UNIT – 2
SALES PLANNING & BUDGETING

SYLLABUS: Sales Planning Process, Sales Forecasting Methods, Sales Budgeting Process, Methods Used For deciding Sales Budget, Types of Quotas & Quota Setting Procedure, Reasons For Establishing or Revising Sales Territories, Routing and Scheduling Sales Persons, Market Cost Analysis.

SALES PLANNING

- Sales planning is a process of researching, analyzing, and outlining the strategies and tactics you'll deploy to achieve your sales goals. It encompasses everything from identifying your target audience to mapping your activities, resources, and timelines for sales success.
- A sales plan is different from the sales planning process. The sales planning process refers to the end-to-end steps involved in actually creating the sales plan. It involves information gathering, analysis, strategizing, and documentation.

▪ BENEFITS OF SALES PLANNING

- # SALES PLANNING PROCESS

▪ SALES FORECASTING METHODS

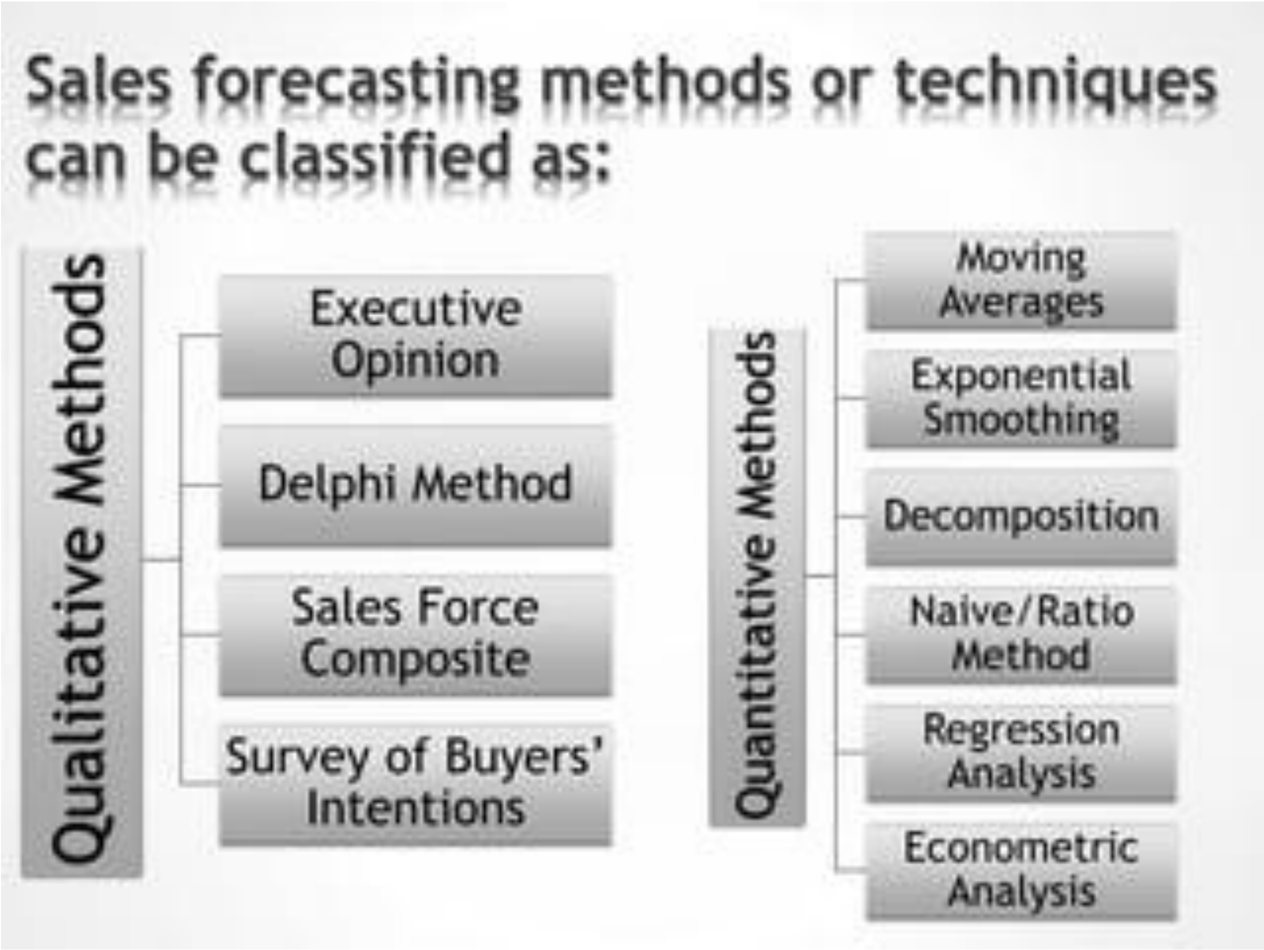
- Sales Forecasting is the process of estimating what future sales may look like at your company.
- The process of estimating future revenue by predicting how much of a product or service will sell in the next week, month, quarter, or year.
- Sales forecasting adds value across an organization.

➢ **How to accurately forecast sales?**

To create an accurate sales forecast, follow these five steps:

1. Assess historical trends
2. Incorporate changes
3. Anticipate market trends
4. Monitor competitors
5. Include business plans

▪ SALES FORECASTING METHODS



QUALITATIVE METHODS

▪ EXECUTIVE OPTION

- In this method of forecasting, the views of senior executives of the company are obtained for forecasting sales.
- The oldest, simplest and the most widely used method.

- **Advantages:** Forecasting can be done quickly & easily, Less expensive than other method, Very popular.
- **Disadvantages:** Unspecific, Subjective, Difficult to breakdown the forecast into sub units.

DELPHI METHOD

- Developed during late1940’s
- By Rand Corporation
- Forecasts of experts are taken by a coordinator separately, which are summarized & informed to experts, who again give their coordinator separately, which are summarized and informed to experts, who again give their opinions on the same matter. This process is continued till there is a near consensus.

▪ ADVANTAGES & DISADVANTAGES OF DEPLHI METHOD

- **Advantages:** Objective forecast is accurate, Useful for technology, new product, and industry sales forecast, Both long & short term forecasting possible.
- **Disadvantages:** Difficulty getting a panel experts, Longer time for getting consensus, Break-down of forecast into products or territories is not possible.

SALES FORCE COMPOSITE METHOD

- Each salesperson estimates how much quantity or value each existing and prospective consumer will buy of each of the company’s product and services in his/her territory.

- **Advantages:** Forecasting is done by a salespeople who are closest to the market, Detailed sales estimate broke down by customer, product and territory are possible, Involvement of salespeople.
- **Disadvantages:** Sales forecast are often pessimistic or optimistic, If sales forecast are used to set sales quotas, which are linked to incentive schemes, salespeople may deliberately under estimate the demand, Many salespersons are not interested in sales forecasting, and prefer to spend time in the field meeting customers.

SURVEY OF BUYER’S INTENTION

- Also called “market research” or “market survey”.
- In this method, existing and potential customers are asked about their likely purchases of the customers are asked about their likely purchases of the company’s products and services, during the forecast period.

- **Advantages:** Useful in forecasting sales for industrial products, consumer, durables, and new products. It also gives customer reasons for buying or not buying , Relatively inexpensive.
- **Disadvantages:** Difficulty getting a panel experts, Longer time for getting consensus, Break-down of forecast into products or territories is not possible.

TEST MARKETING METHOD

- This is a forecasting method that measures consumer acceptance of a new product. This is done by estimating the sales or demand for a new product or service in a representative small market, market to estimate the total demand for the product.
- Major methods used for consumer- product market testing include:

1. Full- blown test markets
2. Controlled test markets
3. Simulated test marketing

ADVANTAGES & DISADVANTAGES OF TEST MARKETING

- **Advantages:** Their usefulness for forecasting the sales of new or modified product, In deciding whether the company should go ahead for a national launch of a new product without spending huge amount.
- **Disadvantages:** Chances of spoilages, It is difficult for the company to wait to measure test result.

QUANTITATIVE METHODS

▪ MOVING AVERAGE METHOD

- In this method of forecasting, the moving averages of the company sales of the previous periods are calculated for forecasting in the sales of the future periods.
- The formula used is:
- Sales for next year = $\dfrac{\text{Actual sales for past 3 or 6 years}}{\text{Number of years (3 or 6)}}$

ADVANTAGES & DISADVANTAGES OF MOVING AVERAGE METHOD

- **Advantages:** Relatively simple method, Easy to calculate, Widely used for short term and medium term sales forecasts.
- **Disadvantages:** Unable to predict a downturn or upturn in the market, Cannot predict long- term sales forecast accurately, Historical data is needed.

EXPONENTIAL SMOOTHING METHOD

- This is a forecasting method in which the forecaster can allow sales in certain periods to influence the sales forecast more than the sales on other periods.
- By using a smoothing constant (L) in an equation:

Sales forecast for next period = (L) + (1-L)

L= Actual sales this period

1-L= This period's sales forecast

ADVANTAGES & DISADVANTAGES OF EXPONENTIAL SMOOTHING METHOD

- **Advantages:** Simple to operate, Forecasters knowledge or intuition can be used in forecasting, Useful method when sales date have a trend or a seasonal pattern, Immediate response to a upturn or downturn in sales, Used by many firms.
- **Disadvantages:** Arbitrary, Long term and new product forecasting are not possible.

▪ DECOMPOSITION METHOD

- This is one of the methods of sales forecasting in which the company’s periods of sales data are broken down (or decomposed) into major components, such as trends, cycle, seasonal, and erratic events.
- These components are then recombined to forecast the sales for the future period.

- **Advantages:** Conceptually sound method.
- **Disadvantages:** Difficult and complex statistical methods are needed to break down sales data into various components, Historical data is needed.

NAÏVE/RATIO METHOD

- It is a forecasting method, which is based on the assumption that what happened in the immediate past will continue to happen in the immediate future.
- The formula used is:

$$\text{Sales for next year} = \text{Actual sales for this year} \times \frac{\text{Actual sales for this year}}{\text{Actual sales for last year}}$$

- **Advantages:** Simple to calculate, Requires less data, Accuracy is good in short – term forecast.
- **Disadvantages:** Cannot be used for long - term and new products, Accuracy of sales forecast would be less, if past sales fluctuate considerably.

REGRESSION ANALYSIS

- It is a statistical method of sale forecasting that derives an equation based on relationship between the company sales dependent variable (x) and independent variables, or factors (y1, y2) which influence the sales.
- Simple regression analysis
- Multiple regression analysis

- **Advantages:** High forecasting accuracy, Objective method, Can predict turning points of the company's sales.
- **Disadvantages:** Technically complex, Expensive and time consuming, Use of computer and software packages essential.

ECONOMETRIC ANALYSIS

- This is another method of forecasting in which many regression equations are built to forecast industry sales, general economic conditions, or future events with the help of computer hardware and software.

- **Advantages:** Accurate forecasts of economic conditions and industry sales are possible.
- **Disadvantages:** Large volume of data is required.

SALES BUDGETING

- Sales budget is a blue print of sales. It is an estimate of sales volume, revenue earning, selling expenses and net profit.
- A sales budget is a financial document that allows a business owner to estimate the revenue they expect their company to make in a specified period. It uses predictions of sales volumes and unit prices to work out how much income can be anticipated over time.

	March	April	May
Unit sales	500	300	250
Unit price	$500	$500	$500
Gross total	$250,000	$150,000	$125,000
Net sales (No discounts)	$250,000	$150,000	$125,000

- SALES BUDGETING PROCESS

▪ METHODS USED FOR DECIDING SALES BUDGET

- Historical Sales Data
- Market Research and Analysis
- Sales Team Input
- Product Wise Budgeting
- Sales Funnel Analysis
- Industry and Economic Trends
- Seasonal Adjustment
- Contingency Planning
- Customer Segmentation
- Competitor Analysis

SALES QUOTAS

- Sales quotas refers to an expected routine assignment to sale units, such as territory, districts and branches, etc.
- Sales quotas are also assigned to individual sales people over a particular time period and are used to plan, control and evaluate the selling activities of a company.
- Sales quotas serve several purposes.

- **OBJECTIVES OF SETTING SALES QUOTAS:**
- Quotas provide performance targets, Quotas provide standard, Quotas provide control, Quotas are motivational.

▪ TYPES OF SALES QUOTAS

- They are mainly of the following types:

1. Volume Based : This is determined by number/units of products/services sold.

2. Revenue Based : This is determined by sales generated by sales of products or services.

3. Profit Based : This is determined by profit earned through the sale.

QUOTAS SETTING PROCEDURE

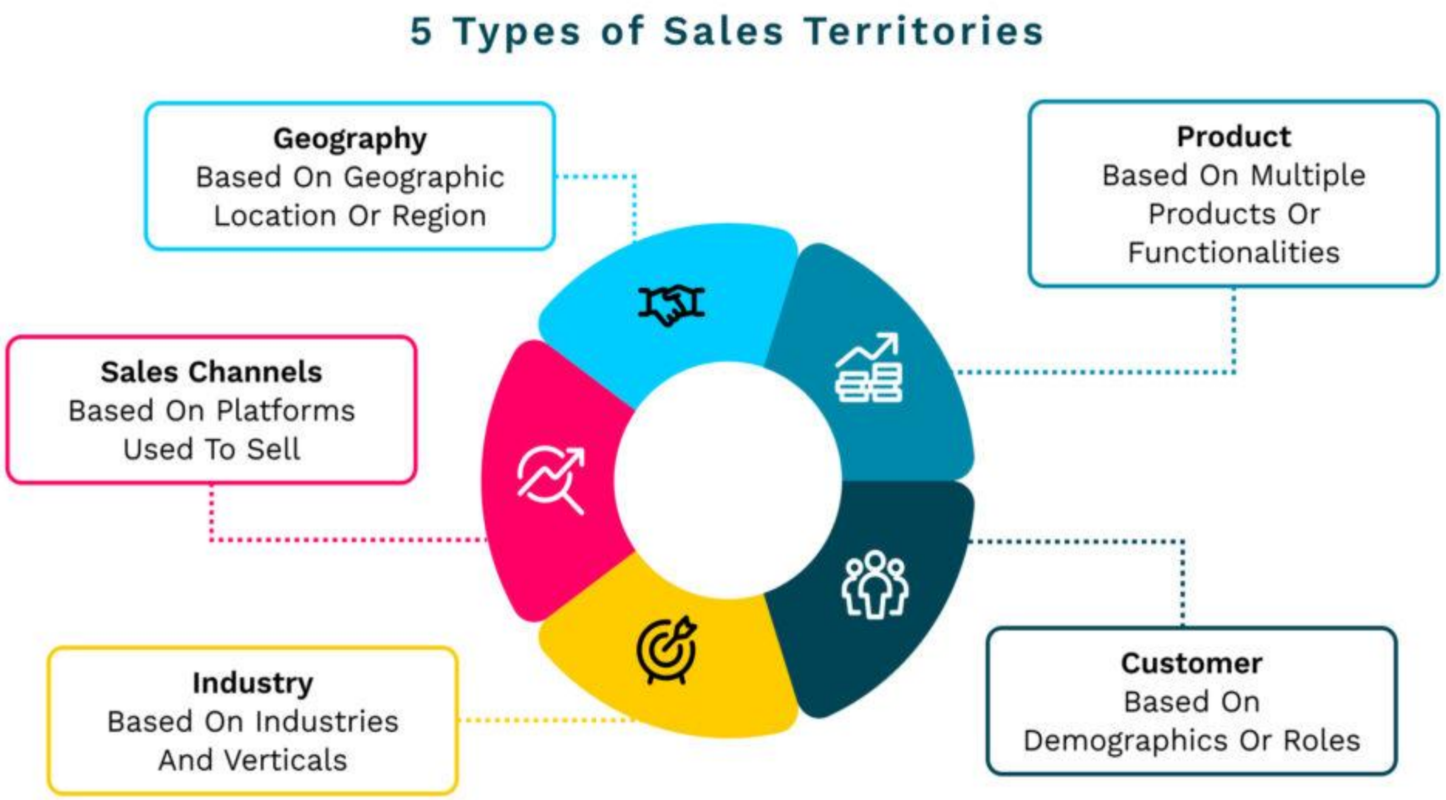
- Choose your quota type.
- Determine the right approach for your team.
- Get a baseline.
- Calculate sales quotas.
- Define your time period.
- Communicate expectations.

SALES TERRITORY

- A sales territory is the customer group or geographical area for which an individual salesperson or a sales team holds responsibility. Territories can be defined on the basis of geography, sales potential, history, or a combination of factors.

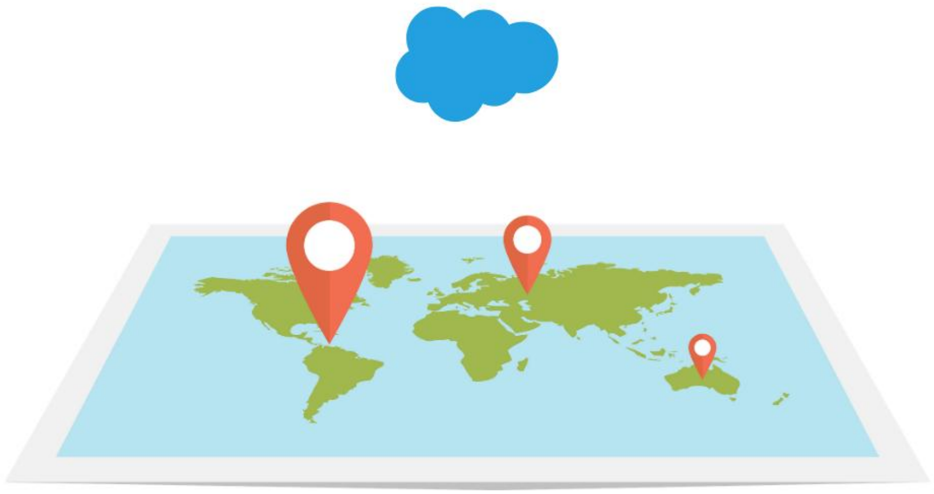
- With the help of territory management technology, sales territory data helps you accurately evaluate sales performance. This information helps you design effective sales compensation plans and ensure your sales teams are performing at their maximum potential.

- TYPES OF SALES TERRITORIES



REASONS FOR ESTABLISHING OR REVISING SALES TERRITORIES

- To obtain through coverage of the market.
- To establish a salesperson's responsibility.
- To evaluate performance.
- To improve customer relations.
- To reduce sales expense.
- To allow better matching of salesperson to customer.
- To benefit salespeople and the company.



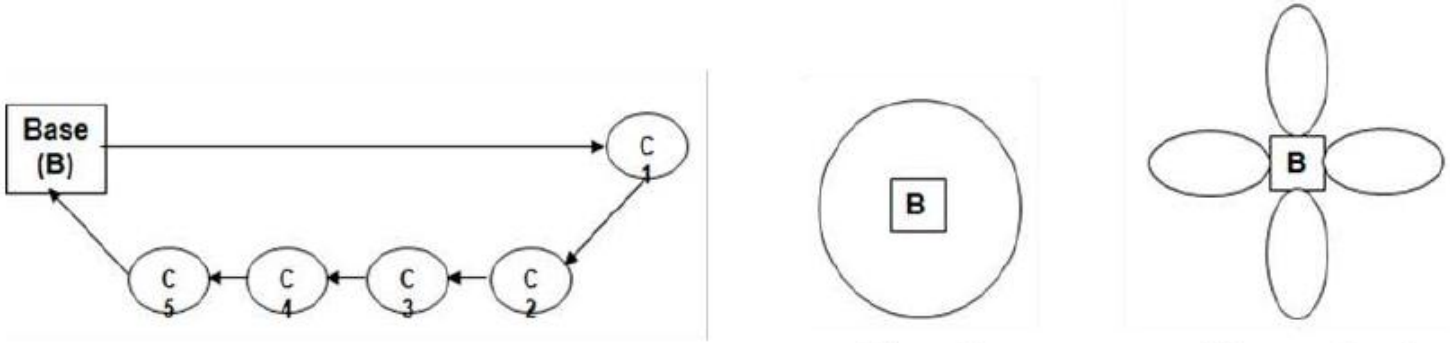
ROUTING AND SCHEDULING SALES PERSONS

- Routing is a travel plan or pattern used by a salesperson for making customer calls in a territory. The advantage of routing is that it reduces travel time of salespeople in the sales territory, reduces cost by excluding backtracking and crisscrossing by salespeople in the sales territory, improves the territorial coverage and increases salespeople selling time.

- **Procedure for Setting up a Routing Plan:** Identify the present and potential customers on a territory map. Then, each customer should be classified into high, medium and low sales potential. Call frequency for each class of customer to be decided.

▪ ROUTING PATTERNS

- **Straight line approach:** Sales calls are made in one direction
- **Circular approach:** Sales calls are made starting from base at the center to customers in a circular pattern
- **Clover leaf approach:** Trips are decided and in one trip one part of territory is considered



Straight line/Hopscotch   Circular   Clover leaf

SCHEDULING OF SALESPEOPLE TIME

- Scheduling is planning a salesperson's specific time of visits to customers.
- **Allocation of time:** The sales manager must first decide and communicate the major activities or duties of the salesperson, and amount of time to be allocated to each activity.
- **Customer Calls:** Companies state norms of visits to existing and prospects to their salespeople.
- **Usage of time management tools:** There are many supports available to help salespeople manage their time more efficiently and productively. These are:
- Use of computers, mobile communication equipment and other high-tech equipment.
- Inside salespeople.

▪ MARKET COST ANALYSIS

- Marketing cost analysis is a technique that helps assess the total costs of all activities in a marketing campaign. The resources invested include money, employee work hours, media purchases, and other resources. The analysis helps the company gain a clear picture of the costs of marketing activities. The intangible resources such as time and energy are hard to quantify but are critical in computing the general impact of the campaign.

▪ WHY CONDUCT A MARKETING COST ANALYSIS?

- Businesses conduct a marketing cost analysis to identify marketing campaigns' potential risks and gains. The objective of undertaking a cost analysis is to understand how much the promotion and supply of a product will cost. The marketing cost analysis then facilitates the creation of an accurate and contextualized approximation of the profits.
- Conducting a thorough marketing cost analysis before investing any resources in any new marketing campaign can help you make informed and wise decisions with your marketing budget and plans.