SALES AND DISTRIBUTION MANAGEMENT

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MODULE----1

EVOLUTION OF SALES MANAGEMENT

Before the industrial revolution the marketing task was relatively simple because the economic scene was dominated by small scale enterprises. The only problem was to produce goods for consumers which were sold out without any difficulty. Selling the goods was no problem. In fact, all phases of the business operations, including manufacturing and selling, were generally supervised by one individual and more attention was paid to manufacturing problems rather than the marketing problems.

The importance of marketing problems was realized only after the industrial revolution which started in England in 1760 and immediately thereafter in United States. The American Revolution necessitated the need for finding out untapped markets because the nearby markets were unable to absorb the increased quantities of manufactured goods. This gave a lot of importance to marketing activities. With the increase in production more land, labor and capital was required which gave rise to corporate form of organizations. There were bigger organizations which required more delegation of powers in manufacturing and administration. Thus, the sales department was given importance and it became a separate functional department.

As the business activity became more complex and dynamic, the term "sales management" changed due to the changes in business operations. Earlier the sales management was solely concerned with the direction of the sales force personnel. However, at present the term "sales management" has a broader significance and includes all such marketing activities as advertising, sales promotion, marketing research, physical distribution, pricing and product merchandising.

Sales refer to the exchange of goods/ commodities against money or service. It is the only revenue generating function in an organization. It has formed an important part in business throughout history. Even prior to the introduction of money, people used to exchange goods in order to fulfill the needs, which is known as the barter system.

Example of Barter System

A has 100 kg of rice and B has 50 kg of wheat. Here, a needs wheat and B needs rice. They agree to exchange 50 kg of rice and 25 kg of wheat upon mutual understanding.

Conditions of Sales

- there are two parties involved in the transaction, the seller and the buyer.

- the seller is the provider of goods or services and the buyer is the purchaser in exchange of money.

The seller of goods has to transfer the title of ownership of the item to the buyer upon an agreed price. A person who sells goods or services on behalf of the seller is known as the salesman/woman.

Distribution is the process of making a product or service available for use or consumption to the end consumer or business.

Distribution could be of the following two types:

Direct Distribution

It can be defined as expanding or moving from one place to another without changing direction or stopping. For example, Bata has no distribution channel; it sells its products directly to the end consumers.

Indirect Distribution

It can be defined as means that are not directly caused by or resulting from something. For example, LG sells its product from the factory to the dealers, and it reaches the consumers through dealers.

Interdependence of Sales and Distribution

Sales and distribution are interdependent on each other. Although sales can be realized by direct marketing or through the channel members, both go hand in hand. The following points must be understood:

1. Both sales management and distribution are the responsibility of the sales manager. Most organization's use their own sales force to reach the customers. The practice is to use the sales force to reach the retailers through wholesalers. Brooke Bond is one company which reaches up to retail level. Activities of sales organizations are coordinated with channel operations to realize sales goals effectively.

2. The type of training to be given will depend upon the responsibility given to the sales force and to channel members.

3. The choice before an organization to have direct, indirect or joint distribution depends upon the degree of control, flexibility and cost and financial requirements. For example, in indirect distribution, there is less of control but it is more economical. In this sort of distribution lesser funds are tied up and

there is low fixed and variable cost of managing the channel. On the other hand in personal selling, there is better control but it is more expensive.

4. To implement the overall marketing strategy, the manufacturers need the cooperation of distribution outlets, store displays, local advertising and purchase promotions.

Sales management has the responsibility of structuring, maintaining and coordinating an organizational relationship within their own departments and with interacting organizational entities so that sales task can be performed and coordinated with the overall marketing goals.

Sales Management as defined by

American Marketing Association — is Planning, direction and control of Personal selling including recruiting, selecting, equipping assigning, routing, supervising, paying and motivating as these tasks apply to personal Sales force.

Sales Managers are responsible for organizing the sales effort, both within and outside their Companies. Within the Company the Sales Manager builds formal and informal organizational structures that ensure effective communication not only inside the sales department but in its relations with other organizational units.

Outside the Company, Sales Manager serves as a key contact with customers and other external publics and is responsible for building and maintaining an effective distribution network. Sales Managers have still other responsibilities. They are responsible for participating in preparation of information critical to the making of key marketing decisions, such as those on budgeting quotas and territories. Sales Management helps to respond proactively and effectively to customers, the key to winning business and processing orders during the pre-sales, order management and post shipment phase.

Importance of Sales Management

Sales management is very crucial for any organization to achieve its targets. In order to increase customer demand for a particular product, we need management of sales. The following points need to be considered for sales management in an organization:

- The first and foremost importance of sales management is that it facilitates the sale of a product at a price, which realizes profits and helps in generating revenue to the company.

- It helps to achieve organizational goals and objectives by focusing on the aim and planning a strategy regarding achievement of the goal within a timeframe.

- Sales team monitors the customer preference, government policy, competitor situation, etc., to make the required changes accordingly and manage sales.

- by monitoring the customer preference, the salesperson develops a positive relationship with the customer, which helps to retain the customer for a long period of time.

both the buyers and sellers have the same type of relationship, which is based on exchange of goods, services and money. This helps in attaining customer satisfaction.

Sales Management may differ from one organization to the other, but overall, we can conclude that sales management is very important for an organization for achieving its short- and long-term goals.

Objective of Sales Management

Every organization has an objective before initializing functions. We need to understand the goal of managing sales. Here we are discussing Sales Management in terms of its objectives.

Sales Volume

It is the capacity or the number of items sold or services sold in the normal operations of a company in a specified period. The foremost objective of sales management is to increase sales volume to generate revenue.

Contribution to Profit

The sales of the organization should contribute to profit, as it is the only revenue generating department. It can be calculated as the percentage or ratio of gain in total turnover.

Continuing Growth

One of the main objectives of Sales Management is to retain consumers to continue growth of the organization. There should be regular expansion of sales and demand for an item in the market with new advanced formulation.

Functions of sales management

1. **Planning**—Planning can be defined as the process of decision-making in a systematic manner regarding the goals and the objectives of an organization. In short, it is a process an individual or group will undertake in the future and the resources required for attaining them**.** Sales planning include strategy, setting profit-based sales targets, quotas, sales forecasting, demand management and the screening, writing and execution of a sales plan. A sales plan is a strategic document that outlines the business targets, resources and sales activities. It basically follows the lead of the marketing plan, the strategic plan and the business plan with more precise detailing on how the goals and objectives can be achieved through the actual sale of products and services.
2. **Staffing--** Staffing is the process of capturing, deploying, and retaining a workforce of optimal quantity and quality to create a positive impact on the firm's effectiveness. Staffing consists of the following three components:
   Acquisition It involves human resource planning to select what the organization requires in terms of the numbers of employees needed and their attributes such as knowledge, skills and abilities, in order to effectively meet job requirements.

- **Deployment** It includes decisions regarding how those recruited will be assigned to specific roles according to the business demands. It also concerns the frequent appointment to more advanced jobs through internal recruitment, promotion or reorganization.
- **Retention** It is concerned with the management of the outflow of employees from an organization. It combines both managing voluntary practices like resignation and controlling involuntary measures whereby employees are handled out of the organization through redundancy programs or other types of dismissal.

Staffing is basically used in the sphere of employment. It is applicable to more than one aspect of the working surrounding. Staffing is also used in a specific sense to refer to the management of employee schedules.

3. **Training**-- The training program in sales management provides frontline sales managers with proven skills, knowledge and tools they need to drive margin line performance. This in-depth program involves self-assessments and covers the following four crucial sales management abilities:
   - Managing sales performance
   - Sales coaching
   - Recruiting
   - selecting sales "STARs"
   - Sales leadership

   After the sales personnel are recruited, the company ensures the training, i.e., off the job and on job training related to the skills, knowledge and job culture, which helps to meet the selling performance and goals.
4. **Leading**--- Leading is done by the person who possesses the leadership quality, the ability to motivate other people and get the work done. Leading is an effective sales management force that invites the sales management executive to use practical tools and cutting-edge concepts to create an effective sales management model.

   The managers need to explore various perspectives on what does and does not work,
   And why. A leader also monitors the work and explains the pro and cons as well as the
   Ways to complete a task effectively and efficiently.
5. **Controlling--** The task assigned to the sales personnel is monitored to find out whether the organization is achieving its target or the goals as per the planning. Controlling is a
   Process, which defines the scope of and leads the actual performance against the
   Planned goals of the organization.

   Controlling dwells in verifying whether everything happens in conformity with the plans adopted, instructions issued and principles authorized. Controlling assures that there is effective and efficient utilization of organizational resources so as to achieve the planned goals and objectives.

   Controlling judges the deviation of actual performance from the standard performance, notices the causes of such deviations and helps in taking corrective actions.

Setting-up sales organization

Sales organization develops in response to the market and company requirements. The setting up of an organization or the sales organization development takes place in a series of steps.

These steps are as follows:

1. Defining the sales organization's objectives.
2. Defining the various activities that need to be performed to achieve these objectives and estimating the cost and volume of each of these.
3. Grouping of the activities and positions.
4. Assignment of personnel to positions.
5. Control and coordination by formal and informal means.

Step I

Defining the sales objective includes the setting of qualitative objectives. This can be done by asking what the company wants to achieve in terms of:

1. Growth/survival
2. Market share
3. Market leadership
4. Customer relations.

The objectives of the sales organization need to be defined in the light of corporate objectives both in the long-term (qualitative) and short-term (quantitative). Sales management determines the qualitative and quantitative personal selling objectives. Quantitative personal selling objectives are set with an eye on qualitative flow of sales revenue, helps in setting the quantitative objectives. Survival also requires profit; hence another quantitative objective is earning profits by making miracle sales and also by reducing the costs and the expenses of various departments. Another important qualitative objective is to realize long term growth in sales and profits. This means that sales, profit and growth are the three general objectives. Qualitative personal selling objectives are translated with quantitative objectives, e.g., increasing the market share

by 20%. If the goals are clear and defined then time and effort are better utilized and progress is smoother.

Step II

The analysis of the type and volume of activities needed to be performed will lead to assessment of how many executive and operating positions are required and how these positions would relate to each other. This also helps in assessing the duties and responsibilities of the concerned persons who are employed on these positions. The activities involved in modern sales organization are similar. Difference among the departments is those of details, of relative emphasis placed upon individual activity and performance. These differences are more apparent than real.

Step III

This consists of the following tasks;

1. Identifying positions to which these activities may be assigned.
2. Classify and group closely related activities and assign them to same positions.

3. Decide on hierarchy of activities by defining the level at which each activity will be Performed. This will depend upon the importance of the activity, e.g., in an organization Trying to sell a new product through middlemen, dealer relations become a crucial activity and have to be assigned a higher position in the sales organization.

Step IV

Assignment of personnel to positions consists of deciding on two things. First of all, to hire, select or recruit specialists to take up the positions so that the organization gets the best personnel in its armor who will perform the jobs in a resplendent manner and, secondly, modifying the positions so as to take the services of existing personnel after training and developing them so that they fit in the requisite positions. An organization may take either of the two ways. When there is no talent in the organization consummate with the requirements of the jobs then the organization may hire or recruit personnel from outside. This may also be done if the management requires young blood in the organizational lines. Further, if the individual possesses the skills and capabilities then the job may also be modified or changed to fit these individuals. Generally, planners prefer, whenever the situation permits, to have individuals grow into particular jobs rather than to have jobs grow up around individuals.

Assignment of personnel to positions involves the following activities:

1. Defining relation between positions – how many individuals report to a particular superior – and the span of control.
2. Defining the nature of authority in respect of each position (delegation of authority, lines of authority, lines and staff).
3. Assigning personnel to positions.

Step V

Control and coordination in a sales organization can be done both formally and informally. Formally, it can be done by written job description, rules, regulations and procedures. Written job description is an important formal instrument for coordination and control. It gives details about the various attributes of each job like reporting relationships, job objectives, performance measurements and duties and responsibilities. Informally, it can be done by sheer force of personality coupled with ability to attract and hold the loyalty of followers. One of the methods of coordination is the chain of command. We also try to have provision for growth, flexibility and control. Another instrument of control is an organizational chart because many things are specifically stated in it. An organizational chart shows the formal relationships between different positions. It helps in understanding the nature of authority and responsibility of each personnel with respect to each aspect of operation. This helps in avoiding friction which Would exist if it had not been there.

A supplement to organizational chart is an organizational manual which incorporates the company as well as departmental chart. The organizational manual is an extension of the organizational chart. The organizational manual typically contains write-ups of job descriptions and specifications and summaries of major company and departmental objectives and policies.

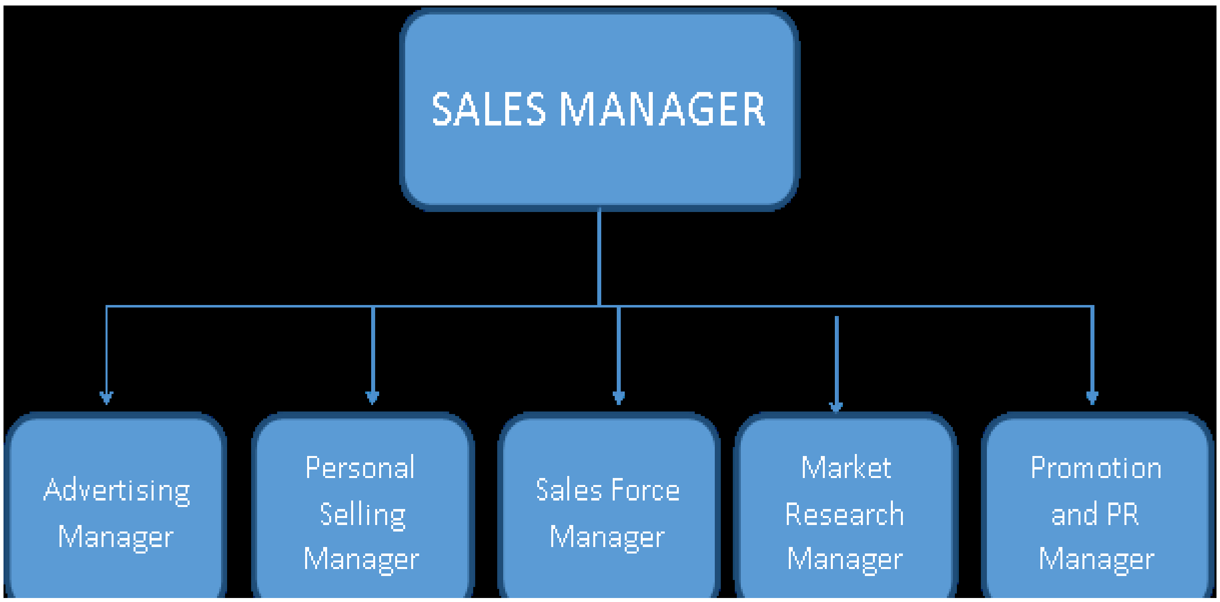
The organizational manual also contains a lot of information which helps the users to learn and understand the nature of their responsibilities, authorities and relations with others.

Types of Sales Organization

An organization is designed in a manner where we can identify the work or activity performed by an individual or group. The roles and responsibilities are defined, which helps in building relationships to enable people to work effectively and efficiently. This helps in achieving the goals of the organization. The following are the four types of sales organizations:

Functional Type

Functional type of organization is divided and classified on the basis of the functions performed. The following illustration shows a functional type organization. This depicts the functional type organization. We will now discuss the advantages and disadvantages of this type.



Advantages of functional type

The following are the advantages of a functional type of organization:

- Specialization: In the figure, we can see the division has been made according to the functions. By this, we can expect each function is specialized in its activity.
- Flexibility: The number of departments can be added or removed as per the requirements
- Decision making: Decisions can be made quickly as the person would be an expert in his department and will be aware of the impact of his decision.
- Co-ordination: The co-ordination between functions can be done easily.

Disadvantages of functional type

Let us now understand the disadvantages associated with functional type of organization:

- Due Attention: Each department is only specialized in their own activity; hence there is no attention focused on the product.
- Delay: There is delay in making decisions because of co-ordination between all the departments.

- Co-ordination: From the figure, we can see that all departments report to the General Manager. Therefore, in peak times, it may become difficult for the General Manager to maintain co-ordination between the departments.
- Conflicts: There is always conflict between departments due to being specialized

Only in one core area and lack of cross training.

In general, functional type of organization is suitable where the organization structure is small having limited products.

Product Type

This type of division is made according to the products. The organization divides the

Departments based on the products. The following illustration shows the layout of the product type.

Advantages of Product Type

- Due Attention: Due to the division according to the product, each product gets required attention.
- Specialization: The salesperson is specialized in specific products; hence he/she has an advantage in handling the department.
- Responsibility: The responsibility can be easily assigned to a salesperson because all the salespersons are specialized in their product/ department and are well acquainted with the product, which helps them to handle customers smoothly.

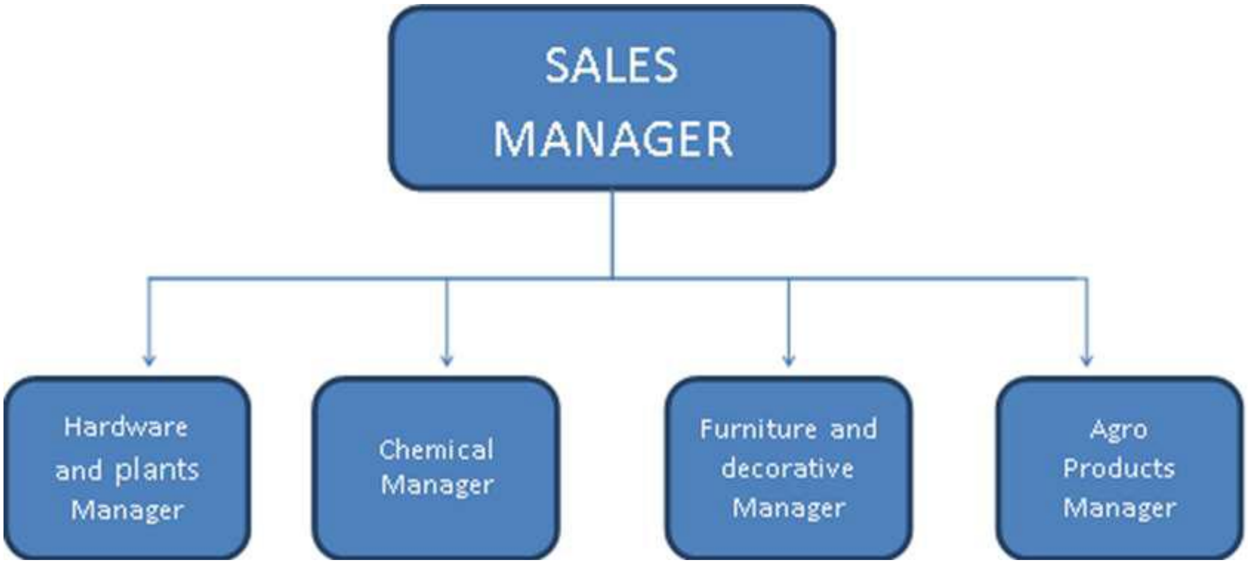
Disadvantages of Product Type

- Co-ordination: There would be problem of co-ordination between two product departments.
- Selling Cost: The selling cost of product may increase due to the division according to the products.
- Operational Cost: Operational cost may also increase due to each product being treated differently.
- Freedom: There is no cap on the freedom enjoyed by employees because the salesperson is specialized only on his/her product/department and will not be able to handle other product/department.

Suitability of Product Type

Product type is suitable in the following cases:

- Where the organization has many products and it can divide the departments according to the products.
- for organizations selling highly priced products.
- when the products of an organization are more technical oriented, the organization can divide the departments according to the products as the salesperson will be efficient and effective to discuss the product with the customer in an effective way.



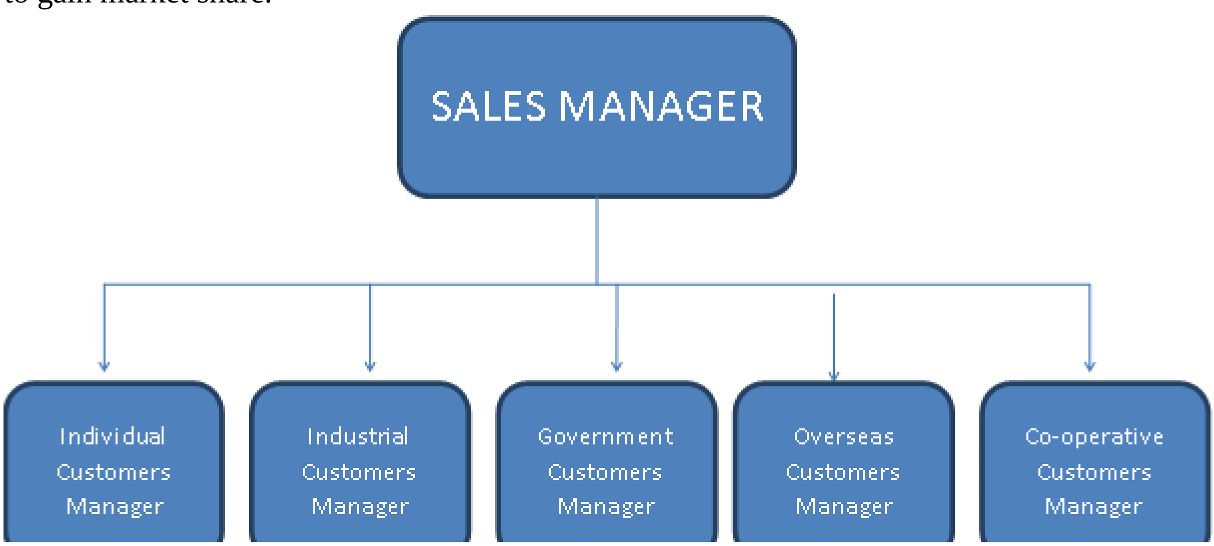
Consumer Specialization Type

According to consumer specialization, the departments are divided on the basis of the costumers to whom the products are offered. Most of the time, market appearance plays an important role in knowing the consumer needs and to divide the departments accordingly.

The following illustration shows the layout of the consumer specialization type.

Advantages of Consumer Specialization Type

- Consumer: Here the division is according to consumers, so each consumergets due attention.
- Consumer satisfaction: Consumer satisfaction is the first priority; as maximum services are provided to the consumer.
- Planning and policies: The sales planning is done in a proper way and policies are designed keeping each category in focus to achieve the goal.
- Brand: The organization is able tofulfill consumer needs and wants and create its own brand to gain market share.



Disadvantages of the Consumer Specialization Type

- Expenses: The expenses for the company to build and plan according to consumer and develop the market are huge.
- Sales activities: It becomes difficult for the sales manager to co-ordinate the sales activities of salesperson.
- Investments: In this case of specialization, the investments are high and sometimes repeated which in turn, are loss to the company.

Suitability of the Consumer Specialization Type

Consumer type is suitable in the following cases:

- When there is a large number of consumers who are looking out for special services.
- The costumer is ready to pay for the services offered. Here, the target is mostly premier customers.

Area Type

In this type of organization, departments are divided according to the attributes of areas. They can also be divided geographically. The following illustration shows the layout of the area type organization.

Advantages of Area Type

- Products: Customers can be served with the latest products and customized products.
- Transport cost: Transport cost can be reduced because the division has been made according to areas.
- Customer service: Company can provide better customer services as the division is made according to area. Thus, the company can understand the customer psychology and perception better.
- Sales performance: The sales performance can be compared according to zones and steps can be taken to improve.

Disadvantages of Area Type

- Costly: It is costly as compared to other types and increases expenses of the company.
- Markets: It becomes difficult for co-ordination for the General Manager for different markets.
- Conflicts: There may be conflicts regarding resource allocation between zones.

Suitability of Area Type

The area type of organization is suitable in the following cases:

- When the area or the territory for market is very large.
- Where the market is different based on zone.
- Where the product is differentiated depending on zone.
- Where the sales volumes are high and generate more revenues.
- They help define a target; this further facilitates motivation and enhanced Performance.
- These help to identify and monitor the performance of salespersons.

Category of sales persons

1. Inside Order Taker –"waits on" customers; for example, the sales clerk behind the neckwear counter in a men's store. These jobs are known as technical support staff, sales assistants, telemarketers, and telesales professionals.
2. Delivery Salesperson – mainly engages in delivering the product; for example, persons delivering milk, bread, or fuel oil.
3. Route or Merchandising Salesperson – operates as an order taker but works in the field – the soap or spice salesperson calling on retailers is typical.
4. Missionary – aims only to build goodwill or to educate the actual or potential user, and is not expected to take an order; for example, the distiller's "missionary" and the pharmaceutical company's "detail" person.
5. Technical Salesperson – emphasizes technical knowledge; for example the engineering salesperson, who is primarily a consultant to "client" companies. Group B (developmental Selling)
6. Creative Salesperson of Tangibles – for example, salespersons selling vacuum cleaners, automobiles, siding, and encyclopedia.
7. Creative Salesperson of Intangibles – for example. Salespersons selling insurance, advertising services, and educational programs...

Recent Trends in Selling.

Relationship selling

Regular contacts over an extended period to establish a sustained seller-buyer relationship. The success of tomorrow's marketers depends on the relationships that they build today Relationships are built upon trust...

Consultative Selling

Meeting customer needs by listing to them, understanding —and caring about — their problems, paying attention to details, and following through after the sale.

Team Selling

Combination of salespeople with specialists from other functional areas to promote a product. Team selling is the use of teams made up of people from different functional areas to service large accounts... Increasingly, sales representatives who lack technical expertise work as a team with a technical expert. In this arrangement, the duties of a sales representative are to make the preliminary contact with customers, introduce the company's product, and close the sale. The technical expert will attend the sales presentation to explain and answer questions and concerns.

Selling Process

The personal selling process consists of creating new customers and maintaining existing customers. Salespeople follow a series of steps in identifying prospects and turning them into customers.

1. Prospecting: is identifying potential qualified customers. It is the first step in personal selling process. A prospect is a person or business that needs the product a salesperson is selling and has the ability to buy it...A sales person constantly looks for new prospects for two reasons. One is to increase sales. The other is to replace the customers who will be lost over time. Prospects may come as referrals from existing customers, from suppliers, dealers, etc. Sometimes they come from analysis of public sources such as directories, newspapers, or public activities of the firm. Once prospects have been identified, they need to be qualified or screened to see if they are good prospects.

2. Pre approach: once the prospect has been identified and qualified the next step in selling process is pre approach. During pre-approach the sales person is gathering information to use in the attempt to make the sale. Salesperson investigates the prospect in greater depth and plans the sales call. Pre approach is planning the sales presentation to meet the customer's wants or to solve the customer's problem. It involves gathering research about the prospect. The salesperson must determine where the specific target market consumer is in the purchasing process.

3. Approach: In the approach, the salesperson meets and greets the buyer and puts the buyer at ease. At this meeting, the salesperson asks some key questions to get some essential information before getting the buyer's attention and launching into the presentation. Sales persons should carefully plan their sales call. Although numerous reasons exists for planning the sales call, four of the most frequently mentioned are

· Helps build a salesperson confidence

· Develop an atmosphere of goodwill and trust with the buyer
· Help create an image of professionalism
· Increase sales because people are prepared.

4. Presentation: the sales opener, or approach, is the first major part of sales presentation if done correctly; it greatly improves the chances of a sales person's chances of getting the sale. Purpose of presentation is to provide knowledge about the features, advantages and benefits of the product. Telling the product "story" to the prospect, showing how the product will solve a problem for the product. The salesperson must build a case for how the product can serve the needs of the buyer. A need-satisfaction approach involves carefully listening to the buyer's needs and then clearly explaining how the product can satisfy those needs. Questioning and listening are more important than talking. Presentations using Microsoft's PowerPoint significantly enhance the professionalism of the presentation. To do an adequate job in planning a presentation, salespeople must understand the concepts of features, potential benefits, and confirmed benefits.

Categories of Presentation

Sales presentations can be classified into five different categories. They are:

Fully Automated

This is based on a highly structured approach and is usually done with the help of films or slide projections. It is mostly used to sell intangible services, like life insurance to rural or semi-urban prospects.

Semi-Automated

In this approach the sales person takes help of brochures or literature and keeps on adding his comments where necessary. It is useful in selling pharmaceutical products.

Memorized Notes

In this type of presentation, the company message is presented by the sales person with a few changes.

Organized

This is the most popular and effective sales presentation. Here, the sales person is given a Complete flexibility of words but has to follow the company prepared outline or checklist. The prospect is taken through the four stages: 'attention', 'interest', 'desire' and 'action' (AIDA) to a purchase decision.

Unstructured

This is the problem solving approach of presentation. Here the prospects and the sales person get together to explore the problems and find solutions. Such presentations are not too well focused and much time is wasted. Therefore, there is a need for experienced sales persons who can quickly clear the doubts and complaints of the customers.

Requirements of a Presentation

The effectiveness of the presentation does not lie in how well it is delivered but in seeing how well it has helped the buyer to relate his needs to the product and his motivation to buy the product. A good presentation should satisfy six basic requirements:

Plan
Good presentations are always planned and do not just happen. The sales person should Incorporate the information about the customer while planning for the presentation.
Pattern
There should be a step by step logical sequence that will guide the customer to accept the Product.
Power
Behind every successful presentation there is enthusiasm, self-confidence and the skill of Persuading people.
Proof
While making any claims regarding the product or service, adequate proof should be supplied to the customer. They can be informed of letters from satisfied customers.
Pictures
Since we are a part of a visually oriented world and are constantly being bombarded by television, print advertising and other visual stimuli, therefore, a visual presentation always makes a greater impact than a verbal one. It has been found that we retain just 10% of verbal Notes communication while 50% of the visual messages are retained. This goes on to show that words can never equal the power of pictures.

5. Handling Objections: theoretically salesperson presentation should show the prospect that the product is required by him and it should be bought. Very few presentations end that successfully and very few prospects are that easily convinced usually prospect will raise objections .Objections raised by the prospect takes a great deal of skill and training. Experienced sales person welcome objections. The salesperson must be able to identify the real reasons for an objection, respond to the objection, and overcome it. Objections provide the salesperson with the opportunity to learn more about the customer's needs and provide information about the product to satisfy those needs. The most difficult prospect is one who does not say anything during the presentation refuses to buy and gives no reason for the decision. The best way to deal with objections is to avoid them by building answers to common questions in to the formal sales presentation.

6. Closing: closing follows once the objections have been handled. It is at this point that the sales person should ask for order. Unfortunately, many sales persons are too reluctant to close: in fact one study revealed that 50% of salespeople failed to directly ask for the order. The major reason the salespeople are so resistant to close seems to be is fear of rejection. If salespeople do not ask for an order they cannot be turned down and thereby they avoid embarrassment or disappointment.

However all professional purchasing agents expect a sales representatives to attempt a close. Closing the sale is asking the prospect for an order. The salesperson must be able to recognize the signals that indicate the prospect is ready to close.

Successful salespeople learn to time their closing remarks on the basis of signals given by the buyer. These cues can take the form of a gesture (Customer nods in agreement, picks up the product and examines it closely) or they can be verbal comments. When prospect makes comments like

"Shipment must be completed in five months?"

"We like the speed control feature?"

"Do you have custom model in stock?"

Sales person should recognize these comments as signs of interest and shift to closing techniques.

7. Follow-up: is essential to building a relationship between the seller and the buyer. The sales person follows-up to ensure that the buyer received the right products in the right condition at the right time. Any problems or concerns on the part of the buyer after the sale are addressed immediately. The salesperson demonstrates continued interest in the account and a desire to satisfy the buyer's needs on an ongoing basis.

It is a must that sales should end in follow up; determine if the order was delivered on time, installation OK etc. Also helps determine the prospects future needs. Accomplishes four objectives:

Recruitment and selection

"Recruitment is a process to discover the source of manpower to meet the requirements of the staffing schedule and to employ effective measures for attracting that manpower in adequate numbers to facilitate effective selection of an efficient working force." -Yoder.

"Recruitment involves seeking and attracting a pool of people from which qualified candidates for job vacancies can be chosen." - Boyars and Rue.

"It is a process of searching for prospective employees and stimulating and encouraging them to apply for jobs in an organization." –Flippo

Factors Affecting the Recruitment Policy of Sales Personnel

According to Yoder, "The recruitment policy is concerned with quality and qualifications of manpower". It establishes broad guidelines for the staffing process. Generally, following factors are involved in the recruitment policy:

1. Number of recruits desired
2. Recruitment sources
3. Recruitment needs
4. Recruitment cost
5. Size of sales organization
6. Rate of turnover
7. Forecasted sales volume
8. Government policies
9. Personnel policies of competing organization
10. Organizational personnel policies...

Recruitment Sources

Employment Agencies: Agencies often administer batteries of tests, check references and perform task otherwise done by the employer. Whenever an agency is used, it should receive a clear statement of the job's objective and a complete run-down of job specifications. Agencies need time to learn about an employing firm and its unique requirements of the interest to sales executive is the growing no. of agencies that take the initiative in searching but promising job candidates, employed or not, instead of confining themselves to "volunteer" applicants.

Advertising: Newspapers carry numerous advertisements publicizing openings for sales Personnel such advertisement appear both in classified sections and as display advertising so great is the number of prospective job candidates reached by a single advertisement that companies often try to reduce the volume of applications. If the employer publishes details about the company and job, fewer obviously unqualified persons will reply. Specific job details vary with the company and its situations and these should be in the ad if it is to attract good applicants. Some ads give the compensation range of successful company sales personnel. Others explain that the person selected is to replace a regular sales person in an established territory with active accounts. Still others specify that only highly qualified professional sales people need apply. Information of this sort helps to convince promising applicants that the opening is legitimate.

Internal transfers: Two additional internal sources are other departments and the non selling section of the sales department. Employees desiring transfers are already familiar with company policies and the personnel department has considerable detailed information about them. While little is known about their aptitude for selling, they often possess excellent product knowledge. Aptitude for selling of course can be tested formally or by trial assignment to the field. Transfers are good prospects for sales positions whenever product knowledge makes up a substantial portion of sales training, since it may be possible to accelerate field assignments.

Educational Institutions: This source includes colleges, universities, technical and vocational institutes. They are supposed to have developed their ability to think, to reason logically and to express themselves reasonably well. Ordinarily, they do a good job of budgeting their time and managing their daily activities. Their main limitation is lack of selling experience and hence they need to be trained.

Salesmen of other Companies: These are individuals currently employed as salesman for other companies. They are an attractive source of recruitment as they know the product, customers and competitors. They are also experienced sellers and therefore no money is required to be spent for their training. But their limitations are that they are a costly source as generally higher pay must be offered to them and they also do not possess the required degree of loyalty.

Selection--"A selection system is a set of successive 'screens' at any of which an applicant may be dropped from further consideration**".** Selection process consists of seven steps. These are:

1. Preliminary Interview--If a candidate meets with the requirements of the organization he may be selected for further action. If not, he is eliminated at this preliminary stage.

2. Formal Application---An application blank is a traditional, widely accepted device for getting information from a prospective applicant which will enable the management to make a proper selection. The blank provides preliminary information and helps in interview by indicating the areas of Interest and discussion. It is a useful device for collecting historical data from the candidate as well as storing information for later reference.

3. Interview--An interview can be defined as an attempt at gathering information from the candidate concerning his suitability for the job under consideration. No method other than interview is quite as satisfactory in judging an individuals' ability in oral communication, personal appearance and attitude towards selling and personal impact on others which are most important for the person involved in selling.

Interviewing Techniques

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

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

Patterned/Structured Interview: In this method the interviewers are given a prepared list of questions or a specific outline of questions designed to elicit a basic core of information. First, the interviewer works from definite job specifications, he knows what qualities each job requires. Second, he has a plan; he knows what questions to ask. Third, he has been trained in the techniques of conducting an interview. Fourth, prior to interview, he has checked with outside sources and already knows a great deal about the applicant. Fifth, the interviewer himself has been carefully selected to assure that he has adequate intelligence and is emotionally well adjusted.

Interaction (Stress) Interview: It is a highly complex technique. In this the interviewer assumes hostile role towards the applicant. He deliberately puts him on the defensive by trying to annoy, embarrass and frustrate him. The interaction interview simulates the stresses the applicant would meet in actual selling and how he would react to them.

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

4. Reference Check--- Sometimes applicants are asked to name as references those people on whom they can rely to speak about them. The main purpose of reference checks as a selection tool is to verify the facts such as dates of employment, earnings, sales volume, absenteeism and nature of the past selling job. This typical procedure is to check the references by personal visit, telephone or letter.

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

6. Physical Examination-- Sales persons' job requires unusual stamina, strength or tolerance of hard working conditions. The presence or absence of these qualities in the candidate is revealed by physical examination.

7. Employment Offer--- An employment offer is extended to the candidate who successfully passes through all the preceding steps. Once, an offer of employment has been extended and accepted the final stage in procurement function is concluded, and the process of placement of the individual on the new job and orienting him to the organization. After selection, the employee is generally put on a probation period, ranging from one to two years, after which his employment may be regularized, provided that during this period, his work has been found to be satisfactory. Only in very rare cases is the employee, once placed, asked to quit and even then, it is only when there is something very serious against him or he is found guilty of continued negligence in the performance of his duties. The new employee is placed as a probationer until the trial period is over.

TRAINING OF SALES FORCE---

Training is the act of increasing knowledge and skill of an employee for doing a particular job.

TYPES OF SALES FORCE TRAINING

1. Skill training
2. Refresher training
3. Cross-functional training
4. Team training
5. Creativity training

DEVELOPING SALES TRAINING PROGRAMME-- Building a sales training programmed requires five major decisions – aim, content, method, execution and evaluation. These are referred to as the A-C-M-E-E decisions. The specific training aims must be defined, content decided, training methods selected, arrangements made for execution and procedures set up to evaluate the results.

Aim of Training

Defining the specific and general aims of a training programme is the first step in training. General aims are translated into specific aims phrased in operational terms. These can be defined in two ways:

1. Identify initial training needs.

2. Continuing sales training programmes.

Identifying Initial Training Needs

The initial training needs of sales training program can be identified by the analysis of three main factors.

Job Specification

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

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. But it is not always practical to adjust training precisely to individual differences and time and money are saved by putting all recruits through identical programmers. In all organization’s determination of the recruit’s real training needs is essential to developing initial training programs of optimum benefit to company and trainee alike.

Sales-related Marketing Policies

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

Identifying Continuing Sales Training Programs

The identification of continuing sales training needs means to identify training needs of experienced sales personnel which are felt due to changes in market, product, marketing policies, procedures, organization and even in the sales personnel itself.

Content of Training

The content of training is not the same for all the sales training programs. It varies from company to company because of differences in products, markets, company policies, trainees ‘ability and experience and organizational size. Every initial sales training programme comprises mainly four areas: product data, sales technique, markets and company information.

Product Data

Product training depends on the nature of the product – if the product is highly technical then they will devote more than half of their program to product training, if the product is nontechnical, then minimal amount of product training is required. But in all the cases the sales person should know about the products, their uses and applications to serve customers' information needs.

Sales Technique

There are two views in this context. Some sales managers believe that if an individual has an attractive personality, good appearance, voice and reasonable intelligence and knows the product, he will sell it easily. But the predominant view is that new sales personnel need basic instruction in how to sell. This view is reflected in most of the companies.

Markets

The sales person needs to know who the customers are, their particular locations and particular products in which they are interested. Not only this, the sales person should also know about their buying habits, motives and their financial condition. But the training in this context should not be stagnant; it should be continuous because markets are always changing.

Company Information

The company should essentially inform the sales person about the company's pricing policy, product services, spare parts and repairs, credit extension and customer relations. To boost the employee morale and job effectiveness, the company should also provide information to the sales personnel about their selection procedure, training programs, compensation, incentive systems, advancement requirements and opportunities, savings and retirement plans, medical and insurance plans.

Methods of Training

The selection of appropriate training method for a training programme depends on the content of training. Few of the important and appropriate methods of sales training are: lecture, conference, demonstration, replaying, case-discussion, impromptu discussion, gaming, on-the-job training, programmed learning, correspondence courses.

The Lecture Notes

Lecture is the method of learning through instructions from trainer to trainee. Trainees mainly watch and listen, although some versions of lecturing permit questions.

Personal Conference

The personal conference is an unstructured and informal method. It varies with the personalities of the trainer and the trainee and the topics discussed. The trainer and trainee jointly analyze problems such as effective use of selling time, route planning and call scheduling and also handling unusual selling problems.

Demonstration

The demonstration method of training is where sales managers plan and carry out a real selling call on a customer or prospect with the salesmen they are training present as silent observers. The method is most appropriately used for training new salesmen.

Role Playing

In this method first the trainer describes the situations and different personalities involved. Then the trainee is asked to play the role of those personalities in different situations. In the end both the trainer and trainee appraise each player's effectiveness and suggest how performance of each has been improved. Thus, role playing can be defined as "a method of human interaction which involves realistic behavior in an imaginary situation".

Case Discussion (Learning by Doing)

The case is a set of data (real or fictional, written or oral). Miniature description and summary of such data presents issues and problems calling for solutions or action on the part of trainee. When the trainees are given cases to analyze, they are asked to identify the problem and to recommend tentative solutions through group discussions.

Gaming Simulation

This method is somewhat similar to role playing with a unique feature that it uses highly structured and contrived situations based on reality and players receive information feedback.

On-the-Job Training (Coach-and-pupil Method)

In this the salesmen are coached and instructed by skilled co-workers or by supervisors or by the special training instructor. They learn the job by personal observation and practice as well as occasionally handling it. This method involves three steps. First, the coach who is an experienced sales person begins by describing particular selling situations, explaining various techniques and approaches. Next, accompanied by pupil, the coach makes actual sales call, discussing each with the trainee afterward. Then, under coach supervision trainee makes sales calls, each one being followed by discussion and appraisal.

Programmed Learning (Teaching by Machine Method) Notes

Programmed instruction involves a sequence of steps which 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. It involves breaking down information into meaningful units and then arranging these in a proper way to form a logical and sequential learning program or package for use with the machine.

Execution of Sales Training

Execution is the fourth step of the A-C-M-E-E approach of sales training. It involves the following four key decisions:

1. Who will be the trainees?

2. Who will be the trainers?

3. When will the training take place?

4. Where will the training site be?

Evaluation of Training Programmes

This is the last but not the least step of the training programme. Evaluation involves the comparing of the training program's aim with the results and measuring its impact on the sales person. There is no direct method of measuring the impact of training but certain methods could provide indications whether the results are positive or not. These are:

1. Market share percentages

2. Written Tests

3. Observers which work with sales personnel.

It is true that the training program's effectiveness is widely dependent on trainers. Hence, management reminds that "If the trainee hasn't learned, the trainer hasn't taught".

MOTIVATING SALES FORCE

Steps in Motivation

The salesmen can be motivated through logical steps which should be followed in a sequence.

Objectives

The objectives of motivation must be determined by the salesmen, the objectives could be different for different salesmen and for the different areas. However, the main aim of motivation is to encourage the salesman to give off his best which has been discussed earlier in the unit.

Needs

The needs of the salesman must be satisfied and this can be done by joining into the depth of the expectation of salesmen, the position held by them, their mental attitude and differences between various salesmen.

Motivation of Salesmen

Salesmen can be motivated through financial or non-financial incentives or both; while deciding the same, financial condition of the organization has to be taken into consideration. Salesmen can also be motivated by changing their territory or area of work. For no-financial incentives the salesmen can be given other prerequisites, like sending them for training along with their families, for a holiday trip in attractive locales.

Communication

It is necessary that the communication be already understood; it should be simple and should give special instructions to the salesmen. The interest of the company as well as that of the salesman must always be kept in mind so that both are mutually benefited.

Feedback

The result achieved from the motivation program must be evaluated so that the effectiveness of the motivational program can be assessed. The other points to be kept in mind are the development of the team spirit and development of satisfaction from the work, which is necessary for the success of the program.

Common Tips to Motivate a Sales Team:

Create a clear sales plan Provide ample sales training

Set achievable goals

Empower your sales team

Establish a solid base salary in addition to their commissions and bonuses

Provide positive feedback and recognition

Celebrate the successes

Communicate frequently with your team and have an open door policy

Involve your sales team with setting quotas, sales plans, and sales goals

Set challenging goals

Motivate with significant bonuses

Established sales contests or sales games

Provide sophisticated sales tools, from the best CRM, to marketing support, to internal support Spend time helping out on sales calls

Grant sales' awards, such as sales person of the month or sales person of the year

Adjust compensation plans to increase motivation Hire motivational speakers

COMPENSATING SALES FORCE

The monetary and non-monetary benefits given to an employee for his service are termed as compensation.

Components of compensation plan

1. Basic pay (Plus D.A.)
2. Commission
3. Expenses
4. Bonus
5. Fringe benefits
6. Profit sharing

Types of Compensation Plans

• Straight Salary

• Straight Commission

• Combination Plan

1. Straight Salary

• Salesperson paid a set amount of money based upon hours or days worked

– Often adopted when salesperson must devote significant amounts of time to other duties

• Market research, customer service, administration

– Simple to administer by sales manager

– But, no direct link between performance and reward!

• More commonly used in Europe and may be difficult to change by global sales managers

2. Straight Commission

• Adopted by performance-oriented firms that pay salesperson for their achievements

– Each person is paid a percentage of their total sales

• Easy to evaluate performance

3. Combination Pay Plan

• The combination plan is the most popular

– Employed by more than 80% of US firms

– May appear in many forms:

• Salary, commission, individual and group bonuses

– Basic security bestowed by set salary

– Motivation introduced by commission/bonus

SALE FORECASTING

A sales forecast is an estimate of the amount or unit sales for a specified future period under proposed marketing plan or program. Sales forecasting is meant for both short and long term objectives.

The forecasting methods can be broadly classified as qualitative and quantitative.

Qualitative methods are:

·Jury of Executive opinion
· The Delphi Technique
· Poll of Sales force opinion
· Survey of customers buying plan

Quantities Methods

· Projection of Past Sales
· Time series Analysis – Moving Average Method
· Exponential smoothening
· Regression Analysis
· Econometric model building and simulation

Qualitative Forecasting Methods

Jury of Executive Opinion

There are two steps in this method:

1. High-ranking executives estimate probable sales, and
2. An average estimate is calculated.

The assumption is that the executives are well informed about the industry outlook and the company's market position, capabilities, and marketing program. All should support their estimates with factual material and explain their rationales. Companies using the jury of executive opinion method do so for one or more of four reasons:

1. This is a quick and easy way to turn out a forecast.
2. This is a way to pool the experience and judgment of well-informed people.
3. This may be the only feasible approach if the company is so young that it has not yet accumulated the experience to use other forecasting methods.
4. This method may be used when adequate sales and market statistics are missing, or when these figures have not yet been put into the form required for more sophisticated forecasting methods.

Delphi Technique

This is a version of the jury of executive opinion method in which those giving opinions are selected for their "expertise". The panel of experts responds to a sequence of questionnaires in which the responses to one questionnaire are used to produce the next questionnaire. Thus, information available to some and not to other experts is disseminated to all, enabling all to base their final forecasts on "all available "information.

Sales Force Opinion

In the poll of sales force opinion method, often tagged "the grass-roots approach," individual sales personnel forecast sales for their territories; then individual forecasts are combined and modified, as management thinks necessary, to form the company sales forecast. This approach appeals to practical sales managers because:

• Forecasting responsibility is assigned to those who produce the results.

• Furthermore, there is merit in utilizing the specialized knowledge of those in close touch with market conditions. Because the salespeople help to develop the forecast, they should have greater confidence in quotas based upon it.

• Another attractive feature is that forecasts developed by this method are easy to break down according to products, territories, customers, middlemen, and sales force.

Survey of Customers' Buying Plans

What more sensible way to forecast than to ask customers about their future buying plans? Industrial marketers use this approach more than consumer-goods marketers, because it is easiest to use where the potential market consists of small numbers of customers and prospects, substantial sales are made to individual accounts, the manufacturer sells direct to users, and customers are concentrated in a few geographical areas(all more typical of industrial than consumer marketing). In such instances, it is relatively inexpensive to survey a sample of customers and prospects to obtain their estimated requirements for the product, and to project the results to obtain a sales forecast. Survey results, however, need tempering by management 'specialized knowledge and by contemplated changes in marketing programs. Few companies base forecasts exclusively on a survey of customers' buying plans.

Quantitative Methods

Projection of Past Sales

The projection of past sales method of sales forecasting takes a variety to forms. The simplest is to set the sales forecast for the coming year at the same figure as the current year's actual sales, or the forecast may be made by adding a set percentage to last year's sales, or to a moving average of the sales figure for several past years. For instance, if it is assumed that there will be the same percentage sales increase next year as this year, the forecaster might utilize a naïve model projection such as

Next year's sales = this year's sales x this year's sales/ last year's sales

Time-Series Analysis

Not greatly different in principle from the simple projection of past sales in time-series analysis, a statistical procedure for studying historical sales data. This procedure involves isolating and measuring four chief types of sales variations: long-term trends, cyclical changes, seasonal variations, and irregular fluctuations. Then a mathematical model describing the past behavior of the series is selected, assumed values for each type of sales variation are inserted, and the sales forecast is 'cranked out."

Moving Average Method

Are used to allow for market place factor changing at different rates and at different times. With this method both distant past and distant future have little value in forecasting. The moving average is a technique that attempts to "smooth out "

Exponential smoothing

One statistical technique for short-range sales forecasting, exponential smoothing, is a type of moving average that represents a weighted sum of all past numbers in a time series, with the heaviest weight placed on the most recent data. To illustrate, consider this simple but widely used form of exponential smoothing —— a weighted average of this year's sales is combined with the forecast of this year's sales to arrive at the forecast for next year's sales. The forecasting equation, in other words, is

Next year's sales = a (this year's sales) + (1-a) (this year's forecast)

Regression Analysis

Regression analysis is a statistical process and, as used in sales forecasting, determines and measures the association between company sales and other variables.

Econometric Model Building and Simulation

Econometric model building and simulation is attractive as a sales forecasting method for companies marketing durable goods. This approach uses an equation or system of equations to represent a set of relationships among sales and different demand-determining independent variables.

Managing the sales force

Sales Management has the following key roles.

1) Hire, fire, and train sales staff - selection, maintenance and training of the sales staff is key to any company's success. Sales managers must hire sales staff the can competently manage the sales process and meet or exceed quota. The Sales Manager must train and motivate the staff to perform. The Sales Manager must also replace underreporting sales staff. Ongoing training is key to understanding the company sales process, sales value propositions and product sets.

2) Develop and manage sales territories and quotas, and manage any conflicts that arise as a result of customer, territory, quota or commission questions

3) Develop and implement sales compensation plans

4) Create, document and train in the company sales process

5) Interact with all departments that contribute to product delivery and support, customer service and finance.

6) Prepare and manage a sales budget in line with company financial objectives.

7) Coach sales staff to maximize their professional performance

8) Plan and facilitate regular sales meetings to keep staff and rest of company informed, energized and motivated.

Evaluations of sales force

1 Decide on a timeframe to evaluate sales performance, i.e. monthly, quarterly or annually. Do not make impetuous decisions without giving sufficient time for the sales executive/team to perform.

2 Choose the determinants to evaluate sales performance. You should take into account current market trends, product type and customer preferences while choosing determinants. Sales volume, profit margins, ability to meet targets, number of new accounts added, retention of existing accounts, customer satisfaction, initiative,

adaptability, and leadership are some of the factors that have to be considered while evaluating sales executive/team performance.

3 Give equal importances to quantity and quality of business generated as sometimes the business might suffer losses though sales executives/teams exceed sales targets. This could be due to reduced markups to outdo competition. Healthy profit margins are essential for sustenance and future growth of any business. So ensure that your sales executive/team makes a profitable sale.

4 Conduct periodic product reviews with your sales team and customers. This will enable you to know about any improvements to be made. It would be unfair to blame the sales team when your product is not up to the mark. You will get to know the customer's opinion and the rapport they share with your sales executive/team during the review.

5 Make a note of the average expenditure incurred by the sales executive/team for every call made on a client. This should take into account travel, accommodation, telephone and entertainment costs. Sales executives should make calls based on the sales and profit potential of a prospect. Making calls for servicing of existing accounts will adversely affect profitability.

6. Take the opinion of colleagues, superiors and customers while rating the appearance, attitude, motivation, cooperation level and team spirit of a sales executive. It would be encouraging to the sales team if you accompany them occasionally on their trips to an existing customer and/or prospect. You can get a first-hand impression of the abilities of various individuals in the sales team.

7. Assign grades that indicate the performance level and also mention areas where there is scope for improvement. You can have grades like 1, 2, 3 and 4 with each denoting various levels of performance like bad, average, good and excellent.

SALES QUOTA

Sales quota can be defined as the sales target, which is assigned to any sales unit for a particular duration of time; here sales unit can be a person, region, distributor etc. Sales quota provides a target to be achieved in particular duration, which increases the productivity.

Commercial firms set up sales quotas in order to improve sales volume and increase the net profit of the organization. It can also be viewed as a standard to determine the effectiveness of sales unit.

Objectives

Sales quota is imposed in an organization to fulfill various objectives required to increase the sales of product and maximize profit.

Sales objectives help an organization in the following ways:

- They provide a standard to measure the performance.
- They help to control sales expenses for customer acquisition.

- They help define a target; this further facilitates motivation and enhanced performance.
- These help to identify and monitor the performance of salespersons.

These are some of the primary objectives of sales quota for an organization. Further, sales quota can be divided in different types according to the requirement.

Types of Sales Quota

Sales quota is divided into four different categories according to the difference in forecasting and cost allocation procedure, management goals, selling issues and executive decision.

The following are the different types of sales quota:

Sales and Volume Quota

Sales and volume quota is allocation of sales quantity for salesperson, geographical regions, distribution outlets etc. This quota can be implemented according to sales performed or revenue earned by respective units.

The combination of both the criteria can also be used for the implementation of this quota. The quantity of sales and revenue earned can be allocated to the respective unit (salesperson, region) and it has to fulfill at least one of them.

Financial and Budget Quota

Financial and budget quota is used to determine and restrict expenses on sales to attain desired net profit planned. It is implemented on various segment of sales organization to control the expenses accordingly. The aim of these quotas is restriction of expenses for making sales so that profit can be increased.

Activity Quota

In competitive market, the effective performance of sales group is required. It can act as a long term benefit for the organization. Organizations set up activity quota for sales force for efficient results. These can be performed by allocating sales target to salespersons.

The following are the activities listed under sales quota:

- Number of accounts opened through the salesperson
- Number of sales calls made to potential customer
- Number of demonstrations made to show the product
- Number of maintenance activities performed

Activity quota is planned on the basis of these activities performed by the salesperson. By setting quota for the activities, efficient performance and controlling can be managed.

Combination Quota

It depends on product type and market condition, issues related to sales of product and the challenges faced during the sales of a product. Organizations set up quota with combination of sales volume and activity quota in order to increase sales.

Methods for Setting Sales Quota

Sales quota for any unit like salesperson, region, etc., should be a reasonable and unachievable goal, for it to be fulfilled at the provided time span. At the same time, quota should not be such that it doesn't take much effort to achieve.

The following are some of the methods for setting the sales quota:

Total Market Estimate Method

Total market estimate method is used to determine sales quota in places where the management doesn't have any data about the market potential. It can be determined by dividing the company's sales quota with respect to regions or dividing sales quota according to relative sales opportunity as per region.

Territory Potential Method

Territory potential method directly relates territorial sales potential to sales quota.

The potential here is total industry's sales for that segment. Sales potential represents the maximum market size of the product; size of the market reflects the sales potential. This method gives precise results if territorial sales potentials are used with a combination of territorial design.

Past Sales Experience Method

Past sales experience method determines the sales quantity based on the previous year sales. Managements of organizations set this up by increasing some percentage from the previous sales record. For more precision in the approach, managements most commonly use an average of several years as a base line for the measurement. This method is simple and doesn't take much effort to implement.

Executive Judgment Method

In this method, sales quota volume is determined by the management, but it is more likely to be a guess. The management decides the sales quantity and no fixed procedures are involved. This method is not precise and it's mostly not used by organizations to determining the sales quota. This method doesn't provide any estimate for territorial based sales volume.

Sales People Estimate Method

In this method, the sales quota is determined by the salesperson of the organization. Through this approach, a more relevant sales estimate can be maintained, which can be achieved by the salesperson. Salesperson have better knowledge of the market conditions, so they can set the target as per their standards, and if the standards are set by the salesperson themselves rather than imposed by the management, their fulfillment is more likely possible.

Compensation Plan Method

Compensation method is based on management's view of what a particular salesperson should receive as revenue; this method does not take into account the sales projection or territorial volume.

For example, if a salesperson has to receive 20,000 as salary, which can be received as10 percent commission of the sales amount, and then the salesperson has to sell products worth 200,000.

SALES TERROTORIES

A sales territory consists of a group of consumers or a geographical area assigned to a particular salesperson. The area allocated to the salesperson contains the present and the potential consumers of the organization.

Reasons for Establishing Territories

To obtain thorough coverage of the market

According to the division of sales territory, the activities are assigned to salesperson. This helps in market coverage, rather than the salesperson selling the product according to his ambition. It helps the sales manager to monitor and take updates accordingly from different sales managers.

To establish the salesperson's job and responsibilities

It's very important to establish jobs and responsibilities for salespersons. Sales territories help in doing so because the task is assigned to the salesperson and he is responsible and answerable for the same.

Once the task is assigned, frequent checks are done to monitor the calls; it helps to

Determine the work of each salesperson. If the sales manager finds the workload for a particular person is more, the work is divided and reassigned equally. This creates motivation and interest to work.

To evaluate sales performance

In an organization, the sales territory is compared from the previous years to current to find out the difference, i.e., the increase or decrease in sales volumes. It helps to work on the difference accordingly. This is done with the help of sales territory as the activities are assigned in a proper manner and gathering of data and evaluation becomes easy. The comparison to evaluate sales performance is done on the following basis:

- Individual to District
- District to Regional
- Regional to Entire Sales Force

By this comparison, we can evaluate and determine where the sales force is contributing for high volume of sales.

To improve customer relations

As we know, salespersons have to spend most of their time on road to sell the products but if the sales territory is designed in a proper way, the salesperson can spend more time with the customers (present and potential). This helps in building rapport and understanding the needs better. Sales of a company can increase when a customer receives regular calls and the salesman has to visit the customers on the basis of calls. The salesman and the customer get time to understand each other and resolve their issues regarding demand and supply. This also helps in increasing the brand value of the company.

To reduce sales expenses

Once the geographical areas are decided, the company gets a proper picture as to the areas that can be assigned to the salespersons. He/she needs to cover that area so that there is no duplication of work by sending two salespersons in the same area. The selling cost of the company gets reduced and leads to increase in profits. There is also an advantage to the salesperson for few travels and overnight trips.

To improve control of the sales force

The performance of a salesperson can be measured on the basis of calls made to Customers, the routes taken and the schedules. In this case, the salesperson cannot Deny if the results are not positive. The salesperson has to work on the same routes, schedule and everything is predetermined. This results in better control of the sales force.

To coordinate selling with other marketing functions

If the sales territory is designed properly, it helps the management to perform other marketing functions as well. It is easy to perform an analysis on the basis territory as compared to the entire market. The research done by the management on marketing on territory basis can be used to set sales quotas, expenses and budgets. The results can be satisfactory if the salesperson helps in advertising, distribution and promotion when the work is assigned on territory basis instead of the market as a whole.

Procedure for Designing Sales territory

At the time of designing the territory, the manager has to keep in mind the size of the territory that is going to be assigned to the salesperson. It should be neither too small nor too large.

Select Control Point

As the name suggests, the management has to select a geographical control point. The control points can be classified on the basis of district, pin codes, areas, states and cities. At the time of selecting the control unit, the management should aim to select as small a control unit as possible. The following are the reasons behind selecting small control units:

Reason 1

If the control unit is too large, the areas with low sales potential will be hidden by the areas with high sales potential. The areas with high sales will be concealed if the areas with low sales potential will be included.

Reason 2

In case of any changes required in future, they can be done smoothly. Example: A Company wants to allot some territory to Mr. A. This part of territory had earlier been assigned to Mr. B. It can be done easily, as the unit is small.

If the sales potential for the company is located in urban areas, the city can be used as a control point. But there are some disadvantages also, as the adjacent areas to cities also possess sales but they are covered by paying additional cost to the salesperson.

The control point can also be set up according to the trading areas. It is a sensible Decision to set up the control point according to the trading area.

Making an Account Analysis

The next step after selection of geographical control unit is to plan an audit of each geographical unit. The reason for performing this audit is to analyze the customer prospects and find out the sales volumes for each account. Accounts can be recognized by names; in recent times, there are many sources to pullout the data, for example, the yellow pages. We can also collect the data through the past sales of the company. After collecting the data, the next step is to estimate the sales for each geographical unit. The sales manager estimates the sales volume that the company is expected to get in the following years.

After the sales potential estimates have been taken, the system divides into three types, which is done through ABC analysis. This is one of the most common analyses used by companies. Where the sales potential is greater than expected, it is classified as “A Category”. Average potential is classified as “B Category” and the sales potential below average is classified as “C Category”.

Developing a Salesperson Workload Analysis

The salesperson workload analysis is done on the basis of the time and effort taken by a salesperson to cover a geographical unit.

The following are a few points needed to estimate workload:

- Frequency of calls
- Duration of calls
- Travel time

Combining Geographical Control Units into Sales Territories

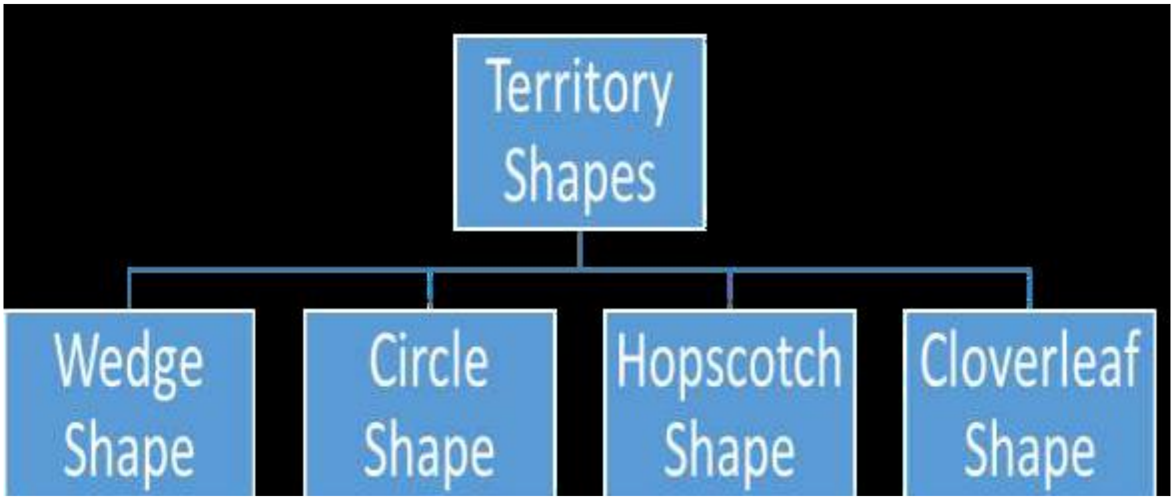
In the first three steps, the sales manager works on the geographical control units; now he has to combine the control units into territories.

Initially the sales manager used to manually develop a list of territories by combining the control units. It was a time consuming procedure and also the result was not accurate, as it was done manually. Now computers handle this activity and complete it in a much shorter period of time with accurate results. The operational error is reduced here. All the salespersons cannot be considered equal and competitive; it depends on the basis of experience and skills. The salespersons are assigned territories by the sales manager depending on the basis of sales. The geographical areas with high sales are assigned to the salesperson with experience, who can handle the workload. The new or less effective sales people are assigned the areas with fewer sales potential.

Territory Shape

The sales manager has to decide the shape of the territory. The territory shapes affects the selling expenses and also helps for sales coverage. There are four types of shapes, which are used widely.

- The wedge
- The circle
- Hopscotch
- The cloverleaf



The Wedge

This shape is suitable for the territories, which contain both the urban and non-urban areas. The radius starts from the most populated urban center. Wedges can be divided into many sizes and the travel time can be maintained by balancing between the calls of urban and non-urban areas.

The Circle

When the clients are distributed evenly throughout an area, the sales manager chooses the circle shape. The salesperson starts from the office, moves in a circle of stops until he reaches the office again. This helps the salesperson to come near to the customer as compared to the wedge.

Hopscotch

In this shape, the salesperson begins from the last point from office and reach out the customers while coming back to the office. While going, the salesperson does not stop anywhere and attends calls in one direction while coming back to the office.

The Cloverleaf

When the accounts or client are located randomly in a geographical area, the cloverleaf shape is used. This type of shape is more often found in industrial markets than in consumer markets.

Assigning Sales Personnel to Territories

Once the sales territory has been designed, the last step is to assign sales personnel to the territories. The sales manager must rank the salespersons accordingly before assignment of territories. The ranking should be done on the basis of ability, knowledge, communication, etc. The other points, which the sales manager should look at, are the cultural characteristics of the salespersons and how they match with the territory.

Example: If a salesperson is born and brought up in rural area, he would be able to do more effective sales in that particular area as compared to urban area. We can now conclude that the goal of a sales manager is to assign the geographical area to the salesperson that would maximize the territory sales and where the customers are comfortable with the salesperson... A well designed sales territory helps to increase sales volume and market coverage and provide better services to customers. Once the sales territory is allocated to the salesperson, he is responsible for making things happen.

SALES BUDGET

A sales budget is the sales estimate of the management pertaining to a certain financial period of the future.

A budget is simply a tool, a financial plan that an administrator uses to plan for profits by anticipating revenues and expenditures. By using various planning procedures management hopes to guide operations to a given level of profit on a certain volume of operations.

Objective of Sales Budgeting

Planning ---The objective of sales budgeting is to plan for and control expenditure of resources (money, material, facilities and people) necessary to achieve the desired sales objective. It aims at leveraging and maximizing profits.

Co-ordination ---The purpose of sales budget is to achieve the objectives of the sales department. It also acts as a planning tool. It helps a firm to set standards and strive to achieve them. It is also an instrument of coordination between different departments in an organization like sales, finance, production and advertising.

Evaluations----Sales budgeting is also a tool or control, which helps by comparison with the actual results. If the actual of sale is more than that of budget, we can say it is a favorable condition.

Sales budget process

Review and analysis of the situation

Identifying specific market opportunities and problems

Sales forecasting Communicate sales goals and objectives

Preliminary allocation of resources

Preparing the budget

Getting approval for the budget

Methods of Sales Budgeting

There are two methods of sales budgeting.

1. Top-Down Budgeting
2. Bottom-Up Techniques

Top-Down Budgeting

In top-down budgeting, top management sets the overall amount the company will spend on promotional activities for the year. This total amount is then allocated among all of the advertising, PR, and other promotional programs

Percentage-of-Sales Method

The percentage-of-sales method is the ratio of the firm's past annual promotional budget divided by past sales to arrive at the percentage of sales. That percentage of sales is then applied to the expected sales in the coming year to arrive at the budget for that year.

Industry Averages Method

Some companies use industry averages (published by trade associations) as a guide to set their promotional budget. Ad-to-sales ratios vary widely depending on the industry.

Pros and Cons of Top-Down Methods

The advantages of top-down approaches are their speed and straightforwardness. The disadvantage is that the methods look to the past as a guide, rather than to future goals.

Bottom-Up Techniques

Alternatively, some companies begin the budgeting process each year with a clean slate. They use bottom-up budgeting techniques, in which they first identify promotional goals (regardless of past performance) and allocate enough money to achieve those goals.

Objective-Task Method

The objective-task method is the most common technique of bottom-up budgeting. Companies that use this method first set the objective or task they want the promotion to achieve. Next, they estimate the budget they will need to accomplish that objective or task. Finally, top management reviews and approves the budget recommendation.

Stage-Based Spending

Some companies use the product life cycle method, in which they allocate more money during the introduction stage of a new product than in later stages when the product is established.

Concept of sales analytics

Sales analytics are simply business analytics tools that bring applicable information about companies' sales transactions and outreach efforts and turn them into insights marketers can act upon. This is vital for modern business. By utilizing right sales analytics, business owners can identify new opportunities, spot competitors weakness, recognize potential niches and figure out what they need to grow and succeed.

MODULE ---2

Marketing channel can be defined as the procedure of activities that need to be Performed to distribute the finished goods at the point of production to the customer at the point of consumption.

Manufactures use different channels to distribute the finished goods to customers.

The profit is distributed between the elements of distribution channel, so if the channel is longer, each element has lower profit margin and there is less scope for discounts for the consumer. In a shorter channel, the distribution is divided between fewer elements, profit is higher for each element and higher discounts can be provided to the customer...

Role of marketing channel: Besides making the product available to the customer, middlemen perform several other roles and functions. Some of these key roles are summarized below.

Information: Middlemen have a role in providing information about the market to the manufacturer. Developments like changes in customer demography, Psychograph, media habits and the entry of a new competitor or a new brand and Changes in customer preferences are some of the information that all Manufacturer's want. Since these middlemen are present in the market place and Close to the customer they can provide this information at no additional cost.

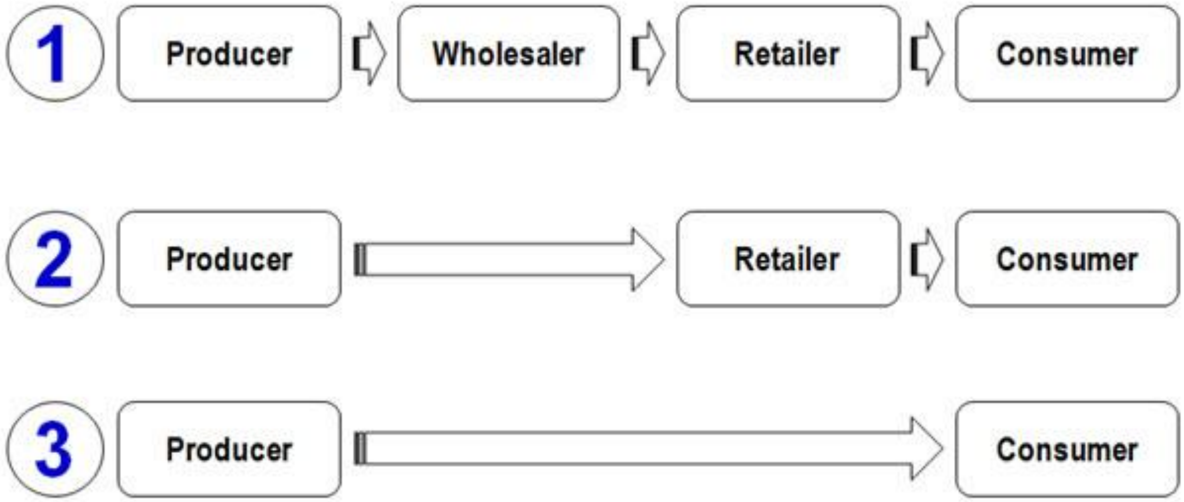
Price stability: Maintaining price stability in the market is another function a Middlemen perform. Many a time the middlemen absorbs an increase in the price Of the products and continues to charge the customer the same old price. This is Because of the intra middlemen competition. The middlemen also maintains price Stability by keeping his overheads low.

Promotion: Promoting the product/s in his territory is another function that Middlemen perform. Many of them design their own sales incentive programs, Aimed at building customer traffic at their outlets.

Financing: Middlemen finance manufacturer's operations by providing the Necessary working capital in the form of advance payments for goods and services. The payment is in advance even though credit may be extended by the Manufacturer, because it has to be made even before the products are bought, Consumed and paid for by the ultimate customer.

Title: Most middlemen take the title to the goods, services and trade in their own name. This helps in diffusing the risks between the manufacturer and middlemen. This also enables middlemen to be in physical possession of the goods, which in turn enables them to meet customer demand at the very moment it arises.

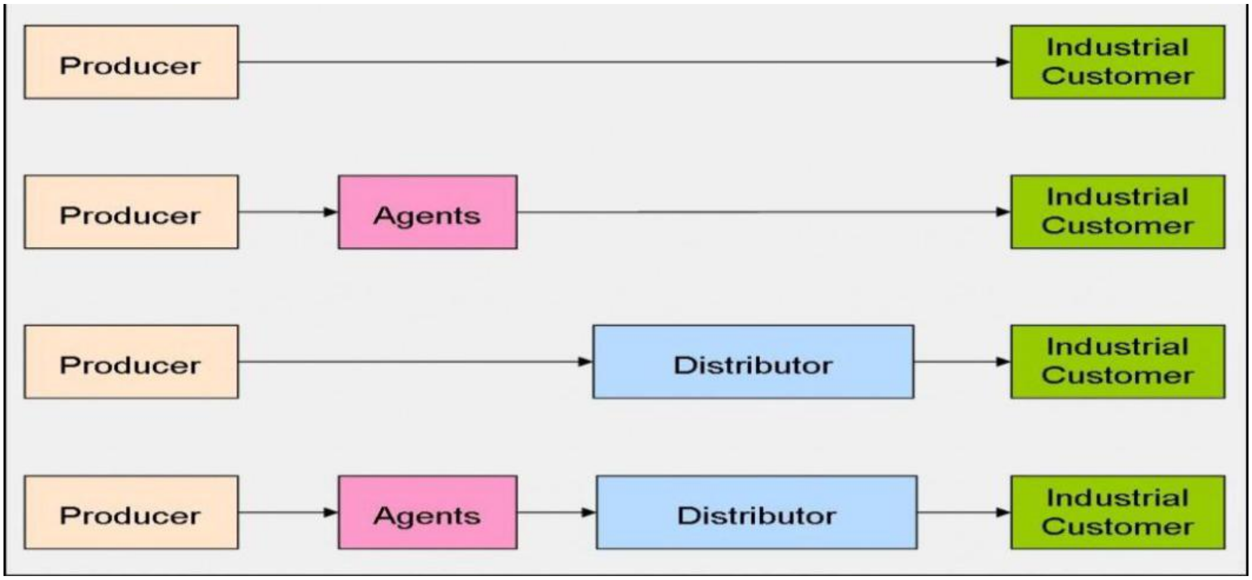
Three stages distribution channel



Channel 1 contains two intermediary levels - a wholesaler and a retailer. A wholesaler typically buys and stores large quantities of several producers' goods and then breaks into the bulk deliveries to supply retailers with smaller quantities. For small retailers with limited order quantities, the use of wholesalers makes economic sense. This arrangement tends to work best where the retail channel is fragmented - i.e. not dominated by a small number of large, powerful retailers who have an incentive to cut out the wholesaler. A good example of this channel arrangement in the UK is the distribution of drugs.

Channel 2 contains one intermediary. In consumer markets, this is typically a retailer. The consumer electrical goods market in the UK is typical of this arrangement whereby producers such as Sony, Panasonic, Canon etc. sell their goods directly to large retailers and e-retailers such as Comet, Tesco and Amazon which then sell onto the final consumers.

Channel 3 is called a "direct-marketing" channel, since it has no intermediary levels. In this case the manufacturer sells directly to customers. An example of a direct marketing channel would be a factory outlet store. Many holiday companies also market direct to consumers, bypassing a traditional retail intermediary - the travel agent.



DESIGNING CUSTOMER ORIENTED MARKETING CHANNEL.

Channel design is presented as a decision faced by the marketer, and it includes either setting up channels from scratch or modifying existing channels. This is sometimes referred to as reengineering the channel and in practice is more common than setting up channels from scratch. The term design implies that the marketer is consciously and actively allocating the distribution tasks to develop an efficient channel, and the term selection means the actual selection of channel members.

Finally, channel design has a strategic connotation, as it will be used as a strategic tool for gaining a differential advantage.

Who Engages in Channel Design?

Producers and manufacturers, wholesalers, and retailers all face channel design decisions. Producers and manufacturers "look down" the channel. Retailers "look up" the channel while wholesaler intermediaries face channel design from both perspectives. The channel design decision can be broken down into seven phases or steps. These are:

1. Recognizing the need for a channel design decision

2. Setting and coordinating distribution objectives

3. Specifying the distribution tasks

4. Developing possible alternative channel structures

5. Evaluating the variable affecting channel structure

6. Choosing the "best" channel structure

7. Selecting the channel members

Phase 1: Recognizing the Need for a Channel Design Decision

Many situations can indicate the need for a channel design decision. Among them are:

1. Developing a new product or product line

2. Aiming an existing product to a new target market

3. Making a major change in some other component of the marketing mix

4. Establishing a new firm

5. Adapting to changing intermediary policies

6. Dealing with changes in availability of particular kinds of intermediaries

7. Opening up new geographic marketing areas

8. Facing the occurrence of major environmental changes

9. Meeting the challenge of conflict or other behavioral problems

10. Reviewing and evaluating

Phase 2: Setting and Coordinating Distribution Objectives

In order to set distribution objectives that are well coordinated with other marketing and

Firm objectives and strategies, the channel manager needs to perform three tasks:

1. Become familiar with the objectives and strategies in the other marketing mix areas and any other relevant objectives and strategies of the firm.

2. Set distribution objectives and state them explicitly.

3. Check to see if the distribution objectives set are congruent with marketing and the other general objectives and strategies of the firm.

Phase 3: Specifying the Distribution Tasks

The job of the channel manager in outlining distribution functions or tasks is a much more specific and situational dependent one. The kinds of tasks required to meet specific distribution objectives must be precisely stated. In specifying distribution tasks, it is especially important not to underestimate what is involved in making products and services conveniently available to final consumers.

Phase 4: Developing Possible Alternative Channel Structures

The channel manager should consider alternative ways of allocating distribution objectives to achieve their distribution tasks. Often, the channel manager will choose more than one channel structure in order to reach the target markets effectively andefficiently.Whether single – or multiple – channel structures are chosen, the allocation alternatives (possible channel structures) should be evaluated in terms of the following three dimensions: (1) number of levels in the channel, (2) intensity at the various levels, (3) type of intermediaries at each level.

1) Number of Levels

The number of levels in a channel can range from two levels – which are the most direct –up to five levels and occasionally even higher.

2) Intensity at the Various Levels

Intensity refers to the number of intermediaries at each level of the marketing channel.

- Intensive: sometimes called saturation means that as many outlets as possible areused at each level of the channel.

- Selective: means that not all possible intermediaries are used, but rather those included in the channel have been carefully chosen.

- Exclusive: a way of referring to a very highly selective pattern of distribution.

The intensity of distribution dimension is a very important aspect of channel structure because it is often a key factor in the firm's basic marketing strategy and will reflect the firm's overall corporate objectives and strategies.

3) Types of Intermediaries

The third dimension of channel structure deals with the particular types of intermediaries to be used (if any) at the various levels of the channel. The channel manager should not overlook new types of intermediaries that are emerging such as Internet companies.

4) Number of Possible Channel Structure Alternatives

Given that the channel manager should consider all three structural dimensions (level, intensity, and type of intermediaries) in developing channel structures, there are, in theory, a high number of possibilities. Fortunately, in practice, the number of feasible alternatives for each dimension is often limited due to industry or the number of current channel members.

Phase 5: Evaluating the Variables Affecting Channel Structure

Having laid out alternative channel structures, the channel manager should then evaluate number of variables to determine how they are likely to influence various channel structures.

These six basic categories are most important:

1. Market variables

2. Product variables

3. Company variables

4. Intermediary variables

5. Environmental variables

6. Behavioral variables

1) Market Variables

Market variables are the most fundamental variables to consider when designing a marketing channel.

Four basic subcategories of market variables are particularly important in influencing channel structure. They are (A) market geography, (B) market size, (C) market density, and (D) market behavior.

A) Market Geography Market geography refers to the geographical size of the markets and their physic allocation and distance from the producer and manufacturer. A popular heuristic (rule of thumb) for relating market geography to channel design is: "The greater the distance between the manufacturer and its markets, the higher the probability that the use of intermediaries will be less expensive than direct distribution."

B) Market Size The number of customers making up a market (consumer or industrial) determines the market size. From a channel design standpoint, the larger the number of individual customers, the larger the market size.

C) Market Density The number of buying units per unit of land area determines the density of the market. In general, the less dense the market, the more difficult and expensive is distributions) Market Behavior Market behavior refers to the following four types of buying behaviors:

1) How customers buy

2) When customers buy

3) Where customers buy

4) Who does the buying?

Each of these patterns of buying behavior may have a significant effect on channel structure.

2) Product Variables

Product variables such as bulk and weight perish ability, unit value, and degree of standardization (custom-made versus standardized), technical versus nontechnical, and newness affect alternative channel structures...

3) Company Variables

The most important company variables affecting channel design are (A) size, (B) financial capacity, (C) managerial expertise, and (D) objectives and strategies.

4) Intermediary Variables

The key intermediary variables related to channel structure are (A) availability, (B) costs, and (C) the services offered.

5) Environmental Variables

Economic, socio cultural, competitive, technological, and legal environmental forces can have a significant impact on channel structure.

6) Behavioral Variables

Moreover, by keeping in mind the power bases available, the channel manager ensures a realistic basis for influencing the channel members.

Phase 6: Choosing the "Best" Channel Structure

Here, the channel manager should choose an optimal structure that would offer the desired level of effectiveness in performing the distribution tasks at the lowest possible cost.

OWN SALES CHANNEL

- Under direct channel, the manufacturer sells directly to the consumers without any middleman like wholesaler or retailer etc...
- Under direct channel, it is uneconomical to have a direct contact with customers.
- Direct channel usually covers the large trade area.

INTERMEDIARY

- Under indirect channel of distribution, producers sell through various middlemen like wholesalers, agent, retailer etc.
- It is very economical to have a direct contact with customers.
- Indirect channel usually covers small trade area than direct channel.

CHANNEL CONFLICT

Channel conflict is generated when one channel member's actions prevent another channel from achieving its goals.

Stages in channel conflict

1. **Latent stage**: This is the first stage where seeds of conflict start germinating.
2. **Felt conflict**: At this stage the members really feel the conflict in terms of frustrations, disappointments, or negative feeling towards the relationships.
3. **Manifest conflict**: Highest stage of conflict i.e. charcterisized by destructive actions like a boycott or total breakdown of communication etc.

4**. Conflict aftermath**: Resolving stage of conflict. If it is genuinely resolved then it's ok otherwise if it is suppressed then it may happen in near future.

Channel Conflict: To manage channel conflict the marketer must understand

• The type
• The nature or cause
• Magnitude of the conflict

He should also appreciate that conflict cannot be totally eliminated. It can only be minimized.

Type of Conflict: In any channel arrangement there can be three types of conflict

• Vertical-level conflict
• Horizontal-level conflict
• Multichannel-level conflict.

Vertical-level Conflict: Vertical level conflict occurs when the channel member at one level is in conflict with another member at the next higher or lower level. For example, a conflict between the wholesaler and the manufacturer is a vertical level conflict. Or the major retailers in the town conflicting with the distributor over entitlements are another example of vertical level conflict. Another example of vertical conflict is the non-cooperation and boycott of pharmaceutical companies by their wholesalers and chemists during 1989-90.

Horizontal-level Conflict: Conflict at the same level between channel members is called horizontal-level conflict. Hence, inter stockiest conflict or conflict at the retail level among retailers on issues like pricing and territory jumping are examples of horizontal-level conflict.

Multichannel-level Conflict: Sometimes the middlemen come in conflict with the Manufacturer, using both direct and indirect means of distribution. Such a conflict is called multichannel-level conflict. For example, a firm may have its own franchise outlet or its own shop in an area where it may also be distributing the product through established middlemen. The, former is direct distribution while the latter is indirect distribution. The conflict may occur when the franchise prices its products lower than the middlemen, wholesaler, or dealer, or when the firm retails a larger range of products through its own outlet than through the wholesaler or stockiest.

Nature and Causes of Conflict: Channel conflict occurs largely due to financial and nonfinancial reasons. These in turn may be traced to the following causes:

• **Goal Incompatibility**: A major factor causing conflict between manufacturers and Wholesalers are the perceived goal incompatibility between them. For example, while the manufacturer perceives his goals to be market share and profit maximization in the long run, wholesalers perceive their goal to be sales maximization and thereby profit maximization. The latter even prefer to work at higher margins and on short term profitability. This makes the manufacturer accuse the wholesaler of being “fair weather partners” and the wholesaler accuses the manufacturer of squeezing his margins. This is typically what happens with all large manufacturers and their channel members today.

• **Role Ambiguity**: Many a time conflicts occur because of role ambiguity. This is a Common conflict in multichannel conflict. For example, the role of the manufacturer’s sales force and dealer in selling products in major accounts or institutional customers in the territory is often unclear in some companies. This often creates conflict in these companies’ relationship with the channel. A well known automobiles component manufacturer has such a conflict when one of its distributors started selling directly to retailers by passing large wholesalers in the territory. The wholesalers revolted and started pushing the competitors’ products. Lack of role clarity of any of the channel members can be source of potential conflict.

• **Difference in Perception of the Market**: Different perceptions of the market and Economy may also create a conflict between the manufacturer and the middlemen. For example, a manufacturer may perceive an opportunity in the booming Indian middle class market and introduce new products, multiple brands, and even appoint wholesalers in distant areas. The existing dealers of this firm may not see the picture this way and may perceive the appointment of multiple dealers and downsizing their territory as dilution of their control over the market.

• **Magnitude of the Conflict**: This refers to the seriousness of conflicts. At times the Conflict not be of a magnitude demanding the manufacturer's attention, for example, Inter-dealer conflict in the territory over prices or territory jumping. But when the conflict assumes significant magnitude (this is often reflected by the impact the conflict has on the manufacturer's sales and market share in the territory), the manufacturer must take the initiative to resolve it, for ultimately it is the manufacturer who is the leader of the channel. Moreover, a serious conflict will affect his market share in the territory.

Managing the Conflict To minimize the conflict, the manufacturer may take the following steps:

• **Communication** An-effective way to minimize channel conflict is to have regular Communication between the manufacturers and the channel members. Most Chief Executives today spend time with their channel members to understand market dynamics and communicate the brand's positioning strategies. These meetings are also used to resolve channel members' problems. While these are many a time informal meetings, some companies have an in-house newsletter which they send to all their major dealers. This newsletter informs channel members of happenings in the market-place and also the company's perspective of the products and markets.

• **Dealer Councils**: Another way to resolve conflict is through formation of dealer Councils. Such councils can resolve issues in horizontal-level conflicts and even vertical conflicts. The manufacturer continues to play the key role in these councils. Often the criticism or fear voiced in this regard is that such councils can provide a platform for dealers to jointly voice their grievance against the manufacturer. These councils unite dealers. But, if the manufacturer can keep the councils focused on market leadership and maximization of returns on investment, and is also willing to accept constructive suggestion, the dealer council can become an effective tool for intervening in the marketplace.

• **Super ordinate Goals**: Another way to resolve channel conflict is to evolve super Ordinate goal of maximizing customer satisfaction. If the channel members can be Motivated to perceive Customer satisfaction as the ultimate goal of all members in the Channel and this in turn leading to profit maximization for all concerned, and then much of the conflict can be resolved. Often super ordinate goals development is easier only when the threat from the other firms is high.

• **Arbitration and Mediation**: Often, the conflict among channel members may be Resolved through arbitration and mediation. Generally in intra middlemen conflict horizontal or vertical, wholesaler vs. retailers)-the manufacturer may arbitrate or mediate. But, when it is between the manufacturer and dealers, arbitration or mediation may be done by independent individuals or institutions like a court or government agency like the drug controller mediating between pharmaceutical companies and their stockiest.

Motivating Channel Members: Another major challenge to a marketer today is to keep channel members motivated so that they give best performance. Motivation of channel members is often achieved through financial and non financial rewards. Financial rewards include higher margins, extended credit time, bonuses and reimbursement of expenses. The problem with most financial rewards, particularly higher margins and bonus, is that the wholesalers use them to reduce prices for their customers. The net effect is that effectively their profits never go up. So any increase in margins is hardly retained by dealers. The manufacturers will always be under the pressure to further enhance margins. Hence, when the financial rewards are not going to be retained by dealers, non financial rewards assume importance.

The non-financial rewards are contests, public recognition for higher performance through mementos, paid holidays at company expense at holiday resorts in India and abroad, and training. Bajaj Electricals, Parle (Exports), Philips, and several others are known to publicly acknowledge their high-performing dealers or franchises at their annual gettogether.Companies like Reliance, Videocon, and others are known to sponsor holidays for their high-performance dealers at foreign destinations like Bangkok, Pattaya, Singapore, Hong Kong, and so on.

NON-INTEGRATED/ CONVENTIONAL TYPE: -

In this channel each enterprise is separately owned and operated. Manufacturers, Wholesalers, Retailers bargain with each other, negotiate over terms of sale & otherwise behave autonomously.

These are of two types, such as- Direct and Indirect type.

DIRECT: - In the direct and short channel, the company, manufacturer sale the products to the consumers directly. There are no intermediaries and the company has no choice expect going to the customer directly.

Example: -

Manufacturer- Consumer: - This is the direct channel. The manufacturers transfer products directly to the consumers. It is the shortest and simplest channel. This channel is conveniently adopted under following circumstances-

Advantages: -

- Producers of perishable goods aim to avoid physical distribution, but try to sell directly. Ex- Bakery products, fruits, milk, etc.
- Manufacturers of fashion goods enter into direct goods for quick sales, before the fashion disappears.
- when new products are introduced, direct channel is widely used for aggressive sales.
- Articles, which are of technical nature and need demonstration, may be marketed directly.
- When production is in small quantity, a direct sale is employed.
- Certain articles are sold directly, when the goods belong to special segment of customers.
- When the manufacturer wants to have a close control over the price, the direct channel is most preferred.

Drawbacks: -

- it is uneconomical to have a direct contact with the customers, who are countless and scattered all over.
- The manufacturers sometime have a lack of intelligence than a salesperson, as the salesperson is closely associated with the type of job.

The following methods used by the producers, under direct channel are such as-

- Door to door sales
- Sales by mail order method
- Sales by opening own shops
- Sales through mechanical devices.

INDIRECT: -

Here the company uses intermediaries to channelize its products to the consumers. The company has more than one choice depending upon the length of channel sequence.

Depending upon the products, delivery pattern, speed of distribution, demand from the consumers the indirect channel is most preferred.

Manufacturer- Retailer- Consumer

Manufacturer-Wholesaler- Retailer- Consumer

Manufacturer-Agent Middlemen-Wholesaler- Retailer- Consumer

INTEGRATED: -

Integrated channels are networks in which channel components participate in a coordinated manner. Integrated channels may be vertical or horizontal.

VERTICAL MARKETING SYSTEM (VMS)

Professionally managed and centrally programmed networks, loosely organized group of interdependent firms- in which no one member is able to exert much control over the behavior of other members. There never comes any conflict among the channel members- because, the channel is an integrated system with unified objectives.So"A fully integrated marketing channel is that- in which, manufacturing and the successive stages of distribution are operated as a unified system."

The different types of vertical marketing channel are as follows-

a). Administered VMC: - It is a system in which, a single dominant firm in effect administers the channel by virtue of its market power. In the administered vertical system, a channel leader exerts power over the behavior of other channel members and can influence their decisions and actions. This channel member can manage conflict within the channel and exercise a leadership role when other members perceive it to be in their best interest. Ex- HLL Marketing Channels

b). Contractual VMC: - In this system, the independent organization like wholesalers, retailers; operate under contract, specifying how they will try to improve distribution efficiency and effectiveness. There are 4 types of contractual organizations found, such as-

- Wholesalers sponsored voluntary chains
- Retailer sponsored co-operative chains
- Manufactured sponsored franchise systems, and
- Service Company sponsored franchise system.

c). Corporate VMC: - It is a system, in which a single company owns all of the manufacturing, wholesaling and retailing operations. The corporate VMC is closest to total channel system concept. It exists when channel participants on two or more levels are owned and operated by one organization. The ultimate corporate VMC occurs when a single firm owns each level in the channel, such as the oil companies, telephone depts.

HORIZONTAL MARKETING SYSTEM (HMS)

In this, two or more organizations on the same level of distribution cooperate to accomplish a common goal. This type of distribution channel recognizes that there are

strengths in number. Each member gives up some of its authority to make decisions strictly on its own in order to secure cooperative effort in attaining collective goals. The nature of horizontal marketing system differs widely for different types of products.
Example: McDonalds introduced its express outlet at Wal-Mart store. By this horizontal integration, McDonald gets benefit from huge store traffic, whereas Wal-Mart can keep its hungry customers not to go elsewhere to eat.

MULTI CHANNEL MARKETING SYSTEM (MMS)/ HYBRID CHANNEL SYSTEM

It occurs when a single firm uses two or more marketing channels to reach more customers segments. Now-a-days most companies are adapting to this system.
Example: IBM employed almost 18 channels to sell its wide range of computers like catalogue selling, telemarketing etc.

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CHANNEL DEPTH

The depth of a channel refers to the number of intermediaries between the manufacturer of the product and the ultimate consumer of the product. In channel depth, marketer must decide whether to reach customers directly or via channel intermediaries and if so, the number of intermediaries to use.

CHANNEL WIDTH

Channel width depends on the intensity strategy chosen by the company. As a result of this decision marketing channels can be divided into narrow or wide. This decision depends on the characteristics of the product and the target market.

Intensity of distribution:

There are three basic coverage strategies, such as-

a). Intensive- Distribution through every reasonable outlet in a market. Ex- Cigarettes, Chewing gums, Soft drinks.

b). Selective—Distribution through multiple but not all reasonable outlet in the market. Ex- Telecom products and accessories.

c). Exclusive-- Distribution through single wholesaling middlemen in a market
Ex: - Bike Points, Car showrooms, etc

Special Dealer Analysis

Dealer refers to either a company or an individual and can describe an intermediary that buys directly from the manufacturer or from another intermediary. A stocking dealer who place an opening stock and maintains a reasonable.

Stock turnover ratio (STR)

The STR is indicative the number of days the present stock will last with retailers, assuming the current rate of sales of the respective products.

STR=Stock/ Sales × (30 days)

Per Dealer off-take (PDO)
It is the ratio of sales by volumes, to the total number of dealers handling the product.
PDO= Stock by volume/ Total no. of dealers

Out-of-stock of Dealer (OSD)
The OSD is the indicative of the number of dealers, who have reported purchase or sales for a particular brand, but have not reported any closing stock for the brand at the time of audit.
OSD=out of stock dealers/total dealers×100

With new technology and the evolution of strategies in today's marketing landscape comes a new wave of terminology with which marketers need to become acquainted. Two new-age definitions that immediately come to mind are multichannel marketing and Omni channel marketing.

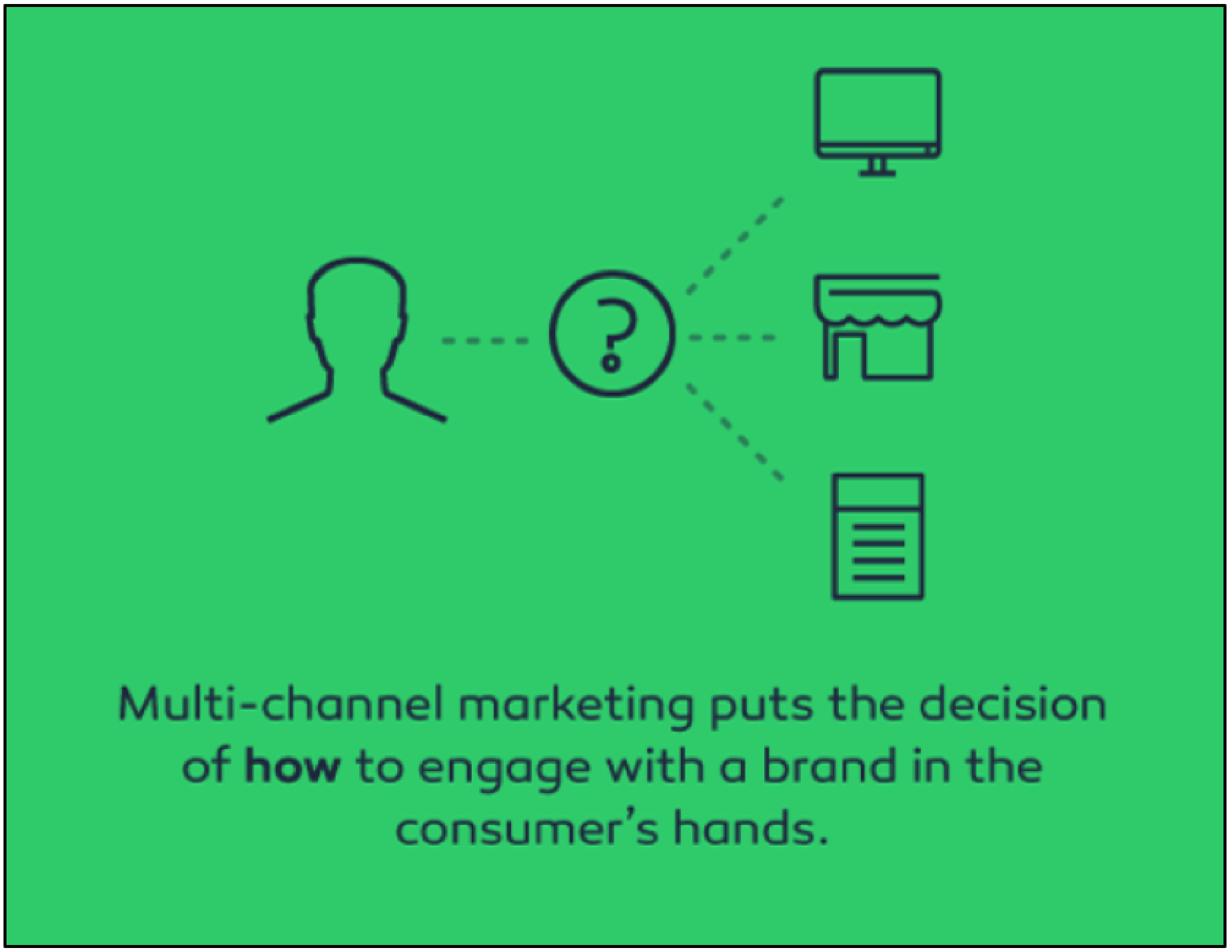
Omni channel and multichannel marketing are two very distinct and separate marketing strategies, even though both focus on the use of multiple channels to reach consumers and potential consumers.

Multichannel Marketing

Multichannel marketing refers to the ability to interact with potential customers on various platforms. A channel might be a print ad, a retail location, a website, a promotional event, a product's package, or word-of-mouth.

Omni channel Marketing

Omni channel refers to the multichannel sales approach that provides the customer with an integrated shopping experience. The customer can be shopping online from a desktop or mobile device, via phone, or in a brick-and-mortar store, and the experience will be seamless.


Multi-channel marketing puts the decision of **how** to engage with a brand in the consumer's hands.

Differences between Multichannel &Omni channel Marketing

1. Channel vs. Customer

The multichannel approach merely aims to get the word out via the maximum possible number of channels. Multichannel marketing is about casting the widest net to get the most customer engagements; the more the merrier. Companies utilizing the multichannel strategy are adopting two or more channels to engage their consumers; most popular are social media and email.

Conversely, the Omni channel approach inter-relates every channel to engage with customers as a holistic whole, to ensure they are having a wonderful overall experience with the brand throughout each and every channel. The focus is on building a stronger relationship between consumers and the brand.

In fact, companies with well-defined Omni channel customer experience strategies in place achieve a 91% higher year-over-year increase in customer retention rate on average, compared to organizations without Omni channel programs in place.

2. Consistency vs. Engagement

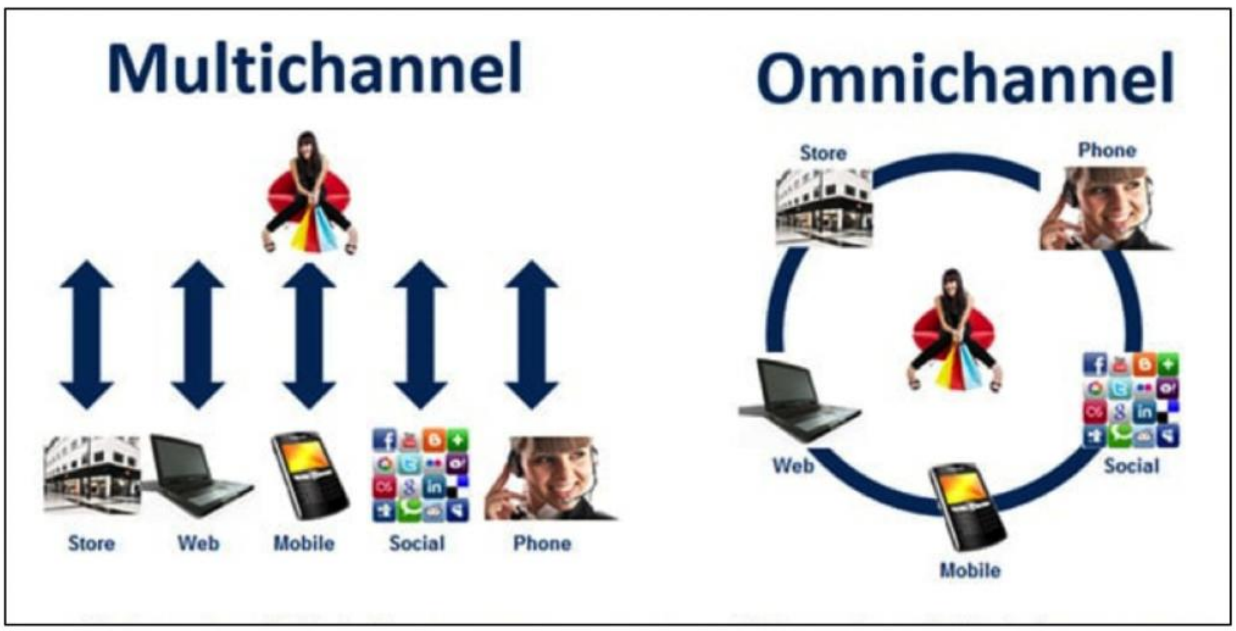
Omni channel's focus on the customer's experience brings about the second key difference between the strategies: consistency. Omni channel businesses are diligent in ensuring their customers receive the same experience and messaging through each and every channel.

A consistent brand image and message ensure a heightened sense of familiarity and relationship with the brand. Marketers implementing an Omni channel marketing strategy must ensure that all internal departments are on board and in-tune with the messaging. For example, PR, customer success, social media and sales teams, must all be portraying this consistent message to ensure the strategy implementation is successful.

3. Effort vs. Effortless

Another priority of Omni channel marketing, as told by Misia Tramp, the EVP of Insights and Innovations for Tahzoois, in "understanding how to eliminate effort from the customer experience".

Tramp goes on to explain: "There is a tendency to consider the many channels available to connect with consumers today as simply more options to be used. That's more of a multichannel approach. Omni channel involves using data to understand where effort exists in the customer experience and how to remove, rather than add, effort."



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Measures for Distribution (Width)

Distribution, the metric commonly used for tracking product availability, has a number of variations: purchase, sales and handler distribution; in-stock and out-of-stock (OOS) distribution; forward stock and total stock. It is usually measured in numeric and weighted terms, and it maybe weighted in either volume or value.

Handler: A store is considered a product handler during an audit period if it stocked that product at any time during that period. (If there is any opening or closing stock, purchase or sale, then the store is a handler.)

Numeric Distribution: Percentage of stores handling product.

Weighted Distribution: Percentage of stores handling product weighted by product category store sales. If the weight is in value terms, which usually is the norm, then weighted distribution is the same as the value share of category sales by handlers.

Numeric/Weighted Sales Distribution: For the upper trade, information on stocks is not captured in their scan data. For scan stores, therefore, the numeric and weighted distribution is computed in terms of numeric sales distribution and weighted sales distribution.

Numeric Sales Distribution: Percentage of stores selling product.

Numeric Purchase Distribution: Percentage of stores purchasing product.

Weighted Sales Distribution: Percentage of stores selling product weighted by product category store sales. (Equal to share of category sales by sellers.)

Weighted Purchase Distribution: Percentage of stores purchasing product weighted by product category store purchases.

Numeric distribution tells us the proportion of stores distributing a product. Weighted distribution, on the other hand, reveals the product's presence as percentage of where money is spent on that category. It is a better reflection of the quality of distribution.

Usually the weighted distribution of a product is greater than its numeric distribution. This is because bigger stores typically carry more brands; they tend to be the stores that brands would enter into first.

All commodity value (ACV) weighted distribution: Occasionally categories are weighted in terms of ACV (i.e. sales value of all categories sold by store). This is advisable in case of small new/growing categories with few brands. For such categories, ACV weighted distribution provides a better reflection of the quality of distribution.

MODULE -3

Logistics Management

Logistics systems are made up of four main activities: purchasing management, inventory management, warehousing management and transportation management.

Supply chain management consists of firms collaborating to leverage strategic positioning and to improve operating efficiency.

Logistics is the work required to move and position inventory throughout a supply chain.

As such, logistics is a subset of and occurs within the broader framework of a supply chain.

Definition of Logistics

Logistics management, as defined by The Council of Logistics Management, refers to the process of planning, implementing and controlling the efficient, effective flow and storage of goods, services and related information from point of origin to the point of consumption for conforming to customer requirements.

Logistics is defined by the Council of Logistics Management (CLM) as" . . . the process of planning, implementing and controlling the efficient, effective flow and storage of goods, services and related information from the point of origin to the point of consumption for the purpose of conforming to customer requirements."

Logistics Planning

Logistics is the process that creates value by timing and positioning inventory; it is the combination of a firm’s order management, inventory, transportation, warehousing, materials handling, and packaging as integrated throughout a facility network.

Logistics planning serves to link and synchronize the overall supply chain as a continuous process and is essential for effective supply chain connectivity.

The Strategic Importance of Logistics Planning

The key objective of logistics is to provide customer satisfaction by having the correct product in the correct place at the correct time. Competition worldwide is increasing. Creating customer satisfaction is important to most companies.

The concept of satisfaction has multiple dimensions. These dimensions contribute to a feeling of overall satisfaction and are made up of

- Cost– what customers receive for what they paid?
- Convenience– the effort expended to achieve the purchase
- Confidence in the support services both included and promised

Logistics planning is the ability to satisfy and retain customer.

Consider Amazon.com, which provides books selected from the internet store delivered to your door (within a stated period). The marketing proposition is simple and based on convenience. The same product could be purchased from a bookshop.

If the back-office operation of Amazon either takes six weeks to deliver the book once ordered, or fails to meet a promised delivery date, then the probability is that the customer would be dissatisfied.

The same applies to FedEx with its delivery next day before 10am promise. Speed is becoming an important aspect of service provision.

McDonald's controls its supplies along the entire length of its supply chain from meat purchasing and paper cups to 28,000 franchise outlets worldwide.

For major companies operating in global markets, the stakes are high. Managing the logistics of supply chain offers the capability to create and reach markets before competitors, and achieve competitive advantage by providing increased customer satisfaction through delivering the right product at the right time at greater value for money because of reduced overall cost.

Logistics is the primary conduit of product and service flow within a supply chain arrangement. Each firm engaged in a supply chain is involved in performing logistics. Such logistical activity may or may not be integrated within that firm and within overall supply chain performance.

Achievement of logistical integration is the focus and desire for organizations to achieve competitive advantage in the market place in which the organization is competing.

Market Logistics Objectives:

Many companies state that their market logistics objectives as "getting the right goods to the right places at the right time for the least cost" Unfortunately this objective provides little practical guidance. No system can simultaneously maximize customer service and minimize distribution cost. Maximum customer service implies large inventories, premium transportation, and multiple warehouses all of which raise market logistics cost. The followings are the objectives of market logistics:

1. Customer service. That means to provide time and place utility.

2. Demand forecasting. That means decisions on how much to order from suppliers and when and how much to produce for customers.

3. Inventory control. How much stock should be held?

4. Material handling. Movement and storage of raw and packaging materials, work in process and finished goods.

5. Order processing. Getting orders in time from customers, checking on the status of execution and delivery.

6. After sales and service support. This is very critical for all technical and engineering products and consumer durables.

7. Plant and ware house location. A linear programming model helps the company to reach at ideal location.

8. To go for right ware housing and storage decision

9. to select right transport and traffic mode

10. Procurement. To purchase raw materials and services from outside organizations to support firms operations.

Components of Logistics

Logistics activities are divided into **inbound (upstream) and outbound (downstream)**. The followings are the **inbound logistics** activities:

- Material handling
- Inventory control
- Inbound quality inspection and control
- Production scheduling
- Return of unacceptable material back to suppliers

Out bound logistics are the followings:

- Collecting, storing, dispatching and physically distributing the finished goods to the buyers, distributors and the consumers.
- Processing the orders received through the sales people.
- Material handling of finished goods
- Field and plant warehousing
- Delivery vehicle operation and scheduling
- Shipping and related documentation.

Four major decisions must be made with regard to market logistics:

1. How much orders are handled? (Order processing)

2. Where should stocks be located? (Warehousing)

3. How much stock should be held? (Inventory)

4. How should goods be shipped? (Transportation)

1. How much orders are handled? (Order processing):

It is all about shortening the order-to-payment cycle. I t is the lapsed time between an order's receipt, delivery and payment. This cycle involves many steps including order transmission by the sales person, order entry and customer credit check, inventory and production scheduling, order and invoice shipment and receipt of payment. The longer this cycle takes, the lower would be the customer satisfaction and lower would be the company's profit. Therefore companies need criteria for the perfect order.

2. Where should stocks be located? (Warehousing):

Every company has to store finished goods until they are sold, because the production and the consumption cycle rarely match. The storage function helps to smooth discrepancies between production and quantities desired by the market. The company must decide on the number of inventory stocking locations. On the one hand more stocking locations means that the goods can be delivered to the customers at the quicker time but the warehousing cost would escalate. Therefore the company may think either of the followings

- Centralize its inventory in one place and use fast transportation to fulfill orders.
- Inventory may be kept near the plant and the rest is located in warehouses in other locations.
- The company might own private warehouses and also rent space in public warehouses.
- The company may have storage warehouses or distribution warehouses.
- The company may have its automated warehouses.

3. How much stock should be held? (Inventory):

Inventory levels represent a major cost. Inventory cost increases at an accelerating rate as the customer service level approaches 100 percent. Management needs to know how much sales and profits would increase as a result of carrying larger inventories and promising faster order fulfillment times and then make a decision. Inventory decision making involves knowing when to order and how much to order. As inventory draws down, management must know at what stock level to place a new order. This stock level is called the reorder point. A reorder point of 20 means reordering when the stock falls to 20 units. The reorder point should balance the risks of stock out against the cost of over stock.

The other decision is how much to order? The larger the quantity ordered the less frequently an order has to be placed. The company has to balance the order processing cost and the inventory carrying cost. The larger the average stock carried, the higher the inventory carrying cost. This carrying cost includes the storage charges, cost of capital, taxes and insurance, depreciation and obsolescence. This means that the marketing managers who want that their companies to carry larger inventories need to show that the larger inventories would produce incremental gross profit to exceed the incremental carrying cost.

4. How should goods be shipped? (Transportation):

Transportation choice affects product pricing, on tine delivery performance and the condition of goods when they arrive, all of which affects customer satisfaction. In shipping goods to its warehouses, dealers and customers the company can choose five transportation modes: rail, truck, waterway air and the pipeline and the ropeways. Shipper should consider criteria such as speed, frequency, adaptability, capability, availability, traceability and the cost. For speed, air and the truck are the prime contenders. If the goal is low cost, then water and pipeline. Today shippers are increasingly combining two or more transportation modes. **Piggyback** describes the use of rail and trucks, **Fishy back-** water and trucks, Train ship- water and rail and Air truck- air and trucks. Each coordinated modes offer specific advantages. For example piggyback is cheaper than truck alone, yet provides flexibility and convenience. Even you can select private versus contract carriers.

Inventory management decision

Inventory means stock of goods. Inventory management decides "what to purchase, how much to purchase, where to purchase, where to store etc.''Inventory planning and control are the activities associated with the inventory management. Inventory management helps to ensure that the firm maintains optimum level of inventory, minimizing the chances of over or under stocking.

Inventory planning comprises of predicting how much inventory is required to be in hand to fulfill customers' demands. It is a method of estimating the optimal quantity and time of inventory for the need of arranging them with sales and production capacities.

Inventory control is the scientific method of finding how much stock should be maintained in order to meet the production demands and be able to provide right type of material at right time in the right quantities and at competitive prices. It is the process of determining the requisite level of various stock items such as raw material, work in progress, finished products.

Inventory Classes

Materials flow from suppliers, through a manufacturing organization, to the customers. The progressive states of a material are classified as raw materials, semi-finished goods, finished goods, and work-in-process (WIP).

- Raw Materials

Purchased items or extracted materials that are converted via the manufacturing process into components and/or products. Raw materials appear in the bottom level of BOM. They are stored in the warehouse and are non-phantom items.

- Semi-finished Goods

Semi-finished goods are items that have been stored uncompleted, awaiting final operations that will adapt them to different uses or customer specifications. Semi-finished goods are made under the instruction of a shop order, using the components issued by a picking order, and stored in the warehouse when finished. They are the items between the top and bottom levels in a management BOM (rather than engineering BOM) and are non-phantoms. Semi-finished goods are not sold to the customers.

- Finished Goods

A finished good is a product sold as a completed item or repair part, i.e., any item subject to a customer order or sales forecast. Finished goods are non-phantoms and are stored in the warehouse before they are shipped.

- Work-In-Process (WIP)

Products in various stages of completion throughout the plant, including all material from raw material that has been released for initial processing up to completely processed material waiting for inspection and acceptance as finished goods. WIP inventory is temporarily stored on the shop floor and appears as a phantom in the BOM.

- Maintenance, Repair, and Operational Supplies (MRO)

Items used in support of general operations and maintenance such as maintenance supplies, spare parts, and consumables used in the manufacturing process and supporting operations. These items are used in production but do not become part of the product.

Inventory Functions

- Safety Stock

An additional quantity of stock kept in inventory to protect against unexpected fluctuations in demands and/or supply. If demand is greater than forecast or supply is late, a stock shortage will occur. Safety stock is used to protect against these unpredictable events and prevent disruptions in manufacturing. Safety stock is also called buffer stock.

- Lot-size Inventory

In order to take advantage of quantity price discounts, reduce shipping and setup costs, or address similar considerations, items are manufactured or purchased in quantities greater than needed immediately. Since it is more economical to produce or purchase less frequently and in larger quantity, inventory is established to cover needs in periods when items are not replenished. Lot-size inventory depletes gradually as customer orders come in and is replenished cyclically when suppliers' orders are received.

 De-coupling Stock

Inventory between facilities that process materials at different rates. De-coupling stock de-couples facilities to prevent the disparity in production rates at different facilities from interfering with any one facility's production. This inventory increases the utilization of facilities.

 Pipeline Inventory

Inventory to fill the transportation network and the distribution system including the flow through intermediate stocking points. This inventory exists because of the time needed to move goods from one location to another. Time factors involve order transmission, order processing, shipping, transportation, receiving, stocking, etc.

 Transportation Inventory

Transportation inventory is part of pipeline inventory. It is inventory in transit between locations. The average amount of inventory in transit is:

$I = (A / 365) * D$

Where I am the average annual inventory in transit, A is annual usage, and D is transit time in days. The transit inventory does not depend upon the shipment size but on the transit time and the annual usage. The only way to reduce the inventory in transit is to reduce the transit time.

 Anticipation Inventory

Additional inventory above basic pipeline inventory to cover projected trends of increasing sales, planned sales promotion programs, seasonal fluctuations, plant shut downs, and vacations. Anticipation inventory differs from safety stock in that it is a predictable amount.

 Hedge Inventory

Inventory held to protect against future fluctuations due to a dramatic change in prices, strikes, war, unsettled government, etc. These events are rare, but such occurrences could severely damage a company's initiatives. Risk and consequences are usually high, and top management approval is often required. Hedge inventory is similar to safety stock except that a hedge has a dimension of timing as well as amount. If the incident does not occur in the predicted time period, the hedge rolls over to the time period.

Inventory control techniques

1. Economic order quantity (EOQ)—the point at which ordering cost (cost associated with receiving with an inventory) is equal to carrying cost (cost includes handling warehousing and allied cost) is called EOQ.
2. Budgetary Techniques: For the purchase of raw materials and stocks, what we required is a purchase Budged to be prepared in terms of quantities and values involved. The sales stipulated as per sales Budget of the corresponding period generally works out to be the key factor to decide the production quantum during the budget period, which ultimately decides the purchases to be made and the inventories to be planned.
3. A-B-C Analysis: ABC Analysis: ABC System: In this technique, the items of inventory are classified according to the value of usage. Materials are classified as A, B and C according to their value.

Items in class 'A' constitute the most important class of inventories so far as the proportion in the total value of inventory is concerned. The 'An' items constitute roughly about 5-10% of the total items while its value may be about 80% of the total value of the inventory.

Items in class 'B' constitute intermediate position. These items may be about 20-25% of the total items while the usage value may be about 15% of the total value.

Items in class 'C' are the most negligible in value, about 65-75% of the total quantity but the value may be about 5% of the total usage value of the inventory.

The numbers given above are just indicative, actual numbers may vary from situation to situation. The principle to be followed is that the high value items should be controlled more carefully while items having small value though large in numbers can be controlled periodically.

4. VED Analysis: VED- Vital, Essential, Desirable- analysis is used primarily for control of spare parts. The spare, parts can be divided into three categories – vital, essential or desirable – keeping in view the critically to production.
5. XYZ Analysis—Items with high inventory value are classified as X, where as low value items are classified as Z. Remaining items are categorized under Y class.

(TRANSPORTATION MANAGEMENT)

TRANSPORTATION is the physical means whereby goods are transferred from places of production to the places where they are to be consumed /used. Transportation reduces the gap between the manufacturer and the customers.

The transportation can effect on-

1. Selling Price.

2. Regional Specialization.

3. Consumption pattern.

4. Price stabilization.

5. National boundaries. (Become irrelevant)

6. Land value (increase).

The economic functions of Transportation are –

1. Widening the market.

2. Increase the mobility of labour and capital.

3. Specialization and division of labour.

4. Time and place utility.

5. Aid in stabilizing the price.

6. Transportation of the economy.

7. Scale of production.

Managing (Decisions regarding) Transportation:-

Marketers need to be concerned with Transportation decisions. Transportation choices will affect product pricing, on-time delivery performance and the condition of the goods when they arrive, all of which affect consumer satisfaction.

- **Mode/Service selection**

The problem

Define the available choices

Balance performance effects on inventory against the cost of transport

- Methods for selection

Indirectly through network configuration

Directly through channel simulation

Directly through a spreadsheet approach as follows

- Alternatives: Air / Truck / Rail

- Cost types

Transportation

In-transit inventory

Source inventory

Destination inventory

- **Freight consolidation**

Trade-off between transportation cost and customer responsiveness

Temporal aggregation is the process of combining orders across time

Temporal aggregation reduces transportation cost because it results in larger shipments and reduces variation in shipment sizes.

However, temporal aggregation reduces customer responsiveness

- **Vehicle Routing**

Separate and Single Origin and Destination Points

Multiple Origin and Destination points

Routing with a Coincident Origin/Destination Point

In shipping goods its warehouses, dealers and consumers the company can choose among five transportation models, such as – Rail, Air, Road, Waterway and pipeline. Shippers consider such criteria as -

- Speed,
- Frequency,
- Dependability,
- Capability,
- Traceability and
- Costs.

For speed, air and truck are the prime contenders. If the goal is low cost, then it is water and pipelines are the best. Shippers are increasingly combining two or more transportation models into one, such as-

-PIGGYBACK : Describes the use of Rail and Trucks.

-FISHYBACK : Describes the use of Water and Trucks.

-TRANSHI : Describes the use of Water and Rail.

-IRTRUCK : Describes the use of Air and Trucks.

And each coordinated mode offers specific advantages.

Next to the above in deciding on transportation modes, shippers can choose from **private, contract and common carriers.**

a. If the shippers own its truck and/or rail fleet, the shipper becomes a **private carrier**.

b. **A contract carrier** is an independent organization selling transportation services to others on a contract basis.

c. **A common carrier** provides services between predetermined points on a scheduled basis and is available to all shippers' at standard rates.

Supply Chain Management can be defined as the management of flow of products and services, which begins from the origin of products and ends at the product's consumption. It also comprises movement and storage of raw materials that are involved in work in progress, inventory and fully furnished goods. The main objective of supply chain management is to monitor and relate production, distribution, and shipment of products and services. This can be done by companies with a very good and tight hold over internal inventories, production, distribution, internal productions and sales.

Supply chain management basically merges the supply and demand management. It uses different strategies and approaches to view the entire chain and work efficiently at each and every step involved in the chain. Every unit that participates in the process must aim to minimize the costs and help the companies to improve their long term performance, while also creating value for its stakeholders and customers. This process can also minimize the rates by eradicating the unnecessary expenses, movements and handling.

Key benefits of supply chain management

- Develops better customer relationship and service.
- Creates better delivery mechanisms for products and services in demandwith minimum delay.
- Improvises productivity and business functions.
- Minimizes warehouse and transportation costs.
- Minimizesdirect and indirect costs.

- Assists in achieving shipping of right products to the right place at the right time.
- Enhances inventory management, supporting the successful execution of just-in time stock models.
- Assists companies in adapting to the challenges of globalization, economic upheaval, expanding consumer expectations, and related differences.
- Assists companies in minimizing waste, driving out costs, and achieving efficiencies throughout the supply chain process.

Process of SCM

Supply chain management is a process used by companies to ensure that their supply chain is efficient and cost-effective. A supply chain is the collection of steps that accompany takes to transform raw materials into a final product. The five basic components of supply chain management are discussed below:

Plan

The initial stage of the supply chain process is the planning stage. We need to develop a plan or strategy in order to address how the products and services will satisfy the demands and necessities of the customers. In this stage, the planning should mainly focus on designing a strategy that yields maximum profit. For managing all the resources required for designing products and providing services, a strategy has to be designed by the companies. Supply chain management mainly focuses on planning and developing a set of metrics.

Develop (Source)

After planning, the next step involves developing or sourcing. In this stage, we mainly concentrate on building a strong relationship with suppliers of the raw materials required for production. This involves not only identifying dependable suppliers but also determining different planning methods for shipping, delivery, and payment of theproduct.Companies need to select suppliers to deliver the items and services they require to develop their product. So in this stage, the supply chain managers need to construct asset of pricing, delivery and payment processes with suppliers and also create the metrics for controlling and improving the relationships. Finally, the supply chain managers can combine all these processes for handling their goods and services inventory. This handling comprises receiving and examining shipments, transferring them to the manufacturing facilities and authorizing supplier payments.

Make

The third step in the supply chain management process is the manufacturing or making of products that were demanded by the customer. In this stage, the products are designed, produced, tested, packaged, and synchronized for delivery. Here, the task of the supply chain manager is to schedule all the activities required for manufacturing, testing, packaging and preparation for delivery. This stage is considered as the most metric-intensive unit of the supply chain, where firms can gauge the quality levels, production output and worker productivity.

Deliver

The fourth stage is the delivery stage. Here the products are delivered to the customer at the destined location by the supplier. This stage is basically the logistics phase, where customer orders are accepted and delivery of the goods is planned. The delivery stage is often referred as logistics, where firms collaborate for the receipt of orders from customers, establish a network of warehouses, pick carriers to deliver products to customers and set up an invoicing system to receive payments.

Return

The last and final stage of supply chain management is referred as the return. In the stage, defective or damaged goods are returned to the supplier by the customer. Here, the companies need to deal with customer queries and respond to their complaints etc.This stage often tends to be a problematic section of the supply chain for many companies. The planners of supply chain need to discover a responsive and flexible network for accepting damaged, defective and extra products back from their customers and facilitating the return process for customers who have issues with delivered products.

Introduction to E-Supply Chain Management

The process of putting the demand and supply planning and execution information into a collaborative mode through the internet helps the employees to communicate with customers, suppliers and other business functions swiftly and also helps to execute ordering, promising and processing and other manufacturing activities more quickly at lesser cost.

Now for an E-Supply Chain Management approach to function efficiently with inline key process, the performance objectives need to guide overall strategy and the design of the system in the following manner –

By reducing order-to-delivery cycle times

By boosting on-time performance to at least 99%

By getting inventories down to the bare minimum

By ensuring world-class product and service quality

By lowering operating costs without reducing quality and on-time performance

Role of E-business in a Supply Chain

We use the term e-Business to describe businesses run on the internet, or businesses that use internet technologies to improve the productivity or profitability of a business. In general, we can describe it as any form of electronic business that uses a computer. This usage is somewhat archaic, however, and in most contexts e-business refers exclusively to internet businesses. IBM was one of the first to use this term when it launched a campaign built around the term.

E-Business is one of the easiest ways to reach out to the people involved in the supply chain. All you have to do is to have a website or register with a known search engine to hold its website in order for the site to be known. A business can put all information regarding their products, services, contact number on the site. Once done, the website is available for the customers and other participants of the supply chain to be viewed. The customers or suppliers can then view all the types of products and services available and accordingly make an offer.

E-commerce vs. E-business

Many a times we use the term e-commerce and e-business interchangeably, but clearly they are distinct concepts. In e-commerce, information and communications technology (ICT) is used in inter-business or inter-organizational transactions (transactions between and among harms/organizations) and in business-to-consumer transactions (transactions between firms/ organizations and individuals).

Primary processes in E-business

Production processes – Production processes includes procurement, ordering and replenishment of stocks, processing of payments, electronic links with suppliers and production control processes amongst others.

Customer-focused processes: A Customer-focused process includes promotional and marketing efforts, selling over the internet, processing of customers' purchase orders and payments and customer support amongst others.

Internal management processes – Internal management processes include employee services, training, internal information-sharing, video-conferencing, and recruiting. Electronic applications enhance information flow between production and sales forces to improve sales force productivity. Workgroup communication and electronic publishing of internal business information are likewise made more efficient.

Retail Supply Chain Management

All the processes that you utilize to ensure your products reach the customers, starting from obtaining the raw materials, managing inbound materials & production processes to last-mile delivery of those products at your customer's doorstep are together known as retail supply chain. When you optimize all these processes to increase both speed and efficiency, it becomes retail supply chain management.

All that is needed to be done is to optimize the processes in such a way that you are able to deliver the products in your customer's hands as fast as you can but at the same time, you don't want to pay an exorbitant amount to do that.

Hence, retail supply chain management calls for your processes to be both efficient and affordable. Now that you know what retail supply chain management is, let us tell you its importance.

IMPORTANCE OF SCM IN RETAIL BUSINESS

It lowers the costs, as it helps a business deliver the provided products in the fastest manner possible, instead of keeping them in transit for too long;

A well-built supply chain will gain more clients for your business, pushing it one step further than your competition;

It can make the provided products more affordable, by lowering the overall costs, but without making your company to lose the profit; this will be highly appreciated by your clients;

Customer services and experiences will be much improved, as customers enjoy a prompt and secure delivery of their favorite products;

It will optimize the processes and make the supplies move faster along the chain, helping your business save time and money and improve its reputation in the eyes of end consumers.

Role of Supply Chain Management in Retail

The differentiating factor of retail supply chain management from other supply chain management is in the volume of product movement and the fast-moving nature of the products of the retail industry.

The retail supply chain has to be monitored very closely and has to be free of glitches as the products are always on the move and the cycle time is very low.

According to Zebra's 2018 Shopper Vision Study, "53% of in-store and 51% of online shoppers are not satisfied with the returns/exchange process."

Logistics can be very challenging at times and when you are new at retail they may appear to be overwhelming.

If you are encountering problems like delayed fulfillment times, high fulfillment costs, and the inability to offer competitive shipping options and prices, then it's high time to streamline your supply chain.

Five steps

1. Optimizing Storage Space

If you investigate how you are using your storage space, you may find that you are paying for too much space. You might even be wasting your money paying your staff to search for stored items.

Another possibility is that as your warehouses are not efficiently designed in terms of item storage, the time taken to do inbound and outbound processes are greater and difficult to manage. An effective storage strategy can help you reduce your storage space and personnel cost. Automation and process consulting can help improve productivity and profitability. The less human touch is there in the inbound and outbound processes the better in terms of reducing errors and eliminating bottlenecks.

Automated warehouses enable easy collection of data across the supply chain which also helps take better decisions via real-time collaboration between departments. Layouts that are efficient also help in a smoother transition to complicated and advanced operations, such as cross-docking, bulk-breaking, etc. reducing overhead charges and manual errors.

2. Use of Multiple Suppliers

Putting all your eggs in one basket is never a good strategy. If you only use one supplier, you are eliminating competition for your orders. Find several suppliers who can compete on price, and use several of them at all times so you can avoid costly delays in receiving products. Using multiple suppliers protects you from spending money on less-than-satisfactory service.

Dealing with multiple suppliers at the same time creates a bargaining power which isn’t only limited to monetary benefit, but also in terms of product quality and delivery time. As suppliers compete to become the preferred choice, they supply better quality of products at a competitive rate, if there are economies of scale to achieve. This in turn reduces your return costs, ensuring higher revenue and higher profits.

3. Faster Movement of Supplies

If you can find ways to expedite shipments from suppliers, you can order closer to the time you need the supplies. Ordering far in advance can incur warehouse costs because you have to store them so that they’ll be available, and products are more likely to get lost or damaged.

In addition, examine whether you can shorten the time it takes you to transport supplies from where you receive them to where you need them. The easiest way to achieve this is by using an optimization program to create efficient pick-up & inbound routes. This can be done by a simplex function on your spreadsheet or can be achieved by specialized software in case your business scales in larger. Optimizing this process reduces the cost of after-order replenishments, hence reducing overhead costs and eventually boosting your bottom-line.

4. Evaluating Customer Demand Patterns

Evaluate customer-demand patterns frequently to see if you’re seasonal and even monthly assumptions hold up. Adjust your supply ordering based on your most recent evaluation, and you will be ordering in a way that’s more closely tied to what you really need to have on hand. Based on how you want to manage your inventory, you can choose to either lag the demand (keep somewhat less inventory than your demand in the warehouse) or lead it (keep more than the demand).

The most efficient way to manage demand patterns is to have access to clean and clear data across your entire supply chain and have real-time visibility of the inventory lying at different locations. Once you have the historic data, all you need is to analyze what's going on from that you can come at the conclusion of the inventory levels you need to have. You can choose to keep a safety stock with you, which act as a buffer for a proverbial rainy day and on top of that, any strategy amongst LIFO (Last In First Out), FIFO (First in First Out) etc. depending on the category of products you are dealing with.

Seasonality of demand is another variable that you need to consider. In case you are dealing with products where sales are highly seasonal, you have to be prepared for a particular season well in advance. However, during the other seasons, you can choose to reduce manpower or inventory levels making sure you don't overshoot from your yearly budgets and also don't end up with large amounts of unsold inventory. So plan your employee numbers and stocks efficiently to manage this.

5. Optimizing Ordering Process

Part of your supply chain costs come from your ordering system. If you have multiple people filling out requisitions, using multiple software or even paper checklists, you could be over-ordering.

In addition, if there's no approval process and individuals have the power to order supplies whenever they want, you could be ordering things you don't need. Examine your ordering process to see if it is causing waste.

Automating orders with the help of a warehouse management software or warehouse control systems are the best choice for this scenario. Create your own algorithms to calculate inventory and place delivery or replenishment orders as quickly as possible when it goes below a certain level, will reduce turnaround time and manual errors. You can use a spreadsheet too; however ensure that you have real-time updates coming in from multiple sources so that you don't miss out on any.

You can make use of Advanced Shipping Notice (ASN) for regular delivery schedules too. These ensure that you don't have to keep more inventories with you and you can seek regular delivery from your suppliers. As you establish an optimized cycle, it will be easier for the suppliers as well to plan production and shipping.