6e

SALES AND DISTRIBUTION MANAGEMENT

DECISIONS, STRATEGIES, AND CASES

Richard R. Still
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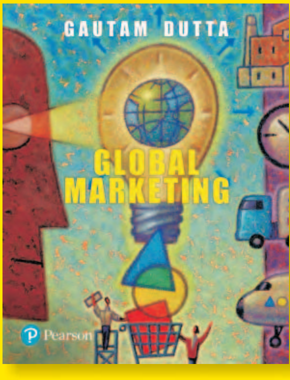

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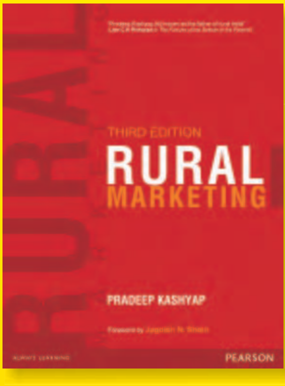

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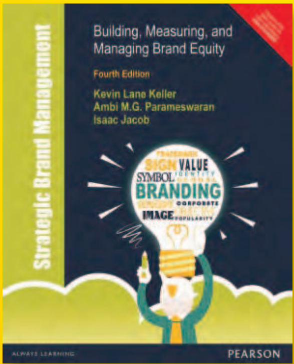

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SALES AND DISTRIBUTION MANAGEMENT
Decisions, Strategies, and Cases

Sixth Edition

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To MARGARET, PEGGY, TERRY, and BHAVNA

Contents

Preface

This book is aimed toward accomplishing three objectives: (1) to delineate the areas in which sales executives make decisions; (2) to analyze decision alternatives and criteria in these areas; and (3) to provide cases as real-world illustrations of decision situations. These objectives will have been accomplished if readers gain an understanding of the sales executive's functions in diverse circumstances.

The emphasis, as in previous editions, is on sales management, not on marketing. The main perspective is that of the sales executive as a participant in the marketing management team. Sales executives participate in, and sometimes are primarily or jointly responsible for, formulating strategies on the product line, on pricing, on physical distribution, on marketing channels, and on promotion. But their focus and primary responsibility consists of either the management of sales personnel or the maintenance of relationships with distributive organizations or both. Thus sales executives play roles both as planners of sales operations and as key figures in implementing not only sales programs but also important aspects of marketing strategies. In marked contrast to other marketing executives, the time orientation of the sales executive stresses the present-in getting things done, in making plans come true, in turning dreams into reality.

The management approach is applied to an analysis of the sales executive's job, the duties and responsibilities involved, and the planning and implementation of sales and marketing programs. Part I discusses the interrelationships of personal selling and marketing strategy, including the art of salesmanship, personal selling objectives, sales-related marketing policies, and the formulation of personal selling strategy. Part II shifts to the organizing of the sales effort both within the enterprise and relative to the distribution network. Part III is an indepth analysis of the sales executive's primary responsibilities to the sales force. Part IV concentrates on techniques of controlling the sales effort, including sales budgets, quotas, territories, and sales and cost analysis. And because business organizations have more and more come to look on the entire planet as potential markets and sales executives have become ever increasingly involved in international business, Part V considers the emerging field of international sales management, emphasizing sales force operations across national boundaries.

For successful completion of this edition, we owe a great deal to a great many people. Our present and former colleagues at the Florida International University, the University of Georgia, Emory University, Babson College, and the University of Texas at Austin have given generously of their time and have shared the benefits of their teaching and business experience. A large number of executives provided materials for case histories, and our graduate students competently assisted in collecting the cases. Daniel Darrow of Ferris State College, Robert Collins of Oregon State University, and Kenneth C. Lundahl of Jamestown Community College read the entire manuscript for this edition and made sound and helpful suggestions. Whitney Blake and Maureen Wilson were among the many at Prentice Hall who gave us help and advice. Hilda Aguiar, Christina Suarez, and Sylvia Suarez typed the manuscript efficiently and cheerfully under the watchful eye of Irene Young. Our wives were our sources both of helpful criticism and of encouragement. For all this assistance, we express our sincere thanks.

RICHARD R. STILL
EDWARD W. CUNDIFF
NORMAN A. P. GOVONI

Preface to the Sixth Edition

The sixth edition of the book builds on the strengths of the fifth edition, i.e., aims toward accomplishing three objectives: (1) to delineate the areas in which sales managers make decisions; (2) to analyze decision alternatives and criteria in these areas; and (3) to provide cases as real-world illustrations of decision situations. These objectives will be accomplished if readers gain an understanding of the sales manager's functions in diverse circumstances.

This edition focuses on sales and distribution management. The main perspective is that of the sales executive as a participant in the marketing management team. Sales managers participate in, and sometimes are primarily or jointly accountable for formulating strategies on the product line, on pricing, on physical distribution, on marketing channels, and on promotion. But their focus and primary responsibility consist of either the management of sales personnel or the maintenance of relationships with distributive organizations or both.

Part I discusses the interrelationships of personal selling and marketing strategy, including the art of salesmanship, personal selling objectives, sales-related marketing policies, and the formulation of personal selling strategy. Part II shifts to the organizing of the sales effort, recruitment and selection and sales management relations. Part III is an indepth analysis of the sales executive's primary responsibilities to the sales force. Part IV concentrates on techniques of controlling the sales effort, including sales budgets, targets/quotas, territories, and sales and cost analysis. Part V covers the distribution management, emphasizing the role of channel partners. Logistics, channel information systems, and international business.

For successful completion of this edition, I owe a great deal to many people. I would like to convey my gratitude to Prof. Atish Chattopadhyay for being an incredible leader and a great source of inspiration. My thanks to Prof. Ravikesh Srivastava who provided wholehearted encouragement and administrative support while I was working on this book. I would like to thank Prof. S R Singhvi, Prof. Anand Khanna, Prof. S K Palekar, Prof. Rakesh Singh, Prof. Bindu Gupta, and Prof. Abhishek at the Institute of Management Technology, Ghaziabad, who have given their time generously and have shared the benefits of their teaching and business experience. Appreciations are also due to Prof. Charles Dhanraj, Prof. Parvinder Arora, Prof. Subhajit Bhattacharyya, Prof. Ashwini Deshpande, Prof. Sharad Sarin, Prof. Jayanthi Ranjan, Prof. Reema Khurana, Prof. Vinita Sahay, Prof. Rajendra Nargundkar, Prof. Bhawana Sharma, Prof. Santanu Roy, Prof. Ravindra Saxena, Prof. Bhavna Bhalla and Prof. Gaganpreet Singh for always being very supportive of me.

I learnt a lot from Prof. Ajay Kohli, Georgia Tech; Prof. V Kumar, Georgia State University and Prof. Jagdish Sheth, Emory University during my three-month stay as a Visiting Research Scholar at Scheller College of Business, Georgia Tech. I would also like to thank business managers like Amit Khanna, Amit Puri, Arvind Batra, Anil Ghei, Cyrus Desai, Chhagan Donode, Hemanshu Mehta, V M Desai, Madan Lal, Jabraj Singh, Narendra Kumar, Mayank Chopra, Manish Wadhwa, Vishesh Chadha, Varun Arora, Kushal Dev Kashyap, Gursharan Singh, Sunil Malkany, Uday Agashe, Tejinder Singh, Rakesh Vashishta, Jaideep Sengupta and Brij Mohan Taneja for sharing their business experiences. I have also immensely benefitted from my interactions with my graduate students. Special thanks to Varun Goenka, Jubi Borkakoti, and Pallav Jain at Pearson for their timely help and guidance in developing the manuscript.

This book could not have been completed without the support of my family members. I would like to thank my father, Rajinder Kumar Puri and my father-in-law, P K Batra, for their unconditional love and support. My thanks to my children, Siddhant and Shraddha for their love, understanding and sweet words which helped me in moving with energy while completing this book. Finally, my deepest thanks are reserved for Bhavna Puri, who is my greatest source of inspiration, strength, and emotional support.

Sandeep Puri

Sales Management and the Business Enterprise

1

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- *Understand the evolution of the sales department*
- *Understand the objectives of sales management*
- *Understand the roles of sales executives*
- *Know the importance of sales management and control*

In today's day and age, sales executives are professionals. They plan, build, and maintain effective organizations, and design and utilize efficient control procedures. The professional approach requires thorough analysis, market-efficient qualitative and quantitative personal-selling objectives, appropriate sales policies, and personal-selling strategy. It calls for skillful application of organizational principles to the conduct of sales operations. In addition, the professional approach demands the ability to install, operate, and use control procedures appropriate to the firm's situation and its objectives. Executives capable of applying the professional approach to sales management are in high demand today.

Sales executives have certain responsibilities to their organizations, the customers, and society. Top management holds them responsible for (1) obtaining sales volume, (2) providing profit contributions, and (3) continuing business growth. The customers (most often, wholesalers, retailers, or industrial users) expect them to supply easily resalable products and services, backed up by supporting activities (e.g., training dealers' sales personnel, help in preparing local advertising, and the provision of credit) and assurance that the products and services are wise investments in the competitive marketplace. Society looks to them to assure the delivery of goods and services that final buyers want at prices that final buyers are willing to pay and—of increasing importance—to develop and market products whose potential for damaging the environment is minimal. If the goods and services made and sold are needed and accepted by the buying public, and if these products are "socially responsible," then it is likely that management's objectives will have been achieved. Ultimately, a business's earnings depend upon how well, or how poorly, the interests of the firm, the final buyers, and society are blended. To the extent that these interests are in harmony, the firm experiences sales volume, net profits, and business growth.

EVOLUTION OF THE SALES DEPARTMENT

Before the Industrial Revolution, small-scale enterprises dominated the economic scene, and selling was no problem. The chief problem was to produce enough goods for nearby customers. Orders were obtained with minimum effort, and they were on hand before goods were produced. In most firms a single individual supervised all phases of the business, including both manufacturing and selling. Manufacturing problems received the most attention. Selling and other marketing problems were handled on a part-time basis.

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

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

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

SALES MANAGEMENT

"Sales management" originally referred exclusively to the direction of sales force personnel. Later, the term took on broader significance—in addition to the management of personal selling, "sales management" meant management of all marketing activities, including advertising, sales promotion, marketing research, physical distribution, pricing, and product merchandising. In time, businesses, adopting academic practice, came to use the term "marketing management" rather than "sales management" to describe the broader concept. Then, the Definitions Committee of the American Marketing Association agreed that sales management meant "the planning, direction, and control of personal selling, including recruiting, selecting, equipping, assigning, routing, supervising, paying, and motivating as these tasks apply to the personal salesforce."[1]

The American Marketing Association's definition made sales management synonymous with management of the sales force, but modern sales managers have considerably broader responsibilities. Sales managers are in charge of personal-selling activity, and their primary assignment is management of the personal sales force. However, personnel-related tasks do not comprise their total responsibility, so we call their personnel-related responsibilities "sales force management."

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, the 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 the preparation of information critical to the making of key marketing decisions, such as those on budgeting, sales quotas, and territories. They participate—to an extent that varies with the company—in decisions on products, marketing channels and distribution policies, advertising and other promotion, and pricing. Thus, the sales manager is both an administrator in charge of personal-selling activity and a member of the executive group that makes marketing decisions of all types.

Sales management is a vital function in many kinds of enterprises. Manufacturing and wholesaling businesses encounter a broad range of problems in sales management. Retail institutions, small and large, have sales management problems, even though the differences (when compared to the problems of manufacturers and wholesalers) are so great that retailing problems (at least in the academic world) are ordinarily considered separately. But some retailers have sales management problems more akin to those of manufacturers and wholesalers than to those of other retailers—the computer hardware dealer, the pharmaceutical distributor, and the direct-to-consumer marketer all are in this category. Firms selling intangibles, such as the insurance company, the consultant, the mutual fund, and the airline have problems in sales management.

[1]American Marketing Association, Committee on Definitions, *Marketing Definitions* (Chicago: American Marketing Association, 1960), p. 20.

Sales management problems exist even in companies not employing sales personnel as, for example, in the company that uses manufacturers' agents (rather than its own sales personnel) to reach its markets; indeed, the problems of managing a sales force of "independent outsiders" often are more complex than when sales personnel are on the company payroll.

OBJECTIVES OF SALES MANAGEMENT

From the company's viewpoint, there are three general objectives of sales management: sales volume, contribution to profits, and continuing growth. Even though these objectives are important to an organization, the objectives, relating to sales-volume, market share and profitability are greatly affected by the effectiveness and efficiency with which the sales-function is managed. Sales executives, of course, do not carry the full burden in the effort to reach these objectives, but they make major contributions. Top management has the final responsibility, because it is accountable for the success or failure of the entire enterprise. Ultimately, too, top management is accountable for supplying an ever-increasing volume of "socially responsible" products that final buyers want at satisfactory prices.

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

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

SALES MANAGEMENT AND FINANCIAL RESULTS

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

$$\text{sales} - \text{cost of sales} = \text{gross margin}$$
$$\text{gross margin} - \text{expenses} = \text{net profit}$$

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

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

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

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

SALES EXECUTIVE AS COORDINATOR

Optimum marketing performance in terms of sales volume, net profits, and long-term growth requires coordination, and sales executives play significant roles in coordinating. Sales executives have responsibilities for coordination involving (1) the organization, (2) the planning, and (3) other elements in the marketing strategy. Higher-ranking sales executives are those most concerned with obtaining effective coordination, but sales executives at all organizational levels have some coordination responsibilities.

Organization and Coordination

Coordination of the different order-getting methods (personal selling, advertising, and so forth) is achieved through a single responsible, top-ranking executive. Generally, this is the marketing vice-president, director of marketing, or marketing manager. This executive is responsible for minimizing the possibility that the different order-getting departments will work at cross-purposes or work toward sales goals in isolation (with little knowledge of what others are doing).

Inside the sales department, from the department head to down, all sales executives are responsible for coordinating the organizational units under their control. In sales departments that function smoothly, generally democratic administration is the rule. All subordinates affected by a decision are consulted in advance and are allowed to participate in making it—thus reducing the tendency to resist directives issued by superiors. Not only are there minimum opportunities for misunderstandings to occur, but subordinates, as well as superiors, are able to visualize the circumstances giving rise to decisions.

Planning and Coordination

The sales executive, having specialized knowledge of the market and of the capabilities of the sales force, is involved in achieving coordination in marketing objectives and drafts plans that achieve desired results at optimum cost. Sales executives determine the elements (personal selling, advertising, and so forth) that make up the marketing program, apportioning the relative amounts of each so as—at least theoretically—to equate its marginal effectiveness with that of other elements. Coordination among the marketing planners is essential if they are to lay out specific programs for achieving predetermined sales, profit, and growth objectives. The sales executive, as a member of the planning group, seeks to secure a marketing program that is both appropriate for market conditions and reflects the probable contribution of the sales force.

Coordination with Other Elements in the Marketing Program

Many responsibilities of sales executives relate to coordinating personal selling with other order-getting methods. Personal-selling efforts must be coordinated with advertising, display, and other promotional efforts if the total marketing effort is to achieve the desired results. Just as they must "build coordination into" the marketing plan, sales executives must achieve coordination during the plan's implementation.

Synchronizing personal selling with advertising is particularly important. Advertising may prove uneconomic unless the sales force capitalizes upon the interest aroused. Personal-selling effort is wasted in explaining details that might be explained by advertising, but when sales personnel and the advertising use the same appeals—if both tell the same story—promotional impact is magnified. The timing and sequence with which different phases of the personal-selling and advertising efforts are executed affect the firm's chances of achieving marketing success. An advertising effort should be implemented within the context of the larger marketing effort, and the same applies to personal-selling effort.

Sales executives are involved in coordinating other promotional efforts with the personal-selling effort. Point-of-purchase displays, for example, are set up in retail stores where customers will see them at the precise time that tie-in advertisements appear in national and local media. It is the job of the sales force to achieve this timing and coordination. In a similar manner, the sales personnel alerts dealers to special couponing or sampling efforts so that they can benefit from heightened customer interest.

Coordination with the Distributive Network

Sales executives coordinate personal selling with the marketing efforts of the intermediaries. Among the most important aspects are gaining product distribution, obtaining dealer identification, reconciling business goals, and sharing promotional risks.

Gaining product distribution. When a new product is introduced, sales executives are responsible for obtaining distribution. Unless the product is sold directly to final users, the sales department must persuade intermediaries to associate themselves with the new product's distribution. It is not an easy task to gain distribution Intermediaries refuse to stock a new product