in volume, the cost of insurance is still considered a fixed cost.

Advertising expense is another example. Larger establishments tend to spend more on advertising because their larger sales volume makes larger amounts of money available for the purpose, but advertising expense is still considered a fixed cost.

The term 'fixed' should never be taken for 'static or unchanging', but merely to indicate that any change that may occur in such costs is related only indirectly or distantly to changes in volume. Sometimes, changes in fixed costs are completely unrelated to changes in volume, as with real estate taxes. Other examples of costs that are generally considered fixed include repairs and maintenance, rent or occupancy costs, most utility costs, and the costs of professional services, such as accounting.

NOTES

(b) Variable costs

These costs are related to the business volume. As business volume increases, variable costs will also increase and vice versa. The obvious examples of variable costs are food, beverages and labour. However, there are significant differences between the behaviour of food and beverage costs and that of labour costs. Food and beverage costs are considered direct variable costs.

Direct variable costs are directly linked to the volume of a business so that every increase or decrease in volume brings a corresponding increase or decrease in the cost. For instance, every time a restaurant sells an order of steak, it incurs a cost for the meat. Similarly, each sale of a bottle of beer at the bar results in a cost for the beer. Total direct variable costs, as a result, increase or decrease—or at least should increase or decrease—in direct proportion to sales volume.

Payroll costs (including salaries and wages and employee benefits, and often referred to as labour costs) present an interesting contrast. Foodservice employees may be divided into two categories—those whose numbers will remain constant despite normal fluctuations in business volume, and those whose numbers and consequent total costs should logically (and often will) vary with normal changes in business volume. The first category includes such personnel as the manager, bookkeeper, chef, and cashier. In terms of the preceding definition, they are fixed-cost personnel. Their numbers and costs may change, but not because of short-term changes in business volume. The second category includes the servers or the waitstaff. As business volume changes, their numbers and total costs can be expected to increase or decrease accordingly.

Both fixed-cost and variable-cost employees are included in one category on the statement of income: salaries and wages. Because payroll cost has both the fixed element and variable element, it is known as a semi-variable cost, meaning that a portion of it should change with short-term changes in business volume and another portion should not.

(II) Controllable and Non-Controllable Costs

Costs can also be labelled as controllable and non-controllable.

Controllable costs can be changed in the short term. Variable costs are normally controllable. The cost of food or beverages, for example, can be changed in several ways—by changing portion sizes, by changing ingredients in a recipe, or by changing the quality of the products purchased. The cost of labour can be increased or decreased in the short term by hiring additional employees or by laying some off, by increasing or decreasing the hours of work, or, in some instances, by increasing or decreasing wages. In addition, certain fixed costs are controllable, including advertising and promotion, utilities, repairs and maintenance, and administrative and general expenses. It is possible for owners or managers to make decisions that will change any of these in the short term.

In contrast, non-controllable costs cannot normally be changed in the short term. These are usually fixed costs, and a list of the more common ones would include rent, interest on a mortgage, real estate taxes, license fees, and depreciation.

Managers do not normally have the ability to change any of these costs in the near term.

Cost Analysis

The accumulation, examination, and manipulation of cost data for comparisons and projections are termed cost analysis. At the most basic level, cost analysis or cost allocation allows the managers in determining the true cost of providing a given unit of service. There are three types of cost analysis: cost allocation, cost-effectiveness analysis, and cost-benefit analysis.

Cost Allocation

It is the simplest of all three processes. It simply involves setting up the budgeting and accounting systems so that the unit cost or cost per unit of service can be determined. Apart from budget information, determining unit costs implies that the right kind of information about the clients and outcomes should be obtained. For example, if in a prenatal clinic the number of clients served on the basis of gender is only reported, then we will obtain information regarding only the number of females who visited the clinic in a certain month. But for an evaluation we need to break down this information further, such as do first-time mothers visit more frequently than older women? Do single mothers or women with many children miss more appointments? Is transportation a problem for women living in rural areas? This in turn requires a lot of paperwork to be done. For this reason, larger companies hire experts to design data systems, called management-and-information systems or MIS systems.

Cost-Effectiveness Analysis

It assumes that a certain outcome or benefit is desired and can be achieved through alternative ways. The basic question is which of the alternative ways is cost-effective and most efficient to achieve the desired outcome. In other words, cost-effectiveness analysis is a comparative study.

Cost-Benefit Analysis

It deals with the basic question of whether the economic benefits of providing a particular service outweigh the economic costs and is it worth. The most important tool for this is the benefits-to-cost ratio which is calculated by the total monetary costs of the benefits or outcomes divided by the total monetary costs to obtain them. Another tool for analysis is the net rate of return, which is the total costs minus the total value of benefits.

To illustrate the difference between the cost-effectiveness and cost-benefit analysis, the following example is given:

If, for instance, the drop-out rate in an inner-city high school is 50%. Prevention Program A enrolls 20 students, costs $20,000, and 15 of the 20 students (75%) graduate. Thus, Program A will result in 5 additional graduates at a cost of $20,000, or one additional graduate for every $4,000. On the other hand, prevention Program B enrolls 20 students, costs $15,000, and 12 of the 20 students (60%) graduate. Thus Program B will result in 2 additional graduates at a cost of $15,000, or one additional graduate for every $7,500 spent. Although Program B is cheaper ($15,000 compared to $20,000), Program A is more cost-effective ($4,000/each additional graduate, compared to $7,500/additional graduate). Under such circumstances, instead of comparing unit costs (as will be done by costeffectiveness analysis), a cost-benefit analysis would require estimating the dollar value of high-school graduation, and comparing the monetary value of producing more graduates to the monetary cost of providing the programme in the first place.

3.6.2 Sales Concepts

In general, the term 'sales' is defined as revenue resulting from the exchange of products and services for value. We normally express sales in monetary terms, although there are other possibilities.

Monetary Terms

The total sale is a term that refers to the total volume of sales expressed in dollar terms. This may be for any given period, such as a week, month, or year.

- **Total Sales by Category:** Examples of total dollar sales by category are total food sales or total beverage sales, referring to the total dollar volume of sales for all items in one category.
- **Total Sales per Server:** It is the total dollar volume of sales for which a given server has been responsible in a given period, such as a meal period, day, or week. Management sometimes uses these figures to make judgments about the comparative performance of two or more employees. It may be helpful, for example, to identify those servers responsible for the greatest and least dollar sales in a given period.
- **Total Sales per Seat:** It is the total dollar sales for a given period divided by the number of seats in the restaurant. The normal time period used is one year. This figure is most frequently used by chain operations as a means for comparing sales results of one unit with those of another.
- **Sales Price:** It refers to the amount charged to each customer purchasing one unit of a particular item. The unit may be a single item (e.g., an appetizer or an entrée) or an entire meal, depending on the manner in which a restaurant prices its products.
- **Average Sale:** An average sale in business is determined by adding individual sales to determine a total and then dividing that total by the number of individual sales. There are two such averages commonly calculated in food and beverage operations: average check and average sale per server.

Non-monetary Terms

The total number sold refers to the total number of items sold in a given time period. This figure is useful in several ways. For example, food service managers use the total number sold to identify unpopular menu items to eliminate such items from the menu. In addition, historical records of the total numbers of specific items sold are useful for forecasting sales. Such forecasts are helpful in making decisions about purchasing and production. The total number of a specific item sold is a

NOTES

figure used to make judgments about quantities in inventory and sales records, as discussed in later chapters.

- **Covers:** It is a term used in the industry to describe a diner, regardless of the quantity of food he or she consumes. An individual consuming a continental breakfast in a hotel coffee shop is counted as one cover. So is another individual in the same coffee shop who orders a full breakfast consisting of juice, eggs, bacon, toast, and coffee. These two diners are counted as two covers.
- **Total Covers:** It refers to the total number of customers served in a given period—an hour, a meal period, day, week, or some other period. Food service managers are usually particularly interested in these figures, which are compared with figures for similar periods in the past so that judgments can be made about business trends.
- **Average Covers:** An average number of covers is determined by dividing the total number of covers for a given time period by some other number. That number may be the number of hours in a meal period, the number of days the establishment is open per week, or the number of servers on duty during the time period, among many other possibilities.
- **Seat turnover:** It is most often called simply turnover or turns and refers to the number of seats occupied during a given period (or the number of customers served during that period) divided by the number of seats available.

Sales mix is a term used to describe the relative quantity sold of any menu item as compared to the other items in the same category. The relative quantities are normally percentages of total unit sales and always total 100 percent.

Sales Analysis

Sales analysis is the determination of the extent to which a salesforce has met its sales objectives within a specified timeframe. Sales analysis will help to establish sales patterns and set the sales budget in the future. It also aids in determining the strengths of the products or services. For example, if one product or service represents the majority of the sales then there may be a need to allocate enough marketing and sales support to continually protect it from the competition. The factors which affect the sales analysis are the following: change in prices, competitors entering or exiting the market, the launch of new products or services, customers between products and services, changes in customer demand, and the channels of operation. Sales analysis involves analysing markets, examining the sales process, recruiting sales representatives, evaluating the sales skills needed to be effective, and determining the appropriate size of the salesforce.

The easiest and most basic way to analyse sales is from a growth viewpoint. The calculation is very simple: the sales revenue of a given year is taken as a percent, and the sales revenue of the previous year is subtracted from it and then divided by the sales revenue of the past year; this is then multiplied by 100 to get the sales growth number. When a business owner plots or charts this number over a longer period, i.e. a number of years, the overall number becomes much more meaningful.

NOTES

At times, companies are in danger of growing too fast. Therefore business owners might want to calculate their growth based on their current financial position. This is calculated as follows: we take the net income of the company divided by the past year's retained earnings, and then multiply it by 100. If the growth rate in sales (we calculated previously) is more than our affordable growth rate the company might not be able to sustain this growth because it will require more assets, receivables and inventory that need to be financed.

Finally, the break-even percentage is calculated by taking the gross profit divided by total expenses and multiplying by 100. Decreases in sales can sometimes lead to a huge decline in profits or vice versa. The break-even calculation enables owners to know the amount of cushion available. Owners who are very much focused on profit can use this ratio often, as it will focus on sales growth to reach planned profits.

Monitoring Costs and Sales

It is obvious that total sales must exceed total costs if a food-service enterprise is to be profitable. If costs exceed sales for an extended period of time, the enterprise may eventually face bankruptcy. At the very least, the owner will have to put additional funds into the business to keep it going. It is the job of the manager—and the cost controller, if there is one—to be constantly aware of the costs of operating the business and to keep these costs below the level of sales. Fortunately, many smaller operations and most larger operations have the benefit of computers and industry. Daily reports printed out by the computer allow management to monitor various cost and sales information, as well as the important ratios (percents). These ratios are compared to the same ratios from previous periods, and judgements are made about whether the ratios are satisfactory. If not, remedial steps are taken to bring these ratios into line with those of previous periods.

It is important that the cost and sales data used to calculate these ratios be from like periods. Customarily, comparisons are made for specific days of the week—Monday of last week compared to the Monday of this week, for example. Sometimes comparisons are drawn between the weeks of two different months—the first week in June compared to the first week in July, for example. Sometimes, trends can be identified by those who track these ratios from week to week. However, there are still many establishments in which cost and sales data are seldom examined and ratios are rarely calculated. If this is the case, it should be obvious that management is taking a high degree of risk.

Establishments that gather cost and sales information only monthly, quarterly, or annually may not be able to take effective remedial action, because they do not have sufficient information to shed light on current problems.

Check Your Progress

13. What is the sole objective of sales control?
14. Define cost.
15. What does sales mix refer to?

NOTES

3.7 ANSWERS TO 'CHECK YOUR PROGRESS'

1. A sales contest is a special selling campaign offering incentives in the form of prizes or awards beyond those in the compensation plan.
2. Two objectives of sales contests are to obtain new customers and secure larger orders per sales call.
3. The two categories of sales contests are direct and novelty.
4. The idea behind the creation of sales territories is to assign a group of similar customers and prospects to a salesperson for the purpose of efficient management.
5. The two basic approaches of dividing territories among salespersons are the market build-up approach and the workload approach.
6. A sales territory represents a group of customers, markets, or geographical areas.
7. Territory management is the planning, implementation, and control of a salesperson's activities with the goal of realising the sales and profit potential of their assigned territory.
8. A sales quota is a quantitative goal assigned to a sales unit for a particular period of time.
9. Sales quotas provide a source of motivation, a basis for incentive, compensation, and increasing standards of performance of salespersons.
10. The basic objective of salespersons' performance evaluation is to determine how well individual salespersons have performed.
11. 360-degree feedback helps to understand customer needs better, detect barriers to success, assess developmental needs, create job involvement, reduce assessment bias, and improve performance.
12. Graphic rating/checklist methods consist of approaches in which salespeople are evaluated by using some type of performance evaluation form.
13. The sole objective of sales control is to ensure that the sales efforts of a company are in accordance with its sales plan.
14. Cost is defined as a reduction in the value of an asset for the purpose of securing benefit or gain.
15. Sales mix is a term used to describe the relative quantity sold of any menu item as compared to the other items in the same category.

3.8 SUMMARY

- Sales meetings are important both for communication and motivational purposes. Periodic group meetings help in exchanging valuable information and ideas.

NOTES

- A sales contest is a special selling campaign offering incentives in the form of prizes or awards beyond those in the compensation plan.
- Sales contests are aimed to accomplish specific objectives, generally one per contest, within limited periods of time.
- The contest can be divided into two broad categories: direct and novelty.
- There are four kinds of contest prizes: cash, merchandise, travel, and special honours or privileges. Cash and merchandise are the most common prizes.
- The idea behind the creation of sales territories is to assign a group of similar customers and prospects to a salesperson for the purpose of efficient management.
- There are two basic approaches of dividing territories among salespersons; the market build-up approach and the workload approach.
- Territories are created in terms of the workload of salespersons. Customers are grouped into different categories.
- Territorial shape affects both its coverage and the selling expenses. It facilitates time management and stimulates salesforce morale
- Different territories have different problems of coverage and so require different selling efforts and expenses.
- A sales territory represents a group of customers, markets, or geographical areas.
- Territory management is the planning, implementation, and control of a salesperson’s activities with the goal of realising the sales and profit potential of their assigned territory.
- Routing is a formal pattern of travel that has to be followed by salespeople as they go through their respective territories.
- A sales quota is a quantitative goal assigned to a sales unit for a particular period of time. Sales quotas plan, direct, control, and evaluate the activities of a company.
- the basic objective of salespersons’ performance evaluation is to determine how well individual salespersons have performed
- A typical salesperson’s job is multidimensional. Salespeople normally sell multiple products to diverse customers and perform a variety of selling and non-selling activities.
- Sales managers can use a number of different methods for measuring the behaviour, professional development, results, and profitability of salespeople.
- The most common and comprehensive goal-setting method is management by objectives (MBO).
- The uniqueness of behaviourally anchored rating sales (BARS) is due to its focus on trying to link salespersons’ behaviour with specific results.

NOTES

- The use of different methods to evaluate behaviour, professional development, results, and profitability of salespeople provides extremely important performance information.
- The sole objective of sales control is to ensure that the sales efforts of a company are in accordance with its sales plan.
- Cost is defined as a reduction in the value of an asset for the purpose of securing benefit or gain.
- In general, the term 'sales' is defined as revenue resulting from the exchange of products and services for the value.

3.9 KEY TERMS

- **Sales contest:** A sales contest is a motivational program in which rewards are offered to sales people based upon their sales and/or results. There are three types:.
- **Territory management:** Territory management is a customer group or geographic area over which either an individual salesperson or a sales team has responsibility.
- **Performance evaluation:** Performance Evaluation is defined as a formal and productive procedure to measure an employee's work and results based on their job responsibilities.
- **Cost:** In production, research, retail, and accounting, a cost is the value of money that has been used up to produce something or deliver a service, and hence is not available for use anymore.

3.10 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the advantages of holding a national sales meeting?
2. What are the common themes of novelty sales contests?
3. List out some of the common objections to the sales contests.
4. What is the market build-up approach?
5. What are the different shapes of territories?

Long-Answer Questions

1. What are the objectives of territory formation? Discuss the criteria used while forming a territory.
2. Discuss the key issues that crop up while evaluating and controlling the performance of salespersons.
3. What are the various methods used for performance evaluation?

4. How is the cost of any item expressed? What is the difference between controllable and non-controllable costs?
5. Discuss sales analysis in detail.

NOTES

3.11 FURTHER READING

Tapan Panda, Sunil Sahadev. 2019. *Sales and Distribution Management*. New Delhi: Oxford University Press.

Pingali Venugopal. 2008. *Sales and Distribution Management: An Indian Perspective.* New Delhi: SAGE Publications.

S.L. Gupta. 2009. *Sales and Distribution Management*. New Delhi: Excel Books.

Ramendra Singh. 2016. *Sales and Distribution Management: A Practice-Based Approach*. Noida: Vikas Publishing House.

Bholanath Dutta. 2011. *Sales and Distribution Management.* New Delhi: I.K. International Publishing House Pvt. Limited

Rahul Gupta Choudhury. 2019. *Sales and Distribution Management for Organisational Growth.* United States: IGI Global.

A. Nag. 2013. *Sales and Distribution Management*. New Delhi: McGraw Hill Education.

UNIT 4 OVERVIEW OF MARKETING CHANNELS

NOTES

Structure

4.0 Introduction
4.1 Objectives
4.2 Overview of Marketing Channels: Structure, Functions and Relationships
4.2.1 Role and Functions of Marketing Channels
4.2.2 Designing the Distribution Channel
4.2.3 Conflict, Power and Relationships in the Channel
4.2.4 Conflict Resolution Mechanisms
4.3 Channel Intermediaries: Wholesaling and Retailing
4.3.1 Retailing
4.4 Logistics of Distribution
4.4.1 Distribution System
4.4.2 Channel Members
4.4.3 Supply Chain Management
4.4.4 Channel Control and Management
4.5 Channel Planning
4.6 Organizational Patterns in Marketing Channels
4.7 Managing Marketing Channels
4.8 Answers to 'Check Your Progress'
4.9 Summary
4.10 Key Terms
4.11 Self-Assessment Questions and Exercises
4.12 Further Reading

4.0 INTRODUCTION

In order to survive in a competitive market, it is important that a company makes its consumers aware of its products, ideas and services. Unless a company is able to reach the masses, it is impossible to establish your business in the market. Therefore, marketers need to promote their products or services in an organized way. They need to implement the right techniques and tools for a successful promotion. Marketing channels serve an important role in this process.

Products need to be made available in adequate quantities, in convenient locations, and at times when customers want to buy them. Channel intermediaries facilitate the distribution of products from producers to customers. The channel of distribution is the means by which products are moved from producer to the ultimate customer. Producers need to consider not only the needs of the ultimate customers but also the requirements of channel intermediaries.

In this unit, we will discuss the functions, relationships, and structure of various marketing channels, the roles played by different intermediaries in the marketing process. The unit also talks about the importance of marketing channels.

NOTES

4.1 OBJECTIVES

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

- Discuss the functions, relationships and structure of marketing channels
- Examine the role of channel intermediaries
- Describe the organizational patterns in marketing channels
- Understand the importance of international marketing channels

4.2 OVERVIEW OF MARKETING CHANNELS: STRUCTURE, FUNCTIONS AND RELATIONSHIPS

Let us first discuss the role and functions of marketing channels.

4.2.1 Role and Functions of Marketing Channels

The key members of a marketing channel are manufacturers, intermediaries (wholesale, retail and specialized), and end-users (business customers or consumers).

Manufacturers

'Manufacturers' refer to the producers or originators of the product or service being sold. Some manufacturers brand their products and are well-known to the end-users, even if they use intermediaries to reach them. For example, companies such as Unilever; major world automakers such as Mercedes-Benz, Ford, or Toyota; or pharmaceutical manufacturers such as Merck, Pfizer, or Roche.

Other manufacturers make products but do not invest in a branded name for them. Instead, they do private-label production, and the downstream buyer puts its own brand name on the product. For example, the German firm FJM Collections designs ladies' handbags, shoes, and other leather goods made from Chinese eel skin. FJM contracts out the production of handbags to manufacturers in Asia and the production of shoes to an Italian manufacturer. The examples show that the manufacturer's ability to manage a production operation does not always extend to a superior ability to perform other channel flows. This reinforces the insight that intermediaries add that value to the channel through their superior performance of certain channel flows, and that manufacturers voluntarily seek such intermediaries to increase their reach in the end-user market.

Intermediaries

The term 'intermediary' refers to any channel member other than the manufacturer or the end-user. We can differentiate among three types of intermediaries: wholesale, retail, and specialised.

Wholesalers include merchant wholesalers or distributors, manufacturers' representatives, agents, and brokers. A wholesaler sells to other channel intermediaries, such as retailers, or business end-users, but not to individual consumer end-users. Merchant wholesalers take on the role of both wholesalers and retailers. They take physical possession of inventory; store inventory; promote the products in their line; and arrange for financing, ordering, and payment with their customers. They make their profit by buying at a wholesale price and selling at a marked-up price to their downstream customers. Specialised intermediaries refer to the group which deals in special goods, i.e., ones having a niche market, not commonly available, or with a very narrow customer base.

Today, retail intermediaries come in many forms, including department stores, mass merchandisers, hypermarkets, specialty stores, category killers, convenience stores, franchises, buying clubs, warehouse clubs, catalougers, and online retailers. Historically, the role of retailers has focused on amassing an assortment of goods that are appealing to their consumer end-users, their role today often goes much further.

Some channel intermediaries have expertise in certain areas such as selling, servicing, and installation. Producers can specialise in manufacturing and allow distributors to do these specialised functions.

End-users

An end-user is a person who ultimately uses the product. A product is either purchased by several intermediaries, who are not users, between the manufacturer and the end-user, or it is directly purchased by the end-user. For example, the end-user of a pharmaceutical product is the patient himself and not the distributors, pharmacists, or physicians, who purchase it on their behalf; or the user can buy the product directly from the drugstore. Moreover, an end-user of a computer system or software is someone who uses it.

Manufacturer-based Channel Formats

***Manufacturers Direct**:* Products are shipped and serviced from the manufacturer's warehouse. They are sold by the salesforce or agents of a company. Many manufacturers-direct companies also sell through wholesaler-distributors.

***Licence**:* This implies contracting distribution and marketing functions through licencing agreements, usually granting exclusivity for some period of time.

Consignment-Locker Stock: In this format, the manufacturer ships products to the points of consumption; but the title does not pass until the product is consumed. The risk of obsolescence and ownership is the manufacturers' until used. This arrangement is usually associated with high-period-high-margin items and emergency items, such as diamonds and fragrances.

Broker: The manufacturers employ a specialised salesforce on a contract basis which carries out other comparable product lines and focuses on a narrow customer segment. Brokers are usually hired by small manufacturers trying a broad coverage. For example, frozen foods, paper goods, lumber, and so on.

Franchise: Here, product and merchandizing concepts are packaged and formatted. Territory rights are sold to franchisees. Various distributions and other services are provided by contract to the franchisees for a fee.

***Departmental store**:* This type of store offers a wide variety of merchandise with a moderate depth of selection. The typical product mix includes both soft goods (e.g., clothing, food, and linen) and hard goods (e.g., appliances, hardware, and sporting equipment).

***Mass merchandizer*:** This is similar to a departmental store, except that product selection is broader and prices are usually lower.

***Specialty store**:* Offers merchandise of one line (e.g., women's apparel, electronic) with great depth of selection at prices comparable to those of departmental stores.

Convenience store: A small, higher-margin grocery store that offers a limited selection of staple groceries, non-foods, and other convenience items (e.g., ready-to-heat and ready-to-eat foods).

***Hypermarket**:* A very large food and general merchandise store with at least 100,000 square feet of space. These stores typically devote as much as 75 percent of the selling area to general merchandise.

4.2.2 Designing the Distribution Channel

Just as positioning a product means setting its product attributes, price, and promotional mix to meet the demands of a particular segment, similarly, positioning refers to the design of the distribution channel to meet the segment's demands. This exercise should be done, even if the channel ends up not selling to some of the segments in the end. The channel analyst may then discover that some segments simply do not make good targets because their demands cannot be adequately met with the channel's current resources. Alternatively, the positioning exercise may reveal some unexpectedly attractive segments to target. Unless the optimal channel is defined for each segment, it is impossible to make a thorough decision about what segments to target.

The optimal channel is defined, first and foremost, by the necessary channel flows that must be performed in order to generate the specific segment's service output demands. Channel flows are all the activities of the channel that add value to the end-user. In enumerating the list of channel flows, we go beyond the concept of mere handling of the product to include issues of promotion, negotiation, finance, ordering, and payment.

The design of the channel structure involves two main elements. One, the channel designer must decide who are to be the members of the channel. For example, will a consumer-packaged goods manufacturer sell its grocery products through small, independent retailers within the city locations or through large chain stores that operate discount warehouse stores? Will it use an outlet such as an online seller of food and household products that operates no retail store at all?

Two, a decision needs to be made as to how many of each type of channel member will be in the channel. In particular, should the channel for a consumer good include many retail outlets (intensive distribution), just a few (selective distribution), or only one (exclusive distribution) in a given market area? The answer to this question depends both on efficiency and implementation factors.

The channel structure decisions of type, identity, and intensity of channel members should all be made with the minimisation of channel flow costs in mind.

That is, each channel member is allocated a set of channel flows to perform, and ideally, the allocation of activities results in the reliable performance of all channel flows at the minimum total cost. The exercise results in one channel profile for each segment that is identified in the market segmentation stage of the exercise. Each of these channel profiles is called a zero-based channel, as it is designed from a zero base of operations, that is, as if there were no pre-existing channels in the market. The concept of a zero-based channel means that the segment's service output demands are met and that they are met at a minimum total channel cost.

Channel Design Targeting

The channel manager is equipped to decide what segments to target. Knowing what segments to ignore in one's channel design and management efforts is very important because it keeps the channel focused on the key segments from which it plans to reap profitable sales.

The channel manager has to look at the internal and external environment facing the channel. For example, the top management of a manufacturing firm may be unwilling to allocate funds to build a series of regional warehouses that would be necessary to provide spatial convenience in a particular market situation. Many countries restrict the opening of large mass-merchandise stores in urban areas, to protect small shopkeepers whose sales would be threatened by larger retailers. Such legal restrictions can lead to a channel design that does not appropriately meet the target segment's service output demands and may cause a channel manager to avoid targeting that segment entirely.

When superior competitive offerings do not exist to serve a particular segment's demands for service outputs, the channel manager may recognise an unexplored market opportunity and create a new channel to serve that under-served segment. Meeting previously unmet service output demands can be a powerful competitive strategy for building loyal and profitable consumer bases in a marketplace.

Establishing New Channels or Refining Existing Channels

The channel manager identifies the optimal way to reach each targeted segment in the market, as well as the bounds that might prevent the channel from implementing the zero-based channel design in the market. If no channel exists currently in the market for the segment, the channel manager should establish the channel design that comes closest to meeting the target market's demands for service outputs, subject to the environmental and managerial bounds constraining the design.

If there is a pre-existing channel in place in the market then the channel manager has to perform a gap analysis. The differences between the zero-based and actual channels on the demand and supply sides constitute gaps in the channel design. On the demand side, gaps mean that at least one of the service output demands is not being appropriately met by the channel. The service output in question may be either under-supplied or over-supplied. The target segment is likely to be dissatisfied because the end-users would prefer more service than they are getting.

NOTES

Implementation of Channel Design

Assuming that a good channel design is in place in the market, the channel members must implement the optimal channel design.

Incomplete incentives among channel members would not be a problem if they were not dependent upon each other. However, by the very nature of the distribution channel structure and design, specific channel members are likely to specialise in particular activities and flows in the channel. If all channel members do not perform appropriately, the entire channel effort suffers. For example, even if everything else is in place, a poorly performing transportation system that results in late deliveries of the product to retail stores prevents the channel from succeeding in selling the product. This is the case with the performance of any channel member conducting any of the flows in the channel. Thus, it is apparent that inducing all of the channel members to implement the channel design appropriately is critical for the success of any channel design.

It is not possible for a company to have a common channel for all its products and markets. The company has to ensure that the product reaches the right segment at the right time and the right place, and also reflects the product's positioning. Quite often, companies need to have different channels to reach the different segments. Some examples of different channels used by companies are illustrated below:

Channel for Arrow: There was only one link between the company and the final customer, the franchisee. The company supplied goods to these franchisees from their central warehouse in Bangalore (see Figure 4.1). These franchisees were large upmarket retail outlets. However, after the entry of the multinational labels, this structure had to be changed.

Company plant (Bangalore)
|
Central warehouse (Bangalore)
|
Franchisee
(in Class A and B towns)

Fig. 4.1 *Channel for* Lee, Arrow*, and* Flying Machine

Channel for hosiery products: The hosiery range of products is produced at the fabrics division of Arvind Mills, which is located in Bangalore. The finished goods are shipped to the central warehouse, located in Bangalore itself.

The next link in the distribution chain is the clearing and forwarding (C&F) agent. There are C&F agents located all over the country. Usually, there is one C&F agent for a state. However, for larger states such as Uttar Pradesh, there are two C&F agents. The last link in the chain is the dealer.

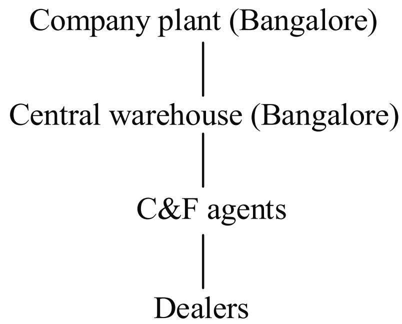


Fig. 4.2 *Channel for Hosiery Products*

Channel for Ruf & Tuf: Arvind Mills, the first company in the country to have pioneered the innovative concept of a ready-to-stitch jeans pack, took the lead in launching this pack where readymade jeans were not easily available.

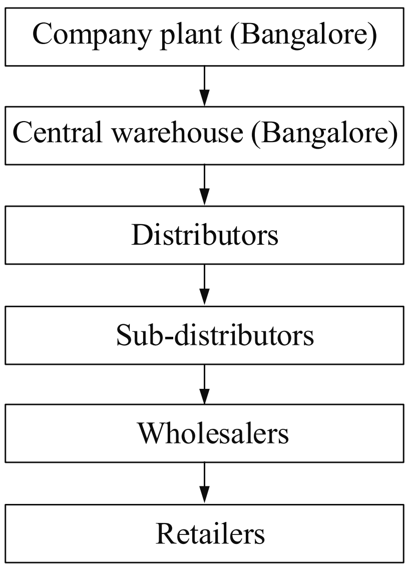


Fig. 4.3 *Channel for* Ruf & Tuf

These were sold through a multi-layered distribution channel. The goods move from the central warehouse to the distributors. The distributors supply the goods to the sub-distributors, who supply it to the wholesalers, from where it ultimately reaches the end-retailer.

Goals of the Channel Members May Differ

Broadly, channel members' objectives could be (a) sales; (b) profitability of individual items; (c) return on investment; or (d) early recovery of cash. The goals for different channel members could be different. The differences could be at different levels of the channel structure or the same level of the channel structure.

To a large extent, it can be said that the objectives of the C&F agent, the distributors/stockists, wholesalers, and retailers would be different. Generally, a C&F agent would have an objective of the overall profit from each company they are dealing with. At the next level, the distributors/stockists would have an objective of return on investment. This is because many companies consider the distributors/

NOTES

stockists to be an extended arm of the company and the companies would require the distributors/stockists to carry out several activities on their behalf (for example, promotion, prospecting). In return, the distributors/stockists look for at least the minimum returns on investment to stay in business. Wholesalers, to a large extent, would be interested in the rotation of money and hence would have an objective of 'early return of cash'. Generally, the wholesaler gets the goods on credit. These goods are immediately sold in cash with a very small margin or even at the cost price. This would help the wholesaler get cash to purchase other goods. In this process, the wholesaler would be in a position to rotate his money several times before the initial bill comes for payment. There are also instances where the wholesaler may be willing to sell the goods at a price lower than the cost price and cover it up with the money he gets for selling the packaging material (cartons, jute bags, etc.) in which the goods were supplied. Companies like *Procter & Gamble* (P&G) admit that the wholesalers are responsible for price cutting. The retailers' objective, on the other hand, would be to increase sales.

The issue of differing objectives would be even more important if the members at the same level have differing objectives. This would occur if the company has different types of channel members at a level. For example, if a company sells its products through franchise outlets as well as multi-brand outlets, then the two outlets would have different objectives. The franchise would have an objective of Return on Investment (RoI), whereas the multi-brand outlets would have an objective of maximizing sales. This is a common situation in the shoe business. Hence, while designing the channels the company has to ensure that it will be in a position to fulfill the objectives of the different channel members without creating a conflicting situation.

The Alternatives

A company has several alternatives at each level in the channel. A company could opt for a franchise, a company-owned outlet, or a multi-brand outlet to sell its products. At the next level, the company could have a C&F agent, a wholesaler, or a distributor. So, at each level, a company has several options, each of which could be suitable for a specific situation. A case in point is the air-conditioning industry.

The distribution network used for air-conditioning usually has three levels in the channel. At the regional level, the company has a godown (stocking point) handling a certain zone. This is employed by the company to store the goods of the company for onward distribution. These goods are then shipped to a channel member responsible for supplying goods to the dealers. Five to ten such redistributors are appointed for a state. These redistributors are spread across the area to be easily accessible to the dealers, generally in various principal cities. These distributors service the dealers who fall in their territory. The structure can be summarised thus:

Level 1: Stocking points

Level 2: Redistributors

Level 3: Dealers

NOTES

However, various options are possible at each level. There are different kinds of dealers, like wholesale dealers, sales and service dealers, and sales-only dealers. The dealers vary according to the function they perform. Sales and service dealers provide comprehensive service to the customer, including after-sales service as well as handling of certain other complaints. The sales-only dealers' role is restricted to providing a selling point to the company. In this case, the company agents, not the dealers, handle the majority of the post-purchase transactions with the customer. The wholesale dealers are those who not only retail but also sell the product to sub-dealers. A wholesale dealer is appointed if the company is interested in reaching a larger territory.

The Distribution Network of Carrier Aircon: *Carrier Aircon* has a network with its branch offices and their godowns as the first level of distribution. It has branches across the country which handle the storage and distribution of the products to the distributors/direct dealers and handling of any customer complaints regarding product defects, guarantees, etc. The next level comprises direct dealers. These are the dealers who are regularly visited by the representatives of the company and supply the products. In areas where the market is dispersed, these dealers further distribute the product to indirect dealers or sub-dealers, who are sales-only dealers and do not have any direct contact with the company.

Branch office/godown
|
Direct dealers
|
Only sales
Sub-dealers

Fig. 4.4 *The Distribution Network of Carrier Aircon*

The Distribution Network of Whirlpool: *Whirpool* has a system of wholly-owned wholesale buyers who have branches countrywide for distribution and after-sales service. The company supplies to these wholesale buyers and they in turn supply to the dealer network of *Whirpool*. These dealers are again authorised dealers and sub-dealers.

Wholesale buyer
|
Godown of wholesale buyer
|
Authorized dealer

Fig. 4.5 *The Distribution Network of* Whirlpool

The Distribution Network of LG: *LG* operates mainly through C&F agents who handle its warehousing and distribution to the dealer network. *LG* also has a network of exclusive showrooms which sell the entire range of home appliances manufactured by *LG*.

NOTES

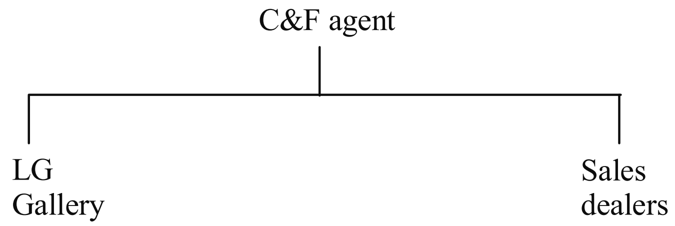


***Fig. 4.6** The Distribution Network of* LG

The Distribution Framework

The framework takes a bottom-up approach by starting with the consumer and looking at their needs.

Buyers' Needs

The challenge today is to build a vast network cost-effectively, with a wider distribution pipeline. In order to increase their reach, companies are expanding their network by adding new channels. Packaged food products are now available in various types of retail outlets, ranging from groceries, general stores, and food stores to paan/bidi outlets. Again, in terms of fast-moving consumer goods (FMCGs), the traditional boundaries are fast disappearing. Chemists are stocking packaged products ranging from shampoo to salt. DCS Home Product (DCW) is now selling Captain Cook salt and atta (wheat flour) through chemists. Johnson & Johnson (J&J) is selling Kids, its soap for children, through various places like toy shops, in addition to its traditional outlets. Mother Dairy is expanding its distribution cover to include grocery outlets and pushcarts.

Retailers' Requirements

The next issue in the channel design is to reach and service these outlets. Several intermediaries could cater to these outlets. Normally, the manufactured goods are stored in warehouses that are scattered across the country. From the warehouses, goods are then transported to dedicated intermediaries. The intermediaries service the retail trade at regular intervals, depending on the type of products. The intermediaries would, however, have to be determined by taking into account the retailers' considerations. The retailers' considerations would depend upon: (a) the nature of the product and (b) servicing requirements of the retailer.

If the product is bulky and the retailer cannot have a large stock of it, then the retailer may prefer to stock a small quantity of the product and re-book as and when the sale takes place. In such situations, the next level that supplies material to these outlets has to be close by and should be in a position to replenish the stocks fast (for example, refrigerators). Similarly, FMCGs have to be replenished fast and, therefore, the stocking point has to be close by. On the other hand, if the product is perishable, the number of intermediaries needs to be minimized so that the product reaches the last point of sale fast and with minimum handling (for example, bread).

Legal Requirements

The tax implications could also influence the channel structure. For example, the company may wish to appoint carrying and forwarding agents instead of distributors if they wish to transfer the material across the state boundary on a consignment basis.

NOTES

Let us consider the case of a multimedia company, in order to understand this point further.

The case pertains to a multimedia company that wanted to enter the domestic personal computer (PC) market. Previously, the company used to sell only to industrial buyers through direct salesmen, and the company's personnel, to industrial buyers through direct salesmen, and the company's personnel, located in different cities, provided after-sales service. The company had about 80 service centres and their territory was uniquely defined. The management felt that the existing sales force and channel design would not be sufficient for the home PC market. A different type of channel design and servicing facility to serve the highly scattered market was to be planned. The channel design was developed using the above framework.

Target Segment

In India, a PC does not enjoy the same priority in a household as in Western countries. In general, people in India think of a PC only after they have purchased a refrigerator, TV, music system, air-conditioner, and car. Although of late, the PC is moving up in the priority list, it has a long way to go before it becomes a necessity. The computerization of all public systems and the performance of the computer company have gone a long way in changing the perception of the Indian household towards a PC. Though the decision of the target market is a part of the overall marketing strategy, it was suggested that the company concentrates on India's upper and upper-middle classes, as a PC can only be afforded by this segment.

Buyers' Needs

A buyer has a wide range of choices in PCs, with a wider array of add-ons. The consumers undertake elaborate pre-purchase planning to obtain the right product that satisfies their needs. The pre-purchase process, which is carried out for the collection of information, extends to the point of sale also. The company has to identify outlets that would help the buyer in this pre-purchase process. The pre-purchase requirements include:

- **Demonstrability:** A customer would like his product to be demonstrated within a shop, so as to help him understand its working, etc.
- **Information:** For a high-involvement product like a PC, the customer would like to have a lot of information to help him to make the best choice.
- **Hands-on experience:** A PC is a high-tech item. Demonstration by the salesperson may not satisfy the customer fully. They would like to have hands-on experience to familiarise themselves with the product and develop confidence that they can handle the PC alone without any help.

Options based on Buyers' Needs

The options satisfying the buyers' needs are franchises and company-owned showrooms. Multi-company outlets are not considered as they could dilute the effect of the pull generated. The present behaviour of consumers is such that they

NOTES

consider the company image to be more important and relevant during decision making. That is to say, the consumers are 'pulled' to the outlet more by the company name. To capitalise on this behaviour and to avoid sales losses due to dealers' 'push', a multi-company outlet is not considered. In a multi-company outlet, the dealer may push a competitors' brand.

Retailers' Needs

- **Handling:** A PC is a fragile and sophisticated instrument, which requires careful handling, along with a correct atmosphere for storing. It needs to be handled under expert supervision, therefore the retail outlets may not wish to take on the burden of stocking.
- **Low volume:** As PCs are a low-volume item, stocking may unnecessarily block capital and storage space. Thus, the retailer outlets may not want to stock the product. Moreover, the consumer would not like to carry it off the shelf, and would rather have it delivered to his place. They would not mind a delay of a day or so.

The retail outlet can therefore have a minimum number of models for demonstration purpose and the higher-level intermediary could take up stocking of the product. Delivery to the customer can be made after procuring the model from the stocking point, as the customer is willing to wait.

Location of the Next Level

Since consumers do not mind a delay of a day or so for delivery of the product, the location of the next level need not be very close to the point of sale. The stocking point can be at a centralised place catering to several markets. It is, therefore, suggested to have the second level at the state level. This could be a distributor or a carrying and forwarding agent.

Legal Requirement

To take into account some of the tax burdens, it is suggested to have a carrying and forward agent as the state-level intermediary.

Distribution Requirement

Functions to be performed by the channel:

- *Technical competency:* For a high-tech item like a PC, channel members have to be technically equipped to satisfy all the queries and doubts of the customer (who may not be aware of the technicalities of the PC).
- *Increased awareness about the product:* The PC (which is very low on the priority list of customer) requires the effort of the channel to increase awareness regarding the product to motivate customers in developing interest in the product.

  These functions can be done both by the franchise as well as the company-owned outlet.
- *Reach:* As the company plans to market in four southern states of India, it would require a carrying and forwarding agent in each state. Since both the alternatives (franchises and company showrooms) satisfy the buyers' as

NOTES

well as distributors' needs, they need to be evaluated on cost, control, middleman profitability, and adaptability.

- *Cost:* The company showroom will be a costly choice because of the overheads of maintaining the staff and showroom.
- *Control:* While maximum control can be exercised in a company-owned showroom, the required control can be exercised over a franchisee also as the franchisee's business is solely dependent on the image of the company.
- *Adaptability:* In case the company wants to modify the channel design in the future, the franchisee would be more adaptable as compared to a company showroom.
- *Middlemen variables:* Profitability to the middlemen is projected to be moderate in the initial years and high in subsequent years as the demand for PCs would increase over time.

4.2.3 Conflict, Power and Relationships in the Channel

Channel conflict generates when one channel member's actions prevent the other channel from achieving its goals. Channel conflict is both common and dangerous to the success of distribution efforts. Given the interdependence of all channel members, the actions of any member have an influence on the total success of the channel effort and can harm the total channel performance.

Channel conflict can stem from differences between channel members' goals and objectives (goal conflict), disagreements over the domain of action and responsibility in the channel (domain conflict), and differences in perceptions of the marketplace (perceptual conflict). These conflicts directly cause a channel member to fail to perform the flows that the optimal channel design specifies for them, and thus inhibit total channel performance.

In general, channel conflict reduction is accomplished through the application of one or more sources of channel power. For example, a manufacturer may identify a conflict in its independent-distributor channel—the distributorship is exerting too little sales effort on behalf of the manufacturer's product line, therefore sales of the product are suffering. Analysis might reveal that the effort level is low because the distributorship makes more profit from selling a competitor's product than from selling this manufacturer's product resulting in a goal conflict. The manufacturer's goal is the maximisation of profit over its own product line, but the distributorship's goal is the maximisation of profit over all of the products that it sells—only some of which come from this particular manufacturer.

To resolve a goal conflict, the manufacturer might use one of the following strategies: (i) The manufacturer might use some of his power to reward the distributor by increasing the distributor's discount, thus increasing the profit margin that can be made on the manufacturer's product line; (ii) the manufacturer may invest in developing brand equity and thus pulling the product through the channel. This increases the brand power and induces the distributor to sell the product more aggressively because the sales potential for the product has risen.

NOTES

Channel coordination

Channel members are required to work together in order to advance the goals of the channel. When channel members work together towards these channel goals keeping their independent (and likely conflicting goals) aside, it means that the channel coordination is good. This term is used to denote both the coordination of interests and actions among the channel members who produce the outputs of the marketing channel, and the coordination of performance of channel flows with the production of the service output demanded by target end-users. This is the end goal of the entire channel management process. As conditions change in the marketplace, the channel's design and implementation may need to respond; thus, channel coordination is not a one-time achievement, but an ongoing process of analysis and response to the market, the competition, and the abilities of the members of the channel.

Understanding channel power and conflict

Historically, manufacturers have not been certain in their approaches to electronic commerce. This is mainly because of fear of having to compete directly and of potential damage to existing sales channels. Therefore, electronic commerce remained the choice of traditional retailers or e-tailing 'pure plays'. With retailers and manufacturers coming to realize that their role was to provide services to empowered consumers together, channel conflict will definitely give way to channel cooperation in the electronic marketplace.

The shift to the Internet and online presence has made many traditional businesses, especially manufacturers very susceptible to channel conflict. As mentioned earlier, this conflict arises in the form of direct competition with existing channels and potential damage to existing channels owing to the introduction of new channels. The class of conflict and the level of channel conflict in the e-market is dependent on the nature of the industry and the individual company. In cases of companies that do not own or closely control offline distribution channels, there is a risk of damage to old and established relationships and revenue sources. However, companies used to controlling their own channels run the risk of cannibalising revenues with online stores. These stores pull customers out of existing channels and bring down the profitability of those old and sometimes decade-old channels.

There are advantages attributed to each distribution channel. Catalogues, for instance, as well as direct mail and telemarketing, can be the best ways to target specific customer segments. Sales representatives, irrespective of whether they are representing a manufacturer or a retail salesperson, often offer not just extremely detailed information but also personalized and high-quality customer service. Nonetheless, aspects of electronic commerce conflict with, and can be viewed by other channels as a potential rival for, sales and control of the customer relationship (see Table 4.1).

Table 4.1 *E-Business and Channel Conflict*

NOTES

Existing Channel	eBusiness Threat
Catalogs	Online catalog without the cost of printing and postage
Direct Mail/Telemarketing	Same or greater level of information to consumer without same costs
Sales Force Manufacturer Reps	Same or greater level of product/service information available to consumer at all times
Distributors Retail Stores	Lower costs for good/services through disintermediation; shopping convenience
Door-to-door Infomercials	Same/greater level of "at home" service

If new marketing channels are developed, then consumer expectations in the e-marketplace channel conflict cannot be far behind, for example, the introduction of outlet and discount stores in the 1980s. However, with the advent of the Internet, channel conflicts have only increased due to the unique features of the electronic marketplace, some of which are as follows:

- **Redefined Consumer Experience:** It is a standard on the Internet to provide a 7/24/365 customer experience characterised by transparency in terms of price, and accompanied by a high level of personalisation. Not only do many existing channels have to struggle to fulfill these new expectations, but they may even have to risk being replaced.
- **Fresh Competition:** Companies that do not have physical storefronts are outdoing established businesses. Existing players are having to compete with Internet companies that have much lower overheads.
- **Time Compression Technology:** It fastens business processes, right from manufacturing to selling. Existing players are required to either manage channel conflict quickly or risk losing market position.
- **'Mass customised' Merchandise:** The Internet, coupled with highly responsive supply chains, forms the basis for the widespread availability of 'mass customised' products over time. For example, apparel retailers may provide their customers with options to specify their body measurements online and order customised pants. A computer manufacturer is capable of letting customers actually configure their computers even as they order them.

It is not enough for manufacturers to recognise the demand for outlet stores and begin to use them to reach out to new customers and offer them novel and varied products. It is equally important for manufacturers to create a win-win situation, not just for themselves but also for their distribution channels in a new economy. High expectation of consumers is the characteristic feature of the new economy, coupled with increased consumer power.

NOTES

Shifting channel power

The Internet is not only the cause of the rise in consumer expectations, it is also the reason behind the newfound power of the consumers. More and more online shoppers are rushing to manufacturer websites. Surveys have revealed that almost 80 percent of users have visited online manufacturer sites. Not only have they visited the site, but they have also been through almost all stages of the purchase process. In other words, they have been through the entire buying cycle. Such visitors do not differentiate between retailers and manufacturers. These empowered shoppers or consumers who wish to get what they desire, at the time and place they want it in and are willing to find ways to overcome retailers to get it, look for the following:

Product Information: By visiting a retail store, shoppers cannot get the detailed product specifications provided by manufacturers. Nearly 80 percent of online shoppers seek such specific information on manufacturer sites. Almost 37 percent of shoppers visit a manufacturer site out of curiosity and information that might have got from some promotional campaign or a friend. They visit the site to obtain the latest information on new products.

Transaction Information/Capabilities: Consumers feel that retailers may not have all the price-related and source-related information on products. A majority of people turn to manufacturer sites for product prices, whereas the rest of them wish to find out where they can purchase the product from.

Product Help/Support: It doesn't matter to shoppers whether the site is of a retailer or manufacturer while seeking help. More than one-third of people directly approach manufacturer sites pertaining to the installation, cross-selling, etc. to find answers to their questions.

Times have changed and consumers today know what they want, and are able to define their requirements in detail. Manufacturers and retailers have no option but to be part of the process.

Forms of channel collaboration

Manufacturers and retailers should combine their efforts to be able to fulfill consumers' demands by not only sharing customers and margins but also brand and other intangibles. Manufacturer/retailer relationships can be seen in the form of manufacturer support, collaboration, and seamlessness (see Table 4.2).

NOTES

Table 4.2 Levels of Channel Cooperation

Type	Customers	Intangibles	Financial Implications
Manufacturer Support	Retailer owns the customer relationship	Manufacturer provides support and collateral	
Retailer provides assortment and service; promotes the brand	Retailer keeps the margin and reduces costs with manufacturer merchandising and marketing help		
Collaboration	Manufacturer and retailer share aggregate customer data	Manufacturer and retailer work together on merchandising and marketing plans	Manufacturer and retailer share performance-based revenue
Seamlessness offered by Reshare®'s solutions	Manufacturer and retailer jointly manage and market to customers	Manufacturer and retailer build one brand experience through new brand or partnership	Manufacturer and retailer split revenues

Channel cooperation in its simplest and basic form (manufacturer support) extends support to retailers through product information and collateral. As per this model, the retailer continues to own and drive the customer relationship and take care of all activities facing the customer. The focus of marketing is on the retailers' store and retailers get their traditional margin. By collaborating, manufacturers are able to establish a closer relationship with the customers. They are also able to exercise better control over their brand and capture a bigger share of the revenue from sales. In a well-advanced form, channel cooperation makes it tough to figure out exactly when the manufacturer has taken leave and the retailer has taken over. The objectives pursued by the manufacturers and retailers are complementary.

Not only are they custodians of the brands but they also realise the value of a financial premium, which comes from the new and all-powerful customers who more than willing to pay for pleasant and seamless customer service/experience.

Determining channel power and cooperation levels

Manufacturers should be able to evaluate the following factors while determining the right level of cooperation or while assessing channel power:

- The strength of a brand or brand equity is what pushes customers towards a manufacturer's site. A weak brand will drive customers to a retailer.
- Higher margins allow a manufacturer to absorb direct e-commerce more conveniently.

NOTES

- The customer's involvement varies with the frequency and volume of purchase. The larger the purchase and the less frequent, the more is the effort put in by the customer in the process of purchase.
- When the contribution made by the retailer in enhancing the experience of the customer is more (in terms of, say, variety and a wider product assortment), the higher is the value-add.
- The more the Internet enhances the shopping experience, the higher the value-add of direct selling (e.g., product configurators, deep explanatory content)
- The level and intensity of competition within the retail as well as the manufacturing segments affect the channel strategy because it is a primary determinant of market power. For example, the manufacturer's position will become stronger as the number of retailers increases.
- Internal factors and capabilities within the organization help in shaping a channel's strategy. These organizational/internal capabilities include the financial position, technological resources, organizational structures, human resources, and marketing capabilities.

Conflict Management Methods

Conflict management is one of the primary tasks of the channel manager. It is also one of the most difficult tasks. Conflict management is different from conflict resolution in the sense that conflict management tries to prevent disagreements and other problems to reach the stage of manifest conflict. The emphasis is to detect latent conflict in the initial stages and work out modalities to reduce differences that might lead to destructive behaviour. It is only when a conflict is manifested, the resolution methods are adopted. Conflicts are normally resolved at two stages:

(i) at the initial stage before the conflict degenerates into a self or manifest conflict;

(ii) on failing at the first stage, conflicts can be resolved after their manifestation. Various conflict management methods are used at different stages of the conflict. It is, of course, always desirable that the conflicts are resolved at the initial stage. However, such a strategy requires the channel principal to take proactive steps that help in detecting the possible causes of channel conflict.

4.2.4 Conflict Resolution Mechanisms

Two basic methodologies can be employed for conflict management in the first stage of the conflict: (i) institutional mechanisms that focus on structural changes, such as joint membership in trade organizations, executive exchanges, co-optation, distributor councils, and development of superordinate goals (ii) interpersonal and third party mechanisms, such as arbitration and mediation. In the first type of mechanism, specific institutions are created for the detection and resolution of channel conflicts. These are formal institutional set-ups with a well-established framework of operation. The institutional mechanisms are mostly capable of detecting a conflict in its initial stage and prevent it from escalating to its manifested stage. For instance, manufacturers could consider joint memberships in trade organizations with distributors so that issues of dispute can get an immediate and direct redressal.

Many organizations also have formal practices of exchanging executives where qualified personnel from the dealers' organization are posted with the manufacturer for a period of time and also the manufacturer's executives are inducted into the dealer's organization for a short period of time. This leads to a better understanding of the goals and constraints of the respective organizations. These executives later become ambassadors of the organizations in which they work. In co-optation, the manufacturer enlists the support of distributors for designing and implementing marketing programmes and promotional strategies. The channel members are involved in the initial stage and are given considerable leeway in the development of the strategy. This transfers the responsibility of successfully implementing such programmes onto the distributors who are involved in designing them. This also makes the distributors more closely linked to the channel principal's organization along with satisfying the channel member's drive for autonomy.

Sometimes the channel principals take the initiative to constitute a council for the channel members so that it provides a forum for the members to come together and discuss issues of mutual interest with the channel principal. Such a council will have a permanent set-up with office bearers and a regular schedule for meetings. Many organizations in India have their dealer councils which provide links for the channel principal to directly interact with a section of the channel partners. These dealer councils, which consist of the channel principal as well as the channel members, also help in developing superordinate goals which are developed jointly for the purpose of furthering the cause of the entire organization. These goals could be set for operating parameters like inventory control or line fill rate. It could also be set for larger aspects of the business like improvement of market share or growth in sales.

Third-party mechanisms like mediation or arbitration by a third party, uninvolved or external to the organization, are used before the conflict reaches a destructive phase. Through mediation, the parties concerned are persuaded to maintain their communication without escalating their conflict to destructive behaviour. The mediator helps in bringing together the two parties to share each other's complaints and points of view and distills facts from opinion. The mediator does not make a decision but helps the two contending parties to come to a mutually satisfactory decision. In the absence of a mediator who is perceived by both the parties to be neutral, the two parties might not enter into a fruitful discussion due to a mutual distrust or lack of empathy. In arbitration, the third party takes a decision that either voluntarily or compulsorily is abided by the parties. Third-party mechanisms are the last resort before either of the parties takes any drastic action. These mechanisms are thus employed when all the other institutionalised mechanisms become ineffective and one or the other contemplates some destructive behaviour.

Negotiation as a mechanism for resolving conflicts

When a conflict brims over and manifests itself in some form of overt behaviour, institutional mechanisms or third-party mechanisms become irrelevant. It is then that conflict negotiation becomes very important. Negotiation as a solution to reduce any variety of conflicts is a time-tested and popular approach. Negotiation is a process where the parties having a dispute set mutual rules of engagement and work within these rules to gain a competitive advantage over the other party. During negotiations, the parties exchange views and revise their stands on the basis of the proposals provided by the other party.

Hence, it is important to understand that negotiations cannot take place without the parties agreeing to negotiate. Further, the parties negotiating may think of their own sets of interests instead of focusing on resolving the conflict. These interests may not necessarily be economic in nature, although sometimes they are. Often, it is really difficult to comprehend what the real interests of the parties having a dispute are. This is because the apparent interests may not always be the real interests. In most cases, the negotiating parties do not reveal their real interests. Negotiations can be very formal with a detailed and well-laid code of conduct. But negotiations can also be quite informal with both the parties talking to each other without any particular agenda. Also, negotiations can vary on the basis of time spent and the scope. Parties mostly agree to negotiate with different strategies in mind for their personal benefits. While it is often argued that negotiation strategies cannot be predicted and come naturally, it is always possible to explain the different types of strategies.

Negotiation strategies

Negotiation strategies are the patterns of behaviour used during the negotiation process to resolve conflicts. Five types of negotiation strategies are usually observed: (i) competing or aggressive; (ii) collaborative or problem-solving; (iii) compromising; (iv) avoiding; (v) accommodating. The five strategies can be explained by imaging a two- dimensional plane with the dimensions being (a) concern for own interests; and (b) concern for the other party's interests.

Negotiating strategies can range from a competitive or aggressive strategy, where only self-interests are considered without giving any attention whatsoever to that of the opponent, to an accommodation strategy where self-interests are least considered but the other's interests are given the maximum importance. In avoidance strategy, one gives in to all the demands of the opponent without putting up any demand from one's side. This may be done purposefully to maintain the relationship or because of some imminent external contingency. For example, if a manufacturer anticipates an imminent entry of the competitor with superior goods and does not want to lose the support of its channel partners, the manufacturer would want to somehow maintain the relationships in the same state.

In contrast, the aggressive strategy involves not giving any room to the opponent and strongly pushing for one's own cause. Here, the issues involved are considered to be very important to give away with. The adoption of an aggressive strategy would naturally lead to a permanent strain in the relationship with the channel partners. Further, it will be difficult to resolve a conflict if both parties take an aggressive stand on all the points of dispute.

In another dimension, there are three strategies ranging from avoidance, where both self-interest, as well as the interests of the other party, are given very low consideration, to a collaborative strategy where the interest of both parties is given high levels of consideration. In avoidance strategy, the idea is to prolong the negotiation by skirting the real issues and discuss unimportant issues that are of no consequence. The motive behind adopting such a strategy is to exhaust the other party's resources, to buy time, or to maintain the status quo. This type of strategy could, of course, enrage the opponents and they might even consider negotiation as a useless method of resolving conflicts in the future.

Check Your Progress

1. What are the key members of a marketing channel?
2. Define manufacturers.
3. When does channel conflict generate?
4. What are negotiation strategies?

4.3 CHANNEL INTERMEDIARIES: WHOLESALING AND RETAILING

Let us begin by discuss wholesaling.

Wholesaling

The role of wholesalers and retailers has changed drastically in the past few years due to market forces. This section discusses wholesaling and retailing in detail.

Wholesaling is a distribution channel function where one organization buys products from supplying firms with the primary intention of redistributing them to other organizations. A wholesaler is a business firm or organization that:

(i) Helps suppliers (manufacturers) reach the buyers, that is, the business buyers, retailers, etc.

(ii) Helps business buyers to buy the right products or items that they may not otherwise be able to buy.

Most large retailers and manufacturers have centralized facilities and can perform all the activities that are performed by wholesalers. However, these retailers are not categorized as wholesalers since they interact only with buyers. This implies that the main factor that distinguishes wholesalers from retailers is that wholesalers offer distribution services to the suppliers as well as the purchasers. We will limit our discussion to wholesalers selling products and services to other resellers such as retailers.

- **Provide access to products:** Wholesalers are concerned with providing products and services to purchasers such as retailers who cannot directly buy from suppliers. They purchase in small volumes and,

NOTES

therefore, if they approach the supplier directly they will be unable to meet the minimum order requirements of the supplier. As a result, they may end up paying a higher price as compared to the big retailers who benefit from purchasing in large volumes (as they get lower prices).

As wholesalers supply to a large number of buyers, their order volumes match the quantities of big retailers enabling them to get lower prices from suppliers. They can pass on these lower prices to their buyers and also allow the smaller retailers to maintain a position wherein they can compete with bigger rivals. In this manner, transacting through wholesalers is the only option for retailers to survive in the business.

- **Provide access to markets:** Wholesalers provide smaller retailers access to products which these retailers cannot buy otherwise. This allows them to gain access to other markets and enables them to offer their services and products in many retail outlets. A company that offers a new product can make its entry into the market in an easier manner by convincing a set of wholesalers to stock its new product. As the wholesaler serves many small retail customers, the marketing efforts needed to convince the wholesaler to stock a new product may prove to be a lot more beneficial as compared to the efforts required to convince owners of various stores individually. Some of the issues faced by wholesalers today are:
- **Disintermediation:** Now that the Internet is steadily taking over as a communication and distribution channel, wholesalers in large numbers seem to have lost their importance in the whole transaction process. This is because the Internet allows buyers to purchase directly from the manufacturers. This is seen as a major risk by those wholesalers who do not have a very strong presence within a distribution channel. When such disintermediation takes place, the wholesalers are faced with the challenge of adding and offering greater value for their products and services. This makes it even more difficult for the retailer to switch.
- **Facility location:** Wholesalers who are concerned with shipping products may end up spending a lot of time and effort in analysing and evaluating sites for locating their facilities. In the case of organizations where large facilities are required, decisions about the location are difficult to make. Opting for a closer location may prove to be more expensive especially in metropolitan cities. With the cost of land increasing steadily, obtaining required space for wholesale activities may become very difficult and may not be feasible. Choice of location is affected by not just price but also proximity to the transportation facilities, roads, air and rail terminals as well as ports. Areas, where land is available, may not possess the infrastructure required to run wholesale facilities unless major investment is made in bringing about improvements in terms of constructing roads, etc.
- **Transportation costs:** In the case of wholesalers concerned with the transportation of products, the increase in fuel prices across the globe has led to a deeper analysis of the handling of the product distribution

process. Expenditure on transportation represents a significant portion of the overall cost distribution. It is often the customers who bear the brunt of these higher costs by paying more for the products. Such issues present opportunities to wholesalers who put in extra effort to check expenditure on fuel by determining less expensive delivery routes; and by offering special incentives or discounts to customers who are open to receiving deliveries during the time of the day that is less congested.

- **Adapting new technologies:** In addition to making use of technologies that lower fuel costs, wholesalers can also benefit from other technological advances that facilitate the distribution process. New technologies such as radio frequency identification (RFID) tags placed on shipped products help wholesalers to keep a tight check on the distribution activities. Of course, investments will have to be made in acquiring expertise in the usage of these technologies.

Offering non-product assistance: More and more wholesalers are realising that the buyers are not merely interested in having a wide variety of products. They expect additional value-added services from the wholesalers. These value-added services may include training employees on selling skills, providing financial support, and promotional assistance. Keeping in pace with the services demanded by customers requires research and interaction with customers.

4.3.1 Retailing

The basic premise of the retail business is simple—you buy an item at wholesale and sell it for more than you paid for it.

To be successful in retail you need to have the right item in the right place; at the right time; in the right quantity; at the right price; with the right service.

To start, you need to sell it with enough gross profit to pay all your expenses and leave a net profit at the end to compensate for your investment and your work. Like it or not, the retail business is based largely on mathematics and customers. You can build a beautiful store, stock it with wonderful products, and staff it with great sales associates, however, if you do not run a profitable retail business, you will go bankrupt and lose everything.

Preparing for your new business

At some point, while thinking through your business, you will need to take a deep breath and prepare a *pro forma* profit and loss statement. This profit and loss statement helps to determine whether you have a viable business idea. It will also help you describe and define the shape of your business.

Preparing a *pro forma* profit and loss statement usually takes hours of research, planning, and estimates. While you should be as realistic as possible about all your estimates, the most important one will be the very first line: your sales plan or net sales.

Adding value propositions to the products

For the successful functioning of your store, you will need to make some fundamental strategic decisions to decide where your retail business will fit into the broad

NOTES

spectrum of retail alternatives available to you. In other words, you will need to decide what are you trying to achieve.

Ask yourself, 'Why should a customer shop in my store?' To be successful, every retail business needs to add value to its products by adopting one of three basic strategies: offering the greatest assortment, lowest price, or best service. Although all of these strategies add value, each one meets the needs of different customers. The challenge in retail is to be competitive in all three areas and to exceed the customers' expectations in one of them. Table 4.3 summarises the characteristics of each strategy.

Developing a strategic framework

Once you have thought carefully about variety, price, and service, you need to go one step farther in developing the strategic framework for your business. You need to add your secret weapon: the one thing that your store can provide that no other store can deliver. If you do not have a secret weapon, your business will be just the same as every other owner-operated retail business that sells similar products and competes in the service arena. Customers will have no compelling reason to shop in your store.

Table 4.3 *Value Propositions Offered*

	Greatest assortment	Lowest price	Best service
Clearly exceeds customers' expectations by providing the added value of:	• An extraordinary range of product variety • A unique selection of products in relation to a specific lifestyle • A combination of wide variety within a lifestyle	• Price savings • A unique shopping experience	• Relationship marketing • One-to-one marketing to meet the needs of individual customers
Devotion to:	• Differential products	• Operational efficiency • Very high quality and service standards	• Anticipating and solving customer problems • Taking responsibility for results • Focusing on key customers
Characteristics:	• Creative selections • Special variety • Leading edge products	• Best price • Easy shopping	• Customized • Responsive • Personal relationships

Developing your niche

You should choose your niche area based on the needs of your customers. To do this, you need to keep a basic marketing lesson in mind; customers do not need to buy drills, they need to buy holes. In other words, there is always a deeper level or purpose to their apparent needs.

If your run an eyewear store, your secret weapon might be that you are an artisan who can produce custom-made eyewear. Instead of just talking about glasses, talk to customers about unique, handcrafted frames that complement a unique personality. This statement appeals to both the apparent need, which is glasses, and to a deeper need, which is individuality. Your store can adopt this custom-made aspect as the secret weapon it will seek to deliver effectively.

The big question that arises is, are there enough customers who need your product and the sense of individuality your secret weapon can deliver?

As customers' needs are reflected in their attitudes toward shopping, understanding these attitudes may give you a part of the answer. Generally, customers can be divided into five categories: quality shoppers, specialty shoppers, sociable shoppers, price-sensitive non-shoppers, and price-sensitive shoppers.

Developing a goal that works

Build your business around service, after that you have total freedom to create any kind of business that you can picture in your mind. The business will be a reflection of who you are, therefore, this vision must come from you. It is not something that anyone else can provide you.

This exercise of picturing your business in your mind is every bit important as developing a *pro forma* profit and loss statement. It will be a process rather than an event.

Identifying direct competitors

To start and run a profitable retail business, you will need to find a niche somewhere in today's competitive retail marketplace. Find out about those needs of your target customers that your competitors are not meeting.

While you are developing your vision for the business, visit the stores that you perceive as your direct competitors. Since these stores are in the same business as you and serve the customers that can be your potential customers in the future, it is important to find ways to attract these customers to your store in order to earn profitability.

If your store is offering something different and unique, then you may not have any direct competitors. If that is the case, then you should still visit the stores that you perceive as indirect competitors. These are the stores that operate in a different business but serving the same customers as you, which means that you may have to find ways to attract these customers in order to grow profitably.

In addition to visiting the stores mentioned above, visit the stores that your customers perceive to be alternatives to your business. You may need to speak with some of your target customers to get this information, however, it will be worth the effort.

Once you have examined all of the competition, you should identify your three most important competitors and analyse their businesses in detail. By knowing their strengths and weaknesses, you will be able to design your business in a way that fills in the gaps for the weaknesses they have.

After you have fully developed your strategy, you will need to start thinking about how you can convey your strategic message to customers through various kinds of communication.

NOTES

Communicating your store location

The most important communication you have with customers is your store location. Table 4.4 illustrates store location considerations.

Store display

The second most important communication you have with customers is through your store design and layout. These are the first things that customers see as they browse through the mall or walk down the street, so the design and layout need to be in complete harmony with the strategic framework.

Integrated marketing communication

The third most important communication you have with customers is your advertising. This will be especially important during your first year of operation when you need to spread the word and tell your target customers about your secret weapon—the way that your business alone can meet both their apparent and their deeper needs.

Table 4.4 *Store Location Considerations*

Location	Strengths	Weaknesses
Downtown	• Central • Big draw • Office market • A lot of service and culture	• Parking problems • Distance from suburbs • Quality of location varies
Regional shopping centre	• Drawing power • Good parking and access • Bass market	• Distance may be too great for convenience merchandise • High base rents
Community shopping centre	• Close to market • Good parking • Good traffic from food stores	• May not specialize • Can be hurt by downtown and regional centres
Strip malls or street locations	• Convenience • Low base rent • Can specialize	• Local traffic only • Small geographic base of shoppers • Transit, parking problems
Warehouse or industrial district	• Low base rent • Budget image	• Location not typical for shopping: low traffic • Requires heavy promotion

By the end of your first year of operation, you will have served thousands of customers, identified your best customers, and developed a relationship marketing program. At this point, you will want to set aside some of your advertising and promotion budget for relationship marketing.

Advertising in newspapers can be a good way to approach this.

- The reach is broad because many people buy a newspaper. Depending on the newspaper, you may be able to reach potential customers anywhere in your community, city, region, or country.
- The cost of newspaper advertising is usually moderate, depending on the size of ad you run and the rates charged by the paper.

NOTES

- The market for newspaper advertising is huge. You do not know who will read your ad; a multimillionaire flying on a private jet or someone using the paper to shield their eyes from the sun while sleeping on a park bench.

Flyers, in comparison, have a local reach. You can often work with a flyer distribution company or a post office to target a very specific neighbourhood or area. For example, you might choose an area in which you have fewer customers than you think you should have. The cost of flyers can be very low if you focus on a particular area.

The *Yellow Pages* can be a powerful form of advertising for attracting new customers to your store. The difficulty with Yellow Pages advertising is that you need to book your space far in advance and design an ad that can last a full year. Your Yellow Pages message should be concise and easy to understand because most people literally flip through the pages.

Table 4.5 shows advertising alternatives for a retailer.

Table 4.5 *Advertising Alternatives*

Medium	Reach	Cost	Market
Catalogues	Individual	Moderate/high	Personal/mass
Coupons	Broad	Low	Mass
Direct mail	Individual	Low	Personal
Display	Local	Low	In-store
In-store flyers	Local	Low	Custom
Local cable TV	Broad	Moderate	Mass
Local TV	Broad	High	Mass
Magazines	Broad	Moderate/high	Mass
Newspapers	Broad	Moderate	Mass
Outdoor	Broad	Moderate	Mass
Radio	Broad	Moderate	Mass
Signage (in-store)	Local	Low	In-store
Word-of-mouth	Individual	Low	Personal
Yellow Pages	Broad	Moderate	Mass

The percentage of advertising spend retailers typically spend on each alternative is as follows:

Catalogues ………………….. 2 percent

Coupons …………………….. 2 percent

Direct mail …………………... 22 percent

Display ………………………. 3 percent

In-store flyers ………………. 3 percent

Local cable TV ……………... 3 percent

Local TV …………………….. 3 percent

Newspaper ………………….… 40 percent

Radio .... 13 percent

Signage .... 3 percent

Other .... 6 percent

NOTES

The most important advertising alternative for any owner-operated retailer is direct mail. The reach is individual, letting you shoot right at the target, the cost is low, and the market is very personal.

Word-of-mouth advertising is also a powerful advertising alternative on the list. Its reach is individual, cost is incredibly low and it works at the same personal level as direct mail.

Check Your Progress

5. What is wholesaling?
6. What is the basic premise of retail business?

4.4 LOGISTICS OF DISTRIBUTION

The logistics function has evolved into a complex set of activities with specific deliverables for each one of these activities. These different activities include purchasing (or procurement), transportation inwards, receiving, stocking (or warehousing), control of stocks, picking against orders, handling materials, transportation outwards, distribution management, and returns handling and their disposal. We shall now look at each of these sub-functions in detail:

(i) Purchasing (or procurement): The raw materials and other goods which are required as inputs for producing a product need to be made available at the shop floor as per the plan of production. This is the objective of the purchasing function and the first and foremost activity here is to specify the raw materials (or other inputs) needed, in a manner that is completely clear to the suppliers. However, if the operation is a new start up then there would be a need for screening and selecting suppliers to whom the specification sheet could be sent. This action of identifying suppliers is an ongoing one in many organizations as the quest for better alternate vendors is constant. Once the vendor is identified and the prices and other terms are finalized, the next step would be to release the order for supply, arrange for transit insurance of the goods (if this is as per the terms negotiated), and organize the delivery of orders. Finally, on successful supply completion, the payment release is also the responsibility of the procurement cell, besides the monitoring of the supplier performance in terms of timeliness and supply quality. As raw materials and other inputs constitute between 30 to 80 percent of the price of the finished product (depending on the industry), the purchasing function is a very vital area for organizational effectiveness. A large proportion of the business revenues is tied up in the purchasing activity and therefore, organizing the function with proper controls and systems is of critical importance.

(ii) **Transportation inwards:** This is the flow of the material and goods towards the logistics provider and usually refers to the transportation and storing of the goods in suitable warehouses, from where they could be picked up and supplied to the users.

(iii) **Receiving:** This activity refers to the receipt of incoming raw materials or other goods, its inspection— both for physical quality and specification match and its proper storage in line with the inventory issual practices (FIFO, LIFO, etc.) of the organization.

(iv) **Warehousing:** This is another important function with multiple objectives. Essentially, warehousing pertains to storing the finished goods before they are despatched to the market and for some time, was considered a non-value adding activity especially with the advent of newer supply modes like 'Just-in-Time', etc. However, over the past few years, the value and usefulness of warehousing have increased especially for products like canned food—the development of fungus or bacterial growth in such packaged items can be detected only after some time, therefore, it is important to keep them in a warehouse for some time to detect any fungus or bacterial growth. Similarly, the value of wine increases with ageing and therefore, warehousing plays an important role in the value addition in wine. Besides these, warehousing plays an important part in normalising the troughs and peaks of production and in ensuring a constant supply to the market independent of the production swings. This becomes a very important aspect, especially for impulse purchase products where without proper warehousing and maintenance of stocks the incidence of 'stockouts' could prove to be costly to the business profitability.

'Logistics and warehousing' have become areas of increasing importance and relevance worldwide in the 21st century due to the following trends:

a) **Space crunch:** The increasing need to differentiate, for meeting customer choices means an ever-increasing number of SKUs, which puts pressure on warehouse space. Added to this is the growth of the market into newer markets which calls for increased stocking and storing at newer places. Thus, the requirement to increase storage locations as well as increasing the space in existing storage locations needs to be carefully balanced against the cost incurred for the same.

b) **Customer-centered warehousing:** The expectations of the customers are constantly on the rise. The competitive market ensures that organizations strive to meet these rising expectations, which besides the choice of products also pertains to making the right product available at the right place and right time. Properly planned warehousing helps in meeting these myriad customer expectations and thereby helps in retaining the market share of the organization.

c) **Value-added services:** Specialised warehousing organizations now offer value-added services such as specialised packaging, delivery in store-ready form and special labelling to gain an edge in the competitive market space.

NOTES

However, what had started as specialised services have now become the standard practice, further increasing the importance of warehousing.

d) **IT usage increase:** With an increased variety and volume of the products, it has become a prerequisite to garner support from IT for smooth warehousing and delivery functions. For example, barcoding has become quite prevalent and it will be no surprise if the radio frequency-based identification software also become a norm in future.

e) **Paperless warehousing:** Thanks to the inculcation of IT in manufacturing industries and the proliferation of newer software applications, warehousing activities such as storing, tracking, picking, labelling, and despatching are steadily being automated and the trend is moving towards paperless actions slowly.

f) **Need for the skilled workforce:** Unlike the operations of warehouses in earlier times when unskilled manual labour was sufficient to perform all tasks, the new technology-driven warehouses require a skilled workforce.

g) **Reverse logistics:** Increasing awareness to protect the environment is the main driver behind the reuse and recycling of products and packaging materials. Besides this, increasing customer satisfaction levels call for defective and damaged products to be taken off and sending them to the production plant for suitable disposal. These movements back to the plant require a system of reverse logistics to be in place wherein returned materials need to be inspected, suitable disposal actions recommended, customer accounts credited for the value of the returns, packaging materials suitably recycled or scrapped, etc.

h) **Third-party warehousing:** This is an evolving phenomenon driven by the need of reducing warehousing costs. The science of warehousing has evolved to an extent where organizations need to deploy significant resources for establishing cost-effective and customer- focussed warehousing. On the other hand, the need to focus on core business activity is crucial for success. These factors enable the emergence of third-party warehousing as a growing function. The advantages of improving customer service whilst reducing cost are the prime focus behind all such moves.

i) **Consolidation in warehouse function:** The increasing requirement of warehousing on one hand and requirement to reduce costs on the other is also leading to consolidation of warehouse function in some cases. In some cases, the organizations are grouping together and also reducing product lines in other instances—all driven from the cost perspective. Shrinking order size and the advent of e-shopping are also responsible for this consolidation to an extent.

j) **Stock control:** This is a vital logistics operation wherein the controls of the stock received and delivered are carefully monitored and the resultant inventory is recorded on an ongoing basis, which is necessary for smooth operations.

NOTES

k) **Order picking:** The physical act of locating (in the warehouse), picking, and processing the product for despatch against an order is termed as the order picking process. This is usually a manual and labour-intensive process and therefore various time and motion studies have been carried out to increase its efficiency and output. The order picking time is the sum of the travel time (time to reach the location where the product is stored), processing time (time spent in searching for the product at the location and other tasks), administrative time (the time spent for locating the trolley or cart on which the product will be brought to the despatch point), and waiting time (time between two pick ups).

l) **Materials handling:** This pertains to the movement of goods within the plant. In the case of raw materials, this refers to their movement from the storage area to the production machines. In the case of finished goods, it means the movement from the storage area to the dispatch location. The key is in the efficient, damage-free movement of products for smooth operations.

m) **Outward transport:** This involves the physical movement of goods from the plant to the warehouse or customer location.

n) **Physical distribution management:** Physical distribution management is concerned with all the systems pertaining to the movement of finished goods to the customer and making the entire process a smooth and integrated one.

o) **Recycling and returns:** As mentioned earlier, this reverse logistics process is garnering increased importance in the context of environmental management. Defective goods, packaging materials for reuse, disposal of waste packaging materials, and recycling of old products are the reasons why the reverse movement of goods is initiated. Establishing a proper system for this reverse movement has become part and parcel of regular logistics functions and can no longer be treated as a separate one-off activity.

Communications and Technology in Logistics

Logistics provide the key 'last-mile service' of reaching the product to the consumer. Due to the evolution of business from being 'production centric to 'customer-service centric', all service aspects of the business have improved their value addition dramatically. In logistics, the basic parameters of value additions are 'speed', 'accuracy', 'timeliness', and 'damage-free delivery' of the consignments. Additionally, the process of keeping the customer informed throughout the process of delivery has gained immense importance. It is no longer sufficient to provide an expected date of delivery to the customers. The customers want to remain updated about the status of a shipment at any point of time during transit, as a measure of confidence-building. This has resulted in making the entire process of logistics a highly demanding and vital process.

- **Communication:** Updating customers in real-time has become extremely important in B2B and other modes of business as well. Each link in the supply chain has an essential part to play in ensuring that information flows

NOTES

are constantly updated and data about shipments and consignments are made available in real-time. The flow of communication should be streamlined in both directions, amongst logistics partners and all participants of the supply chain. The flow of goods not accompanied by a simultaneous flow of communication is considered incomplete and inadequate. In cases when the flow of goods stops temporarily (due to accidents or other), the flow of communication becomes even more important.

- **Technology:** Technology has a very significant role in ensuring communication flow in the supply chain. Usage of WAP-enabled phones for satellite communication, handheld Delivery Information Acquisition Devices (DIAD), pagers, special software for tracking, radio-frequency identification (RFID) technology are some examples of technology that is used in streamlined communication in logistics. Satellite technology has helped in linking the logistics providers with each other as well as their customers. The seamless, speedy, and accurate flow of information is a prerequisite for the timely and correct flow of goods and technology helps in speeding up this process.
- **Electronic data interchange (EDI):** It refers to the process of using computers for exchanging regular business information across a wide area. The exchange of information takes place between computer applications and therefore happens in a set standard electronic format. Besides information, the exchange of documents such as invoices, purchase orders, or other forms is also facilitated by EDI. An EDI is designed in such a manner that an initial data once uploaded, starts a sequence of follow-up actions by the computer systems till the desired objective (production planning, delivery, etc.) is attained. EDI systems have several advantages such as faster data processing, lower costs, accurate information transmission. Global giants like *Walmart* and *FedEx* use EDI systems extensively to facilitate their just-in-time processes. The significant tangible benefits in the areas of inventory management, cash management, error-free deliveries, etc., make the businesses of these organizations extremely cost-effective.
- **Barcoding:** Barcoding of goods and their labelling is another important technology usage in logistics services. Each product is identified through a series of black and white stripes printed on labels, and they operate through the absorption and reflection of incident light by these stripes in a manner that helps in their identification. Bar codes are based on reflective optics and their usage helps in complete error-free identification of the product as it moves through the supply chain till it reaches the final customer. Originally started from the grocery business, the bar codes are now prevalent in almost all businesses. The principal benefits of bar codes are that they provide consistent, accurate, and efficient product information which leads to better storage and management of inventory.
- **Artificial intelligence and expert systems:** The continuous advancement in technology enables its usage in the logistics process. Artificial intelligence

NOTES

or automated intelligence provides enormous support in the analysis, planning, and scheduling tasks involved in logistics. Transportation routing, freight rate management, management information systems, and purchase analysis are some of the different uses of AI.

Logistics Strategy

The increasing complexity of business due to the evolving needs of the consumer requires newer initiatives and approaches by organizations to meet these challenges. Logistics has steadily gained importance in differentiating businesses and as an element providing competitive strength. As a consequence, logistics is increasingly finding its way into business strategy and an efficient supply chain design and management has become a key element in a wide array of industries.

The logistics strategy of a firm broadly comprises two elements—the infrastructural aspects and structural aspects. Infrastructural issues pertain to the control system's policies and procedures adopted. Infrastructural aspects are tactical in nature, structural decisions are irreversible and have a long-term impact as they pertain to the decisions in the technology adopted for the logistics processes, network facilities deployed, supply chain integration vertically, operation technology, etc.

Challenges in Logistics

The key deliverables of logistics are achieving 'customer satisfaction' and 'cost reduction' in inventory management. The speedy and accurate delivery of the products has become intricately involved with the product characteristics. A high-quality product may lose its value if not delivered as per the customer's expectation. Thus, the importance of logistics in business should not be underestimated. A well-functioning logistical service serves to overcome other product drawbacks to a certain extent. The evolution of the global marketplace has resulted in businesses facing logistical challenges both on the local and global levels.

Integration of logistical activities and finding suitable personnel constitutes some of the varied local challenges faced by logistics. Order entry, warehousing, claims tracking and traffic monitoring are the various operations that constitute the overall logistical process. One of the challenges faced by the organizations is integrating all these operations to provide a smooth and seamless service to the customer. This aspect needs to be carefully considered during the design of the logistical processes. As the ultimate motive is to provide customer service, this cannot be achieved if each operation is not well connected. The success of the whole process depends on the smooth interconnectivity of various channels.

We have discussed the increasing use of sophisticated technology in developing logistical systems and in managing operations. These require qualified manpower that is adequately trained in using these systems. Logistical personnel also communicate with customers and therefore, they should be adept in the skills required to interact with the customers. The challenge that organizations often face while handling logistical systems is the need to employ skilled people and train them in using high-technology equipment and processes and delivering all these at the lowest possible cost. Logistical challenges in global operations are far

NOTES

bigger in number and complexity. Challenges due to distance, documentation, different transportation modes, cultural diversities, environmental concerns need to be overcome by a successful global logistics provider.

Longer distances mean longer transit or lead times, higher inventory in the pipeline, and increased risks for the logistics provider—all of which require a robust system to be in place for seamless operations. A global movement of products also requires different shipment modes—air, sea, land, etc., and therefore the processes involved here are also multifarious. International shipping often increases the complexity of the process as the skills and knowledge required by operating personnel to handle this kind of flow are advanced. Knowledge of shipping rates, schedules, documentation, export-import procedures and requirements of different countries, rules of air shipment, transfer, etc., are specific inputs without which global logistics provision would not be able to perform well. Similarly, the involvement of multifarious agencies such as different transportation organizations, shippers, customs, warehousing agencies, and banks increase the complexity and require a much higher degree of coordination and integration skills.

Cultural differences such as differences in language, procedures followed in acquiring suitable product labels, and universally understandable identification, different rules and regulations of various countries add another level of challenge to global logistical operations. The regular requirements of speed and flexibility in delivery get more complicated due to cross-country differences. Therefore, the integration of the supply chain becomes very important in global logistics. Horizontal integration within their organizations and external integration with customers and suppliers are key for successful logistics provision. Lastly, the growing concern for the environment has brought about a unique set of challenges in front of logistics providers. The need to recycle and reuse defective products and packaging materials has started a reverse flow of goods and materials, which needs to be handled by logistics providers with the same degree of care and attention as the forward flow. 'Green logistics', as it is named, is gaining importance worldwide and involves the transportation of waste produced in the manufacturing process besides the used packaging material and defective goods. As the size, shape, and form of these goods may be different, logistics providers face unique challenges in ensuring the rapid and smooth reverse flow of goods and materials.

4.4.1 Distribution System

The goals of a distribution system are:

Goals of a Distribution System

1. Serving the customer well

The first and foremost goal of a distribution system is to serve the customer well. This includes everything from providing the best service to the customer to offering more than what they expect, charging reasonable prices, delivering the product to their doorstep, and winning their trust for the brand. It is only when organizations take a step further in achieving these goals that the customer will take a step further in being loyal to their brand. A satisfied customer may promote a brand to a prospective customer, but an unsatisfied customer will criticise the brand in front of ten other prospective customers.

2. Reducing costs and increasing efficiency of the company

NOTES

Another very important goal of the distribution is to lower the costs of managing the workforce. A reduced cost will lead to the higher efficiency of the firm. The distribution system not only helps a customer but also helps the company in achieving its higher profitability, increased returns, customer loyalty, etc. This consequently helps in increasing the efficiency and boosting the morale of the employees of the company.

3. Increasing the marketing efficiency

Ideally, it is the marketing and sales department that is in direct contact with the customers. Thus the role of the marketing department of any organization is crucial in understanding the product needs of the customers. Starting from finding a prospective customer to reaching, convincing, selling, and promoting the product to them, all the essential steps are conducted by the marketing team with the help of others.

What is Sales Distribution?

Distribution is one of the elements of the marketing mix. It is the process by which services and products are made available for consumption or use to the end customer or business.

Channel of Distribution

A distribution channel is a process by which each product is transferred from one level to the next level of the supply chain, at the end of which it reaches the customer. All the levels in a distribution channel have their own unique needs. The company producing the goods needs to take care of these unique needs.

Why intermediaries are used?

Without intermediaries, a company might not be able to reduce distribution costs.

Importance of intermediaries

1. **Better exchange efficiency:** There is a high cost associated with a transaction done by a company itself, therefore the company needs to try to reduce the number of levels in delivery (exchanges). For example—

   Chicken to Customer1—With 1 intermediary—30 transactions

   Potatoes to Customer2—With no intermediaries—20 transactions

   If there is no intermediary, then the producer will have to deal with various buyers which is a waste of time and money, and the process becomes cumbersome. With one intermediary, a buyer has to negotiate with one intermediary in comparison to many business partners. Here each seller has to talk to an intermediary instead of taking to five. Intermediaries are a crucial part of a distribution exchange procedure. Intermediaries help in targeting the key markets with higher efficiency.

2. **Division of labour:** A big company does require the help of intermediaries which includes wholesalers and retailers etc. In case an organization does

NOTES

not take help from intermediaries, then other functional areas of the company will have to take up the tasks performed by intermediaries. It would not be wrong to say that one can eliminate the middle man, but the need of their functions is critical.

3. **Functions of intermediaries:** Intermediaries perform the key role of the middlemen who deliver a variety of goods and services to the end consumer.

Other functions of intermediaries include taking or sharing risk, providing working capital when they pay a producer for a product even before it is sold. They also act as information flow and financing channels. They help in payment and title flow. They act as a key role player in negotiation, contracts, and promotion. A company uses an intermediary when it knows that the intermediary will perform the function more economically and efficiently than the company can.

Sales intermediary

The intermediary is a subordinate organization that acts as a link between two businesses. In most cases, one is a 'consumer' and the other a 'producer'. The intermediary is an agency for selling the company's products. Usually, the intermediary offers an extra gain to the transaction process which the company alone cannot do. Intermediaries are used in the insurance and financial services industry in which brokers, insurance, and financial advisers for the sales of financial products such as insurance and savings products. Broadly speaking, a third party is a firm that aims to improve and enhance a deal between two business parties. The Internet, as an intermediary itself, is bringing great improvements on how these intermediaries and the distributions system can be automated.

The internal market

Most of the marketing elements which are used to attract consumers can be used to attract the intermediaries, thereby increasing the hierarchy of distribution levels. Thus in each function of the company, there is the scope of improvement and planning. In many organizations, this is formalized to an extent, when products get moved between firms at an extra cost for the movement. With all intents and purposes, this is nothing but a refined form of a buyer-seller relation. Also in the case of a captive market, which might bring in 'monopoly price', the participants may apply marketing techniques.

4.4.2 Channel Members

The distribution channels can be described as an assortment of various hierarchical levels. Kotler explained this one primary level, the level in which a company can directly reach through the customers without intermediaries in-between the transactions, he called this level the 'zero-level' channel. Another level, which is the next hierarchy channel, has only one intermediary which is the retailer. As far as the industrial products are concerned, it would be the distributor.

In under-developed markets and countries which are witnessing growth at a very slow speed, it will be pragmatic to get into the business through the primary or secondary number of channels. In big markets and developed countries, an

NOTES

additional level can be added, the wholesaler. This extra level is usually implemented into the system to expand the reach to a large number of small, nearby retailers or dealers. Despite this process, some firms might want to take the 'transfer price' into consideration as the costs will now be higher.

Types of Channels

Several 'channels' for distribution have been listed below:

- Distributor or wholesaler, who sells the goods to retailers.
- Retailer or dealer or reseller, who sells goods to end customers.
- Advertisements, which might be used for the consumption of goods.

The first in the line is the bulk buyer and seller who is the wholesaler, who sells goods to retailers. These retailers are the ones who sell goods to the consumers. Here, both direct and indirect channels can come into use. Banks, for example, sell their services (say the investments) to the consumers through their ATM outlets as well which serve as another channel for increasing their sales. This line of distribution channel has seen many innovations and new forms in the distribution of products. For example, distribution saw an upsurge in franchising and rental services.

Channels for Distribution

Consumer Channels

This is a channel for consumer products. An example of vertical dimensions in a consumer channel is illustrated below:

Channel 1: Producer to Consumer

Producer Consumer

This includes door-to-door purchases. Products like Aquagaurd have been sold through this channel. Services like marketing also use direct channels to bring to the customer a product or service. This is by far the easiest method, but might not be the most preferable for distribution. Technological developments have made the direct channel more prevalent, for example:

- TV Home shopping
- CDs
- Internet

These modes of communication are used as direct channels to effect an exchange.

Channel 2: Producer to Retailer to Consumer

Producer $\rightarrow$ Retailer $\rightarrow$ Consumer

Large retailers like Reliance which shows no discrepancy in the quantity supplied and demanded may use this distribution channel system. This is also common in many products like garments where the cost of transportation and inventory is high.

NOTES

Channel 3: Producer v Wholesaler v Retailer v Consumer

Producer → Wholesaler → Retailer → Consumer

This type of channel is usually formed in smaller retailers, where the product is to be widely distributed or falls in the category of convenience product.

Channel 4: Producer v Agent v Wholesaler v Retailer v Consumer

This type of channel is used for the mass distribution, or products like processed food. This channel structure is also seen when there are many sellers in the market for various small products. It could also be implemented for convenience products.

Producer → Agent → Wholesaler → Retailer → Consumer

Business to Business Channels

Channel 1: Producer v Buyer

This is a very popular channel structure known to be good for expensive and technical products which have an after-sales service too. This type of channel distribution is used for a small number of customers living in a particular location. It is usually more prevalent than a direct channel in the most common markets.

Producer → Buyer

Channel 2: Producer v Distributor v Buyer

Here the distributor has the whole responsibility. This channel structure is used when there are many customers. These channels are used in consumable supplies etc.

Producer → Distributor → Buyer

Channel 3: Producer v Agent v Buyer

Producer → Agent → Buyer

This type of channel is used when a company hasn't got a structured marketing department or personnel employed in the sales department. In this arrangement, an agent takes on the responsibilities of the sales department.

Channel 4: Producer v Agent v Distributor v Buyer

Producer → Agent → Distributor → Buyer

This type of channel is used in industrial selling. It could also be used for exporting products.

Multiple Marketing Channels

Dual Distribution

In dual distribution, firms use several types of channels unanimously. In this arrangement, a company uses several marketing channels to attract a targeted set of customers and their respective markets. This may lead to conflicts among channel partners. Thus, this is not a very efficient way of structuring the channels. This type of channelling could be used for products like consumer durables etc. One should also know the art of eliminating such channels when they lead to decreased efficiency in the sales of a firm.

NOTES

Vertical Marketing Systems

A vertical marketing system (VMS) is the one in which the main members of a distribution channel—producer, wholesaler, and retailer—work together as a group in order to meet the consumer needs. In conventional marketing systems, producers, wholesalers, and retailers work as separate entities trying to maximise their profits individually. The usual idea of distribution channels and partners seen by consumers is direct contact. In this case, the seller does not look beyond the next level. VMS is a sales partner in which only one person coordinates for the distribution of the product. This channel is made to enhance profits through satisfied consumers. They are divided into three levels of vertical marketing systems, namely corporate, administered, and contractual. The concept behind VMS is similar to vertical integration. In vertical integration, a company expands its operations by assuming the activities of the next link in the chain of distribution. For example, an auto parts supplier might practice forward integration by purchasing a retail outlet to sell its products. Similarly, the auto parts supplier might practice backward integration by purchasing a steel plant to obtain the raw materials needed to manufacture its products. Vertical marketing should not be confused with horizontal marketing, in which members at the same level in a channel of distribution band together in strategic alliances or joint ventures to exploit a new marketing opportunity.

1. Corporate VMS

Here, one member of the distribution channel owns all the other members of the channel. Although they have joint ownership, each company in the chain continues to perform a separate task. In a corporate VMS, one member of the distribution channel has all the elements of distribution as well as production channel under single ownership. For example, *Boots,* the pharmacy chain is an example of corporate VMS as the ownership of distribution as well as production lies with the company itself.

2. The Gap Administered VMS

In an administered intermediary, the partners in the channel are independent of the control of top management. They agree to follow standard accounting procedures for business together. For example, the decision of advertising a product. Here one partner takes the charge and is called a channel leader. Examples of this type of VMS are :

- Wal Mart
- Kellog
- Pepsi
- Coke
- GE
- P&G

Channel leader: In this type of VMS, the efficacy of the channel partner depends on the leader of the channel. If the channel is well managed and the

NOTES

leader is good at performing their functions then, this can be an excellent option for wholesaling. The company can give a varied amount of power to the channel partners. This could be delegated among the partners as follows:

Reward—Reward is one of the crucial ways to attract channel partners.

Expertise—One of the partners can act as an expert for other members.

Reference—When the channel member strongly identifies with the leader.

Coercive—This is a negative reinforcement to punish members.

3. Contractual VMS

In many of the VMS, relationships between different firms are made through contracts that state the rights and obligations of all the members. The norm agreed upon by two parties is critical to its functioning. The best example could be *Supervalue Stores*, one of the biggest retail giants in the world which has a set of about 2700 retailers who sell a different assortment of products on their premises.

Distribution Analysis—Selection of Distribution Channels

While selecting a distribution channel, the company has to keep the target consumer and their needs in mind and find ways to fulfill them in the best possible way. The selection procedure has to be market-oriented. The same could be determined by the following key factors:

1. *Goals of the organization:* The major objectives like same-day delivery, resources, and capabilities all determine the choice of a channel. Those firms which have a very varied portfolio of products might just choose to go straight to the retailers, as it is the best option to promote a company's product, for example, Frooti by Parle Agro.
2. *Characteristics of the market:* Also, the characteristics of a market are very important in setting a distribution channel. Here one has to see the geography, utilisation of more intermediaries in larger distances, level of market density, clustering, market size, etc. Here one will also have to differentiate between the industrial versus consumer. A study of the behavior of buyers is also critical. This may need a lot of creativity by the company.
3. *Attributes of the product:* Here the stress is that the channel should be able to cater to the needs of a service. Perishability is a factor that calls for fast and small chain channels, adequate storage needs, and quality requirements.
4. *Forces exerted by the environment:* Another important factor of selection could be the environmental forces. These are very critical. Factors like competition, and technology play an important role in choosing an appropriate channel for the product.

Another parameter used in the selection of a channel would be the choice of the channel type, hierarchy, and the type of distribution. The type of market, product, and consumer is very important in this case. The key factors involved here are:

Intensive distribution: In this type of distribution, the whole set of outlets that could be availed are targeted and picked to maximise promotions of the product. It is assumed that once a consumer sees the product, they will surely buy it. This type of channel is often a good idea for convenience products, and is critical when sales are dependent on the availability of the product. This usually happens with low-involvement products like fast-moving consumer goods (FMCG). Another important factor is availability which is more important as compared to the rest of the factors. FMCGs, for example, have an optimum replacement rate and need no servicing. Intensive distribution is appropriate for products such as chewing gum, candy bars, soft drinks, bread, film, and cigarettes where the primary factor influencing the purchase decision is convenience. Industrial products that may require intensive distribution include pencils, paperclips, transparent tape, file folders, typing paper, transparency masters, screws, and nails.

The best example here could be of HUL that follows an intensive distribution. This is the best arrangement for FMCGs which only sell on the availability of a product in the outlet. There is a need for promotional support from the manufacturer in this type of channel selection.

(iii) Selective distribution: In this type of distribution only a few geographically available outlets are picked up. These channels are usually used for shopping for products. In these channels, the buyers prefer to spend time searching for the best products and consumer service is very important. Selective distribution helps retail support. In this type of channel, the company has an upper hand in controlling the distribution partner and the retailer has more promotional support. In selective distribution, the number of outlets that may carry a product is limited, but not to the extent of exclusive dealing. By carefully selecting wholesalers or retailers, the manufacturer can concentrate on potentially profitable accounts and develop solid working relationships to ensure that the product is properly merchandised. The producer may also restrict the number of retail outlets if the product requires specialised servicing or sales support. Selective distribution may be used for product categories such as clothing, appliances, televisions, stereo equipment, home furnishings, and sports equipment.

(iii) Exclusive Distribution: When a single outlet is given an exclusive franchise to sell the product in a geographic area, the arrangement is referred to as exclusive distribution. Products such as specialty automobiles, some major appliances, certain brands of furniture, and lines of clothing that enjoy a high degree of brand loyalty are likely to be distributed on an exclusive basis. This is particularly true if the consumer is willing to overcome the inconvenience of traveling some distance to obtain the product. Usually, exclusive distribution is undertaken when the manufacturer desires more aggressive selling on the part of the wholesaler or retailer, or when channel control is important. Exclusive distribution may enhance the product’s image and enable the firm to charge higher retail prices. In this type of distribution, the company has one outlet in a relatively large area. This type of channel is chosen for products purchased once a while that usually lasts for a long time and requires service. These channels are offered to the company as a reward.

NOTES

There are primarily no other sellers to undercut these channels. Thus it allows the highest control to the company. It is easier to get retailers to carry a complete inventory and provide service and repair facilities. These exclusive channels are not used to launch a new product but come in handy when the market of a product is very competitive. Thus in this type of channel one can move from the introduction to the growth stage of the product life cycle.

Channel Management

What is channel management? Channel management is a very common sales and marketing phrase that is used quite often when speaking about channels. Very few companies are adept in channelling management. Sales channels, the intermediaries through which a company distributes its products to the end-users, can be of many shapes. They could be direct, on the Internet, or be present in the traditional retail environment. This is, by far, a very efficient and optimal approach to channel management in a company.

Channel management is a process in which a producer makes a plan to deliver their products and services to the consumer through a distribution channel. This can impact the sales of a company. In channel management, a company needs to divide the channels on the basis of similar characteristics such as the needs of consumers, their buying behavior, and type.

Management of a company includes several factors such as:

- **(i) Goals:** It is important to know the vision of a company for which the channel is to be segregated. When a company decides on a channel keeping its goals in mind, it should do so as a whole as well as on the account of the individuals. It is important to consider the aims of acquisition as well as retention.
- **(ii) Policies:** It is important to define the critical policies for mentoring accounts in a channel. One has to analyse the differentiated characteristics of each of the channels when listing policies for account structure, etc.
- **(iii) Products:** It is important to keep in mind the type of product for which a channel is being selected.

When the customers find the product or service, it is important to handle all the inquiries, support, and shipping related to the order. It is indeed a time-taking process to look for a channel partner but it can prove to be an influential step in increasing the business and ensuring that the customers are happy. The company should choose the type of channel that fulfills the requirements of the company's products. If a company is selling a software product or chip that can be kept in an inventory, then the company will want a partner who can save this product for ready distribution. On the other hand, if the end customers are businesses, then they will want a distributor who stresses B2B sales. In case the end-users are consumers, then the channel will be stores that are web-based retailers. If the

NOTES

product is semi-conductor, automotive parts, and component sales products, a two-tiered approach is applied. At the top of the chain, stands the representative of manufacturers who is an extension of the company's direct sales force.

The next level is the stocking distributors, which are managed by the representatives. In the system's product, the distributors keep the product and are listed in the first tier. The second tier consists of resellers, they are the ones who place orders with distributors in a JIT fashion. The channel model chosen by a company should form a solid section of the business plan and should explain the plan to engage each tier and prospective partners. The channel model the company chooses to pursue, is selected by the company's partners carefully.

4.4.3 Supply Chain Management

Supply chain management refers to the management of a network of interconnected businesses which are involved in the provision of product and service packages required by the end customers in a supply chain. Supply chain management (SCM) encompasses all movement and storage of raw materials, work-in-process inventory, and finished goods from point of origin to point of consumption. On the other hand, logistics management is the management of the flow of resources from the point of origin to the point of consumption to meet customers' requirements. The logistics of physical items usually involves the integration of information flow, material handling, production, packaging, inventory, transportation, warehousing, and often security.

As mentioned above, SCM is the oversight of materials, information, and finances as they move in a process from supplier to manufacturer to wholesaler to retailer to consumer. A supply chain is a group of organizations, people, technology, information, and resources consisted in transferring the product or good from the producer to the end consumer. The supply chain helps in moving the raw material to the manufacturer, the final good or ready product to the wholesaler, and from there to the consumer. It is important to have a glance at the components of supply chain management to understand the relevance of integration planning and management of the same.

There are six key elements of the company:

(i) Production

(ii) Supply

(iii) Inventory

(iv) Location

(v) Transportation

(vi) Information

NOTES

Figure 4.7 shows the company's supply chain; the arrows are for supplier-relationship management, internal SCM and customer-relationship.

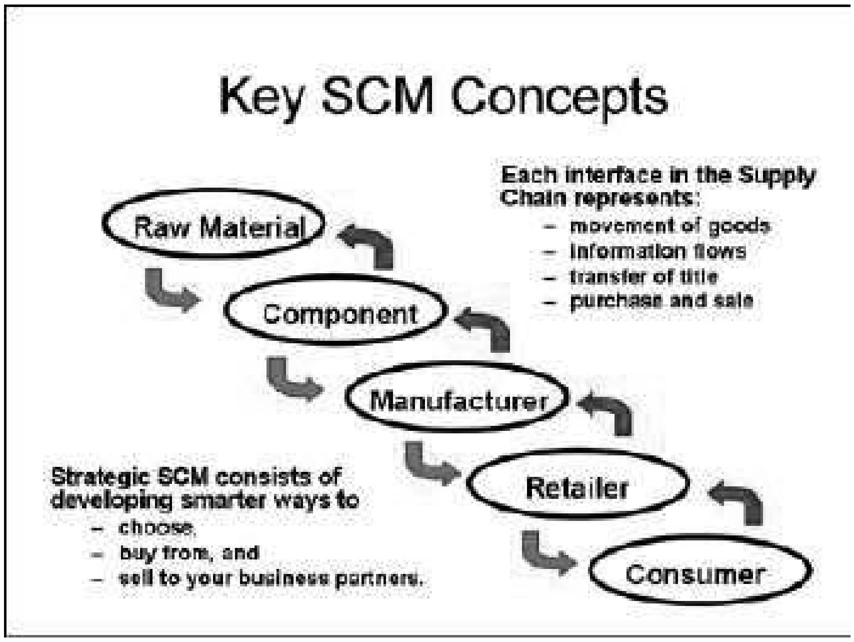


Fig. 4.7 *Company's Supply Chain*

A supply chain starts with ecological and biological regulation of natural resources. This then goes on to the supply of raw material and many production links before moving on to several layers of storage facilities of various sizes and remote geographical locations. Then it finally reaches the consumer. The company itself might know its interest very well but the interests of the channel members also need to be considered.

Sales/Marketing Programmes

Sales and marketing programmes help the channel members in their activities and improving sales by satisfying the needs of the consumer. It is very important to communicate to the channel partners what the idea of the product is for the consumers. Market research is a very good way of finding out what exactly the consumer wants in the product and then provide the same to them. This of course should also be communicated to the channel members as they are the ones who take the product to the consumer. This is important for successful channel management.

The process of selecting the right channel partner for a company and then giving the responsibility of sales to them is critical to any business. A company works on increasing the efficiency of wholesalers distributors, and retailers. This is done by measuring the standard of good work done by the sales channels, and then guiding them in a better direction. Putting the latest technology to use in the world of marketing is a good way of reaching the consumer. The vendors should put the best of their efforts into selling and promoting the products. In certain cases, one needs to create customised products for each country. This is usually done when the trading is global as this will help cater to the different needs of the consumers in different geographical areas. The planning will result in helping the company in penetrating the market and making a good growing market share in the same.

NOTES

4.4.4 Channel Control and Management

Distribution of products takes place through channels. Channels are sets of interdependent organizations that are involved in making the product available for consumption. Merchants are intermediaries who buy and resell the products. Agents and brokers are intermediaries who act on behalf of the producer but do not take title to the products. A firm can design any number of channels. Channels are classified by the number of intermediaries between the producer and the consumer.

The marketing department of a firm designs the most suitable channels for the firm's products, and then appropriate channel members or intermediaries are selected. The firm needs to train staff of intermediaries and motivate the intermediary to sell the firm's products. The firm monitors the channel's performance over time and modifies the channel, as required to enhance performance. This concept is called channel control.

The channel management structure has many crucial steps involved in it like designing a channel system. Many producers don't promote the products straight away to the consumers; there is a middle man who does the various support functions for the same. Most of these channel partners consist of a distribution channel. These distribution channels are a group of firms that help the company take its product to a wider segment of consumers than what it could manage by itself.

These act as a guide map for a product from the point of production to the sale to the consumer. Many channel partners like wholesalers and retailers purchase and own, and resell the merchandise; these have been explained above as merchants. The other channel partners like the brokers, manufacturers' representatives, look for customers and talk on behalf of the company promoting the company's product. These partners called agents do not own the product but just add on to the marketing promotions of the product to the prospective consumer. Many transportation companies, separate warehouses, banks, advertising agencies—help in the distribution process but do not own or buy the goods; these channel partners are known as facilitators.

The Importance of Channels

The distribution system cannot be managed alone by a company. Even the biggest companies in India for example HUL, have intermediaries to sell their products. This is for the fact that the product might be made in one particular place, but marketing it to various areas is not possible without a good distribution system. An enterprise usually places its market as the immediate local market as the key market, by utilising the channel present there already. But such channel partners limit the distribution of the product to only the local areas. Deciding on the key channel could be a problem.

Channel Coordination

Channel coordination has the main goal of improving supply chain performance by developing the plans and goals of individual enterprises. This usually stresses at inventory management and ordering decisions in inter-company settings. The process of channel coordination and its models consist of inventory theory, multiple decision-makers, asymmetric information, and theories of manufacturing like mass customisation, short product lifecycles, and delayed differentiation. The separate decision-making in supply chains brings in a dilemma that results in a deteriorated performance called double marginalization. Lately, partners in permanent supply chains like to increase the coordination of their decisions to improve the performance for most of the participants. Many of the present-day approaches used here are: Collaborative planning, forecasting, and replenishment (CPFR) vendor managed inventory (VMI) and quick response (QR).

Channel coordination helps in performance optimisation by proper arrangements for helping the different aims of the partners. These coordination mechanisms or schemes, help to control the flows of information, materials, and financial assets in the chains. A contracting scheme should have the following components:

- A local planning method which helps in understanding the constraints and objectives of the individual partners.
- Infrastructure for information sharing.
- An incentive scheme for noting the interests of each of the partners.

The right planning is important for improving the behaviour of the production. Another part should help the information visibility and loyalty in both the partners and enhances the realisation of real-time enterprises. The third component will help the partners to act upon the common aims in the supply chain. The study of coordination has two steps. In the first step, one has a central decision-maker who has the complete information to solve the problem. This helps in a first-best solution that helps bound the obtainable system and the wide performance objective. At the second step, the company tries to solve the decentralised problem and makes such a contract protocol that tries to or achieves the performance of the first-best.

Channel coordination can be achieved in many simple models, but it is hard to achieve in practical cases. Thus the goal here is often only the achievement of mutual benefit and not the uncoordinated situation. One way of channel coordination is the use of some negotiation protocols. This approach applies iterative solution techniques, where the partners transfer proposals and counter-proposals till an agreement is made. That is why this approach is usually referred to as collaborative planning. This negotiation protocol has the following criteria:

- The main proposal is most frequently started by the buyer company which is known as upstream planning. If the initiator is the supplier, then it is called downstream planning. In many cases, there already is an initial plan (e.g., using rolling schedules). Also, there are some protocols in which the initial plan is generated randomly.

- To guarantee finite runtime, most of the rounds should be made. Also, the protocol should explain the number of plans in each round. If the number of rounds or plans is increased, the practical application needs fast local planning systems to quickly evaluate the proposals and analyse counterproposals.
- Mostly, the negotiation protocols will not provide optimality and will require some unique conditions to assure convergence.
- These counter-proposals are defined as side payments (or compensations) in the companies to inspire the partner going away from its previously proposed plan.

Another commonly used instrument for definite plans of different decision-makers could be the application of auction mechanisms. Also, auctions are most workable in pure market interactions at the boundaries of the supply chain but not within a supply chain. Thus they are generally not considered as channel coordination methods.

Features of Coordination Schemes

There are many types of channel coordination schemes, but they are incomplete, and the considered classes are all at disjoint. Some of the features of coordination schemes are:

1. Problem characteristics

Many of the distribution models take care of either a one-period horizon or a two-period horizon with forecast updates. In the latter, the production can be based on the preliminary forecast with normal production mode or on the updated forecast with emergency production, which means shorter lead-time, but higher cost. Apart from this, the horizon can consist of multiple periods and it can be even infinite. The practically most widespread approach is the rolling horizon planning, i.e. updating and extending an existing plan in each period.

2. Number of products

Mostly all systems in coordination take care of only one product. Also, some models look at the unique cases of substitute or complementary products. Taking on more number of products, in this case, is necessary if technological or financial limitations—like capacity or budget limits pertain.

3. Demand characteristic

Here the demand can be uncertain or deterministic. Also to some extent, it can be considered static that is inactive or constant over time or dynamic which may vary with seasonality.

4. Risk treatment

In most of the distribution models, the channel partners are considered to be at risk. Here they intend to increase their expected profit or lessen their expected costs. Another factor might be risk-averse players who could find an acceptable trade-off with effect to both the expected value and the difference of the profit.

NOTES

5. Shortage treatment

Many distributors differ in their attitude towards stockouts. There are some backlogs as well, when the demand must be fulfilled later at a lower price or lost sales which also consists of some theoretical costs e.g., loss of goodwill. Some distributors include a service level limitation, which constrains the occurrence or quantity of needed stock-outs. A 100% service level can be brought in with additional or emergency production like that of overtime, outsourcing, etc for higher costs.

Channel Performance Evaluation

Most distributors are now facing increasingly saturated markets in India. As many companies are operating in sales both directly and indirectly, channel performance has become increasingly relevant. Firms must identify the appropriate channel mix, and make their channel partners and use the potential of channel-based CRM to preserve sales growth and increase market share. Channel management cannot be proper in case it is a stand-alone effort. Channel management has to be interlinked with products, pricing, quality, segmentation, and customer knowledge. But in many cases, channel management is an unknown strategy, a company's basket. Also, the cost-return ratio of bringing in a channel is higher compared to other marketing tools which include heavy discounting, costly advertising, and confusing distribution of product/service.

The key challenges for best-in-class channel management are as follows:

- channel-mix optimisation
- channel-development
- channel-based CRM

The CRM is very important in channel management as it helps in:

- making a full-scale distribution strategy and its implementation,
- judging the current performance of the channel partners, and
- building up and managing the implementation of single-channel performance enhancements.

Gone are the days when selling through third-party channels was simple and easy. Today, more and more providers have access to the advantages of selling and marketing through these channels. To get the maximum output in the market, suppliers need to learn how to manage these partner relationships well with a CRM and communicate this unique sales process successfully.

Definitions of CRM

Jill Dyche defines CRM as, 'The infrastructure that enables the delineation and increase in customer value and the correct means by which to motivate valuable customers to remain loyal – indeed to buy again.' Paul Greenberg defines CRM as a philosophy and a business strategy, supported by a system and technology, designed to improve human interactions in a business environment. CRM (customer relationship management) is a set of information used for methodologies, software,

NOTES

and Internet capabilities that help the organization manage their customers and suppliers in the distribution system. For example, maintaining a database of customers, retailer, distributors and suppliers and their unfulfilled needs, passing this information to the production and sales department so that they can chalk out products which fulfills this desired need of the customer. All this forms a part of CRM.

CRM refers to customer relationship management. It is an effort to put the customer in the central position of any business's integral processes. CRM is one way of passing all the information of a company for, by, and to the supply chain. Businesses are divided into two categories:

(i) The ones which do not know the distributors: These are probably the companies with a lot of overconfidence in their product and brand name. Knowing your distributor is the need of the hour. Products and brands can get off the shelf in a day itself if the distributor is not happy with it. In such cases, CRM will help these companies to get information about their distributor and store it for further usage.

(ii) The ones which know the distribution system but have not analysed this information for their benefit: Many companies are a step ahead and are well aware of their distribution system. These companies are those which now need the proper flow of this information in the organization for reaping benefits from the same. This is where CRM will come into the picture.

What is the purpose of CRM in a company?

The organization has to first be sure that it knows exactly what it wants out of the CRM. It should not just be installed as a 'me too' strategy. The true goal and relevance of the goal should be known by the company before implementing the CRM system.

Does it fit my type of distribution system?

It is important to remember that all this hassle is for satisfying the distributor who is at the pinnacle of every business process today. One needs to assure that the CRM is helping the company achieve the goal of satisfying the distributor in the present scenario. It is important to figure out the role of CRM in satisfying the distributor before opting for it.

Strategies to achieve CRM goals

The strategy of every company varies according to their respective distributors. Thus it is very important to understand and chose the right strategy to implement CRM successfully in an organization.

Benchmarking for the success rate

It is critical to set a benchmark or standard against which the accomplishment of the goals is to be measured. These benchmarks should however be attainable and should be high enough to provide a marginal success as far as the distributor is concerned.

NOTES

Rectifying errors

After the measurement with the stated benchmarks, the organization needs to analyse if it has reached the optimal level of distributor satisfaction through CRM or not. And if not, the rectifications need to be done for the proper functioning of the CRM.

Scope and importance of CRM

CRM is a customer-driven system. The purpose of CRM is better servicing and satisfaction of the customer through an effective distribution system for repeat business and profitability of the company. CRM helps business organizations in the following major ways:

- CRM helps in accumulating data about every aspect of the distribution. Starting from who the customer is, what they want to where they want the product, all can be saved in a CRM system for efficient use later on.
- Information stored in the CRM is a true reflection and reminder to the company about supply chain problems. It will not only list the satisfaction from the present offering but also about what could be improved in the offering. Thus it is a reflection of what the market wants out of your company.
- There are many ways to form a distribution information database. All these are efficiently managed by the CRM system, for example, the information pool of the distributor name, address, date of transactions, pending delaying, topics and criticisms, the progress of an order, information about an account, demographic data, repeat customer, etc.
- It makes it easy for the company to reach the prospective distributor with the help of a CRM vis-a-via the traditional methods of targeting them. For example, in courier companies, your consignment can be tracked at the click of a mouse without the hassle of searching for it traditionally. This leads to a better management system and an easier way of working both for the company and customer.
- Time efficiency of delivering products increases. Maintaining a database of routine distributors is helpful in many ways. First of all, a company can pamper the present distributor with new offers. Secondly, the new products of a company can directly be introduced to these people. They will also help in forming a positive word of mouth for the company as they are already associated with it for a long time. All this can be possible with CRM.
- CRMs are important to the top management as they are the reflection of the customer's mind and soul. Thus CRM can help the top management in taking worthy decisions about the product on the basis of the customer information present in the customer feedback database.
- One department which benefits most from CRM is the marketing department. CRM information and reports are very useful for the marketing, advertising, and sales strategy makers of the company. CRM helps in selling these strategies to target customer needs.

NOTES

- CRM is a brilliant way to integrate all the departments of an organization. No department can work in isolation. Thus a system like CRM will not only introduce the target customer to all departments of the organization but will also help them to work together to satisfy the distributor. For this practice, however, it is necessary that all the departments get the right information at the right time for the best usage.
- A CRM system helps the organization to increase its profits and in organizing and saving huge amounts of data.
- If the relationship management process is installed and properly utilised, the organization can be sure that all the information is flowing in the right way.

Research with Distribution Partners

'Marketing research is the function that links the consumer, customer, and public to the marketer through information—information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues, designs the methods for collecting information, manages and implements the data collection process, analyses, and communicates the findings and their implications.' American Marketing Association—Official definition of Marketing Research.

'Marketing research is about researching the whole of a company's marketing processes', Palmer (2000).

Marketing research is not just an activity but a whole process. More so it is not a one-time buy but a continuous process. The steps in the process of marketing research are:

1. **Defining the problem:** A market research should, first of all, have an objective. For example, the objective for market research of a company such as HUL could be 'understanding the effect of advertisements on customers'.
2. **Data collection:** Here the firm decides the process in which data would be processed. Market research is done by analysing both secondary and primary data. Primary data however calls for constant interaction with the consumer.
3. **Selecting a sampling:** There are many types of sample selection (here customer selection) ways in market research. These include random sampling, stratified sampling, convenience sampling, cluster sampling, etc. It is crucial for a firm to choose only the target segment customer. It should not be that for a Mercedes car sale determination, you should be interviewing a salaried middle-class consumer.
4. **Analysis of data:** It is by far the most important step in market research. Here the data collected is converted into useful and relevant information. The accuracy, software statistical techniques all form a part of the market research.

NOTES

5. **Decide upon a budget:** It is necessary for a company to make a budget for market research and stick to it.
6. **Check for errors:** It is crucial to check for any of the common errors while doing research on the customers. This error should be rectified or else it would cost the firm more than the market research itself. The decisions on the final report have to be made and presented to the top management. This helps in taking decisions on various aspects such as advertising, product launch, sales figures, etc. based on the key results of the research.

Principles of Distributor Research

Distributor research is by far one of the most difficult researches. This is because the responses of a distributor may change. Their responses are never stable. One has to be very careful when dealing with the distributor. Some tips for dealing with the distributors are:

1. **Stick to the objectives:** It is critical for any research to list its objective clearly in order to get the desired outcomes. Make sure that the objectives are clearly laid out before approaching any further.
2. **Keep the research short:** No distributor has the time and energy to answer a 25-page long questionnaire. Thus it is critical for the researcher to note that the research should be short.
3. **Shared research with all departments:** As the name suggests, market research is mostly considered as a marketing department function. While this does stand true, the findings of the research should also be relevant to all the functional departments of a company. If this is not the case and the department does not integrate to analyse the finding of the distributors, then there is no use of such an exhaustive exercise.
4. **Make it a continuous process:** Research is not a one-time activity, it is a continuous process. The decision of a firm will be based on the findings of the research. Today's business world is very dynamic and prone to fast changes, so is the information a firm collects during market research. Thus it becomes important to keep upgrading the customer information time and again in the market research process.
5. **Researching through published sources and the Internet:** Researchers can use various sources of data for their market research. One type of data collection called secondary data is very popular in market research among firms. There are many sources of secondary data like trade associations, national and local press industry magazines, national/international governments, the Internet, informal contacts, professional institutes, etc.

Among these, the two most popular sources of secondary data collection are the Internet and published sources listed above. In this type of data collection, the information already exists in one form or another. This form of data collection is comparatively cheaper as the firm does not need to hire people to go into the field and collect information from the distributor. It is also less time-consuming

NOTES

compared to fieldwork which takes a lot of time in execution and compilation. However, there are some problems with this kind of data collection as well. In India, the Internet can rarely be used as a source of collecting secondary data. Both knowledge and access to this medium are still limited for the researchers. We still have the traditional method of going door-to-door for primary data collection. Even though the Internet is a very useful source of any type of data, it is quite challenging to reach a particular target segment through Internet as compared to the primary sources of data collection.

Customisation in CRM

Today's fierce competition is making every company proactive in customer retention tactics. In this dynamic business scenario, it is necessary for an organization to customise to the needs of the customer. Leverage web services, industry standards, and an interface customisation utility to create the right environment to drive CRM and business success is the key to the successful running of an organization using CRM. Many good companies like Microsoft provide good CR and customisation for various business needs. However, it is important to know that customisation is a difficult and complicated task. It requires a lot of costs and should be done rightly for the best results. A firm needs to get the right customisation of the CRM system according to their respective products and customer targets.

This may be a Herculean task but if not executed properly can lead to wastage of financial resources of the company. CRM customisation should be done in such a way so that it is quick and comfortable. The organization should integrate the CRM with industry standards which should help in taking care of all the services listed in Table 4.6.

Table 4.6 *Integration of CRM with Industry*

• Web services • Visual Studio.NET • Visual Basic® and Visual Basic .NET • SP.NET, Java, Java Script, C# • Access, Delphi and Visual C++® • XML for seamless data transfer • Use direct, native SQL updates for industry-standard coding and faster customization	• COM library with over 35 objects, 900 functions, and data streams that open up the full power of Maximizer Enterprise to other applications> • ODBC driver to maintain data integrity even with remote users • .NET Assembly • OLE and ActiveX® • DDE to transfer data to applications such as Word, Excel or WinFax

For example, CRM customization makes it more comfortable to alter the process of salesforce applications for meeting your distinctive whims. The organization can create custom user interfaces and edit the construction of the data model and the application's logic of business.

NOTES

The organization should cater to all the necessary benefits of CRM up-gradation including a platform that is quick, easy, safe, and has automatic upgrades —with all the customizations intact. The best customized version of a CRM system can take an organization a step ahead in the customer service globally.

Distribution Logistics

Logistics is a process that helps in delivering products to the customers at their doors. Simply put, it refers to the transfer of products from the suppliers to the end delivery.

There are five key elements of a good logistics system:

1. **Transfer of product:** It is the most common logistics method used by many firms. In an efficient logistics system, the movement of products should be in sync with the corporate strategy. For example, if a company is thinking of reducing cost, etc., then the products should get transferred in a way that aligns with this goal. The flow of products from and to, suppliers, manufacturing units, storage houses, and customers should be streamlined. If the flow is not streamlined, then this can hamper the whole pipeline. Good logistics ensure the seamless flow of goods.
2. **Information:** It is not sufficient to transfer goods and commodities. A company should have an idea about where they stand. It should know what goods are available, where they are and what important steps should be taken. A company should be aware of the demands that are coming in and should have an approximate idea of the timeline in which these products need to be delivered. Timely and accurate knowledge and information are important for sound decision-making. Information technology is not an option anymore, but the need of the hour for logistics and corporate effectiveness. Proper systems should be in place at the macro or corporate level. A corporate system should be well integrated to have functional logistics. The system should be dynamic enough for handling customer orders, production, material requirements, distribution requirements planning, and sales forecasting. The system should be able to receive orders via EDI, transmit notices, accommodate multiple warehouses and plant locations in a single site and aggregated type, record inventories at various levels, etc. A system is required at a smaller, or logistics level as well. There should be more programs for warehouse management, shipment tracking, etc. This in turn requires technology like bar-coding and scanning.
3. **Time and service:** All firms should have the capability to respond to change in the global marketplace quickly. These changes include changing forecasts, customer needs, new product introductions, outsourcing, and how to manage all these variations. Raw materials must be ordered efficiently. Orders should be filled properly. All the functions should be conducted in a timely manner to avoid delays at a later stage. Firms should be mindful of the fact that customer service is important and providing a seamless experience to the customer should be their priority.

The leftover orders are always harmful. Providing a good service is not only about a speedy shipment but facilities provided during the whole process play a critical role in satisfying the customer needs as well. The more different the geographical scope of suppliers, manufacturing, warehouses, and customers, the more prominent the time factor becomes. In geographically distanced areas, distance means time.

4. **Cost:** Cost is an important measure through which logistics efficiency is checked. Freight, warehouse cost, and other expenses on P&L are all necessary. Stock in the balance sheet, cost control, and management is critical for business profit. This is the responsibility of every manager. The most costly price need not mean perfect service, and it might not be the job the company needs. Lessening the expenses of the various logistics factors, such as freight and warehousing, can lessen the effectiveness of the logistics team and of the company in providing a good experience to its customers.

Logistics cost measurement is a process to be worked upon in the present costing systems. If a designed model is not adequate in the competitive business world, it is of no use. Additionally, there can be other problems like currency conversion and other charges. For example, when we say that air freight is listed in the currency of the origin country, then there are ocean terminal and accessorial origin charges which are to be paid in origin country currency. Warehouses in foreign countries will make bills in the currencies of the origin country. The next step would be currency conversion and these conversions can create a high-cost variance that is not related to logistics performance.

Integration in the company

Integration between the managers and customers and between the company and suppliers of a company is critical. Integration means bringing all the critical parts of a company together. Logistics is a process. Logistics requires each section of the firm to perform its function well. But there is an issue with this process. The organization chart might be a hindrance. A traditional organization, with its department and defined accountabilities, is a group of functional units. Every unit segregates and accumulates different parts of the supplier purchase, manufacturing, or other sales. There is no fixed process.

There is a segmentation of the method. With internal integration, a company might come together and work with the external forces. The suppliers who consist of the carriers and warehouses should know what the company is doing and why. The company should share its logistics vision and plan with its employees. By sharing its vision and plan, a company motivates its employees to cooperate in a better way and help in the functions of logistics. Thus, they get motivated to offer new ideas for further improvement of logistics efficiency. Integration with customers is important. The company and its partners should work towards the satisfaction of the customers.

A company should outline its customer needs and share them with the logistics department and partners of the company. Face-to-face interaction with customers about their needs and how the company can meet them is important. This proves how much the company values them and wants to work for them. It is important to understand certain things about customers; what they need, how do they need it, why do they need it, and when. The more the company knows about the customer and their requirements, the more value the brand garners.

Distribution costs

It is important to have stringent business rules for a company's warehouse and inventory procedures, otherwise, the company will not function properly. Good ethical commitments can help a company in getting a better grip of their inventory, deal with the inefficiencies and decrease the lead time. It might be a challenge to put such processes into place but the integrated warehouse and inventory management processes can help in the same.

It is critical to stress on the importance of real-time inventory information. In order to bring good and efficient business operations in place, a company needs to have data of the physical inventory. In case the company has a set of different distribution and inventory management and systems, then it is critical to integrate the data of all the systems. In such cases, the data will not be updated till the information of both systems is jointly collected. This function is a lengthy and time-consuming process. Moreover, one can also make mistakes while conducting this process. Most of the mistakes might come to notice during the counting of stock. For a business to succeed, these errors should be removed in the first step itself. A well-integrated management system that engulfs bar codes and scanners in it can help in detecting these errors right away.

Working Capital to Inventory Carrying Costs

In several firms, the inventory keeping costs bring with them about 30% of the basic inventory return. If an inventory can be changed to cash, the liquidity of the company can be improved. The parameter adopted here is that the working capital turnover describes the period of the firm's operating cycle. Holding costs consist of inventory handling costs which could be both personnel and equipment, storage space that is rent or purchase, insurance, taxes, and shrinkage. It is important to get rid of the damaged goods and properly organize the warehouse.

1. **Lead Time:** Lead time is the total time calculated from the loading of the product from the company to the time that it gets delivered. The company should aim at shortening lead times and increase sales. This can be done by increasing the sales staff and imposing higher sales targets and encouraging the sales staff to work better.
2. **Variability:** The level of variance is a very critical factor in the distribution channels as this affects the lead time. The end-user would not want an ambiguous distribution or availability of the product. A company should always keep the backorders clear. In companies where the backorders are not clear, it is an indication of mismanagement. This mismanagement can lead to a bad name for the company and loss of consumers. Late delivery is a service problem that a consumer might never forget. The key variables of a good lead time efficiency is the Inventory Turnover

NOTES

Cost of Goods Sold (COGS) or the Average Inventory during the Period Inventory turnover ratio.

Variability is a factor that will vary according to different product types, company types, and the situation in which they are operating. A good inventory distribution would be marked by the delivery of a product to the consumer at the right time and a low cost for the company. A lesser turnover can be an indicator that the goods are being stored for a longer period and can get spoilt. This also shows that these particular goods are not selling in the market at all and the company needs to get rid of these goods.

Inventory to Sales Ratio Sales/Average Inventory in that Time Frames

The inventory turnover ratio is usually calculated by dividing the cost of goods by average inventory for the same period. The efficient functioning of this area is related to the Inventory Turnover or Inventory to Sales Ratio.

1. Satisfy the consumer

To fulfill the customer demands, many distributors consider the relationship with consumers quite important. Distributors feel if a company is able to establish a good relationship with them, they will come back to them even if their products are a bit overpriced compared to other players. Many companies stress on diversification these days primarily because every user is looking for new varieties of products at cheaper rates.

2. Standard Costing Method

Standard costing techniques help manufacturing managers in measuring the costs of goods sold more efficiently and allow more effective budgeting and price setting on future jobs. With standard costing, specific values are assigned to each finished product. Collectively, those standard costs comprise the cost of goods sold for each finished product. Using standard costing, the gross profit margin for each finished good is easily determined by subtracting the standard cost from the product's selling price.

3. Activity-Based Costing

In this method, the cost of a product is determined by a study of the activities that go into making that product and the cost of those activities. Unlike traditional costing, where the product manufactured or produced picks up the cost, in ABC the costs are picked up by the activities required to be undertaken to make the product. Therefore, the primary assumption here is that all products require a certain sequence of actions or activities to be undertaken and all these activities can be studied in detail and their cost can be established.

ABC is an in-depth analysis of the entire process and connects each product and output with a series of activities. All costs associated with the activity are identified next and this includes even the overheads. The next step is to identify the revenues or values resulting from each activity and this makes it possible to identify the non-value adding activities. By doing so, the managers get an idea as to what all activities need to be whittled down, thereby making the entire process more profitable. Additionally, the revenues and resources used by activity also help in classifying the important or major contributing activities, which can then be focussed upon to increase profitability or efficiency. Thus, a cost-revenue analysis at the micro-level is enabled by the ABC process and this is eminently suitable for understanding channel efficacy and profitability. ABC is also useful for comparing different channel members and their costs versus productivity. In the distribution process, this basically means identifying the channel resources being used and the cost of reaching the product to the end-users. This enables the net profit generation capability of each channel unit. The induction of IT support has been a boon for ABC as it helps to automate and analyse the frequently repeated activities and their associated costs and revenues. Additional support tools and software have made the integration of cost accounting easier and have enhanced the functionalities of the operating personnel.

In short, ABC consists of the following:

- Determining the activities involved and ascertaining their costs. All costs are suitably apportioned/allocated including overheads to one or another activity.
- The activities that incur the costs are referred to as the cost drivers.
- The process of allocating costs to activities enhances their traceability and thereby facilitates control.
- Costs that do not add value are consequently identified and this makes the job of increasing profitability easier. ABC is therefore very useful in ascertaining channel costs and profitability at the micro-level.

ABC is a costing methodology that identifies activities in an organization and assigns the cost of each activity with resources to all products and services according to the actual consumption by each. This model assigns more indirect costs (overhead) into direct costs compared to conventional costing models. An organization can soundly estimate the cost elements of entire products and services with the help of ABC. In a business organization, the ABC methodology assigns an organization's resource costs through activities to the products and services provided to its customers. ABC is generally used as a tool for understanding product and customer cost and profitability based on the production or performing processes. As such, ABC has predominantly been used to support strategic decisions such as pricing, outsourcing, identification, and measurement of process improvement initiatives.

4.5 CHANNEL PLANNING

Channel planning which is also referred to as logistics planning or distribution channels is associated with the process of providing the final products to the right customers, at the right place and time, and at a price that is rightly suitable to them. Basically, channel planning involves delivering value in the form of final products to the end consumers. Traditionally, all organizations constitute supply chains that include:

NOTES

- a network of suppliers that provide raw materials and other resources required to create products for the customers, and
- distribution channels in the form of intermediaries that act as a link between the manufacturers and end-users.

The process of designing a proper channel system includes various steps from defining the needs of the customers to identifying the objectives of various channels, identifying various alternatives that can assist in meeting the objectives, cost associated with the channels as well as developing an ideal channel system after evaluating the available alternatives. The channel system combines several elements such as revenue generation and the delivery of final products or the logistics chain part.

The process of channel design is conducted like any other marketing task. The first step involved in this process is segmentation. Under this step, customers are put in similar groups, that are formed on the basis of their needs. The customers with similar needs are grouped together. The next step is positioning. The focus of this step is to form the right channel system that can meet the demands of the customer. The channel system is not capable of providing services to all the groups identified during segmentation. Therefore, the purpose is to identify only a few target groups and focus on them for efficient and effective results. The next step involved in the process is the development stage. In this stage, the roles and responsibilities of each channel member are defined in order to implement the goal plan effectively. Needless to say, conflicts do arise at various stages and these should be resolved in a timely manner for the efficient functioning of each team member.

Channel planning consists of the following steps:

- segmentation
- positioning
- focus
- development of alternative channels

The process of channel planning is discussed in detail in the following section:

1. Segmentation Stage

In this stage, customers with similar needs and expectations are grouped together. This can be understood with the example of a pharmaceutical company. In a pharmaceutical company, there are several segments such as doctors, chemists, hospitals, and nursing homes. All of these are identified as different segments of the pharmaceutical company which has different needs and expectations from a company's channel. This type of grouping helps in identifying the types of channel partners the sales head should be looking for while developing an appropriate channel system.

2. Positioning stage

The positioning stage refers to the channel elements that are needed to service each identified segment. Each potential customer segment has a different set of

NOTES

expectations from the distributions channels. It is the job of the sales manager to decide which channel partner would be the best to meet the expectations of a particular customer segment. They also need to decide the number of channel partners that would be ideal to meet the needs of the customers. The number and type of intermediaries are also decided in the positioning stage only. The sales managers also decide the flow and objectives of each channel element in the positioning stage.

3. Focus stage

The focus stage is specially dedicated to deciding on the final segment that that is feasible for them to serve. It is practically not possible to cater to all the identified segments as it can be an expensive affair. Other than the costs involved, there are other constraints as well such as the restrictions due to environmental regulations or competitive scenarios. Therefore, a company needs to focus on target segments instead of trying to cater to all the identified segments.

4. Developing the right channel

For a system channel that is being established for the first time, the sales managers need to think about the best alternatives available. The sales managers are also responsible for finding gaps in case a sales channel needs to be modified. They should be able to find these gaps in the existing channel structure and look for ways to minimise them. The needs of the customers are defined by the levels of customer service expected from a particular channel system. Customer service is defined by various aspects such as waiting time, variety, convenience, etc.

Check Your Progress

7. What is electronic data interchange (EDI)?
8. What are the key deliverables of logistics?
9. What do you understand by sales distribution?
10. Define vertical marketing system.
11. What is Customer Relationship Management?

4.6 ORGANIZATIONAL PATTERNS IN MARKETING CHANNELS

A marketing channel can be organized in different formats. These channel formats are usually categorised on the basis of who is driving these channels. There are four categories of these channel formats:

1. Producer-driven channel
2. Seller-driven channel
3. Service-driven channel
4. Others

NOTES

1. Producer-driven channel

In a producer-driven channel, the producer or manufacturer sends their products directly to the consumers. A good example of a producer-driven channel is the companies that deal in products driven by high technology. These products are usually made as per the customer specifications such as license outlets, franchisees, brokers, consignment selling agents and vending machines.

2. Seller-driven channel

In a seller-driven channel, the company creating the products uses the services of retailers and wholesalers to reach their customers in the final stage. The seller-driven channel is mostly used by pharmaceutical companies or companies which have a large customer base. Some examples of companies that use seller-driven channels are retailers, supermarkets, specialty stores, departmental stores, discount stores, and wholesalers.

3. Service-driven channel

In service-driven channels, the channel partners involved facilitate the distribution of the products. They help in facilitating the role rather than the actual distribution. For example, warehouse space providers, transportation providers, logistics providers, and courier examples.

4. Others

Other miscellaneous channel formats consist of multi-level marketing systems such as Tupperware, Amway, cooperative societies such as agricultural produce marketing committees, vending machines, kiosks, television home shopping, exhibitions, catalogue shopping, trade shows, and online channels.

The different channel partners mentioned above can be grouped into three marketing systems.

1. Vertical marketing system
2. Horizontal marketing system
3. Multi-channel marketing system

1. Vertical marketing system

Unlike the conventional marketing channel system in which a producer, distributor, and retailer are used and each of these channels functions independently, under the vertical marketing system all the entities act as one team. They provide services to the customers as a single unit. Under this system, all the members of the marketing network and work together. All the parties i.e., retailer, wholesaler, etc. act as an integrated unit to provide services to the customer. Acting together as one unit increases the marketing effectiveness and operational efficiency as well as helps in reducing the duplication of effort. There are various kinds of vertical marketing systems.

- Corporate vertical marketing system
- Administered vertical marketing system
- Contractual vertical marketing system

NOTES

1. Corporate vertical marketing system

In a corporate vertical marketing system, one entity governs the successive stages of production and distribution. This kind of system helps in providing a higher degree of control over the channels to the company. Some examples of corporate vertical marketing systems are Bata, Titan, and Raymonds.

2. Administered vertical marketing system

Under administered vertical marketing system, the distribution channel is not owned by one entity but by the one that has a certain influence and size. This type of marketing system can be controlled by any of the channel partners. Most manufacturers that cater to large markets, for example, Hindustan Unilever or Nestle explain their terms related to shelf space, level of stocks, and prominent displays to the retailers. Under this arrangement, all the distribution activities are controlled by one large entity. This entity also gains control of marketing by dominating other channels. Channel members such as retailers and wholesalers are associated with the companies. These channel members listen and act according to the demands of the company.

3. Contractual vertical marketing system

This kind of arrangement between channel members and the company depends on the convenience of both parties. The contractual marketing system is used to make the best use of favourable opportunities in order to increase sales. Contractual vertical marketing systems are also called value-added partnerships. It can also take the form of retailer cooperative, franchise, or wholesaler sponsored chain.

4. Horizontal Marketing System

A horizontal market system is usually operational between two or more companies that are entirely unrelated to each other. This type of arrangement where both the companies are working together is beneficial for both of them. These companies can together exploit the market opportunity in the best possible way. This can of arrangement can be both; short-term and long-term. This kind of arrangement is mutually beneficial for both companies. For example, several banks install their ATMs in departmental stores or retail outlets.

5. Multi-channel marketing system

A multi-channel marketing system is used by companies that adopt two or more marketing channels in order to reach different sets of target customers. Most fast-moving consumer goods companies have different channel systems to serve the institutional and retail customer segments. This system increases the market coverage for different segments by making use of proper channels to serve each segment. Companies also have the option to add new channel members to reduce the cost of distribution. This marketing system is usually used to sell the same product to different market segments. It is also used in situations when the size of the buyers is different from one segment to another when the geographical concentration of potential buyers is diverse.

4.7 MANAGING MARKETING CHANNELS

NOTES

The channel management process is used to manage marketing channels. The channel management process involves five steps:

1. Analysis of the consumer
2. Establishment of channel objectives
3. Specification of distribution tasks
4. Evaluation and selection of alternative channel members
5. Evaluating performance of channel members

1. Analysis of the consumer

The first step to the process of channel management is the identification of immediate and ultimate customers. It is important for the companies to identify the needs of the customer and buying preferences such as the places from where they buy, when do the buy, why they buy, and how they buy. The companies are required to identify the traits of the customers as well as their buying specifications. Once that is done, the channel planners can come into play by deciding the type of intermediary needed for specific customer groups. The company also needs to identify the type of retail outlet, its locations as well as their performance characteristics.

2. Establishment of the channel Objectives

Once the needs of the customers are specified and understood, the market outlines some channel objectives. These objectives are usually based on the customers' requirements, the marketing strategy as well as the overall strategy of the company.

There are various kinds of channel objectives such as:

- sales growth attained by reaching new markets
- increasing the sales in current markets
- maintenance of market share
- achieving a pattern of distribution
- reduction in cost
- increase of profits by creating effective channel

3. Specification of distribution tasks

Once the objectives of the channels have been agreed upon, then specific tasks that need to be performed by each channel member in the channel system are decided. The channel manager needs to be very specific in describing each function. They should also explain the ways in which these tasks need to be performed and how modified as per the situation. The various tasks can range from:

- delivering within a specific time limit
- replacement of orders
- offer sufficient storage space
- provide credit to other intermediaries
- provide readily available inventory

NOTES

4. Evaluation and selection of alternative channel members

After determining specific channel tasks, the evaluation and selection process of the channel members begins. There are four broad considerations for channel alternatives which are listed below:

- o Number of levels
- o Intensity required at various levels
- o Types of intermediaries at each level
- o Application of selection criteria to channel alternatives

5. Evaluation of the performance of channel members

The need for evaluating the performance of channel members is very crucial just like any other marketing function. Marketing mix and marketing strategy are interdependent. The failure of one of these components can result in the failure of the whole strategy. Moreover, the channel members are independent business firms. They are not the employees of the company. In most cases, these firms are not willing to change their practices which makes it even more crucial for the company to analyse each channel member's performance.

The most important and frequently used performance criteria used to evaluate the performance of channel members is sales. The other performance criteria are:

- maintenance of adequate inventory
- selling capabilities
- the attitude of channel intermediaries towards the product
- competition from other intermediaries and
- competition from other product-line carried by the channel member

Because of the evaluation process and other important factors, such as technology, competition, market potential, certain changes need to be made in the channel structure. Managing the marketing channels also includes modifying the marketing channel. Channel relationships usually last for a long term, therefore the decision of channel modification needs to be carried out after careful evaluation.

People make a channel distribution. Therefore, it is important for a channel member to coordinate with other members in a way that the performance of the total distribution system enhances and improves. However, in most cases, there is a lack of cooperation among various members. The lack of cooperation can sometimes be a result of the organizational structure of several channels, for example, if two-channel members are in close proximity then they might only be concerned with each other and disregard the ones from the buy or sell. Another reason that leads to lack of cooperation among channel members is their tendency to exercise their independence as separate business operations. When the channel members do not work together as a common entity, the cooperation among them tends to suffer. Another aspect that leads to lack of cooperation is the 'human dimension'. This can be understood in the form of certain channel behaviours that they incorporate. These behaviours are categorised as roles, communication, conflict and power. A thorough understanding of each of these behavioural characteristics increases the overall effectiveness of each channel.

1. Roles

It is extremely important to define the role of each channel member in the channel system. The role of each channel member needs to established in order to make clear what others can expect from a particular channel member. For example, one of the basic roles performed by a channel member is to maximise the sales of a particular product or brand. One important issues that freqeuently crops up in channel management is defining the roles of various participants in the channel systems. This is important to achieve the desired results. This can be achieved only be carefully outlining the tasks of each channel member and by clearly communicating these roles to the respective members.

2. Communication

Channel communication refers to the process of sending and receiving relevant information to the channel members. Communication among channels is important for the efficient operation of the channel system. Channel members need to have an efficient flow of information within the channel as well. Communication can take place only when the channel members understand the benefits of effective communication. The channel members should be able to detect any behavioural problems which hinders the effective flow of information among the channel members.

3. Conflict

Sometimes, disagreements may arise among channel members. These disagreements may result into conflicts. Every conflict has a negative connotation to it. The individuals involved in a channel system should work together to resolve their conflicts as well as rely upon each other if they want to attain personal success. Conflicts, in a channel system, occurs in two ways:

a. structural conflict and,

b. behavioural conflict

Structural conflict occurs in cases when the channel members are bound by the expectation of cooperating and competing with each other. This results in role conflicts as well as behavioural conflicts. For example, many times retailers are expected to compete with other retailers in order to carry the same brand but a retailer does not expect the manufacturer to sell through a direct channel at a huge discount. This type of structural conflict can lead to behavioural conflict.

Channel management aslo involves conflict management that is done by establishing a mechanism for detecting conflict, evaluating the effects of conflict, and resolving the conflict.

Conflict can be managed and resolved by several ways. It is almost impossible for any company to not have conflicts but is definitely possible to resolve the conflicts whenever they arise. One of the ways in which conflicts can be managed is to set collective goals for the channel partners. This motivates partners to work

NOTES

together towards the collective goal and manage conflict in mutually beneficial ways.

Another method by which conflict can be managed is to involve channel partners in the planning process. This will help channel partners feel more connected. In cases when conflicts are escalated, a company has to resort to more formal methods such as diplomacy, third-party mediators or arbitration. The last resort to resolve any conflict is legal recourse.

4. Power

Power dynamics oocur when one party can control or influence the behaviour of another party. It refers to the capacity of a particular channel member to control another channel member's behaviour. For example, a large retailer can influence a manufacturer to modify a product's design. In such cases, both parties may attempt to exert their power on the other. Every channel network has some power dynamics involved. Every channel network consists a number of players who are dependent on each other and therefore, the power equation between them remains balanced. There are five types of power that can be seen in any channel system – reward, coercion, referent, legalistic and expert power.

Management of channel partners is the main responsibility of the department of sales management in every company. It is usually done with the intention of maintaining long-term relationships. The channel partners are integral parts of a company, therefore, they should positively contribute to the growth of the management. The sales management decides the objectives of a channel system with the purpose of gradually developing the channel partners in a way that they share the contribute in the growth of the company.

Check Your Progress

12. What is the first step involved in the process of channel management?
13. Define channel communication.

4.8 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The key members of a marketing channel are manufacturers, intermediaries (wholesale, retail and specialized), and end-users (business customers or consumers).
2. 'Manufacturers' refer to the producers or originators of the product or service being sold.
3. Channel conflict generates when one channel member's actions prevent the other channel from achieving its goals.
4. Negotiation strategies are the patterns of behaviour used during the negotiation process to resolve conflicts.
5. Wholesaling is a distribution channel function where one organization buys products from supplying firms with the primary intention of redistributing them to other organizations.

6. The basic premise of the retail business is simple—you buy an item at wholesale and sell it for more than you paid for it.
7. Electronic data interchange (EDI) refers to the process of using computers for exchanging regular business information across a wide area.
8. The key deliverables of logistics are achieving 'customer satisfaction' and 'cost reduction' in inventory management.
9. Sales distribution is the process by which services and products are made available for consumption or use to the end customer or business.
10. A vertical marketing system (VMS) is the one in which the main members of a distribution channel—producer, wholesaler, and retailer—work together as a group in order to meet the consumer needs.
11. Customer Relationship Management is the infrastructure that enables the delineation and increase in customer value and the correct means by which to motivate valuable customers to remain loyal – indeed to buy again.
12. The first step to the process of channel management is the identification of immediate and ultimate customers.
13. Channel communication refers to the process of sending and receiving relevant information to the channel members.

4.9 SUMMARY

- The key members of a marketing channel are manufacturers, intermediaries (wholesale, retail and specialized), and end-users (business customers or consumers).
- 'Manufacturers' refer to the producers or originators of the product or service being sold.
- The term 'intermediary' refers to any channel member other than the manufacturer or the end-user. We can differentiate among three types of intermediaries: wholesale, retail, and specialised.
- A wholesaler sells to other channel intermediaries, such as retailers, or business end-users, but not to individual consumer end-users.
- An end-user is a person who ultimately uses the product.
- Positioning refers to the design of the distribution channel to meet the segment's demands.
- The channel manager is equipped to decide what segments to target. Knowing what segments to ignore in one's channel design and management efforts is very important because it keeps the channel focused on the key segments from which it plans to reap profitable sales.
- Channel conflict is generated when one channel member's actions prevent the other channel from achieving its goals. Channel conflict is both common and dangerous to the success of distribution efforts.

NOTES

- Conflict management is one of the primary tasks of the channel manager. It is also one of the most difficult tasks.
- Two basic methodologies can be employed for conflict management in the first stage of the conflict: (i) institutional mechanisms and (ii) interpersonal and third-party mechanisms.
- The Internet is not only the cause of the rise in consumer expectations, it is also the reason behind the newfound power of the consumers.
- Negotiation strategies are the patterns of behaviour used during the negotiation process to resolve conflicts.
- The role of wholesalers and retailers has changed drastically due to market forces.
- Wholesaling is a distribution channel function where one organization buys products from supplying firms with the primary intention of redistributing them to other organizations.
- The basic premise of the retail business is simple—you buy an item at wholesale and sell it for more than you paid for it.
- The logistics function has evolved into a complex set of activities with specific deliverables for each one of these activities.
- The different activities of logistics function include purchasing (or procurement), transportation inwards, receiving, stocking (or warehousing), control of stocks, picking against orders, handling materials, transportation outwards, distribution management, and returns handling and their disposal.
- The increasing complexity of business due to the evolving needs of the consumer requires newer initiatives and approaches by organizations to meet these challenges.
- The key deliverables of logistics are achieving 'customer satisfaction' and 'cost reduction' in inventory management.
- A distribution channel is a process by which each product is transferred from one level to the next level of the supply chain, at the end of which it reaches the customer. All the levels in a distribution channel have their own unique needs.
- The distribution channels can be described as an assortment of various hierarchical levels.
- While selecting a distribution channel, the company has to keep the target consumer and their needs in mind and find ways to fulfill them in the best possible way.
- Management of a company includes several factors such as goals, policies, and products.
- Supply chain management refers to the management of a network of interconnected businesses which are involved in the provision of product and service packages required by the end customers in a supply chain.

- A supply chain starts with ecological and biological regulation of natural resources.
- Sales and marketing programs help the channel members in improving sales by satisfying the needs of the consumer.
- The process of selecting the right channel partner for a company and then giving the responsibility of sales to them is critical to any business.
- As many companies are operating in sales both directly and indirectly, channel performance has become increasingly relevant.
- CRM refers to customer relationship management. It is an effort to put the customer in the central position of any business's integral processes.
- CRM is a customer-driven system. The purpose of CRM is better servicing and satisfaction of the customer through an effective distribution system for repeat business and profitability of the company.
- 'Marketing research is about researching the whole of a company's marketing processes', Palmer (2000).
- Channel planning which is also referred to as logistics planning or distribution channels is associated with the process of providing the final products to the right customers, at the right place and time, and at a price that is rightly suitable to them.
- A marketing channel can be organized in different formats. These channel formats are usually categorised on the basis of who is driving these channels.
- The channel management process is used to manage marketing channels.

4.10 KEY TERMS

- **Channel design:** Channel design is the strategic process that commercial organizations use to balance resources across direct and indirect channels or routes to market.
- **Franchise:** A franchise (or franchising) is a method of distributing products or services involving a franchisor, who establishes the brand's trademark or trade name and a business system, and a franchisee, who pays a royalty and often an initial fee for the right to do business under the franchisor's name and system.
- **Supply chain:** In its simplest form a supply chain is the activities required by the organization to deliver goods or services to the consumer.
- **Distribution channel:** A distribution channel is a chain of businesses or intermediaries through which a good or service passes until it reaches the final buyer or the end consumer.
- **Logistics:** Logistics refers to the overall process of managing how resources are acquired, stored, and transported to their final destination.

4.11 SELF ASSESSMENT QUESTIONS AND EXERCISES

NOTES

Short-Answer Questions

1. How is negotiation used as a mechanism for resolving issues?
2. What is the importance of technology in logistics?
3. Write a short note on the vertical marketing system.
4. What are the five key elements of a good logistics system?
5. What are the different stages involved in channel planning?
6. What are the steps involved in managing marketing channels?

Long-Answer Questions

1. What are the roles and functions performed by marketing channels?
2. How has the role of wholesalers changed in the past few years? Discuss the various roles performed by wholesalers.
3. Why is CRM important? Discuss the nature and scope of CRM.
4. Define marketing research. What are the principles of distributor research?
5. Discuss the marketing systems into which different channel partners can be grouped.

4.12 FURTHER READING

Tapan Panda, Sunil Sahadev. 2019. *Sales and Distribution Management*. New Delhi: Oxford University Press.

Pingali Venugopal. 2008. *Sales and Distribution Management: An Indian Perspective.* New Delhi: SAGE Publications.

S.L. Gupta. 2009. *Sales and Distribution Management*. New Delhi: Excel Books.

Ramendra Singh. 2016. *Sales and Distribution Management: A Practice-Based Approach*. Noida: Vikas Publishing House.

Bholanath Dutta. 2011. *Sales and Distribution Management.* New Delhi: I.K. International Publishing House Pvt. Limited

Rahul Gupta Choudhury. 2019. *Sales and Distribution Management for Organizational Growth.* United States: IGI Global.

A. Nag. 2013. *Sales and Distribution Management*. New Delhi: McGraw Hill Education.

UNIT 5 EVALUATION OF MARKETING CHANNELS

NOTES

Structure

5.0 Introduction
5.1 Objectives
5.2 Information System and Channel Management
  5.2.1 Selection and Recruitment of Channel Members
  5.2.2 Channel Motivation
  5.2.3 Channel Relationships Management
  5.2.4 Information System for Channels
5.3 Assessing Performance of Marketing Channels
  5.3.1 Channel Evaluation
  5.3.2 Outcome of Channel Performance
5.4 International Marketing Channels
5.5 Answers to 'Check Your Progress'
5.6 Summary
5.7 Key Terms
5.8 Self-Assessment Questions and Exercises
5.9 Further Reading

5.0 INTRODUCTION

Marketing is the process of understanding consumer needs and fulfilling them. Effective marketing not only assures a demand for a product but also fulfills the consumer's needs. Supplying the desired product at a competitive price, promoting the product, and making it easily accessible is what creates the right marketing mix. All this is achieved with the help of channel members who are involved in the entire marketing process from top-to-bottom. In this unit, we will understand the selection and recruitment process of channel members. We will also discuss the important role played by information systems in streamlining the marketing process. The unit also focuses on the various methods that are used to assess the performance of marketing channels.

5.1 OBJECTIVES

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

- Understand the importance and role of information system
- Describe channel management and its purpose
- Discuss the methods used to assess the performance of marketing channels
- Examine the role of international marketing channels in expanding sales

NOTES

5.2 INFORMATION SYSTEM AND CHANNEL MANAGEMENT

In this section, we will discuss the selection and recruitment of channel members.

5.2.1 Selection and Recruitment of Channel Members

Channel members consist of manufacturers, intermediaries, and end-users. In this context, the recruitment of channel members normally refers to the recruitment of the channel intermediaries by the manufacturers. However, there could be instances where the reverse happens, for example, retailers (especially large established ones, like *Walmart*) are frequently on the lookout for recruiting manufacturers whose products they could stock, distribute and sell.

It is again not essential that all manufacturers would be looking for channel intermediaries for the distribution of their products. Instances of direct-to-market companies abound, for example, *Eureka Forbes*, *Oriflame*, etc., manage the entire supply chain themselves. However, outsourcing distribution to parties outside the organization and thereby concentrating on core activities are also sound operating practices that enable value maximisation. It is in this context that the recruitment of channel members is a critical activity that needs to be taken up in a manner that the member fits well with the culture of the organization and operating norms for being a motivated performer. Recruitment of the right channel partners in the first instance is also very critical from the perspective of international business, where frequent changes would hamper the business growth. Recruiting and screening the right channel partner who will serve the needs of the customers in an appropriate manner is therefore essential for the eventual success of marketing organizations.

Selection Criteria

A well-laid down process for selection and recruitment of channel members is for any organization. The process would detail the need, their role, and the method that would have to be undertaken by the channel members to serve the customer. Simultaneously, the distributor rights and authority required for execution as well as the changes required over time would also need to be communicated to the channel members. In any 'ongoing concern,' the need to continuously recruit channel members is also an ongoing one. This is because of the attrition of existing members which makes it essential to recruit additional distributors in order to meet the growth requirements of the organization.

Screening is the first step in the recruitment of channel members. The criteria for screening can vary as per the needs of the organization, industry characteristics, and prevailing norms. A potential channel member should have the capabilities and understanding of the business, product, and market, and a good past performance track record. They should be able to adjust themselves according to the culture of an organization which encompasses the values, visions, norms, working language, systems, symbols, beliefs, and habits of the concerned organization.

Each product goes through different stages in a product life cycle. The skills and qualifications required in a channel member depend on the stage in which a product is. For example, a new technical product may require distributors who have high capability to master the technicalities of the product and are able to communicate these to potential clients. However, these skills are not required once the product gets established, and thereafter the distributors need not be as specialised.

Once the potential candidates have been screened and shortlisted, the next step in the recruitment process is to judge a candidate on the basis of factors such as experience in the line, product knowledge, and understanding, administrative and risk-taking capabilities, etc. The first and foremost criterion is the sales capability and understanding of the sales process by the potential channel member. Their knowledge and understanding of the market is another key factor influencing the selection of a channel member. A potential channel member needs to have a thorough understanding of a product especially in the case of technical products, in which they should be aware of the technicalities of the product. Apart from this, a channel member should have the ability to handle the products (through the stages of unloading, storage, and reshipment to clients) in the right manner. A channel member should be thoroughly invested in the process through the various stages of the product.

Some products require special infrastructure and the distributors may not be in a position to provide these special requirements. In such cases, a channel member's experience in the distribution line may come in handy. It is also important to analyse the candidates on the basis of their experience in handling customers with efficiency. Another important criterion for selection is the capability of channel members in handling administrative functions efficiently. A prospective candidate should be able to handle the current workload as well as to take on some additional tasks, as and when required. In other words, the candidate should be well adapted to working under pressure and meet deadlines. Lastly, the capability to take risks is another key requirement. From the organization's point of view, the risk involved in selecting a particular candidate is the cost incurred in appointing them and their subsequent commitment to the organization.

5.2.2 Channel Motivation

After the selection of a channel member, it is important to motivate them once they are positioned in the market. An ongoing motivated channel intermediary is absolutely vital for any organization primarily due to the following reasons:

- Being an intermediary, a channel member is the face of the organization to the customer.
- Additionally, they are also the conduit for feedback received from the customers.
- Maintaining an ongoing correct communication channel in both directions will not happen unless the channel member has a strong motivation to do so.

Organizations meet this important need of motivating a channel member by constantly monitoring the requirements of the distributor in executing their role smoothly and by identifying and solving the problems that may occur. Some organizations go a step further and try to inculcate the spirit of partnership by inviting the distributor to participate in important decisions of a 'new product' configuration and design, choice of advertising media, customer service improvement inputs, etc. In this context, a Distributor Advisory Council serves the useful purpose of identifying problems and issues of channel members. Such councils are used for information exchange between the channel members and the organization, outlining the duties and responsibilities of all the channel members, enabling inputs for planning and improving the performance of the channel. The problems faced by channel members are understood better by enhancing personal contacts. The channel intermediaries also feel a sense of belonging when such councils are formed, thereby motivating them to put in their best.

A well-tailored distributor margin structure with proper incentives rewarding extra efforts is another proven methodology for enhancing distributor motivation. In addition, some organizations go out of their way in assisting new distributors in setting up their business even to the extent of identifying suitable land, support for arranging finance, etc. Motivation is also provided on an ongoing basis by the timely announcement of schemes (such as praising employees' work by rewarding them, lunch or meals arranged for them by the company, festive season support, etc.), replenishing stocks faster, and thereby reducing working capital block as well as by providing suitable training aids as per the requirement.

5.2.3 Channel Relationships Management

The overall management of channel relationships is an important prerequisite in determining the success of an organization. A deep understanding of the member's needs and working towards fulfilling them is an intrinsic requirement for motivation and management of the relationship. Some of the factors affecting the management of channel relationships are discussed as follows:

(i) Cooperation: This is the ideal methodology for managing all types of relationships and therefore applies to managing channel relationships too. All the parties involved should be able to understand the needs of each other better so that there is always a scope of cooperation among them. This requires regular and transparent communication flow between the parties and therefore, a high degree of coordination is essential. Coordination and cooperation are essential not only amongst the producer and their channel intermediary but also amongst the different channel intermediaries for the overall attainment of channel objectives. Therefore, while the producer can take a lead in enabling this, channel intermediaries also need to realise their part and cooperate among themselves.

(ii) Conflict: As discussed earlier, channel conflict arises where one party perceives their interest to be affected by the actions of the other channel member(s). Conflicts usually have their root in such perceptions, but may be manifested in a different manner elsewhere. It is important to recognise

NOTES

the symptoms of conflict for what they are and resolution should be attempted by attacking the roots of the conflict. As already discussed, channel conflicts do not allow any of the channel members to meet their objectives in the long run and therefore their resolution is vital in managing channel relationships.

(iii) **Power:** Channel power has been discussed earlier as the capability of one member to influence the behaviour of another channel member (s). While power is based on resources possessed by one member and which is needed by other members, this can be used as a basis for maintaining channel relationships, but only in the short term. There are different types of power based on the source of strength, for example, expert power (ability to influence the behaviour of others on the basis of past experience and expertise in a specific area), coercive power (dependent on fear, suppression of free will and/or use of punishment or threat), legitimate power (derived from a job, position or status), referent power (power of an individual over the team), reward power (ability to deliver rewards or benefits to influence others), etc. By and large, other than the reward power, that can be applied over a longer time frame, all the other power sources can be used in the short term only for maintaining channel relationships.

Obstacles in maintaining a successful channel partnership

A successful channel partnership is critical for the continuous growth of the vendors. A strong relationship with channel partners can open the doors to new business opportunities, increased global presence, and an increase in revenue and profits. Most vendors recognise these benefits, but they fail to nurture the channel relationship. There are some common obstacles or slip-ups that prevent vendors from leveraging the potential of channel partners fully. Some of the very common obstacles which prevent vendors from utlising the full potential of channel partners are as follows:

(i) **Wrong partners:** Recruitment of the right channel partners is the first step in optimizing channel potential. The vendors who fail to assess the partner's potential capabilities end up incurring losses in revenue apart from the loss of brand image.

(ii) **Losing track:** Once the channel partners are selected, it is important to keep track of their performance. Ignoring the performance of channel partners may prove to be costly as it will mean obstructing the revenue flow and having to manage the deals directly. In the absence of a performance record, vendors fail to deploy a consistent methodology and process to manage high-performing partners.

(iii) **Lack of strategic relationship:** Often, vendors fail to build strategic relationships with channel partners as relationships with channel partners are only limited to transactions or tasks. When the transactions lose attraction, partners move to other vendors or suppliers. It is critical for businesses to align their goals and long-term strategies with those of channel providers.

(iv) **Lead generation:** Channel partners often complain about lean lead rates. Most of the channel partners feel that vendor leads are unattainable. Often,

NOTES

the vendor fails to show an equitable approach with regard to giving leads to direct and indirect channels. The channels are often subjected to C, D, and E level leads. This treatment of the channels acts as a hindrance to the development of trust between the two parties. Unqualified opportunities and ineffective marketing campaigns are the other complaints that the partners often level against vendors.

(v) **Mentoring and support:** Product knowledge is not the only criterion for channel partners to sell products effectively. Vendors are often mistaken as they think that knowledge of products is sufficient for the channel partner to get the deals successfully. So, the channel partners need timely training, and support to become progressively more successful.

(vi) **Effective communication:** Communication and feedback are most important for the partners and vendors to understand each other's organizational goals and aspirations completely for a fruitful association. The key to effective communication is asking the right questions, listening to the answers, and making adjustments.

(vii) **Endpoint:** With long-term thinking, careful planning, and thoughtful investment, vendors can utilise the potential of channel partners fully. By avoiding the slip-ups and remaining committed to each other, the vendor and the channel partner can help each other succeed.

5.2.4 Information System for Channels

Information technology has become the driver of change in the world. Since the Industrial Revolution, no other movement has had such an impact as much as information technology. From a position of providing strength to a business enterprise, information technology has become an input of necessity for today's operations, without which an organization can be weakened. The usefulness of the information in facilitating business processes and decision-making has become invaluable and this aspect is all the more relevant to channel operations and distribution management. Indeed information technology has made a significant difference in the management of channels. Channel Information Systems (CIS) has revolutionised the operations of channels and increased its viability and profitability. Information intensity refers to the proportion of channel profits that can be attributed to an organization's information assets. CIS typically consists of elements such as electronic scanning, database management, electronic data interchange (EDI), multimedia products, among others.

The entire purpose of CIS is to collect, collate, store and interpret information so as to meet the needs of the organization. As is often said that 'information is power', this aspect is entirely true and applicable in all facets of the business. *Walmart* is a clear example of how information can be leveraged to increase power. Besides imparting power, the function of information in enhancing organizational value is indisputable. The most common example, where value addition is clearly visible, is in the maintenance of accurate stocks. This becomes almost indispensable for an industry like pharmaceuticals or food, where a large quantum of stock-keeping units (SKUs) (besides shelf-life limitations) make it mandatory for accurate stock keeping as it is a survival need. CIS has also impacted the structure of the distribution channel by reducing the channel length and thereby making it more efficient.

NOTES

The elements of channel information system

The elements of CIS are:

- Hardware and Software
- Networks
- Database for CIS

The CIS built from these elements enables information capture, storage, interpretation, and dissemination for enhancing value.

System hardware, software, and network elements: Elements comprising computers, printers, components, programmes, etc., help in the capture, storage, and transmission of information to all channel members. Such elements can be classified in accordance to their area of applicability as:

- B2B (Business to business) applications
- Applications for retail
- B2C (Business to consumer) applications
- Interactive consumer-based applications

(i) Business to business applications: CIS applied to B2B situations are principally involved in the transmission of relevant information for assisting operations. More advanced CIS are also used for capturing real-time information from the marketplace, which, after suitable processing, helps in understanding the ground realities better. However, when related to information transfer, CIS helps in speeding up these transfers while reducing the cost incurred. Some of these systems are detailed as follows:

a. Extranets: These are essentially platforms used by manufacturers for communicating with their channel partners—suppliers, distributors, etc. These are also used to conduct transactions and provide a communication interface by which the course or progress of each transaction can be viewed by channel partners on an ongoing basis. Thus, this facilitates the sharing of internal information of an organization with its selected partners on a selective basis. Using router networks, this application was commenced, and later on 'application layer gateway' firewall, a software protection tool was incorporated for added security. The usefulness of such extranets is numerous. *Maruti Suzuki*, the famous Indian automaker, uses an extranet for almost all communication and transactions with its suppliers and distributors. In fact, it can be safely concluded that the entire operations at *Maruti* are vitally dependent on this extranet, especially in view of the JIT (Just-in-Time) operations of the auto company.

NOTES

Forecast of requirements supply schedules, delivery point, complaint intimation, inventory status, and a host of other data are routinely communicated to the supplier partners, whilst transactions such as receipt acknowledgment and payment processing are also facilitated through extranet operations. As thousands of components from a huge supplier base are involved in this process, the efficiency derived from extranets is enormous and indeed it is doubtful whether smooth day-to-day operations could be carried out without an extranet at *Maruti*.

b. **Quick response system**: The apparel industry is another business with enormous intricacies and SKUs. Quick response (QR) systems enable information sharing on designs, schedules, orders, production amongst all the channel members. Universal product coding (UPC) and barcoding of cartons are other tools used in this business to ensure that the right product is available to the end-user at the right place and at the right time.

c. **Transaction-based information system (TBIS):** This is a vital system used by a manufacturer in understanding their retail customer better. The information system is deployed through the channel intermediaries in such a manner that a direct information conduit is established between the customer and the manufacturer. Therefore, every transaction of the customer is tracked by the manufacturer through this system right from product purchase at the customer level. Channel members are involved in this process and with experience gained over time, the right information to be captured is identified. A seamless transfer of this information back to the manufacturer is enabled by this TBIS system.

d. **Efficient consumer response (ECR):** This is another system used by the grocery industry to understand consumer preferences quickly and respond suitably for enhancing profitability. Given the vast spectrum of products present in the grocery business, product groups are formed and consumption is studied on this basis. Activity-based costing is also used by ECR to study product profitability. This has been used by the US grocery industry to ward off competition from *Walmart* and *K-Mart* to a large extent.

(ii) Retailing applications: CIS for retail applications hold immense potential for value addition because of the wide geographic spread of retail operations and the large quantum of data transfers involved because of the huge numbers of SKUs. Thus, it is not uncommon to see the usage of proprietary software by large retail players and the utilization of wide area satellite-based networks. Besides the exchange of information amongst retail partners, CIS also plays a vital role within a retail outlet. Store configuration, merchandising alternatives analysis,

NOTES

store inventory, barcoding are amongst some of the common areas where IT is used within a retail store. Thus, a Retail Information System (RIS) involves wide area networking, database and server technologies, software generation and management, employee training, Electronic shelf labelling (ESL), Shipping Container Marking Technology (SCM), etc.

a. **Electronic shelf labels (ECL):** This is a very important component of retail operations and is especially applicable in large format stores like hypermarkets and supermarkets. In these stores, the average number of products is expected to be larger than 20,000, and putting a price tag on each item is not only laborious and costly, but it is also time-consuming. Add to this the complexity that would be involved when a price change is required—the physical process is simply not practical. Additionally, for the stores that proclaim an everyday low price (EDLP), the complexity becomes maddening. Besides being time-saving, ESL also saves the significant cost of labelling and brings integrity into the process. Additionally, point of purchase brochures, other literature with pricing in it, all can be updated easily and faultlessly and thus enables a smooth day-to-day operation.

b. **Shipping container marking technology (SCM):** The efficient distribution of the right goods to the right retail outlet is immensely facilitated by SCM technology. In fact, the benefits to the wholesalers are significant when product flow is between the manufacturer and the wholesaler. The SCM technology ensures that the marking on the shipping containers is the basis for tracking the flow of goods and their delivery.

(iii) Business to consumer online applications: CIS used in such areas pertain primarily to the business of e-commerce. Sales channels wherein product information, benefits, pricing, and servicing details are highlighted are becoming common on the Internet. In many instances, this is further being extended for sale and purchase electronically, and in a few instances these e-sales channels have also evolved to e-markets, for example, the Sabre Information System of American airlines provides complete details of seats and their availability for all airlines facilitating customer decision-making.

(iv) Interactive multimedia applications: This is a further extension of an e-sales channel to an e-marketing channel through the usage of multimedia. Interactive multimedia is used here to deliver product-related information to the customer and there is also a provision for interactivity. Customer feedback and response can be obtained and acted upon. For example, the American retailer JC Penny has set an interactive shopping system named ‘Telaction’. Customers can access this system through a cable television channel using a push-button

NOTES

telephone system and get all the information they need about a product. Once a decision is taken by the customer to buy the product, the information is directly fed into the order execution module for further processing and delivery.

Impact of Information Systems on Channel Flows

The impact of information systems has been enormous in the operations of the channel. Ordering of goods, their delivery, stock keeping, inventory have all been impacted and efficiencies. We shall now examine the impact of information systems on channel flows in the following sections:

(i) **Transaction flow:** This is an area of significant progress and savings due to the usage of CIS. Electronic Data Interchange (EDI) is one critical application leading to a host of efficiencies and savings. Essentially, in EDI, the manufacturer and the channel intermediaries exchange all documents pertaining to transactions such as orders, payments, invoices, shipping documents, etc., in their (supplier and intermediaries) computers. Therefore, the manual entry and preparation of documents, their transmission over fax, etc., are avoided completely. The resultant exchange through computers is not only faster but also error-free without any loss during transmission. This speed in document exchange enhances the speed of response and in a way, the entire transaction speed is increased several times over. This results in actual value addition in terms of lower inventory holding, lesser loss of sales through stock-outs, faster turn around of money thereby reducing transmission loss, etc.

(ii) **Inventory flow:** The impact of repetitive and faster communication flow on inventory is very significant. Additionally, holding inventory that is 'live', and based on current customer preferences is another major advantage for the channel members. Innovative practices such as continuous replenishment program (CRP) are made possible by the usage of CIS which leads to savings in delivery lead time and shipment costs too.

(iii) **Distribution flow:** The dramatic improvement in the transaction flow leads to similar improvement in the flow of the physical goods. This flow enables lesser orders to be lost and consequently higher turnaround of invested capital. Regular channel practices of 'route- sales' usually applied by soft-drink businesses, where trucks move on set routes and take retail orders for immediate delivery or pre-sell (where orders are taken in advance by sales personnel for delivery subsequently) can be improved a lot by the instantaneous flow of communication and good shipment plans made on actual needs rather than on estimation. Specialised software have been developed by individual manufacturers to suit the needs of their industry and thereby addressing the peculiarity of their business better. In this manner, entry barriers have also been created in some competitive businesses, thereby ensuring higher returns for the savvy CIS utilizing player.

(iv) **Promotional flow**: The focused application of promotions in the channel and their intense monitoring has been made possible by the adoption of

CIS. As a consequence, the efficiency of promotional budget utilization increases whilst enabling a higher spend due to the increased efficiency in fund usage.

(v) Negotiation flow: The higher flow of information results in better understanding of the customer and their needs by all channel members. This has led to better quality of negotiations enabling a better customer experience and consequent higher sales potential. Traditional negotiations on inter-channel pricing and credit have given way to meaningful discussions with lasting impact on all the members.

Impact of Information Systems on Channel Relationships

The advent of information systems has primarily enabled the collection and storage of a huge amount of data. In addition, information systems, through effective software, have made it possible for this huge database to be sifted, sorted and analysed resulting in new insights and better understanding of the subject under study. Many organizations have utilized their marketing channel to collect such varied data about their customers and this has enabled better customer understanding and superior service. In fact, with an increase in the standard production processes and consequent commodification of products, market players are shifting their focus to other means of creating differentiation. Information systems are proving to be extremely useful in this quest as better customer insight enables product and service differentiation and thereby support sales. In this process, the relationships between the channel members are also witnessing significant change. In the following section, we shall study the impact of information system on relationships in the context of channel conflict, power, coordination and cooperation.

(i) Conflict: The reasons for channel conflicts have been explored in detail earlier. Channel conflicts primarily arise due to a gap in the understanding and expectations among channel members. There are several reasons for these gaps and one of the key causes for these gaps is gap in information. In this context, information systems have proved to be invaluable in reducing information gaps. Various systems targeted on information exchange such as Electronic Data Exchange (EDI), Continuous Replenishment system (CRP), Transaction Based Information System (TBIS), Quick Response system (QR), Point of Sale systems (POS), etc., have been developed on the basis of the needs and have proved to be very influential in reducing and eliminating any error due to information gap. These have, therefore, been instrumental in reducing the channel conflict to a large extent.

However, information systems have given rise to certain conflicts in some situations. For example, with an objective to gain control, channel members seek complete information on all transactions by their partners, which in many cases is not agreeable to all. For example, *Walmart* faced a conflict situation when it wanted all its vendors to adopt the EDI system. Ultimately, *Walmart* had to force this on its partners by threatening them with business losses. In this case, it was possible to do this because of the enormous referent power wielded by Walmart. In situations where such power does

NOTES

not reside in one channel member, channel conflicts are expected to surface, which may not have immediate solutions. This is true in highly competitive market situations also when a channel member may be acting as an intermediary for several competing products. Expecting complete transparency for such channel members with their suppliers may not be feasible and thus could be a source of conflict. However, by and large, it has been observed that increasing channel information systems have reduced the conflicts in the channel, promoted transparency and mutual respect amongst channel partners and enabled better channel relationships.

(ii) Power: 'Information' is equivalent to 'power'. The advent and utilization of information systems in businesses and marketing channels, in particular, have helped to increase power in a variety of ways and means. Producers have been able to gather a better understanding of their customers through specific studies and market research conducted using CIS extensively. For example, cigarette maker Philip Morris conducted a 'blind taste test' in 1987 where in participants were offered free cigarette packs of an unnamed brand. Later they were asked to fill in a questionnaire upon receipt of which they were sent two packs of 'Merit' cigarette brand. Two million respondents were covered and Philip Morris not only learnt about the smokers in greater details but when the brand was launched, it had an instant set of customers who chose to switch to 'Merit' brand. Similar market and customer research actions are constantly carried out by the savvy marketeer to understand their customers better. A better understanding of customers helps producers to increase the bargaining power over their channel partners and downstream channel intermediaries.

However, the proximity of the channel intermediaries (retailers) to the customer enables them to have a better customer insight through their day-to-day interactions. Point-of-sale systems have assisted the retailers to further gather information about their customers in a more structured and effective manner leading to deeper and better insights. Such processes enable slow but steady transfer of power from the producer to the retailer. In fact, the boom in retailing and its ever-growing channel power is rooted in this basic market reality, wherein the customer insights are first available to the retailers, who, based on their choice, would share the same with the producer. The steady growth of giant retailers, like Walmart, Tesco, etc., is a direct consequence of this practice. In fact, the growth of 'private label' is another example of how this information is being used by retailers to customize products that suits the customer, based on their understanding. The proliferation of the frequent-shopper and other such loyalty programs are the means for gathering more information about their customers in a systemic manner and all of this is clearly resulting in transfer of power from the producer/manufacturer to the downstream channel intermediaries.

(iii) Cooperation and coordination: CIS has enhanced channel relationships through an increase in channel cooperation and coordination. The common objective of serving the customer better and thereby assuring better returns for all the channel members has been the driving force behind enhanced

NOTES

cooperation between channel members. In fact, coordination has helped in designing better and efficient information systems and gathering customer preferences and insights. Once the information is available to the retailer, it makes sense to share the same with the producer so as to achieve higher sales through better products which are sharply tailored to customer preferences. Initially, channel members strive to utilize customer insights for bargaining and maximizing their individual return on every transaction. However, beyond a point, this is not possible and a greater gain would only accrue to the entire team once they have cooperated and evolved additional perceived value for the customer. At this stage, collective goals of all the channel members gain credence and lead to the utilization of customer information for collective benefit. This process of sharing further enhanced the trust among the channel members and resulted in the creation of 'virtuous cycle'. Channel coordination and cooperation have developed through systems such as the 'Retail Link system' established by Walmart or the 'ECONOMOST System' established by an US pharmaceutical company McKesson, which enabled a two-way sharing of information and knowledge for the overall improvement in customer service. Such channel cooperation and coordination are prevalent in all channel relationships, viz., between producers and suppliers, suppliers and wholesalers, wholesalers and retailers, manufacturers and retailers, retailers and retailers, and have resulted in profitable outcomes for the entire channel system.

Check Your Progress

1. What does channel member consist of?
2. What are the elements of channel information system?

5.3 ASSESSING PERFORMANCE OF MARKETING CHANNELS

Let us now discuss the evaluation of marketing channels.

5.3.1 Channel Evaluation

The principal task of the channel intermediary is reaching the goods manufactured by the producer to the end-user. The evaluation of the distribution channel which consists of the manufacturer, intermediary, and the end-user is, therefore, an evaluation of how effectively this activity has been managed. Several parameters can be used for judging the efficacy, some of which are channel efficiency, channel equity, channel effectiveness, channel productivity, and channel profitability. Some of these parameters are discussed in the following sections.

Measures of Performance

As briefly introduced above, the measures of channel performance can be several and broadly classified into macro and micro-level parameters. When the aim is to judge the efficacy and its impact on society, parameters such as channel

NOTES

effectiveness, equity, and efficiency are involved. When micro-level judgement is required on an individual channel member, then the financial performance analysis is appropriate concerning the tasks undertaken by the intermediary.

As the terms imply, channel efficiency and productivity refer to better usage of all the resources—in completion of the tasks and actions that are the responsibility of the channel intermediary. Whilst efficiency pertains to minimising the cost for a set of desired actions, productivity refers to the aspect of maximising the actions and output for a given cost. Problems in productivity are manifested in different forms as can be exemplified by the following study on channel productivity in the financial service business.

The measure of the accessibility of marketing channels by the customers is termed market equity. Uniform access is the desired but rarely achieved goal. Even in the developed countries where a high maturity of marketing channel has been achieved, channel equity is often tilted towards the privileged and rich customers and the underprivileged have either lesser access of products or access to inferior quality goods.

Channel effectiveness is a measure of how well the channel constituents are able to meet and satisfy the customer needs with regard to timeliness, convenience in location, lot size, etc. Technology is a definite enabler in improving channel effectiveness and therefore, by and large, it has been assessed that the effectiveness of the channel in developed countries is better in comparison to that in developing countries.

Channel profitability is the other important measure of channel evaluation. In fact, many decisions for designing and structuring a channel are based on channel profitability. This is critical as no channel intermediary would be willing to participate in the absence of profitability for their business. Several models to evaluate channel profitability are available and these would be discussed subsequently.

Besides these broad parameters of channel evaluation, there are other narrower parameters that can be applied to individual channel intermediaries. These pertain to how the channel intermediary is able to assist the manufacturer to achieve their goals, maintenance of their patterns in addition to adaptation and integration. Assistance in achieving desirable goals under the given constraints of costs and other problems is a qualitative measure of the evaluation of a channel member's performance. This evaluation is done by the manufacturer. Pattern maintenance refers to the assistance provided by the intermediary to the various functions of the producer organization so that the overall system performs smoothly. Integration and adaptation are determined by how well the available resources are used and leveraged by the channel intermediary in meeting the objectives.

Models of Channel Profitability

The basic measure to determine the viability of a channel is based on its financial performance. This determines the long-term life of the channel intermediary and the channel itself and, therefore, is a core requirement for the existence of any channel or its intermediaries.

NOTES

There are many different financial parameters to measure performance, for example, profit margin, return on investment (ROI), return on assets (ROA), but perhaps the most integrated and useful measure is the return on net worth (RONW). The Strategic Profit Model (SPM) considers RONW as the core indicator of performance.

Just like the ultimate objective of a successful life is achieving happiness, the success of any business is usually measured by the profit it earns. Of course, there could be exceptions, for example, certain businesses run by governments, where the primary objective could be to provide employment. The term 'profit' is however a broad one and may not truly represent the complete picture of the business performance. This would be especially applicable when comparisons are required to be made about the relative profitability of several businesses. In such cases, using 'profit' as a measure alone would be inadequate.

Strategic Profit Model

The SPM considers the return on net worth (RONW) as the most relevant and informative parameter to understand a company's financial target achievement as well as channel profitability. This is because this parameter requires systematic evaluation and control in three aspects:

- Margins and their management
- Asset management
- Debt management

We shall now understand these aspects in detail from a study of some basic financial ratios:

Profit margin is defined as the ratio of net profit achieved on the total net sales. This is expressed as:

Profit margin = Net profit/Net sales

Return on assets is defined as the ratio of net profit earned on the assets employed for earning this profit:

Return on assets = Net profit/Total assets

Asset turnover is defined as the ratio of sales achieved on the total assets applied to achieve these sales:

Asset turnover = Net sales/Total assets

Financial leverage ratio is a measure of the contribution of the owners' funds in the total funds applied in the business and is represented as:

Financial leverage = Total assets/Net worth

Return on net worth is defined as the ratio of net profit earned on the net worth employed in the business. The net worth is the funds deployed by the owner of the business in all forms:

Return on net worth = Net profit/Net worth

As per the Strategic Profit Model, the return on assets of a business is first estimated from the profit margin and the asset turnover ratios in the following manner:

Return on assets = Profit margin × Asset turnover

i.e.,

$$\frac{\text{Net profit}}{\text{Total assets}} = \frac{\text{Net profit}}{\text{Total sales}} = \frac{\text{Net sales}}{\text{Total assets}}$$

This is then applied along with the financial leverage in the business to arrive at the return on net worth:

Return on net worth = Return on assets × Financial leverage

$$\text{i.e., } \frac{\text{Net profit}}{\text{Net work}} =- \frac{\text{Net profit}}{\text{Total assets}} = \frac{\text{Total assets}}{\text{Net work}}$$

Management of Profit Margin

Profit margin management is a significant and key task in the marketing channel as far as the management of the channel costs is concerned. Controlling the sales costs when the margin is given requires superior planning and control. Of course, the alternative of tweaking the margin upwards always remains, but this is not a very common feature.

Management of Assets

Assets comprise all types of asset classes, for example, cash, inventory, accounts receivable, etc. A given quantum of profits lowers the usage of assets and improves the impact on the bottom line of the organization or the channel member. The methodology to take this forward is to increase the sales from a given asset base and thereby increase the asset turnover. As the return on assets is calculated by the combination of asset turnover and profit margin, that is,

Return on asset = Asset turnover × Profit margin

Hence, better management of the asset turnover will enable a better return on assets.

Financial Leverage Management

While the return on asset measures how well the organization or the channel member has utilised their assets, it does not give any inkling on the costs of the assets themselves. Assets can primarily be created from two types of funds–equity and debt. At any point in time, there should be a judicious mix between this equity and the debt component of the asset and this will enable maximisation of the returns. Also referred to as the owner's and creditor's funds in the balance sheet of the organization, the arbitrage available for maximising gain can be understood by understanding the cost of these two types of funds.

Equity is the owner's fund and the cost of equity is the return expectation of the owner. As compared to this, the creditor's fund is in the form of debt and the cost of debt is lower (usually) because the risk associated with debt funds is lower. According to an agreed practice, an organization has to first pay the interest charges incurred on its debts, and any amount remaining after this can only be appropriated by the owners as their return against equity funds. This illustrates that the risk is higher for the return on equity funds and hence, by natural corollary, the costs of equity are much higher (usually). The leverage ratio is therefore determined by this arbitrage that is available and thus:

Financial leverage = (Owners fund + Creditors funds)/Owners funds i.e., = Total assets/Net worth

In this manner, the total cost of the assets is attempted to be brought down through infusion of debt and thereby enhancing the return on the owner's funds, that is, net worth.

Care should be taken when on occasions, due to environmental changes, the interest charges on debt (cost of debt) exceeds the return expected by shareholders (cost of equity). In such instances, increasing the debt component in the total assets would be counter-productive and would lead to a lower rate of returns in the net worth. In effect, higher leverage in the capital structure under these circumstances can lead to bankruptcy as the amount earned by the organization is not sufficient to meet the interest expectations of the creditors.

Economic Value Analysis (EVA): This is another method to understand and evaluate channel profitability. EVA is defined as the earnings of an organization or channel member after tax minus the total cost of capital. This concept is primarily used when funds have to be allocated between competing projects:

EVA = After tax operating profit – Total cost of capital

The cost of both equity and debt components are considered during EVA computations and this analysis enables the most efficient allocation of financial resources. EVA analysis is especially useful for evaluation when a business has been operating for some time. The decision as to where funds should be invested further is one typical determinant of EVA analysis.

Analysis of Channel Member's Contribution

Organization and channel member profitability (determined through SPM or EVA methods) provide a macro view of the profitability and that too at specific frequencies (quarterly, half-yearly, yearly, etc.)

Direct Product Profit

This is another important tool originally utilised for deciding on shelf space allotment. The products with higher margins need to be allocated higher shelf space. However, the complexity in such decisions increases with a large range of products, which sometimes require sophisticated tools such as non-linear programming and direct product price to be applied in decision making.

In simple terms, direct product profit refers to the profit contributed by each product to the total profits of the channel member. The starting point in estimating DPP for a product is the gross margin of the product. From this gross margin, all associated costs, like warehousing costs, handling costs, delivery costs, costs for display in shelf, etc., are taken in arriving at the DPP. The data generated

NOTES

by activity-based costing becomes vital in determining the DPP for a product. In the process, products requiring higher costs for certain tasks, for example, storage or maintenance are highlighted. This can help in taking action to these costs may be reduced. The overall margin or profit of the channel member is the sum of the individual DPPs and this, in a way, helps to determine channel profitability.

5.3.2 Outcome of Channel Performance

The core function of a distribution channel intermediary is to provide service to the end-user. As the nature of their function, service, is not easily quantifiable hence performance measures of channel intermediaries need to be different and in line with the characteristics of service—inseparability, intangibility, and heterogeneity. Service quality evaluation of channel intermediaries is very important and should not be overlooked. This is primarily because of the customer-facing position of the channel intermediaries. One model highlighting the dimensions involved in service quality ascertainment is depicted in Figure 5.1.

1. Access 2. Competence 3. Communication 4. Courtesy 5. Credibility 6. Reliability 7. Responsiveness 8. Security 9. Tangibles 10. Understanding the customer

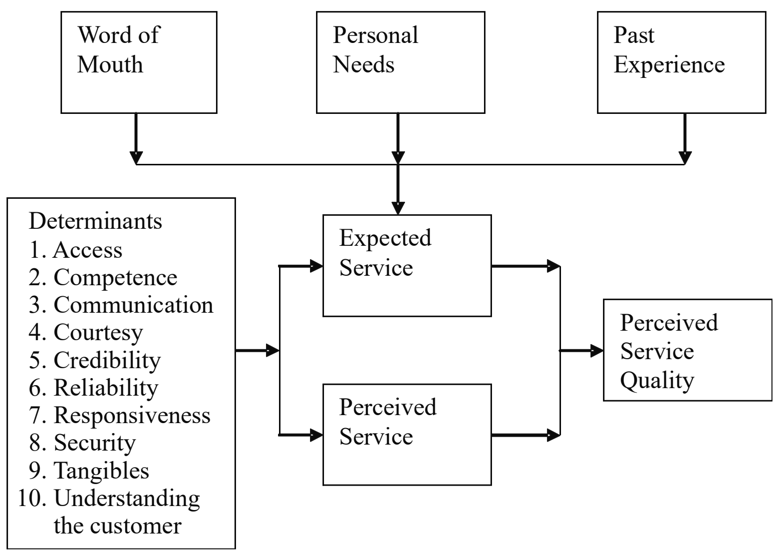


Fig. 5.1 *Model Highlighting the Dimensions Involved in Service Quality Ascertainment*

Source: A Parasuraman, Valarie Zeithamal and Barry Leonard 'Conceptual Model of Service Quality and its Implications for Future Research', Journal of Marketing, Fall 1985.

Check Your Progress

3. What is the principal task of a channel intermediary?
4. Define return on net worth.

5.4 INTERNATIONAL MARKETING CHANNELS

NOTES

An international marketing channel acts as a middleman in the process between the manufacturer and final international consumer who may or may not

- physically handle and distribute the goods
- assume title to goods
- negotiate buying and selling

The basic marketing channel for consumer goods and services is represented in Figure 5.2.

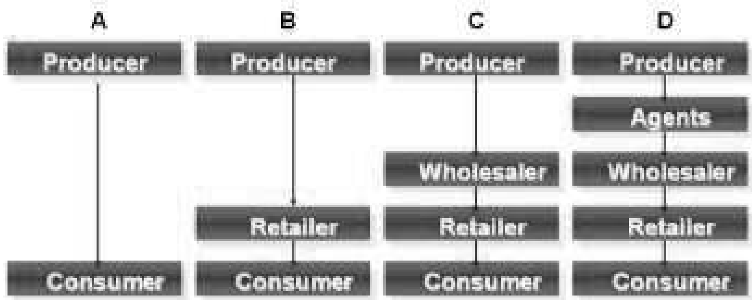


Fig. 5.2 *Marketing Channels for Consumer Goods and Services*

International Distribution Channel Policy

The channel structure strategy is about creating a network of intermediaries to perform the required tasks during the flow of goods from manufacturers to customers. Distribution may either be direct (from the manufacturer to retailer, from manufacturer to customer), or indirect (involving the use of one or more intermediaries such as wholesalers or agents to reach the customer).

Channel Structure Strategy

The channel structure strategy is aimed at reaching an optimal number of consumers in a given time at the lowest possible cost while maintaining a desirable degree of control. While implementing this distribution strategy, a company should make the comparison of direct vs. indirect distribution on the basis of the following parameters:

- Cost
- Product characteristics
- Degree of control
- Other factors

The cost factor includes distribution costs, opportunity costs incurred in the process of distribution in case of non-availability of the product, inventory holding, and shipping costs. The product attributes may be measured in terms of replacement rate, gross margin, service requirements, and the time involved in the search thereof. The degree of control is generally greater when the direct distribution is followed. Other factors include adaptability, technological changes, and social/cultural values.

NOTES

Efficient implementation of channel structure strategy will effectively result in performing direct distribution. However, this may result in high marketing costs and needs a large degree of control. Foreign firms need to consider the following issues during channel selection for effective distribution:

- market access
- multiple markets, seasonality, safety, channel length
- value-added competencies
- resources, logistics, and control, competitive skills
- financial consideration
- building distribution network, revenue-cost implications, operating capital requirements
- flexibility and control conditions
- channel network and participation, procedural control
- channel strategy illustration
- sales forecasting, selling approaches, cost factors, promotion and creativity, control

Customers receive comprehensive information about the product, company, and distribution channel in this strategy and acquire a strong image of the product and brand. This strategy also helps in building the indirect distribution at lower marketing costs, less control, and limited channel management responsibilities. The channel strategy decisions include deciding to manage or coordinate operations in the channel of distribution, becoming a member of a vertically coordinated channel, or of a conventional channel system. The following factors need to be assessed in the choice of the channel strategy:

- Market access
- Value-added competencies
- Financial considerations
- Flexibility and control considerations
- Distribution Scope Strategy

A distribution scope strategy is advantageous for establishing the distribution of goods and services effectively. The company may choose to implement the exclusive distribution strategy wherein one retailer is granted sole rights in serving a given area or an intensive distribution approach, in which a product is made available at all possible retail outlets. The company can also prefer to have the selective distribution approach to serve many customers but not through all the retail outlets in a given area that distribute the product. This strategy should be followed with the objective to serve chosen markets at a minimal cost while maintaining the desired product image. The core issues associated with international distribution channels are:

- Market considerations
- Selling capabilities

NOTES

- Product know-how
- Credit-worthiness
- Business image or personality
- Geographical coverage
- Strategy building ability
- Inventory handling
- Customer service
- Successful track record

Multiple Scope Strategy

Multiple channel strategy employs two or more different channels for the distribution of goods and services. Multiple-channel distribution has two basic categories—complementary and competitive. In a complementary approach, each channel handles a different non-competing product or market segment, and two different and competing channels sell the same product in the competitive type of the multiple channel distribution strategy. This strategy may be followed to achieve optimal access to each market segment in order to increase business.

Complementary channels are used to reach market segments otherwise left unserved, while the competitive channels are used with the hope of increasing sales. The requirements for implementing this distribution strategy are market segmentation and cost-benefit analysis. The complementary channels may be promoted by assessing geographic considerations, the volume of business, the need to distribute noncompeting items, and the saturation of traditional distribution channels in the given operational area of the company. However, the use of competitive channels can be a response to environmental changes. Figure 5.3 exhibits the channel management strategy that can be used for identifying the multiple distribution channels and developing a balanced strategy for effective implementation of distribution.

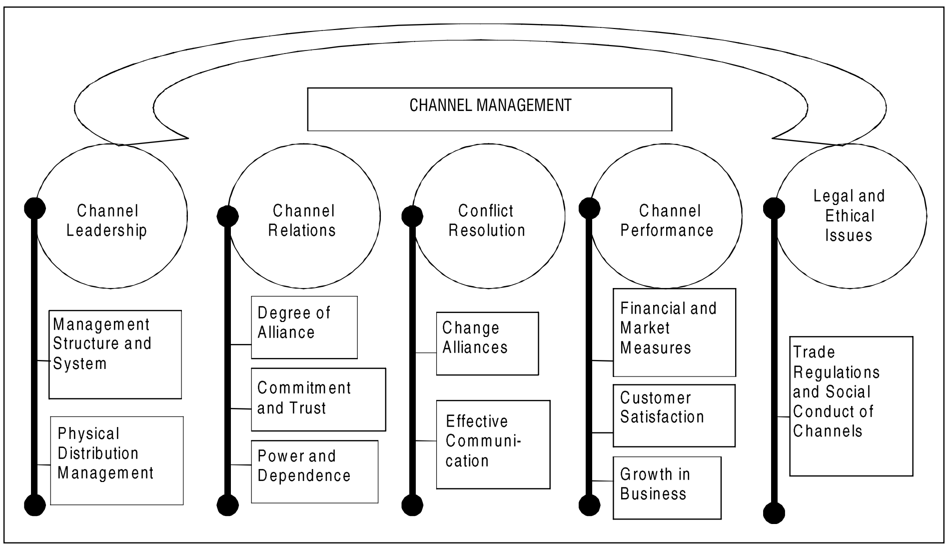


***Fig. 5.3** Channel Management*

NOTES

Advantages of distribution strategy

- Different services, prices, and support provided to different segments
- Broader market base
- Increased sales
- Possible dealer resentment
- Control problems
- Possible over-extension

However, over-extension can result in a decrease in quality/service and may have negative effects on long-run profitability. It is necessary to properly configure the channel for optimum goal realisation. The major requirements for configuring the channel appropriately are:

Distribution intensity: Number of client accounts, periodicity, and extent of reordering, services, and satisfaction.

End-user configuration: Market segments, product information, company profile, guiding skills for decision-making.

Product attributes: Product line, lifecycle, application, and value-added qualities.

Manufacturer's capabilities and resources: Brand strength, bargains, terms, and conditions.

Service functions: Services offered, inventory, and retail management.

Skills of intermediaries: Managing trade-offs, business correspondence, communication skills, developing effective sales plans.

Channel Modification Strategy

In case the configured channels fail to respond to the distribution needs of the market, they can be modified. The channel modification strategy introduces a change in the existing distribution arrangement on the basis of evaluation and critical review. This is done to maintain an optimal distribution system, given a changing environment. Evaluation of internal/external environmental shifts is required to implement changes in consumer markets and buying habits in the retail life cycle, the manufacturer's financial strength, and the product life cycle. One of the requirements of the channel modification strategy is continuous evaluation of existing channels, cost-benefit analysis, consideration of the effect of the modified channels on other aspects of the marketing mix, and the ability of management to adapt to the modified plan. This strategy may nudge the company towards adopting an optimal distribution system for dealers and customers by implementing the suggested changes.

An important step in selecting the distribution strategy is deciding how many levels of organizations need to be included in the vertical channel and how many intermediaries should be selected at each level. The measurement of distribution intensity in the selected markets helps in deciding how many channel levels to use and the types of intermediaries to select. An industrial products manufacturer may

NOTES

choose either distributors or sales agents, which are independent organizations that receive commissions on sales to contact industrial buyers. It is important to know where the targeted end-users might be expected to purchase the products of interest. The selected intermediaries should provide convenient and easily accessible outlets to the market segments targeted by the producer. Analysis of buyer characteristics and preferences provides important information for selecting firms patronized by end-users.

This in turn guides decisions concerning additional channel levels. The complexity of the product, special application requirements, and servicing needs are useful in guiding the choice of intermediaries. Looking at how the competing products are distributed may suggest possible types of intermediaries. The breadth and depth of the products to be distributed are also important considerations because intermediaries may want full lines of products. Large producers with extensive capabilities and resources have a lot of flexibility in choosing intermediaries. These producers also have a great deal of bargaining power with the middlemen, and they may be willing or capable to perform certain distribution functions. Such options are limited for small producers due to constraints of capability and resources. The functions that are performed in moving products from producer to end-user include various channel activities such as storage, servicing, and transportation. Studying these functions is useful in choosing the types of intermediaries that are appropriate for a particular product or service. Evaluation of the experience, capabilities, and motivation of the intermediaries and channel membership is also important in configuring the channels. The companies in particular or within the same industry often vary in skills and experience. The more complex the channel network, the more challenging it is to complete various distribution functions. The selected channel configuration typically takes into account several important trade-offs. However, the agents make it necessary for the manufacturer to perform several functions, such as inventory stocking, invoicing, and service.

Channel Control Strategy

The administrative tasks performed by a member of the channel structure in order to establish control of the channel and provide a centrally organized effort to achieve common goals may be defined as the channel control strategy. The core objectives of this strategy are to increase control, correct inefficiencies, realise cost-effectiveness through experience curves, and gain efficiencies of scale. Commitment and resources to fulfill leadership obligations are vital in implementing this strategy for distribution. Typically, the channel controller is a large firm with market leadership/ influence. However, it is not always observed. The implementation of channel audit is also one of the necessary tools for exercising channel control. The core elements of channel audit include distribution and logistics, delivery cost, channel profit, selling capabilities, competitive strategies, etc. The successful implementation of this strategy would result in increased control, professional management, maximising market impact, and elimination of internal and external inefficiencies. The channel control strategy also helps in central programming and achieving the operating economies for increased profitability.

NOTES

Conflict Management Strategy

The conflict management strategy helps in resolving conflict among channel members. This strategy may be followed to devise a solution acceptable to the conflicting members so that they cooperate to make it work. The choice of a strategy for solving the conflict needs reasonable bargaining by the affected parties and a give-and-take attitude. The bottom line must be favourable enough to both parties to induce them to accept the terms of the bargain. This strategy would, however, provide scope for frequent formal interactions with the other party to develop an appreciation of each other's perspectives and willingness to interact in order to solve problems. Sometimes, it is important to bring a neutral third party to resolve the issue by the means of conciliation, mediation, or arbitration (compulsory or voluntary). The effective implementation of this strategy of distribution would provide a clean platform for business by eliminating snags in the channel and revealing results that are mutually beneficial to the parties involved. However, there is also a need for management of time and effort and an increase in costs while implementing this strategy. The strategy for developing an effective distribution system is to focus on the Collaborative Planning, Forecasting, and Replenishment (CPFR) approach. This strategy may be developed in association with leading distribution agencies and suppliers in the region. The company developing the CPFR with another distribution company should agree on the scope of collaboration and develop a joint business plan. It is preferable to work out a single forecast on the product and consumer demand in the operational market area. In this process, the company may identify and resolve the exceptions related to the consumer forecast and develop a single order forecast. The company may finally generate orders based on constrained order forecast.

Types of Distribution Channels

There are two forms of international distribution—direct and indirect—practised by multinational firms. Even though the direct distribution channel may appear to be more effective; in practice, it is better only if the customers are geographically homogeneous, have similar buying habits, and are limited in number. The indirect channel is used by the companies preferably in the regions where customer segments and their buying habits are heterogeneous. A foreign company may go through either one or multiple agents or merchant intermediaries in a host country. The major difference between these intermediaries may be described in terms of the legal ownership of goods. An agent, without taking title to the goods, distributes them on behalf of the principal, the manufacturer. Merchant intermediaries do business in their own names and hold title to the goods they deal in.

Indirect Distribution Channels

The following categories of indirect distributors are found in the overseas market.

- Export management company
- Manufacturer's export agent
- Foreign freight forwarders

- Commission agents
- Country-controlled buying agents

Besides these categories of intermediaries, the export merchants, cooperating exporters, and export vendors constitute other forms of merchant middlemen involved in the operation of distribution of goods and services. These types of intermediaries do not take the title, but they do take possession of the goods. However, they have different duties with respect to continuation of a relationship with the principal (long-term vs. temporary); degree of control maintained by the principal (complete vs. slight vs. none); pricing authority accorded to the agent (full vs. partial vs. advisory), affiliation with buyer or seller; the number of principals served at a time (few vs. many); involvement or non-involvement with shipping or handling of competitive lines; provision of promotional support (continuous vs. one-time vs. none); extension of credit to the principal (regularly vs. occasionally vs. rarely vs. never); and provision of market information (good vs. fair vs. poor).

NOTES

An **export management company** (EMC) may be defined as an independent export organization that serves different companies in their export endeavours. The relationship of the EMC with the exporter is of a client and not of an employer. The EMC operates under the client's name for all international communications. However, the scale of the operations of EMCs would vary in different countries. An EMC may appear just as a person or an organization and manage all export activities of the client overseas. The large export management firms often maintain international offices in strategic locations. The export management companies generate their income either from commissions or from discounts on goods that they buy for resale overseas as these organizations also undertake exporting more effectively and generally at a lower cost than other channels.

The **Manufacturer's Export Agent** (MEA) is another type of indirect distributor, who provides services similar to those of EMC, but the MEA covers limited markets and the contractual relationship is short-term. An exporter may offer a contract for performing a particular transaction and the MEA would act using their own names while following the procedural requirements and receive a commission for their services. A Webb-Pomerene Association may be described as one of the organizations undertaking international distribution services indirectly in the US. This association is formed among competing manufacturers in the US especially and exclusively for the purpose of exports according to an Act of 1918 (USA). The members of the Webb-Pomerene Association can engage in different international marketing activities to their mutual advantage. These associations can determine prices, combine shipments, jointly undertake marketing research, or share information with each other and allocate orders among different members of the association within the operational area as stipulated by the US law.

The foreign freight forwarder specialises in handling overseas shipping arrangements. Their services can be utilised for handling goods from the port of exporters' location to the foreign port of entry. A foreign freight forwarder receives

NOTES

a discount or fees from the shipping company. However, freight forwarders often undertake extra services such as packing and covering an additional cost.

The commission agents also anchor as the distribution channel in the overseas markets. Foreign customers interested in buying overseas products are represented by commission agents. They serve as so-called finders of desired goods at the lowest price for their principals. They receive their commission from their overseas clients.

The country-controlled buying agent may be defined as a procurement operator of a foreign government, seeking to buy designated goods for his or her country. Many developing countries have entrusted these agents with the task of procuring different goods for them.

There is another channel for the distribution of products and services overseas, i.e., the export merchants. They buy directly from manufacturers according to their specifications. These merchants generally have contacts with overseas agents through whom the goods are sold either to the wholesalers or retailers. The export merchants calculate all possible risks associated with the products they purchase from the manufacturers and sell them in their own names. Their compensation consists of a mark-up percentage based on market conditions. In general, export merchants may be considered akin to domestic wholesalers, whereas export vendors are organizations that specialise in buying inferior quality and overproduced goods in a country for distribution in overseas markets. These companies procure sub-standard goods outright and ship the goods to one or more countries for sale through their contacts.

Direct Distribution Channels

An overseas manufacturing company does international marketing largely by proxy, wherein products are distributed through another firm that carries them overseas. The overseas manufacturing companies understand international marketing know-how and achieve the sales targets through indirect approaches. The firm can commit itself to its performance in the host country further by direct exporting in which the manufacturer firm undertakes the export task rather than delegating it to others. The manufacturing company then takes up the tasks of market contact, market research, physical distribution, export documentation, pricing, promotion, and other strategic functions. It has been observed that direct exporting activity generally generates more sales than indirect exporting.

The advantages of direct distribution are reflected not only in augmenting the sales but also in exercising increased control, better market information, and the development of expertise in international marketing. Direct exporting may have higher costs as they are borne by the manufacturing or exporting firm, whereas they are shared in the process of indirect exports. A firm may choose the direct distribution for its products through agents, which include sales representatives, purchasing agents, and export brokers. Sales representatives may be described as the persons in charge of distributing the products and services of a manufacturing company, similar to those in the US. A manufacturer supplies the sales representatives with literature and samples to conduct sales in a pre-designated

NOTES

territory. These representatives usually work on a commission basis, undertake no risk or responsibility, and operate in reference to a stipulated contract for a fixed tenure. They may also choose to operate on either an exclusive or non-exclusive basis and serve as a good source of market information. The purchasing agent is also referred to as a buyer for export or an export commission house. Such agents operate in many developed countries including markets in North America, seeking goods of interest for their foreign principals. Their product quality and price demand are determined according to the requirements of their principal business houses.

Export brokers are another form of direct agents who play a significant role in distributing products in overseas markets. An export broker brings the home country seller and foreign buyer together on the negotiating platform. The export broker receives a commission from the seller for their services. In the transaction, the broker takes neither title nor possession of goods and assumes no financial responsibility relative to the export transaction. Export brokers who are popularly engaged in the international transaction of agricultural products like grains, cotton, etc., are rarely involved in the export of manufactured goods.

Another type of distribution process through direct export agent firms involves **foreign merchant intermediaries**, who generally take title to the goods and arrange to sell them under their own name. Foreign merchant intermediaries offer services similar to a domestic wholesaler. Foreign merchant intermediaries include export distributors, foreign retailers, export jobbers, and trading companies.

The **export distributor** procures products from a manufacturer in the home country at the greatest possible discount and sells them for a profit determined by them. Such intermediaries get active in distributing products that require periodic servicing as they are committed to providing adequate service to the customers. This could mean carrying a sufficient quantity of spares and parts, maintaining facilities, and providing technicians to perform service operations. Export distributors procure the products in their own names and usually maintain an ongoing relationship with the exporter in the home country. They acquire exclusive sales rights in a host country or region and receive easy terms of payback from exporters.

However, sometimes the manufacturers of a home country prefer to deal directly with **foreign retailers**, particularly in the case of consumer goods like cookies, and other confectionery products. In some countries, reputed and large retailers dealing in general merchandise or a specific range of products like textiles, photo goods, electronics, etc., perform dual roles in terms of selling the products directly to consumers through their own outlets and also distributing imported goods to smaller retailers. Thus, it is observed that exports handled by the retailer generally receive wide coverage.

On the contrary, the **export jobbers** determine customer needs overseas and provide them with these by making purchases in the home country. Some jobbers reverse the process, catering to the needs of home country customers by supplying imported products. The jobbers mainly deal in staple groceries and freely traded products under an open general license for which brand names have little importance.

NOTES

International Channel Management

A foreign firm needs to carefully examine the pattern of distribution that fits competitively with the market environment of the host country. Intensive distribution is an attempt to reach the mass market, and it requires a broad-based channel structure, whereas selective distribution refers to distributing through a few so-called elite outlets located in the premium market segments. Exclusive distribution refers to letting a designated channel undertake distribution on a monopoly basis such as the task of distributing a company's exclusive products. Host country trade practices concerning the distribution of a particular product. These are some of the other influential variables to be examined by the foreign firm during the process of developing channel management strategies. The characteristics of the product and the target market to be served often suggest a particular distribution intensity. Different degrees of distribution intensity can be implemented. Selective distribution falls between the two extremes. Rolex watches and Coach leather goods are distributed on a selective basis. For example, an expensive product, such as a Toyota Lexus luxury automobile, does not require intensive distribution to make contact with potential buyers. Moreover, several dealers in a trading area could not generate enough sales and profits due to the luxury car's limited sales potential. Similarly, Escada's management, in choosing to serve the middle to the upper price-quality segment of the apparel market, essentially preempted consideration of an intensive distribution strategy. In contrast, Kodak film needs to be widely available in the marketplace. The distribution intensity should correspond to the marketing strategy management selects. Strategic requirements, management preferences, and other constraints help determine the distribution intensity that offers the best strategic fit and performance potential. The requirements of intermediaries are considered, along with management's desire to coordinate and motivate them. Choosing the right distribution intensity depends on management's targeting and positioning strategies and product and market characteristics.

Check Your Progress

5. What is an export management company?
6. What is the aim of a channel structure strategy?

5.5 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Channel members consists of manufacturers, intermediaries, and end-users.
2. The elements of channel information system are hardware and software, networks and database for CIS.
3. The principal task of a channel intermediary is reaching the goods manufactured by the producer to the end-user.
4. Return on net worth is defined as the ratio of net profit earned on the net worth employed in the business.

NOTES

5. An export management company (EMC) may be defined as an independent export organization that serves different companies in their export endeavours.
6. The channel structure strategy is aimed at reaching an optimal number of consumers in a given time at the lowest possible cost while maintaining a desirable degree of control.

5.6 SUMMARY

- Channel members consist of manufacturers, intermediaries, and end-users. In this context, the recruitment of channel members normally refers to the recruitment of the channel intermediaries by the manufacturers.
- A well-laid down process for selection and recruitment of channel members is for any organization.
- Screening is the first step in the recruitment of channel members. The criteria for screening can vary as per the needs of the organization, industry characteristics, and prevailing norms.
- Each product goes through different stages in a product life cycle. The skills and qualifications required in a channel member depend on the stage in which a product is.
- After the selection of a channel member, it is important to motivate them once they are positioned in the market.
- A well-tailored distributor margin structure with proper incentives rewarding extra efforts is another proven methodology for enhancing distributor motivation.
- The overall management of channel relationships is an important prerequisite in determining the success of an organization.
- A successful channel partnership is critical for the continuous growth of the vendors. A strong relationship with channel partners can open the doors to new business opportunities, increased global presence, and an increase in revenue and profits.
- The impact of information systems has been enormous in the operations of the channel. Ordering of goods, their delivery, stock keeping, inventory have all been impacted and efficiencies.
- The advent of information systems has primarily enabled the collection and storage of a huge amount of data.
- The principal task of the channel intermediary is reaching the goods manufactured by the producer to the end-user.
- When micro-level judgement is required on an individual channel member, then the financial performance analysis is appropriate concerning the tasks undertaken by the intermediary.

NOTES

- The basic measure to determine the viability of a channel is based on its financial performance. This determines the long-term life of the channel intermediary and the channel itself and, therefore, is a core requirement for the existence of any channel or its intermediaries.
- The SPM considers the return on net worth (RONW) as the most relevant and informative parameter to understand a company's financial target achievement as well as channel profitability.
- The core function of a distribution channel intermediary is to provide service to the end-user.
- Multiple channel strategy employs two or more different channels for the distribution of goods and services. Multiple-channel distribution has two basic categories— complementary and competitive.
- The administrative tasks performed by a member of the channel structure in order to establish control of the channel and provide a centrally organized effort to achieve common goals may be defined as the channel control strategy.
- There are two forms of international distribution—direct and indirect— practised by multinational firms.
- An overseas manufacturing company does international marketing largely by proxy, wherein products are distributed through another firm that carries them overseas.
- A foreign firm needs to carefully examine the pattern of distribution that fits competitively with the market environment of the host country.

5.7 KEY TERMS

- **Intermediary**: An intermediary is a third party that offers intermediation services between two parties, which involves conveying messages between principals in a dispute, preventing direct contact and potential escalation of the issue.
- **Screening:** Screening is a process used to determine a job applicant's qualifications and potential job fit for a position to which they have applied.
- **Extranets**: An extranet is a private network that enterprises use to provide trusted third parties — such as suppliers, vendors, partners, customers and other businesses — secure, controlled access to business information or operations.
- **Channel strategy**: A channel strategy refers to a vendor's plan to move a product or service through a chain of commerce to the end customer.
- **Inventory flow:** Inventory flow is the system of unique control methods that businesses use to regulate product activity within their operations.

5.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is the selection criteria of channel members?
2. Why is it important to motivate channel members?
3. What are extranets? How are they used by channel members?
4. How are consumer information systems applied to business to business applications?
5. Write a short note on multiple scope strategy.

Long-Answer Questions

1. Discuss the factors affecting the management of channel relationship.
2. What are the obstacles that arise in maintaining a successful channel partnership?
3. How is the performance of marketing channels assessed? What are the various models of channel profitability?
4. Discuss the various types of distribution channels.

5.9 FURTHER READING

Tapan Panda, Sunil Sahadev. 2019. *Sales and Distribution Management*. New Delhi: Oxford University Press.

Pingali Venugopal. 2008. *Sales and Distribution Management: An Indian Perspective.* New Delhi: SAGE Publications.

S.L. Gupta. 2009. *Sales and Distribution Management*. New Delhi: Excel Books.

Ramendra Singh. 2016. *Sales and Distribution Management: A Practice-Based Approach*. Noida: Vikas Publishing House.

Bholanath Dutta. 2011. *Sales and Distribution Management.* New Delhi: I.K. International Publishing House Pvt. Limited

Rahul Gupta Choudhury. 2019. *Sales and Distribution Management for Organizational Growth.* United States: IGI Global.

A. Nag. 2013. *Sales and Distribution Management*. New Delhi: McGraw Hill Education.

NOTES

NOTES

NOTES