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Sales Force Management

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Sales Force Management

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Preface

The text covers what must still be the most important element of the marketing mix for most students and practitioners. With a move away from the selling function towards more esoteric areas of marketing over the past few years, this vital aspect of marketing has been somewhat neglected. However, in the end it has to be face-to-face contact that eventually wins the order, and this text therefore explains and documents the selling and sales management process from both the theoretical and practical viewpoints.

More precisely, the text is split into five logical parts: Sales Perspective, Sales Technique, Sales Environment, Sales Management and Sales Control. Sales Perspective examines selling in its historical role and then views its place within marketing and a marketing organisation. Different types of buyers are also analysed in order to help us achieve an understanding of their thinking and organise our selling effort accordingly. Sales Technique is essentially practical and covers preparation for selling, the personal selling process and sales responsibilities. Sales Environment looks at the institutions through which sales are made; this covers channels, including industrial, commercial and public authority selling followed by selling for resale. International selling is an increasingly important area in view of the ever increasing 'internationalisation' of business and this merits a separate chapter. Sales Management covers recruitment, selection, motivation and training, in addition to how we must organise and compensate salesmen from a managerial standpoint. Finally, Sales Control covers sales budgets and explains how this is the starting point for business planning. Sales forecasting is also covered in this final section, and a guide is given to the techniques of forecasting and why it is strictly a responsibility of sales management and not finance. Each module concludes with review questions and a mini-case study, together with formal practice questions typical of those the student will encounter in the examination room.

This edition includes a new module 'Internet and Information Technology Applications in Sales'. This reflects the advances made in technological tools to improve salesforce productivity and modes of doing business. This module includes a section on customer relationship management which is of growing importance to many companies. A full module is also devoted to direct marketing in recognition of the impact methods such as direct mail, telemarketing and database marketing are having on selling to customers. This new edition also contains many new and updated cases to support the effective teaching of selling and sales management.

The use of 'Selling and Sales Management in Action' case histories has been expanded to show how principles can be applied in practice. Also the section on ethics in sales has been expanded. A new section covering leadership has been added to the module entitled 'Motivation and Training'. Finally the new edition includes coverage of selling as a career in the first module. As always this edition continues to place emphasis on international aspects of selling and sales management to reflect the importance of international markets to companies.

Finally, the authors would like to thank Gordon Lucas for information upon which 'the diversion' and 'winning and losing orders' are based. We should like to make it clear that in all cases in the text the words 'he' and 'she' or 'him' and 'her' are interchangeable and no discrimination is intended.

We should also like to thank Richard Cork, Belinda Dew snap, Martin Evans, Jason Greenaway, Diana Luck, Paul Miller, Lynn Parkinson and Michael Starkey for providing excellent material on the applications of IT in sales. We also wish to thank all of the case contributors for supplying excellent case studies to enhance the practical aspects of the book.

Acknowledgements

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PART 1

Sales Perspective

Module 1

Development and Role of Selling in Marketing

Contents

Learning Objectives

After studying this module, you should be able to:

- understand the implications of production, sales, and marketing orientation;
- appreciate why selling generally has a negative image;
- know where selling fits into the marketing mix;
- identify the responsibilities of sales management;
- recognise the role of selling as a career.

Key Concepts

- break-even analysis
- exclusive distribution
- intensive distribution
- market penetration
- market segmentation
- market skimming
- business to business (B2B)
- marketing concept
- marketing mix
- product life cycle
- sales management
- selling
- targeting
- business to consumer (B2C)

1.1 Background

Perhaps no other area of business activity gives rise to as much discussion among and between those directly involved and those who are not involved as the activity known as selling. This is not surprising when one considers that so many people derive their livelihood, either directly or indirectly, from selling. Even those who have no direct involvement in selling come into contact with it in their roles as consumers. Perhaps, because of this familiarity, many people have strong, and often misplaced, views about selling and salespeople. Surprisingly, many of these misconceptions are held by people who have spent their working lives in selling, so it might well be a case of 'familiarity breeds contempt'.

It is important to recognise that **selling** and sales management, although closely related, are not the same and we shall start in this module by examining the nature and role of selling and sales management in the contemporary organisation and exploring some of the more common myths and misconceptions.

We shall also look at the developing role of selling because, like other business functions, it is required to adapt and change. Perhaps one of the most important and far-reaching of these business changes has been the adoption of the concept and practice of marketing, due to changes in the business environment. Because of the importance of this development to the sales function, we shall examine the place of marketing within the firm and the place of selling within marketing.

The importance of the sales function is reflected in professional practice as there are now two bodies in the UK that represent the profession: the Institute of Sales and Marketing Management and the Institute of Professional Sales.

1.2 The Nature and Role of Selling

The simplest way to think of the nature and role of selling (traditionally called salesmanship) is that its function is to make a sale. This seemingly obvious statement disguises what is often a very complex process, involving the use of a whole set of principles, techniques and substantial personal skills, and covering a wide range of different types of selling task. Later we will establish a more precise meaning for the term 'selling' but first we will examine the reasons for the intense interest in this area of business activity.

The literature of selling abounds with texts, ranging from the more conceptual approaches to the simplistic 'how it is done' approach. Companies spend large sums of money training their sales personnel in the art of selling. The reason for this attention to personal selling is simple: in most companies the sales personnel are the single most important link with the customer. The best-designed and best-planned marketing efforts may fail because the salesforce is ineffective. This front-line role of the salesperson means that for many customers the salesperson *is* the company. Allied with the often substantial costs associated with recruiting, training and maintaining the salesforce, there are powerful reasons for stressing the importance of the selling task and for justifying attempts to improve effectiveness in this area. Part Two addresses the important area of sales techniques.

The term 'selling' encompasses a variety of sales situations and activities. For example, there are those sales positions where the sales representative is required primarily to deliver the product to the customer on a regular or periodic basis. The emphasis in this type of sales activity is very different to the sales position where the sales representative is dealing with sales of capital equipment to industrial purchasers. In addition, some sales representatives deal only in export markets whereas others sell direct to customers in their homes. One of the most striking aspects of selling is the wide diversity of selling roles.

Irrespective of this diversity, one trend common to all selling tasks is the increasing emphasis on professionalism in selling. This trend, together with its implications for the nature and role of selling, can best be explained if we examine some of the myths and realities that surround the image of selling.

1.3 Types of Selling

The diverse nature of the buying situation means there are many types of selling job: selling varies according to the nature of the selling task. Figure 1.1 shows that there is a fundamental distinction between order-takers, order-creators and order-getters. Order-takers respond to already committed customers; order-creators do not directly receive orders since they talk to specifiers rather than buyers; order-getters attempt to persuade customers to place an order directly.

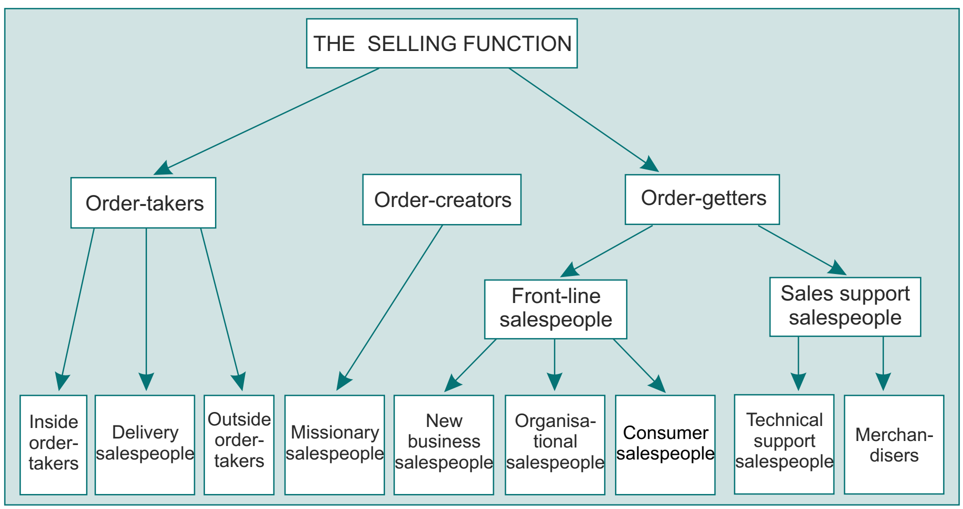

Figure 1.1 **Types of selling**

There are three types of order-takers: inside order-takers, delivery salespeople and outside order-takers. Order-creators are termed missionary salespeople. Finally, order-getters are either front-line salespeople consisting of new business, organisational or consumer salespeople, or sales support salespeople who can be either technical support salespeople or merchandisers. Both types of order-getters operate in situations where a direct sale can be made. Each type of selling job will now be discussed in more detail.

1.3.1 Order-Takers

- **Inside order-takers.** Here the customer has full freedom to choose products without the presence of a salesperson. The sales assistant's task is purely transactional – receiving payment and passing over the goods. Another form of inside order-taker is the telemarketing sales team who support field sales by taking customer orders over the telephone.
- **Delivery salespeople.** The salesperson's task is primarily concerned with delivering the product. In the UK, milk, newspapers and magazines are delivered to the door. There is little attempt to persuade the household to increase the milk order or number of newspapers taken; changes in order size are customer driven. Winning and losing orders will depend on reliability of delivery and the personality of the salesperson.
- **Outside order-takers.** Outside order-takers visit customers, but their primary function is to respond to customer requests rather than actively seeking persuade. Outside order-takers do not deliver and to a certain extent they are being replaced by more cost-efficient telemarketing teams.

1.3.2 Order-Creators

- **Missionary salespeople.** In some industries, notably the pharmaceutical industry, the sales task is not to close the sale but to persuade the customer to specify the seller's products. For example, medical representatives calling on doctors cannot make a direct sale since the doctor does not buy drugs personally but prescribes (specifies) them for patients. Similarly, in the building industry, architects act as specifiers rather than buyers, so the objective of a sales call cannot be to close the sale. In these situations the selling task is to educate and build goodwill.

1.3.3 Order-Getters

Order-getters are those in selling jobs where a major objective is to persuade customers to make a direct purchase. These are the front-line salespeople.

- **New business salespeople.** The task is to win new business by identifying and selling to prospects (people or organisations who have not previously bought from the salesperson's company).
- **Organisational salespeople.** These salespeople have the job of maintaining close long-term relationships with organisational customers (i.e. industrial buyers, buying for resale, and institutional buyers, perhaps buying for educational establishments, the police service and local authorities). The selling job may involve team selling where mainstream salespeople are supported by product and financial specialists.
- **Consumer salespeople.** Consumer selling involves selling physical products and services such as double glazing, security equipment, cars, insurance and personal pension plans to individuals. Much selling in this category tends to be one-off and salespeople are generally rewarded through commission. Therefore the

impetus to attain an order is paramount and it is this category that has attracted much criticism in terms of high pressure being put on customers to make a purchase.

- **Technical support salespeople.** Technical support salespeople provide sales support to front-line salespeople. Where a product is highly technical and negotiations are complex, a salesperson may be supported by product and financial specialists who can provide the detailed technical information required by customers. This may be ongoing as part of a key account team or on a temporary basis with the specialists being called into the selling situation as and when required.
- **Merchandisers.** Merchandisers provide sales support in retail and wholesale selling situations. Orders may be negotiated nationally at head office, but sales to individual outlets are supported by merchandisers who give advice on display, implement sales promotions, check stock levels and maintain contact with store managers.

1.3.4 Selling As a Career

The subdivisions of the sales roles just outlined give an idea of the range of sales positions that are available. Generally, there is much less personal pressure involved in being an order-taker than an order-maker and a prime attribute for an order-taker is a pleasant, non-combative personality. However, the opportunity for higher rewards belongs to order-makers as their remuneration normally rests on some kind of commission or bonus where payment is linked to the amount of orders they make. It is an acknowledged fact that in many business situations the opportunity to earn really high incomes at a relatively young age is present in this kind of situation.

With so many types of selling situation and positions in sales, it is too much of a generalisation to be specific about the qualities required for a successful sales career. There is no definitive test or selection procedure that can be used to distinguish between successful and less successful salespeople and apart from trying it out there is no way of knowing if a person is suited to a career in sales. However, there are a number of key qualities that are generally recognised as being important:

- **Empathy and an interest in people.** This skill will help in more accurately identifying customers' real needs and problems in terms of thinking oneself into the other person's mind and understanding why the customer feels as he or she does.
- **Ability to communicate.** This means an ability to get a message across to a customer and, more importantly, an ability to listen and understand. The skill of knowing when to stop talking and when to listen is essential.
- **Determination.** Although the salesperson must be able to take no for an answer, this should not come easily to someone who wants to succeed in selling. It is a fact that customers might say no when they really mean maybe, which can ultimately lead to yes. Determined salespeople have a need and a will to succeed and success can mean closing a sale.

- **Self-discipline and resilience.** Most salespeople spend much of their time unsupervised and, apart from seeing customers, they are alone. As part of their job they can expect setback, rejections and failures. A salesperson thus needs to be both self-disciplined and resilient to cope with these facets of the sales task.

1.4 Image of Selling

Mention of the word 'selling' will prompt a variety of responses. It will evoke a high proportion of negative, even hostile, responses, including 'immoral', 'dishonest', 'unsavoury', 'degrading' and 'wasteful'. Is such an unfavourable view justified? We suggest not. In fact, the underlying attitudes to selling derive from widely held misconceptions about selling, some of which are outlined below:

- **Selling is not a worthwhile career.** This notion is held by many, the common attitude being that if one has talent then it will be wasted in sales. Unfortunately, this attitude is often held by those in a position to advise and influence young people in their choice of careers. In some circles it is fashionable to denigrate careers in selling, and the consequence is that many of our brighter graduates are not attracted to a career in selling.
- **Good products will sell themselves and thus the selling process adds unnecessarily to costs.** This view assumes that if you produce a superior product then there will always be buyers. This may be all right if a firm can produce a technologically superior product, but then it is likely that additional costs will accrue in terms of research and development, and there will be continued research and development costs involved in keeping ahead. In addition, as explained later on, the role of selling is not solely to sell; it can be used to feed back information from customers to the firm – particularly product performance information – and this is of direct use to research and development.
- **There is something immoral about selling, and one should be suspicious about those who earn their living from it.** The origins and reasons for this most pervasive and damaging of the misconceptions about selling stems from the 'foot in the door' image that has been perpetuated. Such attitudes can make life difficult for the salesperson, who has first to overcome the barriers which such mistrust erects in the customer–salesperson relationship.

There are a number of elements in the sales task that act as demotivators:

- Because of their perceived low status, salespersons are constantly exposed to the possibility of rejection and often have to suffer ego punishment, such as being kept waiting, appointments cancelled at short notice and put-downs from customers to which they cannot adequately respond, as buyers have the power in such circumstances. Thus, in business to business (B2B) and business to consumer (B2C) selling in particular, a certain amount of psychological risk is involved.
- In B2B situations, in particular, salespersons visit buyers in their offices, so they are effectively working in foreign territory and might sometimes feel uneasy when entering the premises. The customer might keep the salesperson waiting, thus heightening discomfort.

- The salesperson tends to work alone, often staying away from home for periods. An attraction is independence, but it can be a lonely existence. Thus there is a certain amount of psychological risk attached to such situations.

Selling is therefore not an easy task, and those who are concerned to improve its image must be more vociferous, yet objective, in presenting its case and they must recognise that misconceptions invariably have some basis in fact. There are always unscrupulous individuals and companies ready to trade on the ignorance and gullibility of unsuspecting customers. These individuals are not salespeople; at best they are misguided traders and at worst criminals. At some times in our lives we inevitably feel that we have purchased something we did not really want or on terms we could not really afford, because we were subjected to high-pressure selling.

Selling, then, is not entirely blameless, but salespeople are becoming more professional in their approach to customers. Some of the worst excesses in selling have been curbed; some legally, but increasingly voluntarily. To overcome some of these misconceptions, selling needs to sell itself and the following facts about selling should be more universally aired:

- **There is nothing immoral or unscrupulous about selling or about those involved in it.** Selling provides a mechanism for exchange and through this process customers' needs and wants are satisfied. Furthermore, most people, at some stage, are involved in selling, even if only selling their skills and personalities in an attempt to obtain a job.
- **Selling is a worthwhile career.** Many of those who have spent a lifetime in selling have found it to be a challenging, responsible and rewarding occupation. Inevitably a career in selling means meeting people and working with them, and a selling job often offers substantial discretion in being able to plan one's own work schedule.
- **Good products do not sell themselves.** An excellent product may pass unnoticed unless its benefits and features are explained to customers. What appears to be a superior product may be totally unsuited to a particular customer. Selling is unique in that it deals with the special needs of each individual customer and the salesperson, with specialist product knowledge, is in a position to assess these circumstances and advise each customer accordingly.

Box 1.1: Why Sales Skills Are the Key to a Firm's Success

Successful entrepreneurs all have one thing in common – the ability to sell. Patrick Dunne, a director with 3i, the venture capitalist, says: 'It's not just selling products to new customers. You also need sales skills to get the first people to work for you. And the cleverest ones are very good at getting suppliers and others to give them credit.'

But entrepreneurs often stumble in their enthusiasm to get started warns Patrick Joiner, Chief Executive of the Institute of Sales & Marketing Management: 'The most essential skill of selling,' he says, 'is to put yourself in your client's shoes. This is where entrepreneurs fall down. They are often people with a special knowledge about their industries or a technology that helped them to come up with their business ideas. But being totally fired up by their own products, they're locked into seeing it from their own perspectives. Entrepreneurs also tend to be very driven and enthusiastic, which means they can come across as overbearing.' He goes on to say: 'You should always be trying to build a relationship with your customer. You need more than just something different or low cost or even effectiveness in selling – the market changes quickly and you will keep these advantages for only so long. What you need most of all is a good relationship with your customers.'

Source: *Sunday Times*, 5 May 2002, p. 13.

1.5 The Nature and Role of Sales Management

In the same way that selling has become more professional, so too has the nature and role of **sales management**. The emphasis is on the word 'management'. Increasingly, those involved in management are being called upon to exercise in a professional way the key duties of all managers, namely, planning, organising and controlling. The emphasis has changed from the idea that to be a good sales manager you had to have the right personality and that the main feature of the job was ensuring that the salesforce were out selling sufficient volume. Although such qualities may be admirable, the duties of the sales manager in the modern company have both broadened and changed in emphasis.

Nowadays the sales manager is expected to play a much more strategic role in the company and is required to make a key input into the formulation of company plans. This theme is developed in Module 2 and Module 15. There is thus a need to be familiar with the techniques associated with planning, including sales forecasting and budgeting (dealt with in Module 17). The sales manager also needs to be familiar with the concept of marketing to ensure that sales and marketing activities are integrated – a theme expanded in this module. In many companies the emphasis is less on sales volume and more on profits. The sales manager needs to be able to analyse and direct the activities of the salesforce towards more profitable business. In dealing with a salesforce, the sales manager must be aware of modern developments in human resource management.

Looked at in the manner just outlined, the role of the sales manager may seem formidable, that person must be an accountant, a planner, a personnel manager and a marketer. However, the prime responsibility is to ensure that the sales function makes the most effective contribution to the achievement of company objectives and goals. In order to fulfil this role, sales managers will undertake specific duties and responsibilities:

- the determination of salesforce objectives and goals;
- forecasting and budgeting;
- salesforce organisation, salesforce size, territory design and planning;
- salesforce selection, recruitment and training;
- motivating the salesforce;
- salesforce evaluation and control.

Because these areas encompass the key duties of the sales manager, they are discussed in detail in Parts Four and Five.

Perhaps one of the most significant developments affecting selling and sales management in recent years has been the evolution of the marketing concept. Because of its importance to selling, we will now turn our attention to the nature of this evolution and its effect upon sales activities.

1.6 The Marketing Concept

In tracing the development of the **marketing concept**, it is customary to chart three successive stages in the evolution of modern business practice: production orientation, sales orientation and marketing orientation.

1.6.1 Production Orientation

The era of production orientation was characterised by focusing company efforts on producing goods or services. More specifically, management efforts were aimed at achieving high production efficiency, often through the large-scale production of standardised items. In this situation other functions such as sales, finance and personnel were secondary to the main function of the business, which was to produce. More importantly, the underlying philosophy was that customers would purchase products, provided they were of reasonable quality, available in sufficiently large quantities and at a suitably low price.

Such a philosophy was initiated by Henry Ford when he mass-produced the Model T Ford in Detroit in 1913. His idea was that if he could produce a standard model vehicle in large quantities using mass production techniques, then he could supply a potential demand for relatively cheap private transport. At the time, Ford was correct; there was such a demand and his products proved successful. A production orientation to business was thus suited to an economic climate where potential demand outstripped supply, as was the case in the USA at that time. However, times change, and this philosophy is not conducive to doing business in today's economic climate, where potential supply usually outstrips demand.

1.6.2 Sales Orientation

With the large-scale introduction of mass production techniques in the 1920s and 1930s, particularly in the USA and Western Europe, and the rapid worldwide increase in competition which accompanied this, many firms adopted a sales orientation.

The sales-oriented company is one where the focus of company effort switches to the sales function. The main issue here is not how to produce but, having products, how to ensure this production is sold. The underlying philosophy towards customers in a sales-oriented business is that, if left to their own devices, customers will be slow or reluctant to buy. In any case, even those customers who are seeking to purchase the type of product or service the company produces will have a wide range of potential suppliers. This situation is exacerbated when, in addition to sufficient capacity on the supply side, demand is depressed. Such was the case in many of the developed economies in the 1930s, and it was in this period that many 'hard sell' techniques developed. Many of these were dubious, even dishonest, and much of the tainted image accompanying selling derives from their use.

Many companies still adopt a sales-oriented approach to doing business, even though customers are better protected against its worst excesses, as discussed in Module 13.

1.6.3 Marketing Orientation

It is unclear exactly when the idea of marketing or customer orientation began to emerge; in some ways the central importance of the customer has perhaps always been recognised in the long history of trading. Not until the 1950s, however, did the ideas associated with the marketing concept begin to emerge and take shape. The marketing concept – initially an American phenomenon – arose partly as a result of a dissatisfaction with the production and sales orientations, partly as a result of a changing environment and partly as a result of fundamental business sense.

The marketing concept holds that the key to successful and profitable business rests with identifying the needs and wants of customers and providing products and services to satisfy them. On the surface this concept does not appear to be a far-reaching and fundamentally different philosophy of business, but in fact the marketing concept requires a revolution in how a company thinks about and practises its business activities as compared with production or sales orientation. Central to this revolution in business thinking is the emphasis given to the needs and wants of the customer. The contrast between this approach and, for example, that of a sales-oriented company is shown in Figure 1.2.

Increasingly, companies have come to recognise that this different approach to doing business is essential in today's environment. Consumers are now better educated and more sophisticated. Real incomes have increased steadily over the years and consumers now have considerable discretionary spending power to allocate between an increasingly diverse range of products and services. Too many companies have learned the hard way that having what they feel to be a superior product, efficient production and extensive promotion – laudable though these may be – are not sufficient to confer automatic success. To have any chance of success, customer needs must be placed at the very centre of business planning. In part, this stress on understanding the consumer explains the development of those concepts and techniques aimed at understanding buyer behaviour. In Module 3 we develop a framework within which consumer and organisational buying behaviour may be analysed.

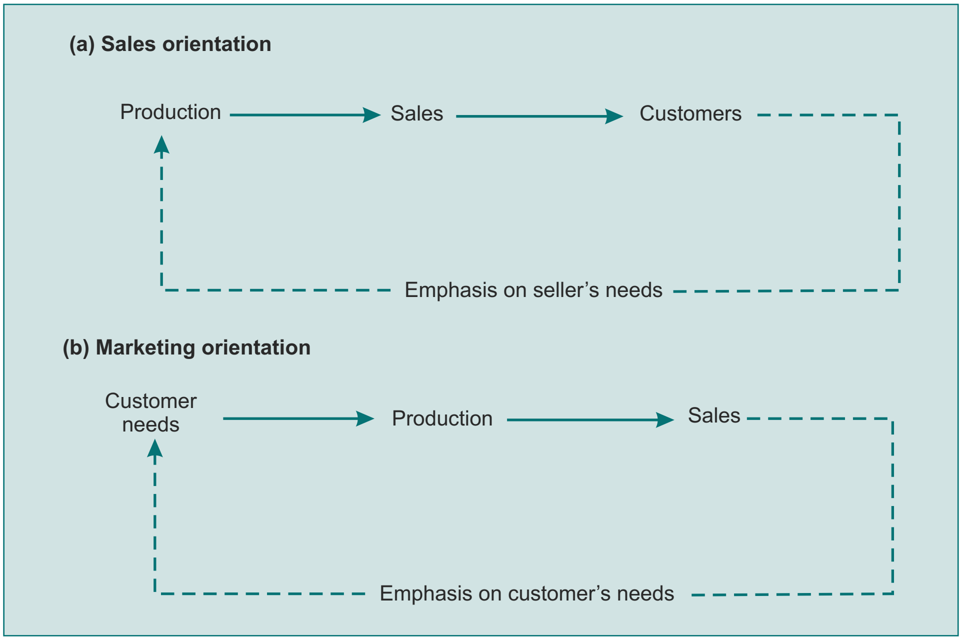

Figure 1.2 **Sales versus market orientation**

1.7 Implementing the Marketing Concept

For a company to be marketing oriented requires that a number of organisational changes take place in practices and in attitudes. To become of value, it requires that the discipline of marketing contributes what might be termed a technology of marketing. By this we mean that management requires the development of a set of tools (techniques and concepts) to implement the marketing concept. We have already mentioned that the behavioural sciences can lead to an understanding of buyer behaviour; another example is the development of quantitative and qualitative techniques of marketing research for analysing and appraising markets. Some of the more important and useful concepts in marketing are now discussed.

1.7.1 Market Segmentation and Targeting

Because marketing focuses on customer needs and wants, this requires that companies identify these needs and wants and then develop marketing programmes to satisfy them as a route to achieving company objectives. The diversity of customer needs and wants, and the multiplicity of ways in which these may be satisfied, mean that few if any companies are in a position effectively to serve all customers in a market in a standardised manner. **Market segmentation** is the process of identifying those clusters or segments of customers in a market which share similar needs and wants and will respond in a unique way to a given marketing effort. Having identified the various segments in a market, a company can then decide which of them are most attractive and to which segments it can market most effectively. Company marketing efforts can then be tailored specifically to the needs of these segments on which the company has decided to target its marketing.

Market segmentation and **targeting** are two of the most useful concepts in marketing, and a set of techniques has been developed to aid companies in their application. Some of the more important benefits of effective segmentation and targeting are as follows:

- a clearer identification of market opportunities and particularly the analysis of gaps (where there are no competitive products) in a market;
- the design of product and market appeals that are more finely tuned to the needs of the market;
- focusing of marketing and sales efforts on those segments with the greatest potential.

There are several bases for segmenting markets, which may be used singly or in combination. For example, a manufacturer of toothpaste may decide that the market segments best on the basis of age, i.e. the seller discovers that the different age groups in the market for the product have different wants and needs and vary in what they require from the product. The seller will find that the various segments will respond more favourably, in terms of sales, if the products and marketing programmes are more closely tailored to the needs of each segment. Alternatively, the seller may find that the market for toothpaste segments on the basis of income – the different income groups in the market vary in their product requirements. Finally, the seller may find that the market segments on the basis of a combination of both income and age characteristics. Here are some of the more frequently used bases for segmentation:

- **Consumer products and markets**: age, sex, income, social class, geographical location type of residence using ACORN (A Classification of Residential Neighbourhoods), personality, benefits sought. usage rate, e.g. heavy users versus light users.
- **Industrial products and markets**: end-use market, type of industry, product application, benefits sought, company size, geographical location, usage rate.

Whatever the chosen bases, the application of segmentation and targeting is a major step towards becoming marketing oriented.

1.7.2 The Marketing Mix

In discussing the notion of market segmentation, we have frequently alluded to the company marketing programme. By far the most important decisions within this marketing programme, and indeed the essence of the marketing manager's task within a company, are decisions on the controllable marketing variables: decisions on what E. Jerome McCarthy[1] termed the 'four Ps' of price, product, promotion and place (or distribution). Taken together, these four variables, plus the chosen market segments, comprise what Neil Borden termed the **marketing mix**, a concept which is central to modern marketing practice.[2]

Generally speaking, company management has a number of variables or ingredients that it can control. For example, the management of a company has discretion over the range of products to be produced, their features, quality levels, etc. The task of marketing management is to blend these ingredients together into a successful recipe. The term 'marketing mix' is appropriate, for there are many marketing mix ingredients and even more ways of combining them. Each element of the four Ps requires that decisions are taken:

- **Price**: price levels, credit terms, price changes, discounts.
- **Product**: features, packaging, quality, range.
- **Promotion**: advertising, publicity, sales promotion, personal selling.
- **Place**: inventory, channels of distribution, number of intermediaries.

It will be seen that personal selling is considered to be one component of the promotional decision area of the marketing mix. Later in this module we shall return to selling's place within the marketing mix. Module 2 goes into detail on the promotional mix. But here we will consider the other elements.

1.7.2.1 Product

Many believe that product decisions represent the most important ingredient of the marketing mix. Decisions in this area, they argue, have the most direct and long-lasting influence on the degree of success that a company enjoys. At first glance this may seem to constitute evidence of a production-oriented stance as opposed to a marketing-oriented stance. However, it does not. There is no doubt that product decisions are the most important of the marketing decisions which a company makes. It is true that unless there is a potential demand (a true market need) for a product, then no matter how good it is, it will not succeed. This is not to say that decisions about products should be made in isolation. It is also true that there are many examples of products which had considerable market potential, but failed because of poor promotional, pricing and distribution decisions. In effect, product decisions determine the upper limit to a company's sales potential. The effectiveness of decisions on other elements of the mix determine the extent to which this potential is realised.

The term 'product' covers anything a company offers to customers to satisfy their needs. In addition to physical, tangible products offered for sale, there are also services and skills. Non-profit organisations also market their services to potential customers. Increasingly, charities, educational establishments, libraries, museums and political candidates make use of the techniques of marketing. There are a number of ways of classifying products, depending upon the basis chosen for classification. For example, a broad distinction can be made between consumer and industrial products; here the classification is based on the end-user or buyer.

Regardless of the classification basis, an important factor to bear in mind is that the customer is purchasing a package of benefits, not product features. This concept of a product is yet another example of a market-oriented approach to doing business. It looks at the product from the viewpoint of what the customer is actually purchasing, i.e. needs and wants. For example, when people purchase cosmetics they are purchasing attractiveness. Theodore Levitt[3] provides us with a graphic example of this concept of a product when he states: 'Purchasing agents do not buy quarter inch drills; they buy quarter inch holes.' Viewing the product in this way can provide insights that can be used in marketing a product. In the sales area it can be used to develop the sales presentation by emphasising ways in which the product or service provides a solution to the customer's problems.

1.7.2.2 The Product Life Cycle

One of the most useful concepts in marketing derives from the idea that most products tend to follow a particular pattern over time in terms of sales and profits. This pattern is shown in Figure 1.3 and is known as the product life cycle curve.

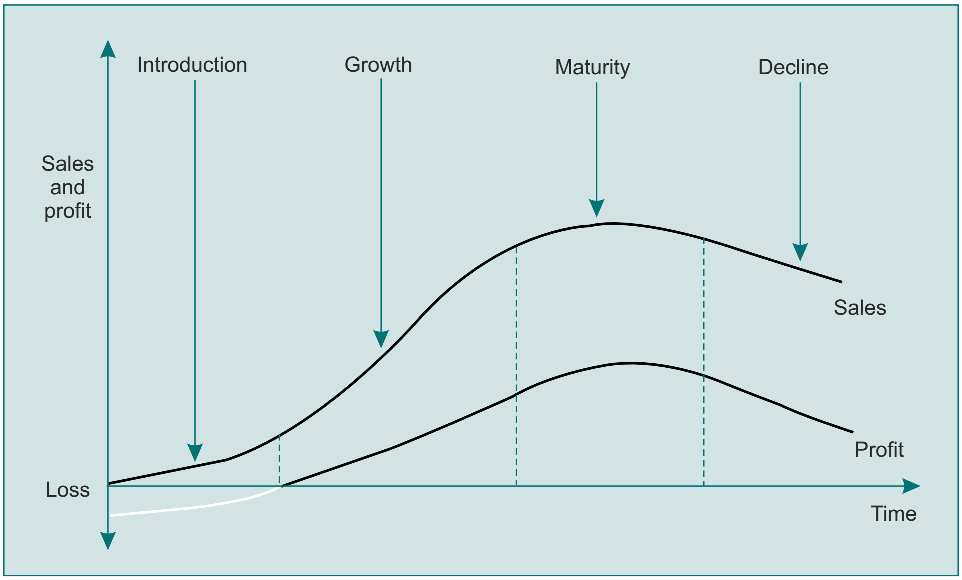

Figure 1.3 The product life cycle curve

The product life cycle is analogous to the life cycle of humans and has four distinct stages: introduction (birth), growth, maturity and decline. Its shape can best be explained by giving a brief description of the four stages:

- **Introduction.** In this stage, sales growth is relatively slow. Dealers must be persuaded to stock and promote the product. Consumers must be made aware of its existence, persuaded to be interested and convinced that it is a worthwhile purchase. They may have to be educated in how to use the product and their existing purchasing and lifestyle habits might change (e.g. microwave ovens and their associated convenience). There are few profits at this stage and heavy launch costs often mean a financial deficit.
- **Growth.** After initial slow acceptance, sales begin to escalate at a relatively rapid pace. There is a snowball effect as word-of-mouth communication and

advertising begin to take effect. Dealers may request to stock the product. Profits begin to be made, especially if a newly introduced product can command high initial prices (known as market skimming).

- **Maturity.** The growth of sales begins to slow as the market becomes saturated. Few new buyers are attracted to the product and there is a high proportion of repeat sales. Attracted by the high profit and sales figures, competitors have now entered the market. Partly because of this increased competition, profits, having peaked, then begin to decline.
- **Decline.** Sales begin to fall and already slim profit margins are depressed even further. Customers might have become bored with the product and are attracted by newer, improved products. Dealers begin to destock the product in anticipation of reduced sales.

1.7.2.3 Implications of the Product Life Cycle

Not all products exhibit such a typical cycle of sales and profits. Some products have hardly any life cycle at all (many new products are unsuccessful in the marketplace). Similarly, sales may be reduced abruptly even in a period of rapid sales growth as a result of, perhaps, the introduction of a new and better competitive product. Products vary too in the length of time they take to pass through the life cycle. Unlike the human lifespan, there is no average life expectation for products. Nevertheless, the fact that a great number of products do tend to follow the generalised life cycle pattern has a number of implications for marketing and sales strategies. Some of these are considered in more detail in Module 2. Two of the more important implications of the product life cycle concept are considered now.

The first obvious implication of the concept is that even the most successful products have a finite life. Further, there is some evidence which suggests that intensifying competition and rapid technological change are leading to a shortening of product life cycles. This explains the importance and emphasis now attached to the continued development of new products. The salesforce has an important role to play in this process. Because of their often daily contact with customers, they are usually the first to detect signs that products are about to embark upon the period of decline. Such detailed knowledge of customers, competitors and market requirements makes them potentially a valuable source of new product ideas.

A second implication of the life cycle concept is that different marketing and sales strategies may be appropriate to each stage. For example, in the introductory stage the emphasis may be on locating potential prospects. In the growth stage, the salesforce may find themselves having to deal with the delicate issue of rationing their customers as demand increases more rapidly than capacity. In the maturity and decline stages, the salesforce will increasingly have to rely on competitive pricing and special offers in order to combat increasing competition and falling sales. Again, this is covered in more detail in Module 2.

1.7.3 Product Adoption and Diffusion

The theory of product adoption and diffusion was first put forward by Everett Rogers in 1962 and is closely related to the product life cycle.[4] It describes innovative behaviour and holds that the characteristics of a new product can affect its rate of adoption. Figure 1.4 describes its characteristics.

Consumers are placed into one of five adopter categories, each with different behavioural characteristics. These adopter categories contain percentages of first-time buyers (i.e. not repeat buyers) that fall into each category. What will attract first-time buyers to a product or service, and the length of time it will take for the diffusion process to be completed, will depend on the nature of the product or service.

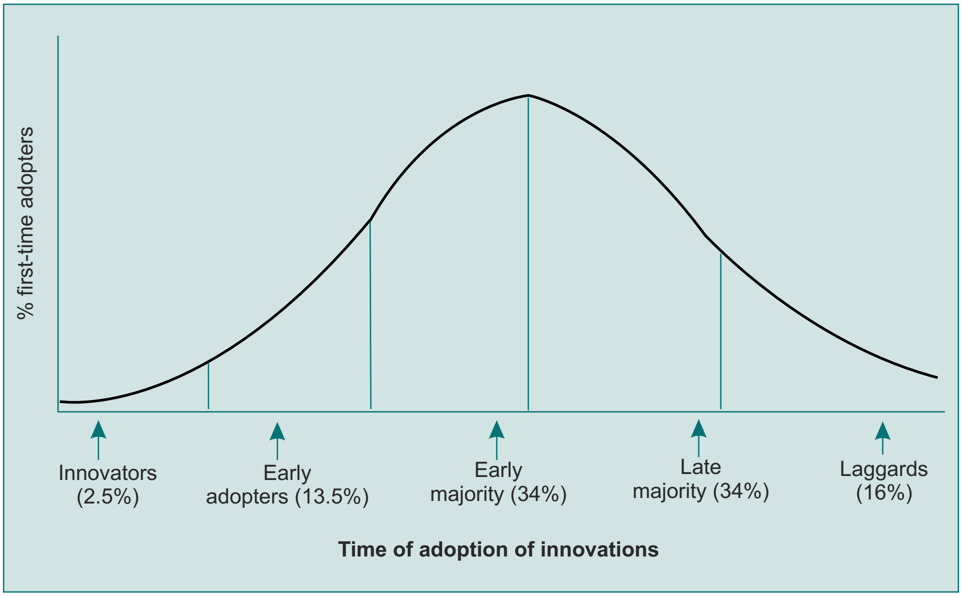

Figure 1.4 The adoption of innovations

If we consider a new range of female fashions, then the time taken for the diffusion process to be completed might be less than one year. Here the innovators (i.e. the first 2.5 per cent) are likely to be fashion-conscious rich people. However, if we consider a new type of computer software then innovators are more likely to be technically minded computer experts and the time for diffusion will be over a longer period. Similarly, although microwave ovens were developed almost 30 years ago, they have not yet totally diffused through the marketplace as they are now in the laggard stage. Having said this, many potential consumers will never adopt for a variety of reasons (e.g. some people refuse to have a television because it destroys the art of conversation). A number of factors can determine the rate at which the innovation is taken up:

- its *relative advantage* over other products or services in the marketplace;
- the extent to which it is *compatible* with the potential needs of customers;
- its *complexity* in terms of how it can be used and understood;
- its *divisibility* in terms of how it can be tried beforehand on some kind of test basis before a commitment is made to purchase;

- its *communicability*, which is the degree to which the innovation can be described or demonstrated prior to purchase (see Box 1.2).

Box 1.2: How to Protect Your Dark Clothes

Is it annoying when after just a few washes your favourite dark clothes fade to a dull grey colour and have to be consigned to the back of your wardrobe? Now you can keep your dark clothes from fading for longer with Dreft Dark. It is a specially formulated liquid detergent with ingredients that will enable your darks to stay dark for longer whilst removing stains effectively. It is gentle enough to be used on your whole family's clothes and is the leader in its field. It is suitable for both machine and hand washing and is now available from Sainsbury's and many other leading supermarkets.

Source: Adapted from a promotional article in *Best*, 2 July 2002.

1.7.3.1 Pricing

As with the product element of the mix, pricing decisions encompass a variety of decision areas. Pricing objectives must be determined, price levels set, decisions made as to credit and discount policies and a procedure established for making price changes. Here we consider some of the more important inputs to pricing decisions, in particular from the viewpoint of how they affect selling and sales management. All of these sub-elements are covered throughout the text in a variety of contexts and their relationships with selling are fully examined.

1.7.3.2 Inputs to Pricing Decisions

In the determination of price levels, a number of factors must be considered. Here are some of the main ones.

Company Objectives

In making pricing decisions, a company must first determine what objectives it wishes its pricing to achieve within the context of overall company financial and marketing objectives. For example, company objectives may specify a target rate of return on capital employed. Pricing levels for individual products should reflect this objective. Alternatively, or additionally, a company may couch its financial objectives in terms of early cash recovery or a specified payback period for the investment.

Marketing Objectives

Marketing objectives may shape the pricing decision. For example, a company may determine that the most appropriate marketing strategy for a new product which it has developed is to aim for a substantial market share as quickly as possible. This is called a **market penetration** strategy. It is based on stimulating and capturing demand backed by low prices and heavy promotion. At the other extreme, the company might determine that a **market skimming** strategy is appropriate. Here high initial prices are set – again often backed by high levels of promotional spending – and the cream of the profits is taken before eventually lowering the price. When the price is lowered, an additional, more price-sensitive band of purchasers then enters the market. Whatever the financial and marketing objective set, they determine the framework within which pricing decisions are made. These objectives should be communicated to sales management and to individual members of the sales team.

Demand Considerations

In most markets the upper limit to the prices a company can charge is determined by demand. Put simply, one is able to charge only what the market will bear. This tends to oversimplify the complexities of demand analysis and its relationship to pricing decisions. These complexities should not, however, deter pricing decision-makers from considering demand in their deliberations. One of the most straightforward notions about the relationship between demand and price is the concept of a demand curve for a product, as shown in Figure 1.5.

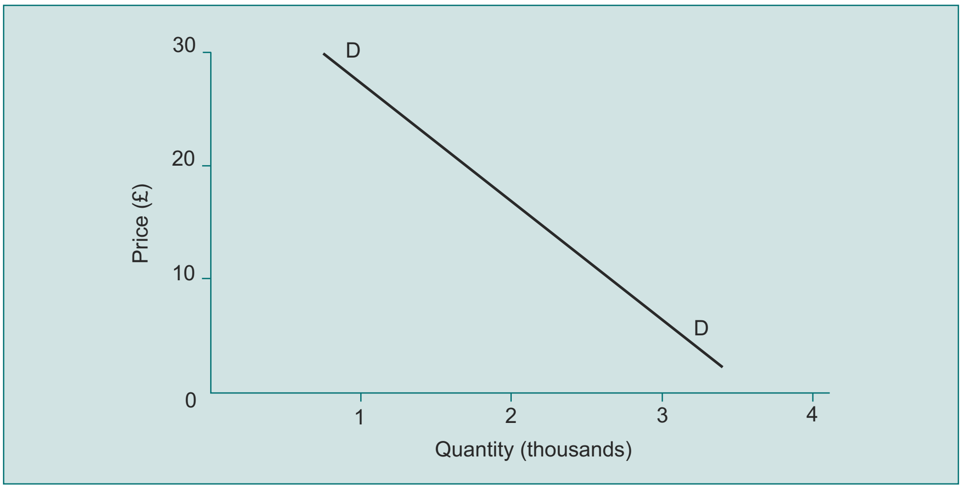

Figure 1.5 The demand curve

Although it is a simple concept, the demand curve contains much useful information for the decision-maker. It shows that at lower prices, higher quantities are normally demanded. It is also possible to read off the curve the quantity demanded at any given price. Finally, it is possible to assess how sensitive demand is to changes in price. In other words, we can calculate the percentage change in quantity demanded for any given percentage price increase or decrease.

This information is useful for making pricing decisions, but obtaining information about the relationship between the price and demand is not easy. Factors other than price have an important effect on demand. Despite this, pricing decisions must reflect demand considerations and some estimate should be made of the likely relationship between demand levels and price. Here again, the salesforce can play a key role in the provision of such information and many companies make full use of this resource when pricing their products.

A final point to be considered is the slope of the demand curve. Figure 1.5 is a conventional curve, in that it slopes downwards to the right, which means that at lower prices higher quantities are demanded. However, it is dangerous to assume that this is always the case. In some circumstances it is possible to charge too low a price for a product or service; far from increasing demand, such low prices actually reduce it. This can be the case for products that are bought because they *are* highly priced, i.e. where there is some prestige attached to having purchased what everyone knows is an expensive product. Similarly, low prices may cause the customer to suspect the quality of a product.

Cost Considerations

If demand determines the upper threshold for price, then costs determine the lower threshold. In a profit-making organisation, in the long run, prices charged need to cover the total costs of production and marketing, with some satisfactory residue for profit. In fact, companies often begin the process of making decisions on price by considering their costs. Some techniques of pricing go further, with prices being determined solely on the basis of costs; for example, total costs per unit are calculated, a percentage added for profit and a final price computed. Such cost-plus approaches to pricing, although straightforward, have a tendency to neglect some of the more subtle and important aspects of the cost input.

As with demand, cost considerations can be quite complex. One of the important distinctions that a cost-plus approach often neglects is the distinction between the fixed and variable costs of producing a product. Fixed costs are those which do not vary – up to the limit of plant capacity – regardless of the level of output, e.g. rent and rates. Variable costs do differ with the level of output – as it increases, so too do total variable costs, and vice versa as production is decreased, e.g. direct labour costs and raw materials. This apparently simple distinction is very useful for making pricing decisions and gives rise to the technique of **break-even analysis**.

Figure 1.6 illustrates this concept. Fixed, variable and total costs are plotted on the chart, together with a sales revenue curve. Where the revenue curve cuts the total cost curve is the break-even point. At this point the company is making neither profit nor loss. From the break-even chart it is possible to calculate the effect on the break-even point of charging different prices and, when this is combined with information on demand, break-even analysis is quite a powerful aid to decision-making. Sales managers should understand the different costing concepts and procedures and, although they do not need detailed accounting knowledge, they should be familiar with the procedures that go into the costing of products they are responsible for selling.

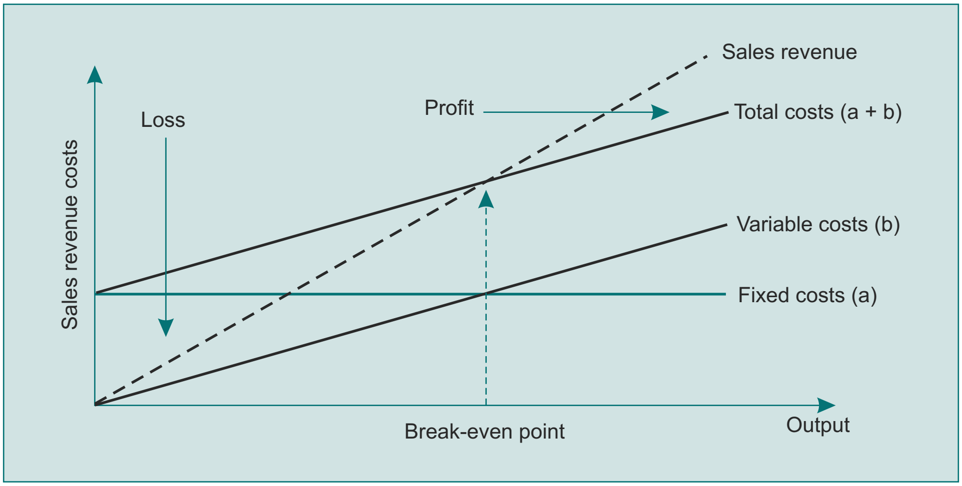

Figure 1.6 **A simple break-even chart**

Competitor Considerations

Few companies are in the position of being able to make pricing decisions without considering the possible actions of competitors. Pricing decisions, particularly short-term tactical price changes, are often made as a direct response to the actions of competitors. Care should be taken in using this tactic, particularly when the movement of price is downwards. Once lowered, prices can be very difficult to raise and, where possible, a company should consider responses other than price reduction to combat competition.

1.7.3.3 Distribution

The distribution (or place) element of the marketing mix, particularly the management of physical distribution, has long been considered one of the areas in business where substantial improvements and cost savings can be made. Representing, as it often does, a substantial portion of total costs in a company, the distribution area has in recent years attracted considerable attention in terms of new concepts and techniques designed to manage this important function more effectively. The management of distribution is now recognised as a key part of the strategic management of a company and in larger organisations it is often the responsibility of a specialist. Because of this we can do no more here than give a non-specialist overview of some of the more important aspects of this element of the mix.

In its broadest sense distribution is concerned with all those activities required to move goods and materials into the factory, through the factory and to the final consumer. Here are some examples of the decision areas encompassed in the distribution element of the marketing mix.

The Selection of Distribution Channels

The selection of distribution channels involves determining in what manner, and through which distribution outlets, goods and services are to be made available to the final consumer. Marketing channels may be very short, e.g. where goods and services are sold direct to the customer such as via mail order. Alternatively, the channel may include a whole set of intermediaries, including brokers, wholesalers and retailers. In addition to selecting the route through which products will reach consumers, decisions must also be made about the extent of distribution coverage. For example, some companies have a policy of **exclusive distribution** where only a small number of selected intermediaries are used to distribute company products. In other cases, a company may decide that it requires as wide a distribution cover as possible – **intensive distribution** – and will seek a large number of distribution outlets.

Determining the Level of Customer Service

In addition to selecting channels of distribution, decisions must also be made about factors such as delivery periods and methods of transportation. Reduced delivery times can provide a significant advantage to a company in marketing its products. On the other hand, such a policy is often accompanied by a need to increase inventory levels, thereby increasing costs. A policy decision must therefore be made about the requisite level of customer service, after considering the benefits and costs involved.

Terms and Conditions of Distribution

Terms and conditions of distribution include conditions of sale on the part of distributors, minimum order or stocking quantities and the determination of credit, payment and discount terms for distributors.

Other Areas

There are other areas to be considered in the distribution element of the marketing mix, and in Module 10 we explore channel management in greater detail. At this point we should note that distribution decisions have a significant impact on sales activities, e.g. the extent of distribution directly influences territory design and route planning (dealt with in detail in Module 16). Terms and conditions of distribution influence the framework within which sales are negotiated. The management of physical distribution influences the all-important delivery terms which the salesforce are able to offer their customers. Probably no other area of the marketing mix has such a wide-ranging influence on the sales process.

1.7.3.4 Promotion

This final element of the marketing mix has the most direct influence on sales because personal selling itself is considered as one element of the total promotional mix of a company. Other elements of this promotional submix include advertising, sales promotion and publicity.

1.8 The Relationship between Sales and Marketing

Throughout this module we have examined the nature and roles of selling and sales management and have discussed a general move towards marketing orientation. In addition, we have seen that sales efforts influence and are influenced by decisions taken on the ingredients of a company's marketing mix, which in turn affect its overall marketing efforts. It is essential, therefore, that sales and marketing be fully integrated. The adoption of the marketing concept has in many companies been accompanied by changes in organisational structure, together with changes in the view of what constitutes the nature of selling.

Examples of the possible organisational implications of adopting the marketing concept are shown in Figure 1.7, which shows the organisation charts of a sales-oriented company and a marketing-oriented company.

Perhaps the most notable difference between the pre and post marketing-oriented company is the fact that sales are later seen to be a part of the activity of the marketing function. In the marketing-oriented company, the marketing function takes on a much wider controlling and coordinating role across the range of company activities. This facet of marketing orientation is often misunderstood by those in sales, and a great deal of resentment is often engendered between sales and marketing. Such resentment is often due to insensitive and undiplomatic management when making the changes necessary to reorient a company. Selling is only a part of the total marketing programme of a company and this total effort should be coordinated by the marketing function. The marketing concept, however, does not imply that sales activities are any less important, or that marketing executives should hold the most senior positions in a company.

In addition to changes in organisational structure, the influence of the marketing function and the increased professional approach taken to sales has meant that the nature and role of this activity has changed. Selling and sales management are now concerned with the analysis of customers' needs and wants and, through the company's total marketing efforts, with the provision of benefits to satisfy these needs and wants. Figure 1.8 gives an overview of the relationship between marketing and personal selling and outlines the key areas of sales management.

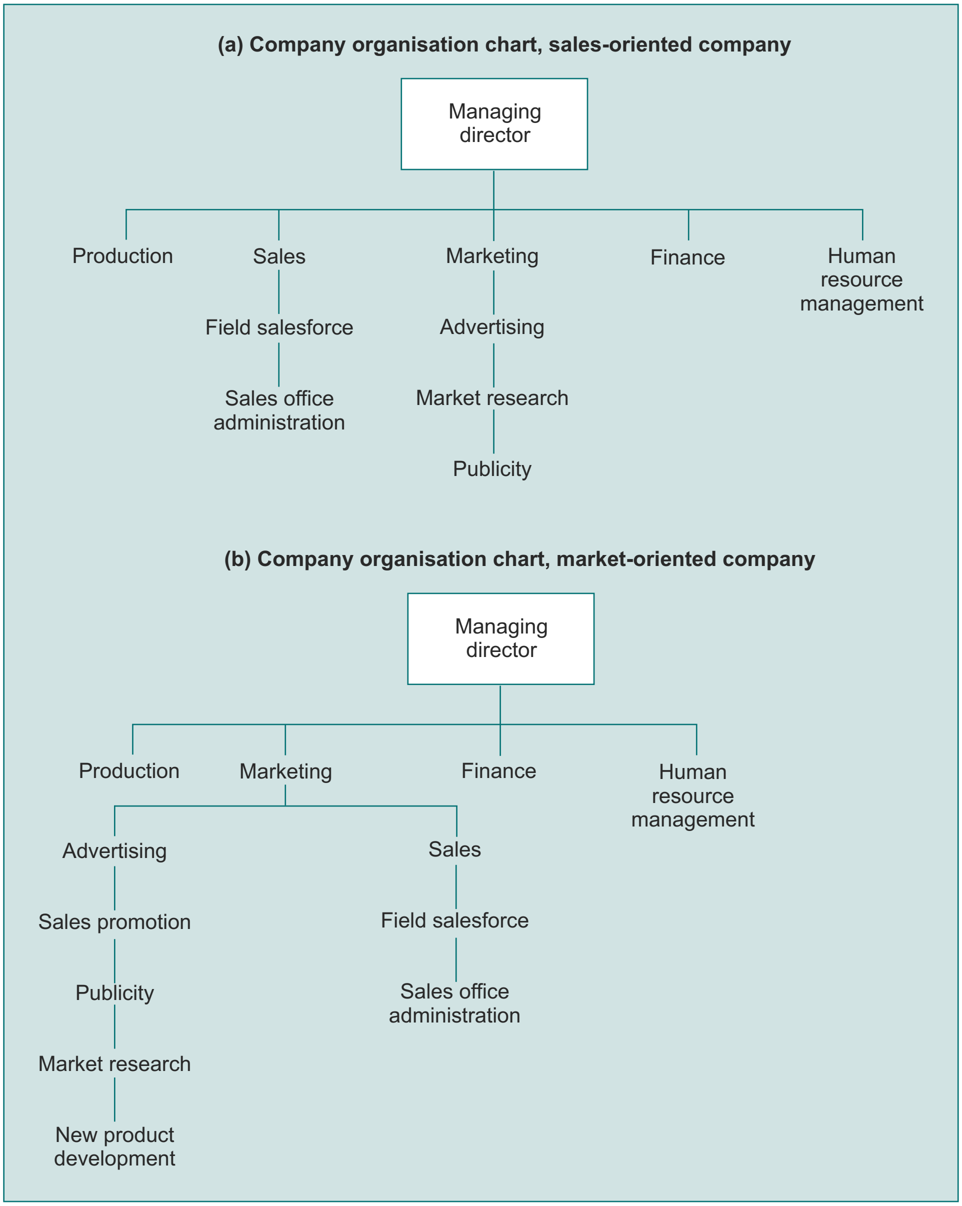

Figure 1.7 Organisational implications of adopting the marketing concept

(a) company organisation chart for a sales-oriented company; and (b) company organisation chart for a market-oriented company.

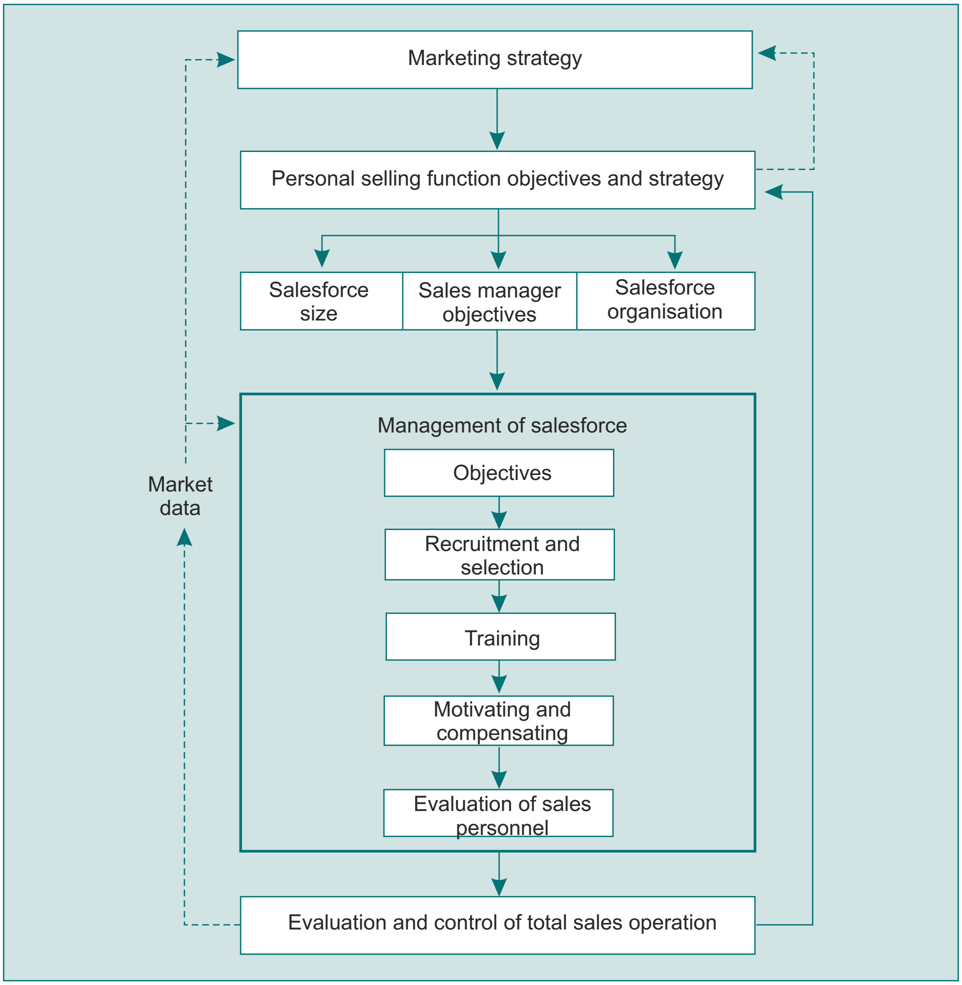

Figure 1.8 Marketing strategy and management of personal selling

As with all parts of the marketing mix, the personal selling function is not a stand-alone element, but one that must be considered in the light of overall marketing strategy. At the product level, two major marketing considerations are the choice of target market and the creation of a differential advantage. Both of these decisions impact on personal selling.

1.8.1 Target Market Choice

The definition of a target market has clear implications for sales management because of its relationship with **target accounts**. Once the target market has been defined (e.g. organisations in a particular industry over a certain size), sales management can translate that specification into individual accounts to target. Salesforce resources can then be deployed to maximum effect.

1.8.2 Differential Advantage

The creation of a differential advantage is the starting point of successful marketing strategy, but this needs to be communicated to the salesforce and embedded in a sales plan that ensures they can articulate it convincingly to customers. There are two common dangers:

- The salesforce undermine differential advantage by repeatedly giving in to customer demands for price concessions.
- The features that underlie the differential advantage are communicated, but customer benefits are neglected. Customer benefits need to be communicated in terms that are meaningful to customers. This means, for example, that advantages such as higher productivity may require translation into cash savings or higher revenue for financially minded customers.

The second way in which marketing strategy affects the personal selling function is through strategic objectives. Each objective – build, hold, harvest and divest – has implications for sales objectives and strategy, outlined in Table 1.1. Linking business or product area strategic objectives with functional area strategies is essential for the efficient allocation of resources and effective implementation in the marketplace.

Table 1.1 Marketing strategy and sales management

Strategic marketing objective	Sales objective	Sales strategy
Build	Build sales volume	High call rates on existing accounts
	Increase distribution	High focus during call
	Provide high service levels	Call on new accounts (prospecting)
Hold	Maintain sales volume	Continue present call rates on current accounts
	Maintain distribution	Medium focus during call
	Maintain service levels	Call on new outlets when they appear
Harvest	Reduce selling costs	Call only on profitable accounts
	Target profitable accounts	Consider telemarketing or dropping the rest
	Reduce service costs and inventories	No prospecting
Divest	Clear inventory quickly	Quantity discounts to targeted accounts

Source: Strakle, W. and Spiro, R. L. (1986) 'Linking Market Share Strategies to Salesforce Objectives, Activities and Compensation Policies', *Journal of Personal Selling and Sales Management*, August, pp. 11–18.

As we have seen, selling objectives and strategies are derived from marketing strategy decisions and should be consistent with other elements of the marketing mix. Indeed marketing strategy will determine if there is a need for a salesforce at all, or whether the selling role can be better accomplished using some other medium such as direct mail. Objectives define what the selling function is expected to achieve. Objectives are typically defined in the following terms:

- sales volume, e.g. 5 per cent growth in sales volume;
- market share, e.g. 1 per cent increase in market share;
- profitability, e.g. maintenance of gross profit margin;
- service levels, e.g. 20 per cent increase in number of customers regarding salesperson assistance as 'good or better' in annual customer survey;
- salesforce costs, e.g. 5 per cent reduction in expenses.

Salesforce strategy defines how those objectives will be achieved and the following may be considered:

- call rates;
- percentage of calls on existing versus potential accounts;
- discount policy (the extent to which reductions from list prices is allowed);
- percentage of resources targeted at new versus existing products;
- percentage of resources targeted at selling versus providing after-sales service;
- percentage of resources targeted at field selling versus telemarketing;
- percentage of resources targeted at different types of customer (e.g. high versus low potential);
- improving customer and market feedback from the salesforce;
- improving customer relationships.

Learning Summary

The nature and role of selling and sales management have been outlined and discussed and some of the more widely held misconceptions about these activities explored. It was suggested that selling and sales management are becoming more professional, and those individuals involved in these activities must now be trained and skilled in a range of managerial techniques.

One of the most significant developments in modern business thinking and practice has been the development of the marketing concept. Companies have moved from being production oriented, through being sales oriented to marketing orientation.

Some of the key concepts in marketing were outlined, including market segmentation and targeting, the product life cycle and the marketing mix. The implications of marketing orientation for sales activities and the role of selling in the marketing programme have been demonstrated.

Because of the emphasis given in marketing to the needs and wants of the customer, Module 3 is concerned with exploring further the nature of consumer and organisational buying behaviour.

Review Questions

Content Questions

1.1 Why do companies spend large sums of money training their sales personnel in the art of selling?

1.2 What are the main differences between order-takers, order-creators and order-getters?

1.3 What are the three main types of order-taker and how do their roles differ?

1.4 What is the role of a missionary salesperson?

1.5 What is the role of a merchandiser?

1.6 What is the role of the sales manager and what specific duties and responsibilities do they have?

1.7 Describe the three stages in the evolution of modern business practice.

1.8 Define market segmentation.

1.9 What are the benefits of market segmentation?

1.10 What bases may be used to segment industrial markets?

1.11 What are the elements of the marketing mix?

1.12 Explain the product life cycle concept?

1.13 Describe the adoption process.

1.14 What factors should be considered when making pricing decisions?

Multiple-Choice Questions

1.15 Is selling characterised by a wide diversity of roles or a limited diversity of roles? Is selling characterised by increasing professionalism or decreasing professionalism?

A. Limited diversity, increasing professionalism.
B. Wide diversity, increasing professionalism
C. Limited diversity, decreasing professionalism
D. Wide diversity, decreasing professionalism

1.16 Which type of selling job requires a salesperson to actively seek out potential buyers and use persuasive selling techniques?

A. Order-taker.
B. Order-getter.
C. Order-creator.
D. Missionary selling.

1.17 Gardenware, a manufacturer of earthenware garden plant pots, plans to extend its range of products to include garden furniture. To sell the new range, the company decides to employ new salespeople to act as order-creators. What will be their main selling task?

A. To create goodwill.
B. To persuade the customer to make a direct purchase.
C. To provide sales support in retail and wholesale selling.
D. To persuade the customer to specify the seller's products.

1.18 It is also proposed that Gardenware should appoint merchandisers. What will be their main selling task?

A. To create goodwill.
B. To persuade the customer to make a direct purchase.
C. To provide sales support in retail and wholesale selling.
D. To persuade the customer to specify the seller's products.

1.19 Who handles the bulk of all sales transactions?

A. Order-takers.
B. Order-getters.
C. Order-creators.
D. Missionary salespeople.

1.20 Something holds that the key to successful and profitable business rests with identifying the needs and wants of customers and providing products and services to satisfy these needs and wants. What is that something?

A. Production orientation.
B. Sales orientation.
C. The marketing concept.
D. The marketing mix.

1.21 Have a look at these two statements:

I. A benefit of effective market segmentation and targeting is the design of product and market appeals which are more finely tuned to the needs of the market.

II. A benefit of effective market segmentation and targeting is the focusing of marketing and sales efforts on those segments with the greatest potential.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

1.22 Toyota notices that a large number of sport utility vehicles are sold in the south of England. Which segmentation descriptor is it considering?

A. Income.
B. Age.
C. Geography.
D. Occupation.

1.23 Inventory, channels of distribution and number of intermediaries relate to which element of the marketing mix?

A. Place.
B. Product.
C. Price.
D. Promotion.

1.24 There is a stage in the normal product life cycle when product purchases are limited because consumers in the target market are unaware of the product's existence or because of its lack of availability. What is that stage?

A. Growth.
B. Maturity.
C. Decline.
D. Introduction.

1.25 If a new product aims to capture a substantial market share, what is likely to be the most appropriate pricing strategy?

A. Market penetration.
B. Market skimming.
C. Market segmentation.
D. Exclusive distribution.

1.26 What is the name for the first 2.5 per cent of first-time adopters?

A. Innovators.
B. Laggards.
C. Early adopters.
D. Late majority.

1.27 What is the name for the last group to adopt a new product?

A. Innovators.
B. Laggards.
C. Early adopters.
D. Late majority.

1.28 As production output increases up to the limit of plant capacity, what will happen to total variable costs?

A. They will increase.
B. They will stay the same.
C. They will decrease.
D. They will change in ways that cannot be predicted.

1.29 As production output increases up to the limit of plant capacity, what will happen to total fixed costs?

A. They will increase.
B. They will stay the same.
C. They will decrease.
D. They will change in ways that cannot be predicted.

1.30 Which of these products is likely to diffuse quickly in the market?

A. Pokemon.
B. Microwave ovens.
C. Video telephones.
D. Digital cameras.

1.31 Have a look at these two statements:

I. A product is likely to diffuse slowly in the market if it is complex.
II. A product is likely to diffuse slowly in the market if it is easy to communicate or describe.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

1.32 Have a look at these two statements:

I. Distribution is moving goods and materials into the factory.
II. Distribution is moving goods and materials through the factory and on to the final consumer.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

1.33 Exclusive distribution would probably be used to distribute what?

A. Coca-Cola beverages.
B. Timex watches.
C. Rolls-Royce cars.
D. Sony video recorders.

1.34 Personal selling is part of which element of the marketing mix?

A. Place.
B. Product.
C. Price.
D. Promotion.

1.35 Which of the following cannot be used to define objectives of the selling function?

A. Sales volume.
B. Market share.
C. Salesforce costs.
D. Discount policy.

1.36 Which of the following is not a stage in the normal product life cycle?

A. Growth.
B. Maturity.
C. Introduction.
D. Monopoly.

1.37 Avalon manufactures and markets a range of cosmetics. The sales manager recently announced at a sales strategy meeting that this year the salesforce should continue present call rates on existing accounts, with limited prospecting activities. The strategic marketing objective is likely to be what?

A. Harvest.
B. Build.
C. Hold.
D. Divest.

1.38 The sales manager of Avalon added that changes in the marketing environment may mean that next year the salesforce will call only on profitable accounts and no prospecting activity will take place at all. This means that next year the strategic marketing objective may change to what?

A. Harvest.
B. Build.
C. Hold.
D. Divest.

Case Study 1.1: Mephisto Products

'Yet another poor year,' reflected the senior executive of Mephisto Products Ltd. 'Profits down by 15 per cent, sales and turnover static in a market that was reckoned to be growing at a rate of some 20 per cent per annum. It cannot go on.' These were the thoughts of Jim Bullins, and he contended that the company would be out of business if the next year turned out to be as bad.

Jim Bullins had been senior executive at Mephisto for the past three years. In each of these years he had witnessed a decline in sales and profits. The company produced a range of technically sophisticated electromechanical control devices for industry. The major customers of Mephisto were in the chemical processing industry. The products were fitted to the customer's processing plant in order to provide safety and cut-out mechanisms, should anything untoward happen in the manufacturing process.

The products were sold through a UK salesforce of some 12 people. Each represented a different area of the country and all were technically qualified mechanical or electrical engineers. Although some 95 per cent of Mephisto's sales were to the chemical industry, there were many more applications for electromechanical control devices in a wide variety of industries.

The reason that sales were concentrated in just the one industry was historical, in that the firm's founder, James Watkinson, had some 30 years earlier married the daughter of the owner of a major detergent manufacturer. As an engineer, Watkinson had seen the potential for such devices in this type of manufacture and, with the aid of a small loan from his father-in-law, had commenced manufacture of such devices, initially for his father-in-law's company and later for wider application in the chemical industry. Watkinson had long since resigned from active participation in Mephisto Products, although he still held a financial interest. However, the philosophy Watkinson had brought to the business was one that still pervaded business thinking at Mephisto.

The essence of this philosophy was centred on product and production excellence, backed by strong technical sales support. Watkinson had believed that if the product was right, i.e. well designed and manufactured to the highest level of quality, there would be a market. Needless to say, such a product then needed selling (because customers were not necessarily aware that they had a need for such safety mechanisms) and salespeople were encouraged to use what may be described as high-pressure salesmanship, pointing out the consequences of not having such mechanisms in a manufacturing plant. They therefore tended to emphasise the negative aspects (of not having such devices) rather than the positive aspects (of how good they were, how time-saving during a plant breakdown, etc.).

Needless to say, in Watkinson's day, such products then needed selling and, even though sales were to industrial purchasers, it was felt that such selling techniques were justified. This philosophy still pertained, and new salespeople were urged to remember that, unless they were pressed, most customers would not consider updating their control equipment.

Little advertising and sales promotion was carried out by the company, although from time to time, when there was a little spare cash, the company did purchase advertising space in *The Chemical Processors' Quarterly*. Pricing was done on a cost-plus basis, with total costs being calculated and a fixed percentage added to account for profits. Prices were thus fixed by the accounts department, and sales had no say in how they were established. This led to much dissent among the salespeople, who constantly argued that prices were not competitive and that if they were cut, sales could be increased substantially.

Delivery times were slow compared with the industry average, there were few discounts for large order quantities, and all discounts had to be cleared with accounts before the salesperson could agree them with the customer. Again, Watkinson's old philosophy still prevailed: If they want the product badly enough, they will wait for it. And why offer discounts for large quantities? If they did not want that many, they would not order them.

During the previous five years, from being a relatively successful company, market share for Mephisto Products dropped substantially. The market became much more competitive with many new entrants, particularly from EU countries coming into the UK market, which had traditionally been supplied by UK manufacturers. Many of these new entrants had introduced new and updated products to the market, exploiting recent advances in electronics. These new products were seen by the market as being technically innovative, but the view taken by Mephisto management was that they were faddish and once the novelty had worn off, customers would come back to their superior products.

Unlike many of his colleagues, Jim Bullins was worried by developments over the past five years and felt there was a need for many changes. He was aware that the more successful new entrants to the industry had introduced a marketing philosophy into their operations. Compared with ten years ago in this type of business, it was now common practice for companies to appoint marketing managers. Furthermore, he knew from talking to other people in the industry that such companies considered sales to be an integral part of marketing. At a recent meeting with his senior staff, he mentioned to the sales manager the possibility of appointing a marketing director. The sales manager, who was shortly expecting to be made sales director, was scathing about the idea. His view was that marketing was suitable for a baked bean manufacturer but not for a company engaged in the manufacture and sale of sophisticated control devices for the chemicals industry. He argued that Mephisto's customers would not be swayed by superficial advertising and marketing ploys.

Although Jim Bullins always took heed of advice from his senior managers, recent sales figures had convinced him that the time had now come to make some changes. He would start, he decided, by appointing a marketing manager in the first instance. This person would have marketing experience and would come, most probably, from the chemical industry. The person appointed would have equal status to the sales manager, and ultimately either the new appointee or the existing sales manager would be promoted to the board of directors.

Questions

1 Criticise Mephisto Products' approach to sales and marketing.

2 Comment on the following as they exist now at Mephisto Products: (a) marketing orientation, (b) the marketing mix, (c) the product life cycle.

3 What problems can you anticipate if Jim Bullins appoints a marketing manager?

4 If appointed, what problems can you foresee for the new marketing manager?

5 What general advice can you give to the company to make it more marketing oriented?

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Module 2

Sales Strategies

Contents

Learning Objectives

After studying this module, you should be able to:

- understand and appreciate the differences between sales and marketing strategies;
- appreciate where the key marketing concepts fit into the planning process;
- identify component parts of the promotional mix;
- differentiate between objectives, strategies and tactics.

Key Concepts

- branding
- budget
- promotional mix
- push and pull strategies
- PEST or STEEPLE analysis
- sales forecast
- sales planning process
- SWOT analysis
- TOWS matrix

2.1 Sales and Marketing Planning

To be effective, sales activities need to take place within the context of an overall strategic marketing plan. Only then can we ensure that our sales efforts complement, rather than compete with, other marketing activities. Accordingly, sales strategies and management are afforded a more holistic perspective and tend to cover the whole organisation. Hence the current general consensus is that sales strategies and tactics may only be arrived at, implemented and assessed against a framework of company-wide objectives and strategic planning processes. Before discussing sales strategies and tactics, the nature and purpose of strategic market plans and the place of selling in these plans is outlined and discussed.

2.2 The Planning Process

The nature of the **sales planning process** is outlined in Figure 2.1. This process can be likened to operating a domestic central heating system. One first determines the temperature required, timing, etc. (setting objectives) and the procedures which must be followed to make sure this is achieved (determining operations). Next we have to implement appropriate procedures, including ensuring that the necessary resources are available (organisation). At this stage we can commence operation of the system (implementation). Finally, we need to check how the system is operating, in particular the temperature level that has been reached (measuring results). Any deviations in required temperature are then reported and corrected through the thermostatic system (re-evaluation and control).

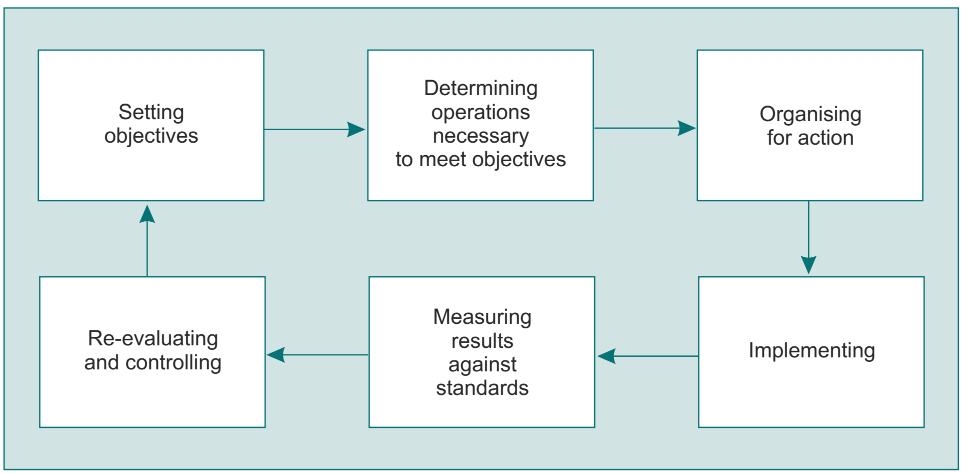

Figure 2.1 The planning process

This planning process can be given the acronym MOST, which describes the process from the general to the specific: mission, objective, strategy, tactics.

2.3 Establishing Marketing Plans

There is no universal way of establishing an ideal marketing plan; neither is the process simple in practice because every planning situation is unique. Conceptually, however, the process is straightforward, comprising a series of logical steps. The marketing plan (see Figure 2.2) can be portrayed as a hierarchy of three levels:

- Objectives are where we intend to go – our goals.
- Strategies are how we intend to get there – broadly descriptive.
- Tactics are the precise route to be taken – detailed.

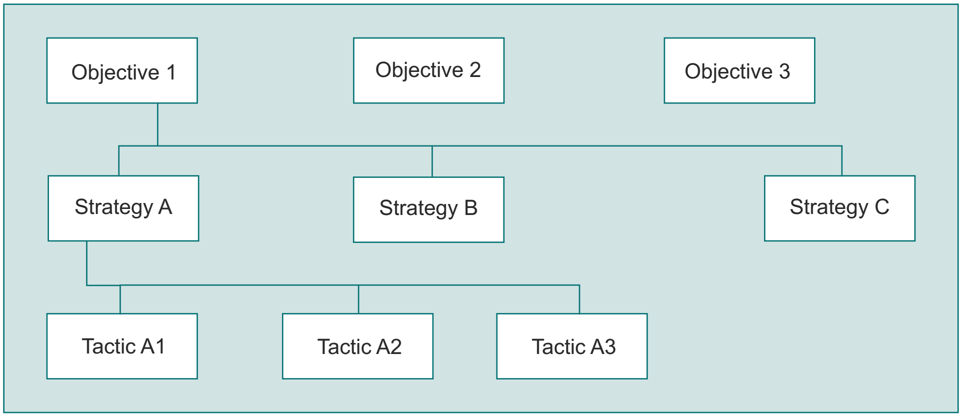

Figure 2.2 **Hierarchy of the marketing plan**

2.3.1 Business Definition

As a prerequisite to determining marketing plans, careful consideration should be given to defining (or redefining) the overall role or mission of the business. This issue is best addressed by senior management asking and answering the question, What business are we in? The definition of the role of a business should be in terms of what customer needs are being served by a business rather than in terms of what products or services are being produced. For example, a manufacturer of micro-computers might define the company as being in the business of rapid problem-solving. In the automobile industry, companies might define their business as being the provision of transport, conferring status, etc., rather than manufacturing cars.

This process of business definition is important. Not only does it ensure that a company thinks in terms of its customers' wants and needs, but also in terms of the planning process, it forms a focusing mechanism for more detailed aspects that follow.

2.3.2 Situation Analysis or Marketing Audit

The precise content of this step in preparing the marketing plan will vary from company to company, but will normally consist of a marketing analysis and an analysis of strengths, weaknesses, opportunities and threats (SWOT).

2.3.2.1 Market Analysis or Marketing Audit

Examples of data and analysis required under the **external audit** include

- current and recent size and growth of market; in the multi-product company this analysis needs to be made in total, by product or market and by geographical segment;
- analysis of customer needs, attitudes and trends in purchasing behaviour;
- current marketing mix;

- competitor analysis, including an appraisal of current strategy, current performance, including market share analysis, their strengths and weaknesses, expectations as to their future actions.

As well as analysing existing competition, potential new entrants should be appraised.

The **external audit** consists of an analysis of broad macro-environment trends – political, economic, sociocultural and technological (PEST) – that might influence the future of the company's products. This original description has been extended to socio-economic, technological, economic, environmental, political, legal and ecological (STEEPLE).

Both internal and external auditing give a deliberate and detailed coverage of the external and internal elements that have been described. They can be carried out by people within marketing or from other departments and, most importantly, they must have the backing of top management as auditing is central to the marketing planning and corporate planning horizons of the company.

2.3.2.2 Analysis of Strengths, Weaknesses, Opportunities and Threats

Here management must make a realistic and objective appraisal of *internal* company strengths and weaknesses in the context of potential *external* opportunities and threats; this is called **SWOT analysis**. Opportunities and threats to the future of a business stem primarily from factors outside the direct control of a company and in particular from trends and changes in those factors which were referred to earlier as the macro-environment, namely political, economic, sociocultural and technological factors. It is important to recognise that the determination of what constitutes an opportunity or threat, and indeed the appraisal of strengths and weaknesses, must be carried out concurrently. An apparent strength, perhaps a reputation for quality, becomes a real strength only when it can be used in the marketplace.

A SWOT analysis is not a lengthy set of statements; it is simply a number of bullet points under each heading. It should be short and uncomplicated as it is from the SWOT that marketing strategies are generated.

2.3.3 Statement of Objectives

On the basis of the preceding steps, the company can now determine specific objectives and goals that it wishes to achieve. These objectives, in turn, form the basis for the selection of marketing strategies and tactics.

A company may have several objectives. Although marketing objectives usually tend to support business objectives, business and marketing objectives may also the same. There are several types of objective, such as financial objectives and corporate objectives. Additionally, objectives may be departmental or divisional. However, regardless of the type or format, each objective requires its own strategy.

Objectives are needed in a number of areas: production objectives, financial objectives, etc. In a market-driven company, marketing objectives are the most important as they reflect customer needs and how the company can satisfy them. In a market-driven company, marketing plans come first in the overall corporate planning process. The objectives of other areas must then be consistent with marketing objectives. In addition to this element of consistency, objectives should be expressed unambiguously, preferably quantitatively, and with an indication of the time span within which the objectives are planned to be achieved. The acronym SMART describes the requirement for such objectives: specific, measurable, achievable, realistic, time-related.

This time span of planned activities often gives rise to some confusion in planning literature. Marketing plans are often categorised as being short range, intermediate range and long range. The confusion arises because there is no accepted definition of what constitutes the appropriate time horizon for each of these categories. What is felt to comprise long-term planning in one company (say five to ten years) may be considered intermediate in another. It is suggested that the different planning categories are identical in concept, although clearly they differ in detail. Furthermore, the different planning categories are ultimately related to each other – achieving long-term objectives requires first that intermediate and short-term objectives be met. The following criteria are necessary for setting objectives:

- **Ensure objectives focus on results.** Because the effects of marketing activity are essentially measurable, sales and marketing strategies should enable the quantification of marketing achievement.
- **Establish measures against objectives** such as return on investment.
- **Where possible have a single theme for each objective.** Imprecise objectives such as ‘reduce customer defections by 20 per cent through best-in-class service’ are not acceptable. There are at least two objectives here and each should be quantified.
- **Ensure resources are realistic.** Best practice: attempt to answer common marketing problems through the use of test and roll-out plans. Because testing enables roll-out costs to be estimated reasonably accurately, this should ensure that campaign running costs are realistic. (Of course, overheads or labour cost may not be.)
- **Ensure marketing objectives are integral to corporate objectives.** Indisputable.

Box 2.1: Saga Holidays: Meeting the Needs of Empty-Nesters

Saga Holidays was set up to provide holidays for people with a high proportion of leisure time, people defined as either retired or empty-nesters. The holidays would be outside school holidays and other peak periods.

- *Original objective*: sell long-stay holidays and cruises.
- *Success*: negotiating strength.

But what were their options for business expansion?

- Either sell holidays to other market sectors.
- Or sell other products and services to established customers.

So what did Saga do? Instead of expanding out of a profitable market segment into less profitable segments, Saga met other needs of the retired and empty-

> nester market by selling insurance, savings and other suitable products. The business is thus now defined as a *retired market service provider* rather than merely a *specialist holiday organisation*.
>
> Saga followed what would be termed by Michael Porter as a focus business strategy as opposed to a differentiation strategy or cost leadership strategy. In today's competitive market, it is not uncommon for companies to diversify their product offering to an established customer base. With customer acquisition, customer service and database management costs already met, this may indeed be the most profitable expansion option.
>
> Saga offers a practical example of, What would our customers want to buy from us next?

A most important document in a company is the annual marketing plan, which the sales manager plays a key part in preparing. The rest of this module discusses planning in the context of preparing this annual document.

2.3.4 Forecast Sales or Market and Sales Potential

A critical stage in the development of marketing plans is the assessment of market and sales potential followed by the preparation of a detailed **sales forecast**. Market potential is the maximum possible sales available for an entire industry during a stated period of time. Sales potential is the maximum possible portion of that market that a company could reasonably hope to achieve under the most favourable conditions. The sales forecast is the portion of the sales potential that the company estimates it will achieve. The sales forecast is an important step in the preparation of company plans. Not only are the marketing and sales functions directly affected in their planning considerations by this forecast, but other departments, including production, purchasing and human resource management, will use the sales forecast in their planning activities. Sales forecasting, therefore, is a prerequisite to successful planning and is considered in detail in Module 16.

2.3.5 Generating and Selecting Strategies

Once marketing objectives have been defined and market potential assessed, consideration should be given to the generation and selection of strategies. Broadly, strategies encompass the set of approaches that the company will use to achieve its objectives.

This step in the process is complicated because there are often many alternative ways in which each objective can be achieved. Although several strategies may be evaluated, only one strategy can be employed, hence the formula 'one strategy per objective'. For example, an increase in sales revenue of 10 per cent can be achieved by increasing prices, increasing sales volume at the company level (increasing market share) or increasing industry sales. At this stage it is advisable, if time-consuming, to generate as many alternative strategies as possible. In turn, each of these strategies can be further evaluated in terms of their detailed implications for resources and in the light of the market opportunities identified earlier. Finally, each strategy should be examined against the possibility of counter-strategies on the part of competitors.

2.3.5.1 Examples of Strategies

We begin by supposing that the objective is to maximise profit from dealings with established customers

Strategy 1: Targeting

To the marketer, targeting is equivalent to segmentation. A segmentation or targeting strategy may be based on any or all of the following:

- value (high or low consumption, value of goods purchased);
- customer preference (telephone or email ordering service, type of product or service purchased);
- life stage (status of relationship between supplier and customer: active, lapsed or dormant customer; months since last purchase).

At this point it is important to emphasise that

- segments must be potentially profitable;
- segments are not mutually exclusive;
- segments are not stable.

Hence a consumer may fall into more than one segment or different segments at different times. If the segment requires a special effort to reach or appeal to it, then it must have sufficient potential purchasing power to justify the effort.

Strategy 2: Pricing

In line with the classical marketer's approach, the following pricing strategies may be adopted:

- short-term tactical reductions;
- establish price premiums;
- elevate perceived quality.

Thus, the classical principle of elevating the perceived quality of a brand so that it can command a higher selling margin may be adopted. Additionally, a discount has more value if the worth of what is being discounted is understood.

Discounting is of course prevalent in all marketing. In fast-moving consumer goods (FMCG) markets it tends to be driven by competitive or retailer pressures. Often tactical cuts are seen as defensive.

Strategy 3: Customer Retention

Because advanced technology enables suppliers to track the progress of an enquirer or customer, focus is increasingly shifting from mere product profitability to the profitability of customer relationships. However, customer profitability will be determined by

- the cost of acquisition;

- the losses of customers or would-be customers at various key stages in the relationship.

Key stages in the customer relationship could be revised as:

- enquiry;
- conversion to customer;
- repeat purchase;
- up-trade;
- threatened dormancy;
- recovery.

The probability of loss usually declines with the length of the relationship. In consumer markets (but not in business markets) most often the duration of a relationship outweighs rate of spending in determining the lifetime value of the relationship. Here a customer database will not only facilitate measurement of this relationship, but more importantly enable corrective action to be undertaken more easily. Thus, an offer may be triggered to prevent the customer going dormant. Consequently, if the customer fails to respond and does go dormant, further offers may be made to recover the customer and restart the relationship.

Additionally, there could be a customer development and retention strategy, which could provide the means to retain customers. There may be a retention strategy based on customer care and a development strategy based on sales promotion.

2.3.5.2 Strategy Statement

From this list of alternative strategies a choice must be made with regard to the broad marketing approach which the company considers will be the most effective in achieving objectives. This must then be translated into a strategy statement which must be communicated to and agreed with all those managers who will influence its likely degree of success or failure. Once again, the specific contents of such a strategy statement will vary between companies, but as an example a strategy statement might encompass the following areas:

- a clear statement of marketing objectives;
- a description of the choice of strategies for achieving these objectives;
- an outline of the broad implications of the selected strategies with respect to the target market, positioning, marketing mix and marketing research.

At this stage the strategy statement should give a clear and concise indication of where the major marketing efforts of the company will be focused. Once this has been discussed and agreed, we can progress to the next step of preparing a detailed plan of action.

There are many tools available for generating strategic options, the most popular of which are the Boston matrix and the GE/McKinsey matrix. They are not described in this course. However, analysis using the product life-cycle concept and diffusion of innovations is appropriate in this context and these have been discussed in Module 1. SWOT analysis is a useful method of generating strategies that are directly related to the company's strengths and weaknesses and the opportunities and threats it faces. A number of stages are necessary:

- Evaluate the influence of environmental factors (STEEPLE, PEST) on the company.
- Make a diagnosis about the future.
- Consider company strengths and weaknesses in relation to all key areas of the company.
- Develop strategic options.

Consider the case of a specialist, low-volume UK sports car producer (see Figure 2.3).

Strengths	Weaknesses
1 Well-established brand name 2 In business since 1920 3 Cult following 4 Low price 5 Consistently good press reviews	1 Production only semi-automated 2 Maximum production 30 units per week 3 Long waiting list 4 Only sold in UK, USA, Germany, Holland, Belgium and Scandinavia
Opportunities	**Threats**
1 USA market can take twice their allocation 2 Other European countries would like to purchase	1 Some purchasers not prepared to wait 2 Other volume manufacturers now producing niche models like this

Figure 2.3 **SWOT matrix for a sports car producer**

2.3.5.3 Strategic Possibilities Using SWOT Analysis

Use existing strong, well-established brand to raise productions levels through automation to market to other European countries (S1, S2, W1, W2, O2, T2). Raise the basic price (S4, W3, O1, T1, T2).

2.3.6 Preparing the Marketing Programme

The strategy statement prepared in the last step provides the input for determining the detailed programme required to implement these strategies. The first step in the preparation of this programme is the determination of the marketing mix. Detailed decisions must be made with respect to product policy, pricing, promotion and distribution. Care should be exercised to ensure that the various elements of the marketing mix are integrated, i.e. that they work together to achieve company objectives in the most effective manner.

At this stage what has previously been an outline plan for guiding decision-making becomes a detailed operational plan and this section is inevitably the lengthiest part of the planning document. It is on the basis of this part of the plan that day-to-day marketing activities and tactics of the company will be organised, implemented and assessed.

2.3.7 Allocating Resources: Budgeting

Having made detailed decisions with respect to the elements of the marketing mix, the next step is to assemble a **budget** for each of these elements. In most companies limited resources ensure that managers from the different functional areas have to compete for these scarce resources. At this stage it is likely that much discussion will take place between those responsible for each element of the marketing mix. In addition it may be found that initial marketing objectives, strategies and detailed plans for the marketing programme to achieve the forecast level of sales may be unrealistic in the light of financial and other resource constraints. Then the original plan may have to be modified.

At this stage it is possible to estimate costs and revenues and to prepare a forecast profit and loss statement.

2.3.8 Implementation

The procedure so far should have led to a detailed document setting out what is to be done, when it will be done, who is responsible and estimated costs and revenues, as well as agreed time frames for the various activities in the plan. Once approved, details of the marketing plan should be communicated to everyone involved. This communication is an essential and sometimes neglected aspect of marketing planning. Many companies have elaborate marketing plans that are not implemented because key people have not been informed or have not agreed the proposed plan.

2.3.9 Control

The marketing plan should contain an outline of the control mechanisms that will be applied. This should include details of major objectives and key parameters in the measurement of the degree of success in achieving the objectives, enabling corrections and modifications to be made as the plan unfolds. This control part of the marketing plan should specify what is to be measured, how it is to be measured and what data are required for measurement. It may also include details of what action is to be taken in the light of deviations from the plan. This contingency planning is a key feature of any planning process, recognising that plans need to be flexible to accommodate possible unforeseen or unpredictable changes in the market. The overall marketing planning process is summarised in Figure 2.4.

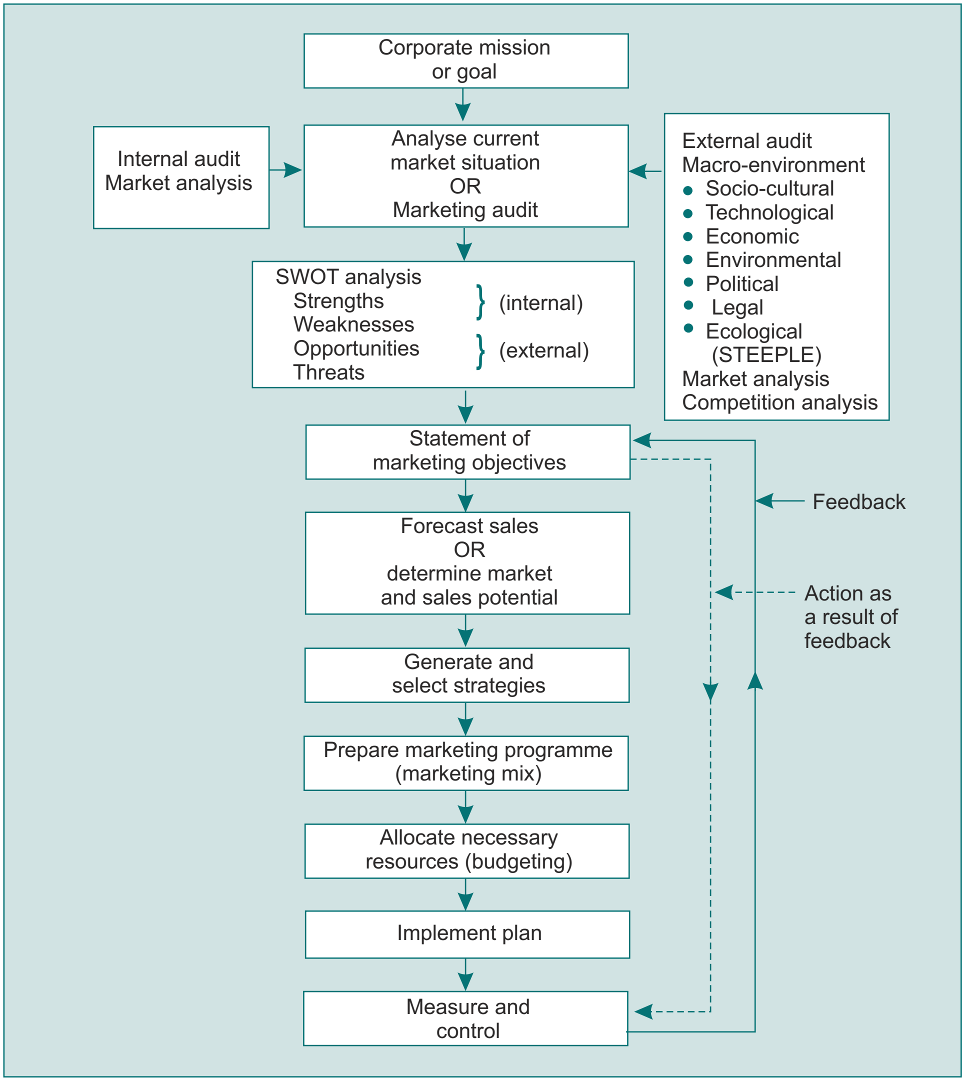

Figure 2.4 **An overview of the marketing planning process**

2.4 The Place of Selling in the Marketing Plan

We have examined how marketing plans are prepared. The sales function has an important role to play in this process and we now look at the nature of this role and, in particular, the contribution that the sales function makes to the preparation of the marketing plan and how the sales function itself is influenced by the marketing plan.

2.4.1 Contribution of the Sales Function

Throughout the planning process, alternative courses of action need to be identified and decisions taken about which of these alternatives is the most appropriate. Contingency planning measures like these involve identifying alternatives and choosing between them, which requires accurate and timely information. A key role of the sales function in the planning process is the provision of this information. It becomes clearer if we examine some of the stages in the planning process where the sales function can make a valuable contribution:

- analysis of current market situation (marketing audit);
- determining sales potential or sales forecasting;
- generating and selecting strategies;
- budgeting, implementation and control.

Box 2.2: Toyota

By constantly finding out what its customers will want to buy next, Toyota has achieved profitable line extension and replacement. In fact, by being able to make additional low-cost sales to its established customers, Toyota has not only achieved sustainable competitive advantage through customer retention, but is also in a stronger position to invest in expansion.

2.4.1.1 Analysis of Current Market Situation

The proximity of the sales function to the marketplace allows it to make a unique contribution to the analysis of the current market situation facing the company. In particular, sales is often well placed to contribute to the analysis of customer needs and trends in purchasing behaviour. The sales manager can also make a valuable contribution with respect to knowledge about competitors and their standing in the marketplace. This informational role of sales managers should not be ignored, because through the salesforce they are ideally equipped to provide up-to-date, accurate information based on feedback from customers.

2.4.1.2 Determining Sales Potential or Sales Forecasting

As explained in Module 16, an important responsibility of the sales manager is the preparation of sales forecasts for use as the starting point of business planning. Short-, medium- and long-term forecasts by the sales manager form the basis for allocating company resources in order to achieve anticipated sales.

2.4.1.3 Generating and Selecting Strategies

Although decisions about appropriate marketing strategies rest with marketing management, the sales manager must be consulted and should make an input. The sales function is ideally placed to comment on the appropriateness of any suggested strategies.

The sales manager should actively encourage sales staff to comment on the appropriateness of company marketing strategies. The field salesforce are at the forefront of tactical marketing and can more realistically assess how existing target markets will respond to company marketing initiatives. Do not overlook the front-line people who have the most contact with customers.

2.4.1.4 Budgeting, Implementation and Control

Preparation of the sales forecast is a necessary precursor to detailed marketing plans. The sales forecast is also used in the preparation of the sales budget.

On the basis of the sales forecast, the sales manager must determine what level of expenditure will be required to achieve the forecast level of sales. This is the cornerstone of the whole budgeting procedure in a company. Not only the activities of the sales department, but also production, human resource management, finance and R&D will be affected by this budget. Because of this importance, sales budgets are considered in detail in Module 16. At this stage it is sufficient to note that in preparing the sales budget the sales manager must prepare an outline of the essential sales activities required to meet the sales forecast, together with an estimate of their costs. The precise contents will vary between companies, but normally a sales budget includes details of salaries, direct selling expenses, administrative costs and commissions and bonuses.

Having agreed the sales budget for the department, the sales manager must assume responsibility for its implementation and control. In preparing future plans, an important input is information on past performance against budget and, in particular, any differences between actual and budgeted results. Such budget variances, both favourable and unfavourable, should be analysed and interpreted by the sales manager as an input to the planning process. The reasons for budget variances should be reported, together with details of any remedial actions that were taken and their effects.

2.4.2 How the Marketing Plan Influences Sales Activities

Any planning process is effective only to the extent that it influences action. An effective marketing planning system influences activities, both strategic and tactical, throughout the company. The classical marketing approach favours the inside-out planning model proposed by Schultz, Tannenbaum and Lauterborn[1] (see Figure 2.5).

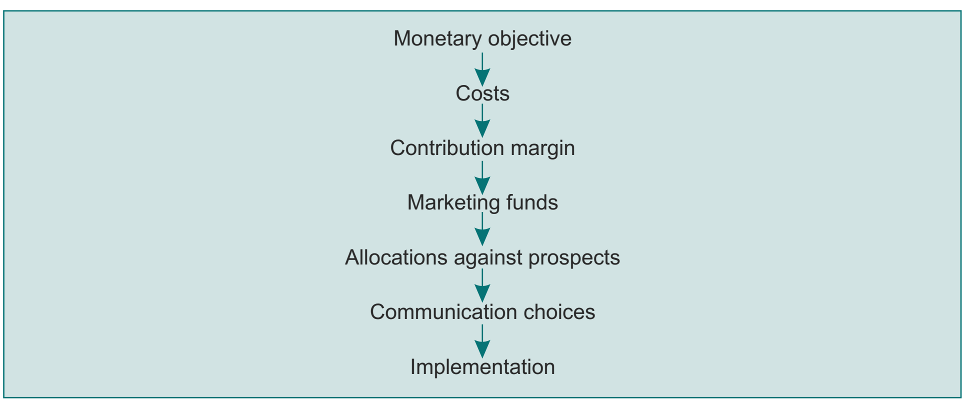

Figure 2.5 Inside-out planning model

However, the reverse outside-in planning model is becoming more and more popular. Figure 2.6 shows an outside-in planning sequence, starting with a calculation of the cost per sale to current customers, then to lapsed customers and prospects on the database, and finally to new customers. The cost per sale calculations determine the sales target in each case.

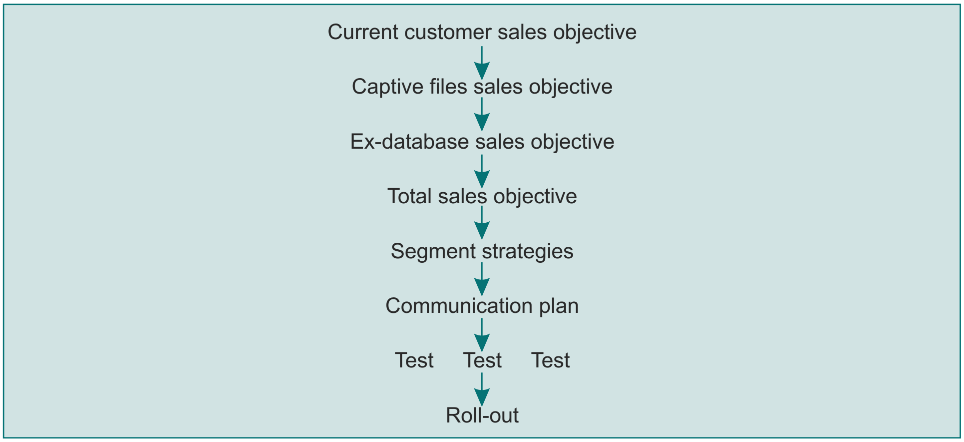

Figure 2.6 **Outside-in planning model**

This process is followed by a strategy for each discrete segment. A product may not, for example, be offered to each segment at the same price. Similarly, types of communication will be different for each segment.

The segment strategy and the content of communications will ideally be tested against reasonable alternatives. The most successful alternatives on testing will then be rolled out to the remaining population in each segment.

Although the inside-out model is financially driven, it is much less safe than the customer-oriented planning model. Perhaps this influence is most clearly seen through decisions relating to the marketing programme or marketing mix. Sales strategies are most directly influenced by planning decisions on the promotional element of the marketing mix. Here we will consider briefly the notion of a mix of promotional tools, outlining the considerations in the choice of an appropriate mix and the implications for sales strategies. In particular, the important and often misunderstood relationship between advertising and selling is explained and discussed. We conclude this section by examining briefly the nature of sales tactics.

2.4.2.1 The Promotional Mix

Earlier in this module we suggested that an important facet of marketing planning is the preparation of a marketing programme, the most important step in this preparation being the determination of the marketing mix – product, price, distribution and promotion. As selling is only one element in the promotion part of this mix, it is customary to refer to the **promotional mix** of a company. This traditional promotional mix (or more correctly the communications mix) is made up of four major elements:

- advertising;
- sales promotion;
- publicity or public relations;

- personal selling.

To these traditional elements can now be added

- direct marketing;
- interactive or internet marketing.

In most companies all four traditional elements can contribute to company sales, but a decision has to be made about where to place the emphasis. This decision is made at the planning stage. The elements of the promotional mix should work together to achieve company objectives. An important management task is to coordinate promotional activities.

Several factors influence the planning decision about where to place emphasis within the promotional mix. In some firms the emphasis is placed on the salesforce with nearly all promotional budget being devoted to this element of the mix. In others, advertising or sales promotion are seen as being much more efficient and productive than personal selling. Perhaps the most striking aspect of the various promotional tools is the extent to which they can be substituted for each other. Companies within the same industry differ markedly in where they place the promotional emphasis. This makes it difficult to be specific about developing the promotional mix within a particular company. As a guide, some of the more important factors influencing this decision are now outlined.

Type of Market

In general, advertising and sales promotion play a more important role in the marketing of consumer products, whereas personal selling plays the major role in industrial marketing. The reasons for this stem from differences between industrial and consumer marketing, which are outlined in Module 3. An obvious contrast is the marketing of FMCGs with the marketing of often highly technical, expensive capital goods to industry. Despite this, it is a mistake to conclude that advertising does not have a role to play in the marketing of industrial products. Indeed the contribution of advertising is often undervalued by sales personnel and discounted as a waste of company resources. The relationship between advertising and sales is considered later in the module.

The ‘new’ promotional mix increasingly involves e-commerce possibilities and this is highlighted through developments in this field and numbers of companies using this facility. Freephone facilities are also making communication easier and cost-free to the potential customer. These more contemporary issues are highlighted in Boxes 2.3 and 2.4.

Box 2.3: E-commerce Is Made E-asy with New Site

PSICommerce is a new e-commerce package designed by PSINet to open up the world of global trading to small and medium-sized enterprises (SMEs). It claims to make merchandising on the web a simple and cost-effective process.

The PSICommerce basic package costs from £125 for SMEs to register and get the package components to be connected to the internet. An ongoing connection charge starts at £100 a month.

A government competitiveness White Paper says UK e-commerce transactions are currently worth around $4.5 billion. Growth over the next three years could reach $47 billion, with 70–80 per cent of e-commerce revenues expected to involve small and medium-sized enterprises, either in business-to-business or business-to-consumer roles.

Valerie Holt, managing director of PSINet UK and vice president of Europe, said SMEs' appetite for e-commerce was rapidly developing. But adoption of it was being throttled because of fear of costs related to the technical complexities of developing and building an internet 'shop' and integrating to the credit card payment systems.

'The benefits of the package will allow any small business to instantly trade globally on the internet. They may have only 2 or 30 clients worldwide but the internet enables them, by negating location, to overcome the physical barrier to trade,' said Holt.

Source: www.psicommerce.com

Box 2.4: Benefits to Business of Marketing Numbers

Many companies do not realise that telephone numbers can be an effective marketing tool in terms of generating revenue and increasing customer bases. Research shows that marketing numbers can increase calls by up to 300 per cent. Patrick Naughton of Telecom One has suggested a number of benefits when using marketing numbers and has given a number of questions to be asked when weighing up the pros and cons:

- Are you trying to increase awareness of the company, products and services?
- Are you trying to improve the quality of your customer service?
- Are you trying to broaden the reach of your business?
- Do you already have a solid customer base and want to generate a new revenue stream?

The facilities that are available include:

– *Freephone (0800/0808)*: customers can reach you free of charge, you pay 8p per minute.
– *Local rate or Lo-call (0845/0844)*: customers pay 8p per minute weekdays, 4p evenings, and 2p at weekends, regardless of where in the country they call from.
– *National rate (0870/0871)*: a single, location-independent number. Calls are the same cost as local rate calls. Customers pay national rate charges and your business benefits by revenue generated from every call you receive.
– *Gold numbers*: a memorable number that will stick out in a customer's

memory. It is likely to be used more frequently than others and thus generate more business.
– *Alphanumeric numbers*: dialling a word in place of a number e.g. 0800 BUSINESS (can only be used in countries that have this facility).

Websites: www.theidm.com (Institute of Direct Marketing) www.telecom1.com and www.oftel.com.

Source: www.whattobuyforbusiness.co.uk, Edition 252, March 2002

Stage in the Buying Process

In Module 3 it is suggested that for both industrial and consumer products it is useful to consider the stages through which the prospective purchaser passes en route to making a purchase decision. Although there are several ways to conceptualise this process, essentially it consists of the potential purchaser moving from a position of being unaware of a company and/or its products to being convinced that its products or services are the most appropriate for their needs. The sequential nature of this process is shown in Figure 2.7.

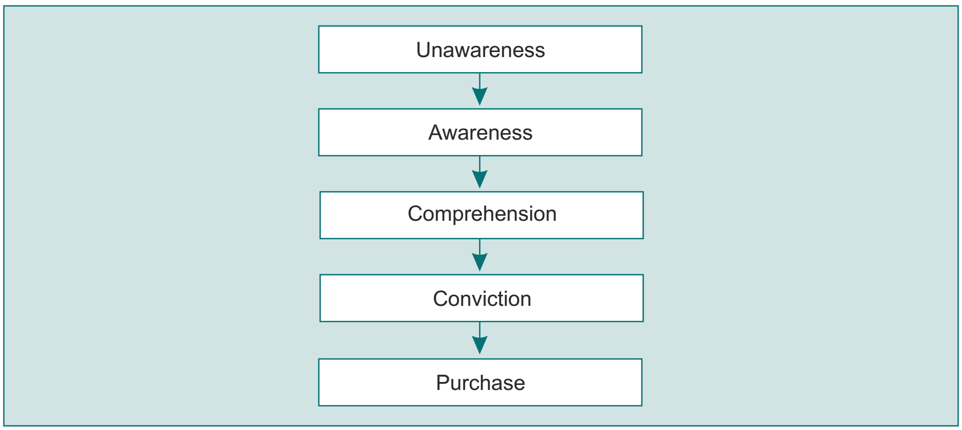

Figure 2.7 Stages in the buying process

For a given outlay, advertising and publicity are more effective in the earlier stages of moving potential purchasers through from unawareness to comprehension. Personal selling is more cost-effective than other forms of promotional activity at the conviction and purchase stages. This is not to suggest that cold calling is not an important area of sales activity but, as we see later, such cold calling is rendered much more effective if the customer is already aware of the company's products.

Push versus Pull Strategies

One of the most important determinants in the choice of promotional mix is the extent to which a company decides to concentrate its efforts in terms of its channels of distribution. This can perhaps be best illustrated if we contrast a push strategy with a pull strategy:

- A **push strategy** is where the focus of marketing effort is aimed at pushing the product through the channel of distribution. The emphasis is to ensure that wholesalers and retailers stock the product in question. The idea is that if channel members can be induced to stock a product they in turn will be active in ensuring that your product is brought to the attention of the final customer. In general a push strategy entails a much greater emphasis on personal selling and trade promotion in the promotional mix.

- A **pull strategy** relies much more heavily on advertising to promote the product to the final consumer. The essence of this approach is based on the notion that if sufficient consumer demand can be generated for a product this will result in final consumers asking retailers for the product. Retailers will then ask wholesalers for the product, who will contact the producer. In this way the product is pulled through the channel by creating consumer demand via assertive advertising. (Module 10 considers channel management in detail and, in particular, the diminishing role of wholesalers.)

Stage in the Product Life Cycle

Module 1 introduced the concept of the product life cycle. There is evidence to suggest that different promotional tools vary in their relative effectiveness over the various stages of this cycle. In general, advertising and sales promotion are most effective in the introduction and growth stages of the life cycle, whereas it is suggested that the emphasis on personal selling needs to increase as the market matures and eventually declines.

2.4.2.2 The Relationship between Advertising and Selling

In discussing factors affecting choice of promotional tools, it may have appeared that to some extent these tools are mutually exclusive; for example, one chooses to concentrate either on advertising or personal selling. This is not the case. The relationship between the various promotional tools, including personal selling, should be complementary and coordinated. Perhaps this obvious point would not need to be stressed were it not for the fact that often this complementary relationship is misunderstood. Nowhere is this misunderstanding more evident than in the relationship between advertising and selling.

It is unfortunate that many sales managers and their salesforces believe that expenditure on advertising is a waste of company resources. Very rarely, they argue, does a customer purchase simply because a product is advertised, particularly where that customer is an industrial purchaser. Because of this, the argument continues, the money 'wasted' on advertising would be better spent where it will have a direct and immediate effect – on the salesforce. Increasingly, evidence suggests the notion that advertising money is wasted in industrial markets is misplaced. Here are some of the functions that advertising can perform in such markets:

- Corporate advertising can help to build the reputation of a company and its products.
- Advertising is particularly effective in creating awareness among prospective clients. The sales representative facing a prospect who is unaware of the company or product faces a much more difficult selling task than the representative who can build on an initial awareness.

- Advertising can aid sales representatives in marketing new products by shouldering some of the burden of explaining new product features and building comprehension.
- Advertising using return coupons may be used to open up new leads for the salesforce.

Overall by far the greatest benefit of advertising in industrial markets is seen not through a direct effect on sales revenue, but in the reduction of overall selling costs. Evidence suggests that, given adequate frequency, this reduction in selling costs to customers exposed to advertising may be as high as 30 per cent. Conversely, non-advertisers may find themselves at a disadvantage. The cost of selling to customers exposed to competitors' advertising may be increased by as much as 40 per cent.

In marketing consumer goods, **branding** and brand image are very important and advertising is generally thought to be the most effective promotional tool. However, personal selling and a well-trained salesforce can contribute significantly to increased market penetration by influencing stockists to allocate more shelf space to company products and persuading new dealers to stock them.

At all times, sales and advertising should be coordinated to achieve company objectives. It is important for sales personnel to be informed about company advertising campaigns. This advertising should be used in selling, the advertising theme being reinforced in the sales presentation.

2.4.2.3 From Sales Strategies to Tactics

We have seen that a number of factors influence the setting for sales strategies. It was suggested that this influence is most direct in determining the relative emphasis to be given to sales activities in overall company and promotional strategy. Sales strategies are also influenced by the marketing and sales objectives specified in the marketing plan. As an illustration, a marketing objective of increased market share may mean that the sales manager has to ensure that sales in the forthcoming year increase by 10 per cent. Furthermore, the planning document should specify the route or strategy by which this objective will be accomplished, e.g. 'Additional sales effort is to be targeted on the opening of new accounts'. Sales objectives and strategies, therefore, also stem directly from the planning process, after consultation and agreement with relevant personnel.

However, not all researchers support the merits of relationship marketing; opposing this outlook, Shaw[2] argues: 'Marketers must stop their obsession with loving customers since it has become a distraction from the basics of selling and tracking the origins of sale success.' Having agreed these strategic guidelines, a more detailed set of activities must be built into the planning process. The sales manager must determine the specific actions required to achieve sales goals, i.e. tactics.

Tactics encompass the day-to-day activities of the sales function in the achievement of marketing and sales objectives. Tactics also include actions which require to be taken in response to unexpected short-term events in the marketplace, for example, a special promotional effort by a competitor. The relationship between objectives, strategies and tactics is shown in Figure 2.8.

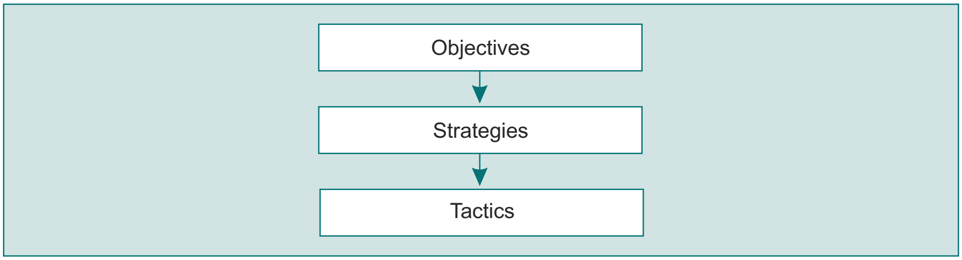

Figure 2.8 The relationship between objectives, strategies and tactics

Tactical decisions represent the fine tuning of sales activities and encompass many decision areas covered in greater detail elsewhere; for example, the deployment of sales personnel – territory design and planning (Module 15) – can be considered a tactical aspect of sales. Similarly, the design of incentive systems (Module 15) should form part of a tactical plan, designed to accomplish sales goals within the framework of sales strategies.

The importance of tactics should not be underestimated; even the best-formed strategies fail for want of proper tactics. As an example of the use and importance of tactics in selling, we consider briefly an aspect of purchasing which is of vital interest to many companies, namely brand or supplier loyalty.

2.4.2.4 Brand or Supplier Loyalty

If we examine the purchase of products and services over time, we find that often the purchasing sequence of individuals indicates that they repeatedly buy the same brand of a product or, if the product is an industrial one, they consistently buy from a particular supplier. For such individuals, if we imagine that the brand or supplier in question is called X, the purchasing sequence would be as shown below.

Purchase occasion	1	2	3	4	5	6
Brand purchased or supplier	X	X	X	X	X	X

There is no doubt that brand or supplier loyalty does exist. Moreover, the cultivation of such loyalty among customers often accounts for a significant part of tactical marketing and sales effort, representing a substantial market asset to a company.

By favouring a longer-term perspective, such a cultivation of customer loyalty complements traditional brand-building techniques. Indeed, as Martin[3] insists, customer relationships with brands help insulate brands from competitors, 'the customer-brand linkage can be viewed as an important subset of relationship marketing'.

Additionally, while Reichheld and Schefter[4] also support this theory when they claim 'a large group of customers are influenced primarily by brand' and that these customers 'are looking for stable long-term relationships', Curtis[5] succinctly summarises that 'customers need to feel that they are part of a brand's crusade'.

Before considering the part that sales tactics can play in this process of cultivating brand loyalty, it is important to explain precisely what is meant by brand loyalty. This apparently simple notion gives rise to some misunderstanding.

Let us return to the purchasing sequence just shown. Although we have suggested that such a sequence is associated with a brand-loyal customer, the existence of such an array of purchases for a customer does not itself constitute evidence that this customer *is* brand-loyal. There are several possible explanations for this purchasing behaviour. One such explanation might be the fact that this customer concentrates much of his or her purchasing in one particular retail outlet and it so happens that this particular retail outlet only stocks brand X of this product, i.e. the customer exhibits loyalty, but to the store rather than the brand.

Another possible explanation is that this customer pays little regard to the particular brand or supplier; he or she is not consciously brand-loyal at all, but rather has simply slipped into the habit of purchasing this brand and cannot be bothered to switch. In this second example it is true to say that the customer must be reasonably satisfied with the brand being purchased consistently. If this were not the case, or the customer became dissatisfied, he or she would then make the decision to switch. Nevertheless, the fact is that this is not true brand loyalty.

True brand or supplier loyalty exists when customers make a conscious decision to concentrate their purchases on a particular brand, because they consider that supplier or brand superior to others. There may be a number of reasons or bases for such perceived superiority, e.g. superior quality, better delivery and after-sales services, the availability of credit, or some combination of these or other factors. In discussing possible reasons for brand or supplier loyalty, we enter realms of motive, perception, attitude, etc., and more complex behavioural areas discussed in Module 3.

The concept of brand or supplier loyalty is a difficult one and care should be taken in interpreting the often conflicting evidence for its causes. Nevertheless, there are some indications that the salesperson can play a key role in helping to establish brand or supplier loyalty among a company's customers. One of the reasons for this is that learning theory suggests we have a tendency to repeat experiences that give us pleasure and to avoid those that do not. Among the most powerful and lasting impressions that serve as a source of pleasure or displeasure in purchasing activities are experiences in the face-to-face encounters with sales staff. Favourable attitudes and behaviour of sales personnel in dealing with their customers can contribute significantly to the creation of brand or supplier loyalty.

Learning Summary

A framework for sales strategies and tactics has been established. We have seen that they are developed and operated within the framework of marketing planning. The sales function makes a valuable contribution to the establishment of marketing plans, providing key data on customers, markets, competitors, sales forecasts and budgets. In turn, selling activities are directly influenced by decisions taken at the marketing planning stage. In the meantime, the increasingly essential role of databases should not be ignored.

We have looked at planning decisions for the marketing programme or marketing mix and, specifically, at the promotional mix in a company. Factors such as type of product market, steps in the buying process, push versus pull strategies and stage in the product life cycle have all been shown to influence promotional strategies and consequently sales strategies.

Finally, we examined sales tactics, the relationship between advertising and selling, and the important area of brand or supplier loyalty. It was shown that advertising plays a key role in aiding the sales effort, reducing selling costs and easing the sales task. Brand- or supplier-loyal customers are a valuable asset to any company and the salesforce is central to the establishment and maintenance of such customer loyalty.

Review Questions

Content Questions

2.1 What are the key stages in the planning process?

2.2 Why is it important to define the overall mission of a business before determining marketing plans?

2.3 What criteria should be used to define the mission of the business?

2.4 What factors should be considered when analysing the current market situation?

2.5 What is a SWOT analysis?

2.6 What are the key elements of a strategy statement?

2.7 What are the four major elements of the promotional mix?

2.8 What factors might influence the emphasis in the promotional mix?

2.9 Describe the stages in the buying process.

2.10 What is the difference between a push strategy and a pull strategy?

Multiple-Choice Questions

2.11 Which of the following statements is false?

A. Strategies represent detailed statements of action, including who is to perform what and when for all the attainment of objectives.
B. A strategy states the methods and procedures that will be used to secure a firm's objectives.
C. Tactics encompass the day-to-day activities of the sales function in the achievement of marketing and sales objectives.
D. Tactics include actions which require to be taken in response to unexpected short-term events in the marketplace.

2.12 Future business threats and opportunities, where do they stem from?

A. Economic environment only.
B. Political environment only.
C. Technological environment only.
D. Economic, political and technological environments.

2.13 What is a sales forecast?

A. The maximum possible sales that are available for an entire industry during a stated period of time.
B. The maximum possible portion of the market which a company could reasonably hope to achieve under the most favourable conditions during a period of time.
C. The sales the company expects to achieve during a certain period of time.
D. A clear and concise indication of where the major marketing efforts of the company will be focused.

2.14 What is a sales programme?

A. The most important element of the strategic plan.
B. One element of a marketing plan.
C. Another term for the marketing plan.
D. Something at the same level as the strategic business unit plan.

2.15 A firm which manufactures garden tools is attempting to define its missions and functional objectives. What should it use to define them?

A. The target market it will try to reach.
B. The products or services it produces.
C. The human needs it will try to satisfy.
D. The macroenvironment.

2.16 Coleman Engineering has developed a mission statement that reads: We are in the microcomputer business. How would you assess this mission?

A. Too broad because there are hundreds of other firms making microcomputers and peripherals.
B. Too broad because it may address many potential customer needs.
C. Too narrow because it is focused on a particular type of product.
D. A good statement that will provide direction to the firm.

2.17 Who should make the final decision about the appropriate marketing strategies to adopt in the marketplace?

A. Sales manager.
B. Marketing manager.
C. Chief executive.
D. Salesforce.

2.18 Have a look at these three statements:

I. The sales manager is responsible for preparing the sales forecast.
II. The sales manager is responsible for preparing the sales budget.
III. The sales manager is responsible for implementing and controlling the sales plan.

Now choose the correct option.

A. Only statements I and II are true.
B. Only statements II and III are true.
C. Only statements I and III are true.
D. Statements I, II and III are true.

2.19 Have a look at these three statements:

I. Budget variances represent differences between actual and budgeted results.
II. Budget variances should be analysed and interpreted if they are unfavourable.
III. Budget variances should be analysed and interpreted if they are favourable.

Now choose the correct option.

A. Only statements I and II are true.
B. Only statements II and III are true.
C. Only statements I and III are true.
D. Statements I, II and III are true.

2.20 Sales strategies are most directly influenced by planning decisions in which element of the marketing mix?

A. Product.
B. Price.
C. Place.
D. Promotion.

2.21 A manufacturer wants to produce short-run sales increases among consumers by using money-off coupons. Which one of these promotional activities should it adopt?

A. Personal selling.
B. Advertising.
C. Sales promotion.
D. Publicity.

2.22 A firm's target market consists of relatively few customers, in which the average customer is likely to place a relatively large order, and the customers are geographically clustered together. Which one of these promotional vehicles should it use?

A. Personal selling.
B. Advertising.
C. Sales promotion.
D. Publicity.

2.23 Which option correctly lists the stages in the buying process?

A. Unawareness, conviction, awareness, comprehension, purchase.
B. Unawareness, awareness, comprehension, purchase, conviction.
C. Unawareness, awareness, comprehension, conviction, purchase.
D. Unawareness, comprehension, awareness, purchase, conviction.

2.24 Which pair of promotional activities are more effective in the earlier stages of the buying process?

A. Publicity and sales promotion.
B. Personal selling and advertising.
C. Advertising and sales promotion.
D. Advertising and publicity.

2.25 What is a firm doing when it chooses a push strategy?

A. It is attempting to build strong customer demand for a product, hoping this demand will encourage wholesalers and retailers to carry the product.
B. It is choosing advertising as its key promotional tool.
C. It is offering direct inducements to potential wholesalers and retailers to encourage them to carry a product.
D. It is expecting to have a larger promotional budget than if it followed a pull strategy.

2.26 A leading manufacturer of quality cashmere garments intends to use a pull strategy. What is the implication of this?

A. It is attempting to build strong customer demand for a product, hoping this demand will encourage wholesalers and retailers to carry the product.
B. Personal selling will be the key promotional tool.
C. It is planning to offer direct inducements to potential wholesalers and retailers to encourage them to carry a product.
D. It is planning to use trade promotions as part of the promotional mix.

2.27 Have a look at these three statements:

I. Corporate advertising can help to build the reputation of a company and its products.

II. Advertising is particularly effective in creating awareness among prospective clients.

III. Advertising can help sales representatives to market new products.

Now choose the correct option.

A. Only statements I and II are true.
B. Only statements II and III are true.
C. Only statements I and III are true.
D. Statements I, II and III are true.

2.28 In industrial markets it is suggested that advertising can reduce selling costs by what percentage?

A. 10 per cent.
B. 20 per cent.
C. 30 per cent.
D. 40 per cent.

2.29 What is the first step in the marketing planning process?

A. Assessment of the current market situation.
B. SWOT analysis.
C. Statement of objectives.
D. Assessment of the company mission.

2.30 What is the second step in the marketing planning process?

A. Assessment of the current market situation.
B. SWOT analysis.
C. Statement of objectives.
D. Assessment of the company mission.

Case Study 2.1: Auckland Engineering

Jim Withey, sales manager for Auckland Engineering plc, a well-established engineering company in the Midlands, had been contemplating the memo he received two days earlier from his recently appointed marketing director. Here is the text of the memo.

Memo on Preparation of the Marketing Plan

You will recall that at our series of preliminary meetings to discuss future marketing plans for the company, I suggested that I was unhappy with the seemingly haphazard approach to planning. Accordingly, you will recall it was agreed between departmental heads that each would undertake to prepare a formal input to next month's planning meeting.

At this stage I am not seeking detailed plans for each product market, rather I am concerned that you give thought to how your department can contribute to the planning process. Being new to the company, its products and its markets, I am not fully up to date on what has been happening to the market for our products, although as we all know our market share at 3.5 per cent is down on last year. I would particularly like to know what information your department could contribute to the analysis of the situation.

To help in your analysis I have summarised below what came out of our first planning meetings.

Business definition

It was agreed that the business needs redefining in customer terms. An appropriate definition for our company would be 'Solutions to engine component design and manufacturing problems'.

SWOT analysis

Our main strengths are:

- excellent customer awareness and an image of reliability and quality;
- salesforce is technically well qualified;
- manufacturing flexibility second to none; we respond quickly and effectively to individual customer needs.

Our main weaknesses are:

- prices approximately 10 per cent above industry average;
- spending higher proportion of turnover on advertising than most main competitors;
- salesforce not skilled in generating new leads.

Our major opportunities are:

- some major competitors having difficulty keeping customers because of quality and delivery problems;
- recent legislation means R&D programme on new TDIX component, emphasising lower exhaust emission levels, should prove advantageous;
- recent and forecast trends in the exchange rate should help export marketing efforts;
- buyers in the industry seem prone to switching suppliers.

Our major threats are:

- our largest customer threatening to switch owing to our higher average prices;
- apart from TDIX programme, we have not been keeping pace with rapid technological change in the industry;
- some major export markets are threatened by possibility of import restrictions.

Objectives

Financial

- to increase return on capital employed by 5 per cent;
- net profit in the forthcoming year to be £4 million.

Marketing

- sales revenue to be increased to £35 million in the forthcoming year.

Marketing strategy

Target markets

- major manufacturers of diesel engines worldwide.

Positioning

- highest engineering quality and after-sales service in supply of specialist low-volume diesel engine components.

I would welcome your comments on my analysis, together with any views on the appropriateness of the objectives I have set.

For the next meeting, I suggest that as sales manager you give some thought as to where the relative emphasis should be placed in our promotional effort. As I have mentioned, we seem to be spending an excessive amount on advertising compared with our competitors. Perhaps you could give me your thoughts on this, as I understand you were in favour of raising our advertising budget from 1 per cent to 2 per cent of turnover last year. As you are aware, from a limited budget, we must decide where to place the relative emphasis in our promotional mix. Perhaps you can indicate what you feel are the major considerations in this decision.

Questions

1 Give a brief outline of how the sales manager can contribute to the marketing planning process at Auckland Engineering

2 Looking at Duncan's analysis of the previous meeting, what issues or problems do you see that are relevant to the salesforce?

3 How would you respond to Duncan's comments on the promotional mix and in particular to his comments about the level of advertising expenditure?

4 What is the logic of conducting a SWOT analysis in this context?

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Module 3

Consumer and Organisational Buyer Behaviour

Contents

Learning Objectives

After studying this module, you should be able to:

- understand the different motivations of consumer and organisational buyers;
- formulate strategies for approaching consumer and organisational buyers;
- recognise the importance of relationship management.

Key Concepts

- buy phase
- consumer decision-making process
- decision-making unit (DMU)
- just-in-time purchasing
- organisational buying behaviour
- relationship management
- reverse marketing
- total quality management

3.1 Differences between Consumer and Organisational Buying

There are several important differences in emphasis between consumer and organisational buying that have important implications for the marketing of goods and services in general and the personal selling function in particular.

3.1.1 Fewer Organisational Buyers

Generally, a company marketing industrial products will have fewer potential buyers than one marketing in consumer markets. Often 80 per cent of output, in the former case, will be sold to perhaps 10–15 organisations. This means that the importance of one customer to the industrial marketer is greater than the importance of one consumer to the consumer marketing company. However, this situation is complicated in some consumer markets where the importance of trade intermediaries, for example supermarkets, is so great that, although the products have an ultimate market of many millions of people, the companies' immediate customers rank alongside those of important industrial buyers.

3.1.2 Close, Long-term Relationships between Organisational Buyers and Sellers

Because of the importance of large customers, it makes sense for suppliers to invest in long-term relationships with them. This is reflected in the growth of key account selling where dedicated sales and marketing teams are employed to service major customers. Customers too see the advantages of establishing close relationships with suppliers. Ford, for example, has reduced its number of suppliers from 30 000 to 3000 and many now have single-supplier status. The nature of relationships in many consumer markets is different: customers and manufacturers rarely meet and brand switching is common for many supermarket products.

3.1.3 Organisational Buyers Are More Rational

Although organisational buyers are affected by emotional factors – like or dislike of a salesperson, the colour of office equipment, etc. – it is probably true that on the whole organisational buying is more rational. Often decisions will be made on economic criteria. This is because industrial buyers have to justify their decisions to other members of their organisation. Caterpillar tractor salespeople based their sales presentation on the fact that, although the initial purchase price of their tractors was higher than the competition, over the life of the tractor costs were significantly lower. This rational economic appeal proved very successful for many years. Customers are increasingly using life-cycle cost and value-in-use analysis to evaluate products. Rail companies, for example, calculate the life-cycle costs including purchase price, running and maintenance costs when ordering a new locomotive.

3.1.4 Organisational Buying May Be to Specific Requirements

It is common in industrial marketing for buyers to determine product specifications and for sellers to tailor their product offerings to meet them. This is feasible because of the large potential revenue of such products, such as railway engines. This is much less a feature of consumer marketing, where a product offering may be developed to meet the need of a market segment but, beyond that, meeting individual needs would prove uneconomic.

3.1.5 Reciprocal Buying May Be Important in Organisational Buying

Because an industrial buyer may be in a powerful negotiating position with a seller, it may be possible to demand concessions in return for placing the order. In some situations the buyer may demand that the seller buys some of the buyer's products in return for securing the order. A buyer of tyres for a car manufacturer may demand that, in return for the contract, the tyre producer buys its company cars from the car manufacturer.

3.1.6 Organisational Selling or Buying May Be More Risky

Industrial markets are sometimes characterised by a contract being agreed before the product is made. Further, the product itself may be highly technical and the seller may be faced with unforeseen problems once work has started. For example, Scott-Lithgow won an order to build an oil rig for British Petroleum, but the price proved uneconomic given the nature of the problems associated with its construction. GEC won the contract to develop the Nimrod surveillance system for the Ministry of Defence but technical problems caused the project to be terminated with much adverse publicity. British Rail encountered technical problems with the commissioning of the Class 60 diesel locomotive built by Brush Traction, although happily they were eventually resolved.

3.1.7 Organisational Buying Is More Complex

Many industrial purchases, notably those which involve large sums of money and are new to the company, involve many people at different levels of the organisation. The managing director, product engineers, production managers, purchasing manager and operatives may influence the decision about which expensive machine to purchase. The sales task may be to influence as many of these people as possible and may involve multi-level selling by a sales team rather than an individual salesperson.[1]

3.1.8 Negotiation Is Often Important in Organisational Buying

Negotiation is often important in organisational buying because of the presence of professional buyers and sellers and the size and complexity of organisational buying. The supplier's list price may be regarded as the starting point for negotiation, but the price actually paid will depend on the negotiation skills and power bases of buyers and sellers.

3.2 Consumer Buyer Behaviour

Consumers are individuals who buy products and services for personal consumption. Sometimes it is difficult to classify a product as being a consumer or organisational good. Cars, for example, sell to consumers for personal consumption and to organisations for use in carrying out their activities (e.g. to provide transport for a sales executive). For both types of buyer, an understanding of customers can only be obtained by answering the following five questions:

- Who is important in the buying decision?
- How do they buy?
- What are their choice criteria?
- Where do they buy?
- When do they buy?

This module addresses the first three of these questions since they are often the most difficult to answer.

3.2.1 Who Buys?

Many consumer purchases are individual. When purchasing a Mars bar a person may make an impulse purchase upon seeing an array of confectionery at a newsagent's counter. However, decision-making can also be made by a group such as a household. In this situation a number of individuals may interact to influence the purchase decision. Each person may assume a role in the decision-making process. Blackwell *et al.* describe five roles.[2] Each may be taken by husband, wife, children or other members of the **buying centre**:

- **Initiator** is the person who begins the process of considering a purchase. Information may be gathered by this person to help the decision.
- **Influencer** is the person who attempts to persuade others in the group concerning the outcome of the decision. Influencers typically gather information and attempt to impose their choice criteria on the decision.
- **Decider** is the individual with the power and/or financial authority to make the ultimate choice regarding which product to buy.
- **Buyer** is the person who conducts the transaction, calls the supplier, visits the store, makes the payment and effects delivery.
- **User** is the actual consumer or user of the product.

One person may assume multiple roles in the buying group. In a toy purchase, for example, a child may be the *initiator* and attempt to *influence* his or her parents, who are the *deciders*. The child may be *influenced* by a sibling to buy a different brand. The *buyer* may be one of the parents who visits the store to purchase the toy and bring it back to the home. Finally both children may be *users* of the toy. Although the purchase was for one person, marketers have four opportunities – two children and two parents – to affect the outcome of the purchase decision.

The marketing implications of understanding who buys lie within the areas of marketing communications and segmentation. An identification of the roles played within the buying centre is a prerequisite for targeting persuasive communications.

As the previous discussion has demonstrated, the person who actually uses or consumes the product may not be the most influential member of the buying centre, nor may they be the decision-maker. Even when they do play the predominant role, communication to other members of the buying centre can make sense when their knowledge and opinions may act as persuasive forces during the decision-making process. The second implication is that the changing role and influences within the family buying centre are providing new opportunities to creatively segment hitherto stable markets (e.g. cars).

3.2.2 How to Buy

Behavioural scientists regard the **consumer decision-making process** as a problem-solving or need-satisfaction process. Thus, an electronic calculator may be bought in order to solve a problem – inaccuracy or slowness in arithmetic – which itself defines the need – fast and accurate calculations. In order to define which calculator to buy, a consumer may pass through a series of steps, as illustrated in Figure 3.1.[2]

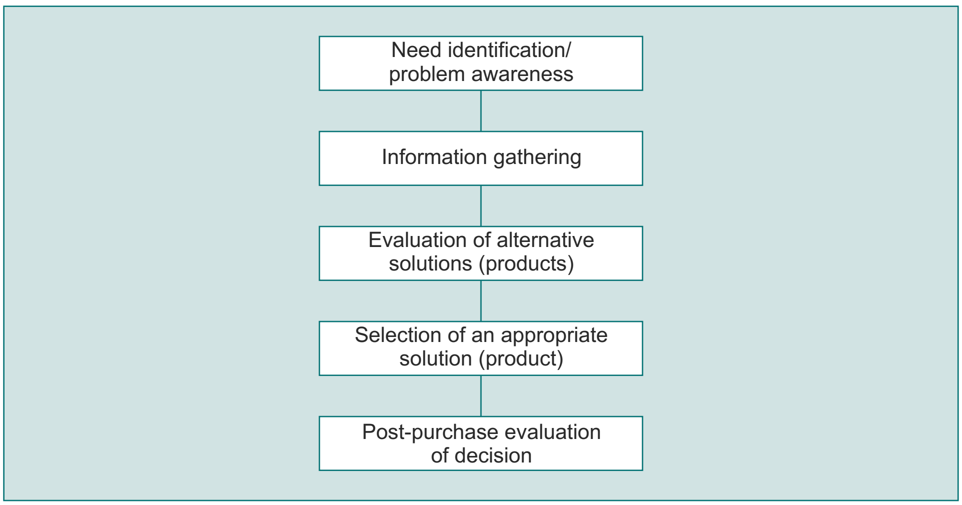

Figure 3.1 The consumer decision-making process

Source: Adapted from Blackwell, R.D., Miniard, P.W. and Engel, J. F. (2000) *Consumer Behaviour*, Dryden, Orlando, FL.

3.2.2.1 Needs

In the case of the calculator, the needs (stimulated by problem identification) are essentially *functional*. In this situation the salesperson would be advised, after identifying the buyer's needs, to demonstrate the speed and accuracy of the calculators he or she is selling. Successful selling may involve identifying needs in more detail; for example, are special features required or does the buyer only have to perform a standard, basic set of calculations, implying a less elaborate and cheaper calculator? However, for other products, need satisfaction may be in terms of more *emotional* or *psychological* needs. For example, a Sheaffer pen is bought largely for its status rather than any marginal functional superiority over other pens. An accurate assessment of the kinds of needs which a product is satisfying will enable a salesperson to plan the sales presentation correctly, presenting the product as a means of satisfying the buyer's needs or solving the buyer's problems.

How do needs arise? They may occur as a natural process of life; for example, the birth of children in a family may mean that a larger car is required. They may also arise because of stimulation. An advertisement for video recorders or a salesperson's talk may create the need for extra in-house entertainment and, at the same time, provide a means of satisfying that need.

3.2.2.2 Information Gathering

Many needs can only be satisfied after a period of information search. Thus a prospective car purchaser who requires a small, economical car may carry out a considerable search before deciding on the model which best satisfies these needs. This search may involve visiting car showrooms, watching car programmes on television, reading car magazines and *Which?* reports and talking to friends. Clearly, many sources of information are sought besides that provided by the salesperson in the showroom. Indeed in some situations the search may omit the salesperson until the end of this process. The buyer may reduce the number of alternatives to a manageable few and contact the salesperson only to determine the kind of deal offered on the competing models.

3.2.2.3 Selecting the Best Solution

Evaluation may be thought of as a system as depicted in Figure 3.2.

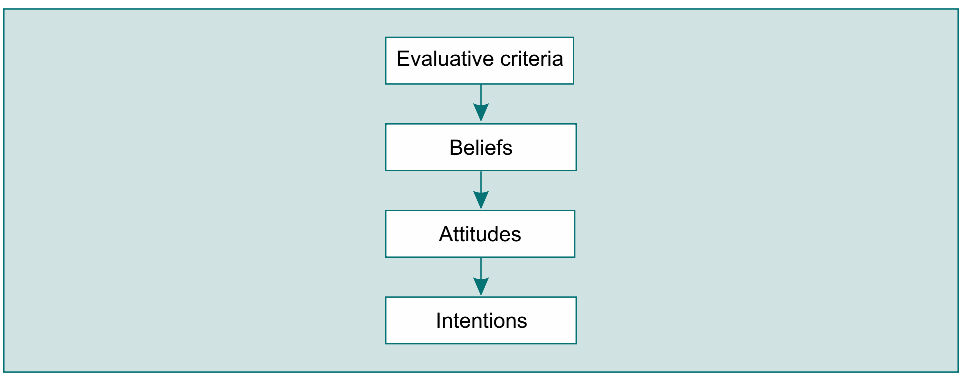

Figure 3.2 The evaluation system

- **Evaluative (choice) criteria** are the dimensions used by consumers to compare or evaluate products or brands. In the car example, the relevant evaluative criteria may be fuel economy, purchase price and reliability.
- **Beliefs** are the degrees to which, in the consumer's mind, a product possesses various characteristics, e.g. roominess.
- **Attitudes** are the degrees of liking or disliking a product; they depend on the evaluative criteria used to judge the products and the beliefs about the product measured by those criteria. Thus beliefs imply knowledge, e.g. model X does 36

miles per gallon at a steady 56 miles per hour, whereas attitudes imply liking or disliking, e.g. model X is poor with regard to fuel economy.

- **Intentions** measure the probability that attitudes will be acted upon. The assumption is that favourable attitudes will increase purchase intentions, i.e. the probability that the consumer will buy.

Given this system, it makes sense for a salesperson to find out from a prospect the evaluative criteria being used to judge alternative products. For example, a stereo system salesperson will attempt to find out whether a potential buyer is evaluating alternative stereo units primarily in terms of external design or sound quality. Further, it can be effective to try to change evaluative criteria. For example, if the stereo system salesperson believes that the competitive advantage of the product range lies in its sound quality, but the buyer's criterion is primarily external design, the salesperson can emphasise the sound quality of the product and minimise the importance of external design. Alternatively, if the primary consideration of the buyer is sound quality but a competitor's system is preferred, the sales task is to change attitudes in favour of their own system. Tools at their disposal include the use of performance comparisons from hi-fi magazines and in-shop demonstrations.

3.2.2.4 Post-Purchase Decision Evaluation

The art of effective marketing is to create customer satisfaction. Most businesses rely on repeat purchasing, which implies that customers must gain satisfaction from their purchases (otherwise this will not occur). Festinger[3] introduced the notion of cognitive dissonance partly to explain the anxiety felt by many buyers of expensive items shortly after purchase. The classic case of this is the car buyers who assiduously read car advertisements after having bought the car in an effort to dispel the anxiety caused by not being sure that they have made the correct purchase.

Salespeople often try to reassure buyers, after the order has been placed, that they have made the right decision, but the outcome of the post-purchase evaluation depends on many factors besides the salesperson's reassurance. The quality of the product and the level of after-sales service play an obvious part in creating customer goodwill, and it is the salesperson who can help buyers in ensuring that the product they buy best matches their needs in the first place. This implies that it may not be in the salesperson's long-term interest to pressure buyers into buying higher-priced items which possess features not really wanted; although this may increase short-term profit margins (and commission), it may lead to a long-term fall in sales as consumers go elsewhere to replace the item.

3.2.3 Choice Criteria

Choice criteria are the various features (and benefits) a customer uses when evaluating products and services. They provide the grounds for deciding to purchase one brand or another. Different members of the buying centre may use different choice criteria. For example, a child may use the criterion of self-image when choosing shoes whereas a parent may use price. The same criterion may be used differently. For example, a child may want the most expensive video game whereas the parent may want a less expensive alternative. Choice criteria can change over time due to changes in income through the family life cycle. As disposable income rises, so price may no longer be a key choice criterion but is replaced by considerations of status or social belonging.

Choice criteria can be economic, social or personal. *Economic criteria* include performance, reliability and price. *Social criteria* include status and the need for social belonging. For example, Nike, Reebok and Adidas trainers need street cred to be acceptable to large numbers of the youth market. Social norms such as convention and fashion can also be important choice criteria, with some brands being rejected as too unconventional (e.g. fluorescent spectacles) or out of fashion (Mackeson stout).

Personal criteria concern how the product or service relates to the individual psychologically. An important issue here is self-image, which is the personal view we hold of ourselves. For example, one person might view herself as a young, upwardly mobile, successful executive and wish to buy products that reflect that image. Audi tried to appeal to such a person when they ran an advertising campaign that suggested Audi drivers arrived more quickly than other drivers. Many purchase decisions are experimental in that they evoke feelings of fun, pride, pleasure, boredom or sadness. Such feelings need to be taken into account when marketing products or services. For example, in retail marketing, stores such as Next, Principles and Marks & Spencer recognise the importance of creating the right atmosphere through the correct choice of in-store colour and design.

Salespeople and marketing managers need to understand the choice criteria being used by consumers when they evaluate their products or services. Such knowledge allows the salesperson to tailor the correct appeal to each customer he or she talks to, and provides marketing managers with the basis for product or service design and the correct messages to use in advertising.

3.3 Factors Affecting the Consumer Decision-Making Process

Several factors affect the consumer decision-making process and its outcome. They can be classified under three headings: the buying situation, personal influences and social influences.

3.3.1 The Buying Situation

Howard and Sheth[4] identified three types of buying situation:

- extensive problem-solving;
- limited problem-solving;
- automatic response.

When a problem or need is new, the means of solving that problem are expensive and uncertainty is high, a consumer is likely to conduct extensive problem-solving. This will involve a high degree of information search and a close examination of alternative solutions. Faced with this kind of buyer, the salesperson can create immense goodwill by providing information and assessing alternatives from the product range in terms of how well their benefits conform to the buyer's needs.

The goodwill generated with this type of buyer in such a situation may be rewarded by a repeat purchase when the buying situation changes to one of limited problem-solving. Thus successful car salespeople often find themselves with a group of highly loyal buyers who purchase from them, even if the dealership changes, because of the trust built up during this stage.

Limited problem-solving occurs when the consumer has some experience with the product in question and may be inclined to stay loyal to the brand previously purchased. However, a certain amount of information search and evaluation of a few alternatives occurs as a rudimentary check that the right decision is being made. This process provides a limited opportunity for salespeople of competing products to persuade consumers that they should switch model or brand by providing relevant comparative information and, perhaps, by providing risk-reducing guarantees, for example, free replacement of any defective parts.

Companies who have built up a large brand franchise will wish to move their customers to the state of automatic response. Advertising may be effective in keeping the brand in the forefront of the consumer's mind and in reinforcing already favourable attitudes towards the brand. In this situation, personal selling to the ultimate consumer may be superfluous. Companies selling consumer durables may offer generous trade-in terms for their old models. Black and Decker has used this technique: an old, unusable lawnmower could be traded in as part payment on a new model.

A key influence on whether a consumer conducts extensive or limited problem-solving or automatic response is his or her level of **involvement** with the purchase. High involvement is associated with important purchases that are of high personal relevance. When a purchase affects one's self-image, has a high degree of perceived risk, has social (e.g. status) implications, and holds the capacity to give a lot of pleasure, it is likely to be high involvement. When the opposite is the case, the consumer is likely to experience low involvement with the purchase. Figure 3.3 shows the relationship between involvement and the buying situation.

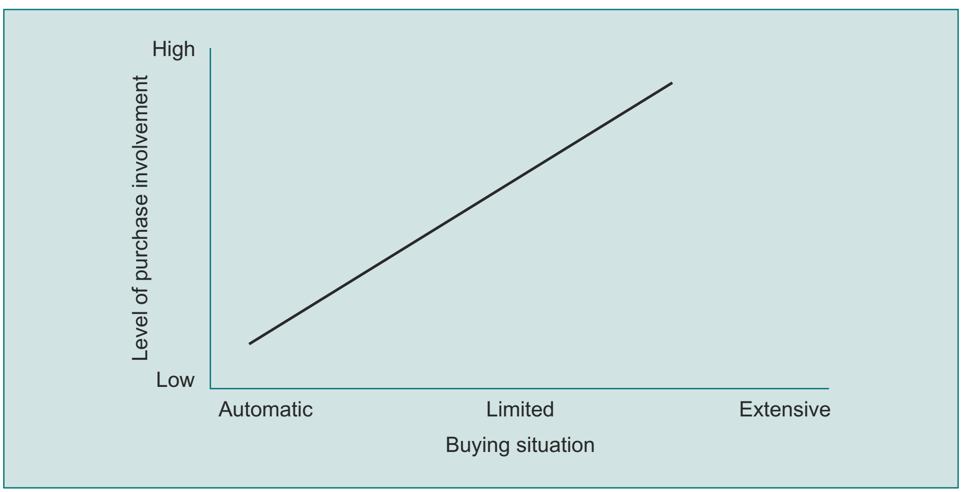

Figure 3.3 **Level of purchase involvement and the buying situation**

In high-involvement situations (e.g. car or house purchase) the customer is looking for lots of information upon which to make a decision. A salesperson must be able to provide that information and answer in-depth queries. In low-involvement situations the customer is not likely to be an active searcher for information. Repetitive advertising is often used for these kinds of purchase.

3.3.2 Personal Influences

A second group of factors that influence the consumer decision-making process concern the psychology of the individuals concerned. Relevant concepts include personality, motivation, perception and learning.

Although personality may explain differences in consumer purchasing, it is extremely difficult for salespeople to judge accurately how much a customer is extrovert or introvert, conventional or unconventional. Indeed, reliable personality measurement has proved difficult, even for qualified psychologists. Brand personality is the characterisation of brands as perceived by consumers. Brands may be characterised as 'for young people' (Levis), 'brash' (Castlemaine) or 'intelligent' (Guinness). This is a dimension over and above the physical (e.g. colour) or functional (e.g. task) attributes of a brand. By creating a brand personality, a marketer may create appeal to people who value that characterisation. Research by Ackoff and Emsott[5] into brand personalities of beers showed that most consumers preferred the brand of beer that matched their own personality.

Sellers need to be aware of different buyer personality types. Buzzotta *et al.*[6] proposed a two-dimensional approach to understanding buyer psychology. They suggest that everyone tends to be warm or hostile, dominant or submissive. Although there are degrees of each of these behaviours, they believe it is meaningful to place individuals in one cell of a 2 × 2 matrix. Each behaviour is defined as follows:

- **Dominant.** In face-to-face situations, dominance is the drive to take control of others. It implies a need to lead in personal encounters, to have control of situations and to have a strong desire to be independent.
- **Submissive.** Submission is the disposition to let others take the lead. It implies a willingness to be controlled, a need to comply with the wishes of others and an avoidance of confrontation.
- **Warm.** Warmth is having a regard for others. A warm person is described as one who is outgoing, good humoured, optimistic and willing to place trust in others.
- **Hostile.** Hostility is having a lack of regard for others. It suggests a person who is cold, distrustful and disdainful of others. Hostile people like to be in a position to say, 'I told you so.'

Figure 3.4 shows this dimensional model of buyer behaviour.

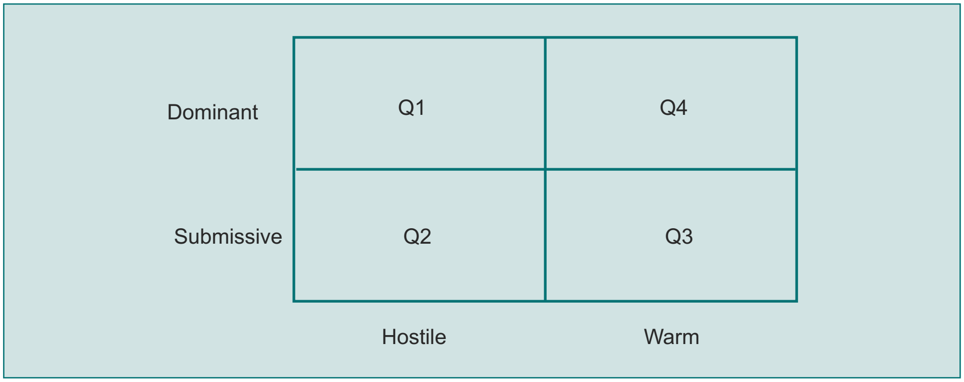

Figure 3.4 Dimensional model of buyer behaviour

Buzzotta *et al.*[6] claim that, although there are as many distinctions as people, in general each person primarily falls into one of the four groups. To help identify each type, the salesperson must look for their hallmarks.

Q1: Dominant-Hostile
Dominant-hostile people are loud, talkative, demanding and forceful in their actions. They are hard-nosed, aggressive and assertive. They are usually difficult to get along with and can be offensive. They tend to distrust salespeople.

Q2: Submissive-Hostile
Submissive-hostile people are cold, aloof and uncommunicative. They tend to be loners and work in jobs that demand concentration rather than socialisation, for example, research, accountancy and computer programming. When responding to questions, they tend to be short and terse: maybe, all right, possibly. Q2s prefer to avoid sales interviews, but if they cannot avoid them they take on a passive, almost detached role.

Q3: Submissive-Warm
Submissive-warm people are extrovert, friendly, understanding, talkative and positive-minded people who are not natural leaders. They prefer to buy from someone they like and view a sales interview as a social occasion. Generally they accept most of what the salesperson tells them, but if they feel any doubt they will postpone the decision to buy, possibly to seek advice from friends.

Q4: Dominant-Warm
Dominant-warm people are adaptable and open-minded but not afraid to express their ideas and opinions. They tend to want proof of sales arguments and become impatient of woolly answers. They are not hesitant to buy from anyone who can prove to their satisfaction that there is a benefit to be gained. They like to negotiate in a businesslike manner and can be demanding and challenging in a sales interview.

3.3.2.1 Implications for Selling

What are the implications for selling? Decormier and Jobber[7] argue that salespeople should modify their behaviour accordingly.

- *Q1*: to win the respect of dominant-hostile people, the appropriate salesperson behaviour is to adjust their dominance level upward to meet that of the buyer.

This would involve sitting upright, maintaining eye contact, listening respectfully (but passively) and answering directly. Once Q1 buyers realise that the salesperson is their psychological equal, a meaningful discussion can take place.

- *Q2*: when first meeting with a submissive-hostile Q2 buyer, a salesperson should not attempt to dominate, but gradually try to gain his or her trust. The salesperson should match the buyer's dominance level and ask open-ended questions in a slow, soft manner. The salesperson should lower his or her stature, keeping eyes and head at the same level as the buyer.
- *Q3*: submissive-warm people like and trust people. The salesperson should satisfy their social needs by being warm and friendly. He or she should not attempt to dominate, but should share the social experience. Once liking and trust have been established, the salesperson should guide the interview towards the goal of decision-making.
- *Q4*: dominant-warm people consider respect more important than being liked. To gain respect, the salesperson should match the Q4's dominance level while maintaining a warm (empathetic) manner. Sales arguments need to be backed up whenever possible by evidence.

Sellers also need to probe for the motivations of the buyer. The true reason or motive for purchase may be obscure. However, by careful probing, a salesperson is likely to find out some of the real motives for purchase some of the time. Motivation is clearly linked to needs; the more strongly a need is perceived by a consumer, the more likely he or she is to be moved towards its satisfaction. Thus, a salesperson can increase buyer motivation by stimulating need recognition, by showing the ways in which needs can be fulfilled and by attempting to understand the various motives which may be at work in the decision-making process. These may be functional, e.g. time saved by a convenience food, or psychological, e.g. the status imparted by the ownership of a Jaguar or BMW car.

Not everyone with the same motivations will buy the same products. One of the reasons for this is that how someone decides to act depends upon his or her *perception* of the situation. One buyer may perceive a salesperson as being honest and truthful while another may not. Three selective processes may be at work on consumers.

- **Selective exposure**: only certain information sources may be sought and read.
- **Selective perception**: only certain ideas, messages and information from those sources may be perceived.
- **Selective retention**: only some of them may be remembered.

In general, people tend to forget more quickly and to distort or avoid messages that are substantially at variance with existing attitudes.

Learning is also important in consumer decision-making. Learning refers to the changes in a person's behaviour as a result of his or her experiences. A consumer will learn which brand names imply quality and which salespeople to trust.

3.3.3 Lifestyle

Lifestyle patterns have attracted much attention from marketing research practitioners. *Lifestyle* refers to the patterns of living as expressed in a person's activities, interests and opinions. Lifestyle analysis, or *psychographics*, groups the consumers according to their beliefs, activities, values and demographic characteristics such as education and income. For example, Research Bureau Ltd, a UK marketing research agency, investigated lifestyle patterns among housewives and found eight distinct groups:

- **Young sophisticates**: extravagant, experimental, non-traditional; young, ABC1 social class, well educated, affluent, owner-occupiers, full-time employed; interested in new products; sociable with cultural interests.
- **Home-centred**: conservative, less quality-conscious, demographically average, middle class, average income and education; lowest interest in new products; very home-centred; little entertaining.
- **Traditional working class**: traditional, quality-conscious, unexperimental in food, enjoy cooking; middle-aged, DE social group, less education, lower income, council house tenants; sociable; husband and wife share activities, like betting.
- **Middle-aged sophisticates**: experimental, not traditional; middle-aged, ABC1 social class, well educated, affluent, owner-occupiers, full-time housewives, interested in new products; sociable with cultural interests.
- **Coronation Street housewives**: quality-conscious, conservative, traditional; DE social class, tend to live in Lancashire and Yorkshire TV areas, less educated, lower incomes, part-time employment; low level of interest in new products; not sociable.
- **Self-confident**: self-confident, quality-conscious, not extravagant; young, well educated, owner-occupier, average income.
- **Homely**: bargain-seekers, not self-confident, house-proud, C1C2 social class, tend to live in Tyne-Tees and Scottish TV areas; left school at an early age; part-time employed; average level of entertaining.
- **Penny-pinchers**: self-confident, house-proud, traditional, not quality-conscious; age 25–34 years, C2DE social class, part-time employment, less education, average income; enjoy betting, enjoy saving, husband and wife share activities, sociable.

Lifestyle analysis has implications for marketing since lifestyles have been found to correlate with purchasing behaviour. A company may choose to target a particular lifestyle group (e.g. the middle-aged sophisticates) with a product offering and use advertising in line with the values and beliefs of this group. As information on readership and viewing habits of lifestyle groups becomes more widely known, so media selection may be influenced by lifestyle research.

3.3.4 Social Influences

Major social influences on consumer decision-making include social class, reference groups, culture and the family. The first of these factors, social class, has been regarded as an important determinant of consumer behaviour for many years. Social class in marketing is based on the occupation of the head of the household or main income earner. The practical importance of social class is reflected in the fact that respondents in market research surveys are usually classified by their social class, and most advertising media give readership figures broken down by social class groupings. These are shown in Table 3.1. However, the use of this variable to explain differences in purchasing has been criticised. It is often the case that people within the same social class may have different consumption patterns. Within the C2 group, i.e. skilled manual workers, it has been found that some people spend a high proportion of their income on buying their own houses, furniture, carpets and in-home entertainment, whereas others prefer to spend their money on more transitory pleasures such as drinking, smoking and playing bingo.

Such findings have led to a new classificatory system, A Classification of Residential Neighbourhoods (ACORN), which classifies people according to the type of area they live in. This has proved to be a powerful discriminator between different lifestyles, purchasing patterns and media exposure.[8]

The term 'reference group' is used to indicate a group of people that influences a person's attitude or behaviour. Where a product is conspicuous, such as clothing and cars, the brand or model chosen may have been strongly influenced by what the buyer perceives as acceptable to his or her reference group (e.g. a group of friends, the family, work colleagues). Reference group acceptability should not be confused with popularity. The salesperson who attempts to sell a car using the theme that 'it's very popular' may conflict with the buyer's desire to aspire to an 'exclusive' reference group, for which a less popular, more individual model may be appropriate.

Culture refers to the traditions, taboos, values and basic attitudes of the whole society within which an individual lives. It is of particular relevance to international marketing since different countries have different cultures, affecting the conduct of business and how products are used. In Arab countries, for example, salespersons may find themselves conducting a sales presentation in the presence of a competitor's salesperson. In France chocolate is sometimes eaten between slices of bread.

Table 3.1 **Social class categories**

Social grade	All adults 15+(%)
A	3.0
B	20.8
C1	27.3
C2	21.2
D	17.4
E	10.3

Key

Social grade	Social status	Occupation
A	Upper middle class	Higher managerial, administrative or professional

B	Middle class	Intermediate managerial, administrative or professional
C1	Lower middle class	Supervisory or clerical and junior managerial, administrative or professional
C2	Skilled working class	Skilled manual workers
D	Working class	Semi- and unskilled manual workers
E	Those at the lowest level of subsistence	State pensioners or widows (no other earner), casual or lowest-grade workers

Source: Adapted from National Readership Survey, July 2000 to June 2001.

The family is sometimes called a primary reference group and may play a significant part in consumer buyer behaviour. The decision as to which product or brand to purchase may be a group decision, with each family member playing a distinct part. Thus, in the purchase of motor cars, traditionally the husband decided upon the model, while his wife chose the colour.[9] The purchase of cereals may be strongly influenced by children. The cleaning properties of a carpet fibre may be relatively unimportant to the principal breadwinner but of greater significance to the partner who performs the housework. When a purchase is a group decision, a salesperson will be wise to view the benefits of his or her products in terms of each of the decision-makers or influencers.

3.4 Organisational Buyer Behaviour

Fisher[10] has usefully broken down organisational buyer behaviour into three elements:

- **Structure** is the 'who' factor: who participates in the decision-making process and their particular roles.
- **Process** is the 'how' factor: the pattern of information getting, analysis, evaluation and decision-making which takes place as the purchasing organisation moves towards a decision.
- **Content** is the 'what' factor: the choice criteria used at different stages of the process and by different members of the decision-making unit.

3.4.1 Structure

The buyer or purchasing officer is often not the only person who influences the decision, or who actually has the authority to make the ultimate decision. Rather, the decision is in the hands of a **decision-making unit** (DMU), or buying centre as it is sometimes called. This is not necessarily a fixed entity. The people in the DMU may change as the decision-making process continues. Thus a managing director may be involved in the decision that new equipment should be purchased, but not in the decision about which manufacturer to buy it from. Bonoma[11] and Webster[12] have identified six roles in the structure of the DMU:

- **Initiators** are those who begin the purchase process.
- **Users** are those who actually use the product.

- **Deciders** are those who have the authority to select the supplier or model.
- **Influencers** are those who provide information and add decision criteria throughout the process.
- **Buyers** are those who have authority to execute the contractual arrangements.
- **Gatekeepers** are those who control the flow of information, e.g. secretaries who may allow or prevent access to a DMU member, or a buyer whose agreement must be sought before a supplier can contact other members of the DMU.

The factors which influence the nature of the DMU will be examined later on. The exact formation will vary for different types of purchase. For very important decisions the structure of the DMU will be complex, involving many people within the buying organisation. The salesperson's task is to identify and reach the key members in order to convince them of the product's worth. Talking only to the purchasing officer will often be insufficient, since this may be only a minor influence on which supplier is chosen. Salespeople need to avoid two deadly sins:

- **Working within their comfort zone.** This is where they spend too much time with people they like and feel comfortable with, but who are unimportant with regard to which product to buy or which supplier to use.
- **Spending too much time with naysayers.** These are people who can say no (the power of veto) but who do not have the authority to say yes. It is the latter group to whom most communicational effort should be channelled, i.e. the decision-makers.

When the problem to be solved is highly technical, suppliers may work with engineers in the buying organisation in order to solve problems and secure the order. An example where this approach was highly successful involved a small US company that secured a large order from a major car company owing to its ability to work with the company in solving the technical problems associated with the development of an exhaust gas recirculation valve.[13] In this case its policy was to work with company engineers and to keep the purchasing department out of the decision until the last possible moment, by which time it was the only company qualified to supply the part.

Where DMU members are inaccessible to salespeople, advertising may be used as an alternative. Also, where users are an important influence and the product is relatively inexpensive and consumable, free samples given by the salespeople may be effective in generating preference.

3.4.2 Process

Figure 3.5 describes the **decision-making process** for an industrial product.[14]

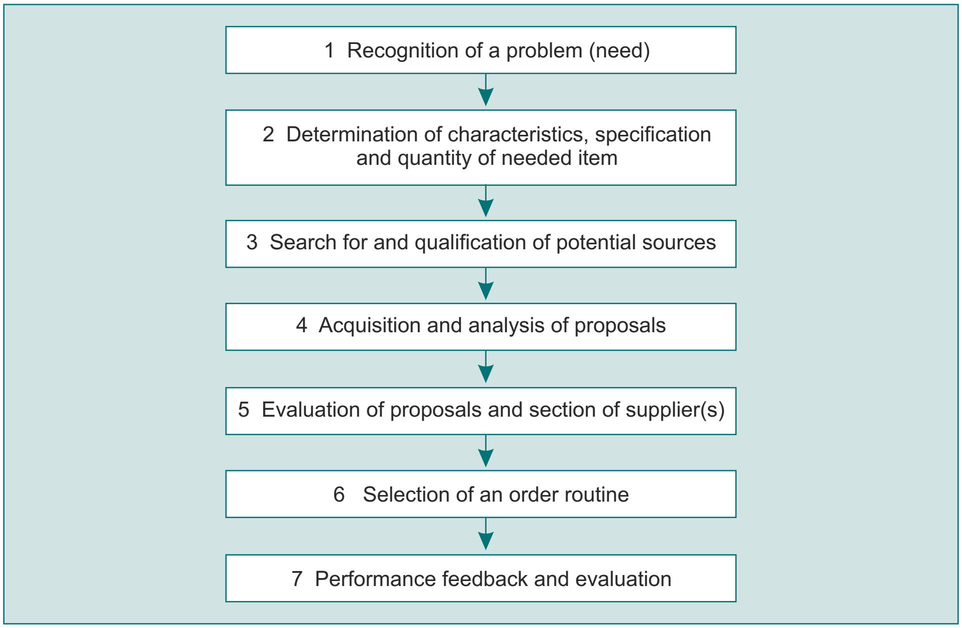

Figure 3.5 The organisational decision-making process (buy phases)

The exact nature of the process will depend on the buying situation. In certain situations some stages will be omitted; for example, in a routine rebuy situation the purchasing officer is unlikely to pass through stages 3, 4 and 5 (search for suppliers and an analysis and evaluation of their proposals). These stages will be bypassed, as the buyer, recognising a need – perhaps shortage of stationery – routinely reorders from the existing supplier.

In general, the more complex the decision and the more expensive the item, the more likely it is that each stage will be passed through and that the process will take more time.

- **Need or problem of recognition.** Needs and problems may be recognised through either internal or external factors. An example of an internal factor would be the realisation of undercapacity leading to the decision to purchase plant or equipment. Thus, internal recognition leads to active behaviour (internal/active). Some problems which are recognised internally may not be acted upon. This condition may be termed internal/passive. A production manager may realise there is a problem with a machine but, given more pressing problems, they decide to live with it. Other potential problems may not be recognised internally and only become problems because of *external cues*.
  A production manager may be quite satisfied with the production process until being made aware of another more efficient method. Clearly these different problems have important implications for the salesperson. The internal/passive condition implies there is an opportunity for the salesperson, having identified

the condition, to highlight the problem by careful analysis of cost inefficiencies and other symptoms, so that the problem is perceived to be more pressing and in need of solution (internal/active).

The internal/active situation requires salespeople to demonstrate a differential advantage of one of their products over the competition. In this situation, problem stimulation is unnecessary, but where internal recognition is absent, the salesperson can provide the necessary external cues. A forklift truck sales representative might stimulate problem recognition by showing how their trucks can save the customer money, due to lower maintenance costs, and lead to more efficient use of warehouse space through higher lifting capabilities.

- **Determination of characteristics, specification and quantity of needed item.** At this stage of the decision-making process, the DMU will draw up a description of what is required. For example, it might decide that five lathes are required to meet certain specifications. The ability of a salesperson to influence the specifications can give their company an advantage at later stages of the process. By persuading the buying company to specify features that only their product possesses (lockout criteria), the salesperson may virtually have closed the sale at this stage.
- **Search for and qualification of potential sources.** A great deal of variation in the degree of search takes place in organisational buying. Generally speaking, the cheaper and less important the item and the more information the buyer possesses, the less searching takes place.
- **Acquisition and analysis of proposals.** Having found a number of companies who, perhaps through their technical expertise and general reputation, are considered to be qualified to supply the product, proposals will be called for and analysed.
- **Evaluation of proposals and selection of suppliers.** Each proposal will be evaluated in the light of the criteria deemed to be important to each DMU member. Various members may use different criteria when judging proposals. Although this may cause problems, the outcome of this procedure is the selection of a supplier or suppliers.
- **Selection of an order routine.** Next the details of payment and delivery are drawn up. Usually this is conducted by the purchasing officer. In some buying decisions this stage is merged into the previous two stages when delivery is an important consideration in selecting a supplier.
- **Performance feedback and evaluation.** Performance feedback may be formal, where a purchasing department draws up an evaluation form for user departments to complete, or informal through everyday conversation.

The implications of all this are that a salesperson can affect a sale through influencing need recognition, through the design of product specifications and by clearly presenting the advantages of the product over competition in terms which are relevant to DMU members. By early involvement, a salesperson can benefit through the process of **creeping commitment**, whereby the buying organisation becomes increasingly committed to one supplier through its involvement in the process and the technical assistance it provides.

3.4.3 Content

This aspect of organisational buyer behaviour refers to the **choice criteria** used by members of the DMU to evaluate supplier proposals. These criteria are likely to be determined by the performance criteria used to evaluate the members themselves. Thus a purchasing manager who is judged by the extent to which he or she reduces purchase expenditure is likely to be more cost conscious than a production engineer who is evaluated in terms of the technical efficiency of the production processes he or she designs.

As with consumers, organisational buying is characterised by functional (economic) criteria and psychological (emotive) criteria (Table 3.2). Key functional considerations for plant and equipment may be return on investment, whereas for materials and component parts they might be cost savings, together with delivery reliability, quality and technical assistance. Because of the high costs associated with production downtime, a key concern of many purchasing departments is the long-run development of the organisation's supply system. Psychological factors may also be important, particularly when suppliers' product offerings are essentially similar. In this situation the final decision may rest upon the relative liking for the suppliers' salesperson. A number of important criteria are examined below.

Table 3.2 Choice criteria

Economic	Emotional
Price	Prestige
Delivery	Personal risk reduction
Productivity – cost versus revenues	Office politics
Life-cycle costs	Quiet life
Reliability	Pleasure
Durability	Reciprocity
Upgradeability	Confidence
Technical assistance	Convenience
Commercial assistance	
Safety	

- **Quality.** The emergence of **total quality management** (TQM) as a key aspect of organisational life reflects the importance of quality in evaluating a supplier's products and services. Many buying organisations are unwilling to trade quality for price. In particular, buyers are looking for consistency of product or service quality so that end products (e.g. motor cars) are reliable, inspection costs are reduced and production processes run smoothly. They are installing just-in-time (JIT) delivery systems which rely on incoming supplies being quality guaranteed. Jaguar cars under Sir John Egan moved from a price-oriented purchasing system to one where quality was central and purchasing departments were instructed to pay more provided the price could be justified in terms of improved quality of components.

- **Price and life-cycle costs.** For materials and components of similar specification and quality, price becomes a key consideration. For standard items such as ball bearings price may be critical to making a sale given that a number of suppliers can meet delivery and specification requirements. However, it should not be forgotten that price is only one component of cost for many buying organisations. When evaluating products, buyers increasingly take account of **life-cycle costs**, which may include productivity savings, maintenance costs and residual values, as well as initial purchase price. Marketers can use life-cycle cost analysis to break into an account. By calculating life-cycle costs with a buyer, new perceptions of value may be achieved.
- **Continuity of supply.** Another major cost to a company is a disruption of a production run. Delays of this kind can mean costly machine downtime and even lost sales. Continuity of supply is therefore a prime consideration in many purchase situations. Companies which perform badly on this criterion lose out, even if the price is competitive, because a small price edge does not compare with the costs of unreliable delivery. Supplier companies who can guarantee deliveries and realise their promises can achieve a significant advantage in the marketplace. Organisational customers are demanding close relationships with accredited suppliers who can guarantee reliable supply, perhaps on a just-in-time basis.
- **Perceived risk.** Perceived risk can come in two forms: functional risk such as the uncertainty with respect to product or supplier performance, and psychological risk such as criticism from work colleagues. Psychological risk – fear of upsetting the boss, losing status, being ridiculed by others in the department, or indeed losing one's job – can play a determining role in purchase decisions. Buyers often reduce uncertainty by gathering information about competing suppliers, checking the opinions of important others in the buying company, only buying from familiar and/or reputable suppliers and by spreading risk through multiple sourcing.
- **Office politics.** Political factions within the buying company may also influence the outcome of a purchase decision. Interdepartmental conflict may manifest itself in the formation of competing camps over the purchase of a product or service. Because department X favours supplier A, department Y automatically favours supplier B. The outcome does not only have purchasing implications but political implications for the departments and individuals concerned.
- **Personal liking or disliking.** A buyer may personally like one salesperson more than another and this may influence supplier choice, particularly when competing products are very similar. Even when supplier selection is on the basis of competitive bidding, it is known for purchasers to take the salespeople they like and help them to be competitive. Obviously perception is important in all organisational purchases, as how someone behaves depends on the perception of the situation. One buyer may perceive a salesperson as being honest, truthful and likeable whereas another may not. As with consumer behaviour, three selective processes may be at work on buyers:
  - *Selective exposure* means only certain information sources may be sought.

– *Selective perception* means only certain information may be perceived.
– *Selective retention* means only some information may be remembered.

The implications of understanding the content of the decision are that, first, a salesperson may need to change the sales presentation when talking to different DMU members. Discussion with a production engineer may centre on the technical superiority of the product offering, whereas much more emphasis on cost factors may prove beneficial when talking to the purchasing officer. Second, the choice criteria used by buying organisations change as circumstances change. Price may be relatively unimportant to a company when trying to solve a highly visible technical problem, and the order will be placed with the supplier who provides the necessary technical assistance. Later, after the problem has been solved and other suppliers become qualified, price may be of crucial significance.

3.5 Factors Affecting Organisational Buyer Behaviour

Cardozo[15] identified three factors which influence the composition of the DMU, the nature of the decision-making process and the criteria used to evaluate product offerings: the buy class, the product type, and the importance of the purchase to the buying organisation. These three factors are illustrated in Figure 3.6.

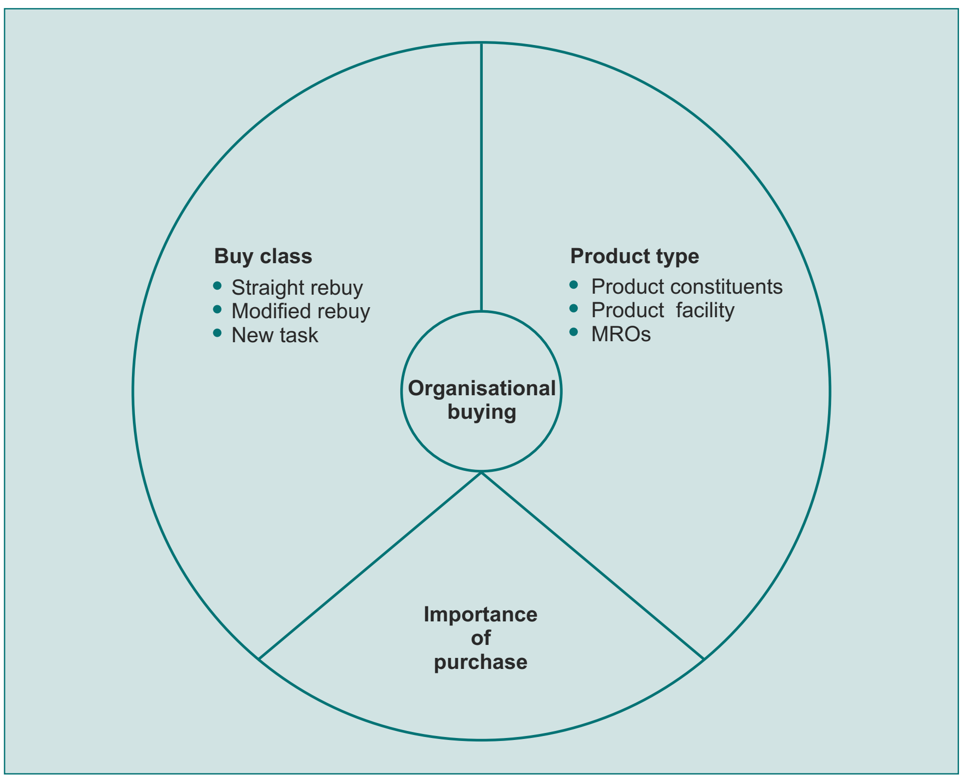

Figure 3.6 **Influence on organisational purchasing behaviour**

3.5.1 The Buy Class

Industrial purchasing decisions were studied by Robinson *et al.*,[14] who concluded that buyer behaviour was influenced by the nature of the buy class. They distinguished between a new task, a modified rebuy and a straight rebuy.

A *new task* occurs when the need for the product has not arisen previously, so there is little or no relevant experience in the company, and a great deal of information is required. A *straight rebuy*, on the other hand, occurs where an organisation buys previously purchased items from suppliers already judged acceptable. Routine purchasing procedures are set up to facilitate straight rebuys. The *modified rebuy* lies between the two extremes. A regular requirement for the type of product exists and the buying alternatives are known, but sufficient change has occurred to require some alteration of the normal supply procedure.

The buy classes affect organisational buying in the following ways. First, the structure of the DMU changes. A straight rebuy will probably involve only the purchasing officer, whereas a new buy is likely to involve senior management, engineers, production managers and purchasing officers. Modified rebuys often involve engineers, production managers and purchasing officers, but senior management is unlikely to be involved unless the purchase is critical to the company. Second, the decision-making process is likely to be much longer as the buy class changes from a straight rebuy to a modified rebuy and, then, a new task. Third, in terms of influencing DMU members, they are likely to be much more receptive for new tasks and modified rebuys than for straight rebuys. In straight rebuys the purchasing manager has already solved the purchasing problems and has other problems to deal with. So why make it a problem again?

The first implication of this buy class analysis is that there are big gains to be made if the salesperson can enter the new task at the start of the decision-making process. By providing information and helping with any technical problems which can arise, the salesperson may be able to create goodwill and creeping commitment which secures the order when the final decision is made. The second implication is that since the decision process is likely to be long and many people are involved in the new task, supplier companies need to invest heavily in sales staff for a considerable period of time. Some firms employ missionary sales teams comprising their best salespeople to help secure big new-task orders.

Salespeople in straight rebuy situations must ensure that no change occurs when they are in the position of the supplier. Regular contact to ensure that the customer has no complaints may be necessary, and the buyer may be encouraged to use automatic recording systems. For the non-supplier, the salesperson has a difficult task unless poor service or some other factor has caused the buyer to become dissatisfied with the present supplier. The obvious objective of the salesperson in this situation is to change the buy class from a straight rebuy to a modified rebuy. Price alone may not be enough since changing supplier represents a large personal risk to the purchasing officer.

The new supplier's products might be less reliable and delivery might be unpredictable. To reduce this risk, the salesperson may offer delivery guarantees with penalty clauses and be very willing to accept a small (perhaps uneconomic) order at first in order to gain a foothold. Supplier acquisition of a total quality management standard such as BS 5750 may also have the effect of reducing perceived buyer risk, or it may be necessary to agree to undertake a buyer's supplier quality assurance programme. Many straight rebuys are organised on a contract basis and buyers may be more receptive to listening to non-supplier salespeople before contract renewal.

Value analysis and life-cycle cost calculations are other methods of moving purchases from a straight rebuy to a modified rebuy situation. *Value analysis*, which can be conducted by either supplier or buyer, is a method of cost reduction in which components are examined to see if they can be made more cheaply. The items are studied to identify unnecessary costs that do not add to the reliability or functionality of the product. By redesigning, standardising or manufacturing by less expensive means, a supplier may be able to offer a product of comparable quality at lower cost. Simple redesigns like changing a curved edge to a straight edge may have dramatic cost implications.

Life-cycle cost analysis seeks to move the cost focus from the initial purchase price to the total cost of owning and using a product. There are three types of life-cycle cost:

- purchase price;
- start-up costs;
- post-purchase costs.

Start-up costs would include installation, lost production and training costs. Post-purchase costs include operating (e.g. fuel, operator wages), maintenance, repair and inventory costs. Against these costs would be placed residual values (e.g. trade-in values of cars). Life-cycle cost appeals can be powerful motivators. For example, if the out-supplier can convince the customer organisation that its product has significantly lower post-purchase costs than the in-supplier, despite a slightly higher purchase price, it may win the order. This is because it will be delivering a higher *economic value to the customer*. This can be a powerful competitive advantage and justify the premium price.

3.5.2 The Product Type

Products can be classified into four types:

- materials to be used in the production process, e.g. steel;
- components to be incorporated in the finished product, e.g. an alternator;
- plant and equipment;
- products and services for maintenance, repair and operation (MROs), e.g. spanners, welding equipment and lubricants.

This classification is based on a customer's perspective – how the product is used – and may be applied to identify differences in organisational buyer behaviour. First, the people who take part in the decision-making process tend to change according to product type. For example, senior management tend to get involved in the purchase of plant and equipment or, occasionally, when new materials are purchased, if the change is of fundamental importance to company operations, for example, if a move from aluminium to plastic is being contemplated. Rarely do they involve themselves in component or MRO supply. Similarly, design engineers tend to be involved in buying components and materials but not normally MRO and plant and equipment. Second, the decision-making process tends to be slower and more complex as product type moves from MRO to components to materials to plant and equipment

For MRO items, blanket contracts rather than periodic purchase orders are increasingly being used. The supplier agrees to resupply the buyer on agreed price terms over a period of time. Stock is held by the seller and orders are automatically printed out by the buyer's computer when stock falls below a minimum level. This has the advantage to the supplying company of effectively blocking the efforts of the competitors' salesforces for long periods of time.

Classification of suppliers' offerings by product type gives the salesforce clues as to who is likely to be influential in the purchasing decision. The sales task is then to confirm this in particular situations and attempt to reach those people involved. A salesperson selling MROs is likely to be wasting effort attempting to talk to design engineers, whereas attempts to reach operating management are likely to prove fruitful.

3.5.3 Importance of Purchase to Buying Organisation

A purchase is likely to be perceived as important to the buying organisation when it involves large sums of money, when the cost of making the wrong decision, for example in lost production, is high and when there is considerable uncertainty about the outcome of alternative offerings. In these situations many people at different organisational levels are likely to be involved in the decision and the process is likely to be long with extensive search and analysis of information. Thus extensive marketing effort is likely to be required, but great opportunities present themselves to sales teams who work with buying organisations to convince them that their offering has the best pay-off; this may involve acceptance trials (e.g. private diesel manufacturers supplying rail companies with prototypes for testing, engineering support and testimonials from other users). Additionally, guarantees of delivery dates and after-sales service may be necessary when buyer uncertainty regarding these factors is high.

3.6 Developments in Purchasing Practice

A number of trends have taken place within the purchasing function which have marketing implications for supplier firms. The advent of just-in-time purchasing and the increased tendency towards central purchasing, reverse marketing and leasing have all changed the nature of purchasing and altered the way in which suppliers compete.

3.6.1 Just-in-Time Purchasing

The **just-in-time** (JIT) concept aims to minimise stocks by organising a supply system which provides materials and components as they are required. Stockholding costs are significantly reduced or eliminated, therefore profits are increased. Furthermore, since the holding of stocks is a hedge against machine breakdowns, faulty parts and human error, they may be seen as a cushion which acts as a disincentive to management to eliminate such inefficiencies.

A number of JIT practices are also associated with improved quality. Suppliers are evaluated on their ability to provide high-quality products. The effect of this is that suppliers may place more emphasis on product quality. Buyers are encouraged to specify only essential product characteristics, which means that suppliers have more discretion in product design and manufacturing methods. Also, the emphasis is on the supplier certifying quality, which means that quality inspection at the buyer company is reduced and overall costs are minimised since quality control at source is more effective than further down the supply chain.

The total effects of JIT can be enormous. Purchasing inventory and inspection costs can be reduced, product design improved, delivery streamlined, production downtime reduced and the quality of the finished item enhanced.

However, the implementation of JIT requires integration into purchasing and production operations. Since the system requires the delivery of the exact amount of materials or components to the production line as they are required, delivery schedules must be very reliable and suppliers must be prepared to make deliveries on a regular basis, perhaps even daily. Lead times for ordering must be short and the number of defects must be very low. An attraction for suppliers is that it is usual for long-term purchasing agreements to be drawn up. The marketing implications of the JIT concept are that to be competitive in many industrial markets (e.g. motor cars) suppliers must be able to meet the requirements of this fast-growing system.

An example of a company that employs JIT is the Nissan car assembly plant at Sunderland in the UK. The importance of JIT to its operations has meant that the number of component suppliers in the north-east of England has increased from 3 when Nissan arrived in 1986 to 27 in 1992. Nissan adopt what they term 'synchronous supply' – parts are delivered only minutes before they are needed. For example, carpets are delivered by Sommer Allibert, a French supplier, from its nearby facility to the Nissan assembly line in sequence for fitting to the correct model. Only 42 minutes elapse between the carpet being ordered and fitted to the car. The stockholding of carpets for the Nissan Micra is now only 10 minutes. But just-in-time practices do carry risks if labour stability cannot be guaranteed. Renault discovered this to its cost when a strike at its engine and gearbox plant caused its entire French and Belgian car production lines to close in only 10 days.

3.6.2 Centralised Purchasing

Where several operating units within a company have common requirements and there is an opportunity to strengthen a negotiating position by bulk buying, then **centralised purchasing** is an attractive option. Centralisation encourages purchasing specialists to concentrate their energies on a small group of products, enabling them to develop an extensive knowledge of cost factors and the operation of suppliers. The move from local to centralised buying has important marketing implications. Localised buying tends to focus on short-term cost and profit considerations, whereas centralised purchasing places more emphasis on long-term supply relationships. Outside influences, such as engineers, play a greater role in supplier choice in local purchasing organisations since less specialised buyers often lack the expertise and status to question the recommendations of technical people. The type of purchasing organisation can therefore give clues to suppliers about the important people in the decision-making unit and their respective power positions.

3.6.3 Reverse Marketing

The traditional view of marketing is that supplier firms will actively seek the requirements of customers and attempt to meet those needs better than the competition. This model places the initiative with the supplier. Purchasers could assume a passive dimension, relying on their suppliers' sensitivity to their needs and technological capabilities to provide them with solutions to their problems. However, this trusting relationship is at odds with a new corporate purchasing situation that developed during the 1980s and is now gaining momentum. Purchasing is taking on a more proactive, aggressive stance in acquiring the products and services needed to compete. This process, where the buyer attempts to persuade the supplier to provide exactly what the organisation wants, is called **reverse marketing**.[16] Figure 3.7 shows the difference between the traditional model and this new concept.

The essence of reverse marketing is that the purchaser takes the initiative in approaching new or existing suppliers and persuading them to meet their supply requirements. The implications of reverse marketing are that it may pose serious threats to uncooperative in-suppliers but major opportunities to responsive in- and out-suppliers. The growth of reverse marketing presents two key benefits to suppliers who are willing to listen to the buyer's proposition and carefully consider its merits. First, it provides the opportunity to develop a stronger and longer-lasting relationship with the customer. Second, it could be a source of new product opportunities that may be developed to a broader customer base later on.

Figure 3.7 **Reverse marketing**

3.6.4 Leasing

A *lease* is a contract by which the owner of an asset (e.g. a car) grants the right to use the asset for a period of time to another party in exchange for payment of rent. The benefits to the customer are that a leasing arrangement avoids the need to pay the cash purchase price of the product or service; it is a hedge against fast product obsolescence; it may have tax advantages; it avoids the problem of equipment disposal; and certain types of leasing contract avoid some maintenance costs. These benefits need to be weighed against the costs of leasing, which may be higher than outright buying.

There are two main types of lease: financial or full-payment leases and operating leases, sometimes called rental agreements. A **financial lease** is a longer-term arrangement that is fully amortised over the term of the contract. Lease payments, in total, usually exceed the purchase price of the item. The terms and conditions of the lease vary according to convention and competitive conditions. Sometimes the supplier will agree to pay maintenance costs over the leasing period. This is common when leasing photocopiers, for example. The lessee may also be given the option of buying the equipment at the end of the period. An **operating lease** is for a shorter period of time, it is cancellable and it is not completely amortised. Operating lease rates are usually higher than financial lease rates since they are shorter-term. When equipment is required intermittently this form of acquisition can be attractive since it avoids the need to let plant lie idle. Many types of equipment such as diggers, bulldozers and skips may be available on short-term hire, as may storage facilities.

Leasing may be advantageous to suppliers because it provides customer benefits that may differentiate product and service offerings. As such it may attract customers who otherwise may find the product unaffordable or uneconomic. The importance of leasing in such industries as cars, photocopying and data processing has led an increasing number of companies to employ leasing consultants to work with customers on leasing arrangements and benefits. A crucial marketing decision is the setting of leasing rates, which should bear in the mind the following ideas:

- the desired relative attractiveness of leasing versus buying (the supplier may wish to promote or discourage buying compared with leasing);
- the net present value of lease payments versus outright purchase;
- the tax advantages to the customer of leasing versus buying;
- the rates being charged by competition;
- the perceived advantages of spreading payments to customers;
- any other perceived customer benefits, e.g. maintenance and insurance costs being assumed by the supplier.

3.7 Relationship Management

The discussion of reverse marketing gave examples of buyers adopting a proactive stance in their dealings with suppliers and introduced the importance of buyer–seller relationships in marketing between organisations. The Industrial Marketing and Purchasing Group[17] developed the **interaction approach** to explain the complexity of buyer–seller relationships. This approach views these relationships as taking place between two active parties. Thus reverse marketing is one manifestation of the interaction perspective. Both parties may be involved in adaptations to their own process or product technologies to accommodate each other, and changes in the activities of one party are unlikely without consideration of, or consultation with, the other party. In such circumstances a key objective of industrial markets will be to manage customer relationships. Not only should formal organisational arrangements such as the use of distributors, salespeople and sales subsidiaries be considered, but also the informal network consisting of the personal contacts and relationships between supplier and customer staff. Marks & Spencer's senior directors meet the boards of each of its major suppliers twice a year for frank discussions. When Marks & Spencer personnel visit a supplier it is known as a 'royal visit'. Factories may be repainted, new uniforms issued and machinery cleaned. This reflects the exacting standards that the company demands from its suppliers and the power it wields in its relationship with them.

The reality of organisational marketing is that many suppliers and buying organisations have been conducting business between themselves for many years. For example, Lucas has been supplying components to Rover (and its antecedents) for over 50 years. Marks & Spencer has trading relationships with suppliers that stretch back almost 100 years. Such long-term relationships can have significant advantages to both buyer and seller. Risk is reduced for buyers since they get to know people in the supplier organisation and know who to contact when problems arise. Communication is thus improved and joint problem-solving and design management can take place. Sellers gain through closer knowledge of buyer requirements and, by gaining the buyer's trust, an effective barrier to entry for competing firms may be established. New product development can benefit from such close relationships. The development of machine-washable lambswool fabrics and easy-to-iron cotton shirts came about because of Marks & Spencer's close relationships with UK manufacturers.

Close relationships in organisational markets are inevitable as changing technology, shorter product life cycles and increased foreign competition place marketing and purchasing departments in key strategic roles. Buyers are increasingly treating trusted suppliers as **strategic partners**, sharing information and drawing on their expertise when developing cost-efficient, quality-based new products. The marketing implication is that successful organisational marketing is more than the traditional manipulation of the four Ps – product, place, promotion, price. Its foundation rests on the skilful handling of customer relationships. This had led some companies to appoint customer relationship managers to oversee the partnership and act in a communicational and coordinated role to ensure customer satisfaction. Still more companies have reorganised their salesforces to reflect the importance of managing key customer relationships effectively. This process is called key account management or major account management.

Learning Summary

Understanding buyer behaviour has important implications for salespeople and sales management. Recognition that buyers purchase products to overcome problems and satisfy needs implies that an effective sales approach will involve the discovery of these needs on the part of the salesperson. Only then can he or she sell the offering from the range of products marketed by the company which best meets these needs.

When the decision-making unit is complex, as in many organisational buying situations, the salesperson must attempt to identify and reach key members of the DMU in order to persuade them of the product's benefits. He or she must also realise that different members may use different criteria to evaluate the product and thus may need to modify his or her sales presentation accordingly.

The next module considers the development of sales strategies which reflect the buyer behaviour patterns of the marketplace.

Review Questions

Content Questions

3.1 What are the major differences between organisational and consumer buying?

3.2 What are the different roles which may be played in the course of a family purchase decision?

3.3 How do consumers evaluate competing alternatives?

3.4 Describe the three types of buying situation.

3.5 Describe the different buyer personality types.

3.6 What are the implications of buyer personality types for selling?

3.7 What are the three elements of organisational buying behaviour?

3.8 What are the six roles in the structure of an organisational decision-making unit?

3.9 What deadly sins must salespeople avoid?

3.10 Describe the organisational decision-making process.

3.11 What choice criteria are used by members of an organisational decision-making unit to evaluate supplier proposals?

3.12 What are the three factors which influence the composition of an organisational decision-making unit?

Multiple-Choice Questions

3.13 Organisational buyers, when compared to buyers of consumer goods, are _____ in number, _____ rational and may face _____ risks.

A. greater less greater
B. fewer more greater
C. fewer more less
D. greater less less

3.14 In consumer markets the individual with the power and/or financial authority to make the ultimate choice regarding which product to buy is termed the

A. influencer.
B. buyer.
C. initiator.
D. decider.

3.15 In consumer markets, the person who conducts the transaction is termed the

A. influencer.
B. buyer.
C. initiator.
D. decider.

3.16 Developing an understanding of the different roles in the buying process is key to:

I. market segmentation.
II. marketing communication.
III. post-purchase evaluation.

Which of the following is correct?

A. I and II only.
B. II and III only.
C. I and III only.
D. I, II and III.

3.17 The system consumers use to compare or evaluate products or brands take into consideration all of the following items except

A. beliefs.
B. choice criteria.
C. buying situation.
D. attitudes.

3.18 Generally, which of the following types of purchase is a low-involvement purchase?

A. New house.
B. New car.
C. Stereo equipment.
D. Tinned tomatoes.

3.19 In the Buzzotta *et al.* model of buyer behaviour, the personality types include all of the following except

A. warm.
B. submissive.
C. passive.
D. dominant.

3.20 Which of the Buzzotta *et al.* personality types represents a disposition to let others take the lead?

A. Warm.
B. Submissive.
C. Passive.
D. Dominant.

The following information relates to Question 3.21–Question 3.23.

Jack Mann Corporation is a manufacturer of earth-moving equipment. During a sales briefing for new recruits to its sales team, the sales manager describes many of the customers it deals with as dominant–hostile buyers.

3.21 The description 'dominant–hostile' means that buyers are likely to have all of the following characteristics except

A. loud.
B. assertive.
C. aggressive.
D. uncommunicative.

3.22 The sales manager of Jack Mann Corporation describes some of the actions that salespeople can take to win the respect of dominant–hostile buyers. These include all of the following except

A. being friendly and warm.
B. maintaining eye contact.
C. listening respectfully but passively.
D. answering directly.

3.23 The sales manager of Jack Mann Corporation adds that the new recruits to his sales team should be adaptable in their sales approach as some buyers have submissive–warm characters. He suggests that his salespeople can win the respect of these customers by all of the following ways except

A. being warm and friendly.
B. sharing social experiences.
C. developing liking and trust.
D. adjusting their dominance level upwards.

3.24 Which of the following is true about the six categories of participants in the buying process?

A. Each role is performed by a different person.
B. Buyers are the people who have the final authority in the purchase decision.
C. Initiators cannot be buyers.
D. Gatekeepers may include people inside and outside the potential customer's firm.

Use the following scenario to answer Question 3.25–Question 3.28.

David, a fishmonger at Broughton Sea Foods, a major fish retail chain, wants a new knife for filleting fish. He talks to his shop manager and puts in his request. The shop manager, Pete, speaks with the fish preparation supervisor and the owner of the retail chain. The fish preparation supervisor describes the proper type of knife and points out some of the features of optional knives. He also suggests two or three suppliers that Pete might want to deal with, based on his own past experience. The retail chain owner, Mr Campbell, suggests that Pete should get two or three price quotes before going ahead with the purchase order. Pete calls the suggested suppliers, gets two or three price quotes on several knives, and then calls Mr Campbell back. Mr Campbell picks the fish knife he feels is the highest quality for the lowest cost and tells Pete to go ahead with the purchase order. Pete contacts the supplier and negotiates the purchase.

3.25 What was the role of Mr Campbell, the retail chain owner?

A. Influencer.
B. Gatekeeper.
C. Buyer.
D. Decider.

3.26 What was the role of David, the fishmonger?

A. Buyer.
B. Initiator.
C. Gatekeeper.
D. Decider.

3.27 Pete, the shop manager, played the role of _____ and _____.

A. influencer buyer
B. buyer gatekeeper
C. buyer decider
D. decider gatekeeper

3.28 What was the role of the fish preparation supervisor?

A. Gatekeeper.
B. Initiator.
C. Decider.
D. Influencer.

3.29 In organisational buying, who control the flow of information?

A. Gatekeepers.
B. Initiators.
C. Deciders.
D. Influencers.

3.30 In organisational buying, who have the authority to select the supplier or model?

A. Gatekeepers.
B. Initiators.
C. Deciders.
D. Influencers.

3.31 Which statement about customer service is false?

A. Service should include supervision of equipment installation.
B. Good customer service is a positive feature in getting repeat purchases.
C. Most firms have stressed service and have increased business as a result.
D. Account management policies should set clear guidelines for customer service.

3.32 _____ leads firms to focus on short-term cost and profit considerations. Whereas _____ places more emphasis on long-term supply relationships.

A. localised buying centralised purchasing
B. centralised purchasing localised buying
C. traditional marketing reverse marketing
D. reverse marketing traditional marketing

3.33 Psychological (emotive) considerations might include any of the following except

A. convenience.
B. confidence.
C. durability.
D. reciprocity.

3.34 Criteria which may influence an organisation's choice of supplier include all of the following except

A. personal liking of a salesperson.
B. perceived risk.
C. cognitive dissonance.
D. continuity of supply.

3.35 Weather-it manufactures single-coat paint for outside application. Weather-it recently eliminated a raw materials supplier because the materials did not meet its standards for quality and delivery time. It then negotiated a contract with a new supplier. This reflects which type of purchasing?

A. Straight rebuy.
B. Modified rebuy.
C. New-task rebuy.
D. Problem recognition.

3.36 Which one of the following statements about the organisational buying process is true?

A. In most purchases, the buyer goes through seven steps.
B. In a straight rebuy situation, buyers engage in all steps except searching for a seller and acquiring bids.
C. The buyer is generally the individual who recognises the problem first.
D. In a straight rebuy situation, the purchasing department often receives little or no influence from others in the firm.

3.37 For potential suppliers not on an 'approved rebuy' list, the task is to

A. develop new products which have a good chance of being placed in the rebuy list.
B. convince the buyer to modify present specifications, prices or other items it has been receiving from existing suppliers.
C. There is very little a supplier can do to cope with this problem.
D. show buyers that the product should really be considered as a 'new task' purchase.

3.38 Organisational buyers are **least** likely to seek new suppliers when

A. the product they want to buy is new and complex.
B. the product they want to buy has been bought before and is complex and expensive.
C. the product they want to buy is new and technically simple.
D. the product they want to buy has been bought before and is technically simple.

3.39 Start-up costs include:

I. installation.
II. lost production.
III. training.

Which of the following is correct?

A. I and II.
B. II and III.
C. I and III.
D. I, II and III.

3.40 Post-purchase costs include

I. training costs.
II. operating costs.
III. repairs and inventory costs.

Which of the following is correct?

A. I and II.
B. II and III.
C. I and III.
D. I, II and III.

3.41 Just-in-time (JIT) purchasing procedures have been widely adopted by most major firms. An example comes from Duratech, a subsidiary of AGMA. AGMA, using a special product produced by Duratech, ships molten aluminium to Hays & Co. to be poured immediately into engine moulds. Which of the following are major features and implications of JIT as they may relate to Duratech and Hays & Co.?

A. Duratech will most likely be Hays & Co's single source of supply.
B. Hays & Co will receive frequent and reliable delivery.
C. The focus of exchange between Duratech and Hays & Co will be on moulded aluminium supply, with no attention to value-added services.
D. Both A and B are true.

3.42 Spanners and welding equipment are examples of which type of goods?

A. Materials.
B. Components.
C. Plant and equipment.
D. Maintenance, repair and operating supplies (MROs).

3.43 Engines, springs and microchips are examples of which type of goods?

A. Materials.
B. Components.
C. Plant and equipment.
D. Maintenance, repair and operating supplies (MROs).

3.44 Close relationships in organisational markets are _____ as changing technology, _____ product life cycles and _____ foreign competition place marketing and purchasing departments in key strategic roles.

Choose the sequence that correctly completes the blanks.

A. inevitable shorter increased
B. inevitable shorter reduced
C. less likely longer increased
D. less likely longer reduced

3.45 The development of a long-term close working relationship between a supplier and a buying organisation can be beneficial to all of the following activities except

A. communication.
B. joint problem-solving.
C. new product development.
D. centralised purchasing.

Case Study 3.1: The Lost Computer Sale

Jim Appleton, managing director of Industrial Cleaning Services, had decided that a personal computer could help solve his cash flow problems. What he wanted was a machine which would store his receipts and outgoings so that at a touch of a button he could see the cash flow at any moment. A year ago he got into serious cash flow difficulties simply because he didn't realise that, for various reasons, his short-term outflow greatly exceeded his receipts.

He decided to visit a newly opened personal computer outlet in town on Saturday afternoon. His wife, Mary, was with him. They approached a salesperson seated behind a desk.

Jim: Good afternoon. I'm interested in buying a personal computer for my business. Can you help me?

Salesperson: Yes, indeed, sir. This is the fastest-growing network of personal computer centres in the country. I have to see a colleague for a moment but I shall be back in a few minutes. Would you like to have a look at this brochure and at the models we have in the showroom?

The salesperson gives them the brochures and leaves them in the showroom.

Mary: I don't understand computers. Why are some bigger than others?

Jim: I don't know. What baffles me are all these buttons you have to press. I wonder if you have to do a typing course to use one?

Jim and Mary look round the showroom, asking each other questions and getting a little confused. The salesperson arrives after five minutes.

Salesperson: Sorry to take so long but at least it's given you a chance to see what we have in stock. You tell me you want a computer for work. I think I have just the one for you.

The salesperson takes Jim and Mary to a model.

Salesperson: This could be just up your street. Not only will this model act as a word processor, it will do your accounts, financial plans and stock control as well. It has full graphic facilities so that you can see trend lines on the screen at the touch of a button.

Mary: It looks very expensive. How much will it cost?

Salesperson: A lot less than you think. This one costs £1000, which is quite cheap.

Mary: I've seen advertisements in newspapers for computers which are a lot less expensive.

Salesperson: Yes, but do they have an Intel 750 MHz Pentium III processor with 128 megabytes of SDRAM and a 10-gigabyte hard drive? And do they contain ATI's best-selling Rage Pro AGP graphics card?

Mary: I don't know, but they looked quite good to me.

Jim: It looks very complicated to use.

Salesperson: No more complicated than any of the other models. The computer comes with a full set of instructions. My 12-year-old son could operate it.

Jim: What's this button for?

Salesperson: That moves the cursor. It allows you to delete or amend any character you wish.

Jim: I see.

Salesperson: I've left the best till last. Included in the price are three software programs which allow the machine to be used for spreadsheet analysis, stock control and word processing. I'm sure your business will benefit from this computer.

Jim: My business is very small. I only employ five people. I'm not sure it's ready for a computer yet. Still, thank you for your time.

Questions

1. What choice criteria did Jim and Mary use when deciding whether to buy a computer and which model to buy?

2. Did the salesperson understand the motives behind the purchase? If not, why not? Did he or she make any other mistakes?

3. Imagine that you were the salesperson. How would you have conducted the sales interview?

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PART 2

Sales Technique

Module 4

Sales Responsibilities and Preparation

Contents

Learning Objectives

After studying this module, you should be able to:

- itemise sales responsibilities;
- evaluate sources of sales prospects;
- take a systematic approach to keeping customer records;
- understand the importance of self-management in selling;
- assess what preparation is needed prior to selling;
- understand the art of negotiation;
- plan individual sales interviews.

Key Concepts

- complaint handling
- preparation
- presentation planning
- prospecting
- sales cycle
- sales negotiation

4.1 Sales Responsibilities

The *primary* responsibility of a salesperson is to conclude a sale successfully. This task will involve the identification of customer needs, presentation and demonstration, negotiation, handling objections and closing the sale. These skills are discussed in detail in Module 5. To generate sales successfully, a number of *secondary* functions are also carried out by most salespeople. Although secondary, they are vital to long-term sales success. These are

- prospecting;
- maintaining customer records and information feedback;
- self-management;

- handling complaints;
- providing service.

Salespeople are also responsible for implementing sales and marketing strategies. This issue will be considered later in this module.

4.1.1 Prospecting

Prospecting is the searching for and calling upon customers who, hitherto, have not purchased from the company. This activity is not of uniform importance across all branches of selling. It is obviously far more important in industrial selling than retail selling; for example, a salesperson of office equipment may call upon many new potential customers, whereas a furniture salesperson is unlikely to search out new prospects – they come to him or her as a result of advertising and, perhaps, high-street location.

A problem sometimes associated with salespeople who have worked for the same company for many years is that they rely on established customers to provide repeat orders rather than actively seeking new business. It is usually more comfortable for the salesperson to call upon old contacts, but the nature of much industrial selling is that, because product life is long, sustained sales growth depends on searching out and selling to new customers.

4.1.1.1 Sources of Prospects

- **Existing customers.** Sourcing existing customers is a highly effective method of generating prospects and yet tends to be underused by many. A wealth of new prospects can be obtained simply by asking satisfied customers if they know of anyone who may have a need for the kinds of products or services being sold. This technique has been used successfully in life insurance and industrial selling but has applications in many other areas too. Having obtained the names of potential customers, the salesperson, if appropriate, can ask the customer if he or she may use the customer's name as a reference. The use of reference selling in industrial marketing can be highly successful since it reduces the perceived risk for a potential buyer.
- **Trade directories.** A reliable trade directory such as *Kompass* or *Dunn and Bradstreet* can prove useful in identifying potential industrial buyers. The *Kompass* directory is organised by industry and location and provides such potentially useful information as name, address and telephone number of companies; names of board members; size of firm by turnover and number of employees; and types of product manufactured or distributed. For trade selling, the *Retail Directory* provides information regarding potential customers, organised by various types of retail outlet. Thus a salesperson selling a product suitable for confectioners and newsagents could use the listing of such retailers under the CTN heading (confectioners, tobacconists and newsagents) to obtain relevant names, addresses, telephone numbers plus an indication of size through the information on number of branches.

- **Enquiries.** Enquiries may arise as a natural consequence of conducting business. By word of mouth, satisfied customers may create enquiries from 'warm' prospects. Many companies stimulate enquiries, however, by advertising (many industrial advertisements use coupon return to stimulate leads), direct mail and exhibitions. This source of prospects is an important one and the salesperson should respond promptly. The enquirer may be seeking a solution to an urgent need and may turn to the competition if faced with a delay. Even if the customer's problem is not so urgent, slow response may foster unfavourable attitudes towards the salesperson and his or her company's products.
  The next priority is to screen out those inquiries which are unlikely to result in a sale. A telephone call has the advantage of giving a personalised response and yet is relatively inexpensive and not time-consuming. It can be used to check how serious the enquiry is and to arrange a personal visit should the enquiry prove to have potential. This process of checking leads to establish their potential is known as *qualifying*.
- **The press.** Perhaps underused as a source of prospects, the press is nevertheless important. Advertisements and articles can give clues to potential new sources of business. Articles may reveal diversification plans that may mean a company suddenly becomes a potential customer. Advertisements for personnel may reveal plans for expansion, again suggesting potential new business.
- **Cold canvassing.** Cold canvassing involves calling on every prospect who might have a need for the salesperson's product. A brush salesperson, for example, may attempt to call on every house in a village. A variant of this method is the cool canvass, where only certain groups of people are canvassed, such as those more likely to buy since they possess some qualifying feature; for example, only companies over a certain size may be judged viable prospects. Calling cold on big company buyers is unlikely to be successful, however. A more effective approach is to send a letter explaining the business of your company then call to make an appointment.[1]

4.1.2 Customer Records and Information Feedback

Systematic customer record-keeping is a recommended approach for all repeat-call salespeople. An industrial salesperson should record the following information:

- name and address of company;
- name and position of contacts;
- nature of business;
- date and time of interview;
- assessment of potential;
- buyer needs, problems and buying habits;
- past sales with dates;
- problems or opportunities encountered;
- future actions on the part of salesperson (and buyer).

Record cards should be provided by management and salespeople should be encouraged to use them as part of the sales plan before each visit.

Salespeople should also be encouraged to send back to head office information which is relevant to the marketing of company products. Test market activity by competition, news of imminent product launches, rumours of policy changes on the part of trade and industrial customers and competitors, and feedback on company achievement regarding product performance, delivery and after-sales service are just some of the kinds of information that may be useful to management.

4.1.3 Self-Management

Self-management of the sales job is of particular importance since a salesperson is often working alone with the minimum of personal supervision. A salesperson may have to organise his or her own call plan. This involves dividing territory into sections to be covered day by day and deciding the best route to follow between calls. Often it makes sense to divide a territory into segments radiating outwards from the salesperson's home. Each segment is designed to be small enough to be covered by the salesperson during one day's work.

Many salespeople believe that the most efficient routing plan involves driving out to the furthest customer and then zigzagging back to home base. However, it can be shown that adopting a round-trip approach will usually result in lower mileage. These considerations are important for efficiency, as an alarming amount of time can be spent on the road as opposed to face to face with buyers. A survey conducted on behalf of the Institute of Marketing[2] into UK selling practice found that, on average, only 20–30 per cent of a salesperson's normal working day is spent face to face with customers. Although this study was conducted over 20 years ago, matters have not improved since then. In fact, this figure is now nearer 20 per cent than 30 per cent because salespeople are increasingly called on to carry out ancillary work such as customer surveys, service work and merchandising. Some companies take this responsibility out of the salesperson's hands and produce daily worksheets showing who is to be called on and in what order.

Another factor which may be the responsibility of the salesperson is deciding on call frequency. It is sensible to grade customers according to potential. For example, people selling consumable durables may use grades A, B and C to categorise the retail outlets they are selling into. Grade A outlets may be visited every fortnight, grade B every month and grade C once every three months. The principle applies to all kinds of selling, however, and may be left to the salesperson's discretion or organised centrally as part of the sales management function. The danger of delegating responsibility to salespeople is that the criteria used to decide frequency of visit are 'friendliness with the buyer' or 'ease of sale' rather than sales potential. On the other hand, it can be argued that a responsible salesperson is in the best position to decide how much time needs to be spent with each customer.

4.1.4 Handling Complaints

Dealing with complaints may seem at first to be a time-consuming activity which diverts a salesperson from the primary task of generating sales. A marketing orientation for a salesforce, however, dictates that the goal of an organisation is to create customer satisfaction in order to generate profit. When dissatisfaction identifies itself in the form of a complaint, this necessary condition for long-term survival is clearly not being met.

Complaints vary in their degree of seriousness and in the authority which the salesperson holds in order to deal with them. No matter how trivial the complaint may seem, the complainant should be treated with respect and the matter dealt with seriously. In a sense, dealing with complaints is one of the after-sale services provided by suppliers. It is therefore part of the mix of benefits a company offers its customers, although it differs in essence since the initial objective is to minimise its necessity. Nevertheless, the ability of the salesperson to empathise with the customer and his or her problem and to react sympathetically can create considerable goodwill and help foster long-term relationships.

With this in mind, many companies give the customer the benefit of the doubt when this does not involve high cost, even though they suspect that the fault may be caused by inappropriate use of the product on the part of the customer; for example, garden fork manufacturers may replace prematurely broken forks, even though the break may have been caused by work for which the fork was not designed.

When the salesperson does not have the authority to deal with the complaint immediately, his or her job is to submit the relevant information in written form to head office so that the matter can be taken further.

4.1.5 Providing Service

Salespeople are in an excellent position to provide a consultancy service to their customers. Since they meet many customers each year, they become familiar with solutions to common problems. Thus an industrial salesperson may be able to advise customers on improving productivity or cutting costs. Indeed the service element of industrial selling is often incorporated into the selling process itself, e.g. computer salespeople may offer to conduct an analysis of customer requirements and produce a written report in order to complete a sale. The salesperson who learns solutions to common problems and provides useful advice to his or her customers builds an effective barrier to competitive attacks and strengthens buyer–seller relationships.

Another area where salespeople provide service is in trade selling. They may be called upon to set up in-store displays and other promotions for wholesalers and retailers. Some companies employ people to do this on a full-time basis. These people are called merchandisers and their activities provide support to traditional salespeople, who can thus spend more time selling.

Retail salespeople also provide customer service. Selling audio equipment, for example, is an opportunity to help the customer make the correct choice for a given budget. Richer Sounds is a UK-based chain of audio stores that prides itself on exceptional customer service (see Box 4.1).

Box 4.1: Customer Service in Retailing

At Richer Sounds, the UK-based audio chain, customer service begins when potential customers enter the door. Salespeople are trained to acknowledge customers by asking casually, 'Are you okay there?' or 'Are you happy browsing, sir/madam?' The purpose is not to sell them anything but to let customers know that the salesperson is aware of their presence and that they can contact him or her when they are ready. A sign over the door says 'Browsers Welcome' and they mean it – without the fear of being hassled by salespeople.

Customers should not be pre-judged. The same quality of service must be provided to customers who are shabbily dressed, pompous, flashy, aggressive, rude or boring. The whole selling operation should be transparent. There should be no pressure, no trying to disguise a poor product and no catches. Salespeople should be honest and if they do not have the right information should reply, 'I'm sorry I don't know but I shall try to find out.'

Sometimes it is not possible to make a sale because the product in question is not stocked. The salesperson should still provide a service by advising the customer where they might get it. Argos and Tandy catalogues are held for this purpose. Quite often customers will stop and think before they walk out to see if they can buy something as a mark of appreciation.

Richer Sounds advocate the policy of 'underpromise, overdeliver'. Over-promising can ruin long-term relationships, so their salespeople never promise customers 'the moon' just to make a sale.

Even though Richer Sounds tries hard to give 100 per cent customer service, complaints are bound to happen. They even encourage them. They recognise that every disgruntled customer on average tells 20 people about it. By receiving complaints they have the chance to put things right and learn from their mistakes. A short, tear-off questionnaire is included with receipts. The questionnaire covers eight points, including the customer's assessment of the quality of the service they have received, and there is space for comments. An after-sales service questionnaire which asks only four questions is also used to monitor service and invite complaints.

Salespeople should not change their customer focus once the sale is made. The service should be followed through until the customer is out of the shop. Salespeople should thank them for their custom, give them their name to contact if there are any problems, and perhaps help them to the car. If the customer is uncertain about their purchase, they will be told that the sales-person will call them after a few days to check that they are happy with the product.

Source: Based on Richer, J. (1995) *The Richer Way*, WMAP Business Communications.

Salespeople may also be called upon to provide after-sales service to customers. Sales engineers may be required to give advice on the operation of a newly acquired machine or provide assistance in the event of a breakdown. Sometimes they may be able to solve the problem themselves, but other times they will call in technical specialists to deal with the problem.

4.1.6 Implementing Sales and Marketing Strategies

The salesforce is also charged with the responsibility of implementing sales and marketing strategies designed by management. Misunderstandings regarding strategy can have grave implications. For example, the credibility of a premium price and high-quality position in the marketplace can be seriously undermined by a salesforce too eager to give large price discounts. The solution might be to decide discount structure at managerial level (both sales and marketing management will have an input to this decision) based on the price sensitivity of various market segments. The salesforce would then be told the degree to which price could be discounted for each class of customer. In this way the product's positioning strategy would remain intact while allowing the salesforce some discretion to discount when required.

Successful implementation can mean the difference between winning or losing new accounts. An effective method of gaining an account in the face of entrenched competition is the **diversion**. The aim is to distract a rival into concentrating its efforts on defending one account (and therefore neglecting another). Box 4.2 provides a true account of how a salesperson for a computer company diverted a well-entrenched rival to defend an account (The Bank) in order to win another (The Insurance Company).

In this example the stakes and costs were high. The management at A believed that the cost of loaning a £1 million computer to The Bank was justified (a) by a strategically important penetration of a major market and (b) by the potential profit to be gained by selling to The Insurance Company. This was a managerial decision and obviously depended on judgement, but the example shows the principle of using diversion as a method of winning major accounts.

Box 4.2: The Diversion

A computer company (A) was seeking its first high-profile installation in a major European city. A successful breakthrough sale was believed to be strategically important. It was considering two prospective customers: The Bank and The Insurance Company.

At The Bank, a rival computer company (B) was entrenched. Using a network of contacts, A's salesperson did a thorough reconnaissance. He discovered that B's salesperson at The Bank was deeply entrenched through good service and effective relationship building. The conclusion was that the situation for A was hopeless. However, The Bank's information technology manager opined that if A offered them a free computer (£1 million) The Bank would 'have to consider their offer'.

The Insurance Company was a customer of a third computer company (C) and company B. A's sales manager had senior contacts at The Insurance Company and found them dissatisfied with C, approaching a capacity shortage which would force the purchase of a large computer (likely to be over £10 million). The problem was that B was well respected by The Insurance Company. Also the same salesperson from B serviced both The Bank and The Insurance Company accounts. Fortunately, B's salesperson had not called on The Insurance Company recently. The task was to perpetuate B's absence and it was accomplished by using the diversion strategy.

A called at The Bank and offered a computer 'free for a year' and made an occasional follow-up call, while selling diligently (but quietly) at The Insurance Company. The ensuing flap at The Bank was quite spectacular. The switching costs associated with A's complete replacement of B would have been significant, so The Bank began to ask a lot of questions about switch-over plans and arrangements. (It was rumoured that B's salesperson was staying awake at night composing new questions that The Bank might ask of A!) In the face of these questions, A's salesperson responded deliberately (after all, he was spending most of his time selling at The Insurance Company). The struggle at The Bank raged on with A's credibility relentlessly eroded by B's clever and determined defence.

In due course, B's sales team was successful in their defence of The Bank account. However, their gratification was dimmed by the news that A had won a larger order (£10 million) at The Insurance Company.

4.2 Preparation

The ability to think on one's feet is of great benefit to salespeople, since they will be required to modify their sales presentation to suit the particular needs and problems of their various customers and to respond quickly to unusual objections and awkward questions. However, there is much to be gained by careful **preparation** of the selling task. Some customers will have similar problems; some questions and objections will be raised repeatedly. A salesperson can therefore usefully spend time considering how best to respond to these recurring situations.

This section considers preparation not only for the selling task, in which there is little or no scope for the salesperson to bargain with the buyer, but also for where selling may involve a degree of negotiation between buyer and seller. In many selling situations, buyers and sellers may negotiate price, timing of delivery, product extras, payment and credit terms, and trade-in values. These will be termed *sales negotiations*. In other situations the salesperson may have no scope for such discussions; in essence the product is offered on a basis of take it or leave it. Thus, the salesperson of bicycles to dealers may have a set price list and delivery schedule with no authority to deviate from them. This will be termed *pure selling*.

4.2.1 Preparation for Pure Selling and Sales Negotiations

A number of factors can improve the chances of sales success in sales negotiations and pure selling.

4.2.1.1 Product Knowledge and Benefits

Knowledge of product features is insufficient for sales success. Because people buy products for the benefits they confer, successful salespeople relate product features to consumer benefits; product features are the means by which benefits are derived. The way to do this is to look at products from the customer's viewpoint. Table 4.1 shows a few examples.

Table 4.1 Product features and customer benefits

Product feature	Customer benefit
Retractable nib on ballpoint pen	Reduces chances of damage
High revolution speed on spin dryer	Clothes are dried more thoroughly
High reach on forklift truck	Greater use of warehouse space
Streamfeeding (photocopiers)	Faster copying
Automatic washing machine	More time to spend on doing other less mundane activities

By analysing the products they are selling in this way, salespeople will communicate in terms that are meaningful to buyers and therefore they will be more convincing. In industrial selling, the salesperson may be called on to be an adviser or consultant who is required to provide solutions to problems. In some cases this may involve a fairly deep understanding of the nature of the customer's business, so as to appreciate the problems fully and suggest the most appropriate solution. Thus the salesperson must not only know his or her products' benefits but the types of situation in which each would be appropriate. In computer selling, for example, successful selling requires an appreciation of which system is most appropriate given customer needs and resources. This may necessitate a careful examination of customer needs through a survey conducted by the seller. Sometimes the costs of the survey will be paid for by the prospective customer, later to be subtracted from the cost of the equipment should an order result.

Preparation of sales benefits should not result in an inflexible sales approach. Different customers have different needs, which implies they seek different benefits from products they buy. One high-earning salesperson of office equipment attributed his success to the preparation he conducted before every sales visit. This involved knowing his product's capabilities, understanding his client's needs and matching them together by getting his wife to test him every evening and at the weekend.[3]

4.2.1.2 Knowledge of Competitors' Products and Their Benefits

Knowledge of competitive products offers several advantages:

- It allows a salesperson to offset the strengths of competitors' products, which may be mentioned by potential buyers, against their weaknesses. For example, a buyer might say, 'Competitor X's product offers cheaper maintenance costs'. To which a salesperson might reply, 'Yes, but these cost savings are small compared to the fuel savings you get with our machine'.

- In industrial selling, sales engineers may work with a buying organisation in order to solve a technical problem. This may result in a product specification being drawn up in which the sales engineers have an influence. It is obviously to their benefit that the specification reflects the strengths and capabilities of their products rather than the competition. Thus knowledge of competitive strengths and weaknesses will be an advantage in this situation.

Competitive information can be gleaned from magazines such as *Which?*, sales catalogues and price lists, from talking to buyers and from direct observation (e.g. prices in supermarkets). It makes sense to keep such information on file for quick reference. Vauxhall gives its salespeople a brief with a résumé of the strengths and weaknesses of its car range, along with those of its competitors.

4.2.1.3 Sales Presentation Planning

Although versatility, flexibility and the ability to think on one's feet are desirable attributes, there are considerable advantages to **presentational planning**:

- The salesperson is less likely to forget important consumer benefits associated with each product within the range he or she is selling.
- The use of visual aids and demonstrations can be planned into the presentation at the most appropriate time to reinforce the benefit the salesperson is communicating.
- It builds confidence in the salesperson, particularly a newer, less experienced salesperson, that he or she is well equipped to do the job efficiently and professionally.
- Possible objections and questions can be anticipated and persuasive counter-arguments prepared. Many salespeople who to an outsider seem naturally quick-witted have developed this skill through careful preparation beforehand, imagining themselves as buyers and thinking of objections they might raise if they were in such a position. For example, many price objections can be countered by reference to higher product quality, greater durability, high productivity and lower offsetting life cycle costs, for example, lower maintenance, fuel or human resources costs.

4.2.1.4 Setting Sales Objectives

The essential skill in setting call objectives is to phrase them in terms of what the salesperson wants the customer to do rather than what the salesperson will do. The type of objective set may depend on the **sales cycle** of the product and the stage reached in that cycle with a prospective customer.

The sales cycle refers to the time that can reasonably be expected to pass before an order is concluded. With many retail sales this is short. Often, unless a sale is concluded during the first visit, the customer will buy elsewhere. In this situation it is reasonable to set a sales close objective. With capital goods such as aeroplanes, gas turbines and oil rigs, the sales cycle is very long, perhaps running into years. Clearly, to set a sales objective in terms of closing the sale is inappropriate. For producers with longer sales cycles, sensible objectives may be

- for the customer to define clearly what his or her requirements are;
- to have the customer visit the production site;
- to have the customer try the product, e.g. fly on an aircraft;
- to have the customer compare the product versus competitive products in terms of measurable performance criteria, e.g. for pile-driving equipment this might be the number of metres driven per hour.

The temptation, when setting objectives, is to determine them in terms of what the salesperson will do. An adhesive salesperson may decide that the objective of the visit to a buyer is to demonstrate the ease of application and adhesive properties of a new product. While this demonstration may be a valuable and necessary part of the sales presentation, it is not the ultimate goal of the visit. This may be to have the customer test the product over a four-week period or to order a quantity for immediate use.

4.2.1.5 Understanding Buyer Behaviour

The point was made in Module 3 that many organisational buying decisions are complex, involving many people whose evaluative criteria may differ, and that the purchasing officer may play a minor role in deciding which supplier to choose, particularly with very expensive items.

The practical implication of these facts is that careful preparation may be necessary for industrial salespeople, either when selling to new companies or when selling to existing customers where the nature of the product is different. In both situations, time spent on establishing who are the key influencers and decision-makers will be well rewarded. In different companies there may be different key people, for example, secretaries (office stationery), production engineers (lathes), design engineers (components), managing directors (computers). The salesperson needs to be aware of the real need to treat each organisation individually.

Other practical information which a salesperson can usefully collect includes the name and position of each key influencer and decision-maker, the times most suitable for interview, the types of competitive products previously purchased by the buying organisation, and any threats to a successful sale or special opportunities afforded by the situation. Examples in the last category would include personal prejudices held by key people against the salesperson, his company or its products, while positive factors might include common interests which could form the basis of a rapport with the buyer, or favourable experiences with other types of product sold by the salesperson's company.

4.2.2 Preparation for Sales Negotiations

In addition to the factors outlined in the previous section, a sales negotiator will benefit by paying attention to the following additional factors during preparation.

4.2.2.1 Assessing the Balance of Power

In the **sales negotiation**, seller and buyer will each be expecting to conclude a deal which is favourable to themselves. The extent to which each is successful will depend on their negotiating skills and the balance of power between the parties. This balance will be determined by four key factors:

- **The number of options available to each party.** If a buyer has only one option – to buy from the seller in question – then that seller is in a powerful position. If the seller, in turn, is not dependent on the buyer but has many attractive potential customers for the products, then he or she is in a strong position. Conversely, when a buyer has many potential sources of supply and a seller has few potential customers, the buyer should be able to extract a good deal. Many buyers will deliberately contact a number of potential suppliers to strengthen their bargaining position.
- **The quantity and quality of information held by each party.** According to Machiavelli, 'Knowledge is power'. If a buyer has access to a seller's cost structure then he or she is in a powerful position to negotiate a cheaper price, or at least avoid paying too high a price. If a seller knows how much a buyer is willing to pay, then their power position is improved.
- **Need recognition and satisfaction.** The greater the salesperson's understanding of the needs of the buyer and the more capable he or she is of satisfying those needs, the stronger will be the bargaining position. In some industrial marketing situations, suppliers work with buying organisations to solve technical problems in the knowledge that to do so will place them in a very strong negotiating position. The more the buyer believes that his or her needs can be satisfied by only one company, the weaker the buyer's negotiating stance. In effect, the seller has reduced the buyer's number of options by uniquely satisfying these needs.
- **The pressures on the parties.** Where a technical problem is of great importance to a buying organisation, its visibility high and its solution difficult, any supplier who can solve it will gain immense bargaining power. If, on the other hand, there are pressures on the salesperson, perhaps because of low sales returns, then a buyer should be able to extract extremely favourable terms during negotiations in return for purchasing from him or her.

The implications of these determinants of the balance of power are that before negotiations (and indeed during them) salespeople will benefit by assessing the relative strength of their power base. This implies that they need information. If the seller knows the number of companies who are competing for the order, their likely stances, the criteria used by the buying organisation when deciding between them, the degree of pressure on key members of the decision-making unit, and any formula they might use for assessing price acceptability, an accurate assessment of the power balance should be possible.

This process should lessen the chances of pricing too low or of needlessly giving away other concessions like favourable payment terms. At this stage judicious negotiators will look to the future to assess likely changes in the balance of power. Perhaps power lies with the supplier now, but overpowering or 'negotiating too sweet a deal' might provoke retribution later when the buyer has more suppliers from which to choose.

4.2.2.2 Determining Negotiating Objectives

It is prudent for negotiators to set objectives during the preparation stage. This reduces the likelihood of being swayed by the heat of the negotiating battle and of accepting a deal which, with hindsight, should have been rejected. This process is analogous to a buyer at an auction paying more than he or she can afford because they allow themselves to be swept along by the bidding. Additionally, when negotiation is conducted by a team, discussion of objectives helps coordination and unity. It is useful to consider two types of objective:[3]

- **'Must have' objectives** define a bargainer's minimum requirements, for example, the minimum price at which a seller is willing to trade. This determines the negotiating breakpoint.
- **'Would like' objectives** are the maximum a negotiator can reasonably expect to get, for example, the highest price a seller feels he or she can realistically obtain. This determines the opening positions of buyers and sellers.

When considering 'must have' objectives it is useful to consider the best alternative to a negotiated agreement (BATNA).[4] This involves the identification of one's alternative if agreement cannot be reached. It sets a standard against which any offer can be assessed and guards against accepting unfavourable terms when pressured by a more powerful buyer.

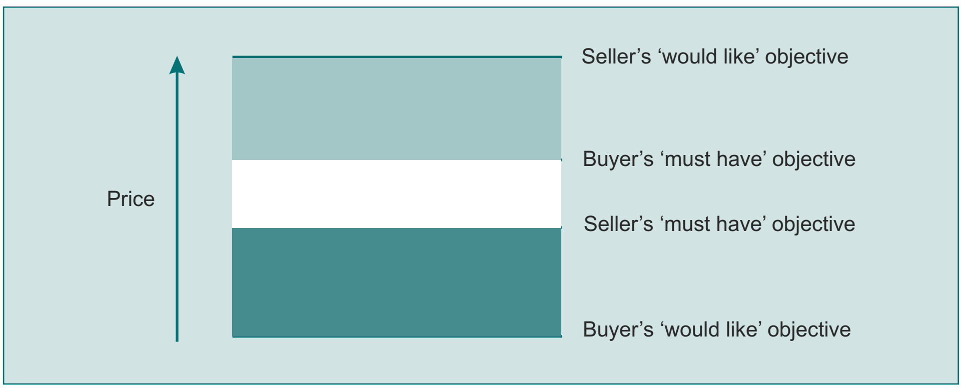

Figure 4.1 **A negotiating scenario**

Source: Adapted from Winkler, J. (1996) *Bargaining for Results*, Heinemann, Oxford.

Figure 4.1 describes a negotiating scenario where a deal is possible since there is overlap between the highest price the buyer is willing to pay (buyer's 'must have' objective) and the lowest price the seller is willing to accept (seller's 'must have' objective). The price actually agreed will depend on the balance of power between the two parties and their respective negotiating skills.

4.2.2.3 Concession Analysis

Since negotiation implies movement in order to achieve agreement, it is likely that concessions will be made by at least one party during the bargaining process. Preparation can aid negotiators by analysing the kinds of concession which might be offered to the other side. The key to this concession analysis is to value concessions the seller might be prepared to make through the eyes of the buyer. By doing this it may be possible to identify concessions which cost the seller very little and yet be highly valued by the buyer. For example, to offer much quicker delivery than is usual may cost a seller very little because of spare capacity, but if this is highly valued by the buyer, the seller may be able to trade it in return for a prompt payment agreement. Here are some of the issues that may be examined during concession analysis:

- price;
- timing of delivery;
- the product – its specification, optional extras;
- the price – ex works price, price at the buyer's factory gate, installation price, in-service price;
- payment – on despatch, on receipt, in working order, credit terms;
- trade-in terms, e.g. cars.

The aim of concession analysis is to ensure that nothing which has value to the buyer is given away freely during negotiations. A skilful negotiator will attempt to trade concession for concession so that ultimately an agreement which satisfies both parties is reached.

4.2.2.4 Proposal Analysis

A further sensible activity during the preparation stage is to estimate the proposals and demands the buyer is likely to make during the course of negotiation, and the seller's reaction to them. This is analogous to the anticipation of objections in pure selling – it helps when quick decisions have to be made in the heat of the negotiation.

It is also linked to concession analysis, for when a buyer makes a proposal (e.g. favourable credit terms) he or she is really asking the seller to grant a concession. The skilful salesperson will ask for a concession in return – perhaps a less onerous delivery schedule. By anticipating the kinds of proposals the buyer is likely to make, the seller can plan the kinds of counterproposals he or she wishes to make. In some situations the appropriate response may be the concession close (Module 5).

Learning Summary

This module has examined the responsibilities of salespeople to gain sales, to prospect for new customers, to maintain customer records and provide information feedback, to manage their work, to handle complaints and to provide service.

An important element in managing their work is preparation, which is examined in detail. A distinction is made between sales negotiations, where a certain amount of bargaining may take place, and pure selling, where the salesperson is given no freedom to bargain. The following elements are important during preparation:

- product knowledge and customer benefits;
- knowledge of competitors' products and their benefits;
- sales presentation planning;

- setting sales and negotiation objectives;
- understanding buyer behaviour;
- assessing the power balance;
- concession analysis;
- proposal analysis;

Module 5, on personal selling skills, considers how to use this preparation in the actual selling situation.

Review Questions

Content Questions

4.1 What are the primary responsibilities of a salesperson?

4.2 What are the secondary responsibilities of a salesperson?

4.3 Describe possible sources of prospects.

4.4 What type of information should a salesperson keep in customer records?

4.5 Why should salespeople spend time dealing with customer complaints?

4.6 How can a salesperson improve their chances of sales success?

4.7 What should a salesperson consider when preparing for a sales presentation?

Multiple-Choice Questions

4.8 The primary responsibilities of a salesperson include all of the following except one. Which one?

A. Identification of customer needs.
B. Presentation and demonstration.
C. Handling complaints.
D. Handling objections.

4.9 Have a look at these two statements:

I. Secondary functions such as prospecting, handling complaints and providing services are carried out by most salespeople.
II. Secondary functions such as prospecting, handling complaints and providing services are vital to short-term success.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

4.10 Which one of the following statements is false?

A. Complaint handling is key to generating customer satisfaction.
B. Complaint handling is not the responsibility of salespeople.
C. Complaint handling is important, no matter how trivial the complaint may seem.
D. Complaint handling is part of the mix of benefits a company offers its customers.

4.11 How can salespeople provide service to customers?

A. Dealing with complaints.
B. Advising customers on solutions to common problems.
C. Setting up in-store displays and other promotions for wholesalers and retailers.
D. All the methods in the other options.

4.12 Which one of the following statements is false?

A. Salespeople should be able to think on their feet.
B. Salespeople should modify their presentation to suit particular needs.
C. Salespeople should be able to respond quickly to awkward questions.
D. Salespeople should always be willing to negotiate.

4.13 Have a look at these two statements:

I. Knowledge of product features can improve a salesperson's performance in pure selling and sales negotiations.

II. Knowledge of product benefits can improve a salesperson's performance in pure selling and sales negotiations.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

4.14 Have a look at these two statements:

I. Sales presentation planning can help an inexperienced salesperson to anticipate possible objections and questions.

II. Sales presentation planning can help an inexperienced salesperson to build up their self-confidence. Now choose the correct option.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

4.15 Have a look at these two statements:

I. Call objectives should be phrased in terms of what the salesperson wants the customer to do.

II. Call objectives should be phrased in terms of what the salesperson will do. Now choose the correct option.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

4.16 When is a sales close objective likely to be appropriate?

A. When the sales cycle is long.
B. When the sales cycle is short.
C. When the sales cycle cannot be determined.
D. In all circumstances.

4.17 Have a look at these two statements:

I. A sales negotiator should assess the balance of power.

II. A sales negotiator should do a concession analysis. Now choose the correct option.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

4.18 A buyer is likely to extract _____ terms during negotiations if a salesperson has been producing _____ sales returns.

Choose the sequence that correctly completes the blanks.

A. favourable high
B. favourable low
C. unfavourable low
D. None of the other options.

4.19 What do ‘must have’ objectives define?

A. A bargainer’s opening position.
B. A bargainer’s maximum requirement.
C. A bargainer’s minimum requirement.
D. A bargainer’s closing position.

Case Study 4.1: The O'Brien Company

The O'Brien Company manufactures and markets a wide range of luggage, including suitcases, handbags and briefcases. The company is organised into two divisions, consumer and industrial. The consumer division sells mainly through retail outlets whereas the industrial division markets direct to companies who buy luggage, especially briefcases, for use by their executives.

You have recently been appointed as a salesperson for the industrial division and have been asked to visit a new potential client with a view to selling him briefcases. The potential customer is Brian Forbes, the managing director and owner of a medium-sized engineering company in the Midlands with subsidiaries in Manchester, Leeds and Bristol. It employs a salesforce of 20 men selling copper piping. In addition it is estimated that the company employs around 40 marketing, personnel, production and accountancy executives.

The O'Brien Company markets two ranges of executive briefcase. One is made from good quality plastic, with imitation hide lining. It is available in black only and is priced at £25 for the lockable version and £22 for the non-lockable type. The other range, the de luxe, is manufactured from leather and real hide and is priced at £95. Colours available are black, brown, dark blue and claret. Additional features are a number-coded locking device, a feature which allows the briefcase to be expanded from its usual 87.5 mm to 137.5 mm, individual gilt initialling on each briefcase, an ink-resistant interior compartment for pens, and three pockets inside the lid to take different sizes of paper. The plastic version has only the last of these features and is 75 mm in depth. Quantity discounts are offered on both ranges.

Quantity	Reduction
10–19	2%
20–39	3%
40–79	4%
80 or more	6%

Very little is known about Brian Forbes or his company, apart from the information already given. However, by chance, an acquaintance of yours who works as a salesperson for a machine tool company visited Mr Forbes earlier in the year.

Questions

1 What are your sales objectives? What extra information would be useful?

2 Prepare a sales presentation for the briefcases.

3 Prepare a list of possible objections (O) and your responses (R).

References

1. Lee, A. (1984) 'Sizing up the buyers', *Marketing*, 29 March.
2. PA Consultants (1979) *Sales Force Practice Today: A Basis for Improving Performance*, Institute of Marketing, London.
3. Kennedy, G., Benson, J. and Macmillan, J. (1980) *Managing Negotiations*, Business Books, London.
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Module 5

Personal Selling Skills

Contents

Learning Objectives

After studying this module, you should be able to

- distinguish the various phases of the selling process;
- apply different questions to different selling situations;
- understand what is involved in the presentation and the demonstration;
- know how to deal with buyers' objections;
- understand and apply the art of negotiation;
- close a sale.

Key Concepts

- buying signals
- closing the sales
- demonstrations
- needs analysis
- negotiation
- objections
- personal selling skills
- reference selling
- sales presentation
- trial close

The basic philosophy underlying the approach to personal selling adopted in this book is that selling should be an extension of the marketing concept. This implies that for long-term survival it is in the best interests of the salesperson and his or her company to identify customer needs and aid customer decision-making by selecting from the product range those products which best fit the customer's requirements. This philosophy of selling is in line with Weitz[1] and the contingency framework, which suggests that the sales interview gives an unparalleled opportunity to match behaviour to the specific customer interaction that is encountered. This is not to deny the importance of personal persuasion. In the real world, it is unlikely that a product has clear advantages over its competition on all points, and it is clearly part of the selling function for the salesperson to emphasise those superior features and benefits which the product possesses. However, the model for personal selling advocated here is that of a salesperson acting as a need identifier and problem-solver. The view of the salesperson as being a slick, fast-talking confidence trickster is unrealistic in a world where most sellers depend on repeat business and where a high proportion of selling is conducted with professional buyers.

The inappropriate use of high-pressure selling techniques can incur customer annoyance and antagonism, which can lead to marketing opportunities for more enlightened companies as discussed in the Daewoo case history (see Box 5.1).

Box 5.1: A New Way to Sell Cars: The Case of Daewoo

Marketing research has shown that many people dread the thought of buying a new car. Traditionally cars have been sold through dealers employing salespeople paid in part through commission and trained in the art of negotiation. From the customer's point of view, this could lead to high-pressure sales techniques and endless haggling about price. Rarely was the list price of the car the lowest price that the salesperson would accept.

Based on this customer dissatisfaction, Daewoo, a Korean car manufacturer, redefined the way cars are sold. Instead of salespeople, they employ non-commission customer advisors whose job it is to help customers choose the car which best meets their needs. Customers can enter Daewoo showrooms (they sell direct) without fear of being descended on by pushy salespeople. Their customer advisors will only approach customers when asked to do so.

Daewoo prices are fixed with no hidden extras. Delivery and number plates are free. The price displayed on the car is the price the customer pays. This frees the customer from the burden of bargaining. The result is a more pleasant buying experience and a competitive advantage based on an innovative selling and distribution approach.

Research studies[2] have shown that successful selling is associated with the following:

- asking questions;
- providing product information, making comparisons and offering evidence to support claims;
- acknowledging the customer's viewpoint;
- agreeing with the customer's perceptions;
- supporting the customer;
- releasing tension.

These important findings should be borne in mind by salespeople during a sales interview.

As with the development of all skills, the theoretical approach described in this module needs to be supplemented by practical experience. Many companies use role playing as a method of providing new salespeople with the opportunity to develop their skills in a situation where sales trainees can observe and correct behaviour. An example at the end of Module 14 gives students and salespeople an opportunity to apply some of the techniques outlined in this module.

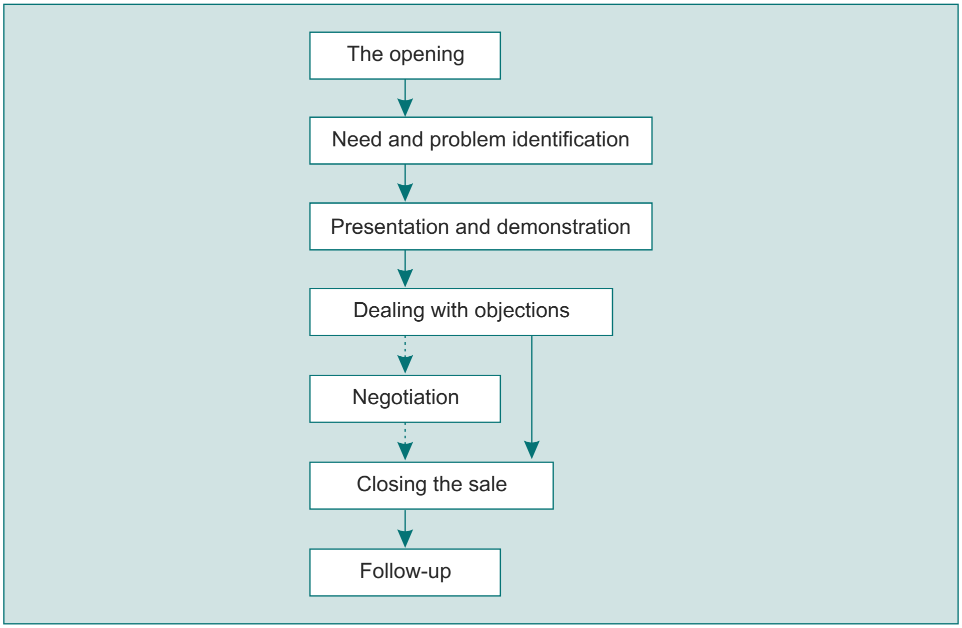

Figure 5.1 **The personal selling process**

To develop personal selling skills it is useful to distinguish six phases of the selling process (see Figure 5.1). These phases need not occur in the order shown. Objections may be raised during presentation or during negotiation and a trial close may be attempted at any point during the presentation if buyer interest is high. Furthermore, negotiation may or may not take place or may occur during any of the stages.

5.1 The Opening

Initial impressions can cloud later perceptions, so it is important to consider the ways in which a favourable initial response can be achieved.

Buyers expect salespeople to be businesslike in their personal appearance and behaviour. Untidy hair and a sloppy manner of dress can create a lack of confidence. Further, the salesperson who does not respect the fact that the buyer is likely to be a busy person, with many demands on his or her time, may cause irritation on the part of the buyer.

Salespeople should open with a smile, a handshake and, in situations where they are not well known to the buyer, introduce themselves and the company they represent. Common courtesies should be followed. For example, they should wait for the buyer to indicate that they can sit down or, at least, ask the buyer if they may sit down. Attention to detail, like holding one's briefcase in the left hand so that the right can be used for the handshake, removes the possibility of an awkward moment when a briefcase is clumsily transferred from right to left as the buyer extends his or her hand in greeting.

Opening remarks are important since they set the tone for the rest of the sales interview. Normally they should be business related since this is the purpose of the visit; they should show the buyer that the salesperson is not about to waste time. Where the buyer is well known and by his or her own remarks indicates a willingness to talk about a more social matter, the salesperson will obviously follow. This can generate close rapport with the buyer, but the salesperson must be aware of the reason for being there and not be excessively diverted from talking business. Here are some opening remarks:

Trade salesperson: Your window display looks attractive. Has it attracted more custom?

Industrial salesperson: We have helped a number of companies in the same kind of business as you are in to achieve considerable savings by the use of our stock control procedures. What methods do you use at present to control stock?

Retail salesperson: I can see that you appear to be interested in our stereo equipment. What kind of system had you in mind?

The cardinal sin which many retail salespeople commit is to open with 'Can I help you?' which invites the response 'No thank you. I'm just looking.'

5.2 Need and Problem Identification

Most salespeople have a range of products to sell. A car salesperson has many models ranging from small economy cars to super luxury top-of-the-range models. The computer salesperson will have a number of systems to suit the needs and resources of different customers. A bicycle retailer will have models from many different manufacturers to offer customers. A pharmaceutical salesperson will be able to offer doctors a range of drugs to combat various illnesses. In each case the seller's first objective will be to discover the problems and needs of the customer.

Before a car salesperson can sell a car, he or she needs to understand the customer's circumstances. What size of car is required? Is the customer looking for high fuel economy or performance? Is a boot or a hatchback preferred? What kind of price range is being considered? Having obtained this information, the salesperson is in a position to sell the model which best suits the needs of the buyer. A computer salesperson may carry out a survey of customer requirements before suggesting an appropriate computer system.

A bicycle retailer should ask who the bicycle is for, what type is preferred (e.g. mountain or racing) and the colour preference, before making sensible suggestions as to which model is most suitable. A pharmaceutical salesperson will discuss with doctors the problems which have arisen with patient treatment; perhaps an ointment has been ineffective or a harmful side effect has been discovered. This gives the salesperson the opportunity to offer a solution to such problems by means of one of his or her company's products.

This **needs analysis** approach suggests that early in the sales process the salesperson should adopt a question-and-listen posture. In order to encourage the buyer to discuss his or her problems and needs, salespeople tend to use open rather than closed questions. An open question is one that requires more than a one-word or one-phrase answer. Here are some examples:

- 'Why do you believe that a computer system is inappropriate for your business?'
- 'What were the main reasons for buying the XYZ photocopier?'
- 'In what ways did the ABC ointment fail to meet your expectations?'

A closed question, on the other hand, invites a one-word or one-phrase answer. These can be used to obtain purely factual information, but excessive use can hinder rapport and lead to an abrupt type of conversation which lacks flow:

- 'Would you tell me the name of the equipment you currently use?'
- 'Does your company manufacture 1000 cc marine engines?'
- 'What is the name of your chief mechanical engineer?'

In practice a wide variety of questions may be used during a sales interview.[3] Thirteen types of question and their objectives, together with examples, are given in Table 5.1.

Table 5.1 Types of question used in personal selling

Type of question	Objective	Example
Tie-down question	Used for confirmation or to commit a prospect to a position	You want the program to work, don't you?
Leading question	Direct or guide a prospect's thinking	How does that coat feel on you?
Alternative question	Used to elicit an answer by forcing selection from two or more alternatives	Would you prefer the red model or the blue model?
Statement cum question	A statement is followed by a question which forces the prospect to reflect on the statement	This machine can spin at 5000 rpm and process three units per minute. What do you think of that productivity?
Sharp-angle question	Used to commit a prospect to position	If we can get it in blue, is that the way you would want it?
Information-gathering question	Used to gather facts	How many people are you currently employing?
Opinion-gathering question	Used to gather opinions or feelings	What are your feelings concerning the high price of energy?
Confirmation question	Used to elicit agreement or disagreement about a particular topic	Do my recommendations make sense?

Type of question	Objective	Example
Clarification question	Reduce ambiguities, generalities and non-committal words to specifics	When you say … exactly what do you mean?
Inclusion question	Present an issue for the prospect's consideration in a low-risk way	I don't suppose you'd be interested in a convertible hard-top, would you?
Counterbiasing	To attain sensitive information by making a potentially embarrassing situation appear acceptable	Research shows that most drivers exceed the speed limit. Do you ever do so?
Transitioning	Used to link the end of one phase to the next phase of the sales process	In addition to that, is there anything else that you want to know? (No) What I'd like to do now is talk about …
Reversing	Used to pass the responsibility of continuing the conversation back to the prospect by answering a question with a question	When can I expect delivery? When do you want delivery?

Source: DeCormier, R. and Jobber, D. (1993) 'The counsellor selling method: concepts, constructs and effectiveness', *Journal of Personal Sales and Management*, 13(4), pp. 39–60.

Salespeople should avoid the temptation of making a **sales presentation** without finding out the needs of their customers. It is all too easy to start a sales presentation in the same rigid way, perhaps by highlighting the current bargain of the week, without first questioning the customer as to his or her needs.

At the end of this process, the salesperson may find it useful to summarise the points that have been raised to confirm an understanding with the buyer. For example:

> 'Fine, Mr and Mrs Jones. I think I have a good idea of the kind of property you are looking for. You would like a four-bedroom house within fifteen minutes' drive of Mr Jones's company. You are not bothered whether the house is detached or semi-detached, but you do not want to live on an estate. The price range you are considering is between £120 000 and £150 000. Does this sum up the kind of house you want, or have I missed something?'

5.3 The Presentation and Demonstration

Once the problems and needs of the buyer have been identified, the presentation follows as a natural consequence. The first question to be addressed is presentation of what? The preceding section has enabled the salesperson to choose the most appropriate products from his or her range to meet customer requirements. Second, having fully discussed what the customer wants, the salesperson knows which product benefits to stress. A given product may have a range of potential features which confer benefits to customers, but different customers place different priorities on them. In short, having identified the needs and problems of the buyer, the presentation provides the opportunity for the salesperson to convince the buyer that they can supply the solution.

The key to this task is to recognise that buyers purchase benefits and are only interested in product features in as much as they provide the benefits that the customer is looking for. Examples of the relationship between certain product features and benefits are given in Module 4. Training programmes and personal preparation of salespeople should pay particular attention to deriving the customer benefits which their products bestow.

Benefits should be analysed at two levels: those benefits which can be obtained by purchase of a particular type of product and those that can be obtained by purchasing that product from a particular supplier. For example, automatic washing machine salespeople need to consider the benefits of an automatic washing machine compared with a twin-tub, as well as the benefits that their company's automatic washing machines have over competitors' models. This gives maximum flexibility to the salesperson in meeting various sales situations.

The danger of selling features rather than benefits is particularly acute in industrial selling because of the highly technical nature of many industrial products, and the tendency to employ sales engineers rather than salespeople. Perkins Diesels found this to be a problem with its sales team after commissioning market research to identify strengths and weaknesses of its sales and marketing operation,[4] but it is by no means confined to this sector. Hi-fi salespeople who confuse and infuriate customers with tedious descriptions of the electronic wizardry behind their products are no less guilty of this sin. A simple method of relating features and benefits in a sales presentation is to link them by using the following phrases:

- which means that;
- which results in;
- which enables you to;

For example, an estate agent might say, 'The house is situated four miles from the company where you work [product feature] which means that you can easily be at work within fifteen minutes of leaving home [customer benefit].' An office salesperson might say, 'The XYZ photocopier allows streamfeeding [product feature] which results in quicker photocopying [customer benefit].' Finally, a car salesperson may claim, 'This model is equipped with overdrive [product feature] which enables you to reduce petrol consumption on motorways [customer benefit].'

The term 'presentation' should not mislead the salesperson into believing that they alone should do all the talking. The importance of asking questions is not confined to the needs and problem identification stage. Asking questions as part of the presentation serves two functions. First, it checks that the salesperson has understood the kinds of benefit the buyer is looking for. After explaining a benefit, it is sound practice to ask the buyer, 'Is this the kind of thing you are looking for?' Second, asking questions establishes whether the buyer has understood what the salesperson has said. A major obstacle to understanding is the use of technical jargon that is unintelligible to the buyer. Where a presentation is necessarily complicated and lengthy, the salesperson would be well advised to pause at various points and simply ask if there are any questions. This gives the buyer the opportunity to query anything that is not entirely clear. This questioning procedure allows the salesperson to tailor the speed and content of their presentation to the circumstances which face them. Buyers have different backgrounds, technical expertise and intelligence levels. Questioning allows the salesperson to communicate more effectively because it provides the information necessary for the seller to know how to vary the presentation to different buyers.

Many sales situations involve risk to the buyer. No matter what benefits the salesperson discusses, the buyer may be reluctant to change from the present supplier or present model because to do so may give rise to unforeseen problems – delivery may be unpredictable or the new model may be unreliable. Assurances from the salesperson are unlikely to be totally convincing; after all, they would say that, wouldn't they? Risk is the hidden reason behind many failures to sell. The salesperson accurately identifies customer needs and relates product benefits to those needs. The buyer does not offer much resistance, but somehow does not buy; a likely reason is that the buyer plays safe, sticking to the present supplier or model in order to lessen the risk of aggravation should problems occur. How, then, can a salesperson reduce risk? There are four major ways:

- reference selling;
- demonstrations;
- guarantees;
- trial orders.

5.3.1 Reference Selling

Reference selling involves the use of satisfied customers in order to convince the buyer of a product's effectiveness. During the preparation stage, draw up a list of satisfied customers arranged by product type. Letters from satisfied customers should also be kept and used in the sales presentation in order to build confidence. This technique can be highly effective in selling, moving a buyer from being merely interested in the product to being convinced that it is the solution to his or her problem.

5.3.2 Demonstrations

A Chinese proverb says: Tell me and I'll forget; show me and I may remember; involve me and I'll understand.

Demonstrations also reduce risk because they prove the benefits of the product. A major producer of sales training films organises regional demonstrations of a selection in order to prove their quality to training managers. Industrial goods manufacturers will arrange demonstrations to show their products' capabilities in use. Car salespeople will allow customers to test-drive cars.

For all but the most simple of products it is advisable to divide the demonstration into two stages. The first stage involves a brief description of the features and benefits of the product and an explanation of how it works. The second stage entails the actual demonstration itself. This should be conducted by the salesperson. The reason behind this two-stage approach is that it is often very difficult for the viewers of the demonstration to understand the principles of how a product works while at the same time watching it work. This is because the viewers are receiving competing stimuli. The salesperson's voice may be competing for the buyers' attention with the flashing lights and noise of the equipment.

Once the equipment works, the buyers can be encouraged to use it themselves under the salesperson's supervision. If the correct equipment, to suit the buyers' needs, has been chosen for demonstration and it performs reliably, the demonstration can move the buyers very much closer to purchase.

There now follows more practical advice on what must be regarded as an extremely important part of the personal selling process, for without a demonstration the salesperson is devoid of one of his or her principal selling tools.

5.3.2.1 Pre-Demonstration

- Make the process as brief as possible, but not so brief as not to be able to fulfil the sales objective of obtaining an order or of opening the way for further negotiations. It is basically a question of balance, in that the salesperson must judge the individual circumstances and tailor the demonstration accordingly. Some potential buyers will require lengthier or more technical demonstrations than others.
- Make the process as simple as possible, bearing in mind that some potential purchasers will be less technically minded than others. Never overpitch such technicality, because potential buyers will generally pretend that they understand and will not want to admit that they do not understand because they fear losing face. They will see the demonstration through and probably make some excuse at the end to delay the purchase decision. The likelihood is that they will not purchase (or at least not purchase from you). This point is deliberately emphasised because it is a fact that many potential sales are lost through demonstrations that are too technical.
- Rehearse the approach to likely objections with colleagues (e.g. with one acting as an awkward buyer). Work out how such objections can be addressed and overcome through the demonstration. The use of interactive video is useful here, as you can witness your mistakes and rehearse a better demonstration and presentation.
- Know the product's selling points and be prepared to advance them during the course of the demonstration. However, these selling points must be presented in terms of benefits to the customer. Buyer behaviour must therefore be ascertained beforehand. By so doing, it will be possible to maximise what is euphemistically called the 'you' or 'u' benefits.
- The demonstration should not go wrong if it has been adequately rehearsed beforehand. However, machines do break down and power supplies sometimes

fail. Be prepared for such eventualities (e.g. rehearse an appropriate verbal routine and have a back-up successful demonstration available on video). The main point is not to be caught out unexpectedly and to be prepared to launch into a contingency routine as smoothly as possible.

5.3.2.2 Conducting the Demonstration

- Commence with a concise statement of what is to be done or proved.
- Show how potential purchasers can participate in the demonstration process.
- Make the demonstration as interesting and as satisfying as possible.
- Show the potential purchaser how the product's features can fulfil his or her needs or solve his or her problems.
- Attempt to translate such needs into a desire to purchase.
- Do not leave the purchaser until he or she is completely satisfied with the demonstration. Such satisfaction will help to justify ultimate expenditure and will also reduce the severity and incidence of any complaints that might arise after purchasing.
- Summarise the main points by re-emphasising the purchasing benefits that have been put forward during the demonstration. Note that we say purchasing benefits not sales benefits, because purchasing benefits relate to individual buying behaviour.
- The objectives of a demonstration should be (a) to enable the salesperson to obtain a sale immediately (e.g. a car demonstration drive given to a member of the public); or (b) to pave the way for future negotiations (e.g. a car demonstration drive given to a car fleet buyer).
- Depending on the objective above, in the case of (a) ask for the order now, or in the case of (b) arrange for further communication in the form of a meeting, telephone call, letter, an additional demonstration to other members of the decision-making unit, etc.

5.3.2.3 Advantages of Demonstrations

- Demonstrations are a useful ancillary in the selling process. They add realism to the sales routine because they use more human senses than mere verbal descriptions or visual presentation.
- When a potential customer is participating in a demonstration, it is easier for the salesperson to ask questions in order to ascertain buying behaviour. This means that the salesperson will not need to emphasise inappropriate purchasing motives later in the selling process.
- Such demonstrations enable the salesperson to maximise the 'u' benefits to potential purchasers. In other words, the salesperson can relate product benefits to match the potential buyer's buying behaviour and adopt a more creative approach, rather than concentrating on a prepared sales routine.
- Customers' objections can be more easily overcome if they can be persuaded to take part in the demonstration process. In fact, many potential objections may never even be aired, because the demonstration process will make them invalid.

It is a fact that a sale is more likely to ensue if fewer objections can be advanced initially, even if such objections can be satisfactorily overcome.

- There are advantages to customers in that it is easier for them to ask questions in a more realistic way in order to ascertain the product's utility more clearly and quickly.
- Purchasing inhibitions are more quickly overcome and buyers declare their purchasing interest sooner than in face-to-face selling or buying situations. This makes the demonstration a very efficient sales tool.
- Once a customer has participated in a demonstration there is less likelihood of customer remorse (i.e. the doubt that value for money is not good value after all). By taking part in the demonstration and tacitly accepting its results, the purchaser has bought the product and not been sold it.

5.3.3 Guarantees

Guarantees of product reliability, after-sales service and delivery supported by penalty clauses can build confidence towards the salesperson's claims and lessen the costs to the buyer should something go wrong. Their establishment is a matter for company policy rather than the salesperson's discretion but, where offered, the salesperson should not underestimate their importance in the sales presentation.

5.3.4 Trial Orders

The final strategy for risk reduction is for salespeople to encourage trial orders, even though they may be uneconomic in company terms and in terms of salespeoples' time in the short term, when faced with a straight rebuy (Section 3.5.1). Buyers who habitually purchase supplies from one supplier may recognise that change involves unwarranted risk. It may be that the only way for a new supplier to break through this impasse is to secure a small order which, in effect, permits the demonstration of the company's capability to provide consistently high-quality products promptly. The confidence, thus built, may lead to a higher percentage of the customer's business in the longer term.

5.4 Dealing with Objections

Objections should not always be viewed with dismay by salespeople. Many objections are simply expressions of interest by the buyer. What the buyer is asking for is further information because he or she is interested in what the salesperson is saying. The problem is that the buyer is not as yet convinced. Objections highlight the issues which are important to the buyer. For example, when training salespeople, Ford makes the point that customers' objections are signposts to what is really on their minds.

An example will illustrate these points. Suppose an industrial salesperson working for an adhesives manufacturer is faced with the following objection: Why should I buy your new adhesive gun when my present method of applying adhesive – direct from the tube – is perfectly satisfactory? This type of objection is clearly an expression of a desire for additional information. The salesperson's task is to provide it in a manner which does not antagonise the buyer and yet is convincing. It is a fact of human personality that the argument supported by the greater weight of evidence does not always win the day; people do not like to be proved wrong. The very act of changing a supplier may be resisted because it implies criticism of a past decision on the part of the buyer. For a salesperson to disregard the emotional aspects of dealing with objections is to court disaster. The situation to be avoided is where the buyers dig in their heels on principle because of the salesperson's attitude.

So, the effective approach for dealing with objections involves two areas: the preparation of convincing answers; the development of a range of techniques for answering objections in a manner which permits the acceptance of these answers without loss of face on the part of the buyer. The first area has been covered in the previous module. A number of techniques will now be reviewed to illustrate how the second objective may be accomplished. These are shown in Figure 5.2.

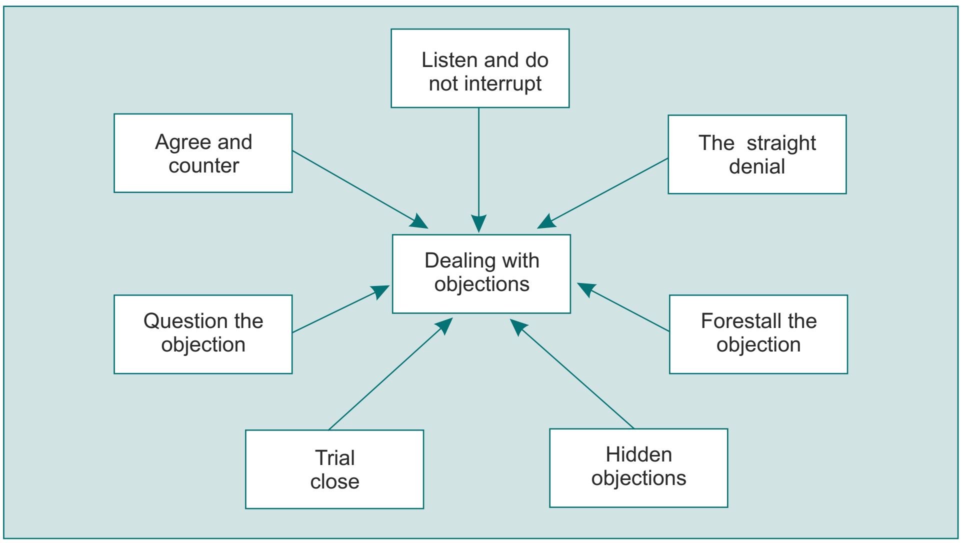

Figure 5.2 **Dealing with objections**

5.4.1 Listen and Do Not Interrupt

Experienced salespeople know that the impression given to buyers by the salesperson who interrupts midstream is that the salesperson believes that

- the objection is obviously wrong;
- it is trivial;
- it is not worth the salesperson's time to let the buyer finish.

Interruption denies the buyer the kind of respect he or she is entitled to receive and may lead to a misunderstanding of the real substance behind the objection. The correct approach is to listen carefully, attentively and respectfully. The buyer will appreciate the fact that the salesperson is taking the problem seriously and the salesperson will gain through having a clear and full understanding of what the problem really is.

5.4.2 Agree and Counter

This approach maintains the respect that the salesperson shows to the buyer. The salesperson first agrees that what the buyer is saying is sensible and reasonable, before then putting forward an alternative viewpoint. It therefore takes the edge off the objection and creates a climate of agreement rather than conflict. Here is an example:

Buyer:	The problem with your tractor is that it costs more than your competition.
Salesperson:	Yes, the initial cost of the tractor is a little higher than competitors' models, but I should like to show you how, over the lifetime of the machine, ours works out to be far more economical.

This example shows why the method is sometimes called the 'yes … but' technique. The 'yes' precedes the agree statement, and the 'but' prefaces the counter-argument. There is no necessity to use these words, however. In fact, in some sales situations the buyer may be so accustomed to having salespeople use them that the technique loses some of its effectiveness. Fortunately there are other approaches which are less blatant:

- 'I can appreciate your concern that the machine is more expensive than the competition. However, I should like to show you …'
- 'Customer XYZ made the same comment a year ago. I can assure you that he is highly delighted with his decision to purchase because the cost savings over the lifetime of the machine more than offset the initial cost difference.'
- 'That's absolutely right; the initial cost is a little higher. That's why I want to show you …'

The use of the reference selling technique can be combined with the agree and counter method to provide a powerful counter to an objection. For example, salespeople of media space in newspapers that are given away free to the public often encounter the following objection:

Buyer (e.g. a car dealer):	Your newspaper is given away free. Most of the people who receive it throw it away without even reading it.
Salesperson:	I can understand your concern that a newspaper which is free may not be read. However, a great many people do read it to find out what second-hand cars are on the market. Mr Giles of Grimethorpe Motors has been advertising with us for two years and he is delighted with the results.

5.4.3 The Straight Denial

This method has to be handled with a great deal of care since the danger is that it will result in exactly the kind of antagonism the salesperson is hoping to avoid. However, it can be used when the buyer is clearly seeking factual information. Here is an example:

Buyer: I expect this upholstery will be difficult to clean.

Salesperson: No, Mr Buyer, absolutely not. This material is made from a newly developed synthetic fibre which resists stains and allows marks to be removed simply by using soap, water and a clean cloth.

5.4.4 Question the Objection

Sometimes an objection is raised that is so general as to be difficult to counter. For example, a customer might say he or she does not like the appearance of the product, or that the product is not good quality. In this situation the salesperson should question the nature of the objection in order to clarify the specific problem. Sometimes this results in a major objection being reduced to one which can easily be dealt with.

Buyer: I'm sorry but I don't like the look of that car.

Salesperson: Could you tell me exactly what it is that you don't like the look of?

Buyer: I don't like the pattern on the seats.

Salesperson: Well in fact this model can be supplied in a number of different upholstery designs. Shall we have a look at the catalogue to see if there is a pattern to your liking?

Another benefit of questioning objections is that in trying to explain the exact nature of objections, the buyer may realise they are really quite trivial.

5.4.5 Forestall the Objection

With this method, the salesperson not only anticipates an objection and plans its counter, but actually raises the objection as part of his or her sales presentation.

There are two advantages of doing this. First, the timing of the objection is controlled by the salesperson. Consequently, it can be planned so that it is raised at the most appropriate time for it to be dealt with effectively. Second, since it is raised by the salesperson, the buyer is not placed in a position where, having raised a problem, he or she feels that it must be defended.

The danger with using this method, however, is that the salesperson may highlight a problem which the buyer had not thought of. It is most often used where a salesperson is faced with the same objection being raised time after time. Perhaps buyers are continually raising the problem that the salesperson is working for one of the smallest companies in the industry. The salesperson may pre-empt the objection in the following manner: 'My company is smaller than most in the industry, which means that we respond quicker to our customers' needs and try that bit harder to make sure our customers are happy.'

5.4.6 Turn the Objection into a Trial Close

A *trial close* is where a salesperson attempts to conclude the sale without prejudicing the chances of continuing the selling process with the buyer should they refuse to commit themself.

The ability of a salesperson to turn the objection into a trial close depends on perfect timing and considerable judgement. Usually it will be attempted after the selling process is well under way and the salesperson judges that only one objection remains. Under these conditions he or she might say the following: 'If I can satisfy you that the fuel consumption of this car is no greater than that of the Vauxhall Vectra, would you buy it?'

When dealing with objections, the salesperson should remember that heated arguments are unlikely to win sales; buyers buy from their friends, not their enemies.

5.4.7 Hidden Objections

Not all prospects state their objections. They may prefer to say nothing because to raise an objection may cause offence or prolong the sales interaction. Such people may believe that the best tactic in a no-buy situation is to stay on friendly terms with the salesperson during the interview then say they will think about the proposal. The correct salesperson's response to hidden objections is to ask questions in an attempt to uncover their nature. If a salesperson believes that a buyer is unwilling to reveal their true objections, he or she should ask questions like these:

- 'Is there anything so far which you are unsure about?'
- 'Is there anything on your mind?'
- 'What would it take to convince you?'

Uncovering hidden objections is crucial to successful selling, because to convince someone, it is necessary to know what he or she needs to be convinced of. However, with uncommunicative buyers this may be difficult. As a last resort the salesperson may need to second-guess the reluctant buyer and suggest an issue which they believe is causing the problem and ask a question such as, I don't think you're totally convinced about the better performance of our product, are you?

5.5 Negotiation

In some selling situations, the salesperson or sales team have a degree of discretion with regard to the terms of the sale. **Negotiation** may therefore enter into the sales process. Sellers may negotiate price, credit terms, delivery times, trade-in values and other aspects of the commercial transaction. The final deal will depend on the balance of power (Section 4.2.2.1) and the negotiating skills of the respective parties.

The importance of preparation was mentioned in the previous module. Estimate the buyer's needs, the competition which the supplier faces and knowledge about the buyer's business and the pressures they experience. However, there are several other guidelines to aid the salespeople actually engaged in the negotiation process.

5.5.1 Start High but Be Realistic

There are several good reasons for making the opening stance high. First, the buyer might agree to it. Second, it provides room for negotiation. A buyer may come to expect concessions from a seller in return for purchasing. This situation is prevalent in the car market. It is unusual for a car salesperson not to reduce the advertised price of a car to a cash purchaser. When considering how high to go, the limiting factor must be to keep within the buyer's realistic expectations; otherwise they may not be willing to talk to the seller in the first place.

5.5.2 Attempt to Trade Concession for Concession

Sometimes it may be necessary to give a concession simply to secure the sale. A buyer might say that he or she is willing to buy if the seller drops the price by £100. If the seller has left some negotiating room, then this may be perfectly acceptable. However, in other circumstances, especially when the seller has a degree of power through being able to meet buyer requirements better than competition, the seller may be able to trade concessions from the buyer. A simple way of achieving this is by means of the 'if … then' technique:[5]

- 'If you are prepared to arrange collection of these goods at our premises, then I am prepared to knock £10 off the purchase price.'
- 'If you are prepared to make payment within 28 days, then I am willing to offer a 2.5 per cent discount.'

This is a valuable tool at the disposal of the negotiator since it promotes movement towards agreement yet it ensures that proposals to give the buyer something are matched by proposals for a concession in return.

It is sensible, at the preparation stage, to evaluate possible concessions in the light of their costs and values, not only to the seller but also to the buyer. In the example above, the costs of delivery to the seller might be much higher than the costs of collection to the buyer. The net effect of the proposal is that the salesperson is offering a benefit to the buyer at very little cost to the seller.

5.5.3 Buyers' Negotiating Techniques

Buyers also have a number of techniques which they use in negotiations. Sellers should be aware of their existence, for sometimes their effect can be devastating. Kennedy *et al.*[5] describe a number of techniques designed to weaken the position of the unsuspecting sales negotiator.

First, the shotgun approach involves the buyer saying, 'Unless you agree immediately to a price reduction of 20 per cent, we'll have to look elsewhere for a supplier.' In a sense, this is the 'if … then' technique played on the seller, but in this setting the consequences are more serious. The correct response depends on the outcome of the assessment of the balance of power conducted during preparation. If the buyer does have a number of options, all of which offer the same kind of benefits as the seller's product, then the seller may have to concede. If the seller's product offers clear advantages over competition, then the salesperson may be able to resist the challenge.

A second ploy used by buyers is the 'sell cheap, the future looks bright' technique: 'We cannot pretend that our offer meets you on price, but the real pay-off for you will come in terms of future sales.' This may be a genuine statement; in fact, the seller's own objective may have been to gain a foothold in the buyer's business. At other times it is a gambit to extract the maximum price concession from the seller. If the seller's position is reasonably strong, he or she should ask for specific details and firm commitments.

A final technique is known as Noah's ark because it's been around that long. The buyer says, tapping a file with one finger, 'You'll have to do much better in terms of price. I have quotations from your competitors which are much lower.' The salesperson's response depends on his or her level of confidence. The salesperson can call the buyer's bluff and ask to see the quotations; or take the initiative by stating that they assume the buyer is wishing for them to justify the price; or, if flushed with the confidence of past success, they can say, 'Then I advise you to accept one of them.'

5.6 Closing the Sale

The skills and techniques discussed so far are not in themselves sufficient for consistent sales success. A final ingredient is necessary to complete the mix – the ability to **close the sale**.

Some salespeople believe that an effective presentation should lead the buyer to ask for the product without the seller needing to close the sale. This sometimes happens, but more usually it will be necessary for the salesperson to take the initiative. This is because no matter how well the salesperson identifies buyer needs, matches product benefits to them and overcomes objections, there is likely to be some doubt still present in the mind of the buyer. This doubt may manifest itself in the wish to delay the decision. Would it not be better to think things over? Would it not be sensible to see what competitor XYZ has to offer? The plain truth, however, is that if the buyer does put off buying until another day, it is as likely that he or she will buy from the competition. While the seller is there, the seller is at an advantage over the competition; thus part of the salesperson's job is to try to close the sale.

Why, then, are some salespeople reluctant to close a sale? The problem lies in the fact that most people fear rejection. Closing the sale asks the buyer to say yes or no. Sometimes it will be no and the salesperson will have been rejected. Avoiding closing the sale does not result in more sales, but rejection is less blatant. The most important point to grasp, then, is not to be afraid to close. Accept the fact that some buyers will inevitably respond negatively, but be confident that more will buy than if no close had been used.

A major consideration is timing. A general rule is to attempt to close the sale when the buyer displays heightened interest or a clear intention to purchase the product. Salespeople should therefore look out for such **buying signals** and respond accordingly. Purchase intentions are unlikely to grow continuously throughout the sales presentation. They are more likely to rise and fall as the presentation progresses (see Figure 5.3). The true situation is reflected by a series of peaks and troughs. An example will explain why this should be so. When a salesperson talks about a key benefit which exactly matches the buyer's needs, purchase intentions are likely to rise sharply. However, the buyer then perhaps raises a problem, which decreases the level, or doubts arise in the buyer's mind as to whether the claims made for the product are completely justified. This causes purchase intentions to fall, only to be followed by an increase as the salesperson overcomes the objection or substantiates the claim.

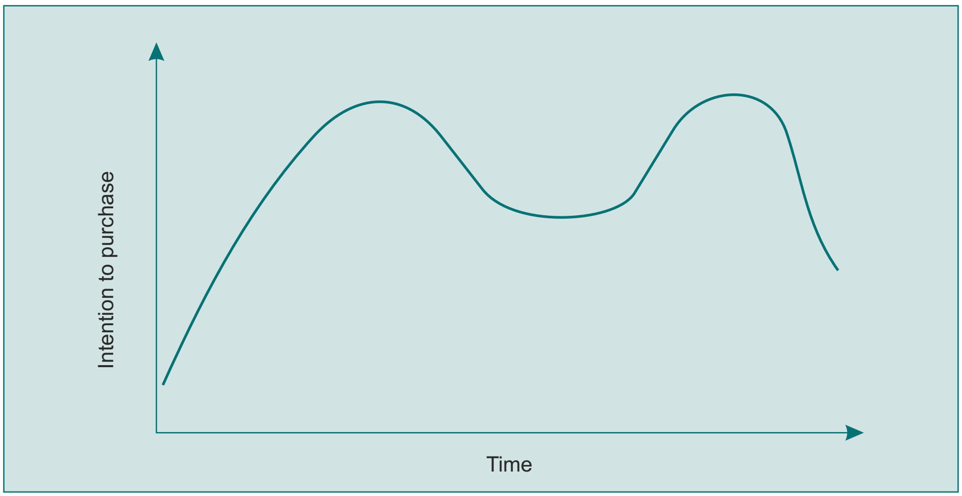

Figure 5.3 **The level of buyer purchase intentions throughout a sales presentation**

In theory the salesperson should attempt to close at a peak. In practice, judging when to close is difficult. The buyer may be feigning disinterest and throughout a sales interview several peaks may be expected to occur. Which peak should be chosen for the close? Part of the answer lies in experience. Experienced salespeople know intuitively if intentions are sufficiently favourable for a close to be worthwhile. Also, if need and problem identification have been conducted properly, the salesperson knows that a rough guide as to when to close is after they match all product benefits to customer needs; theoretically, intentions should be at a peak then.

Not all buyers conform to this theoretical plan, however, and the salesperson should be prepared to close even if the planned sales presentation is incomplete. The method to use is the **trial close**. This technique involves asking for the order in such a way that if the timing is premature the presentation can continue with the minimum of interruption. Perhaps early in the presentation the customer might say, 'Yes, that's just what I'm looking for.' To which the salesperson replies, 'Good, when do you think you would like delivery?' Even if the buyer says they have not made up their mind yet, the salesperson can continue with the presentation or ask the customer a question, depending on which is most appropriate to the situation.

A time will come during the sales interview when the salesperson has discussed all the product benefits and answered all the customer's questions. It is decision time; the buyer is enthusiastic but is hesitating. There are several closing techniques the salesperson can use (see Figure 5.4).

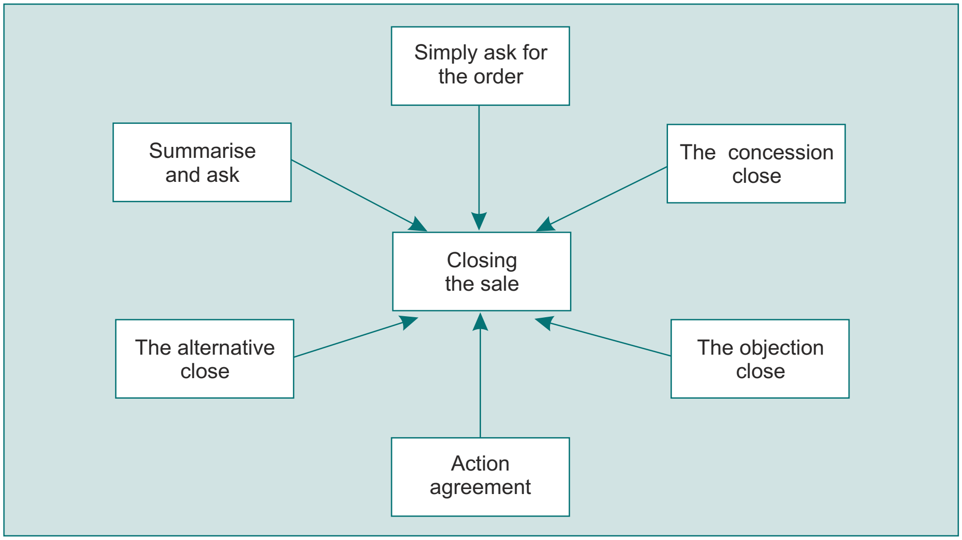

Figure 5.4 Closing the sale

5.6.1 Simply Ask for the Order

The simplest technique involves asking directly for the order:

- 'Shall I reserve you one?'
- 'Would you like to buy it?'
- 'Do you want it?'

The key to using this technique is to keep silent after you have asked for the order. The salesperson has asked a closed question implying a yes or no answer. To break the silence effectively lets the buyer off the hook. The buyer will forget the first question and reply to the salesperson's later comment.

5.6.2 Summarise and then Ask for the Order

This technique allows the salesperson to remind the buyer of the main points in the sales argument in a manner which implies that the moment for decision has come and that buying is the natural extension of the proceedings: 'Well, Mr Smith, we have agreed that the ZDXL4 model meets your requirements of low noise, high productivity and driver comfort at a cost which you can afford. May I go ahead and place an order for this model?'

5.6.3 The Concession Close

This involves keeping one concession in reserve to use as the final push towards agreement: 'If you are willing to place an order now, I'm willing to offer an extra 2.5 per cent discount.'

5.6.4 The Alternative Close

This closing technique assumes that the buyer is willing to purchase but moves the decision to whether the colour should be red or blue, the delivery should be Tuesday or Friday, the payment by cash or credit, and so on. In these circumstances the salesperson suggests two alternatives and agreement to either alternative closes the sale:

- 'Would you like the red one or the blue one?'
- 'Would you like it delivered on Tuesday or Friday?'

This technique has been used by salespeople for many years and consequently should be used with care, especially with professional buyers who are likely to have experienced its use many times and know exactly what the salesperson is doing.

5.6.5 The Objection Close

This closing technique has been mentioned briefly earlier in this module. It involves the use of an objection as a stimulus to buy. If the salesperson is convinced that the objection is the major stumbling block to the sale, they can gain commitment from the buyer by saying, 'If I can convince you that this model is the most economical in its class, will you buy it?' A positive response from the buyer and reference to an objective statistical comparison by the seller effectively seal the sale.

5.6.6 Action Agreement

In some situations it is inappropriate to attempt to close the sale. For many industrial goods the sales cycle is long and a salesperson who attempts to close the sale at early meetings may cause annoyance. In selling pharmaceutical products, for example, salespeople do not try to close a sale but instead attempt to achieve action agreement, whereby either the salesperson or the doctor agrees to do something before their next meeting. This technique has the effect of helping the doctor–salesperson relationship to develop and continue.

A useful characteristic for salespeople is persistence. Making a decision to spend large quantities of money is not easy. In most sales situations, no one product is better than its competitors on all evaluative criteria. This means that the salespeople for all of these products stand some chance of success. The final decision may go to the one who is most persistent in their attempts to persuade the customer that the product meets the buyer's needs. Children learn very quickly that if they are initially refused what they want, asking a second or third time may be successful. The key is knowing where to draw the line before persistence leads to annoyance.

Once the sale is agreed, the salesperson should follow two rules. First, they should never display emotions. No matter how important the sale, and how delighted the salesperson feels, he or she should remain calm and professional. There will be plenty of opportunity later to be euphoric. Second, leave as quickly as is courteously possible. The longer he or she stays around, the greater the chance that the buyers will change their minds and cancel the order.

5.7 Follow-Up

Follow-up is necessary to ensure that the customer is satisfied with the purchase and no problems with factors such as delivery, installation, product use and training have arisen. Salespeople may put off the follow-up call because it does not result in an immediate order. However, for most companies, repeat business is the hallmark of success and the follow-up call can play a major role by showing that the salesperson really cares about the customer rather than only being interested in making sales.

The follow-up call can also be used to provide reassurance that the purchase was the right one. As we have already seen, many customers suffer from cognitive dissonance – anxiety about whether they have made the right choice.

This module has stressed the importance of changing the sales approach according to the differing needs and circumstances of customers. Box 5.2 continues this theme by showing how different British and German customers can be.

Box 5.2: Selling in Germany

Salespeople have to be aware of the need to adapt their approach to differing customers and different ways of doing business. Major differences in the ways British and German companies do business were described by two German employees of British computer company Psion.

'With German firms there is much greater emphasis on bureaucracy and proper procedure. With British firms things are done in a much more off-the-cuff way which means that they can react more flexibly and it is possible to act on a client's requirements very rapidly. In Germany, particularly with big German companies, you have to go through a very long bureaucratic procedure.

I think the Germans are very precise. Their attitude is, "I want this thing by 10.15 am not at 10.16 am." If you order something in the UK you ask, "When will it arrive?" You will be told, "You'll have it next month."

The office hierarchy is very important in Germany. For example, office subordinates may not be willing to take even the smallest decision while their boss is away. Salespeople can waste a lot of valuable time under such circumstances by attempting to sell to persons not authorised to take the decision of whether to buy the product or not.

The Germans place great emphasis on personal contact and usually expect to meet business partners face to face. However, one-to-one meetings are rare, with senior executives normally bringing along at least one colleague. Sometimes they appear confident, almost arrogant. The correct response is to be polite and correct. Germans are not impressed by covering up uncertainty with humour, particularly not at first meetings.

German business people should be addressed by their title and surname: Herr Schmidt or Frau Strauss. Dress is sober. Lunch is an important element in German business negotiations, although it may well be in the company canteen since business guests are rarely invited out for lavish meals.

Often suppliers' salesforces are expected to negotiate with purchasing departments which may have considerable organisational power. Attempts to bypass the purchasing department may cause annoyance. Face-to-face contact at trade fairs and advertising campaigns are often used to communicate with engineers and other technical people.'

Sources: Based on BBC2 Television (1993) 'Germany Means Business: The Frankfurt Contenders', January 5; Forden, J. (1988) 'Doing business with the Germans', *Director*, July, pp. 102–4; Welford, R. and Prescott, K. (1992) *European Business*, London, Pitman Publishing, p. 208; and Wolfe, A. (1991) 'The Eurobuyer: how European businesses buy', *Marketing Intelligence and Planning*, 9(5), pp. 9–15.

Learning Summary

The skills involved in personal selling have been explored in this module. The necessary skills have been examined under the following headings:

- the opening;
- need and problem identification;
- presentation and demonstration;
- dealing with objections;
- negotiation;
- closing the sale;
- the follow-up.

The emphasis in this module has been on identifying the needs and problems of the potential buyer and presenting a product or service as a means of fulfilling that need or solving that problem. Having identified the skills necessary for successful selling, in Part Three we will examine the types of environment in which selling takes place.

Review Questions

Content Questions

5.1 What is the basic philosophy underlying the suggested approach to personal selling?

5.2 Research studies have revealed the salesperson characteristics associated with successful selling. Describe these characteristics.

5.3 What are the stages in the personal selling process?

5.4 Describe the steps to help create a favourable initial response when opening a sale.

5.5 What is needs analysis? What should a salesperson do if they adopt a needs analysis approach?

5.6 Describe three types of question to use in a sales interview and the objectives behind each one.

5.7 What are the major ways a salesperson can reduce risk to the buyer?

5.8 Name the techniques used to deal with objections.

5.9 Name the techniques used to close a sale.

5.10 Why is follow-up important?

Multiple-Choice Questions

5.11 Which of the following is not associated with successful selling?
A. Asking questions.
B. Acknowledging the viewpoint of the customer.
C. Disagreeing with customer perceptions.
D. Supporting the customer.

5.12 During which stages of the personal selling process may customers raise objections?
A. Only during presentation.
B. Only during negotiation.
C. During presentation and negotiation.
D. Neither during presentation nor during negotiation.

5.13 When should you adopt a question-and-listen posture?
A. When opening a sale.
B. When analysing customer needs.
C. When presenting and demonstrating a product.
D. When dealing with an objection.

5.14 During need and problem identification, why might you use closed questions?
A. To encourage the buyer to discuss their problems and needs.
B. To obtain purely factual information.
C. To build rapport.
D. None of the other options.

5.15 Have a look at these two statements.
I. Needs analysis acknowledges differences in the needs and interests of different customers.
II. Needs analysis provides the basis for two-way communication.
Now choose the correct option.
A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

5.16 All these types of question are used in personal selling except one. Which one?
A. Information gathering.
B. Opinion gathering.
C. Confirmation.
D. Exclusion.

5.17 Which type of question can be used to commit a prospect to a position?
A. Clarification.
B. Sharp angle.
C. Leading.
D. Counterbiasing.

5.18 Have a look at these two statements.

I. Benefits should be analysed in terms of those obtainable by purchasing a particular product type.

II. Benefits should be analysed in terms of those obtainable by purchasing a product from a particular supplier.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

5.19 Have a look at these two statements.

I. A product demonstration should focus on product features.

II. A product demonstration should allow two-way communication.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

5.20 When a sales presentation is likely to be complicated and lengthy, what is the best advice for a salesperson?

A. Avoid a sales presentation altogether.
B. Concentrate on technical issues.
C. Pause at various points and ask questions.
D. Discourage questions during the presentation.

5.21 Have a look at these two statements.

I. The demonstration of most products should be split into two stages to allow comparison with competing products.

II. The demonstration of most products should be split into two stages because competing stimuli make it difficult to retain a buyer's attention.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

5.22 Have a look at these two statements.

I. Objections are a sign that a potential buyer is not interested in your product.

II. Objections highlight the issues which are important to the buyer.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

5.23 Suppose a salesperson interrupts the buyer in midstream when the buyer is making an objection. Which of the following impressions might the salesperson be giving to the buyer?

A. The salesperson believes the objection is wrong.
B. The salesperson believes the objection is trivial.
C. It is not worth the salesperson's time to let the buyer finish.
D. All the impressions in the other options.

5.24 Suppose a salesperson assumes that a buyer is willing to purchase and moves on to deciding the required size, colour or delivery date. What technique are they using?

A. Objection close.
B. Alternative close.
C. Action agreement.
D. Concession close.

Case Study 5.1: The Mordex Photocopier Company

You have an appointment to see George Kirby, sales office manager of Plastic Foods Ltd, about the hire of a Mordex photocopier. You are bristling with anticipation as you know its present contract with Clearprint, your closest competitor, is up for renewal. You have not met Mr Kirby before.

As you enter Mr Kirby's office you notice that he appears a little under pressure. After introducing yourself, you say, 'I'd like to talk with you about how we can improve the efficiency of your photocopying operation. I see that you use the Clearprint ZXR photocopier at the moment. What kinds of documents do you photocopy in the sales office?' The discussion continues, with you attempting to assess his photocopying requirements and his attitude towards the Clearprint machine.

One need is the ability of the photocopier to collate automatically, since Plastic Foods photocopies some long documents. Another requirement is for the photocopy to be of the highest quality since it is usual for photocopies of standard letters to be sent to clients. The Clearprint photocopier does not have a collating facility, and the quality is passable but not totally satisfactory. Further, there are sometimes delays in repairing the machine when it breaks down, although generally it is quite reliable.

At the end of the discussion you summarise the points that have been raised: staff time is being wasted collating long documents, the photocopy quality is not totally satisfactory, repairs are not always carried out promptly. Mr Kirby agrees that this is a fair summary.

Questions

1 The following objection was raised during the sales interview: 'I'm sorry, I have an urgent meeting in ten minutes. Can we make it quick?' How would you deal with it?

2 The following objection was raised during the sales interview: 'We haven't had any major problems with the Clearprint so far.' How would you deal with it?

3 The following objection was raised during the sales interview: 'Doesn't your firm have a bad reputation?' How would you deal with it?

4 The following objection was raised during the sales interview: 'Aren't your hiring charges much higher than Clearprint's?' How would you deal with it?

5 The following objection was raised during the sales interview: 'How do I know your service will be any better than Clearprint's?' How would you deal with it?

6 The following objection was raised during the sales interview: 'My staff have got used to using the Clearprint. I'll have to spend time showing them how to use your machine.' How would you deal with it?

7 The following objection was raised during the sales interview: 'Let me think about it. The Clearprint rep is coming next week. I should like to discuss the points you've raised with him.' How would you deal with it?

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Module 6

Key Account Management

Contents

Learning Objectives

After studying this module, you should be able to

- understand what a key account is and the advantages and disadvantages of key account management;
- decide whether key account management is suitable in a given situation;
- appreciate the tasks and skills of key account management;
- understand the special role and competences of global account management;
- recognise the ways in which relationships with key accounts can be built;
- identify the key components of a key account information and planning system.

Key Concepts

- key account management
- relational development model
- global account management
- key account
- information and planning system
- relationship building

Important changes are taking place in the personal selling function. Companies are reducing the size of their salesforces in response to increasing buyer concentration, the trend towards centralised buying, and in recognition of the high costs of maintaining a field salesforce. This latter factor has fuelled a move towards telemarketing. Perhaps the most significant change, however, has been the rise in importance of selling to and managing key accounts resulting from the growing concentration of buying power into fewer hands. These days companies often find over 70 per cent of sales coming from a few key customers. These key customers require special treatment since the loss of even one of them would significantly affect a supplier's sales and profits.

In this module we shall discuss what a key account is, the advantages and drawbacks to key account management, the factors which influence the move to key account management, the skills required and how to select and sell to key accounts. Since the objective of key account management is to develop relationships over time, we shall also examine how to build account relationships. Finally, we shall consider key account planning and evaluation.

6.1 What Is Key Account Management?

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

Key account handling requires a special kind of attention from the seller that may be beyond the capacity of the regular field salesforce. Some of the key responsibilities of key account managers are planning and developing relationships with a wide range of people in the customer firms, mobilising personnel and other resources in their own firms to assist the account, and coordinating and motivating the efforts and communications of their company's field salespeople in their calls on the various departments, divisions and geographical locations of the key account.[1]

According to Hise and Reid,[2] the six most critical conditions needed to ensure the success of key account management are as follows:

- integration of the key account programme into the company's overall sales effort;
- senior management's understanding of, and support for, the key account unit's role;
- clear and practical lines of communication between outlying sales and service units
- establishment of objectives and missions;
- compatible working relationships between sales management and field salespeople;

- clear definition and identification of customers to be designated for key account status.

Some important distinctions between transactional selling and key account management are shown in Table 6.1.

Table 6.1 Distinctions between transactional selling and key account management

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

6.2 Advantages and Dangers of Key Account Management

A number of advantages to the supplier have been identified with key account management:

- **Close working relationships with the customer**: the salesperson knows who makes what decisions and who influences the various players involved in the decision-making process. Technical specialists from the selling organisation can call on technical people (e.g. engineers) in the buying organisation, and salespeople can call upon administrators, buyers and financial people armed with the commercial arguments for buying.
- **Improved communication and coordination**: the customer knows that a dedicated salesperson or sales team exists and they know who to contact when a problem arises.
- **Better follow-up on sales and service**: the extra resources devoted to the key account means there is more time to follow up and provide service after a key sale has been concluded.
- **More in-depth penetration of the DMU**: there is more time to cultivate relationships within the key account. Salespeople can pull the buying decision through the organisation from the users, deciders and influencers to the buyer, rather than face the more difficult task of pushing it through the buyer into the organisation, as is done with more traditional sales approaches.
- **Higher sales**: most companies who have adopted key account selling techniques claim that sales have risen as a result.

- **Advancement opportunities for career salespeople**: a tiered salesforce system with key account selling at the top provides promotional opportunities for salespeople who wish to advance within the salesforce rather than to enter a traditional sales management position.
- **Lower costs through joint agreement** of optimum production and delivery schedules, and demand forecasting.
- **Cooperation on research and development** for new products and joint promotions (e.g. within the FMCG and retail sector).

However, Burnett[3] points out that key account management is not without its potential dangers:

- When resources are channelled towards a limited number of companies, the supplier runs the risk of increased dependence on, and vulnerability to, relatively few customers.
- The risk of pressure on profit margins if a customer chooses to abuse its key account status.
- The possible danger of a customer applying ever-increasing demands for higher levels of service and attention once they know that they have preferred customer status.
- Focusing resources on a few key accounts may lead to neglect of smaller accounts, some of which may have high long-term potential.
- The team approach required by key account management may be at odds with the career aspirations of certain high achievers who prefer a more individualistic approach and object to the dilution of praise which has to be shared with other people when a big order is won. Thus care is required when recruiting key account salespeople.

6.3 Deciding Whether to Use Key Account Management

An important question is the suitability of key account management to suppliers. Clearly it is only one form of salesforce organisation (others are discussed in Module 15, which covers organisation and compensation) and care is needed in deciding whether the extra resources and costs associated with its implementation can be justified. The greater the extent to which the following circumstances exist, the more likely a company is to move towards setting up key accounts:[3]

- A small number of customers account for a high proportion of the supplier's sales.
- There is potential for differentiation of the product and/or service provided by the supplier in a way that is highly valued by the customer.
- Customers exhibit complex buying behaviour with large decision-making units applying varied choice criteria, often in multiple locations, meaning that a geographical organisational structure is inappropriate.
- Multifunction contacts between supplier and customer are required.

- Significant cost savings are possible through dealing selectively with a small number of large customers, and joint agreements of production and delivery schedules.
- There is a danger of different salespeople from the supplier's salesforce calling upon the same customer to sell different products or offer conflicting solutions to problems.
- The establishment of in-depth communications and strong relationships with customers may lead to the opportunity of tailoring products and services to specific customer needs.
- Customers are centralising their operations.
- Competition is improving its account handling by moving to key account management.

6.4 The Tasks and Skills of Key Account Management

A study by the Bureau of Business Practice reported that choosing the best person to manage and coordinate key account programmes is second only in importance to obtaining support from top management.[4] Selecting the best person requires a full understanding of the tasks and skills required of the job. Simply choosing the company's top salesperson to handle the management of a key account is not recommended because the jobs are so different,[5] with the latter requiring a higher level of managerial ability (e.g. leadership, coordination, development of account strategies and communication).

Wotruba and Castleberry[6] surveyed key account salespeople to identify the tasks performed and skills required of the job. The top ten of each are listed in Table 6.2. This list can be used to choose criteria for the recruitment, selection and evaluation of key account managers. It is not surprising that relationship-building skills are paramount, and this topic will be explored later in this module. Next, though, we consider the special selling skills required to sell to key accounts.

Table 6.2 Tasks performed and skills required by key account management

	Tasks	Skills
1	Develop long-term relationships	Relationship building
2	Engage in direct contact with key customers	Coordination
3	Maintain key account records and background information	Negotiation
4	Identify selling opportunities and sales potential of existing key accounts	Human relations
5	Monitor competitive developments affecting key accounts	Focus on specific objectives
6	Report results to upper management	Diagnosing customer problems
7	Monitor and/or control key account contracts	Presentation skills

	Tasks	Skills
8	Make high-level presentations to key accounts	Generating visibility, reputation
9	Coordinate and expedite service to key accounts	Communication
10	Coordinate communications among company units servicing key accounts.	Working in a team

6.5 Key Account Management Relational Development Model

The development and management of a key account can be understood as a process between buyers and sellers. The key account management (KAM) relational development model plots the typical progression of a buyer–seller relationship based on the nature of the customer relationship (transactional or collaborative) and the level of involvement with customers (simple or complex). It shows five of the six stages identified by Millman and Wilson:[7] pre-KAM, early KAM, mid-KAM, partnership KAM and synergistic KAM (see Figure 6.1). A sixth stage (uncompiling KAM) represents the breakdown of the relationship which can happen at any point during the process.

6.5.1 Pre-KAM

Pre-KAM describes preparation for KAM or prospecting. The task is to identify those accounts with the potential for moving towards key account status and to avoid wasting investment on those accounts that lack the potential. Pre-KAM selling strategies involve making products and services available while attempting to gather information about customers so that their key account potential can be assessed. Where an account is thought to have potential but breaking into the account is proving difficult, patience and persistence are required. A breakthrough may result from the in-supplier doing something wrong, e.g. refusing to quote for a low-profit order or failing to repair equipment promptly.

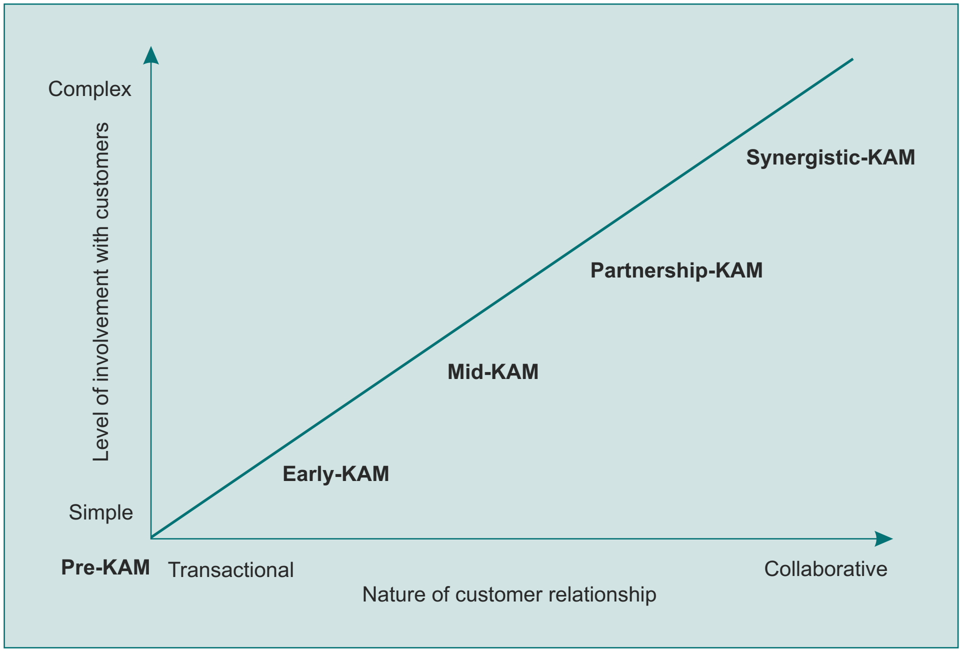

Figure 6.1 **Key account relational development model**

6.5.2 Early KAM

Early KAM involves the exploration of opportunities for closer collaboration by identifying the motives, culture and concerns of the customer. The selling company needs to convince the customer of the benefits of being a preferred customer. It will seek to understand the customer's decision-making unit and processes, and the problems and opportunities that relate to the value-adding processes. Product and service adaptations may be made to fit customer needs better. An objective of the sales effort will be to build trust based on consistent performance and open communications.

Most communication is channelled through one salesperson (the key account manager) and a single contact at the buying organisation. This makes for a fragile relationship, particularly as it is likely that the seller is one of many supplying the account. The customer will be monitoring the supplier's performance to assess competence and to identify quickly any problems that might arise. The account manager will be seeking to create a more attractive offering, establish credibility and deepen personal relationships.

6.5.3 Mid-KAM

By now trust has been established and the supplier is one of a small number of preferred sources of the product. The number and range of contacts increases. These may include social events which help to deepen relationships across the two organisations.

The account review process carried out at the selling organisation will tend to move upwards to involve senior management because of the importance of the customer and the level of resource allocation. Since the account is not yet exclusive, the activities of competitors will require constant monitoring.

6.5.4 Partnership KAM

Partnership KAM is the stage where the buying organisation regards the supplier as an important strategic resource. The level of trust will be sufficient for both parties to be willing to share sensitive information. The focus of activities moves to joint problem-solving, collaborative product development and mutual training of the other firm's staff.

The buying company is now channelling nearly all of its business in the relevant product groups to the one supplier. The arrangement is formalised in a partnership agreement of at least three years' duration. Performance will be monitored and contacts between departments of the two organisations will be extensive. The buying organisation will expect guaranteed continuity of supply, excellent service and top quality products. A key task of the account manager is to reinforce the high levels of trust to exclude potential competitors.

6.5.5 Synergistic KAM

Synergistic KAM is the ultimate stage of the relational development model. Buyer and seller see one another not as two separate organisations, but as part of a larger entity. Top management commitment manifests itself in joint board meetings accompanied by joint business planning, research and development, and market research. Costing systems become transparent, unnecessary costs are removed and process improvements are mutually achieved. For example, a logistics company together with one of its retail key accounts has six cross-boundary teams working on process improvements at any one time.[8]

6.5.6 Uncoupling KAM

Uncoupling KAM is where transactions and interactions cease. The causes of uncoupling need to be understood so that it can be avoided. Breakdowns are more often attributable to changes in key personnel and relationship problems than price conflicts. The danger of uncoupling is particularly acute in early KAM when the single point of contact prevails. If, for example, the key account manager leaves to be replaced by someone who in the buyer's eyes is less skilled, or there is a personality clash, the relationship may end.

A second cause of uncoupling is a breach of trust. For example, the breaking of a promise over a delivery deadline, product improvement or equipment repair can weaken or kill a business relationship. The key to handling such problems is to reduce the impact of surprise. The supplier should let the buying organisation know immediately that a problem becomes apparent. It should also show humility when discussing the problem with the customer.

Companies also uncouple through neglect. Long-term relationships can foster complacency and customers can perceive themselves as being taken for granted. Cultural mismatches can occur, for example, when the customer stresses price whereas the supplier focuses on life cycle costs. Difficulties can also occur between bureaucratic and entrepreneurial styles of management.

Product or service quality problems can also provoke uncoupling. Any kind of performance problem, or perceptions that rivals now offer superior performance, can trigger a breakdown in relations. In-suppliers must build entry barriers by ensuring that product and service quality are constantly improved and that any problems are dealt with speedily and professionally.

Not all uncoupling is instigated by the buying company. A key account may be derated or terminated because of loss of market share or the onset of financial problems that impair the attractiveness of the account.

6.6 Global Account Management

Global account management (GAM) is the process of coordinating and developing mutually beneficial long-term relationships with a select group of strategically important customers (accounts) operating in globalising industries.[9] It has arisen as a way of managing global customers who are of strategic importance to suppliers. The growth in globalisation of business activities is making GAM an increasingly important issue for many multinational organisations.

Global key accounts are also usually multinational customers who have an expectation of being supplied and serviced worldwide in a consistent and coordinated way.[10] Multinational customers are increasingly buying on a centralised or coordinated basis and seek suppliers who are able to provide consistent and seamless service across countries.[11] Consequently, suppliers are developing and implementing GAM and are creating global account managers to manage the interface between seller and buyer on a global basis. At first sight, GAM might be regarded as simply an extension of KAM, but there are some key differences that make the job fundamentally more complex:[12]

- cross-cultural issues (e.g. concerning people, systems and processes);
- management of globally dispersed and cross-cultural teams;
- management of conflict that can stem from the issues of global versus local approaches to sales and marketing;
- managing global logistics;
- management of global communication;
- location of global account managers.

This complexity makes the job of the global account manager very demanding. Research has shown a range of roles and competences necessary to carry out the job.[13] These are displayed in Table 6.3.

Table 6.3 Roles and competences required of a global account manager

Roles	Competences
Global account strategist	Communication skills
Coordinator of the account's centralised and dispersed requirements	Global team leadership and management skills
Global account team manager or leader	Business and financial acumen
Information broker	Relationship management skills
Relationship facilitator or builder	Strategic vision and planning capabilities
Negotiator	Problem-solving capabilities
Voice of the customer (customer's advocate)	Cultural empathy
Corporate 'culture carrier'	Selling skills (internal and external)
	Industry and market knowledge
	Product service knowledge

Sources: Based on Millman, T. (1999) 'From national account management to global account management in business-to-business markets', *Fachzeitschrift Für Marketing THEXIS*, 16(4), pp. 2–9; Millman, T. and Wilson, K. (1999) 'Developing global account management competences', *Proceedings of the 15th Annual IMP Conference*, University College Dublin, September.

Organisationally, a lead global account manager (sometimes called a global client director, global relationship manager or global account team manager) normally manages a team of account managers. Although there is no one best way to organise for GAM, there are a number of principles that act as a guide when designing organisation structure and systems.[14]

Involvement of a senior corporate-level manager as programme champion provides the political muscle to move the programme forward. The lead global account manager should be focused exclusively on managing the global relationship in order to avoid becoming embroiled in local politics with local country and national account managers assigned to local customer organisations.

The global account manager should have authority over the global team and the resources allocated to them and have sufficient status within the company hierarchy for this authority to be reinforced. Ideally, the global account manager should be located near the customer headquarters and supported by local account managers positioned near the customer's remote facilities. Further support should be provided by local dedicated staff and the expertise of corporate specialists.[14]

6.7 Building Relationships with Key Accounts

The importance of relationship building with customers is discussed in Module 7. However, there are certain ways in which suppliers can build relationships with key accounts. Five ways of building strong customer relationships will now be described.

6.7.1 Personal Trust

The objective is to build confidence and reassurance.

Methods:

- Ensure promises are kept.
- Reply swiftly to queries, problems and complaints.
- Establish high (but not intrusive) frequency of contact with key account.
- Arrange factory or site visits.
- Engage in social activities with customer.
- Give advance warning of problems.

6.7.2 Technical Support

The objective is to provide know-how and improve the productivity of the key account.

Methods:

- Cooperate over research and development.
- Give before- and after-sales service.
- Provide training.
- Have dual selling (supplier helps key account to sell).

6.7.3 Resource Support

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

Methods:

- Provide credit facilities.
- Create low-interest loans.
- Engage in cooperative promotions to share costs.
- Engage in countertrade (accept payment by means of goods or services rather than cash).

6.7.4 Service Levels

The objective is to improve the quality of service provision.

Methods:

- Offer reliable delivery.
- Offer fast or just-in-time delivery.
- Install computerised reorder systems.
- Give fast accurate quotes.
- Reduce defects (get it right first time).

6.7.5 Risk Reduction

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

Methods:

- Run free demonstrations.
- Offer a free, low-cost trial period.
- Give product guarantees.
- Give delivery guarantees.
- Draw up preventative maintenance contracts.
- Have proactive follow-ups.
- Conduct reference selling.

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

Managing relationships involves taking care in day-to-day meetings with customers. Table 6.4 gives a list of some key dos and don'ts of key account management.

Table 6.4 Handling relationships with key accounts

Key account dos
Do work with the account to agree an actionable account plan
Do understand key account decision-making: • key choice criteria • roles of decision-making unit • how decisions are made
Do only ever agree to what can be delivered
Do resolve issues quickly
Do confirm agreements in writing
Do communicate internally to identify unresolved problems (e.g. late delivery)
Do treat customers as experts to encourage them to reveal information
Do view issues from the customer's perspective as well as your own
Do ask questions – knowledge is power
Key account don'ts
Don't let a small issue spoil a relationship
Don't expect to win everything, giving a concession may improve the relationship
Don't divulge confidential information from other accounts
Don't view negotiations as win-lose scenarios but try to create win-win situations

Don't be afraid to say no when the circumstances demand it

Don't deceive – if you do not know the answer, say so

6.8 Key Account Information and Planning System

The importance of key accounts means that suppliers need to consider the information which needs to be collected and stored for each account, and the objectives, strategies and control systems required to manage the accounts. This can be accomplished by a key account information and planning system. The benefits of planning systems include consistency, change monitoring, resource allocation and competitive advantage.

6.8.1 Consistency

The plan provides a focal point for decisions and action leading to better consistency and coordination between managers.

6.8.2 Monitoring of Change

The planning process forces managers to review the impact of change on the account and to consider the actions required to meet the new challenges.

6.8.3 Resource Allocation

The planning process asks fundamental questions about resource allocation. Some of the questions that require addressing are: Should the account receive more resources, the same resources or less resources? How should those resources be deployed? How should resources be allocated between accounts?

6.8.4 Competitive Advantage

Planning promotes the search for better ways of servicing the account in order to keep out competing firms. The building block for the planning system is the account audit, which is based on the creation of an information system that collects, stores and disseminates essential account data. Table 6.5 shows the kind of data that may form such a system. Hard data record the facts and figures of the account such as the products sold and markets served and the sales volume (units), revenue and profits generated by the customer. Such general data provide the fundamental background information to the account.

Table 6.5 A key account information system

	Type of data	
	Hard	**Soft**
General	Addresses, telephone, fax and telex numbers, email addresses Customer products sold and markets served (size and growth rates) Sales volume and revenue Profits Capital employed Operating ratios (e.g. return on capital employed, profit margin)	DMU members Choice criteria Perceptions and attitudes Buying processes Assessment of relationships Problems and threats Opportunities Supplier strengths and weaknesses Competitor strengths and weaknesses Environmental changes affecting account now and in the future
Specific	Supplier's sales to account by product Supplier's price levels and profitability by product Details of discounts and allowances Competitors' products, price levels and sales Contract expiry dates	

Specific hard data cover issues that focus on the transactions between seller and customer such as the seller's sales and profits by product, supplier and competitor price levels, competitor products sold to the customer, their volume and revenue, details of discounts and contract expiry dates. Absolute levels, trends and variations from targets will be recorded.

Soft data complement hard data by providing qualitative (and sometimes more subjective) assessments of the account situation. A key requirement is the holding of buyer behaviour data such as the names, positions and roles of decision-making unit members; their choice criteria, perceptions and attitudes; and their buying processes. An assessment of the ongoing relationships should be made and any problems, threats and opportunities defined. Supplier and competitor strengths and weaknesses should be analysed in both absolute and relative terms. Finally, external changes (such as declining markets, changes in technology and potential new competition) should be monitored as they may affect future business with the account.

The outcome of this account audit can be summarised in a strengths, weaknesses, opportunities and threats (SWOT) analysis (see Figure 6.2). The internal strengths and weaknesses of the supplier are summarised as they relate to the opportunities and threats relevant to the account. SWOT analysis provides a convenient framework for making decisions to improve the effectiveness of key account management and provides insights to develop the account plan. For example, action can be taken to exploit opportunities by building on strengths, and to minimise the impact of threats. An account plan comprises objectives, strategies and control procedures.

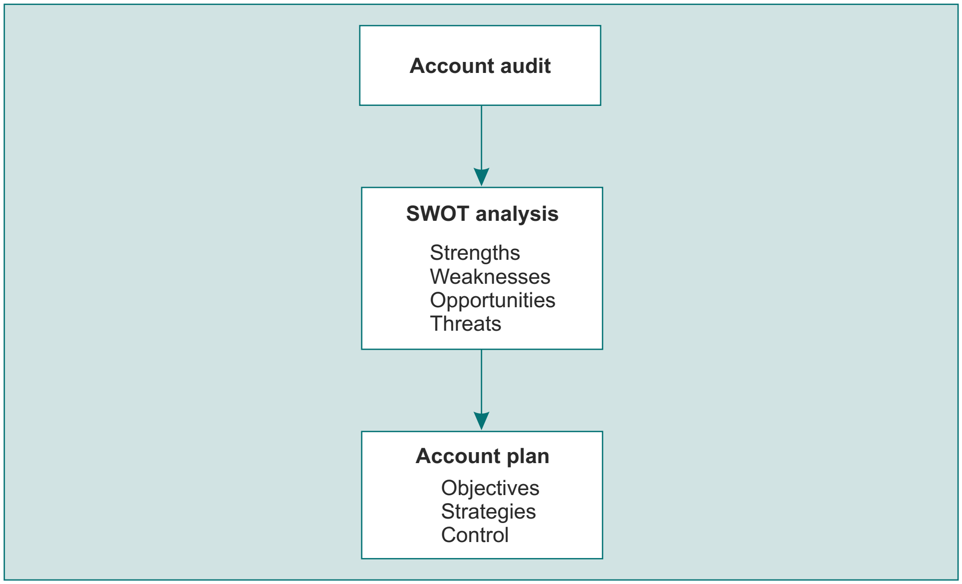

Figure 6.2 **Key account planning system**

6.8.4.1 Objectives

The account plan should set out clear objectives for the planning period. Typically objectives will be stated in terms of sales and profit-by-product for each account for the planning period. Pricing objectives will state target price changes for the period. Where more than one supplier services the account, share-of-business objectives may be set. For example, the SWOT analysis may identify an opportunity resulting from service problems associated with a competitor. This may encourage the development of an objective to raise the share of business from 40 to 55 per cent.

A long sales cycle is characteristic of many key account sales. Therefore it is often sensible to couch objectives in terms of gaining customer commitment rather than of achieving a sales close, particularly if the account planning period is relatively short. Such objectives must be set in terms of customer responses, not seller actions. For example, suitable objectives may be to persuade the customer to visit the seller's site agree to a product demonstration or give the seller's new product an extended trial.

6.8.4.2 Strategies

Strategies are the means by which objectives are achieved. For example, the objective of persuading the customer to visit the seller's site would require a statement of who in the decision-making unit should be targeted, the identities of the people in the account management team responsible for reaching these people, what action they need to take to persuade the customer to make the visit, and activity completion deadlines. Obviously not every detail can be planned. Scope should be provided for individual initiative and enterprise, but without a guiding framework, the activities may become uncoordinated or, worse still, the task neglected.

6.8.4.3 Control

An account planning control system checks progress on the achievement of objectives so that corrective action can be taken when needed. Computerised sales and profitability analysis can evaluate actual performance against objectives. Review meetings may be required to compare quantitative and qualitative performance against expectations. The frequency, coverage and composition of review meetings should be agreed. The agenda for these meetings should be decided upon in time to gather, analyse and present information relevant to topics under discussion.

An important issue is the profitability of each key account. A check should be made on account costs as well as sales revenue. Account costs may be broken down as follows:

- **Sales staff costs.** These would include the costs of all sales staff working on the account, e.g. the account manager, account executives and any field salesforce activity related to the account. For a multiple retailer account, the account manager would reach an agreement with the field salesforce manager to provide a certain level of support (perhaps two visits per store per week). The costs of these visits would be included in the calculation of sales staff costs.
- **Support staff costs.** In a technical environment such as telecommunications or information technology, this would comprise people such as systems engineers who might undertake pre-bid analysis and planning, and also any dedicated maintenance people.
- **Other sales and marketing costs.** These might include account specific promotions, special packaging and special payment terms such as discounts. Special distribution arrangements, e.g. to individual stores rather than one central warehouse, would also fall into this category of account costs.

This is an example of how a company may break down account costs, but organisations have the choice of how best to categorise account costs given their own circumstances and requirements. By itemising costs, results can be compared against budget and areas that require investigation will be revealed.

Learning Summary

This module has examined the crucial task of selling to and managing key accounts. Selling skills tend to differ between low-cost and key sale situations. The additional skills and techniques necessary to sell to key customers have been examined.

An important ingredient in managing key accounts is the ability to manage relationships over a long period of time. We have discussed ways to build trust, provide technical and resource support, improve service levels and reduce risk for the customer. Additionally this module has examined ways of deciding whether a key account system is appropriate and, if it is, how to create a key account information and planning system.

Review Questions

Content Questions

6.1 Why are companies reducing the size of their salesforces?

6.2 What is the objective of KAM?

6.3 What are the characteristics of key accounts?

6.4 What is a national account?

6.5 Six conditions are most critical to the success of KAM. What are they?

6.6 What are the advantages of KAM to the supplier?

6.7 What are the potential dangers of KAM to the supplier?

6.8 Describe the key account relational model.

6.9 Describe ways in which suppliers can build relationships with key accounts.

6.10 What are the benefits of a key account information system?

Multiple-Choice Questions

6.11 Companies are reducing the size of their salesforces in response to what?

A. A trend towards centralised buying.
B. Increasing buyer concentration.
C. The high costs of maintaining a salesforce.
D. All the reasons in the other options.

6.12 Transactional selling involves all of the following except one. Which one?

A. Short, intermittent sales relationships.
B. One or two salespeople per customer.
C. Sales as the key overall objective.
D. Long, intense sales relationships.

6.13 A supplier moving towards a strategy of key account management can anticipate all of the following except one. Which one?

A. Fewer resources devoted to follow-up and service.
B. Clearer lines of communication.
C. Higher sales.
D. Lower costs.

6.14 Have a look at these two statements.

I. Key account management is similar to transactional selling.
II. Key account management is just one form of sales organisation.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

6.15 A company is more likely to move towards setting up key accounts when customers exhibit _____ buying behaviour with a large decision unit applying _____ choice criteria.

Choose the sequence that correctly completes the blanks.

A. simple varied
B. simple limited
C. complex varied
D. complex limited

6.16 A company is more likely to move towards setting up a key account in each of the following circumstances except one. Which one?

A. When there is potential for differentiation of product and/or service features.
B. When customers are decentralising their operations.
C. When the competition is improving its account handling.
D. When multifunction contacts between supplier and customer are required.

6.17 Have a look at these two statements.

I. The KAM relational development model plots the progression of the buyer–seller relationship based on the nature of the customer relationship.

II. The KAM relational development model plots the progression of the buyer–seller relationship based on the level of involvement with the customer.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

6.18 The KAM relational development model includes all the following stages except one. Which one?

A. Pre-KAM.
B. Late KAM.
C. Partnership KAM.
D. Synergistic KAM.

6.19 What is the name for the breakdown of the relationship between buyers and sellers?

A. Post-KAM.
B. Uncoupling KAM.
C. Partnership KAM.
D. Synergistic KAM.

6.20 Which stage of the KAM relational development model involves joint problem solving, collaborative product development and mutual training of staff?

A. Partnership KAM.
B. Pre-KAM.
C. Synergistic KAM.
D. Early KAM.

6.21 All the following are common causes of uncoupling except one. Which one?

A. Changes in key personnel.
B. Breach of trust.
C. Neglect.
D. Transparent costing systems.

6.22 Suppliers can build up relationships with key accounts in all of the following ways except one. Which one?

A. Providing technical know-how.
B. Reducing the account’s financial burden.
C. Divulging confidential information from other accounts.
D. Improving the quality of service provision.

6.23 Suppliers can build personal trust with key accounts in all the following ways except one. Which one?

A. Responding quickly to problems and complaints.
B. Providing credit facilities.
C. Arranging factory or site visits.
D. Engaging in social activities.

6.24 You can improve service provision in all the following ways except one. Which one?

A. Reliable delivery.
B. Computerised reordering.
C. Fast and accurate quotes.
D. Product guarantees.

6.25 The first stage in a key account planning system is

A. account plan.
B. SWOT analysis.
C. control.
D. account audit.

Case Study 6.1: Cloverleaf

Cloverleaf plc is a UK-based supplier of bottling plant used in production lines to transport and fill bottles. Two years ago it opened an overseas sales office targeting Germany, France and the Benelux countries. It estimated there were over 1000 organisations in those countries that had bottling facilities, and considered this warranted a key sales push in northern Europe. Sales so far have been disappointing, with only three units having been sold. Expectations had been much higher than this, given the advantages of its product.

Technological breakthroughs at Cloverleaf meant that its bottling lines had a 10 per cent speed advantage over the nearest competition with equal filling accuracy. A key problem with competitor products is unreliability. Downtime due to a line breakdown is extremely costly to bottlers. Tests by Cloverleaf engineers at their research and development establishment in the UK showed the system to be the most reliable on the market.

Cloverleaf's marketing strategy is based around high quality, high price and competitive positioning. It believes the superior performance of its product justifies a 10 per cent price premium over its key competitors, all priced at around £1 million for a standard production line. Salespeople are told to stress the higher speed and enhanced reliability when talking to customers. The sales organisation in northern Europe consists of a sales manager with three salespeople assigned to Germany, France and the Benelux countries. A technical specialist is also available when required. When a sales call requires specialist technical assistance, a salesperson contacts the sales office to arrange for the technical specialist to visit the prospect, usually with the salesperson.

Four groups of people inside buying organisations are typically involved in the purchase of bottling equipment: the production manager, the production engineer, the purchasing officer and, where large sums of money are involved (over £0.5 million), the technical director. Production managers are mainly interested in smooth production flows and cost savings. Production engineers are charged with drawing up specifications for new equipment, and in large firms they are usually asked to draw up state-of-the-art specifications. The purchasing officers, who are often quite powerful, are interested in the financial aspects of any purchase, and technical directors, while interested in technical issues, also appreciate the prestige associated with having state-of-the-art technology.

John Goodman is the sales executive covering France. In the sales office in Paris he receives a call from Dr Leblanc, the technical director of Commercial SA, a large Marseille-based bottling company who bottles under licence a number of key soft drink brands. It has a reputation for technical excellence and innovation. Goodman made an appointment to see Dr Leblanc on 7 March. He was looking forward to making his first visit to this company. The following extracts are taken from his record of sales calls.

Extracts

March 7

Called on Dr Leblanc, who told me that Commercial SA has decided to purchase a new bottling line as a result of expansion. He asked for details of what we can provide. I described our system and gave him our sales literature. He told me that three of our competitors had already discussed their system with him. As I was leaving, he suggested that I might like to talk to M. Artois, their production engineer, to check specifications.

March 8

Visited M. Artois, who showed me the specifications he had drawn up. I was delighted to see that our specifications easily exceeded them but was concerned that his specifications seemed to match those of one of our competitors, Hofstead Gm, almost exactly. I showed M. Artois some of our technical manuals. He did not seem impressed.

March 11

Visited Dr Leblanc, who appeared very pleased to see me. He asked me to give him three reasons why they should buy from us. I told him that our system was more technologically advanced than the competition, was more reliable and had a faster bottling speed. He asked me if I was sure it was the most technologically advanced. I said there was no doubt about it. He suggested I contact M. Bernard, the purchasing manager. I made an appointment to see him in two days' time.

March 13

Called on M. Bernard. I discussed the technical features of the system with him. He asked me about price. I told him I would get back to him on that.

March 15

Visited Dr Leblanc, who said a decision was being made within a month. I repeated our operational advantages and he asked me about price. I told him I would give him a quote as soon as possible.

March 20

Saw M. Bernard. I told him our price was £1.1 million. He replied that a key competitor had quoted less than £1 million. I replied that the greater reliability and bottling speed meant that our higher price was more than justified. He remained unimpressed.

March 21

Had a meeting with Mike Bull, my sales manager, to discuss tactics. I told him there were problems. He suggested that all purchasing managers liked to believe they were saving their company money. He told me to reduce my price by £50 000 to satisfy M. Bernard's ego.

March 25

Told M. Bernard of our new quotation. He said he still did not understand why we could not match the competition on price. I repeated our technical advantages over the competition and told him that our 10 per cent faster speed and higher reliability had been proven by our research and development engineers.

March 30

Visited Dr Leblanc, who said a meeting had been arranged for April 13 to make the final decision but that our price of £1.05 million was too high for the likes of M. Bernard.

April 4

Hastily arranged a meeting with Mike Bull to discuss the situation. Told him about Dr Leblanc's concern that M. Bernard thought our price was too high. He said that £1 million was as low as we could go.

April 5

Took our final offer to M. Bernard. He said he would let me know as soon as a decision was made. He stressed that the decision was not his alone; several other people were involved.

April 16

Received a letter from M. Bernard stating that the order had been placed with Hofstead. He thanked me for the work I had put into the bid made by Cloverleaf plc.

Question

1 Analyse the reasons for the failure to secure the order and discuss the lessons to be learnt for key account management.

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Module 7

Relationship Selling

Contents

Learning Objectives

After studying this module, you should be able to

- relate to the ideas put forward by the early quality practitioners;
- see that quality now embraces the organisation as a whole rather than being the sole concern of manufacturing;
- understand how freer world trade is driving companies towards accepting the need for quality in terms of their relationships with their customers and suppliers;
- appreciate the role that is being played by just-in-time manufacturing in bringing about these changes;
- understand the notion of reverse marketing and the change it is bringing about in the traditionally accepted roles of the field salesperson;
- understand the notion of relationship selling as being the tactical marketing and sales key stemming from the adoption of reverse marketing.

Key Concepts

- total quality management (TQM)
- customer care
- relationship marketing
- product or project champion
- best practice benchmarking (BPB)
- supply chain integration (SCI)
- opening account
- relationship selling

7.1 From Total Quality Management to Customer Care

7.1.1 When the Buyer Moves on Does the Relationship End?

Relationship marketing plays a significant role in modern sales management. Companies have for some time realised the benefits of practising a relational approach to selling rather than a transactional one. Nevertheless, many markets are volatile or else have long product life cycles that make the practice of relationship selling challenging. This far-sighted idea came from Peter Drucker and was originally proposed in 1954.[1]

There is only one valid definition of business: to create customers. It is the customer who determines the nature of the business. Consequently, any business has two basic functions: marketing (customer orientation) and innovation.

Much later, Zineldin[2] argued: 'The customer, individual or organisation alike, is at the centre of the organisation's activities and planning.' Reyes Pacios Lozano[3] agreed that 'the customer is at the centre of the organisation'. The importance of the customer remains clear. Several authors have stressed the implications of being 'customer oriented' as the most important component of relationship marketing and relationship selling.[4,5]

Supporting this line of thought, Gummesson[6] claims that 'customer focus' not only 'compels management to realise the firm's primary responsibility – to serve the customer', but also 'to recognise that customer knowledge is paramount to achieving market orientation'.

Another management thinker more often associated with engineering than management was W. Edwards Deming, who has been credited with guiding the Ford Motor Company (USA) towards a sharp focus on quality, not just in manufacturing but in all of its operations, including selling. Although Henry Ford is credited with the production-oriented notion 'you can have any colour you like as long as it's black', in the 1970s Deming formulated a mature theory of quality based on his observations of Japanese manufacturing. His theory revolved around 14 points of philosophical thinking and he is widely regarded as being the modern quality guru. His thinking has changed the way that manufacturing companies operate, as was evidenced from earlier applications in the late 1970s and early 1980s through quality circles, or self-motivated works committees assigned to the improvement of quality.

This tactical thinking has now been replaced by the more mature and strategic view of **total quality management** (TQM) that dominates present-day thinking, not just in manufacturing but in all areas of company activity. In line with the dynamics of TQM, in 1985, when General Motors announced the creation of the Saturn Corporation, calling it the 'the key to GM's long-term competitiveness, survival and success as a domestic provider', the new company's mission was not only to market compact vehicles 'developed and manufactured in the US', but perhaps more importantly to become a world leader in terms of quality, cost and customer satisfaction. Indeed, Saturn was an ambitious undertaking for GM. This positioning was further worsened by the established market share of imports, especially in the compact market.

Additionally, the Saturn project was pursued at a time when the general feeling was that US manufacturers lacked the ability to make world-class compact cars,[7] and General Motors itself had already aborted several attempts to develop such cars. Yet after four years on the market, Saturn had succeeded in building from scratch one of the strongest brands from the USA. In fact, the brand was even compared to the Ford Mustang of the 1960s, the Ford Pinto of the 1970s and the Ford Taurus of the 1980s. According to Aaker,[7] the success of Saturn was not due to any key programme or specific policy, but rather to the total gestalt formed by a dozen Saturn decisions and practices which revolved around creating a relationship between Saturn and the customer and the adoption of a team approach for the product's manufacture.

Taeger[8] contends that these early ideas of quality still tend to trigger mental pictures more related to manufacturing than to the business of selling. This is because their phraseology and concepts relate back to the origins of the quality philosophy of the manufacturing processes from whence Deming took his inspiration. Taeger goes on to say that the difficulty in measuring the success of the quality process in sales is that, even when the initial phase has passed, there are rarely any positive pointers that can be identified as having been improved by the introduction of TQM as part of the philosophy of selling. Indeed, as subsequently pointed out by Aaker,[7] even in the case of the Saturn success story it would have been unrealistic to measure quantitatively the role that any one element played in the ultimate performance of the company.

Despite some negative thinking that still exists in relation to the perception of quality, it is a fact that since the 1980s many bigger companies have recognised that the key to success is the need to evolve from a production- and cost-dominant stance towards one of serving a diverse range of customers through personal contact. A key factor in this transition relates to the process of forming relationships. As the strategic perspective of companies is changing from regional to global thinking, the selling model is changing from a transactions focus to a relationships focus.

This change of perspective in the commercial environment has been supported by academics from the Scandinavian School of Thought, namely Grönroos[9] and Gummesson.[10] In fact, by offering the Nordic perspective, these academics have led the argument that the marketing mix theory is inadequate in today's business environment. While Grönroos's main argument[9] that the traditional marketing mix approach is inadequate for operating in line with the marketing concept (i.e. satisfying customer needs and wants) appears to be based on the four Ps approach, constituting a production-oriented definition of marketing and a reliance, at best, on mass marketing, Gummesson[6] argues that the marketing mix approach is supplier oriented as opposed to customer oriented. Hence it excludes or treats marginally matters like complaints handling, invoicing, design and production. Additionally, Gummesson advocates that the four Ps approach is narrowly limited to functions and is not an integral part of the total management process.

The general consensus about this change of focus lies mainly in the fact that, although customer focus prevails, relationship marketing aims to cover the whole organisation. Accordingly, Schill and McArthur[11] contend that this evolution is taking place now, with marketing adopting a more strategic dimension and with manufacturing, finance and human resource management being integrated and matched to support a coherent competitive strategy to assist marketing in such matters as cost leadership and product differentiation.

As the worldwide political and regulatory climate continues to be increasingly liberal towards the encouragement of free trade, it becomes more difficult to sustain market leadership based on short-term, sales-oriented transactions. Hence, in order to succeed in their search for new ways of gaining competitive advantage over rivals, sellers must engage in building and maintaining long-lasting relationships with their customers.

As competition intensifies, companies are seeking to differentiate their products not only via the *actual product* (the primary focus of the traditional marketing mix) by styling, packaging, brand image, quality and price benefits, but more holistically at the level of the *augmented product*. Accordingly, added benefits like sales support, guarantees and after-sales care that support purchase and consumption experiences are increasingly being provided.

Stalk *et al.*[12] cite the case of Honda's original success in motorcycles resulting from the company's distinctive capability in dealer management, which departed from the traditional relationship between motorcycle manufacturers and dealers. Honda provided operating procedures and policies of merchandising, selling, floor planning and service management. It trained all its dealers and their staff in these new management systems and supported them with a computerised dealer management information system.

Customer-focused quality is now essential because it involves a change from an operations-centred activity to a customer-targeted activity. As the move towards a global economy quickens, so customers demand quality in terms of their relationships with sellers, with increased emphasis being placed on reliability, durability, ease of use and after-sales service.

Supporting the argument that changes in the global environment are threatening established value chains, Walters and Lancaster[13] offer an alternative view. Traditional value chains begin with the company's core competences, whereas evidence suggests that modern value chain analysis reverses this approach and uses customers as its starting point.

Building on this contention, Zineldin[2] agrees: 'Effective marketers view making a first time sale not as an end of a process, but as a start of an organisation's relationship with a customer' and further argues 'to protect added value, a company needs to create and enhance long-term customer relationship'.

This leads to the modern notion of **customer care**. Customer care is a philosophy which ensures that products or services and the after-care associated with serving customers' needs at least meets, and in most cases exceeds, expectations. In support of this view, it is argued that customer loyalty can no longer be relied upon because there is greater product and service choice.

Modern studies repeatedly show how reduced marketing expenditures and lifetime value based on commitment and trust make it more cost-effective to keep existing customers than to recruit new ones. However, according to Sasaki,[14] marketing must still react to this in a positive way by integrating new customers into a company in an attempt to develop a new relationship between them and the company. These new customers expect products or services to be in harmony with their lifestyles and values, and he contends that a winning product concept is generated when designers and consumers share a contemporary atmosphere and interact with each other; in other words, when customers feel more 'involved'. This is central to the notion of customer care. He further proposes that this atmosphere can be created as a result of technological advancements in mature cultures where style, tastes and demand can be better anticipated and suitable products can be developed.

Problems of integrating IT into building and maintaining customer relationships have not yet been solved in a comprehensive and satisfactory way. Zineldin[15] emphasises that IT tools should be used not only 'to provide relation-ship-building credibility and opportunities' but also to enable marketers to 'keep their finger on the customer's pulse and respond to changing needs'. Indeed, as companies look to possible customer needs for technological advancements, communication tools will 'provide great opportunities for creating [a] long-term and close relationship'.

This view is evidenced by the approach of Nissan, the Japanese car manufacturer, when it saw that its market share was in decline. It changed its organisational structure and company philosophy to reflect, as its first priority, the concept of customer satisfaction. Development times were cut, leading to quicker lead times. Coupled with a greater awareness of what customers wanted, this had the effect of turning around the fortunes of the company and placing it in a more stable position in the marketplace. Further, more recent, evidence of the success that close attention to customer needs can create is provided by the Microsoft Corporation. Microsoft realised that the average person had little training or knowledge of computer software or programming. It replaced technical jargon with easily understandable icons and graphical representations of the tasks to be done. Microsoft is now the largest software company in the world and its founder, Bill Gates, one of the richest men in the world.

The idea of total product quality has been explored by Brooks and Wragg,[16] who contend that it is relevant to manufacturing companies adopting a market-driven approach to TQM. This infers that market-led quality can ensure customers perceive quality is built into both the product and the service component of the total product offering, as illustrated in Figure 7.1.

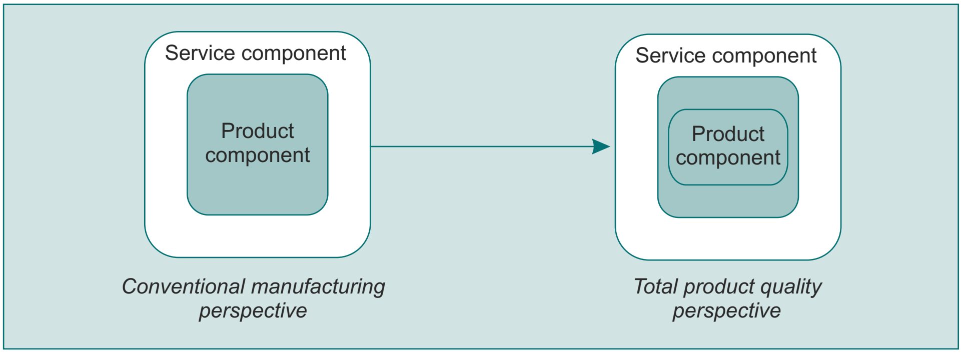

Figure 7.1 **Internal to external focus of total quality perspective**

Market-driven TQM and the development of total product quality for manufacturing companies are concepts upon which companies should focus. As product parity is reached between different product offerings, so companies can gain a competitive advantage by increasing the total service component of their market offerings. This is more than simply offering an after-sales service, it is a programme of total customer care.

7.2 From JIT to Relationship Marketing

Christopher *et al.*[17] absorbed the TQM ideas of bringing together quality, marketing and customer service, and labelled the resulting mixture **relationship marketing**. Although there is no consensus as to what relationship marketing constitutes (a study by Harker[18] revealed 26 definitions by a pantheon of authors), the general consensus is that relationship marketing means that organisations must be designed to enable them to pick up changes in the marketplace on a continuing basis. This is where the quality chain must be anchored.

This is the essence of what is termed **business process re-engineering**. For example, Toyota based its pioneering **just-in-time** (JIT) management system around the needs of customers. Work was reorganised to accommodate a variety of customer preferences in terms of the fastest possible response time and it is described as a system that delivers input to its production site at the required rate and time. It thus reduces inventories within the firm and is a mechanism for regulating the flow of products between adjacent firms in the distribution system channel.

The notion of JIT has already been dealt with from a buyer behaviour viewpoint in Section 3.4.3. In this context it is argued that in a well-synchronised JIT manufacturing system, customer demands can be met and profits maintained or increased through a reduction in stockpiles and inventory levels which do not gain in value as they await the production process. In fact, they cost the organisation money in terms of financing an unproductive resource. In such a system the supplier and manufacturer relationship is critical and close associations must be developed. Typically this means a reduction in the number of suppliers and more long-term relationships. Rosenberg and Campbell[19] have said that salespeople spend less time selling and more time liaising between buyer, engineer and their own production management. This leads us to the notion of relationship selling, which will be discussed later.

In contrast to the dynamics of the traditional marketing mix, which according to Peppers and Rogers[20] favours 'growth driven by mass marketing' and 'encourages businesses to chase short-term profits based on transaction volume', relationship marketing means that an organisation's marketing effort should be designed around a series of contacts with customers over time, rather than based on single transactions.

This means that more non-marketing people are involved in the process, and it has led to the notion of what Gummesson[6] terms the **part-time marketer**, as these non-marketing people are increasingly brought into contact with customers at an operational level. He states that TQM has become an integrator between production orientation and marketing orientation, and the convergence of these two approaches towards the same goal aims to create customer-perceived quality and customer satisfaction.

This view is further supported by Clark and Fujimoto,[21] who contend that the traditionally held view of marketing is too assumption based and slow to respond to new customer demands. Traditional company and marketing structures are too hierarchical and rigid, and thus cannot respond to new segments or niches within a market. Clark and Fujimoto further state that in industries ranging from cars and computers to jet engines and industrial controls, new products are the focal point of competition. Developing high-quality products should be at the top of the competitive agenda for senior managers around the world.

Many companies now bring marketing into product development at a much earlier stage in the decision-making process. Temporary task forces are set up as project teams which involve personnel from different departments led by a team leader or project manager to oversee the introduction of new products. Such people are called product champions or project champions. In the automotive industry this normally starts at the design stage of a new vehicle when the product concept is being developed through initial brainstorming and lasts right through to the product's launch. As a result, there is continuity of interest and impetus and it is not a matter of the project being handed over to the next stage of the development through to launch process.

At a practical level, the Department of Trade and Industry[22] has introduced what it calls **best practice benchmarking** (BPB). This involves an organisation forming a project team comprising people from multifunctional areas, such as marketing, production, quality and purchasing. The team's task is to obtain information about products or companies in their industry which have a higher level of performance or activity, and to identify areas in their own organisation that need improving. The team also needs to be given the facility for research on product development and quality. It is contended that the benefits of shared knowledge in such a multifunctional team mean that companies implementing BPB should find it drives members of the team to meet new standards, or even to exceed them.

7.3 Reverse Marketing

Reverse marketing is described in Section 3.6.3; see Figure 3.7. Although buyers have the purchasing power to initiate commercial transactions, it is traditionally the case within organisational buying situations that sellers tend to visit buyers, the main focus of this text. This is sometimes called transactional marketing, where the emphasis tends to be on a single sale and the time horizon tends to be short-term. Quality is generally seen to be the concern of production and there tends to be an emphasis on product features and price.

To re-emphasise what was said earlier, the notion of reverse marketing occurs where buyers tend to take the initiative and they source suppliers (sellers). This scenario is particularly applicable in retailing and in JIT manufacturing situations. JIT manufacturing has proved to be so economical and efficient that it will form an increasing trend in production line manufacturing situations where a relatively standardised product is being produced on a continuous basis. In this situation, buyers seek to source suppliers whom they will retain for a long period. The main criteria being sought from suppliers rest on the quality of their goods and the reliability of their supplies as and when they are demanded.

In JIT situations, downtime on the production line resulting from faulty components or late delivery can prove very expensive. This view is supported by Deans and Rajagopal,[23] who say that the cheapest component procured by driving hard bargains with multiple sources is not necessarily the least expensive in the long run. Once the cost of poor quality is factored in – downtime on the production line, rework, scrap, warranty work, legal fees, etc. – the cheapest may well prove to be the most costly.

Leenders and Blenhorn[24] state that many companies take a minimum of two years to achieve acceptable quality standards from suppliers in the situation just described. To discuss contracts for six months or one year is meaningless. Purchasing development costs must be recovered and this has to be done over longer periods of time. Suppliers and buyers form a long-term co-makership agreement where both parties derive mutual benefits.

Kearney[25] conducted a wide-ranging study which concluded that the next wave of business improvement will not be obtained by looking at business in isolation, but by looking at the supply chain as a whole to find new opportunities to improve overall effectiveness. Additional areas of duplication and waste become evident and offer new sources of cost reduction. Service to the end customer can be driven to even higher standards by focusing the whole supply chain towards that goal, rather than diluting the efforts of individual companies through conflicting objectives. This broader vision is termed **supply chain integration** (SCI).

Kearney concludes that closer relationships between suppliers and customers will become a competitive necessity. He does, however, caution that a naive belief in an ill-defined concept of partnership as a universal panacea will be counterproductive. A level of realism is required in SCI to take account of the practical difficulties of integration, the level of sophistication of the participants and the nature of competitive advantage and power within the supply chain. Each company has a different mix (or portfolio) of supply chain relationships operating at different levels and the key is to select the right one for the right supply chain.

The trend towards reverse marketing will gather momentum. Buyers as a group are becoming more professional; indeed this professionalism is needed in JIT purchasing situations. So how does a seller cope with buyer needs once the company is an in-supplier and a long-term relationship is anticipated? This brings us back to the notion of relationship marketing. Grönroos[26] argues that implementing the traditional view of marketing is unsatisfactory. He quotes the limitations of the four Ps and claims that other Ps, such as people and planning, have to be added in an attempt to cover new marketing perspectives. He agrees with the concept of a company basing its activities on customer needs and wants in target markets, but argues that this still smacks of production orientation since these ideas stem from the firm and not from the marketplace. His redefinition of marketing perhaps sums up the concept of reverse marketing and the resultant cognition of relationship marketing when he states: 'Marketing is to establish, maintain and enhance long-term customer relationships at a profit so that the objectives of the parties involved are met. This is done by a mutual exchange of promises.'

Box 7.1: Building Trade Groups Reject 'Native' Partnership Targets

Plans to step up the use of collaborative teams in construction projects ignore the need to integrate the wider supply chain, industry bodies have warned. There has been too much emphasis on forming integrated supply teams at the expense of understanding how to improve each organisation's individual supply chain.

This sentiment has been echoed by Brian Wilson, construction minister, who has called for the public sector to take a stronger lead in collaborative projects. 'We need teams and supply chains moving from one project to another, building up expertise that encourages innovation and a constant quest for better value,' he said.

Steven Ratcliffe, chief executive of the Construction Confederation, has said: 'Each project will need to rely to some extent on local supply chains, which will be different from job to job.'

Source: Adapted from a news item by Robin Parker, *Supply Management*, 18 July 2002, p. 10.

7.4 From Relationship Marketing to Relationship Selling

Cox *et al.*[27] put forward a very interesting view from a procurement angle when they contend that substantial additional value could be secured in buyer–supplier relationships by securing a greater focus on the supply chain. From the purchasing viewpoint, this involves an integrated approach to value acquisition from suppliers, value addition from manufacturing and value delivery to customers.

Added to this view is the fact that the most important feature of buyer–seller transactional relationships tends to revolve around price; indeed negotiation is one of the key issues in the sales presentation. However, a new view has emerged, based on the notion of **open accounting**. This kind of agreement is only possible when long-term relationships between buyers and sellers have been established in a typical JIT production situation. Here price negotiation does not feature in buyer–seller transactions because each side sees the other's price make-up. Buyers will have access to the seller's accounts in terms of the cost build-up for components or materials being supplied. These accounts will show the amount of material, labour and expenses plus overheads that have been incorporated into the cost of such products. As the notion of open accounting would suggest, complete open access is afforded. Equally, suppliers will have access to the manufacturer's accounts to conduct a similar analysis. A mutually acceptable margin for profit will then be agreed between the buyer and supplier so, in effect, the pricing element of the marketing mix has now become redundant, which perhaps gives additional credence to the earlier view relating to Grönroos's new definition of marketing.

All this suggests that certain tactics are needed to implement relationship marketing. However, Slater and Narver[28] argue for a holistic concept of value: 'Creating superior value for consumers requires a detailed understanding of the consumer's entire value chain (holistic needs), not only as it is today but also as it evolved over time (anticipated need).'

This type of marketing is about the strategic thinking that accompanies the new view of marketing brought about as a result of reverse marketing. It is contended that relationship selling concerns the tactical features of securing and building up the relationships implicit in relationship marketing. Thus, 'what establishes a firm's competitive advantages is their ability to serve customer's present and future needs (holistic needs)'.

Barnet *et al.*[29] observe striking differences between Western and Japanese approaches to the sharing of technological effort. In Europe, an average of 54 per cent of the approximately 6800 engineering hours needed to produce a new model are contributed by subcontractors. In the USA only about 14 per cent of the 4200 engineering hours needed are contributed by subcontractors. In Japan the hours required to produce a new model are lower at 3900 but about 72 per cent of those are supplied by subcontractors. The subcontractors' ability to participate in product design gives the Japanese customer the advantage of sharing the workload and reducing the time to market through what is called **simultaneous engineering**. In such a relationship it is common for the partners to provide access to shared technology.

Thus the role of marketing is changing. Selling is often viewed as a tactical arm of the marketing function and its role is also changing. In addition to the changes that have been identified so far, the marketing environment is changing in other ways. The penetration of the worldwide market by satellite and cable television means that blockbuster promotional campaigns are becoming increasingly difficult to sustain, owing to the fragmentation of viewers' patterns of watching television programmes. The increased abundance of channels had led to potential customers being dispersed into a wide variety of media audiences. Accordingly, the media are segmenting audiences more narrowly, hence it is more and more difficult to reach a wide audience through the same medium. Thus, in order to inform and persuade customers as well as to retain them, methods other than mass advertising ought to be given prominence.

Further, the massive increase in competition and increasing choice among customers in business and consumer markets, coupled with increasing affluence in the last two decades, have meant that customers have become, and continue to become, more sophisticated and demanding. Even when products offered are satisfactory, customers still seek and exercise their right to go from one supplier to another in order to purchase the products they need at a better price or merely to experience change and variety, as well as for many other reasons. Thus, brand loyalty has become more difficult to maintain.

Meanwhile, as the effectiveness of above-the-line media diminishes in general, so it will become a less attractive form of promotion for advertisers. Consequently, suppliers are considering different ways of keeping customers loyal to survive and prosper.

There will be a move towards below-the-line activity as more cost-effective campaigns can now be mounted through precisely targeted direct marketing approaches. This will lead to more effective ways of generating sales leads. Push rather than pull promotional techniques will become increasingly popular, a push promotional strategy is very much the concern of the sales function. Although many suppliers, in particular retailers, have turned to such tactical devices as loyalty cards, other more visionary companies will be adopting a more strategic and philosophical approach to gaining customer loyalty through designing genuine relationship marketing programmes. This in turn implies a general increase in customer care programmes that can be viewed as an effective means of customer retention. Large companies, which might have viewed the unique selling proposition as being their winning card when dealing with customers in the past, will be compelled to adopt more of a small business philosophy by staying adjacent to their customers in terms of understanding their needs and looking after them post-sale. Grönroos[9] contends that we are now experiencing, as a result of the growing awareness of the relationship marketing approach, a return to the natural systems-oriented way of managing customer relationships which existed before marketing became a clinical decision-making discipline or an overorganised and isolated function.

Lancaster and Reynolds[30] suggest some of the activities that are increasingly becoming the responsibility of the sales function when they describe an expanded role for the modern salesperson. Some of the views of this enlarged role have been extended into what can now be regarded as a modern view of the tactics of relationship selling.

7.5 Tactics of Relationship Selling

Customer retention constitutes a prime objective of relationship selling. This can only be achieved in an organisational selling situation by having full regard to customers' needs and by working to form long and trustworthy relationships. In such situations it can be seen that the length of time individual salespersons stay in particular posts may well increase since buyers generally stay in their positions about twice as long as field salespeople. This new tendency has given rise to the associated concept of internal marketing, defined by Berry[31] as 'the means of applying the philosophy and practice of marketing to people who serve external customers so that (i) the best possible people can be employed and retained and (ii) they will do the best possible work'.

Just as in the case of external customers, there is a strong body of opinion that internal marketing should focus on long-term relationships and employee retention within company departments. Thus it is anticipated that under relationship selling circumstances the time individual salespeople spend in a particular post will move towards that of their purchasing counterparts. Why should this be the case? It can be postulated that buyers, because of the type of role they fulfil, have what may be termed a more sedate occupational lifestyle than that of the traditional salesperson, whose lifestyle on the road can be quite hectic. Buyers are thus more settled and stay in post longer. As buyers become more proactive in the marketplace under the system of reverse marketing, so their lifestyle will become more akin to that of the field salesperson. Although there is pressure to purchase effectively, this is different from the pressure to sell in terms of reaching sales targets and quotas in a given period.

At the same time, the role of the field salesperson will also experience a different kind of work pressure under reverse marketing. The pressure will focus on the longer-term goal of customer retention rather than sales targets and quotas. In fact, it is even contended that in such circumstances the traditional sales commission system might well disappear to be replaced by a higher basic salary plus bonuses shared by the expanded sales team whose ranks have been swelled by the concept of the part-time marketer. This might include production, quality and finance people, among others.

In their proposal of the 'virtuous circle', Reichheld *et al.*[32] advocate that the emphasis of this approach is placed on mechanisms which motivate employees to achieve as highly as possible. Hence support mechanisms such as training programmes that enable employees to do their jobs to the best of their abilities are becoming primordial.

Different qualities will be required of field salespeople in relationship selling situations. There will be a move away from the qualities of salespeople that are quoted in Table 12.1. The importance of features such as determination, self-motivation, resilience and tenacity, although still important when establishing long-term relationships, might well be overtaken by the greater relevance of features such as acceptability, attention to detail and a general ability to get along with people on a long-term basis. To a certain extent, the cut and thrust that one traditionally associates with field selling positions will be supplanted by a calmer environment of working together as a team that includes members of the salesperson's own company and the buyer's company.

Additionally, the attitudes of the buyer or customer towards the salesperson will also need to be taken into consideration. For instance, liking a specific salesperson will positively affect a buyer's attitude towards the products recommended by that person. However, caution must be exercised when interpreting selling relationships. Research by Kinniard[33] has shown that the sales role is attracting empathetic people who are not always successful because they mistake friendliness as meaning that a relationship has been established and naively anticipate that business will flow automatically.

Sales visits to individual customers are likely to be longer in duration and this will result in less individual sales calls being made. In fact, in some situations it can even be envisaged that there might well be somebody from the supplier's company permanently in place at the customer's company. This is already being practised by some high-technology companies, for example those providing computer software and hardware to large retail organisations.

At a more practical level, the following two activities which currently tend to be regarded as ancillary to the task of selling will become more important: information gathering and servicing.

7.5.1 Information Gathering

Information gathering in terms of collecting market information and intelligence is becoming an increasingly important part of the task of selling. Such information gathering feeds into the company's marketing information system as shown in Figure 7.2.

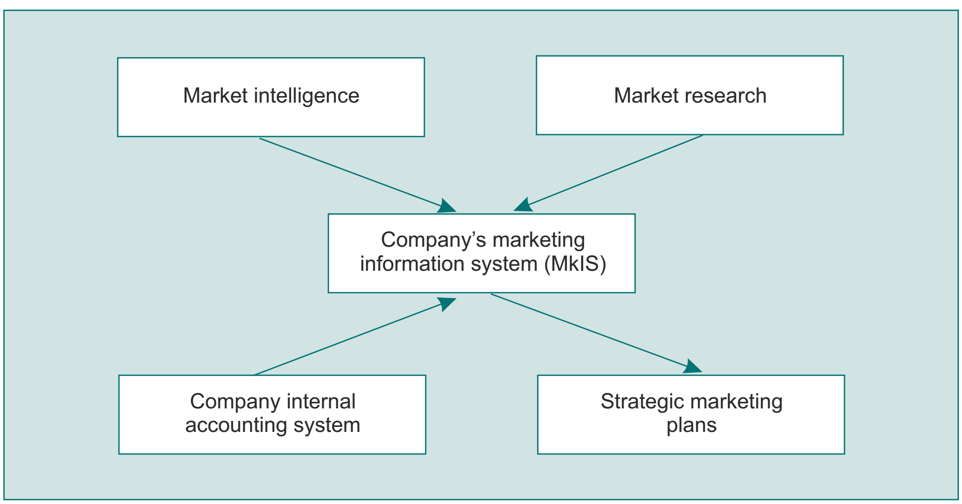

Figure 7.2 Marketing information system

A company's marketing information system (MkIS) has three inputs: marketing research, market intelligence, and the company's own internal accounting system. These are inputs to the MkIS, which captures the data on a database. Marketing research is provided by the marketing department from primary and secondary research and from commissioned survey data. The company's internal accounting system relates to sales analyses by customer purchases over periods of time by customer group, geographical area, size of order, and by any other combination that may be required. Market intelligence relates to information about competitors and the products and services they supply, plus information as to how they generally perform with their customers. It also relates to the company's own customers.

Field sales personnel are extremely good collectors of market information and intelligence. The responsibility of salespeople as collectors of such information will expand and information technology skills will become increasingly important as individual salespersons interact in terms of input to and output from the MkIS as part of their routine activities. There is, of course, an output from the MkIS and this contributes to the strategic marketing planning system. Business in general is becoming more strategic and long-term, and the MkIS is the principal data input into strategic marketing plans. The role of individual salespersons will become of more strategic value as their regular reports are incorporated into the MkIS, which in turn inputs into the organisation's longer-term marketing plans.

When monitored adequately, this process should be dynamic because interaction with customers is ongoing. The added benefits of such an integrated process include the following:

- Reduced selling costs are achieved through using information derived from the MkIS. New business response provides information to improve future targeting and, through experience of what works and what does not, it improves the productivity of subsequent advertising and sales promotion.
- More sales per customer are achieved through using customer case histories, leading to better identification and categorisation of customers, better segmentation and targeting, and better presentation of relevant offers. Identification of 'best customers' will determine future selling efforts, identify potential customers who warrant personal calls or special offers or even the type of representative who can best service each category of customer or enquirer.
- Superior business forecasting is achieved by analysing campaign and customer case history data, using past performance as a guide to future performance. Because the errors in past activities need not be repeated, efficiency should be subject to continuous improvement (control).

7.5.2 Servicing

Servicing is an area in which the role of the salesperson will become invaluable. This will include a certain amount of first-line servicing, so product application will be important as well as product knowledge, but what we refer to here is servicing in the broader sense of serving customers on a highly individual basis. The phenomenon of field sales personnel staying longer in such positions will provide them with more time to acquire such skills. Indeed, as highlighted by Reichheld *et al.*,[34] employee retention is essential for profitability.

However, it is likely these sales personnel will come from more technical backgrounds such as engineering or chemistry. Servicing will also include the provision of technical advice in relation to such matters as levels of quality, arranging after-sales service, establishing improved customer care programmes, and even offering consultancy services. More practical matters, such as agreeing delivery schedules, expediting individual orders, and occasionally, progressing payment for orders supplied, will also feature in this context. In JIT manufacturing situations the salesperson's company will form part of the supply chain, which stretches not only forwards to the end customer but also backwards towards the sources of prime manufacture, so buyers might need information from the salesperson's suppliers as part of the process of supply chain integration.

Swenson and Herche[35] used established scales as measures of salesperson performance and ascertained their ability or motivation to adapt their approach to meet customer needs. They ascertained the ability to become customer oriented as opposed to being sales oriented, and to determine whether or not the salesperson does actually use motivation to achieve results that benefit themselves and the customer. They concluded that the personal values of achievement, self-direction, self-respect and self-accomplishment were the key factors for successful salespeople. They further concluded that these social values could enhance the recruitment and selection of salespeople.

Does all of this suggest that the salesperson of the future will not need to be versed in any of the skills of selling? In a word, no. Prospecting skills will always be needed from leads that will be increasingly generated from direct marketing approaches rather than from cold calling. Skills of sales presentation will also be required in such circumstances. Negotiation skills too will still be needed. Communication skills have always been an important part of the field salesperson's armoury, but under traditional marketing such skills have been honed in such a way as to win orders through telling them what they want (or need) to know. Under systems of reverse marketing, communications skills will still be essential, but the customer–sales person dyad will be more in terms of equals than of us and them.

Learning Summary

This module has examined current trends in the marketplace and looked at them in the context of likely future changes within the selling function.

It has traced the development of the movement towards relationship selling from its earliest roots based on quality issues through to the more mature notion of total quality management (TQM). In a more discerning marketplace, customers desire and deserve the best in terms of quality. The selling implications of such expectations have been discussed.

Just-in-time (JIT) manufacturing is growing apace as a manufacturing technique, with the result that longer-term selling relationships are becoming the norm. Traditional marketing is thus beginning to be replaced by reverse marketing, with buyers becoming more proactive in initiating commercial transactions, including long-term strategic relationships.

Relationship selling comprises the raft of sales tactics that actually delivers relationship marketing strategy to the company and to customers.

Review Questions

Content Questions

7.1 Describe the concept of total quality management.

7.2 Describe the concept of customer care.

7.3 What does relationship marketing mean?

7.4 What caused the emergence of the part-time marketer?

7.5 Why might a company introduce best-practice benchmarking?

7.6 What is open accounting and why might companies adopt it?

7.7 When field salespeople do relationship selling, what qualities do they need?

7.8 What are the inputs to a company marketing information system?

Multiple-Choice Questions

7.9 As the strategic perspective of companies is changing from regional thinking to global thinking, the selling model is changing from a _____ focus to a _____ focus.

Choose the sequence that correctly completes the blanks.

A. production cost-dominated
B. cost-dominated production
C. transactions relationships
D. relationships transactions

7.10 Which of the following ensures that products or services and the after-care associated with serving customer needs at least meet expectations and usually exceed expectations?

A. Total quality management.
B. Customer care.
C. Best-practice benchmarking.
D. Key account management.

7.11 Relationship marketing brings together which of these TQM ideals?

A. Quality.
B. Marketing.
C. Customer service.
D. All the ideals in the other options.

7.12 In a well-synchronised JIT manufacturing system, supplier and manufacturer relationships typically change in all the following ways except one. Which one?

A. Salespeople spend more time selling.
B. Reduction in the number of suppliers.
C. Development of more long-term relationships.
D. Salespeople spend more time liaising between buyers and their own production department.

7.13 High stockpiles and inventory have what effect on profitability?

A. A positive effect.
B. A negative effect.
C. No effect.
D. An effect which cannot be assessed.

7.14 Have a look at these two statements.

I. Best-practice benchmarking involves obtaining information about products or companies in different industries which have a higher level of performance or activity.

II. Best-practice benchmarking involves identifying areas in your organisation that need improving.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

7.15 In transactional marketing, where is the usual sales emphasis and what is the usual time horizon?

A. Multiple sales, short-time horizon.
B. Multiple sales, long-time horizon.
C. Single sale, short-time horizon.
D. Single sale, long-time horizon.

7.16 Have a look at these two statements.

I. In open accounting, price negotiation is a key feature in buyer–seller transactions.

II. In open accounting, the cost build-up for supplied components or materials is known to both parties.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

7.17 Under reverse marketing, how do buyers behave in the marketplace?

A. They become more reactive.
B. They become more proactive.
C. They become more decisive.
D. They become more indecisive.

7.18 In relationship marketing, what is likely to happen to the duration of sales visits to an individual customer? What is likely to happen to the number of sales calls to an individual customer?

A. Shorter visits, more calls.
B. Shorter visits, fewer calls.
C. Longer visits, more calls.
D. Longer visits, fewer calls.

7.19 Primary research is an example of which element of a company's marketing information system (MKIS)?

A. Market intelligence.
B. Market research.
C. Company internal accounting system.
D. Strategic marketing plans.

7.20 Information about competitors is an example of which element of a company's marketing information system (MKIS)?

A. Market intelligence.
B. Market research.
C. Company internal accounting system.
D. Strategic marketing plans.

7.21 Will salespeople have more responsibility or less responsibility as collectors of market information and intelligence? Will IT skills become more important or less important to salespeople?

A. Less responsibility, less important.
B. Less responsibility, more important.
C. More responsibility, less important.
D. More responsibility, more important.

7.22 Information gathering and servicing are important in selling. How do you think their importance will change in the future?

A. Their importance will increase.
B. Their importance will decrease.
C. They will become unimportant.
D. Their importance will not change.

7.23 Which of the following are considered key qualities of successful salespeople?

A. Driven by achievement.
B. Respect themselves.
C. Show self-accomplishment.
D. All the qualities in the other options.

Case Study 7.1: Midlands Switchgear

Midlands Switchgear Limited is a large manufacturing concern based in Wolverhampton. It was founded in 1904 and owed its initial growth to the expansion of tramway services in the early twentieth century.

Today the company relies largely on sales to the regional electricity companies, and to National Power and PowerGen, the national generators. Its products are widely used in the electricity distribution network, namely in electricity substations. It manufactures switchgear, but many of the components are bought in. Such bought-in components include current transformers, relays, switches and the cabinets to house them. For each component purchased, the company operates a sourcing policy of two preferred suppliers from a pool of five. This is to ensure continuity of supply in an industry that now demands 'instant' response. This is a trend that has become particularly prevalent since the privatisation of the electricity industry in the early 1990s.

The purchasing department is responsible for routine procurement, but inputs on which suppliers to use come from the following people:

- Phil Stonehouse BSc (electrical engineering), the commercial director, is responsible for sales and marketing, contracts and transportation.
- Martin Gilbert BSc (electrical engineering), director of engineering, is responsible for engineering and product design. He belongs to the Institute of Electrical Engineers.
- Roy Young BSc (electrical engineering) and PhD (electronics), technical director, is responsible for product development and troubleshoots technical queries from customers. He belongs to the Institute of Electrical Engineers.
- Harold Charlesworth, a qualified member of the Chartered Institute of Management Accountants, is in overall charge of the financial function, but here his specialist input is on budget-setting and costing.

The domestic UK market for the company's products is not regarded as particularly price-sensitive. UK manufacturers have traditionally been sheltered from European and other competition by several non-tariff barriers. The principal one has been the ability of switchgear manufacturers to provide service back-up at four hours' notice. The physical nature of power distribution in the UK differs from many other countries, including those in the European Union, so although there is no official non-tariff barrier, there are quite daunting technicalities to understand and quite daunting infrastructure to develop before non-UK companies can compete.

Here are some important things to consider when purchasing switchgear components:

- customer specifications on the instrumentation manufacturer;
- product quality, which usually means purchasing from approved suppliers;
- availability of spares and servicing;
- prompt delivery;
- price considerations.

Questions

1 What are the drawbacks to the DMU at Midlands Switchgear from (a) Midland Switchgear's viewpoint and (b) the viewpoint of a prospective company wishing to become an approved supplier?

2 What do you think are the main commercial threats facing Midlands Switchgear? Having identified these threats, how do you think the company should best reorganise to overcome them?

3 Imagine you work for a company wishing to sell relays to Midlands Switchgear. Draw up an outline sales strategy of how you would approach Midlands Switchgear.

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Module 8

Direct Marketing

Contents

Learning Objectives

After studying this module you should be able to

- understand the meaning of direct marketing;
- appreciate the reasons for growth in direct marketing activity;
- understand the nature of database marketing;
- know how to manage a direct marketing campaign;
- know the media used in direct marketing.

Key Concepts

- direct marketing
- database marketing
- direct mail
- telemarketing
- direct response advertising
- catalogue marketing
- the creative brief
- campaign management

A major change that is reshaping the face of selling is the growth of direct marketing. This module explores the major changes that are taking place, the key tools that can be used and how the direct marketing process can be effectively managed. It begins by explaining the meaning of direct marketing before discussing the use of database marketing. The management of direct marketing activities will then be explored, including setting objectives, targeting, achieving customer retention and creating action plans.

8.1 What Is Direct Marketing?

Direct marketing attempts to acquire and retain customers by contacting them without the use of an intermediary. The objective is to achieve a direct response which may take one of the following forms:

- a purchase over the telephone or by post;
- a request for a catalogue or sales literature;
- an agreement to visit a location or event (e.g. an exhibition);
- participation in some form of action (e.g. joining a political party);
- a request for a demonstration of a product;
- a request for a salesperson's visit.

Direct marketing, then, is the distribution of products, information and promotional benefits to target consumers through interactive communication in a way which allows response to be measured. It covers a wide array of methods, including the following:

- direct mail;
- telemarketing (both inbound and outbound);
- direct response advertising (coupon response or 'phone now');
- electronic media (internet, interactive cable TV);
- catalogue marketing;
- inserts (leaflets in magazines);
- door-to-door leafleting;
- text messaging (see Box 8.2)

Direct marketing has experienced growth in usage in Europe. Figure 8.1 illustrates its use in some European countries. Smith outlines five factors that have fuelled the rise in direct marketing activity:[1]

- **Market fragmentation.** The trend towards market fragmentation has limited the application of mass marketing techniques. As market segments develop, the capacity of direct marketing techniques to target distinct consumer groups is of increasing importance.
- **Computer technology.** The rise in accessibility of computer technology and increasing sophistication of software, allowing the generation of personalised letters and messages, has eased the task of direct marketing.
- **The list explosion.** The increased supply of lists and their diversity (e.g. 25 000 Rolls-Royce owners, 20 000 women executives and 100 000 house improvers) has provided the raw data for direct marketing activities.
- **Sophisticated analytical techniques.** By using geodemographic analysis, households can be classified into neighbourhood type (e.g. modern private housing; young families; private flats, single people). These in turn can be cross-referenced with product usage, media usage and lifestyle statements.
- **Coordinated marketing systems.** The high costs of personal selling have led an increasing number of companies to take advantage of direct marketing techniques such as direct response advertising and telemarketing, to make the

salesforce more cost-effective. For example, a coupon response advertisement or direct mail may generate leads that can be screened by outbound telemarketing, or inbound telemarketing can provide the mechanism for accommodating enquiries stimulated by other direct marketing activities.

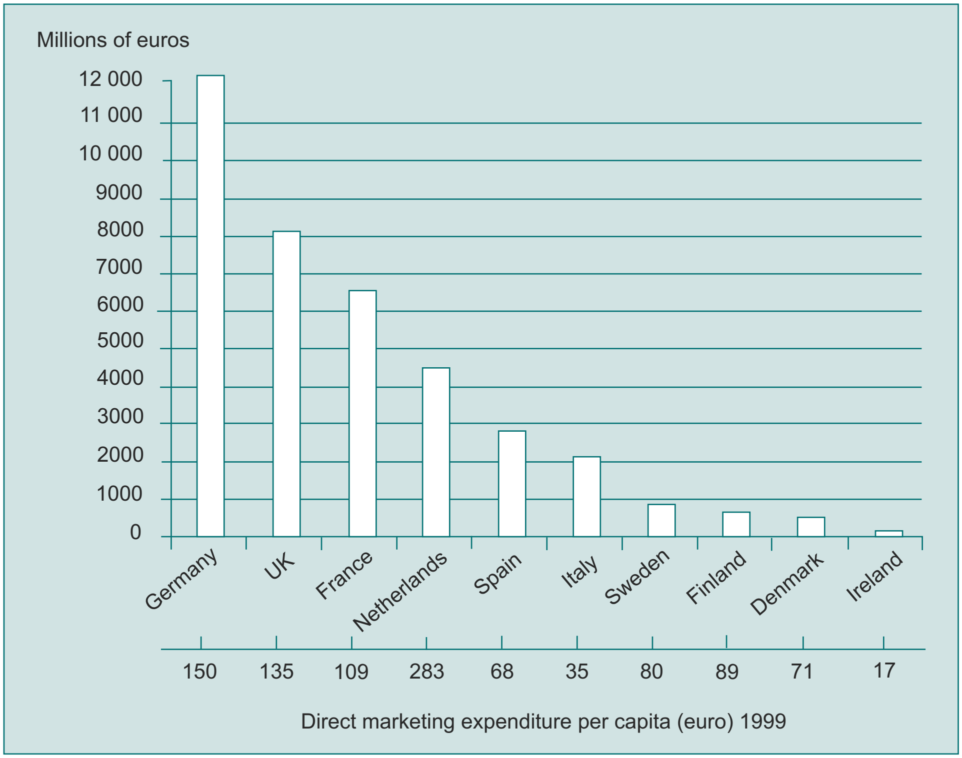

Figure 8.1 **Expenditure on direct marketing in Europe**

Source: Adapted from Direct Marketing Expenditure and Direct Marketing Expenditure per Capita, *European Marketing Pocket Book 2002*, NTC Publications, Henley-on-Thames.

As with all marketing communications, direct marketing campaigns should be integrated within themselves and with other communication tools such as advertising, publicity and personal selling. Uncoordinated communication leads to blurred brand images, low impact and customer confusion. Box 8.1 discusses the capability of direct marketing to transform markets.

Box 8.1: How Direct Marketing Can Change Markets

The three classic cases of how direct marketing can transform markets are Dell Computers, First Direct's entry into banking and Direct Line's move into insurance.

Dell Computers was founded in 1984 by Michael Dell in the USA. His conception was to challenge existing players in the computer market by establishing a direct marketing operation that would allow customers to dial Dell to place an order for a computer. The computer, which was based on customer specification, would be sent direct, eliminating the need for a distributor. Just-in-time production means that computers can be manufactured in four hours. Dell moved into internet marketing in 1996 and achieved over £14 million of web-enabled revenue per day in 1999.

First Direct moved into telephone banking in 1989. Its success was based on customer dissatisfaction with traditional branch banks that offered short opening hours, queues and bank charges. By centralising banking operations and offering direct access by telephone, First Direct was able to offer high levels of customer service at low cost. The new service offered 24-hour access and free banking. The operation has proved to be a huge success, with the number of customers far exceeding target and the highest level of customer satisfaction of any bank.

Direct Line saw a market opportunity in motor insurance. Traditional insurance companies used insurance brokers situated in towns and cities to provide the link to customers. Direct Line placed advertisements on television and in the print media to persuade prospects to phone their telemarketing operation with the inducement of a much cheaper quotation. The entire transaction is conducted over the telephone with the form being sent to the customer simply for signature. By eliminating the broker, Direct Line's cost structure enables it to reduce costs and pass on some of the savings to its customers. The success of its motor insurance has led the company to move into related areas such as home and contents insurance.

8.2 Database Marketing

Much direct marketing activity requires accurate information on customers so they can be targeted through direct mail or telemarketing campaigns. This information is stored on a marketing database, an electronic filing cabinet containing a list of names, addresses and transactional behaviour. Information such as types of purchase, frequency of purchase, purchase value and responsiveness to promotional offers may be held in the database. This allows future campaigns to be *targeted* at those people who are most likely to respond. For example, a special offer on garden tools from a mail-order company can be targeted at those people who have purchased gardening products in the past. Another example would be a car dealer, which by holding a database of customer names and addresses and dates of car purchases could direct mail to promote service offers and new model launches.

A customer profile can be built up by including postcodes in the addresses of customers and employing the services of an agency that conducts geodemographic analysis, such as A Classification of Residential Neighbourhoods (ACORN). Direct mail can then be targeted at people with similar geodemographic profiles.

Database marketing is defined as an interactive approach which uses individually addressable marketing media and channels (such as mail, telephone and the salesforce) to

- provide information to a target audience;
- stimulate demand;
- stay close to customers by recording and storing an electronic database memory of customers, prospects and all communication and transactional data.[2]

Here is some typical information stored on a database:

- **Information on actual and potential customers.** Basic data such as names, addresses and telephone numbers enable customers to be contacted. Basic data may be supplemented by psychographic and behavioural data. In business-to-business markets, information may be held on key decision-makers and their choice criteria.
- **Transactional information.** Information such as frequency of purchase, when the customer last bought and how much was bought for each product category may be stored. Cross-analysing this type of data with customer type can throw light on the customer profile most likely to buy a particular product and communications can be targeted accordingly.
- **Promotional information.** Data covering what promotional campaigns have been run, customer response patterns and results in terms of contact, sales and profiles can be stored on a marketing database.
- **Product information.** Information relating to which products have been promoted, how, when, where and associated responses can be held.
- **Geodemographic information.** Information about the geographical areas of customers and prospects and the social, lifestyle or business categories to which they belong can be stored. By including postcodes in the addresses of customers and employing the services of an agency that conducts geodemographic analysis (such as ACORN) a customer profile can be built up. Direct mail can then be targeted at people with similar geodemographic profiles.

The importance of database marketing is reflected in its applications:

- **Direct mail.** A database can be used to store customer information for mailings.
- **Telemarketing.** A database can store telephone numbers of customers and prospects. Also when customers contact the supplier by telephone, relevant information can be held, including when the next contact should be made.
- **Loyalty marketing.** Highly loyal customers can be drawn from the database for special treatment as a reward for their loyalty.
- **Campaign planning.** The database can be used as a foundation for sending consistent and coordinated campaigns and messages to individuals and businesses.
- **Target marketing.** Specific groups of individuals or businesses can be targeted as a result of analysing the database. For example, customer behaviour data stored by supermarkets can be used to target special promotions to consumers who are likely to be receptive to them, such as a promotion for wine aimed at wine purchasers exclusively.
- **Distributor management systems.** A database can be the foundation on which information is supplied to distributors and their performance monitored.

- **Marketing evaluation.** By recording responses to marketing mix activities, for example, price promotions, special offers on products and direct mail messages, the effectiveness of different approaches to varying consumers and market segments can be evaluated.

Box 8.2: QL Skincare 4U

Text messaging is set to become a tool in the marketing of cosmetics to its largest growing sector. Shiseido is set to use the favourite communication method of teens to sell them its revamped 'Pureness' range. Join the Puretext Club by texting the word Pure to 07887 926101, and beauty tips and special offers on Shiseido products will be sent directly to your mobile. Aimed at young women, 'Pureness' combats problems such as blemishes, enlarged pores and shine.

Source: *Sunday Times*, Style Supplement, 1 August 2002, p. 41.

8.3 Managing a Direct Marketing Campaign

The starting point for developing a direct marketing campaign is the marketing plan: direct marketing should be fully integrated with all marketing and promotional mix elements to provide a coherent marketing strategy. In particular, direct marketers must understand how the product is being positioned in the marketplace in terms of its target market (where it is to compete) and differential advantage (how it is to compete). These issues will fundamentally affect who the campaign is targeted at and the persuasive messages used to convince the target consumer to buy. Figure 8.2 displays the stages in managing a direct marketing campaign.

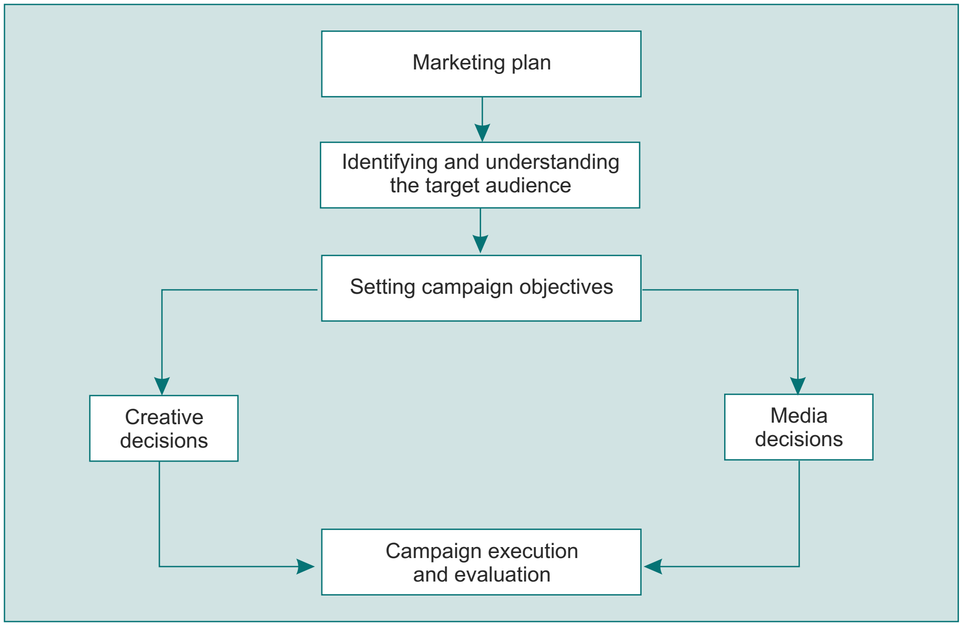

Figure 8.2 **Managing a direct marketing campaign**

8.3.1 Identifying and Understanding the Target Audience

The target audience is the group of individuals at which the direct marketing campaign is aimed. For consumer markets the target audience may be described using market segmentation variables such as age, gender, social class and lifestyle. Of particular importance is the use of geodemographic bases for segmenting consumers. Population census data are used to classify households according to a wide range of variables such as household size, number of cars, occupation, family size and ethnic background. Using statistical techniques, small geodemographic areas (known as enumeration districts in the UK) are formed that share similar characteristics. The best-known system is A Classification of Residential Neighbourhoods (ACORN), which describes different groups of households as thriving, expanding, rising, settling, aspiring and striving. Since each household in each group can be identified by its postcode (zip code), direct mail can be targeted at selected groups.

For business markets, the target audience will be described as the type of organisation that the direct marketer wishes to target and the type of individual within each organisation who should be reached. The first type of decision will be aided by segmentation based on such variables as organisational size, industry type, degree of purchasing centralisation, location and organisational innovativeness. Choosing the type of individual to select within the organisation will usually be based on an analysis of the decision-making unit (see Section 3.4.1). Often targeting will then be based on job title.

Once the target audience has been defined, a list is required which may be obtained from an in-house database or through an external broker. For example, in business markets, companies such as Kompass, and Dun and Bradstreet will provide adhesive labels with names and addresses drawn up to client specifications to facilitate direct mail campaigns. Direct marketers need to be aware of the possibility that mailing or telephone lists may be out of date or inaccurate.

Direct marketers also need to understand the buyer behaviour of the target audience. David Ogilvy, a famous advertising guru, once wrote 'never sell to a stranger'. What he meant by this was the importance of understanding the needs and purchasing behaviour of the target audience. In particular, understanding the needs and choice criteria of targeted individuals aids message development. For example, if we understand that price is an important choice criterion for our chosen target audience, we can stress the outstanding value for money of our direct marketing offer.

8.3.2 Setting Campaign Objectives

Campaign objectives can be

- financial objectives, e.g. sales volume and value, profit, return on investment;
- communication objectives, e.g. awareness, stimulate trial, positioning of brand in consumers' minds, remind and reinforce;
- marketing objectives, e.g. customer acquisition, customer retention, lead or enquiry generation, number of orders, response rate (proportion of contacts responding).

Despite this spread of possible objectives it is true to say that direct marketing is usually more concerned with making a sale, with immediate action than with advertising. Linked to this objective is the acquisition and retention of customers. Acquiring new customers is usually much more costly than retaining existing ones.[3] Maintaining customer loyalty has the additional advantage that loyal customers repeat purchase, advocate brands to their friends, pay less attention to competitive brands and often buy product line extensions.[2] Therefore direct marketers should pay at least as much attention to retaining existing customers (and generating sales from them) as using tools such as direct mail and telemarketing to gain new customers.

When calculating the resources to be used to create new customers, the concept of lifetime value should be used. This is a measure of the profits of customers over their expected life with a company. Where lifetime value is high it can pay to invest heavily in customer acquisition, particularly if customers once attracted tend to stay loyal. This is why banks invest heavily in attracting students who in the short term do not have great value but over their lifetime are a very attractive proposition.

Equally, companies are paying considerable attention to retaining customers. This objective has spawned customer loyalty programmes such as frequent flyer schemes (airlines) and loyalty cards (supermarkets).

8.3.3 Creative Decisions

Given that a usual objective of direct marketing is immediate sales generation, recipients of messages (particularly through direct mail and telemarketing) need to perceive a clear benefit in responding. As we saw in Box 8.1, Direct Line grew its business by establishing a real customer benefit – substantial cost savings – communicated through direct response advertising and a highly efficient telemarketing scheme. In order to achieve their level of success, companies need to produce an effective creative brief which includes the following:

- **Communication objectives.** This spells out what the campaign is hoping to achieve such as sales volume and value, number of orders, customer retention and/or acquisition and lead generation.
- **Target market analysis.** Target consumers will be identified, profiled and their needs and buyer behaviour analysed. This is essential so that the creative team adopts the Ogilvy philosophy of never selling to a stranger.
- **Brand benefits (and weaknesses).** The customer benefits that the brand's features create need to be identified. Features can be linked to benefits by the use of phrases like 'which results in' or 'which means that'. Any differential advantages need to be identified through an analysis of competitor brands' strengths and weaknesses.
- **Development of the offer.** Potential offers should be pre-tested with the target audience to establish their attractiveness. This can take the form of small-scale individual tests or through the use of group discussions. Offers may be price related or take the form of free gifts (e.g. a free telephone or radio alarm to people taking out insurance).
- **Message communication.** In direct mail the offer can be communicated by the envelope as well as the internal contents. Recipients must also be told clearly how to respond. Including a freephone number as well as the usual freepost envelope can increase response by between 50 and 125 per cent.[3] In telemarketing, scripts are often used to communicate messages. When combined with powerful software and information technology, they can provide an efficient means of communicating with target consumers.
- **Action plan.** Draw up an action plan focusing on when the campaign is to run, how often, and recommendations regarding the most appropriate media to use. For telemarketing campaigns, practical details need to be decided, such as how many operators are required and when they will be needed.

8.3.4 Media Decisions

The direct marketer has a range of media that can be used to reach target audiences. Direct mail, telemarketing, direct response advertising and catalogue marketing will now be analysed. The internet will be examined in Module 9.

8.3.4.1 Direct Mail

Direct mail is material sent by post to a home or business address with the purpose of promoting a product and/or maintaining an ongoing relationship. An important factor in the effectiveness of a direct mail campaign is the quality of the mailing list. List houses supply lists on a rental or purchase basis. Since lists become out of date quickly it is usually preferable to rent. **Consumer lists** may be compiled from subscriptions to magazines, catalogues, membership of organisations, etc. Alternatively, **consumer lifestyle lists** are compiled from questionnaires. The electoral roll can also be useful when combined with geodemographic analysis. For example, if a company wished to target households living in modern private housing with young families, the electoral roll can be used to provide names and addresses of people living in such areas.

Business-to-business lists may be bought from directory producers such as the Kompass or Key British Enterprises directories, from trade magazine subscription lists (e.g. *Chemicals Monthly* or *Purchasing Managers' Gazette*), or from exhibition lists (e.g. *Which Computer Show*). Perhaps the most productive mailing list is that of a company's own customers, which is known as the **house list**. This is because of the existing relationship that a company enjoys with its own customers. Also of use would be names of past buyers who have become inactive, names of enquirers and of those who have been 'referred' or recommended by present customers of the company. It is not uncommon for a house list to be far more productive than an externally compiled list. Customer behaviour such as the products purchased, most recent purchase, frequency of purchase and expenditure can also be stored in an in-house database. The management of direct mail involves asking the five questions who, what, why, where, when:

- Who is the target market? Who are we trying to influence?
- What response is required? A sale, an enquiry?
- Why should they buy or make an enquiry? Is it because our product is faster, cheaper, etc.?
- Where can they be reached? Can we obtain their home or working address?
- When is the best time to reach them? Often this is at the weekend for consumers, and Tuesday, Wednesday or Thursday for business people. Monday can be dominated by planning meetings, and on Friday they may be busy clearing their desks for the weekend.

Other management issues include organisation for addressing and filling the envelopes. **Mailing houses** provide these services. For large mailings the postal service needs to be notified in advance so that the mailing can be scheduled.

Direct mail allows *specific targeting to named individuals*. For example, by hiring lists of subscribers to gardening catalogues, a manufacturer of gardening equipment could target a specific group of people who would be more likely to be interested in a promotional offer than the general public. Elaborate personalisation is possible and the results directly measurable. Since the objective of direct mail is immediate – usually a sale or an enquiry – success can easily be measured. Some organisations such as *Reader's Digest* spend money researching alternative creative approaches before embarking on a large-scale mailing. Factors such as type of promotional offer, headlines, visuals and copy can be varied in a systematic manner and, by using code numbers on reply coupons, responses can be tied to the associated creative approach.

The effectiveness of direct mail relies heavily on the quality of the mailing list. Poor lists raise costs and can contribute to the criticism of junk mail since recipients are not interested in the contents of the mailing. Initial costs can be much higher than advertising in terms of cost per thousand people reached and the response can be low (an average response rate of 2 per cent is often quoted). Added to these costs is the expense of setting up a database. In these terms, direct mail should be viewed as a medium- to long-term tool for generating repeat business from a carefully targeted customer group. An important concept is the *lifetime value* of a customer, which is the profit made on a customer's purchase over his or her lifetime.

The use of direct mail is growing in Europe. For example, in 1994 there were 47 mailings per head in the UK; by 1999 this had grown to 73 (see Figure 8.3).

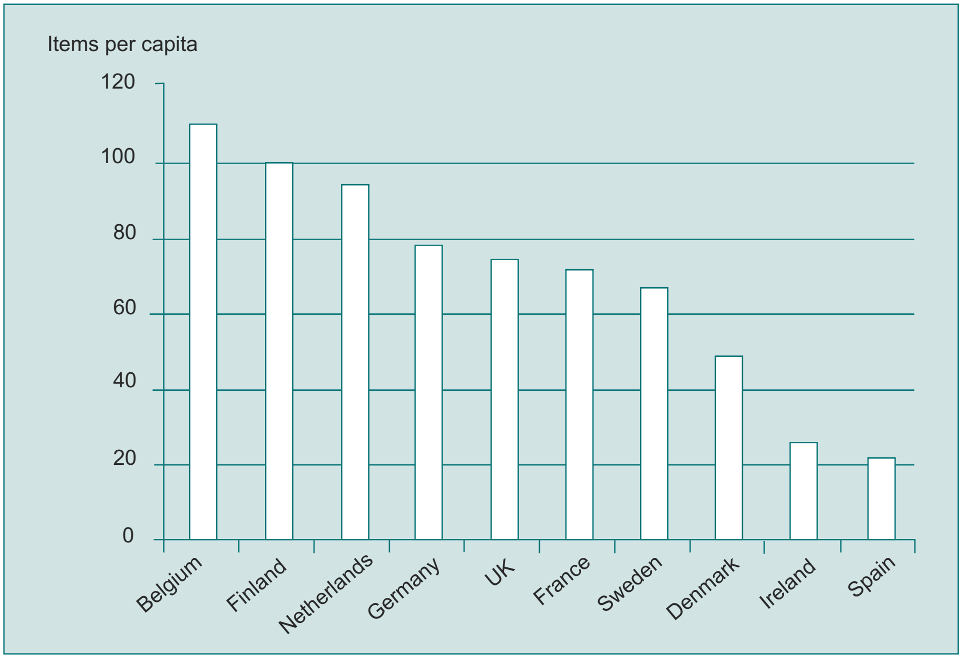

Figure 8.3 **Volume of direct mail in Europe**

Source: Adapted from Addressed Direct Mail Volume, *European Marketing Pocket Book 2000*, NTC Publications, Henley-on-Thames.

8.3.4.2 Telemarketing

Telemarketing is a marketing communications system where trained specialists use telecommunications and information technologies to conduct marketing and sales activities.

In North America, sales prospects have long been solicited through the medium of the telephone for relatively expensive products such as cars, freezers and home improvement. Telephonists work from prepared scripts designed to give different selling approaches according to the circumstances of the prospect; the circumstances are established before the sales talk. The idea is sometimes to smooth the way for a salesperson's visit following the telephone call. Success rates may appear low, but it is a very cost-effective method and eliminates a lot of cold canvassing by salespeople. However, telephone selling can be a very demanding task for the person soliciting over the telephone. This is reflected in the vernacular term for where the sales calls are made place – the boiler room.

Inbound telemarketing occurs when a prospect contacts the company by telephone, whereas outbound telemarketing involves the company calling the prospect. Developments in IT have affected both forms. For example, Quick Address is a package that enables telemarketing people handling inbound calls quickly to identify the address and account details of the caller with the minimum amount of typing time and also ensures it is accurate. The caller is asked for their name and postcode (either for the household or the company). From this the correct address will appear on the computer screen. If the caller wishes to purchase (e.g. using a credit card) over the telephone, the tedium of giving (and spelling) their address to allow postage is removed. This has gained penetration in such areas as selling football and theatre tickets. Even more sophisticated developments in telecommunications technology allow the caller to be identified even before the operator has answered the call. The caller's telephone number is relayed into the customer database and outlet details appear on the operator's screen before the call is picked up. This service, *integrated telephony*, has gained penetration in the customer service area.

Computerisation can also enhance productivity in outbound telemarketing. Large databases can store information that can easily be accessed by telephone marketing operators. Call lists can be automatically allocated to operators. Scripts can be created and stored on the computer so that operators have ready and convenient access to them on screen. Orders can be automatically processed and follow-up actions (such as call back in one month or send literature) can be recorded and stored. In addition, productivity can be raised by autodiallers.

Telemarketing automation also allows simple keystroke retrieval of critical information such as customer history, product information or schedules. If the prospect or customer is busy, automated systems can reschedule a call-back and allow the operator to recall the contact on screen at a later date simply by pressing a single key.

Telemarketing is often conducted from *call centres* where trained operators accept and send thousands of calls a day. This process is described in Box 8.3.

Box 8.3: Telemarketing: the Development of Call Centres

The development in telemarketing activity has led to a rapid expansion in call centres. These are huge offices where perhaps over a hundred people operate telephones making and receiving calls. Their task is aided by automation, e.g. automatic dialling, computerised scripts and automatic order/ticket processing and addressing.

Staff are trained to communicate effectively over the telephone. First Direct's call handlers, for example, are given seven weeks' training before they come into contact with customers. Some companies such as Virgin Direct, the financial services firm, only contact customers who have called them first and agreed to further calls. This builds up trust and places the customer in control.

Call centres are also used to check on service levels. For example, Kwik Fit, the tyres, brakes and exhausts chain, employs a vast telemarketing team that contacts customers within 72 hours of their visit to an outlet to ensure the service was satisfactory. Its call centre staff also telephone 5500 potential buyers of their motor insurance a night, their details drawn from a database of 5 million people who have used their repair centres. They claim a 1 in 4 success rate.

Technology is also helping the effectiveness of call centres. For example, a call-back button on a website allows a consumer to request a call-back from a company's call centre at a time and date of their choosing. These days the responses from call centres are not necessarily by telephone. Intelligent email systems read and interpret incoming emails searching for key words and phrases before generating an automatic reply from a selection of responses.[5]

A useful set of guidelines for conducting a telemarketing call has been developed by the Bell Telephone System of America:

1. Identify yourself and your company.
2. Establish rapport: this should come naturally since you have already researched your potential clients and their business.
3. Make an interesting comment, e.g. to do with cost savings or a special offer.
4. Deliver your sales message: emphasise benefits over features, e.g. your production people will like it because it helps to overcome downtime through waiting for the material to set.
5. Overcome objections: be skilled at objection-handling techniques.
6. Close the sale: when appropriate do not be afraid to ask for the order, e.g. 'Would you like to place an order now?' or fulfil another objective, e.g. 'Can I send you a sample?'
7. Action agreement: arrange for a sales call or the next telephone call.
8. Express your thanks.

8.3.4.3 Direct Response Advertising

This form of advertising appears in the prime media such as television and the press but is different from standard advertising since it is designed to elicit a direct response such as a request for further information, an enquiry or an order. Usually a freephone telephone number is provided so that interested parties can contact the company. In this way, broadcast media are used to reach large numbers of consumers and direct marketing techniques are employed to allow a fast response by both consumers and the company.

Direct response television, sometimes called teleshopping, is slowly gaining in popularity and comes in many formats. The most basic is the standard advertisement with telephone number. Other variants are the 25-minute product demonstration, often called an *infomercial*, and live home shopping programmes broadcast by companies like QVC.

In Europe a wide range of products are promoted (such as leisure products, household goods, books and beauty care products) through pan-European satellite channels such as Quantum International, Super Channel and NBC. Four factors tend to raise the probability of DRTV application and success:[6]

- products that require a demonstration or a service that needs to be explained;
- products that have mass appeal, although single-interest channels provide a medium for specialist products;
- an effective DRTV promotion must make good television to attract and maintain the interest of the target audience;
- a successful DRTV promotion is usually supported by an efficient telemarketing operation to handle the response.

8.3.4.4 Catalogue Marketing

Catalogue marketing is the promotion and sale of goods through catalogues distributed to agents and customers by mail or at outlets if the catalogue marketer is a store owner. Traditionally catalogue marketing was a form of mail order where agents passed the catalogue to relatives and friends who ordered through the agent. A key benefit to customers was the credit facility of weekly payment. More recently companies such as Next and Trois Suisses moved catalogue marketing more upmarket by targeting busy, affluent consumers who valued the convenience of choosing products at home.

A major UK success story has been Argos, which has built its business entirely on catalogue marketing. A wide range of products, such as cameras, jewellery, toys, mobile phones, watches, household goods and gardening equipment, are sold through their catalogues. A customer selects at home and then visits a town centre Argos store to purchase goods. Argos's success is built on this convenient form of shopping, plus low prices and an efficient service, and inventory systems that control costs and ensure a low out-of-stock situation.

Catalogue marketing can provide a convenient method of shopping, a wide range of products, low prices and sometimes credit facilities. When the operation is centralised (e.g. GUS) the expense of town centre locations is avoided. However, catalogues are expensive to print and require regular updating. The internet is a much cheaper way of displaying products to consumers. Like the internet, catalogues do not allow products to be tried (e.g. a hi-fi system) or tried on (e.g. clothing) before purchase. Furthermore, there can be differences between the colour displayed in the catalogue and that of the product when it is delivered. This can be an important issue for products such as home furnishings.

Catalogues are also important in business-to-business markets, acting as a continual sales aid which allows customers to order at their convenience. More and more companies are moving to internet-based catalogues which are cheaper to produce and easier to update. Business-to-business catalogues often contain vast amounts of information, including product specification and prices. Direct mail and telemarketing campaigns can be used to remind customers to buy from their catalogues. For many companies supplying other organisations, such as component and office supply firms, the catalogue is an important marketing tool.

8.3.5 Campaign Execution and Evaluation

Once the creative and media decisions have been made, the action plan will be executed. This may be done in-house or through the use of a specialist direct marketing agency. The campaign should be evaluated against clearly defined objectives, which include

- sales volume and value;
- response rate (the percentage of contacts responding);
- number of enquiries;
- cost per order, enquiry or sale;
- number of new customers;
- number of existing customers rebuying;
- conversion rate from enquiry to sale;
- renewal rate;
- repeat purchase rate.

Most of these objectives measure the immediate (short-term) impact of a direct marketing campaign. Direct marketers should not ignore the longer-term impact of a campaign, which takes into account the lifetime value of a customer. A campaign in the short term may not appear cost-effective, but when the impact through renewals and repeat purchase is taken into account its longer-term value may be very positive.

Learning Summary

This module has explored the growth of direct marketing as a means of selling products and services. Direct marketing activity has helped companies such as Direct Line, First Direct and Dell Computers to sell directly to customers without the need for traditional salespeople or distributors. The use of direct mail and telemarketing is reducing the need for a field salesforce, particularly for smaller customers.

Direct marketing activity needs to be carefully planned in order to produce integrated campaigns that make the best use of the tools available. Key media include direct mail, telemarketing, direct response advertising, catalogue marketing and internet marketing (discussed in the next module). They should be employed as part of a plan based on the identification and understanding of the target audience, the setting of campaign objectives, making creative and media decisions and the execution and evaluation of the campaign.

Review Questions

Content Questions

8.1 What factors have fuelled the recent increase in direct marketing?

8.2 What information is typically stored on a marketing database?

8.3 Which companies might you approach to compile a business-to-business list?

8.4 What are the key questions when managing direct mail?

8.5 What is telemarketing?

8.6 What is the difference between inbound telemarketing and outbound telemarketing?

8.7 What is direct response advertising?

8.8 What is catalogue marketing?

Multiple-Choice Questions

8.9 All of the following are examples of direct marketing methods except one. Which one?

A. Door-to-door leafleting.
B. Telemarketing.
C. Press advertising.
D. Leaflets inserted in a magazine.

8.10 Name the country that has the highest direct marketing expenditure in Europe.

A. France.
B. UK.
C. Germany.
D. Italy.

8.11 What does database marketing aim to accomplish?

A. To provide information to a target audience.
B. To stimulate demand.
C. To record communications with customers and prospective customers.
D. All the aims in the other options.

8.12 What is the name for information such as frequency of purchase, when last bought and amount spent?

A. Product information.
B. Promotional information.
C. Geodemographic information.
D. Transactional information.

8.13 What is the name for material sent by post to a residential or business address with the purpose of promoting a product and/or maintaining an ongoing relationship?

A. Direct marketing.
B. Direct mail.
C. Telemarketing.
D. Database marketing.

8.14 What direct mail data may be bought from trade magazine subscription lists?

A. Consumer lists.
B. Consumer lifestyle data.
C. Business-to-business lists.
D. House lists.

8.15 What is the name for organisations that provide services such as addressing and filling envelopes?

A. Telemarketers.
B. Mailing houses.
C. Postal services.
D. None of the other options.

8.16 Have a look at these two statements.

I. The effectiveness of direct mail depends on the quality of the mailing list.

II. The effectiveness of direct mail can easily be measured through response.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

8.17 How do the initial costs of direct mail compare with advertising costs in terms of cost per thousand people reached? Are they higher or lower? How would you describe the response rate for direct mail? Is it high or low?

A. Higher than advertising, high response rate.
B. Higher than advertising, low response rate.
C. Lower than advertising, high response rate.
D. Lower than advertising, low response rate.

8.18 Direct mail is a way of generating business from a carefully targeted customer group. Over what timescale should it be used? And should it be used for new business or repeat business?

A. Short- to medium-term, repeat business.
B. Short- to medium-term, new business.
C. Medium- to long-term, repeat business.
D. Medium- to long-term, new business.

8.19 The lifetime value of a customer refers to a quantity derived from a customer over his or her lifetime. What is that quantity?

A. Profit.
B. Sales.
C. Commission.
D. Loyalty.

8.20 If a caller's details appear on an operator's screen before the telephone call is picked up, what kind of system is this?

A. Inbound telemarketing.
B. Outbound telemarketing.
C. Integrated marketing.
D. Integrated telephony.

Case Study 8.1: RU Receiving Me?

Text messaging is the sending of brief written messages directly to a cellphone. It was during 2001 that text messaging really took off, when cellphones became widely available to a young audience, and despite the belief in some quarters that text messaging would never catch on, the growth in the number of messages has been astronomical. During December 2001, some 1.3 billion chargeable text messages were sent across the four networks involved.

Marketers have never been slow to see the possibilities of a new communications medium, particularly one that has proved so popular with the younger end of the market. Marketers now send out text messages to potential customers via their mobile telephones, a way of reaching out directly to a potentially lucrative audience. A whole new acronym has appeared to encompass the new medium, and now SMS (short messaging service) is being used to promote movies, fast food, chocolate bars and even books.

If we were talking here about one-way advertising, public outcry would sink it without trace within weeks. Spamming on email almost died out after a series of high-profile mail bombings against offenders, so it would be reasonable to suppose that unsolicited text messages would prove equally irritating. The lesson of spamming has not been lost on marketers, so the SMS system operates like any other direct marketing method, by being interactive with the recipients. SMS professionals are at pains to ensure spamming does not occur, and are prepared to weed out any rogues who might damage customer trust. One advantage is that text messages are paid for by the sender, which makes indiscriminate texting an expensive operation.

In 2001 the EU ruled that SMS marketing in Europe should be an opt-in system, which means that marketers need to obtain people's permission to send them messages. The first contact point is often an on-pack instant-win device where the mechanical response is a text message. By responding, the telephone owner gives permission for the SMS marketer to send a text, so a mailing list is built up in a more or less traditional way. Another way of developing a list is to run advertisements in magazines such as *Smash Hits* inviting readers to join the Pop Text Club. By joining the club, members will receive text messages about bands that interest them, their gigs and their latest releases.

There are obvious advantages for the recipient. The text messages themselves cost nothing unless the recipient wants to respond, and the messages can be read at a convenient time. The brevity of the message is also an advantage; the average mailshot may run to several thousand words, so a message of no more than 160 characters is positively refreshing. One industry leader, Flytxt, is so confident texts will be accepted, it is planning to introduce premium rate text clubs that will charge the recipient for each message received. Club members will know what they are getting into, but for traditional marketers it may seem bizarre that someone is prepared to pay for their messages.

However, research by the Mobile Marketing Association shows that SMS is not only acceptable, it is actually popular. It showed that 68 per cent of respondents would be likely to recommend the service to their friends, and 43 per cent said they would respond to messages positively, perhaps by visiting a website or viewing an ad.

Currently the system is purely tactical, due to the limitations imposed by the screen size and image quality. Technological advances in the third-generation (3G) handsets mean that brand-building strategic campaigns will be feasible during 2003 and 2004. In the meantime, SMS practitioners are content to use the system for tightly targeted direct marketing.

Questions

1 Why might someone be prepared to pay to receive marketing messages?

2 What types of strategic message might be delivered in future?

3 What factors might reduce the acceptability of SMS for consumers?

4 What might account for the very positive response to SMS?

5 What type of company might benefit most from SMS?

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Module 9

Internet and IT Applications in Selling and Sales Management

Contents

Learning Objectives

After studying this module you should be able to

- understand how a range of information technology developments have altered the selling and sales management functions;
- understand how the internet impacts sales and marketing;
- know how information technology can enable customer relationship management;
- recognise the key information technology drivers in sales management;
- understand the specific information technology applications in retail selling and marketing.

Key Concepts

- information technology
- internet marketing
- e-commerce
- office packages
- intranets
- extranets
- customer relationship management

Developments in information technology are having profound effects on the way products are sold and the nature of selling and sales management activities. The module begins by providing a general overview of important information technology (IT) developments. The impact of the internet is then discussed before explaining the nature and effect of customer relationship management on selling and sales management. Specific IT developments related to sales management are then examined. Finally, specific IT applications in retail and trade selling and marketing are discussed.

9.1 Overview of IT Applications in Selling and Sales Management

Information technology has had a major impact on the salesforce productivity and management. Major applications include the following:

- *Remote access* is through portable computers to branch office or headquarters' computer systems for up-to-the-minute information on order status, price, availability and competitive data, allowing customer queries to be answered immediately. Access is usually done by laptop or palmtop computers.
- *Electronic mail* speeds communications, facilitates links with hard-to-reach people, and stores messages from customers.
- *Word processing and spreadsheet software* is for customising sales letters and automating call reports, preparing budget quotas and proposals, and developing sales forecasting.
- *Time management software* helps to plan activities and automatically update call reports.
- *Database files* on suspects, prospects and customer are used for precalling, planning and account profiles.
- *Mobile phones* make travelling time into productive time.
- *Desktop publishing capabilities* allow word-processed text and graphics to be laid out for maximum impact. Documents such as proposals, newsletters and brochures can be produced.
- *Presentation software* such as PowerPoint creates presentations using text and graphics. Presentations can be stored on disk and projected onto a screen using a special projector with a liquid crystal display (LCD).
- *Diary packages* are for reading appointments, preparing 'to do' lists and storing telephone numbers and addresses.
- *Customer relationship management* (CRM) software, using a common database which all customer-facing personnel can access, enables a unified message and image to be presented to customers. A specific application of CRM software is in account management, where account information is stored such as contact names; telephone, fax and email numbers; type of business; purpose and date of meetings or telephone calls; status of customer and details of previous orders. This allows easy access by a range of people, including field salespeople and call centre staff.
- *The internet* allows the promotion and sale of products direct to the customer and improves communication through email, intranets and extranets.
- *Telemarketing software* improves the efficiency and effectiveness of call centre operators (Module 8).
- *Sales management software* is used for territory management and journey planning, recruitment and selection, training, sales forecasting, evaluation and control.

The extent to which information technology is affecting salespeople's jobs can be gauged from Box 9.1.

Box 9.1: The IT Revolution

Over the last 15 years the role of information technology has rapidly explored nearly every possible avenue of our working and social lives from the emergence of automatic teller machines (ATMs) to personal computers, domestic appliances and the wealth of information that is held about us as individuals whenever we make a transaction.

During my ten years' experience of field-based sales, many changes have occurred. I will now give a few examples of how communication methods have changed and how more efficient methods of operation have developed.

First, not so long ago most communication was by landline telephone and letter. This was followed by the fax and pagers. Then mobile phones and email arrived and communication between business people became almost instantaneous.

Second, in the arena of a traditional salesperson, the raising of letters confirming arrangements, quotations, etc., passed in the post and several weeks were often needed to conclude simple transactional business deals. These have been replaced first by fax but now by email and web-based purchasing. In addition the role of the secretary in this is becoming obsolete as the majority of salespeople generate their own letters from standard templates and quotation software.

In purely transactional purchases, customers can produce their own quotations by specifying certain criteria on a web-based purchasing system. The various fields are entered and the system automatically produces a quotation, which is legally binding on the company.

Within industrial sales many changes have occurred through technology. Historically, knowledge was power and the salesperson or sales engineer would know nearly everything about the customer-facing side of the relationship. Customer records were often randomly completed and 'deals or agreements' could often be verbal or have an unwritten verbal amendment. This was a potential cause for conflict, particularly if the personnel changed. On average people would change every three years in a typical industrial sales role.

With the introduction of IT, laptops and personal digital assistants (PDAs), much of this information can now be accessed not only by salespeople and their line managers but anyone within the company who may have a requirement to be aware of what has been agreed previously with the customer (e.g. customer service, technical support, finance and logistics).

One of the major advantages of this is that any contact with the customer is entered into their file so everyone is fully aware of conversations, comments and offers made. These systems are becoming more commonplace, particularly in larger firms trying to manage their customer information more efficiently and with less reliability on memory or paper records.

Customer relationship management (CRM) is becoming commonplace in a wide range of sales-related areas, including banks, industrial sales, catalogues and even taxi firms, where a log of all previous transactions, enquiries, purchasing profiles and other communications is kept. In the most complex systems, details about a customer preference for hobbies, family anniversaries, pet likes or dislikes can be logged to assist in creating a more familiar relationship between individuals in the sales process.

The belief, where this is applied correctly, is that the customer can contact or be contacted by the company with an almost seamless approach. Questions about invoices, technical issues and quotations can be fielded by a whole range of employees within the organisation. However, all this information needs to be gathered, entered and managed, and the responsibility often goes to the field salesperson in addition to getting the order.

These CRM systems offer great advantages in managing customers and identifying microsegments within the overall customer base for highly focused marketing campaigns and promotions. These systems can now identify and create actual profit and loss statements on individual accounts, and record the efficiency with which the salesperson and the overall company deal with each individual customer.

In effect, a customer can be rated not only on the traditional basis of revenue generation but on actual net profit generated. This takes into account the level of service required to maintain the business from sales calls to technical services, discounts, and all the little extras that can often be given away in order to get the initial sale but then continue to cost the company for years afterwards.

The advantage of this mechanism is that expensive resources are not exhausted purely on the pet customer or the difficult customer but available to those who are in reality the lifeblood of the company. It also allows the salesperson to compile a service offering (or scale of offering) for individual clients that is in proportion to their current and potential worth to the organisation as a whole. This requires a great deal of trust from the parent company, as the salesperson needs to know the profitability of accounts and product lines. However, the potential advantage of the salesperson running their area as their own business and seeing business as more than just the sale on offer at a particular time has proven its worth within the added-value sales arena.

The increased efficiency of sales resources using these types of IT systems is, I believe, proven in the field but with them comes an additional level of responsibility and workload in managing them.

In summary, technology in all its facets has impacted greatly on today's working environment. In some cases it has replaced people; in others it has assisted not necessarily in reducing the overall workload but in increasing the time spent on profitable activities, reducing time on mundane tasks and increasing efficiencies.

There are only so many hours in a day and it is the responsibility of each company and their employees to find and use methods, devices and technologies to enable them to work smarter in today's environment.

Source: A perspective given by Mr Paul Miller, National Account Manager, BP Castrol Ltd, part of BP Amoco plc.

9.2 The Internet

The internet is a global web of over 50 000 computer networks that permits instantaneous global communications. Users from all over the world can send email messages, shop for products and access news, leisure and business information. A server is a computer that maintains an address book holding the addresses of every other server linked to the internet. To access the internet, users need to connect to one of these servers. They are normally owned by a communications company, called an internet service provider (ISP), such as CompuServe and AOL. Users need to set up an account with an ISP company and usually pay a monthly rental.

Access to information on the internet is facilitated by portals such as Yahoo! and Google, which use search engines to search the internet by means of keywords. These are vast online databases and libraries which can be used to locate the site that holds the required information. Yahoo! is available at www.yahoo.com and has one of the largest libraries of websites on the internet. Google is available at www.google.co.uk and is fast and comprehensive. Using both of these portals provides a vast coverage of the information domain under scrutiny. Use is normally free, with income for the providers being based on advertising revenue. Consequently, these portal companies that guide millions of internet users through the maze of the World Wide Web try to hold the users of their services for as long as possible. Users are encouraged to create their own home pages so that the information they previously sought regularly arrives on their screen without searching. For example, Yahoo! has created My Yahoo! for this purpose. New services have also been provided such as financial news, financial services, weather and stock prices, in an effort to attract and hold users.

The growth in the adoption of the internet in sales and marketing has been phenomenal. Although the first wave of growth of internet usage was in the business-to-consumer (B2C) domain, the business-to-business (B2B) area is now thought to be five times larger.[1] The reason why B2B internet transactions are so large is that efficiency can be improved (e.g. provision of sales brochures, manuals, answers to frequently asked questions) and effectiveness of buyer–seller relationships and processes can be enhanced.

9.2.1 E-commerce

Two key capabilities of the internet are the ability to send email messages and to conduct e-commerce. Messages, files and documents can be sent by email to any other user on the internet anywhere in the world. They will receive the information instantly and it will be stored on their PC until they wish to access it. The benefits to salespeople in communicating with customers and head office are enormous. Quotations, queries and factual information can be transferred faster and cheaper than by mail and without the need to talk to the recipient directly. The message will be waiting to be collected when the recipient next consults his or her computer.

Electronic commerce (e-commerce) is any trading activity that is carried out over an electronic network such as the internet; it is not unique to the internet. Banks have been conducting business electronically for decades. Electronic data interchange (EDI) has also allowed customers to place orders and suppliers to send invoices electronically for many years. However, the growth of internet use will see an accompanying expansion of e-commerce through this medium. Box 9.2 discusses how e-commerce has contributed to the success of Amazon, Dell Computers, Wal-Mart and Cisco. This should not mislead anyone into believing that success on the internet is guaranteed. For every success story there are hundreds of expensive e-commerce failures. Difficulties in locating websites, poor website design, reluctance to conduct transactions through a new medium and security fears are all barriers that hinder the faster adoption of e-commerce by consumers.

E-commerce can take place at four levels (see Figure 9.1):[2]

- **Publish.** This is the provision of information to the customer electronically. It is one-way communication that may involve annual reports, press releases, information on products and services, recruitment opportunities and advertising.
- **Interact.** The next level refers to interactive engagement with the user on the internet. For example, Dell's website provides online technical support services, including email links to online technical support representatives.
- **Transact.** The third level of e-commerce allows goods and services to be bought and sold over the internet. Reaching this level can be costly in terms of initial investment, and although operating costs should be lower than more traditional ways of conducting business, usually costs need to be driven down in other areas of the business for cost savings overall to increase.
- **Integrate.** The highest level of e-commerce is where integration of the computer system and processes of traders is achieved to create a strong, formalised relationship. This may involve the establishment of a B2B extranet, which is an electronic network linking companies to their trading partners. Extranets allow partners to exchange information such as data on ordering, delivery and invoicing in a secure environment. For example, Mobil's extranet allows the oil company to accept orders from 300 distributors globally.

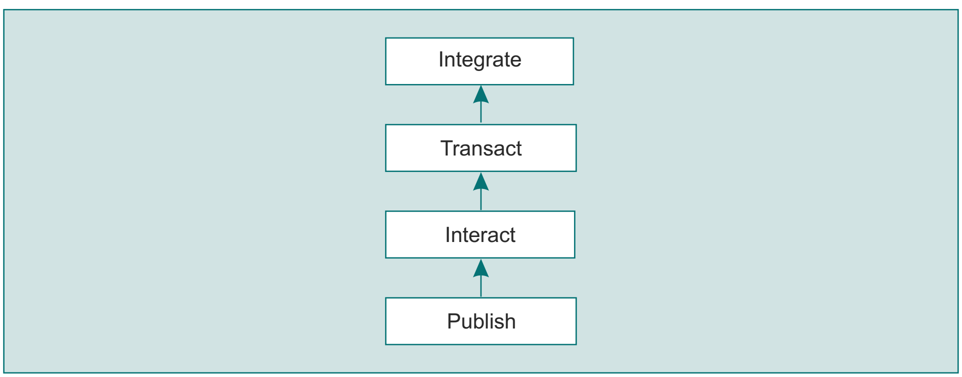

Figure 9.1 **Four levels of e-commerce**

Box 9.2: E-commerce in Action

Handling sales over the internet is an exciting prospect, with computers pioneering its successful use. The internet automatically opens up a global market. Amazon, the US bookshop, sells around a quarter of its books abroad. The internet makes buying and selling easy. By clicking the 'Buy a Dell' icon on the Dell website, users can design and price customised computers. Then by clicking the 'Purchase' icon an order can be submitted and a payment method (e.g. credit card) chosen. An electronic confirmation is sent out within five minutes.

Other companies such as Wal-Mart and Cisco are benefiting from the advantages that the internet provides. Wal-Mart is a leading US retailer that is constantly seeking to enlarge its customer base. It has developed a 'one-stop shopping' experience by partnering with other retailers to provide a wider range of products and services. By offering a range of over 140 000 items across 27 product categories online, it has drawn in customers who do not live close to Wal-Mart stores and has attracted further customers who value the convenience of home shopping.

Cisco, a manufacturer of network products, also uses the internet to handle sales. Over 500 000 customers access Cisco's website to download software and make technical inquiries. Over 40 per cent of Cisco's turnover is processed on the internet and each customer's profile is recorded for future marketing use. The internet not only makes doing business easy for customers, but has also reduced Cisco's operating costs by around £170 million per year.

Source: Based on O'Connor, J. and Galvin, E. (1998) 'Creating Value through E-commerce', *Financial Times Management*, London.

9.2.2 The Impact of the Internet on Selling and Sales Management

To date, most of the commentary on the impact of the internet and information technology on sales and sales management has been anecdotal, offering exaggerated speculative forecasts of its future potential. Consequently, 'despite one view contending that the internet will become a major new retail format, replacing the traditional dominance of fixed location stores, little academic research exists to either disprove or support the claims of Internet penetration by retailers'.[3] Meanwhile, although the internet is criticised as being 'a poor service delivery medium', lacking 'the capacity for direct personal interaction enjoyed by non-internet based services, … there are too many potential benefits to consumers and retailers alike to ignore Internet shopping as a fad'.[4]

9.2.3 The New Era

With electronic commerce showing enormous potential to take over a significant share of sales, there has been an increasing need for companies to provide services that can reach individual users with different information profiles and levels of expertise.[5] Indeed, the internet has not only become a powerful tool, transforming the fundamental dynamics behind social and business interactions, but, more importantly, it seems to be growing in both popularity and profitability.[6,7,8,9]

While supporting the former viewpoint, a number of authors advise that a more coordinated approach is necessary to take full advantage of the online environment.[10,11] Furthermore, Brännback[12] recommends that 'a thorough understanding of theory and practice regarding the marketplace' is required to 'help understand and manage related concepts in the marketspace'.

9.2.4 Back to Reality

Meanwhile the application of the internet on selling and sales management remains a relatively new discipline with the potential to revolutionise the way companies build brands, sell products or services and develop relationships. Although still in its infancy, this discipline represents a considerable ground for research with a fast pace of development. Nonetheless, as pointed out by some authors, few companies seem to have a focused strategy, let alone a clear understanding of this phenomenon.[7,11]

While the initial objective of websites was to provide information, today increasing emphasis is being placed on the setting of lasting relationships between companies and customers.[13] As Martin[14] suggests, 'the focus of marketing efforts are (and should be) shifting from marketing mix manipulation for the purpose of immediate exchange transactions to those that focus on longer-term exchange relationships'. Accordingly, by developing a marketing strategy continuum focusing on steps to enable organisations to move from transaction cost marketing to relationship marketing, Grönroos[15] not only complements Martin's argument, but further supports Scott's[16] view that 'relationship marketing moves the dyadic exchange associated with personal selling from a short-term transaction orientation to a lifelong process where immediate closings must be postponed on the basis of more effectively meeting customer needs'.

Not all researchers support the merits of this process and, opposing this outlook, Shaw[17] argues that 'marketers must stop their obsession with loving customers since it has become a distraction from the basics of selling and tracking the origins of sales success'.

9.2.5 Key Impacts

Nevertheless, the internet has the potential to affect selling and sales management in many ways.

9.2.5.1 Building Customer-Centric Selling Arenas

The diverse and uncertain environment created by the internet has forced organisations to restructure themselves in order to survive.[13] The need is to look at a business through the eyes of the customer, given that the internet will increase the power of the consumer.[18] Customer focus not only compels management to realise the firm's primary responsibility of serving the customer, but also to recognise that customer knowledge is key to achieving market orientation.[19] As a result, many organisations have successfully integrated strategies, tactics and web technologies to cement relationships with customers online.[20]

A major tool in creating customer-centric selling arenas is the emergence of extranets. These are secure sites accessible only to certain people and/or organisations. They allow transactions between buyer and seller to take place without the need for the involvement of expensive salespeople. Customers are able to log on to make routine purchases, allowing salespeople to focus on building customer relationships, developing customised solutions for customers and prospecting for new business. These B2B sites improve sales productivity and allow salespeople to build customer loyalty.[21]

Another internet-based selling arena is the open market catalogue site. These sites provide customers with product and price information and allow them to purchase from the site, rather like purchasing from a direct mail catalogue. The best known example is Amazon.com.

9.2.5.2 Focusing on the Right Customer

Because the internet enables access to any online customer at anytime and anywhere in the world, companies may be tempted to try to attract as many potential customers as possible. However, several authors warn against this lack of focus and advocate the necessity for companies to adhere to the principles of sales and marketing management such as targeting. For instance, Van Niekerk *et al.*[22] stress that 'the temptation to be everything to everyone must be vigorously guarded against' and that 'a tighter focus on the specific target audience needs to be paramount'.

When using the internet it is important that the organisation's website is designed to achieve a specific set of objectives and that it provides a focus, rather than just being a vehicle for promoting the company in general terms. These objectives can relate to servicing current customers when making purchases, cross-selling company products, encouraging new customers or building greater loyalty among existing customers. A method of encouraging response is to make a specific product or service offering or to ask for a website evaluation.

It is important that the website is simple to access, load and navigate with appropriate links. If it contains icons or banners to gain attention at the beginning, then they should not be used deeper in the site as they might prove distracting.

Data can be captured from those who respond to website offerings in terms of frequency of order, size of order, types of purchase, methods of payment, etc. This will provide a clearer picture of customers, who can be profiled, segmented and targeted more easily along the lines suggested.

9.2.5.3 Creating Quality in Communications

The general consensus seems to be that the internet and its related technologies allow for swifter information exchange and more consistent communications.[23] However, researchers such as Reichheld and Schefter[20] warn that 'with the freedom to do more comes the temptation to do too much'.

Given the plethora of information now available, it is becoming increasingly important that evidence presented to the customer is kept to a manageable proportion. Subsequently, while Van Niekerk *et al.*[22] propose that 'focus should be on quality and not quantity' and that websites 'must be designed to enhance the flow to a specifically identified customer or group', Walters and Lancaster[18] advocate that 'it is only by pursuing a logical approach to the integration of information management into the strategy process that firms can become effective, world-class competitors'.

9.2.5.4 Understanding Buyer Behaviour Patterns

A study on consumer behaviour by Long and Schiffman[24] concludes that 'it pays to understand customers'. Nonetheless, authors such as Van Niekerk *et al.*[22] provide evidence that 'a complete understanding of how users actually interact with the internet has not yet been forthcoming'. Two factors seem critical to predicting consumer behaviour on the internet. The first factor questions whether the buyer builds a relationship with a selected vendor or searches for a different electronic vendor for each transaction. While the first pattern or behaviour will undoubtedly create an opportunity for the seller to tune regular offerings and promote loyalty, the second pattern precludes stable relationships. The other critical factor lies in the scope of the goods and services linking buyer and seller. Thus, the consumer is expected either to search for the provider of the best individual goods and services or favour a search for the best provider of a collection of goods and services.[25]

Based on these suggested patterns of behaviour, companies operating in varied industries will arguably find themselves in one, or more likely several, of four competitive landscapes: opportunity spot, opportunity store, loyal link and loyal chains.

Opportunity spot occurs when purchasers exhibit no loyalty whatsoever. Each purchase is likely to be from a different supplier with no one-stop shopping for a bundle of goods. They may buy a ticket from British Airways one day and from United the next. *Opportunity store* markets occur when consumers show no loyalty or relationship continuity to brands or stores, but use intermediaries to put together bundles of goods,. They may use Amazon.com one day and Buy.com another.

For *loyal links* to occur, consumers must show continuity when choosing vendors and services providers, although they may have no inclination to buy packages. A consumer may be loyal to American Express for his or her credit card but see no reason to use that company for insurance. Consumers buying in categories that are described as *loyal chains* have preferred providers on whom they rely for a range of services and products. For example, Merrill Lynch might be used to help choose stocks, remind the consumers to write a will and arrange guardians for their children. Each type of consumer behaviour has marketing implications. For opportunity spot and opportunity store consumers, price is likely to be a key variable of the marketing mix. However, for loyal link markets, the objective will be to retain the best customers through a careful blend of service and price. Dell Computers is an example of a company attempting to succeed in such a market. In practice, though, many companies have little information on the behaviour of their customers beyond sales figures and website hit rates.

9.2.5.5 Changing Approaches to Brand Management

The internet is changing traditional approaches to brand management. While images and allusions are used to communicate branding messages in traditional marketing, on the internet product features and the provision of information are needed as a basis for branding as some consumers scan alternative product offerings and outlets for bargains. Furthermore, as consumers gain more experience of using the internet, they are more likely to search for alternative sources of information and be less reliant on product branding.[26] Branding may become less dominant in consumer choice but still important. Indeed, extending a company's brand on the internet gives instant credibility to a website.[27]

9.2.5.6 Pricing

The internet makes the process of searching for the lowest price a simple task. Therefore one prediction is that brands will have to become more price competitive to survive in the new electronic world. However, Reichheld and Schefter[20] claim that 'contrary to common perception, the majority of on-line customers are not out to score the absolute lowest price … Price does not rule the web; trust does'. A contrary view is presented by Sinha,[28] who believes that 'cost transparency may weaken customer loyalty and create perceptions of price unfairness by encouraging dispassionate comparisons of price and features'.

9.2.5.7 Creating Interactive Opportunities with Consumers

The interactive opportunities afforded by the internet not only offer information about buyers' current tastes and preferences, but can also provide information on their potential needs and future market trends through marketing research.[29] It therefore represents a valuable source of new product ideas. The key is not only to design brands to be interactive, but also to equip customers with the ability and willingness to interact.[30]

9.2.5.8 Building Customer Relationships

Advances in information technology present new opportunities and challenges to establish, build and manage customer relationships. In fact, interactive communication is increasingly being hailed as the conductor to relationships, which can not only drive brand value but, more importantly, provide up-to-date information on customers' needs and thoughts. For example, increasingly interactive databases have become the platform from which companies are tailoring the targeting of their messages to attract and retain customers. This is discussed in more detail in Module 8. Regarding the internet, the growth of email campaigns (as a replacement for direct mail) and extranets as forms of external communications, and the growing complexity of intranet systems to facilitate internal communications, show how information technology can aid buyer–seller relationships (if done with care).

9.2.5.9 Performance Measurement

Developments in information technology have increased the scope to collect, analyse and exploit customer information. The internet offers companies unprecedented opportunities for understanding their customers in depth and for customising offerings to meet their preferences. However, not only does the average website achieve less than 30 per cent of its full sales potential with each customer, but 'less than 20 per cent of companies even track customer retention rigorously let alone try to systematically learn from customer defection patterns'.[20] This lack of analysis means that strengths and weaknesses in past performance are not identified and opportunities to improve future performance are missed. Supporting this outlook, Kenny and Marshal[31] argue that companies are so fixated on building web capacity and increasing their visitor counts, click-throughs and online sales that they overlook opportunities to cross-sell and upsell with a result that purchase value per customer is lower than it should be. There is therefore considerable scope for improving the measurement of the effectiveness of websites and the information they provide.

9.3 Customer Relationship Management

Customer relationship management (CRM) is a term for methodologies, technologies and e-commerce capabilities used by firms to manage customer relationships.[32] In particular, CRM software packages aid the interaction between customer and company, enabling the company to coordinate all the communication effort so the customer is presented with a unified message and image. CRM companies offer a range of IT-based services such as call centres, data analysis and website management. The basic principle behind CRM is that company personnel have a single customer viewpoint of each client.[33] As customers are now using multiple channels more frequently, they may buy one product from a salesperson and another from a website. A website may provide product information which is used to buy the product from a distributor. Interactions between customer and company may take place through the salesforce, call centres, websites, email, fax services or distributors (see Figure 9.2). Therefore it is crucial that no matter how a customer contacts a company, front-line staff have instant access to the same data about the customer such as his or her details and past purchases. This usually means consolidation of the many databases held by individual company departments into one centralised database that can be accessed by all relevant staff on a computer screen.

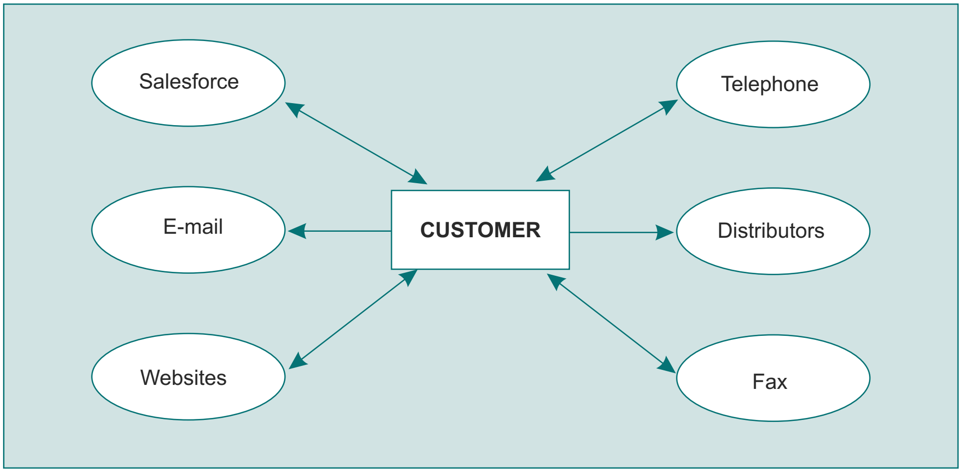

Figure 9.2 Customer–company contact points

9.3.1 QCi Customer Management Model

Customer relationship management is much more than simply the technology. A thorough examination of the CRM process is provided by the QCi Customer Management Model (see Figure 9.3). This model can be used by companies to understand how well they are managing their customers.[32,34] Each of the elements of the QCi model will now be discussed.

9.3.1.1 Analysis and Planning

Effective CRM begins by understanding the value, attitudes and behaviour of various customers and prospects. Once this has been achieved, customers and prospects should be segmented so that planning activity can be as effective as possible. The planning will focus on such areas as the cost-effective retention and acquisition of customers. Box 9.3 describes how a CRM system can be used to segment and target customers.

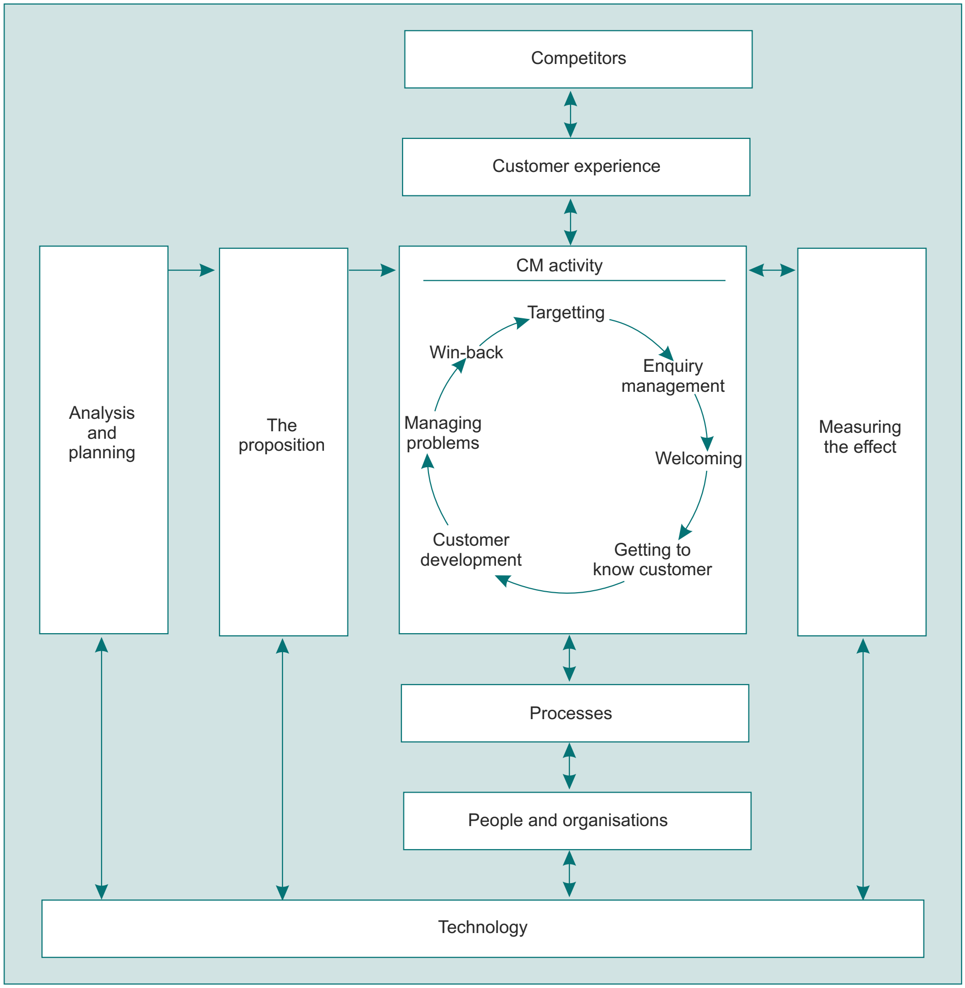

Figure 9.3 **The QCi customer management model**

Box 9.3: How CRM Software Can Aid Segmentation and Targeting

A financial services company markets several financial service products and wants to identify new segments within its existing customer base for a cross-selling strategy. It wants to cross-sell account type A to those who have already purchased account type B. Through the application of CRM software, the company can easily identify those customers who have already purchased various of the company's products.

The company could target all those who have *not* bought A, but this would undervalue customer and transactional data as an asset. In addition the company would also want the highest return on marketing investment. It is increasingly important to be accountable in terms of return on investment (ROI). So instead the company could use this software to interrogate existing customers who have both A and B accounts. Data mining can identify what makes these customers different from others and what makes them more or less likely to take both products. Transactional data can also be analysed for recency, frequency and monetary value (RFM) and for long-term value (LTV). These are two important metrics in data-driven marketing and many software packages such as the one demonstrated here include algorithms for these further metrics. The results might show that the best existing A and B account-holding customers come mainly from areas classified as blue-collar owners, high-income families, suburban semis, and low-rise council MOSAIC groups, income over £35 000, married, and aged in the 40–60 band.

However, the fullest benefit from existing customer data comes from looking at all the attributes together. The easiest way to achieve this is via CHAID, which in this case is an integral component of the software being used and of most similar packages. CHAID (chi-squared automatic interaction detection) is a form of cluster analysis which categorises individuals into groups based on their characteristics. Here various customer and transactional attributes have been investigated to see which best explain the characteristics of customers who have both A and B accounts. A tree structure represents different hot and cold branches through the data. Each branch represents a different level of importance in explaining who the A and B customers are. Each attribute is assessed and the most important or significant forms the first split. Taking the entire customer base in this instance, 26 per cent of all customers have both A and B accounts.

By following the hottest branch, the company can understand the characteristics possessed by those customers who have purchased both A and B account types. Further branches of the CHAID tree might cascade down to even more segments based on whichever variables prove to be significant. Space prevents showing further stages here, but assume the analysis produced 60 target segments. Each of these would have significant and different characteristics. Targeting could be done on a test basis in which a sample from each might be targeted and those with better response rates could then be targeted with the full roll-out campaign. Also, each could be targeted with different treatments, according to whatever gender, age, marital status or geodemographic characteristic might underpin the creative element.

Source: Based on a description of the Viper CRM software system owned by Smartfocus and provided by Martin Evans, senior teaching fellow at Cardiff Business School. Thanks to Smartfocus for providing this example of their Viper CRM software.

9.3.1.2 Proposition

Once segments of customers are identified and understood, the proposition to each segment needs to be defined and appropriate value-based offers planned. The proposition will be defined in terms of such issues as price, brand and service, and should drive the experience which the customer can expect when dealing with the organisation, its products, and distributors. The proposition must then be communicated to the customers and the people responsible for delivering it.

9.3.1.3 Information and Technology

Information and technology provide the foundations for the whole model. Data needs to be collected, stored, analysed and used in a way that provides information consistent with the CRM strategy, the way people work and the way customers want to access the company. Technology enables an organisation to acquire, analyse and use vast amounts of data involved in managing customers. It needs to deliver the right information to the relevant people at the right time so they can achieve their role in managing customers. Box 9.4 shows how data mining can be used to analyse vast amounts of data.

Box 9.4: Statistics Data Miner

The popularity of data mining methodology is rapidly growing in a variety of areas where specific tools are needed to make sense of ever-increasing amounts of information and to search for significant patterns and trends in large databases.

Applications include fraud detection, credit card scoring and personal profile marketing to enhance customer relations and direct marketing. Web mining, through which data from the web are analysed, helps business understand customer click-stream behaviour online.

From querying databases to generating final reports on graphs, Statistica Data Miner offers ease of use without sacrificing power or comprehensiveness. The system can work within client-server architecture in order to offload time-consuming tasks from less powerful computers to dedicated servers. It also offers options to manage projects over the web and works collaboratively. It comes with a selection of predefined projects and a point-and-click user interface, allowing users to easily build complete data mining projects without programming. It is fully programmable using the industry-standard Statistica Visual Basic.

Source: *East Midlands News*, Issue 207, Summer 2002 page 1 and www.statsoft.co.uk.

9.3.1.4 People and Organisation

An organisation's front-line staff need to be recruited, trained, developed and motivated to deliver high standards of customer relations. Key elements are an organisational structure that supports effective customer management, role identification, training requirements and resources, and employee satisfaction.

9.3.1.5 Process Management

In an environment where customer contact can take place at several different points, processes can be difficult to implement and manage. Nevertheless, clear and consistent processes for managing customer relations need to be developed and reviewed in the light of changing customer requirements.

9.3.1.6 Customer Management Activity

Customer management concerns the implementation of the plans and processes to deliver the propositions to target segments and involves the following activities:

- *Targeting customer and prospect groups* with clear propositions.
- *Enquiry management* starts as soon as an individual expresses an interest and continues through qualification, lead handling and outcome reporting.
- *Welcoming* covers new customers and those upgrading their relationship. It ranges a simple thank you to sophisticated contact strategies.
- *Getting to know customers* by persuading them to give information about themselves. The information needs to be stored, updated and used. Useful

information includes attitude and satisfaction information and relationship health checks.

- *Customer development* decisions are decisions about which customers to develop through higher levels of relationship management activity and which to maintain or drop.
- *Managing problems* involves early problem identification, complaint handling and root cause analysis to spot general issues that have the potential to cause problems for many customers.
- *Win-back* activities include understanding reasons for loss, deciding which customers to try to win back, and developing win-back programmes that offer lost customers the chance to return and good reason to do so.

9.3.1.7 Measuring the Effect

Measuring performance against plan enables the refinement of future plans to continually improve the CRM programme. Measurement may cover people, processes, campaigns, proposition delivery and channel performance.

9.3.1.8 Customer Experience

External measurement of customer experiences needs to take place and includes satisfaction tracking, loyalty analysis and mystery shopping.

9.3.1.9 Competitors

The strengths and weaknesses of competitors need to be monitored and the company's performance on the above issues needs to be evaluated in the light of the competition.

9.3.2 CRM in Selling and Sales Management

Specific technological applications of CRM in selling and sales management have their roots in salesforce automation, with software providers moving their focus to CRM to benefit from the broader scope and better integration with other customer relationship activity. Essentially, CRM tools replace manual processes with electronic processes and cover such activities as contact management, account activity tracking, account management, order entry, proposal generation, presentation support and technical support.[21] This allows the salesperson to access information, perhaps through a laptop, at the touch of a button. A basic account management software package would allow the following details to be recorded:

- company name and address;
- telephone and fax number;
- email address;
- contact names with position or job titles;
- type of business;
- size of business;
- status (suspect, prospect, customer, client);

- personal interests;
- date of last visit.

Box 9.5 illustrates a CRM system for B2B markets produced and marketed by KMS London.

Box 9.5: How CRM Aids the Sales Process

Project-base is a CRM software system for organisations involved in high-value project-oriented sales. Combining seamlessly the roles of lead tracking and contact management, Project-base has all the features necessary to support sales and marketing activities in, for example, construction, heavy engineering, manufacturing and software development.

Sales in project-centred industries are often subject to very long lead times, further complicated by the need for more than one person to deal with multiple contacts at the potential customer's organisation. For example, at a main contractor seeking to work on a major project, various staff members (estimators, planners, sales manager and regional directors, etc.) may need to communicate with their counterparts and others in a number of different organisations (client, architects, engineers, etc.) in their attempts to secure the work or even to get an opportunity to quote. This process usually takes from a few weeks to several years to complete, introducing the added complication of staff turnover into the equation.

Project-base gives such companies a competitive edge by ensuring that the right people are talking to the right organisation about the right project at the right time – fully briefed with records of every other relevant conversation that has taken place. It makes the long and complex sales process easy to track, measure and bring to a successful conclusion by keeping all information at the fingertips of anyone who needs it, not only the sales and marketing staff.

Project-base makes extensive use of management reporting and colour graphics to track sales activity and results while also tracking potential opportunities through the sales pipeline from initial lead to award of contract. It is used widely in the UK construction industry for contracting and product supply, with installations ranging from one to over a thousand active users.

Source: Based on a description provided by Richard Cork, business development manager at KMS, London, and reproduced with permission.

In addition to basic account information, sophisticated software can provide information on customers, consumers and competitors, via a laptop. Table 9.1 provides a list of internal and external information that could be of immense value to an account handler.

Table 9.1 Information applications via the computer

Internal	External
Customer profitability by major customer by sector, by brand*	Market information (market size, structure, brand shares)
Product profitability	Consumer information (including brand information)
Budgets and reports	
Demand forecasting	Information on customers
Product information	Competitor intelligence
Shipments information	
Customer contact reports	
Database of retail outlets	

* Customer profitability that looks at returns from combinations of products and customers is particularly useful for allocating resources to customers, e.g. in promotional budgets or salesforce efforts.

Based on their ability to integrate information, managers and salespeople may be given a *workbench* or *toolbox*. This is a database of integrated information accessible on their own laptop computers. Using appropriate software, much of the internal and external information listed previously is integrated to deliver information to aid decision-making.

By allowing information to be shared, the same toolbox can use software which supports teamworking, e.g. electronically sharing the outcome of a customer meeting. This would remove the need to photocopy a contact report for all team members; instead the salient points of the meeting would be accessible to all via their individual laptop computers.

Laptop computers (or the account manager's workbench) also provide a valuable communication tool for personnel performing the sales function. Remote communications via electronic mail software enable online communications with head office, with other non-head-office personnel and with customers (email links with customers are very common).

It is usual for this same workbench to offer access to office packages such as word processing, graphics and spreadsheets. Thus the account handler is self-sufficient in terms of preparing sales presentation and customer communiqués. An example of an integrated office package is Microsoft Office.

Another innovation in corporate IT relates to the internet. Referred to as *intranet*, the idea is a local company web which allows access to information electronically. There is scope here to link account managers to this database via their remote communications facility on a laptop.

Productivity could be further enhanced by including an order-taking facility on a laptop. Instead of telephoning orders, the salesperson would link the laptop via a modem to head office. Information from head office, e.g. on product availability, could be downloaded in much the same way.

9.4 Sales Management Applications of IT

Software (sometimes as part of a CRM package) can also improve efficiency in sales management areas such as territory management and journey planning, recruitment and selection, sales training, sales forecasting, determining salesforce size and salesperson evaluation. We shall now see how IT has affected the lives of sales managers in each of these areas.

Concern with the amount of time spent driving (one survey conducted by the Kinnair Group showed that 42 per cent of the average salesperson's time was spent at the wheel) means that any gains in productivity created by more efficient *territory management* and *journey planning* would be very worthwhile. Software that can design territories and create journey plans which minimise driving time is now available, so more time can be spent in face-to-face contact with customers. Box 9.6 shows how this can be achieved.

Box 9.6: IT Applications in Territory Management

In the past, sales managers drew sales territory boundaries using a map, a thick felt pen, lots of pins and years of experience. The result was highly inefficient territories. At best this approach led to lots of unnecessary driving and at worst it meant lost sales as some areas were less well served than they should have been. Today software packages such as CACI Fieldforce Planning's Insite Fieldforce provide computerised territory planning. The package calculates the best possible balance of workloads and drive times to create efficient territories that allow the salesforce to spend less time driving and more time face-to-face with customers.

Territories are normally built around the locations of the salespeople – their home addresses or the local offices from which they travel – and the number of territories requested will be the number of salespeople in post. If more salespeople are to be recruited, extra floating locations can be added and the package will work out the optimum location for each one. Alternatively, all territories can be based around floating locations to identify the best location for all salespeople. By default, territories of equal workload are produced. Account is taken of the greater time spent driving in more rural territories in Scotland, mid-Wales, East Anglia, Devon and Cornwall. Allowance is also taken of the distribution of calls around the sales base. For example, in one territory calls over an hour's drive time from the salesperson's home may be widely scattered while in another they may be concentrated in three towns where several calls can be made on the same day to reduce the total time spent driving. In this way, efficient territories based on both drive time and workload can be designed.

A companion software package, *CallSmart*, allows sales calls to be placed in the best sequence to minimise drive time. It takes into account many factors such as call locations, call cycles, visit restrictions, field force locations and driving times. It will deal with single and multiple calls and plan tomorrow's visits or a set of call cycles for the next year. There are two versions of software, one allowing head office to plan calls and the other for use on the field salesperson's laptop.

The most efficient call sequence is achieved by using a matrix of drive times to and from any postcode. The package can then make the most efficient choice of when to plan each call. Call sequences can be viewed on a map to reassure users that the chosen plan is sensible, logical and efficient.

Source: Based on Shaw, M. and Williams, C. (1999) 'Putting territories on the map', *Journal of Targeting, Measurement and Analysis*, 8(2), pp. 135–52; www.caci.co.uk/ppf-insitefieldforce.htm; www.caci.co.uk/pff-callscheduling.htm

Recruitment and *selection* decisions can also be facilitated by IT applications. Specific software packages have been developed to assess the suitability of sales personnel. Packages assess candidates on the basis of key attributes for a salesperson, for example, intellect, motivation and sales ability. Some packages provide a suite of skill areas which can be selected according to the nature of the sales job and may include prospecting, lead qualification, handling objections, presentation skills, closing the sale, telephone technique and time management.

Such software packages can also be used in relation to the current sales team to diagnose underperformance and to identify training and motivational needs. For example, a sales manager can identify skills weaknesses and therefore focus on the area (e.g. presentation skills) in most need of attention. In relation to motivation, a manager can determine whether status is more important than money and adjust incentives accordingly.

Implementation of *training* can also be assisted by IT. Computer-based training (CBT) packages can be used to deliver knowledge and develop skills in managing information. In particular, new product information can be delivered in this way. The software can be used to present information and challenge the salesperson to remember key points or to monitor knowledge levels. Some companies such as those in financial services (e.g. insurance) require their salespeople to achieve a minimum score before they are allowed to sell. A key advantage of CBT software is that it can be used at times and locations to suit the company and user. There has been growing interest in multimedia training packages. As more and more portable computers have CD-ROMs and training organisations install multimedia labs, this application has grown.

Computers have been used for *sales forecasting* purposes for many years. For example, the statistical software package SPSS can be used to forecast future sales using sophisticated techniques such as regression analysis. This takes account of variables such as advertising spend, disposable income and relative price levels to predict future sales. Without the power of the computer, the calculations would be time-consuming, tiresome and prone to error.

Software packages such as Microsoft Office which contain spreadsheets can be used to calculate *salesforce size* and perform *quantitative evaluations* of salespeople. Spreadsheets describe computer packages that are used to record, present and calculate numerical data. Simple calculations such as totals and means can be carried out. For example, the value of orders received by the sales representative by customer could be totalled and compared with previous periods. Many of the quantitative measures of salespeople discussed in Module 17 could be entered into a spreadsheet to facilitate evaluation.

Module 15 describes the workload approach to determining salesforce size. It involves a calculation based on the number of accounts to be called upon, call frequency, average weekly call rate and number of working days per year. A spreadsheet package could be used to perform the necessary sums and also to provide answers to 'what if' scenarios. For example, how many extra salespeople would be required if the number of accounts to call upon increased or call frequency was raised? Some specialist sales management software packages also have the capability to calculate the required salesforce size. For example, CACI Fieldforce Planning's *In-site Field Force* software includes tools that calculate the number of salespeople needed in the field.

9.5 Applications of IT in Retail Sales and Marketing

Major changes in retailing have altered the way business is conducted between suppliers and retailers. Suppliers need to be fully conversant with the technology employed by their trade customers and ensure their strategy and systems are consistent with their customer's approach. Suppliers need to be sensitive to the impact their own actions can have on a customer's technology and should take advantage of opportunities to assist the customer through the sharing of information and technological resources.

The pace of change in retailing continues to accelerate. Much of this change has happened through investment and a focus on information technology by retailers of all sizes and it has been made possible by falling infrastructure costs, such as the internet, which makes data handling cost-effective.

Much of the retailer investment drive is to increase the efficacy of stock data to allow efficiencies to be made in supply chain management (SCM). SCM is the concept of product provision from suppliers' production lines to retailers' tills. SCM drives profitability as it ensures retailers and suppliers are focused on ensuring the right products are available in the right quantities at the right times to meet individual customer requirements. Accurate and real-time data are the enablers for this.

Retailers are increasingly aware of the benefit of having collaborative relationships with their suppliers and are now making this data available to their suppliers, usually through web-based technology such as secure intranets and extranets. This allows the supplier to see the same data as their customers at the same time. Through the use of algorithm-based software packages, both parties are able to use this data to manage the supply chain. Production and supply are harmonised to in-store demand, facilitating the concept of demand management. This can have the mutual benefits of maximising sales and reducing stock-outs, and lower levels of stock in the supply chain produce cost savings.

Retailers have taken the lead in this investment, hence they hold the balance of power in dealings with suppliers as they now possess more up-to-date and relevant real-time data than their suppliers. This obviously gives a commercial advantage when negotiating with suppliers. Section 9.5.1 gives a brief insight into the types of data used by suppliers and retailers.

9.5.1 EPOS and EFTPOS

In electronic point of sale (EPOS) and electronic funds transfer at point of sale (EFTPOS) data is captured at the moment a product's unique bar code is scanned through the till. Advances in technology have significantly aided the scope for data analysis. Besides the original scanner-related data on sales rate, stock levels, stock turn, price and margin, retailers now have information about the demographic, socio-economic and lifestyle characteristics of consumers. They can also assess the impact of a whole host of variables, e.g. price, promotions, advertising, position in store, shelf position and number of facings. This information drives their choice of product mix, allocation of shelf space and promotional tactics. Some retailers also use customer loyalty cards as a means to capture data which can be analysed, allowing the retailer to engage in one-to-one marketing initiatives, e.g. information on new products and discount offers to retain customers.

EPOS has certainly changed the relationship between buyer and seller. Before the availability of scanner data, the trading relationship depended on information provided by manufacturers from retail audits, information that was at least several weeks old. More detailed, accurate and timely data from scanner systems gives the retailer significant bargaining power. Not surprisingly, therefore, information finds itself on the negotiating agenda. Manufacturers do buy EPOS data from their customers, but they can also trade the information and capabilities they have in exchange for it. Market knowledge is still the manufacturer's forte and this national market picture is of great use to the retailer. Additionally, armed with the retailer's EPOS data, the manufacturer could deliver well-targeted trade marketing programmes beneficial to both sides. In true trade marketing spirit, cooperation is the overall preferred approach.

EPOS depends on the inclusion of bar codes on all products to be scanned. This impacts directly on the manufacturer or supplier, who should ensure that all packs carry a bar code and that the bar codes for any new line listings or promotional packs are entered into the customer's system before any goods are shipped.

9.5.2 Space Management Systems

It is critical to maximise the sales and profitability of selling space. One of the reasons for retailers investing in supply chain management is to reduce the amount of storage space required in store, allowing sales areas to be increased. To ensure the right amount of product is kept in store and featured on the shelf, retailers use space management systems to construct virtual plannograms, which should maximise sales that can be achieved from each metre of selling space. To better understand the implications of these software packages on their products, suppliers have not only bought packages but also set up departments which specialise in space management. Opportunities exist for their proactive use by manufacturers, particularly in situations where the retailer is short of resources; importantly, manufacturers can put themselves forward as produce category specialists. In the soft drinks sector, Coca-Cola Schweppes Beverages (CCSB) acts as the category specialist. A key function of the trade marketing role at CCSB is to advise the retail trade on the allocation of space to the soft drinks category in totality. An example of a software package that can accomplish this is *Nielsen's Spaceman*. Recently, however, retailers have become concerned that some suppliers may use this technology to favour their products at the expense of competitors at the key point of purchase.

9.5.3 Direct Product Profitability

Maximising the profitability of every product is critical in many areas of retailing where price figures highly in the marketing mix. The output from direct product profitability (DPP) systems can affect retailer decisions on product stocking, store position, pricing and even trading terms demanded. It is vital, therefore, that the manufacturer understands DPP and the extent to and manner in which individual retailers use it.

DPP replaces gross margin as a much more accurate measure of a product's contribution to total company overhead and profit. It takes account of the fact that products differ with respect to the amount of resource they use, such as the amount of transport costs, warehouse and back-of-store space, staff handling time, share of shelf space, even head office costs. As a minimum the manufacturer needs to be aware of how the retailer is using DPP and should have sufficient expertise to question the results of the retailer's analysis. For example, a product with low DPP may still be essential to a retailer's success if it generates in-store customer flow and if deleting it would lead to a loss of customers.

DPP can be used by manufacturers and retailers to examine the costs at their individual ends of the distribution chain, and by both to estimate the costs and profits in the other's field for use in negotiation. In some instances manufacturers have taken the lead in introducing DPP and in doing so have capitalised on the potential gains for both sides. Procter and Gamble (USA) claims it would modify its packaging, trading terms and other variables on the basis of DPP analysis. Proactive use of DPP by manufacturers works best with actual cost data from the retailer; without this, only standard retail industry data can be used. In fact, to continue a theme already begun, manufacturer–retailer cooperation in the sharing of data is the preferred strategy in order to maximise gains for both parties.

9.5.4 Category Management

Technology also enables category management. Scanning technology delivers information at a level of detail that allows customised merchandising strategies (tailored product assortments, space allocations, pricing, promotions) to be devised for categories or types of store. Furthermore, sophisticated computer modelling programs allow such marketing programmes to be tested before they are implemented.

Retailers will best respond to those manufacturers who establish themselves as experts in the category and share their data on product sales, consumer behaviour and competitor activity. Manufacturers can add this data to their knowledge, analyse and identify significant consumer and category trends, and use this to make strategic recommendations to the retailer on ranging, merchandising, products and promotions that will increase the overall profitability of the category. The manufacturer will need to have adopted the relevant technology and applications, but the gains to the proactive manufacturer are substantial.

9.5.5 EDI, Intranets, Extranets and the Internet

Electronic data interchange (EDI) was the initial technology used by retailers and suppliers to order and invoice products. This SCM approach has progressed enormously in recent years as web-based systems have started to take over, because they offer a higher degree of functionality and allow a more collaborative and efficient way of conducting business. The most sophisticated of these systems, such as used by Wal-Mart, allow retailers and suppliers to view the performance of their products in real time over secure intranets or extranets.

The advantages are that both parties can work together with hard real-time data to make decisions that will benefit profits by ensuring inventory is tightly managed throughout the supply chain for raw material purchasing along the production line to the till. These seamless supply chains allow retailers and suppliers to maximise consumer sales and their profits by controlling costs. The most advanced of these systems place all necessary data, including competitor information, on the site. The resources needed to manage this information properly can be significant, and less sophisticated software packages are available to smaller suppliers that are internet based. These changes in the retail arena have had major implications for the role of the account manager (see Box 9.7).

Box 9.7: The Role of the Modern Account Manager in Retailing

Suppliers are constantly finding their customer base is consolidating and their customers becoming larger. This change has meant the role of the salesperson or account manager has continued to develop and expand. The account manager will now be responsible for all relationships within the retailers' key functions. This means they must be multifunctional business experts with knowledge and understanding of supply chain management, credit control, information provision and management, marketing, product development and category management.

This expansion of role has been made possible by the amount of data available, the improvement in software that allows its quick analysis and the provision of technology infrastructure that allows it to be accessed anywhere and by any authorised person. To better serve the customers' needs, account managers now frequently sit within a focused business unit structure whose purpose is to meet all the functional requirements of one or a small number of customers. On a day-to-day basis the account manager will be liaising with the customers' trading, supply chain, marketing and finance teams and ensuring their counterparts within the business unit are meeting requirements.

The account manager's role is therefore to manage and lead the business unit team to maximise value with the customer. Face-to-face selling is now a small part of their role and their wider business knowledge is a prerequisite.

Recently, as certain retailers become global and set up buying departments around the world, e.g. the Kingfisher Group and Tesco, many large and multinational suppliers have started to create global account management teams to mirror this. Again this is made possible by the opportunity to transfer data electronically, such as product specifications and drawings.

Learning Summary

This module has explored the new developments in information technology that have impacted selling and sales management. Information technology is helping companies such as Direct Line, Wal-Mart, Compaq and Dell Computers to sell efficiently and effectively to customers. The internet is allowing customers to search for product and price information more easily than ever before, and to buy directly without the need for salespeople or distributors.

Developments in information technology such as email, fax and mobile phones are improving the communications links between salespeople, customers and head office. They are also bringing pressure on salespeople, who are now expected to respond faster because of the speed at which these new technologies operate.

CRM software is allowing companies to coordinate all of their communication effort so the customer is presented with a unified message and image. The principle is that company staff have access to the same data about the customer and can therefore respond in a unified way. This usually means the consolidation of the many databases held by individual departments into a centralised database that can be accessed by all relevant staff.

Sales management has also benefited from these developments. Information technology has provided the platform for computerised territory management, journey planning, recruitment and selection, training, sales forecasting, salesforce size and evaluation systems.

Finally, an in-depth look at how IT has affected retail selling and marketing has identified applications in the areas of EPOS, space management systems, direct product profitability, category management and EDI, especially web-based systems.

Review Questions

Content Questions

9.1 What are the major IT applications in selling and sales management?

9.2 On what levels can e-commerce take place?

9.3 How could the internet affect selling and sales management?

9.4 What is CRM?

9.5 Some companies use CRM software. What benefits do they get?

9.6 How has IT affected retail selling and marketing?

Multiple-Choice Questions

9.7 Have a look at these two statements.

I. Use of the internet in the business-to-business domain is less than in the business-to-consumer domain.

II. Use of the internet in the business-to-business domain enhances buyer–seller relationships and processes.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true

9.8 Have a look at these two statements.

I. Efficiency is improved in business-to-business internet transactions through provision of sales brochures, manuals, etc.

II. Efficiency is improved in business-to-business internet transactions through improved communications by email.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true

9.9 At what level of e-commerce is there one-way communication of information to customers?

A. Integrate.
B. Interact.
C. Publish.
D. Transact.

9.10 Have a look at these two statements.

I. Internet selling is shifting focus from immediate exchange transactions to the development of long-term exchange relationships.

II. Internet selling shows enormous potential to take a significant share of sales.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true

9.11 What is the name for a business-to-business secure site that is accessible only to certain people and/or organisations and which enables transactions between buyers and sellers?

A. Intranet.
B. Browser.
C. Extranet.
D. Open-market catalogue.

9.12 Which of the following is exemplified by Amazon.com?

A. Intranet.
B. Browser.
C. Extranet.
D. Open-market catalogue.

9.13 Which competitive landscape is characterised by purchasers exhibiting no loyalty to individual suppliers?

A. Loyal link.
B. Opportunity store.
C. Loyal chain.
D. Opportunity spot.

9.14 Which one of the following is not a major IT development in retailing and trade marketing?

A. EPOS.
B. DPP.
C. EDI.
D. ETOP.

9.15 Which of the following IT developments attempts to maximise the sales and profitability of selling space?

A. EPOS.
B. Space management systems.
C. DPP.
D. EDI.

9.16 Which of the following IT developments depends on having bar-coded products?

A. EPOS.
B. Space management systems.
C. DPP.
D. EDI.

Case Study 9.1: Understanding Customer Value Creation

QCI has developed a model that analyses the contribution of customer management to an organisation. Adding value for stakeholders is an important aspect of a business proposition (improving share value, employability, etc.) but it is seldom measured effectively and the results often lead to poor understanding of critical success factors. Customer value is usually measured relative to what customers have to pay, either directly or indirectly (costs, taxation, etc.). In many cases, stakeholder value and customer value are closely related, organisations should seek to enhance value to the customer that is only achievable through the value chain, i.e. all parties involved in meeting the needs of customers. Recognise and retain customers that help the organisation shape its business proposition appropriately, to align its people, processes and infrastructure.

Practical exercise

This exercise was devised by Tracy Harwood and Michael Starkey, senior lecturers in marketing at De Montfort University.

This exercise encourages you to think about how value is created and destroyed by organisations in the different ways they manage customers. Imagine you are a senior manager for a large organisation; pick a company with which you are familiar.

Question

1 For each of the following areas, write two points that begin 'value is created by' and another two points that begin 'value is destroyed by'.

- analysis and planning;
- proposition;
- people and organisation;
- processes;
- information and technology;
- measurement;
- customer experience;
- customer management.

Here are some examples for analysis and planning:

- Value is created by insight, knowledge and effective planning.
- Value is created by understanding which customers you want to manage.
- Value is destroyed by a lack of customer knowledge and insight.
- Value is destroyed by a mismatch between costs and revenues.

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PART 3

Sales Environment

Module 10

Sales Settings

Contents

Learning Objectives

After studying this module, you should be able to

- understand the forces impacting selling and sales management;
- appreciate why channels are structured in different ways;
- evaluate push and pull promotional strategies and tactics;
- understand the unique problems and forces that surround organisational and service sales settings;
- evaluate the usefulness and application of exhibitions as a promotional medium;
- understand the nature and role of public relations as a selling tool.

Key Concepts

- environmental and managerial forces
- public relations
- sales channels
- services
- exhibitions
- pull techniques
- push techniques
- sales promotions

In this first module of Part Three on the sales environment we analyse the major forces that affect selling and sales management. We then consider specific sales settings such as sales channels; industrial, commercial and public authority; retail and services selling. Related activities that support selling activities, namely sales promotions, exhibitions and public relations, are also examined.

10.1 Environmental and Managerial Forces Impacting Sales

A number of major behavioural, technological and managerial forces impact on how selling and sales management are and will be carried out.[1,2] These are outlined in Table 10.1.

Table 10.1 Forces affecting selling and sales management

Behavioural forces

Rising customer expectations and being concerned with fulfilling more than basic needs

More professionally minded organisational buyers

Customer avoidance of buyer–seller negotiations

Expanding power of major buyers

Globalisation of markets

Fragmentation of markets

Technological forces

Sales force automation:

- Laptop computers and more sophisticated software
- Electronic data interchange
- Desktop videoconferencing
- Extranet

Virtual sales offices

Widespread adoption of credit cards as charging platforms and use of such facilities as opportunities for creation of databases

Electronic sales channels:

- Internet
- Television home shopping

Managerial forces

Direct marketing

- Direct mail
- Telemarketing

Blending of sales and marketing

- Intranet

Qualifications for salespeople and sales managers

Source: Adapted and updated from Anderson, R.E. (1996) 'Personal selling and sales management in the new millennium', *Journal of Personal Selling and Sales Management*, 16(4), pp. 17–52.

10.1.1 Behavioural Forces

As customers adjust to a changing environment, so sales has to adapt to a variety of influences:

- rising consumer and organisational buyer expectations;
- customer avoidance of buyer–seller negotiations;
- expanding power of major buyers;
- globalisation of markets;
- fragmentation of markets.

10.1.1.1 Rising Consumer or Organisational Buyer Expectations and Fulfilment of Higher-Order Needs

As consumers experience higher standards of product quality and service, so their expectations are fuelled to expect even higher levels in the future. This process may be hastened by experiences abroad, and new entrants to industries (possibly from abroad) that set new standards of excellence. The chief executive of customer satisfaction research firm J.D. Power explained: 'What makes customer satisfaction so difficult to achieve is that you constantly raise the bar and extend the finish line. You never stop. As your customers get better treatment, they demand better treatment.' The implication for salespeople is that they must accept that both consumer and organisational buyer expectations for product quality, customer service and value will continue to rise. They must respond to this challenge by advocating and implementing continuous improvements in quality standards. The same is true in respect of organisational buyers, especially in view of trends highlighted in Module 7.

10.1.1.2 Customer Avoidance of Buyer–Seller Negotiations

Studies have shown that the purchase of a car is the most anxiety-provoking and least satisfying experience in retail buying.[3] Some car salespeople are trained in the art of negotiation supported by high-pressure sales tactics. Consequently, customers have taken to viewing the purchase as an ordeal to be tolerated rather than a pleasurable occasion to be savoured. In response, some car companies have moved to a fixed price, no pressure and full book value for the trade-in approach. This was used for the successful launch of the Saturn by General Motors in the USA and is the philosophy of Daewoo cars in the UK.

10.1.1.3 Expanding Power of Major Buyers

The growing dominance of major players in many sectors (notably retailing) is having a profound influence on selling and sales management. Their enormous purchasing power means they are able to demand and get special services, including special customer status (key account management), just-in-time inventory control, category management and joint funding of promotions. So keen is Hewlett-Packard to provide fast, efficient service to its customers that it is prepared to rent an office in a key customer's headquarters and station an account manager there.[4] Future success for salespeople will depend on their capabilities to respond to increasing demands of major customers.

10.1.1.4 Globalisation of Markets

As domestic markets saturate, companies are expanding abroad to achieve sales and profit growth. Large companies such as Coca-Cola, Colgate-Palmolive and Avon Products now earn the largest proportion of their revenues in foreign markets. The global challenge includes a correct balance between expatriate and host country sales personnel, adapting to different cultures, lifestyles and languages, competing against world-class brands and building global relationships with customers based in many countries. For example, 3M has a variety of global strategic accounts from industrial high-tech (e.g. Motorola, Hewlett-Packard, IBM, Texas Instruments) to original equipment manufacturers (OEMs) in electronics, appliances, automotive, electrical, aerospace, furniture, consumer products and healthcare.[2] A major challenge for such transnational corporations is the coordination of global sales teams that sell to companies like Nortel, Samsung, Siemens or P&G, where the customer may be located in over 20 countries and require special terms of sale, technical support, pricing and customisation of products. This complexity means that strategic account managers require both enhanced teamwork and coordination skills to ensure that customers receive top quality service.

10.1.1.5 Fragmentation of Markets

Driven by differences in income levels, lifestyles, personalities, experiences and race, markets are fragmenting to form market segments. For example, the Campbell Soup Company has divided the USA into 22 distinct market segments based on unique cultural and ethnic tastes for soups.[5] This means that markets are likely to become smaller with an increasing range of brands marketed to cater for diverse needs (both functional and psychological) of customers. Marketing and sales managers need to be adept at identifying changes in consumer tastes and developing strategies that satisfy an increasingly varied and multicultural society.

10.1.2 Technological Forces

The importance of technological forces on selling and sales management is reflected in the attention it receives in Module 9. Three major forces are at play:

- salesforce automation;
- virtual sales offices;
- electronic sales channels;

Salesforce automation includes laptop and palmtop computers, mobile telephones, fax, email and more advanced sales software which aids such tasks as journey and account planning, and recruitment, selection and evaluation of sales personnel. In addition, electronic data interchange (EDI) provides computer links between manufacturers and resellers (retailers, wholesalers and distributors), allowing direct exchange of information. For example, purchase orders, invoices, price quotations, delivery dates, reports and promotional information can be exchanged. Technological innovations have made possible desktop videoconferencing, enabling sales meetings, training and customer interaction to take place without the need for people to leave their offices.

Improved technology has encouraged the creation of virtual offices, allowing sales personnel to keep in contact with head office, customers and co-workers. The virtual office can be a home or even a car. This means cost and time savings and enhanced job satisfaction for salespersons who are spared time waiting in traffic that is a feature of the job.

The fastest-growing electronic sales channel is undoubtedly the internet, which was discussed in Section 9.5.5. However, another emerging channel is worthy of mention as it will reduce the need for field salesforces. This is television home shopping, which is popular in the USA. Viewers watch cable television presenters promote anything from jewellery to consumer electronics and order by telephone. In effect, the presenter is the salesperson.

10.1.3 Managerial Forces

Managers can respond to the changes in the environment by developing new strategies and tactics to enhance sales effectiveness, including

- employing direct marketing techniques;
- improving cooperation between sales and marketing;
- encouraging salespeople to attend training programmes and gain professional qualifications.

The increased role of direct marketing, including direct mail and telemarketing, has been discussed in Module 9. However, an emerging change is the use of computer stations, especially in US retail outlets, to replace traditional salespeople. In Europe the serious use of computer stations began in car showrooms with Daewoo's employment of kiosks where customers gather product and price information. The process has moved further in the USA, where several Ford dealerships have installed computer stations that fully replace salespeople. Customers can compare features of competitive models, calculate running costs, compute monthly payments and use the computer to write up the order and transmit this to the factory, without the intervention of a salesperson.

The development of effective relationships between sales and marketing is recognised, but in practice blending the two functions into an effective whole is sometimes hampered by poor communication. The establishment of intranets that link employees, suppliers and customers through their PCs can improve links and improve information exchange. Intranets are used for such functions as email, team projects and desktop publishing. Their adoption can enhance the effectiveness of the field salesforce that requires fast access to rapidly changing information such as product specifications, competitor news and price updates, and allows the sharing of information between sales and marketing.

Sales management is responding to new challenges by recognising the importance of professional qualifications. In the UK this has led to the formation of a new professional body, the Institute of Professional Sales, as well as the long-established Institute of Sales and Marketing Management. These bodies are charged with enhancing the profile of the sales function, promoting best practice and developing education and training programmes to improve salespeople and sales management skills, competence and professionalism.

Having examined the major forces impacting the sales function, we will now consider the specific settings where selling takes place, and some of the activities such as sales promotions and exhibitions that support selling activities.

10.2 Sales Channels

Historically, distribution was simple with producers selling to their immediate neighbours, who often collected goods themselves. Modern-day manufacturing, more cosmopolitan consumers, better transportation and communications, and business specialisation have meant that channel decisions are now quite complex. Distribution costs have risen relative to production. However, as a result of automation and computerisation, production costs as a percentage of total cost are now considerably lower than they were only a few years ago. Management should constantly reappraise channels of distribution to make cost savings. Marketing channels are determined by company policy and this determines how the salesforce should be organised.

A sales channel is the route that goods take through the selling process from supplier to customer. Sometimes the channel is direct, especially where goods sold are incorporated into a manufacturing process. Final goods might then be sold through a different channel. A product example is fuel injection systems that are sold to automobile manufacturers; automobiles are then sold to car distributors and the car distributors sell to end consumers. When we consider a product from the raw material stage to the end product, many different sales channels can be involved at different stages of manufacturing. A sales channel can also be indirect, whereby a manufacturer sells to a wholesaler or agent, who sells in smaller lots to other customers. This is known as breaking bulk.

Box 10.1: Reedform of Wokingham

Good supply chain management is seen as both a key driver of business and one of the toughest problems for UK managers. Procurement is an often neglected part of business. A survey of chief executives and finance directors by the Chartered Institute of Purchasing & Supply found that 48 per cent could not recall their annual expenditure on goods and services, yet had no problem listing turnover, sales, profits and salary costs. This was odd, considering that most companies spend more on goods and services than wages.

The starting point for managers should be in understanding how goods flow through the firm. This means mapping out the connections from suppliers to the company and on to customers, then charting the flow of information: orders, schedules, shipping notes, invoices, and so on. With a clearer picture of the supply chain a company can work out a strategy that fits an overall scheme for the enterprise.

Reedform realised that its traditional business of printing forms was dying, so it realigned its strategy and became a print broker. It now commissions orders – everything from brochures to golf umbrellas – from printers. It then stores finished products for clients (who are short of space and glad to outsource their storage and stock management) and despatches them to their clients' customers as required. This new strategy meant building relationships with print suppliers and finding ways to add value for their clients by knowing what they needed and offering flexible arrangements. This involved investment in IT, but improvements were possible only because managers had formed a clear picture of what they wanted for the business.

Source: Adapted from 'Going with the flow', *Management Today* supplement, May 2002.

10.2.1 Selecting or Reappraising Sales Channels

When selecting or reappraising channels, the company must take into consideration

- the market;
- channel costs;
- the product;
- profit potential;
- channel structure;
- product life cycle;
- non-marketing factors.

10.2.1.1 The Market

This must be analysed to ensure that as many potential consumers as possible will have an opportunity to purchase the product or service. Channel compatibility with similar products in the marketplace is important. Consumers tend to be conservative and any move from the accepted norm can be viewed with suspicion. Unless there are sound reasons for so doing, it does not make sense to go outside the established channel. For instance, a canned food producer would not normally consider selling through mail order unless the company was providing a very specialist type of food or perhaps providing it as part of a hamper pack. Instead, the company would use traditional distribution outlets like food multiples and cash and carry.

10.2.1.2 Channel Costs

Generally, short channels are the costliest. A company selling direct may achieve large market coverage, but in addition to increased investment in the salesforce, the firm also incurs greater transportation and warehousing costs. This is balanced against the fact that there will be a greater profit margin, by virtue of the fact that distributive intermediaries are obviated and their margins will not have to be met. In addition to such financial criteria, short channels have an advantage of being nearer to end-users, which means the company is in a better position to anticipate and meet their needs.

There has been a trend in recent years for manufacturers to shorten their channels to control distribution of their products more effectively, particularly where advertising has been used to pre-sell the goods to consumers.

10.2.1.3 The Product

Normally, low-cost, low-technology items are more suited to longer channels. More complex items, often requiring much after-sales service, tend to be sold through short channels. This is why most industrial products are sold direct from the producer to user. The width of the product line is important, in that a wide product line may make it worthwhile for the manufacturer to market direct because the salesperson has a larger product portfolio with which to interest the customer that makes for more profit-earning potential.

A narrow product line is more suited to a longer channel because along the distribution chain it can be combined with complementary products of other manufacturers, resulting in a wider range of items with which to interest the customer. In this case, distributive intermediaries not manufacturers are performing the final selling function. An example here is a manufacturer of bathroom fittings who sells through builders' merchants. Builders' merchants then sell these fittings to builders alongside other materials they require.

10.2.1.4 Profit Potential

There comes a point when the costs of obtaining more sales through a channel outweigh revenue and profits to be gained from increased sales. For instance, a manufacturer of an exclusive perfume would not distribute through supermarkets or advertise during peak-time television viewing. If the company did, then sales would no doubt increase, but costs of achieving those sales would make it unprofitable. It is an accounting problem and a balance must be struck between channel expense, profit and gross margins.

A manufacturer using short channels is more likely to have high gross margins, but equally higher channel expenses. A manufacturer using longer channels will have relatively lower gross margins, coupled with lower channel expenses.

10.2.1.5 Channel Structure

To some extent a manufacturer's choice of distributive intermediaries is governed by the members in that channel. If members of the channel are strong (by virtue of, say, their size), then it will be difficult for a manufacturer to go outside the established channel.

In some cases it may be difficult to gain entry to the channel unless the product is differentiated by uniqueness or by a lower price than those products already established in the channel. An example is the potential difficulty that a new detergent manufacturer would have in attempting to sell products through larger supermarkets. The manufacturer would have to convince members of the channel that the detergent was in some way better than those already on the market, or offer advantageous prices and terms. In addition, detergent is mainly marketed using a pull strategy that relies on consumer advertising to create brand loyalty and pre-sell the product to end customers. A new manufacturer would have to spend a lot on mass advertising to create brand loyalty for the product, or attempt to push the product through the channel by providing trade incentives, with probably a lower end price than competitive products coupled with larger profit margins for retailers. It would be a daunting task for a new detergent manufacturer to enter the market in a big way without large cash resources at its disposal.

10.2.1.6 Product Life Cycle

Consider how far the product is along the product life cycle. A new concept or product just entering the life cycle might need intensive distribution to launch it on the market. As it becomes established, it may be that after-sales service criteria become important, leading to a move to selective distribution, with only those dealers that are able to offer the necessary standard of after-sales service being allowed to sell the product. Conversely, sales are low initially, in keeping with diffusion theory discussed in Module 1. It would then be the case that only a select few distributors are needed in the early stages of the life cycle.

In the case of televisions the wheel has turned full circle, from intensive distribution to selective distribution (for reasons just mentioned) and back to intensive distribution. This is because servicing of televisions is now relatively simple, in that televisions are constructed similarly and standard units are replaced when repairs are needed. A television repairer no longer needs to be a specialist in one particular model. Television manufacturers realise that with comparative parity between models, consumers are less likely to be drawn towards a particular brand because of its supposed technical superiority or standard of after-sales service. The most crucial factor now is ensuring the customer is able to see the brand and compare it with competitors' brands. Thus, maximum exposure at point of sale is a manufacturer's distribution objective.

10.2.1.7 Non-Marketing Factors

Non-marketing factors might relate to the amount of finance available. In the case of an innovative product, it could be that the firm is unable to exploit this to its fullest advantage because of financial constraints. The firm may have to distribute through a middleman because it cannot afford to employ a field salesforce. Conversely, the firm may use a non-conventional channel such as mail order, which requires minimal investment in salespeople, although the physical characteristics of the product might not make it suitable for mail order.

Non-marketing factors often apply when selling internationally, as many companies view export orders as a supplement to home trade and are prepared to offer an agency to anybody who is likely to obtain orders, irrespective of their commercial standing. A fuller discussion of international aspects is given in Module 11, but there are cases of companies who entered into export agency agreements when they were small and exporting was relatively unimportant. As the companies grew, they came to regard exporting as essential, but it proved difficult and expensive to unwind agency agreements that were hastily entered into. In many cases these companies had to persevere with the original arrangements, often against long-term best interests.

10.2.2 Characteristics of Sales Channels

Marketing channels are one of the more stable elements in the marketing mix. A channel is costly and complex to change, unlike say price, which is relatively easy to manipulate. For instance, a switch from selective to intensive distribution is a policy decision that will have a direct effect on salesforce numbers, and even on the type of selling methods to be used.

The main problem that companies have to face is in choosing the most appropriate channel. From the viewpoint of sales management, this includes the type of sales outlet that must be serviced. Basically, a manufacturer can choose from four types of distribution:

- **Direct.** The manufacturer does not use a middleman and sells and delivers direct to the end customer.
- **Selective.** The manufacturer sells through a limited number of middlemen who are chosen because of special abilities or facilities to enable the product to be better marketed.
- **Intensive.** Maximum exposure at the point of sale is needed and the manufacturer sells through as many outlets as possible. Servicing and after-sales aspects are less important. Examples are cigarettes, breakfast cereals and detergents.
- **Exclusive.** The manufacturer sells to a restricted number of dealers. An example is the car industry where distributors must provide levels of stockholding, after-sales service, etc., deemed appropriate by manufacturers as their reputations depend ultimately on service back-up given by distributors.

10.3 Industrial, Commercial or Public Authority Selling

These categories are grouped together as the sales approach is similar and behavioural patterns exhibited by each conform to organisational behaviour (discussed in Module 3). A number of characteristics in these types of market distinguish them from consumer markets.

10.3.1 Fewer Customers

Institutions and businesses purchase goods for use in their own organisations or for use in the manufacture of other goods. There are few potential purchasers, each making high-value purchases.

10.3.2 Concentrated Markets

Industrial markets are often highly concentrated; an example is the UK textile industry, which is centred in Lancashire and Yorkshire. An industrial salesperson who sells into one industry may deal with only a few customers in a restricted geographical area.

10.3.3 Complex Purchasing Decisions

Buying decisions often involve a large number of people, particularly in the case of a public authority where a purchasing committee may be involved in a major purchase.

Many industrial buying decisions involve more than the buyer; in some cases the technical specifier, production personnel and finance personnel are involved and this is where the decision-making unit (Module 3) can be seen in practice. This can lengthen negotiation and decision-making processes. Salespeople have to work and communicate with people in a variety of positions and tailor their selling approaches to satisfy individual needs. For example, specifiers need to be convinced of the technical merits of the product, production people want to be assured of guaranteed delivery and buyers will be seeking value for money.

For technically complicated products, selling is sometimes performed by a sales team, each member working with their opposite number in the buying team, e.g. a sales engineer works with engineers in the buying company.

10.3.4 Long-Term Relationships

A life insurance policy salesperson might make a sale and never meet the customer again. The nature of selling in industrial, commercial and public authority settings is that long-term relationships are established and both parties become dependent on each other, one for reliable supplies and the other for regular custom.

There is a tendency to build up strong personal relationships over a long time and high-pressure sales techniques could be counterproductive. A more considered approach involving salespersons identifying needs of individual customers and selling the benefits of the product to satisfy those needs is more likely to be successful. The ability of salespeople to deal with complaints and provide a reliable after-sales service is important. It is suggested that the effective salesperson must understand how to develop and sustain relationships with key customer groups, along the lines of relationship selling (Module 7).

10.3.5 Reciprocal Trading

Reciprocal trading is an arrangement where company A purchases certain commodities manufactured by company B and vice versa. Such arrangements tend to be made at senior management level and are often entered into when there is a financial link between the companies, such as those within the same group (known as intergroup trading) or between companies whose directors simply want to formalise an arrangement to purchase as much of each other's products as possible.

Reciprocal arrangements can be frustrating for salespeople and buyers alike, as they deter free competition. The buyer does not like to be told where they must purchase from, just the same as the salesperson does not like having a large part of a potential market permanently excluded because of a reciprocal trading arrangement.

10.3.6 Types of Production

Types of production relate mainly to industrial sales. The type of production operated by the firm to whom the salesperson is selling can determine the type of selling approach. There are several different types of production:

- **Job (or unit or project) production.** An item is produced or constructed to individual customer requirements. It is difficult to forecast demand in such circumstances. Examples are ships, tailor-made suits and hospital construction.
- **Batch production.** A number of products or components are made at the same time, but not on a continuous basis. As with job production, batches are normally made to individual customer requirements, but sometimes batches are produced in anticipation of orders. Product examples are books, furniture and clothes.
- **Flow (or mass or line) production.** This is continuous production of identical or similar products that are made in anticipation of sales. Examples are motor cars, video recorders and washing machines.
- **Process (or continuous) production.** The production unit has raw materials coming into the manufacturing process and a finished product emerging at the end. Examples are chemicals, brewing and plastic processes.

Salespersons selling in a combination of these settings will have to adopt a different approach for each. With flow production the salesperson will have to anticipate model changes to ensure the firm is invited to quote at the outset, and follow up the quotation in the expectation of securing an order that will be fulfilled over the life of the product. If the salesperson is unsuccessful at this stage, then he or she may not have the opportunity of selling to the firm again until the next model change, when it will be difficult to dislodge an established supplier.

Just-in-time manufacturing is normally operated in flow production situations. As discussed in Section 7.2, reliability of quality and delivery are of prime importance as manufacturers work on minimal stockholding of components and raw materials.

Long-term relationships with suppliers are prevalent. In terms of quality, the supplier's goal is zero defects.

With job production, losing an order is not normally as critical, because as long as the firm has been professionally represented, it should be invited to quote for the next order and perhaps be successful then. Losing a potential order is serious, but with job production it might mean waiting a short period before being asked to quote again for a different job, whereas with flow production it might be years before the model is changed and an opportunity provided to quote again (by which time the buyer might have forgotten the existence of the salesperson).

10.4 Selling for Resale

This includes selling to retailers, most of whom are multiples like Tesco, Sainsbury's and Asda, which effectively perform their own wholesaling functions. Independents purchase from wholesalers or cash-and-carry operators like Makro. Some retailers belong to voluntary chains like Spar. Much buying is centralised and in many cases the buyer visits the seller (unlike industrial selling when the seller normally visits the buyer). A look at changing patterns of retailing since the end of World War II illustrates how retailing has been revolutionised.

10.4.1 Categories of Outlet

Before examining these changing patterns of retailing, we first categorise seven different types of selling outlet.

- **Multiples.** They are classed as belonging to a retail organisation with ten or more branches, each selling a similar range of merchandise. This has been one of the fastest-growing areas of retailing and in the UK multiples now dominate fast-moving consumer goods (FMCG) retail trading.
- **Variety chains.** They are similar to multiples except the qualifying number of stores is five and they sell a wider range of merchandise.
- **Cooperative societies.** They are owned and controlled by the people who shop there; each society is governed by a board of directors elected from its own members. Anybody can be a member by purchasing one share. The movement can be traced back to 1844 when it started in Rochdale. Its principles are open membership, democratic control (one man, one vote), payment of limited interest on capital, provision of education, cooperation among societies both nationally and internationally, and surplus arising out of the operation to be distributed to members in proportion to their purchases. Originally the surplus was distributed through dividends, but later it was paid through trading stamps; this has been generally abandoned in favour of lower prices
- **Department stores.** They are stores with five or more departments under one roof and at least 25 employees, selling a wide range of commodities, including significant amounts of household goods and clothing.
- **Independents.** They are traders who own their own retail outlets. There are variations, the first being where the independent belongs to a retail buying asso-

ciation. This is an informal grouping whereby retailers (usually within a specific geographical area) group together to make bulk purchases. A higher-profile arrangement is when a wholesaler or group of wholesalers invite retailers to affiliate to them and agree to take the bulk of their purchases from them. Such arrangements are termed voluntary groups (individual wholesaler sponsored) or voluntary chains (group wholesaler sponsored). Participating independent retailers have an identifying symbol (and for this reason they are called symbol shops, like Spar) in addition to their customary title. Retailers voluntarily agree to abide by the rules of the group or chain, including accounting procedures, shop facilities and group marketing or promotional schemes.

- **Mail order.** It has expanded significantly in recent years. The most popular type of arrangement is the mail-order warehouse that carries a large range of goods. Business is conducted through the medium of glossy catalogues held by appointed commission agents who sell to families and friends. Mail order is also carried out by commodity specialists dealing in items like gardening produce, government surplus and hi-fi. They advertise in appropriate specialist press and through direct mail. This type of business has expanded largely as a result of the expansion of Sunday colour supplements. Many companies deal in more general ranges of goods and use such colour supplements to advertise. Some department stores offer postal services and sometimes provide catalogues.
- **Direct selling.** Party plan companies have sold direct to customers in their homes for a number of years. Tupperware produces a range of high-quality kitchenware and other merchandise for food and drink storage. A direct salesperson demonstrates products to a group of guests, invited by the host in whose home the demonstration takes place. The host's compensation is a percentage commission on orders taken. A long-established company in the field of direct selling is Avon Cosmetics, whose part-time agents sell to people in a specific locality through the medium of a catalogue. Buying from a 'travelling shop' was popular after World War II, but as people became more mobile its popularity waned. However, there is now a new trend to sell bespoke items through this medium.

The success of the multiples has meant that manufacturers have had to reappraise their sales channels, with the concentration of purchasing power in fewer hands. In the FMCG field, manufacturers have become increasingly involved in controlling distribution of their products and in merchandising activities to support their pull marketing strategies. This has meant heavy advertising expenditures and concurrent merchandising activity at point of sale has been necessary to ensure that goods are promoted in-store to back up national advertising. As a result, large manufacturers operating a pull strategy have been able to exercise control over their distributive intermediaries; such intermediaries could only dismiss demand created through advertising and branding at the risk of losing custom. This control has meant lower margins for retailers, with manufacturers being able to dictate the in-store location of their particular products. The weight of advertising put behind major brands has given these manufacturers influence over their distributive outlets.

Box 10.2: Fashion on Wheels

The Polyanna boutique zooms about Britain bringing rails of designer labels to its clients. The company was formed 35 years ago as Barnsley's first fashion boutique and has now expanded to include lifestyle menswear and accessories departments, and an in-house cafe – Le Croque. Mark, son of the founder, now zooms around the country in a van packed with high-fashion labels, visiting clients as far afield as Glasgow and London. His clients largely find out about the company from the website www.pollyanna.com.

Source: *The Times*, 3 May 2002, pp. 16–17.

Although there was initially some resistance on the part of manufacturers to the development of the multiples, they eventually found it advantageous to deal with them directly. This was because multiples purchased in bulk, often for delivery to a central depot, and placed large orders well in advance of the delivery date, enabling the manufacturer to organise production more efficiently.

The implications for selling as a result of these developments have been that salespeople of FMCGs are no longer compelled to sell the products in the old-fashioned 'sales representational' sense as advertising has already pre-sold goods for them. Selling to multiples is more a matter of negotiation at higher levels, whereby the buyer and the sales manager negotiate price and delivery and salespeople merely provide an after-sales service at individual outlets. Sometimes salespeople carry out merchandising activities such as building up shelf displays, providing window stickers and in-store advertising, although these duties may also be carried out by separate merchandiser teams, particularly when some form of demonstration or product promotion is required.

The growing importance of retailers is reflected in the formation of **trade marketing** teams to service their needs. A combination of key account management on the part of the salesforce and brand management's lack of appreciation of what retailers actually want has promoted many European consumer goods companies to set up a trade marketing organisation. A key role is to bridge the gap between key account management and the salesforce. Trade marketers focus on retailer needs:

- the kinds of products they want;
- in which sizes;
- with which packaging;
- at what prices;
- with what kind of promotion.

Information on trade requirements is fed back to brand management, who develop new products, and to the salesforce, who can then better communicate with retailers. An important role for trade marketers is to develop tailored promotions for supermarkets.

Box 10.3: Tailored Promotion

A supermarket chain that owned a group of hotels demanded from a drinks supplier that the next competition promotion should offer holiday breaks in its hotels as prizes (paid for by the supplier).

Wholesalers have suffered since the post-war period and many have gone out of business because independents, their traditional outlet, have also suffered. This is why wholesalers established voluntary groups or chains, in order to meet the challenge of multiples and offer a similar type of image to the public. However, this has largely failed because of inferior purchasing power and because wholesalers must try to make their independent retailing members behave like multiples, using voluntary means. The wholesaler's only sanction against non-cooperating members is to expel them from the group, whereas in the case of multiples a store manager can be quickly removed.

The post-war years have witnessed growth of large-scale retailing, including growth in the size of retail establishments, first to supermarkets, then to superstores, then hypermarkets and finally to megastores. Because of the large size of site required for such outlets, but also for customer convenience, the trend has been towards out-of-town sites where easy parking is facilitated. Patterns of shopping have changed in that shoppers have for most goods been prepared to dispense with the personal service of the shopkeeper, and self-service and self-selection have been readily accepted in the interests of lower overheads and more competitive prices.

There has been a growth in mass marketing because improved standards of living have meant that products that were once luxury goods are now utility goods and required by the mass of the population, e.g. cars, foreign holidays, televisions, telephones, mobile phones. Because supply normally exceeds demand for consumer goods, there has been a large increase in advertising and other forms of promotion in an attempt to induce brand loyalty; with FMCGs being pre-sold to consumers using pull promotional strategies. At the same time, retailers have encouraged shoppers to become 'store loyal' through the introduction of loyalty card schemes. Thus, retailing has been one of dynamic change which has affected ways in which salespeople operate.

10.4.2 Franchising

A more recent trend in European retailing has been contractual systems of franchising. It is a corporate vertical marketing system (VMS) as its power is based at a point in the channel that is one or more stages removed from the end customer. The franchisor initiates the franchise and provides the link to the ultimate franchisee in specific stages of the manufacturing or distribution process. Franchising was originally a British development under the tied public house system. Landlords who owned their own premises were tied to a brewery under an agreement to purchase only that brewery's products. However, modern franchising is a US phenomenon that was introduced to the UK in the 1950s. Since then it has grown enormously and now has a code of conduct that is administered through a voluntary body called the British Franchising Association. Franchising comes in a number of forms:

- **From manufacturers to retailers.** E.g. a car manufacturer (the franchisor) licenses car distributors (franchisees) to sell its products.
- **From manufacturers to wholesalers.** Popular in the soft drinks industry, here manufacturers sometimes supply concentrate (i.e. the secret recipe) which wholesalers then mix with water and bottle for distribution to local retail outlets (e.g. Pepsi Cola, Coca-Cola). Manufacturers are the driving force behind the brand image of the product and stringent consistency and control of quality is of paramount importance.
- **From wholesalers to retailers.** This has been in decline for several years as a result of the rise in multiples. The most successful example is the voluntary group Spar, which does not manufacture, but its large wholesale buying power means it can pass on cost savings to independent retailers who join the group and display the Spar logo. They must abide by rules of the group in relation to matters like price promotions, standards of store layout and opening hours that the group uses as part of advertising 'Spar – your eight till late shop'.
- **Service firm sponsored franchises to retailers.** This area has achieved the largest growth over recent years. Examples are found in the fast food business (e.g. Burger King, McDonald's, Little Chef, Kentucky Fried Chicken, Spud-U-Like, Pizza Hut); car rentals (e.g. Avis, Budget, Hertz); office services (e.g. Prontaprint); hotels and resorts (e.g. some Sheraton and Holiday Inn hotels are owned by individuals or groups who operate on a franchise basis).

Franchising arrangements have a common set of procedures:

- The franchisor offers expert advice on such matters as location, finance, operational matters and marketing.
- The franchisor promotes the image nationally or internationally and this provides a well-recognised name for the franchisee.
- Many franchise arrangements have a central purchasing system where franchisees buy at favourable rates or where a successful 'formula' is central to the operation of the franchise (e.g. Kentucky Fried Chicken).
- The franchise agreement provides a binding contract to both sides. This contract governs such matters as hours of opening, hygiene and how the business is operated in terms of its dealings with customers. Indeed, on this latter point, organisations like Little Chef employ mystery shoppers who call unannounced and order a meal anonymously. They check up on the operation of franchisees to ensure they are following the franchise rules of operation. The mystery shopper investigates matters such as how the customer is greeted; whether or not they were kept waiting; whether or not certain extra items of food were offered; cleanliness of restroom facilities and whether these facilities were checked in the last two hours.
- The franchisor often provides initial start-up and then continuous training to the franchisee.
- A franchise arrangement normally requires the franchisee to pay a royalty or franchise fee to the franchisor. However, the franchisee owns the business and is not employed by the franchisor.

This system of marketing has become popular over recent years. It provides an advantage to the large-scale business (the franchisor) and the small-scale business (the franchisee). In the case of the franchisee, the opportunity to become self-employed and in control of their own destiny is a strong motivating factor to work hard and make a success of the business. The fact that the name is internationally recognised means that business is assured straight away.

10.5 Selling Services

Just like tangible products, a service must satisfy the needs of buyers. However, benefits are less tangible than physical products in that they cannot be stored or displayed and satisfaction is achieved through activities (e.g. transportation from one place to another rather than, say, a seat on a train). Services come in many forms and examples include

- air, sea, rail and road transportation;
- electricity, gas and coal;
- hotels and accommodation;
- restaurants;
- telephone, fax and email communication;
- television and radio services;
- banking;
- insurance;
- clubs, e.g. social, keep fit, sporting, special interests;
- repair and maintenance;
- travel agencies;
- accounting services;
- business consultancy, e.g. advertising, marketing research, strategic planning;
- architectural services;
- cleaning services;
- library services;
- public (local) authority services and undertakings, e.g. refuse disposal and road repairs;
- computing services;
- stockbroking services.

There are more and they can be applied to both consumer and industrial users. The selling approach to each category differs, depending on customer needs, just as selling approaches differ when considering physical products.

In the UK the service sector has grown tremendously over recent years, so much so that the UK is now primarily a service economy rather than a manufacturing economy. There are many reasons for this. For example, more women work full-time and the division of responsibilities between men and women is breaking down more equitably. There has been an increase in disposable income. This has put pressure on the service sector to provide services to meet the demand for more eating out and more holidays, often two per year.

Better technology has assisted the development and provision of a more comprehensive range of services (e.g. banks offer internet banking, credit cards, instant statements, quicker decisions on loans and longer-term services like house loans). Building societies now provide a broader range of services and have moved into areas traditionally viewed as the province of the banks and the major ones have now become banks. This has been a result of the 'liberalisation' of their activities through the Financial Services Act 1986.

In addition to expansion of existing services in the financial sector, more services are now available (e.g. professional drain clearing through the Dyno-Rod franchise). Public services have become more marketing oriented and have to be seen to be more accountable to the public (e.g. the police service is now more public relations conscious than in the past). Local authorities spend money that is raised through council tax and the public now questions more closely how money they have contributed is being spent. Therefore these organisations have to be seen to be spending money wisely as they are publicly accountable. They have to communicate with their public and explain how services they provide are of value. Special characteristics of services include:

- intangibility;
- the difficulty of separating production from consumption as many services are consumed as they are produced;
- services are not as standard as products and are more difficult to assess in terms of value;
- it is not possible to stock services like products, e.g. unsold hotel rooms.

Table 10.2 illustrates these characteristics more clearly.

Table 10.2 Characteristics of services and products

Products		Services
Low	Intangibility	High
Low	Inseparability	High
Low	Variability (i.e. non-standard)	High
Low	Perishability (i.e. inability to stock)	High
Yes	Ownership	No

The final criterion, ownership, shows that, unlike a product, the consumer does not secure ownership of the service, but pays to secure access to the use of the service (e.g. a recreational facility like exercise in a gymnasium).

The four Ps have been extended to include an extra three Ps; thus we have the seven Ps of service marketing. The three extra Ps are people, process and physical evidence.

- *People* are an important element in carrying out a service, especially those who are directly involved with customers. Employees must be well trained and have a friendly general demeanour when handling customers.
- *Process* relates to how the service is provided and it deals with customers at the point of contact in the supply of the service. Consistency and quality of service must be well planned and managed.
- *Physical evidence* is included because of the intangibility of services. Marketing should highlight the nature of the service being offered. This should be communicated to customers by emphasising such matters as levels of quality, types of equipment and physical facilities.

With this background in mind, the task of selling services is perhaps more difficult than selling products because of its more abstract nature. A distinguishing feature is that those who provide the service are often the ones who sell that service. Thus, providers of services must be more highly trained in sales technique and sales negotiation forms an important part of such interaction. It is important too that close attention is paid to image building (e.g. banks and insurance companies must be seen to be stable, reliable institutions, but with a friendly, non-intimidating attitude, an image on which banks in particular have spent a lot of money). Above all, as McDonald has pointed out, because unlike a physical product it is never possible to know precisely what will be received until the service is rendered, an element of trust is essential in selling services.[6]

10.6 Sales Promotions

Sales promotions include techniques that organisations can use as part of their marketing effort. Objectives that can be achieved through sales promotional activities include

- encouragement of repeat purchases;
- building of long-term customer loyalty;
- encouragement of consumers to visit a particular sales outlet;
- building up of retail stock levels;
- widening or increasing the distribution of a product or brand.

Sales promotions include

- price reductions;
- vouchers or coupons;
- gifts;
- competitions;
- lotteries;
- cash bonuses;

Techniques cover

- consumer promotions;
- trade promotions;
- salesforce promotions;

The importance of sales promotions has increased since the 1960s, as has the sophistication of the methods. It is sometimes implied that sales promotion is a peripheral marketing activity, but companies increasingly realise the importance of a well-planned and coordinated programme of sales promotion.

Within the UK, sales promotional activities have matured since the 1970s. At that time few attempts were made to measure their effectiveness. Advertising agencies branched out into sales promotions with the aim of offering an all-inclusive package to clients in an attempt to combat competition from emerging sales promotion agencies. The mid-1980s brought increased economic pressure to bear on business activities that had the effect of making advertising agencies become more concerned about reductions in company advertising budgets. They began to pay more attention to the effectiveness of sales promotions and adopted a more integrated approach to advertising. There was a move towards fee-based sales promotional agencies, which implied a longer-term relationship between agency and client, rather than the existing ad hoc commission structure.

As a result of increased competition from sales promotional agencies, advertising agencies have tended since the mid-1980s to take sales promotion seriously and now offer sales promotion alongside advertising as an integrated communications package. Since the late 1970s there has been a gradual erosion of the line between sales promotion and advertising. Sales promotions can be divided into three main areas of activity:

- consumer promotions.
- trade promotions.
- personnel motivation.

10.6.1 Consumer Promotions

Consumer promotions are often called **pull techniques**, since they are designed to stimulate final demand and move products through the sales channel, with consumers providing the impetus. The most widely used consumer promotion is the price reduction or price promotion:

- The item is marked '*x* pence off'. This can be manufacturer or retailer originated. The technique has to be used with caution by UK manufacturers, as recent legislation now makes it illegal to state this unless the previous price has been applied for a substantial period of time.
- An additional quantity is offered for the normal price, e.g. 'buy one get one free' (BOGOF) or '10 per cent bigger – same price as usual'.
- Price-off coupons, either in-pack or on-pack, may be redeemed against future purchases.
- Introductory discount prices on new products.

A view held by many organisers of such promotions is that the consumer, in economically difficult times, is more likely to be attracted by the opportunity to save money than by incidental free offers or competitions. Price promotions are predominantly used by FMCG producers, especially in the grocery trade.

10.6.1.1 Premium Offers

Premium offers are techniques that give extra value to goods or services in the short term as part of a promotional package:

- **Self-liquidating premiums.** An offer of merchandise is communicated to the customer on or off the pack. The price charged to the customer covers the cost of the item to the promoter. The promoter is able to purchase such merchandise in bulk and pass savings on to customers, who feel they are getting something of additional value. These promotions are usually linked with the need to collect labels or cut out tokens from a number of purchases of the same or similar products. The premium need not be connected with the product that carried the premium. The idea is to stimulate purchases of the product and selling the premium is of secondary importance.
- **On-pack gifts.** Here the premium is usually attached to the product. The premium may be product related, e.g. a toothbrush attached to toothpaste; or not product related, e.g. an item of merchandise such as a CD taped to a magazine.
- **Continuities.** These are sets of merchandise that can be collected through a series of purchases, e.g. picture cards, chinaware, glassware, etc. The premium is either with the product or the purchaser has to send off for it.
- **Coupon plans.** Coupons, contained within the pack, may be collected over time and exchanged for a variety of products in a catalogue. Coupon techniques may be used by one producer or supplier as a promotion for its goods or services, or the plan may include a number of different producers' products under one name. These schemes have largely replaced trading stamps, which were used in a similar way. However, trading stamps and purchase vouchers that can be redeemed for cash or goods are making a comeback in specialist retailing situations (e.g. petrol purchases).
- **Free samples.** These are sample packs of products offered with brand-related products, attached to magazines, given away separately in retail outlets, delivered door-to-door, etc.

Merchandise as a premium does not have the appeal of money, but it may have a more pointed appeal than cash or a price reduction. The premium chosen, and the way it is offered, may preselect a specific type of customer, but the offer can at least be targeted at the right market segment. Providing the additional response generated more than covers the cost of the premium and administration or distribution costs, the promotion should be cost-effective.

The choice of premium and sales promotional technique is crucial. The problem is to find a premium that is different or unusual, has broad customer appeal and is available in sufficient quantity to meet demand.

Competitions are popular in the UK and Germany. The advantage of running a competition is that it should be cost-effective if the cost of the prizes is spread over a large enough number of entrants. Competitions for consumer goods are usually promoted on the pack concurrent with in-store promotion, with an entry form located on or near the product. It is usually required that each entry is accompanied by proof of purchase. More recently, free draws have become popular whereby a purchase is not necessary and the shopper merely fills in his or her name on an entry form and posts it in an entry box in the retail outlet.

There is scope for individuality and creativity in this method of promotion. It needs much pre-planning and administration, which is probably the reason why competitions tend to be aimed at the national level and involve high-value prizes such as holidays and cars, so that consumer response is great enough to cover the costs of the promotion. Lotteries and sweepstakes are also used as promotional techniques, particularly by retail outlets, which use them to attract custom into the store.

Joint promotions are not specific to consumer goods and are used increasingly as companies attempt to find new promotional techniques. They can involve two or more companies, who tend to be related not by product type but rather by similar customer profiles (e.g. the gin and tonic campaign that links two manufacturers, Gordons and Schweppes). There are a number of such arrangements:

- between retailers and producers, where a branded good may carry a voucher redeemable at a particular retail outlet;
- between two or more producers, where one manufacturer's product carries a promotion for the other, and vice versa; here the relation is by customer profile and not by product;
- between a service organisation and a producer, e.g. between a travel company and a breakfast cereal manufacturer, or a dry-cleaner and a clothes manufacturer.

10.6.2 Trade Promotions

The aim is usually to **push** products through the channel towards the customer. Similar to consumer promotions, incentives are offered through extra rewards like discounts, increased margins on sales, dealer competitions, exhibitions, provision of demonstrators, free holidays (often in the guise of a conference or product launch). The objectives of retailer–distributor promotions are

- to achieve widespread distribution of a new brand;
- to move excess stocks onto retailers' shelves;
- to achieve required display levels of a product;
- to encourage greater overall stockholding of a product;
- to encourage salespeople at distributor levels to recommend the brand, particularly in the case of non-consumer products;
- to encourage support for overall promotional strategy.

There are problems associated with trade promotions. Too frequent use can mean that a salesperson directs attention to the product involved and neglects other products in the line. The objectives of the promoter may conflict with those of the retailer or distributor; some sales employees are not permitted to accept incentives or participate in trade contests because their management wishes to maintain control over their selling activities. There is also a danger that a trade promotion may be used to push another brand or inferior product. Consequently, long-term measures to promote sales are not feasible and manufacturers would be better advised to look to product improvement as part of long-term strategy. The British Code of Sales Promotion Practice states:

No promotion directed towards employees should be such as to cause conflict with their loyalty to their employer. In case of doubt, the prior permission of the employer, or the responsible manager, should be obtained.

Although business gifts are not strictly sales promotions, they are relevant here. The business gift sector is characterised by seasonal demand and it is estimated that 80 per cent of this business is conducted in the last two months of every year. Apart from the obvious connotation that it puts the recipient under some moral obligation to purchase, it also serves as an advertising medium if the company logo is incorporated in the gift. From as early as 1981 the Chartered Institute of Purchasing and Supply took a serious and critical interest in the use of business gifts, especially where the 'giving' was tied to the placing of orders. They argued that such gifts could influence the buyer's objectivity and should be restricted to nominal items like calendars, diaries, pens, etc. Recently the giving of business gifts has declined as employers have placed restrictions on what their employees may receive. The Chartered Institute of Purchasing and Supply has published a 'blacklist' of companies operating what they consider to be gift schemes over and above items of nominal value.

10.6.3 Personnel Motivation

Personal motivation promotions are promotions to the salesforce, but some apply to distributors and retailers. The most widely used salesforce promotion is the sales incentives scheme. Rewards are offered to participants on an equal basis which are over and above normal sales compensation. They can be prizes in a competition to individuals or groups who perform best against specific objectives. The problem is that average or below-average performers may not feel sufficiently motivated to put in any extra effort if they consider that only top performers are likely to win. Thus, competitions tend to be used for group or area salesforce motivation.

When establishing a salesforce incentive scheme one must consider objectives, timing, scoring methods and prizes or rewards. Typical objectives of such schemes include

- introduction of a new product line;
- movement of slow-selling items;
- obtain wider territory coverage;
- develop new prospects;
- overcome seasonal sales slumps;
- obtain display;

- develop new sales skills.

The timing of the scheme may depend on the size of the salesforce, the immediacy of action required and the nature of the objectives to be achieved. An incentive programme runs on average for between two and six months.

Scoring or measuring performance may be based on value or unit sales. In order to overcome territorial differences, quotas may be established for individual regions, areas or salespeople. Points, stamps, vouchers, etc., may be awarded on the achievement of a prestated percentage of quotas or level of sales, and continue to be awarded as higher levels are achieved. Such tokens may then be exchanged for merchandise, cash, etc., by the recipient. Sometimes catalogues are supplied giving a range of merchandise for the salesperson or family to choose from. Vouchers for redemption or exchange in retail stores can be used as prizes or rewards.

During a scheme, additional bonus points may be awarded for the attainment of more specific short-term objectives such as increased sales of a particular product, increased numbers of new customers, or training and display objectives. In this way a long-running scheme can be kept active and exciting for participants. Another form of motivation is the award of recognition in the form of a trophy or 'salesperson of the year' award.

10.7 Exhibitions

Exhibitions are tangentially related to sales settings as the objective is not to sell from display stands, although in some circumstances (e.g. glassware and decorative ware sales from importers and manufacturers to the trade) exhibitions and trade fairs are where most business takes place. Generally speaking, their function is to build up goodwill and prepare the way for future sales. Exhibitions were once regarded as a luxury item in a company's marketing budget and exhibition stand personnel often looked upon staffing an exhibition stand as an easy option to their normal duties. They were regarded as being a tool of public relations. Companies are now more aware of their value as part of overall marketing and sales efforts.

The term 'exhibitions' covers a wider spectrum than that described. At a simple level, event management concerns activities that promote the organisation, but it is often an excuse to provide hospitality to customers. Corporate hospitality is an honest definition, but for reasons of not wishing to draw attention to marketing expenditure that might be regarded as trivial, this term is rarely used. This can take the form of the provision of seats or a box for invited guests at an event like Royal Ascot, the Grand Prix at Silverstone or a test match. At a more sophisticated level, conferences can be sponsored that reflect the interests of the sponsoring company, but provide a more serious forum for participants.

A study was undertaken by one of the authors to investigate how trade exhibitions could be better used as part of a communications programme. These results are now presented together with updating information.[7] Characteristics of a good exhibition included

- a wide range of products;

- a large number of competitors;
- a good amount of information on the products on show made available beforehand (emphasising the importance of pre-exhibition mailing);
- a large number of new products;
- nearness to the buyer's home base;
- good exhibition hall facilities;
- a simple stand that is always neat (no personal effects on display) and not cluttered with unsuitable display material.

Characteristics of a good exhibitor included

- exhibiting a full range of products, particularly large items that cannot be demonstrated by a travelling representative;
- stand always staffed by people who do not spend time conversing with colleagues;
- well-informed and approachable stand staff;
- informative literature available;
- seating area or an office provided on the stand;
- refreshments for visitors and stand staff only using refreshment facility when with customers;
- staff not using mobile telephones in public when on the stand;
- staff spending time with potential and known customers, making future appointments and filtering away time-wasters and freeloaders;
- actively following up sales leads and debriefing the stand team afterwards.

Use of trade exhibitions is on the increase and companies increasingly need to establish a more scientific method of managing this function as it requires an understanding of how an exhibition stand communicates itself to the public. Setting exhibition objectives and measuring results are important, as is the identification and comprehension of elements in the exhibition event. Management should plan, coordinate and control the exhibition mix. Figure 10.1 explains how the exhibition communication process works.

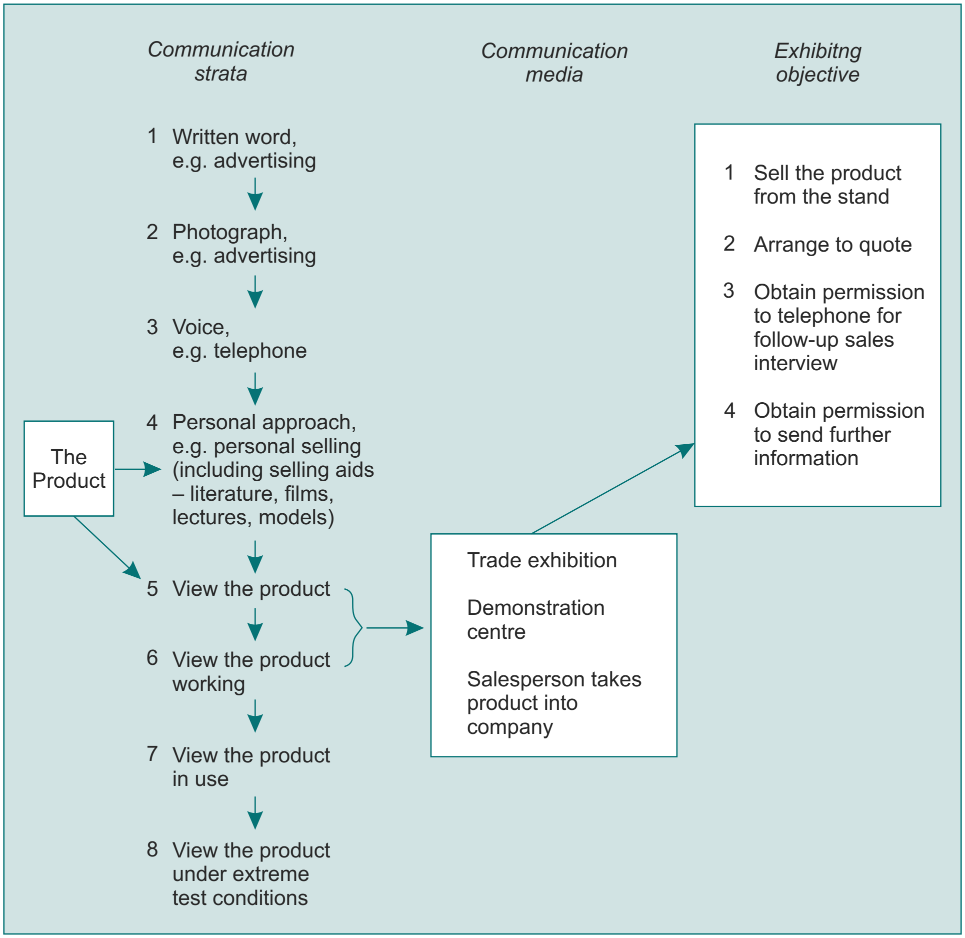

Figure 10.1 **A model of the exhibition communication process**

Different communication problems exist for different types of product, including materials, services and small or large, simple or complex machinery. With materials the selling feature or **unique sales proposition** (USP) may be communicated quite simply or through a low communication medium, e.g. the written word. The USP of a large piece of complex machinery might only be communicated by the potential customer viewing the machinery working. The different methods of communicating the USP of different types of product are termed communication strata. A product with a simple USP can be communicated through a low communication stratum, whereas a product with a complex USP can best be communicated through a high communication stratum.

Having selected the stratum needed to put across the USP, the other methods of communication used must be organised to complement it. For example, if trade exhibitions are selected as the ultimate communication medium, all other marketing inputs, e.g. salesforce and media advertising, must be coordinated with the programmed trade exhibition. If strata 5 or 6 (Figure 10.1) are needed, there are three communication media that can be used, such as trade exhibitions, demonstration centres or the salesperson taking the product into the firm.

In the management of any function, the setting of objectives is vital; without this, there is no basis for planning, coordination, control or measurement of results. Such objectives can be enumerated as follows:

- Define the market with which it is intended to communicate by region, by product or by any other segmentation method.
- Define the value of potential purchases. Is the exhibition effort to be aimed at potentially small or large users?
- Define the status of contact to aim at, e.g. purchasing manager, managing director. High-status contacts cannot normally be attracted to small exhibitions; they may wish to speak to top management or require personal invitation plus entertainment.
- Define the preference towards company products. Is the exhibition effort to be aimed at present customers? Is it principally to launch a new product? The danger is that stand personnel time can be taken up talking to the converted, whereas the objective should be to interest potential customers.
- Define the communication level at which to aim: the ultimate (to sell the product from the stand); to obtain permission to quote; to obtain permission to telephone for a follow-up sales interview; to obtain permission to send further information.

Here are some methods used to attract visitors to a particular stand:

- direct mail;
- telephoning;
- a personal sales call before the event;
- an advertisement in the technical or trade press.

Once there, attractions can include

- a buffet;
- giveaways;
- advertising material;
- films and seminars at the exhibition;
- attention-gaining exhibits on the stand.

The exhibition stand itself should have a number of elements:

- Products on show will depend on the target market. The more products, the higher the number of prospects that will be interested, although a balance has to be struck so as not to provide so wide a range as to make it confusing.
- Literature should not be on a self-service display. When a prospect comes to the stand looking for literature, this should be an ideal opportunity for the salesperson to establish contact and obtain details of the prospect.
- Graphics should include at least a display board featuring the product literature. Such aids make the stand look more attractive. Models of the item being market-

ed are useful when the product being sold is too large or bulky to be physically displayed.

- An office or interview room can take up a lot of expensive display space. An alternative is to demonstrate the product and then ask the visitor to a nearby seating area to conduct the interview.
- Refreshment facilities on the stand are good attractors and from the results of the study were a major drawing force.
- An area should be designated for storage of coats, briefcases, literature, materials, etc., to avoid clutter and distractions from the main aim of the exhibition.
- An expensive, eye-catching stand can be a double-edged weapon. It might attract visitors, but the study indicated that visitors' attitudes towards such ostentation were that it might be reflected in the price of products.

The stand should be planned as early as possible by drawing up a checklist of everything required, checking limitations on stand design, drawing up a checklist of stand services required and a progress chart for the preparation of all products and exhibits, including their manufacture, transportation to the exhibition, assembly and dismantling.

Exhibition stand personnel must be able to communicate the USP of the products and have a sound commercial and technical knowledge. They may come from a variety of backgrounds such as sales, marketing and technical, and should be briefed on a number of areas beforehand:

- objectives of the exhibition and set procedures to be used in achieving these objectives;
- features of the stand, who else is on the stand and the geography of the stand in the exhibition complex; who is the exhibition stand manager;
- how to approach stand visitors, how to interview them and how to deal with irrelevant visitors;
- tips on physical appearance before staffing the exhibition stand.

With professional pre-planning and management, exhibitions can be a powerful sales tool and not the expensive luxury that many companies once regarded them.

10.8 Public Relations

10.8.1 Nature and Role of Public Relations

Public relations covers a broader spectrum than selling or indeed marketing. Its application is wider and encompasses the entire organisation and its various external and internal publics. Its role, however, is increasingly important as an ancillary to selling, both in the receiving sense and the giving sense. Selling needs public relations to assist it in its everyday operation and selling is often called upon to disseminate a public relations message. Since the first edition of this book was published, there has been a general recognition of the strategic role of public relations; no longer is it viewed as a means of covering up when something has gone wrong. It has a positive role to play in an organisation and that role is now emphasised.

The public relations practitioner has to conduct activities that concern every public with which the organisation has contact. The specific nature of such groups will vary according to circumstances. Jefkins identifies seven basic publics:[8]

- the community;
- employees;
- government;
- the financial community;
- distributors;
- consumers;
- opinion leaders.

10.8.1.1 Definition

It is difficult to define the exact nature of PR. Several definitions exist, each emphasising a slightly different approach and each attempting to arrive at a simple, yet brief and accurate, form of words. The difficulty in developing a single acceptable definition reflects the complexity and diversity of the subject. We look at three definitions. The first is from the Institute of Public Relations (IPR):

> PR practice is the deliberate, planned and sustained effort to establish and maintain mutual understanding between an organisation and its public.

The essential features of this definition are first that PR practice should be *deliberate*, *planned* and *sustained*, not haphazard (e.g. when responding to the accidental pollution of a river). Second, *mutual understanding* is necessary in order to ensure that the communication between the organisation and its 'publics' is clear (i.e. the receiver perceives the same meaning as the sender intended).

An alternative definition is given by the late Frank Jefkins, who wrote widely on this subject:[8]

> PR consists of all forms of planned communication, outwards and inwards, between an organisation and its publics for the purpose of achieving specific objectives concerning mutual understanding.

This modified version of the IPR definition adds two dimensions:

- 'Public' becomes 'publics', since PR addresses a number of audiences.
- The inclusion of 'specific objectives' makes PR a tangible activity.

If we accept the Jefkins definition, then we accept its further implication – that PR exists whether an organisation likes it or not. Simply by carrying out its day-to-day operations, an organisation necessarily communicates certain messages to those with whom it interacts. Opinions are formed about the organisation and its activities. It is thus necessary that PR orchestrates these messages in order to help develop a *corporate identity* or *personality*.

A more precise and comprehensive description of PR is provided by the Public Relations Society of America:

1. Anticipating, analysing and interpreting public opinion, attitudes and issues which might impact, for good or ill, on the operations and plans of the organisation.
2. Counselling management at all levels with regard to policy decisions, courses of action and communication.
3. Researching, conducting and evaluating, on a continuing basis, programmes of action and communication to achieve informed public understanding necessary for the success of the organisation's aims.
4. Planning and implementing the organisation's efforts to influence or change public policy.
5. Managing the resources needed to perform the functions of public relations.

Communication is central to PR. The purpose of PR is to establish a two-way communication process to resolve conflicts by seeking common ground or areas of mutual interest. This is best achieved by word of mouth and that is why the role of selling as the communication medium is so potentially important for PR to be successful.

10.8.1.2 Corporate Identity

The concept of corporate identity or personality is inextricably linked to PR. All PR activities must be carried out within the framework of an agreed and understood corporate personality. This personality must develop to reflect the style of the top managers, since they control the organisation's policy and activities.

A corporate personality can become a tangible asset if it is managed properly and consistently. However, it cannot be assumed that all managers will consider the role of personality when they make decisions. A PR executive thus needs to be placed so that he or she is aware of all issues, policies, attitudes and opinions that exist in the organisation which have a bearing on how it is perceived by the organisation's publics.

The use of the word 'personality' rather than 'image' is deliberate. An image is a reflection or an impression which may be a little too polished or perfect. True PR is deeper than this. To use a common denigrating quote of a 'PR job' implies that somehow the truth is being hidden behind a glossy or false facade. Properly conducted, PR emphasises the need for *truth* and full information. The public relations executive, as a manager of the corporate personality, can only sustain in the long term an identity that is based on reality.

10.8.1.3 What Public Relations Is Not

Misunderstandings about the nature of PR have led to confusion about its role. Certain distinctions are clarified.

- **PR is *not* free advertising.** Advertising complements selling. PR is informative, educational and creates understanding through knowledge. PR is not free. It is time-consuming and costs money in terms of management expertise. Editorial space and broadcasting time have more credibility than advertisements. Every organisation, consciously or unconsciously, has PR. PR involves communications with many groups and audiences, not just potential customers.

- **PR is *not* propaganda.** Propaganda is designed to indoctrinate to attract followers. It does not necessarily call for an ethical content, so facts can be distorted or falsified for self-interest. PR seeks to persuade by securing the willing acceptance of attitudes and ideas.
- **PR is *not* publicity.** Publicity is a result of information being made known. The result may be uncontrollable and either good or bad. PR is concerned with the behaviour of an organisation, product or individual that leads to publicity. It will clearly seek to control behaviour by trying to ensure that the publicity is good.

10.8.2 Objectives of Public Relations

PR is used to create a better environment for the organisation and its activities. The objectives may include

- attract sales inquiries;
- reinforce customer loyalty;
- attract investors;
- attract merger partners or smooth the way for acquisition;
- attract better employees;
- dissolve or block union problems;
- minimise competitor advantage while you catch up;
- open a new market;
- launch a new product;
- reward key people with recognition;
- bring about favourable legislation.

To achieve these objectives, PR is viewed as part of a total marketing communications strategy, the principal part of which is the selling function. At any point in a marketing programme there can be PR activity, because PR is concerned with human relations and is a two-way process. There is a PR element in every facet of marketing (e.g. a salesperson who exaggerates, cheats or lets down customers is a PR liability).

Manufacturers have to get closer to people. In order to reach different groups, each with separate interests, they must employ the techniques of press relations, house journals, seminars, works visits, private demonstrations, exhibitions, videos, professionally designed websites, and other aids. Moreover, they have to consider those who influence opinion, sales channels and all communication media that express ideas and news.

10.8.3 Corporate Public Relations

Corporate public relations is concerned with group image. It is based on a long-term, carefully planned programme designed to achieve maximum recognition and understanding of the organisation's objectives and performance, in keeping with realistic expectations.

The main medium for corporate PR is prestige advertising (e.g. ICI's 'pathfinders' present the public with a progressive image of the huge conglomerate). Another medium is house style (e.g. a specific logo like the Woolmark devised by the International Wool Secretariat and displayed on hats and uniforms worn by people they sponsor). Sponsorship is important for sporting activities such as golf, football, cricket and motor racing. It can include partial funding for, and the resultant publicity of, events such as concerts and community projects.

Sponsorship is defined by Meenaghan[9] as 'an investment in cash or in kind, in an activity, in return for access to the exploitable commercial potential associated with that activity'.

10.8.4 Effective Public Relations

Effective PR depends on setting specific objectives that are capable of evaluation, fully integrating the PR function into the organisation, and selecting the right personnel to carry out the PR function. We now examine each aspect in more detail.

10.8.4.1 Objective Setting

Objective setting is an essential requirement of PR practice. Bowman and Ellis[10] state:

> If a PR programme is to be effective, then it is vital that its objectives be defined; that means of achieving them shall then be determined … and that progress, success and failure be reviewed.

Although it is sometimes difficult to decide how an objective can be measured, an obvious objective can be cited in terms of increased sales, although it is sometimes difficult to determine whether such an increase in sales was due to PR activity or to some other marketing activity.

Crisis PR tends to dictate its own objectives. If information is to be prevented from reaching the press, then the yardstick that determines success or failure is whether or not that information reaches the press. If the objective is to maintain the company's reputation, then some attempt must be made to define 'reputation' in terms that can be measured and evaluated.

A traditional method of measuring PR activity is in terms of column centimetres gained from press coverage. But this method does not account for the quality of the coverage. Furthermore, the value of editorial cannot be quantified against equivalent advertising costs because of the greater credibility of editorial.

As PR matures, the call for more objectivity is likely to become greater. Worcester and English put it like this:[11]

> Just as it is now difficult to conceive of marketing without measurement, a PR agency seeking to change the perception of its clients … will begin by quantifying the scale of the problem … and the effect of its activities over time.

10.8.4.2 Integration

The integration of the PR function into the organisation is important. It should be decided whether PR should act in a technician role or a policy-making role; the implication is that a technician simply carries out top management orders whereas the policy-maker inputs into corporate strategic plans. Modern thinking favours a policy-making role because every decision has PR implications. If PR is not involved in policy formation, then top management is implicitly assuming the PR mantle.

The role that is suggested for PR is far-reaching, involving communication with large numbers of people. This requires cooperation with other organisational functions. PR must then be a reasonably autonomous unit so it can serve all departments equally. A staff function should be positioned so it can funnel its services to the organisational levels that may be the public face of the organisation to outside groups. The importance of PR at lower hierarchical levels cannot be overstated (e.g. from the way the secretary answers the telephone to the attitude of the company's delivery person).

The extent of PR responsibility has to be established initially by senior management and this can be achieved by objective setting and well-defined job analyses. PR as a staff function exists to serve and facilitate line functions. Such lack of PR authority is desirable since it minimises conflict and ensures that the emphasis is on cooperation and consultation between line and staff. It also recognises that day-to-day business and executive authority are vested in line management. However, it does make it essential that PR has direct access to the board in order that PR programmes can be sanctioned and executed with full backing from top management.

10.8.4.3 Selection

Selecting the right personnel is especially important for potential PR practitioners. The practice of PR covers such a wide diversity of tasks that flexibility is very important. IPR recognises 'there is no single set of ideal qualifications and no formal path into the profession'. IPR even states that formal qualifications are not necessary for PR personnel. It may be that PR as a profession has now 'come of age', because Stirling University introduced a master's degree in public relations in 1988 and Bournemouth University introduced a bachelor's degree in 1989.

Practitioners have identified a number of skills and attributes for a successful PR person:

- sound judgement;
- personal integrity;
- communications skills;
- organisational ability;
- strong personality;
- team player.

The traditional importance of media relations has resulted in a strong journalist contingent in the PR profession. However, some find it hard to adapt as the required writing style is different, as are planning horizons and work routines. As the wide range of necessary qualities and skills illustrates, relevant experience can be obtained from almost any background. Personality is really of far more importance, together with a sense of empathy and the ability to be adaptable. It goes without saying that an ability to write and speak fluently is vital.

10.8.5 The Use of Public Relations Consultancies

In some situations it is more cost-effective to use a PR consultancy, especially in areas where the organisation is inexperienced (e.g. the City or Parliament). Quite often larger companies find that a better interaction comes from an in-house PR department and an external specialist. Consultancies are an integral part of the PR industry and possess certain advantages of experience, independence and specialist skills that may not be evident internally. External PR activities can be grouped as follows:

- Freelance writers or consultants are generally technical authors able to produce PR feature articles.
- PR departments of advertising agencies can vary from a small press office handling product publicity to augment an advertising campaign, to a large comprehensive PR department not unlike the agency set-up itself;
- In a PR subsidiary of an advertising agency, there may be a desire to permit a fuller development of PR activity on the part of the advertising agency; the agency's clients will provide a useful source of potential business. Association with an advertising agency can have benefits through shared services such as art studios and production.
- Independent PR consultants usually specialise in a particular class of business, and clients can take advantage of this for ad hoc or short-term assignments. Such consultants specialise in charities and appeals, theatre, finance, agriculture, building, shipping, travel, fashion, etc.
- PR counsellors are people who advise but do not carry out the PR work.

Learning Summary

This lengthy module has placed sales settings in their respective contexts. It has shown that different selling approaches must be adopted for different selling situations.

Environmental and managerial forces have been discussed and their importance illustrated. Various sales settings have been examined, including industrial, commercial, public authority, reseller and services selling.

Sales promotions relate to all types of sales setting and their growth and importance have been shown in respect of consumer markets, trade markets and as an aid to motivating sales personnel. The role of exhibitions has also been examined.

Public relations has been discussed in some detail, as this area has expanded the most over recent years and its relationship to the selling function is very direct as the salesforce is increasingly being called upon to carry out PR activity.

The next module is concerned with international selling, a further sales setting. It is treated separately because of its diversity and ever-increasing importance, especially in view of EU legislation and changes that impact on the selling function.

Review Questions

Content Questions

10.1 The sales function must adapt to key behavioural forces. Describe some of them.

10.2 What new strategies are managers developing in response to changes in the environment?

10.3 What factors should be considered when selecting or reappraising sales channels?

10.4 Describe the characteristics which distinguish industrial markets from consumer markets.

10.5 What are the different types of selling outlet?

10.6 What are the different forms of franchising?

10.7 What special service characteristics should marketers consider?

10.8 Give some examples of sales promotion objectives.

10.9 What is the difference between a push promotion and a pull promotion?

10.10 Give some examples of public relations objectives.

Multiple-Choice Questions

10.11 Changing consumer tastes is an example of what type of force affecting selling and sales management?

A. Managerial force.
B. Behavioural force.
C. Technological force.
D. None of the other options.

10.12 The expanding power of major buyers is an example of what type of force affecting selling and sales management?

A. Managerial force.
B. Behavioural force.
C. Technological force.
D. None of the other options.

10.13 Have a look at these two statements.

I. A company with a short channel will incur heavy transportation and warehousing costs.
II. A company with a short channel can more easily anticipate and meet the needs of customers.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

10.14 Generally speaking, how would you describe items that are suited to longer channels?

A. High-cost, high-technology.
B. High-cost, low-technology.
C. Low-cost, high-technology.
D. Low-cost, low-technology.

10.15 What would you call the type of distribution where the manufacturer sells and delivers direct to the customer without using a middleman?

A. Exclusive.
B. Intensive.
C. Selective.
D. Direct.

10.16 Industrial markets have all the following characteristics except one. Which one?

A. Many potential purchasers.
B. Complex purchasing decisions.
C. Long-term relationships.
D. Reciprocal trading.

10.17 When a health spa redesigns its therapy rooms to provide a calming environment for its clientele, which of the seven Ps is it addressing?

A. People.
B. Process.
C. Physical evidence.
D. Place.

10.18 Which one of the following is not a sales promotion objective?

A. To build long-term customer loyalty.
B. To encourage repeat purchase.
C. To increase the distribution of a product.
D. To reduce customer complaints.

10.19 Retailer-distributor promotion objectives may include any of the following except one. Which one?

A. To encourage greater overall stocking.
B. To achieve widespread distribution.
C. To achieve the required display levels.
D. To stimulate final demand.

10.20 What is defined as the deliberate, planned and sustained effort to establish and maintain mutual understanding between an organisation and its public?

A. Sales promotion.
B. Sales management.
C. Public relations.
D. The communications process.

10.21 Trade marketers are concerned with all the following except one. Which one?

A. The kinds of product retailers want.
B. Contractual arrangements between channel members.
C. Tailored promotion for supermarkets.
D. Feedback of trade requirements to brand managers.

Case Study 10.1: Yee Wo Plastic Piping Components

Johnny Tan is the sales manager for Yee Wo Plastic Piping Components Ltd, a subsidiary of a Taiwanese multinational that manufactures a large range of diverse products. Its markets are mainly in the civil and chemical engineering industries. Yee Wo Plastic Piping Components is solely involved in the manufacture and sale of plastic pumps, valves, fittings, pipes and gauges. These products have applications in chemical plants, dyehouses and swimming baths. Their growth in the marketplace is virtually assured because they are largely replacing steel and malleable cast iron products at less cost and with greater efficiency.

In the ASEAN region, five manufacturers market similar products (ASEAN is the Association of Southeast Asian Nations). The two largest are Yee Wo Plastic Piping Components and Shun Tak Fittings, each with about 40 per cent of the ASEAN market; the remaining 20 per cent is shared among the other three. Each of the five manufacturers charges around the same price for its products, but the smaller companies are more prone to downwards negotiation on the factory price. Distribution is almost wholly through stockists, and the sales representatives have two tasks: persuading stockists to hold a full range of the company's products so they give a complete service to the end user; and persuading end users to specify the company's products when purchasing from distributors.

Only Yee Wo Plastic Piping Components and Shun Tak Fittings provide a complete product range and this probably accounts for their success. However, a disturbing trend has emerged among the smaller distributors – they stock only the fastest-moving lines from marginally cheaper sources and made by smaller manufacturers. Yee Wo's representatives are increasingly being called on to supply less popular lines at very short notice.

Several of Johnny Tan's representatives have become disturbed by this trend and two have recently resigned because of the adverse effects on their sales commission. It will be difficult to replace them with people of the right calibre, and Johnny realises he has several ways to tackle the underlying problem:

- supply only to licensed distributors;
- persuade representatives to give more attention to the productive market sectors, e.g. large chemical plants;
- sell direct and cut out the distributors.

Questions

1 Look at the three ways Johnny has suggested for tackling his problem. Outline the implications of each one.

2 Trade promotion, what role might it have in solving Johnny's problem?

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Module 11

International Selling

Contents

Learning Objectives

After studying this module, you should be able to

- understand key economic terms relating to international trade;
- appreciate the nature of different types of overseas representational arrangements;
- have a working knowledge of many of the world's trading blocs;
- evaluate the role of culture in international selling;
- know how to organise for international selling;
- appreciate the effects of worldwide sourcing and buying alliances.

Key Concepts

- agent
- balance of payments
- culture
- distributor
- export houses
- invisible trade
- indirect and direct selling
- international marketing
- joint venture
- licensing
- multinational marketing
- theory of comparative costs
- trade surplus and deficit

11.1 Introduction

In this module we explore aspects of international selling and examine issues and problems that stem from them. Companies contemplating entering overseas markets will need to develop specialist knowledge and expertise in these areas.

Some sales managers feel that selling abroad is impossibly difficult, but most who try it see that, although it is different, it is no more demanding than selling in the home market. Success depends largely on the attitude and approach of the firm and the personal qualities of the salespeople; not every salesperson is suited to such a task from the viewpoint of understanding and empathy with the foreign market concerned. While it is hoped this text will contribute to the development of the personal qualities necessary for successful salesmanship, the module concentrates specifically on those aspects of international selling with which an exporting firm should be familiar, or a firm contemplating exporting.

Each year companies that have never been involved in selling abroad join the important, and often highly profitable, league of exporters or licensors and some establish joint ventures or subsidiary companies in overseas countries. One of the problems for the UK economy is that, despite government exhortations for companies to become involved in selling overseas, many executives remain apprehensive because of the mystique that often surrounds the subject. We now attempt to dispel some of this mystique by examining the more important economic aspects of international selling.

11.2 Economic Aspects

Many goods we purchase are imported, and everywhere we read that companies are striving to increase exports. Successive governments have exhorted, threatened and promised to persuade the business community to become involved in foreign markets and export more. Exporting is necessary for economic survival.

The UK is not self-supporting. Much of our raw materials and food must be purchased in world markets and imported. In turn, to pay for these commodities, we must export. The ledger for these transactions is represented by the balance of trade account, which shows the difference between our overseas earnings and overseas expenditure. The difference between our export earnings and import expenditure, including invisibles (see later) is termed the **balance of payments**. We now take a more detailed look at what this means.

11.2.1 The Balance of Payments

Goods passing from one country to another have to be paid for; trading between countries thus involves the creation of debts between countries. Over a period of, say, one year a country will add up how much it has paid or still owes for goods imported from foreign countries. In the same way, the country will add up how much has been paid or is still owed from overseas countries for goods exported to them. When the amount exported exceeds the amount imported, the country is said to have a favourable balance of trade or a **trade surplus**. If the import of goods exceeds exports, then the country is said to have an adverse balance of trade or a **trade deficit**.

Payments for physical goods are not the only items involved in international trade. Debts also arise between countries because of services performed by one country for another. Because one cannot actually see such services, they are called **invisible** exports or imports. For example, the UK supplies insurance services for other countries and premium payments due from those countries are received in the UK. Payment for shipping services, income from tourism, banking services and interest payments from international loans are other examples of invisibles.

To find how a country stands in respect of international trade – its balance of payments – we must compare the country's total exports (visible and invisible) with its total imports (visible and invisible). In the long term, a country's payments for imports and receipts for exports should balance. If a country finds itself in deficit, it can do one of two things to put matters right:

- reduce expenditure on imported foreign goods, reduce expenditure overseas on such items as defence and foreign aid and attempt to discourage its citizens from travelling overseas to stop money being spent abroad;
- sell more goods and services overseas to increase foreign revenue; it can encourage foreign tourists in the country to spend money or it can encourage foreign investment that will provide income.

The first option can be effective to some extent, but there is a limit to which expenditure of this kind can be reduced. Countries should therefore look to the second option – selling goods and services overseas – if they are to maintain and improve their living standards and avoid a balance of payments crisis. We look briefly at the issues involved to fully understand these points.

A country that has a balance of payments surplus may receive payment from the debtor's foreign exchange reserves; receive the balance in gold; leave the money in the debtor country and use it to purchase goods and services in the future; or lend the debtor country the money to pay off the debt and receive interest on the loan in the meantime. In the same way, a country that has a deficit on its balance of payments will either have to run down its foreign exchange reserves; pay over gold; borrow the money to pay off the debt from other countries; or hold money, in terms of credit that the creditor country can use to purchase goods and services in the future.

In essence the balance of payments is an accounting record, with information from various sources being entered on the basis of double-entry bookkeeping. If there is a deficit on the current account, i.e. if we import more goods and services than we export, this deficit must be matched by a surplus on the capital account to make the account balance. The capital account records purchases and sales of assets such as stocks, bonds and land. There is a capital account surplus, or a net capital inflow, if our receipts from the sale of stocks, bonds, land, bank deposits and other assets exceed our payments for our own purchase of foreign assets.

If the government is to balance accounts showing a current account deficit, it means either borrowing from abroad or reducing the government's stocks of gold and/or foreign exchange reserves. These borrowings and/or reductions are entered in the capital accounts as a positive figure, counteracting the negative entry for the current account deficit, hence the books balance.

As you will appreciate, a country can fund a continuing current account deficit only if it has limitless reserves of gold and foreign exchange or unlimited foreign borrowing power. In the long run, persistent current account deficits are difficult and costly to sustain and damaging to an economy. Total exports must pay for total imports, so if a country's exports fall then imports should also fall, unless the deficiency in exports can be made good in the ways specified. We now appreciate the importance to a country of keeping up its volume of exports.

11.2.2 UK Share of International Trade

The UK's share of exports by the main manufacturing nations has declined dramatically since the end of World War II. At the same time, some major competitors like Japan and Germany have increased their share. The problems this has created are compounded when one examines our import record. On the import side there has been a trend characterised by two aspects:

- the tendency for real imports per unit of real gross domestic product to increase;
- the rising share of manufactured goods accounted for by imports.

The effect of this trend on British manufacturing industry has been serious. In the late 1980s to the present day the UK has experienced an imbalance in the balance of payments. In fact, the cost of physical imports has exceeded the value of exported products for over a century. This has been undesirable, but not of critical importance because our income from invisible exports has made good the difference. However, for a variety of reasons, income from invisible exports has failed to keep pace with expenditure on physical imports, resulting in an overall deficit throughout this period.

Whatever the reasons for the current situation, selling overseas has been and will remain one of the keystones of our national prosperity. Not only is it in the national interest, but in the interest of every industry, company, employer and employee.

11.2.3 Further Economic Factors

It is appropriate to consider some of the more important developments in world trade over the past 20 years. It is difficult to comment on the general effect of these developments as different industries and individual companies have been affected in different ways. Some companies feel they have had a beneficial effect on their trading situation, while others feel their competitive position has been seriously undermined.

11.2.3.1 European Union

The European Union (EU) was at first called the Common Market, and indeed reference is still made to this title. The Common Market was legally established on 25 March 1957 by the signing of the Treaty of Rome between the governments of France, West Germany, Italy, the Netherlands, Belgium and Luxembourg. Since then the ranks of Europeans have been swelled by the accession of Ireland, Denmark, Greece, Spain, Portugal and the UK, to be joined later by the former East Germany following the reunification of Germany. More recently, Austria, Sweden and Finland have been admitted to membership, and Poland, Hungary and the Czech Republic are now seeking membership. The Common Market was also known as the European Economic Community (EEC), and subsequently the European Community (EC); the abbreviation EC now stands for European Commission. These name changes resulted from the fact that, as the organisation expanded and matured, it began to see its role as being more of a political union than merely a trading bloc. More recently, its title has been changed to the European Union (EU), which reflects its influential political role.

The initial objective of the treaty was to remove all restrictions on the free movement of goods and services and individuals within 12 years (i.e. by 1969), by removing taxation differentials, frontier controls and other forms of restriction. Since those early days, the movement towards this goal has been slow for economic and political reasons. In fact, it was this political aspect that kept the UK out of the EU for many years. The UK was not seen to be truly European – a contention that many say holds true today, epitomised by a national reluctance to adopt the euro – and its tendency to view the EU as an economic, rather than as a political union.

By 1982 (the EU's twenty-fifth birthday) the momentum for a Single European Market had come to a virtual standstill. Many non-tariff barriers remained. The free movement of goods was hindered by different taxation systems, public procurement restrictions (to only include tenders from domestic providers) and different technical and consumer protection standards. For example, rates of value added tax still differ between individual countries.

A turning point came in 1984 when Jacques Delors (former French finance minister) assumed the presidency of what was then the European Community. He developed the concept of an open market within the community to create the largest single market in the Western world. Although this was essentially nothing new, his statement came at the end of the economic recession of the late 1970s and early 1980s, during which member states had turned economically inwards, defending their national markets against European competition. A programme for removing the remaining obstacles to trade by 31 December 1992 was drawn up by Lord Cockfield, EC Commissioner in charge of the internal market portfolio. The programme was presented to heads of government at a summit meeting in Milan in June 1985, and eventually the Single European Act (SEA) came into force in July 1987.

The Act lists 300 measures which were to be completed if the single-market philosophy was to proceed on schedule. In order to hasten the decision-making process, power of veto was removed and these resolutions could be passed by a 'qualified majority'. These 300 initial proposals were subsequently reduced to 279 by the withdrawal of certain proposals, and the grouping of others into single proposals. The main features of the Single European Act are as follows. There are other features, but these are the most significant ones:

- establishment of a Single European Market;

- products approved in any one EU country can be freely marketed throughout the EU;
- progressive opening up of government and public body contracts to all EU contractors on an equal basis;
- more competitive and efficient Europe-wide services in telecommunications and IT;
- removal of red tape on road haulage and shipping services between member countries to be provided on equal terms, and more competition on air routes with lower overall fares;
- banks should be free to provide banking and investment services anywhere within the EU; insurers should have greater freedom to cover risks in member countries;
- restrictions on the movement of capital to be abolished;
- harmonisation of national laws on patents and trade marks;
- professional qualifications gained in one country to be acceptable throughout the EU.

A pamphlet produced by the Department of Trade and Industry perhaps best summed up how companies could take advantage of the single market in terms of protecting their existing markets and developing new ones.[1] This is poignant because other members of the EU have more of a European 'mentality'. They tend to regard each other's markets as their own 'home' markets, whereas UK companies still tend to regard selling to EU countries as exporting. This is highlighted by the fact that since the UK joined the EU with its current population approaching 350 million people, it has always operated with a net deficit on its balance of trade with its European partners. The DTI pamphlet recommended that companies should ask a number of key questions in relation to their businesses:

- How has the market changed our business?
- Should we become a European business, looking upon Europe as our primary market rather than just the UK?
- Would becoming a European business alter the scale of the targets in our plans?
- In what ways will we be vulnerable to more competition in our present markets?
- Should we form links, merge or acquire business to strengthen our market presence, broaden our range of products and services, and spread our financial risk?
- Is our management and structure appropriate to exploit new opportunities or defend our position?
- What training in languages and other skills do we need to be ready for this single market?
- Who in our firm is going to be responsible for deciding how to make the most of the single market?

The pamphlet might have stated the obvious, but it did at least focus thinking in a formal manner to the issues of 1992. More specifically, it recommended that in the field of *selling* the company should ask five key questions. The solutions to each of these questions were volunteered through a list of suggestions.

- **How do you reach the customers?**
  - Investigate the trade structure such as wholesalers and retailers.
  - Identify buying points.
  - Find out about buying procedures, terms and practices, such as the preferred currency of invoicing (now, with exceptions, standardised as the euro).
  - Consider how far you need to know the local language.
  - Examine different selling approaches, including brokers and agents.
  - Find out how your competitors are using advertising, promotion and trade discounts.
- **How can you sell into this market?**
  - Consider regional test marketing.
  - Establish your sales targets.
  - Decide on your total sales and promotion budget.
  - Decide on your selling organisation.
- **What sales literature is necessary?**
  - Assess suitability of existing material for European markets.
  - Consider the need to redesign to appeal to new customers.
  - Arrange translation where necessary.
- **How should you advertise?**
  - Examine your existing advertising.
  - Assess differences in national media availability and costs.
  - Decide on your advertising budget.
- **How will you provide after-sales service?**
  - Consider relative merits and costs of direct provision or subcontracting.

The prospect of a single market is no longer a future scenario but a reality. Companies that have failed to plan for the changes which the single market has brought, and will continue to bring, find themselves faced with increased competition for which they are ill-prepared. Successful companies will increasingly be those who prepared for the single market some years ago. A Confederation of British Industry (CBI) survey of 200 companies, undertaken in 1990, found that three-quarters had undertaken strategic reviews in response to 1992. In many ways 1992 represented just one more step, albeit a major one, in a 40-year journey towards genuine free trade within the EU.

At a more general level, by the terms of the Treaty of Rome that first initiated the EU in 1957, member countries are independent of their national governments and not able to accept instructions from them. Their proposals are subject to the official sanctions of the (European) Council of Ministers and the democratically elected members of the European Parliament. This means that many of the decisions which ultimately affect UK industry are outside the direct control of the UK government, and in many areas of trade negotiations are carried out on our behalf by the EU as a whole. This process of Europeanisation was taken further by the terms of the

Maastricht Treaty, which was controversial in the domestic political arena of the UK.

There is still deep division within political parties as to the relative merits of the proposals in the treaty. The point being made is that although it is ultimately envisaged that the EU will be similar to the USA, with each member country being akin to a state (it is even termed the United States of Europe), can this ever be a reality when one considers differences in attitude, culture, language and even religion? It is difficult to envisage a homogeneous pan-European marketing programme not unlike that of the USA. A continuing trend towards political and economic unity will pose many opportunities (and threats) to companies within the EU, but things will not change overnight. This will be more of a slow transitional period and could well take decades before an integration similar to that in the USA today. We have seen the first steps towards this goal, with the introduction of a common monetary unit. the euro, which has been accepted by an overwhelming majority of member countries.

An interesting proposition is that postulated by Charles Betz of the European consultancy organisation Carré Orban and Paul Ray International that each European country will adopt a particular expertise:

- *Germany* will specialise in high-technology engineering.
- *The Netherlands* will concentrate on service industries (e.g. storage and distribution of petrochemicals).
- *Belgium* will form the hub of the community through Brussels, adopting a bureaucratic role.
- *France* will become more technical.
- *Switzerland* will remain outside the EU, acting as the financial centre and neutral protector of money.
- *Austria* could play a major role as the bridge between the EU and other Eastern European countries.
- *Greece and Turkey* (who are seeking membership) will become cheap manufacturing bases producing goods for the Middle East and North Africa.
- *Italy and Spain* will be the 'winners' as they have reasonable levels of readily available, cost-effective labour.
- *Portugal* has low labour costs and is basically an agrarian economy, making it a natural country from which to sell winter-grown vegetables to the more affluent northern countries.
- *Denmark* has traded its Scandinavian independence for an ability to trade within the EU and should do well with innovative designs.
- *Ireland* will hopefully solve its political problems with the North and its low labour costs will put it in a good position to compete in manufacturing and assembly.
- *United Kingdom* will show leadership in financing the consolidation of industries across national boundaries.
- *Sweden and Finland* will develop their established expertise in precision machinery and telecommunications equipment.

This is merely one expert's conjecture, but inevitably there will be movement towards specialisation by individual member countries of the EU.

11.2.3.2 World Trade Organisation

Perhaps one of the most important developments of the last few years has been a steady but widespread trend towards protectionism. The greater part of world trade is subject to the General Agreement on Tariffs and Trade (GATT). Basically this is a complex agreement, but its most important features can be summarised in four fundamental principles:

- **Non-discrimination.** Each member country agrees that any tariff concession or trade advantage granted to one country, whether or not a member of GATT, shall be granted to all member countries.
- **Consultation.** Member countries are required to meet under GATT auspices to discuss any trade problems that may arise.
- **Tariff negotiation.** That tariffs should be open to negotiation is the idea which originally inspired GATT. The hope was that these negotiations would be aimed at reducing and eventually removing customs duties.
- **Trade liberalisation.** The overriding aim of the World Trade Organisation (WTO), and from which the principles described derive, is a continuing liberalisation of world trade. With this aim in mind, import quotas and licensing requirements, restrictions that nations have traditionally used to limit volumes and types of imports, are prohibited. The idea is that temporary protection shall be afforded to each nation's domestic industry exclusively through the customs tariff.

The effect of GATT over post-war years has been to remove some of the protection afforded to national markets. As a result, GATT agreements have been partly responsible for considerable growth in world trade referred to earlier. This liberalisation of trade has since been slowed by a series of actions. There has been widespread adoption of restrictive trade measures falling outside formal GATT rules, e.g. voluntary export restraints and anti-dumping legislation.

The WTO has suggested that, excluding agricultural products, the volume of international trade so affected now represents more than 5 per cent of the total volume of world trade and is expanding steadily. However, the WTO principles resulted in the average tariff on manufactured goods falling from 40 per cent in 1947 to only 4.7 per cent in 1979, and it has edged down more gradually since then.

Such tariff reductions are negotiated in GATT rounds of meetings – the eighth round began in Uruguay in 1986 and was originally set for completion in December 1990. The fact that this only finished in 1995 reflects the lengthy and difficult negotiations involved. The Uruguay round made slow progress on new rules and tariff reductions, including a new general agreement on trade in services. However, a major stumbling block to reaching agreement was the dispute between the USA and the EU members regarding the Common Agricultural Policy. The USA insisted that reform of subsidies allocated to EU farmers was essential to a GATT agreement and called for the abolition of all farming subsidies over a period of ten years. Initially, it seemed that the USA and the EU would not be able to agree on the farm subsidies issue and that the Uruguay round would degenerate into a stalemate with a return to protectionist policies, especially on the part of the USA. However, after intensive talks and diplomacy, issues were largely resolved and the WTO was able to move forward, albeit somewhat haltingly.

11.2.3.3 Eastern Europe

A significant development in recent years has been the collapse of communism and the changes in Eastern Europe this has precipitated. The nature and significance of these changes are lengthy topics, but suffice it to say that many of the previously 'closed' Eastern European countries are now open to trade with their neighbours and countries worldwide. In attempting to develop their economies, many of these previously centrally planned economies are now eager and willing trade partners for those companies able to organise themselves to do business with them.

11.2.3.4 The Continuing Need to Export

Undoubtedly the world economy is experiencing basic changes in the composition and direction of international trade, terms of trade and in size, direction and character of capital movements. The UK has moved from being heavily reliant on oil imports to self-sufficiency. Related to this, our balance of payments accounts showed a surplus until the 1980s when they fell back into deficit again. Despite this, the imperative need to export remains as strong as ever. While these changes pose a challenge to exporters, it can only be hoped that the response they evoke will be conducive to the well-being and prosperity of all.

Although increased exports of goods and services is in the national interest, individual firms have more selfish objectives and the most positive inducement to them to sell overseas is the existence of profitable opportunities. However, there are other factors that must be considered and these are now discussed.

11.3 International Selling at Company Level

The fact that national economic prosperity depends on selling overseas is not without relevance to individual companies. There are a number of more pressing reasons why companies benefit from selling overseas:

- **Trade due to non-availability of a particular product.** Such trade is clearly beneficial when a country is able to import a commodity it could not possibly produce itself. For example, the UK imports rubber because it cannot be grown here. It may be that a product or process is protected by a patent and can only be produced if a firm purchases the patent right or enters a licensing agreement.
- **Trade due to international differences in competitive costs.** The basis for international trade between countries can be explained in terms of the economist David Ricardo's theory of comparative costs. The theory states that countries will gain if each exports a product where costs of production are comparatively lower and imports products in which costs of production are comparatively higher. Although this principle is applied mainly in connection with international trade, one can see it in operation in all forms of production. It is a similar con-

cept to the benefit of division of labour, in that benefits are to be gained not by persons doing what they can do best, but by persons doing what they can do relatively better than other people. The more productive country would still benefit from specialisation in those goods it produces best, and should then import those goods it is comparatively less good at producing.

- **Trade due to product differentiation.** In many industries each firm's product has some point of difference that distinguishes it in some way from products manufactured by other firms. Differentiation may be in terms of quality, design or even an intangible difference such as customers' perceived image of the product. This latter factor is in evidence in relation to cars, which explains why the UK both imports cars from and exports cars to other countries.

The decision to export and import in a free market economy is not made by the country as a collective unit. It is made by individual firms who hope to benefit through foreign trade. We have looked at three broad reasons why individual firms become involved in selling overseas, but there are other more situation-specific reasons:

- to become less vulnerable to the effects of economic recession, particularly in the home market, and to counter market fluctuations;
- loss of domestic market share due to increased competition;
- to take advantage of faster rates of growth in demand in other markets;
- to dispose of surplus or to take up excess capacity in production;
- loss of domestic market share due to product obsolescence;
- to achieve the benefits of long production runs and to gain economies of scale;
- the firm has special expertise or knowledge of producing a product that is not available in a foreign market;
- simply the existence of potential demand backed by purchasing power, which is probably the strongest incentive of all.

Products that become technically obsolete in more developed economies may still be appropriate in less advanced economies. For example, flypaper has been replaced by aerosol fly killers, but this product is relatively inexpensive and still in demand in developing countries. If a firm can expand its production, it will lead to a reduction in average cost, hence a reduction in price, not only in overseas markets but also in the home market, which may lead to further domestic market expansion.

So far we have looked at some of the main economic factors concerned with selling overseas. This coverage is not exhaustive as entire texts have been written on the economics of international trade.

At the beginning we stated that selling overseas was different to selling in the home market. Although economic factors are important, only non-economic factors can explain the different patterns of consumption of two different countries with similar per capita incomes. Selling overseas is a cultural as well as an economic phenomenon and we now turn to these cultural influences.

11.4 Cultural Factors in International Selling

In essence, **culture** is the distinctive way of life of a people that is not biologically transmitted. Such learned behaviour is passed on from one generation to the next, evolving and changing over time. A society organises itself in such a way that people adhering to cultural norms are rewarded while those who deviate are 'punished' to a greater or lesser degree depending on the culture. As a society's needs change and evolve, so cultural norms will change and old patterns of behaviour will no longer be rewarded, whereas new patterns will. In this way, society sustains itself and produces the types of behaviour and responses it needs to survive.

This reward and punishment principle of culture is important when selling overseas. The culture in which a person lives affects their consumption patterns and perceptions of specific products and meanings attached to them. Because of this, only certain products and selling practices that the individual perceives as normal and acceptable to their particular culture will be acceptable. It follows that overseas salespeople need to understand how culture functions in individual overseas markets so that sales approaches can be tailored accordingly. To be able to offer value to the market, a salesperson must understand the value system of the foreign market and this means a knowledge of the influence of cultural factors.

Culture includes both abstract and material elements. Abstract elements include values, attitudes, ideas and religion. These are learned patterns of behaviour that are transmitted from one generation to another. Material elements of the culture are levels and type of technology and consumption patterns within that society.

The Prahalad and Doz integration and responsiveness model (see Figure 11.1) has proven to be a valuable model in portraying the approach that firms may adopt in their international operations.[2]

Figure 11.1 The Prahalad and Doz integration and responsiveness model

Source: Prahalad, C.K. and Doz, Y.L. (1991) 'Managing DMNCS: A Search for a New Paradigm', *Strategic Management Journal*, 12, pp. 145–64

According to this model, a firm may opt to maintain its standardised products or services across its international markets (e.g. Coca-Cola) or choose to adapt its product offerings according to the cultural needs of the respective country (e.g. Levi jeans). However, according to this model, sustained competitiveness would ideally be achieved if companies strive to achieve the balance of 'think global, act local'. Subsequently, not only would the firm and its employees be able to integrate fully within the culture, but they would also be able to respond appropriately to the cultural demands and needs of the specific market, hence achieving a win-win situation.

An understanding of the way a society organises its economic activities and the type of technology used is important for selling overseas. It stands to reason that a firm would find difficulty selling advanced microelectronic machinery to a culture with a primitive agriculture-based economy where appropriate technology will have a greater chance of acceptance.

Salespeople should develop cultural skills. These provide them with an ability to relate to different cultures even when they do not know the elements of the culture in detail. Cateora, Graham and Ghauri[3] suggest that people with cultural skills can

- convey respect and communicate verbally and non-verbally a positive attitude and interest in people and their culture;
- cope with ambiguity and the frustrations that sometimes occur when faced with an unfamiliar culture;
- show empathy by understanding other people's needs and viewpoints;
- avoid judging other people by their own value systems;

- control the use of self-reference criteria whereby assumptions are made based upon one's own culture and values;
- use humour to prevent frustration levels rising when things do not work out as planned.

We now explore some of these elements within cultures in the knowledge that in some countries factors such as religion have inhibited the acceptance of Western materialism and industrialisation.

11.4.1 Aesthetics

A non-material cultural factor which may have an influence on the development of overseas markets is aesthetics. This refers to a culture's ideas concerning beauty and good taste, together with an appreciation of colour and form. The exporter must be aware of positive and negative aspects of its designs, packaging, advertising, etc. The company should be sensitive to local preferences and tastes and items such as company logos should incorporate local preferences.

Colour is important; the most quoted example is that black represents mourning in the West, whereas in Eastern countries the colour of mourning is white. This has implications for pack design. Music is important, particularly when used in advertising and promotion. Many non-Western cultures use a type of music not applied in the West, which has symbolic meaning to the members of the culture. An attempt should be made to understand this symbolism and turn it to positive selling advantage.

11.4.2 Religion

Material culture and aesthetics are outward manifestations of a culture and give an indication of how consumers in a particular culture behave. The firm selling overseas needs an understanding of why consumers behave in that way. The religion practised by a culture can give insights into its members' behaviour. For illustrative purposes, two of the largest religions, Hinduism and Islam, are now discussed.

Hinduism is followed by 85 per cent of India's population and is as much a way of life as a religion. An understanding of the tenets of Hinduism is necessary for an understanding of the Indian culture. Important doctrines of Hinduism include the caste system, the joint family, the veneration of the cow and the restriction of women. Any product or selling activity that offends the tenets of Hinduism would have small chance of success because such views are deep-rooted in Indian culture.

Islam takes the Koran as its ultimate guide; anything not mentioned in the Koran is likely to be rejected by the faithful. An important element in Islamic belief is that everything which happens proceeds from the divine will. This belief restricts any attempt to bring about change because to attempt to change may be contrary to what Allah has ordained. Firms entering overseas markets must bear this in mind when introducing new products or services.

A company must therefore be aware of religious differences in its foreign markets and be prepared to adapt its selling operations and the products themselves.

11.4.3 Education

Analysing educational information for relevant markets gives the firm an insight into the nature and sophistication of consumers in different countries. In some countries many people are not formally educated in the three Rs, although they may be educated in ways of culture.

In marketing a new product in a foreign country, the firm is itself trying to educate consumers in uses and benefits of the product. The success of this sales communication will be constrained by the general level of education within the culture. If consumers are largely illiterate, then company advertising, packaging and labelling will need to be adapted. Complex products that need written instructions may need to be modified into diagrams to meet the educational level and skills of the particular culture.

11.4.4 Language

The language of a culture is important. For example, a literal translation by someone not familiar with its deeper cultural meaning may result in serious mistakes. If the brand name is standardised worldwide in English, it may be found to have an unfavourable meaning in some countries, or not be pronounceable in languages that lack certain letters of the alphabet. A famed example of the former (and now denied by Rolls-Royce) is that the Rolls-Royce Silver Shadow was nearly called Silver Mist, which would have been most unfortunate when selling to the German market. Signal toothpaste was called Shield toothpaste (see Box 11.1).

Box 11.1: Understanding Language in International Selling

A key ingredient in international selling is a command of foreign languages. As the former German Chancellor Willy Brandt once said, 'If I am selling to you I will speak English, but if you are selling to me dann müssen Sie Deutsch sprechen!'

Salespeople also need to understand both the nuances of the foreign language and the silent language. A salesperson needs to know that Japanese yes often means no, but that a Chinese no often means yes. Silent languages are also important as the following example illustrates.

A European salesperson visits a Saudi business person to sell him machinery. The Saudi offers the salesperson coffee, which is politely refused (he had been drinking coffee earlier). He sits down and crosses his legs exposing the sole of his shoe. He passes sales literature to the Saudi with his left hand, asks about the Saudi's wife and stresses the need to make a quick decision.

Unwittingly, the European has offended the Saudi five times. He turned down his host's hospitality, showed disrespect, used an unclean hand, was overly familiar and showed impatience with his host. Although the Saudi may realise that the actions were unintentional, the salesperson is left in a weakened position.

Sources: Based on Cateora, P.R. (1998) *International Marketing*, Irwin, Boston; Egan, C. and McKiernan, P. (1994) *Inside Fortress Europe: Strategies for the Single Market*, Addison Wesley, Wokingham.

11.4.5 Social Organisation

Social organisation differs between cultures. The primary kind of social organisation is based on kinship and in many less developed nations this takes the form of a large extended family. A company operating in such a society must realise that the extended family means decisions on consumption are taken by a larger unit and in different ways. A firm selling overseas may find difficulty determining the relevant consuming unit. Is it the family, the household or an individual?

In many Asian and African countries, social organisation is in tribal groupings which may be a clue to effective market segmentation. Social class is more important and more rigid in many foreign countries, e.g. the Indian caste system. The selling firm must be aware of the cultural variations in social organisation when targeting sales efforts to a particular social segment of the population.

11.4.6 Political Factors

Culture includes all activities that characterise the behaviour of particular communities such as legal, political and economic factors. Nationalism and dealings with governments are often considered to be a major problem facing firms selling overseas. Most governments play either participating or regulatory roles in their economies. In India, for example, certain sectors of the economy are reserved exclusively for government enterprise.

Government legislation and economic policy may affect a firm's pricing and credit policy and there may be regulations concerning products and promotions. Factors like nationalism, international relations, political stability and the level of capitalism and democracy in the foreign country will all have an impact on overseas sales strategy.

11.4.7 General Cultural Attitudes and Values

In some cultures, selling and trade in general have low social approval. A company selling overseas may therefore have difficulty in recruiting appropriate sales personnel and selling products through the channel of distribution. Many Eastern cultures put spiritual values before material values.

Different cultures also have different time values. A much quoted example is in Latin American cultures, where sales representatives are often kept waiting a long time for a business appointment. In our culture this would be unorthodox and at best would be seen as being ill-mannered. A delay in answering correspondence in the UK usually indicates that the matter has low priority. A similar delay in Spain could mean something different because there close family relatives take absolute priority. No matter how important the other business, all non-relatives are kept waiting. In the West we are used to business deadlines, but in many Middle Eastern cultures a deadline is taken as an insult and such behaviour may well lose business for the overseas salesperson.

The concept of space has a different meaning to different cultures. In the West the size of an executive's office is often an indication of his or her status. In the Arab world this is not so. The managing director may use the same office as the general clerks, so the salesperson must be careful how he or she speaks to people. In the West, business agreements are carried out at a distance, say two metres or more. In Middle Eastern and Latin American countries, business discussions are carried out in very close proximity, involving physical contact, which many Western salespeople find strange.

In the West, business is discussed over lunch or dinner in the businessman's home. In India to discuss business at home or at any social occasion is a violation of hospitality rules. In the West we rely on the law of contract for all business agreements, but in the Muslim culture a man's word is just as binding. In fact, a written contract often violates a Muslim's sensitivities because it challenges his honour.

Subcultural influences must not be overlooked, because these are sometimes the dominant force in the country (see Box 11.2). Here are some examples:

- nationality groups, e.g. French- and English-speaking Canadians;
- religious groups, e.g. Protestant and Catholic groupings in Northern Ireland;
- geographical areas, e.g. the north and south of England may be thought of as separate markets for many products;
- racial groups, e.g. within South Africa the divide still remains between races;
- social stratification, e.g. the caste system in India.

Box 11.2: The Chinese Culture and Sales Negotiations

Cultural differences mean that salespeople need to understand and respect the values of overseas customers and alter their expectations and behaviour accordingly. Visiting salespeople may be required to attend long banquets when engaging in negotiations with Chinese people. The banquets may begin in either the late morning or early evening. Frequent toasts are usual and some Chinese hosts regard the visitor as having a good time if he or she becomes a little intoxicated.

In China, negotiations often take much longer than in many Western countries and arriving late for a business appointment is deemed acceptable behaviour. To do so in Hong Kong, however, would result in the visitor losing face, a serious issue in Chinese culture. When conducting sales negotiations, visiting salespeople should avoid creating a position where a Chinese person might lose face by finding themselves in an embarrassing situation (e.g. by displaying lack of knowledge or understanding). Chinese people tend to elicit as much information as possible before disclosing their hand to avoid losing face or displaying ignorance. Business relations should be built on the basis of harmony and friendship. Contracts are accepted as much as a basis for business relationships as a legal document.

Many salespeople fall into the trap of using self-reference criteria when selling abroad. They assume that what is acceptable and highly valued in their own country is equally valued in all cultures. To avoid this fallacy, salespeople need training in the special skills of selling to people from different cultures.

Sources: Based on Bradley, F. (1998) *International Marketing Strategy*, Prentice Hall, London; Jeannet, J.P. and Hennessey, H.D. (1995) *Global Marketing Strategies*, Houghton-Mifflin, Boston.

11.4.8 Cultural Change

A company following the marketing concept overseas – trying to satisfy needs and wants of target markets at a profit – must keep abreast of changes in the cultural environment that affect people's attitudes and values, hence indirectly their needs and wants of products and services. In our own society the cultural values towards debt have changed. Debt has lost its stigma and is part of everyday life with the universal acceptance of credit cards. Our society's moral values have changed and we are more liberal and tolerant of matters like entertainment. Products and services demanded have reflected this change in cultural values. A firm must therefore be aware that its products may face obsolescence in overseas markets, not because of technical advance but because of cultural change.

Not only are a firm's existing products vulnerable to cultural change, but the company may also miss new opportunities by not being informed of changes in culture. The impact of culture is especially important if the company is dealing with a foreign culture seeking rapid industrialisation. It is necessary for a company operating in this type of environment to monitor trends and adapt as necessary. Not only must the firm selling overseas be versed in the economics, law and politics of a foreign country, but it will also have to understand the more subtle, less tangible meanings, values and languages of the culture itself.

11.5 Organisation for International Selling

Organisation to implement international sales operations can be complex. Decisions must be made on arranging the interface between manufacturing and sales and in delegating responsibility for international operations. Each problem can have alternative solutions and an optimal decision must be tailored for each firm.

Some companies are so deeply involved in international trade that it forms the majority of sales turnover, whereas others are simply content to supply export orders. A distinction is made between **multinational marketing**, **international marketing** and **exporting** and each is now considered:

- *Multinational marketing* relates to companies whose business interests, manufacturing plants and offices are spread throughout the world. Although their strategic headquarters might be in an original country, multinationals operate independently at national levels. Multinationals produce and market goods within the countries they have chosen to develop. Examples of multinationals are Shell, Ford, Coca-Cola, Microsoft and McDonald's. To be successful, multinationals need to understand their competences and weaknesses. Box 11.3 examines this company's bright and dark sides.
- *International marketing* covers companies that have made a strategic decision to enter foreign markets, have made appropriate organisational changes and marketing mix adaptations.
- *Exporting* is at the simple end of the scale and the term is applied to companies that regard exporting as a peripheral activity, whose turnover from exporting is less than 20 per cent.

Box 11.3: Microsoft's Soul

Steve Ballmer has drawn up a map of multinational Microsoft's soul. There is a bright side and a dark side to the software company, says Ballmer, in a slide presentation he has shown to staff at the Seattle headquarters.

The Bright Side

- The company is totally about intelligence. It is stocked with some of the brightest people.
- Microsoft loves, loves, loves technology.
- It is supercompetitive.
- Internally the company is honest and self-critical.
- The individual rules the roost. One great guy. One great idea.

The Dark Side

- Internal competition is too fierce. Departments see each other as enemies.
- The company is sometimes focused on the wrong things.
- It is too reliant on brilliant leaders.
- It is opinionated but not decisive.
- There is a lack of teamwork.

Source: Adapted from article by Dominic Rushe, *The Sunday Times*, 23 June 2002.

Whatever the form of organisation for overseas selling, it is important that there should be a senior manager charged with responsibility for exporting who is able to advise and influence colleagues.

In choosing how to organise for international selling there is a division into **indirect** and **direct** methods. Some of the more common forms of overseas sales organisation are now described. The choice of organisation depends on a number of factors: the proportion of total turnover accounted for by overseas business, the nature of the product, relative advantages and disadvantages of each form of organisation. There is no single uniform approach to the task. The keynotes are flexibility and adaptability. We first consider indirect approaches to international selling.

11.5.1 Types of Intermediary and Their Selection

It is estimated that agents and distributors alone, acting on behalf of overseas companies, handle over half the world's overseas trade. The term 'intermediary' is used to describe all persons and organisations providing the service of representation between sellers and buyers.

Few manufacturers are able to cover a market adequately without the service of some form of intermediary. The decision faced by firms as to which intermediary to use and the policies to be adopted is critical to the firm's future in the market.

11.5.1.1 Agents

An **agent** is a firm or individual acting on behalf of another. This is one of the main forms of overseas representation. The most common form of agency is where agents, acting as independent operators, obtain orders on behalf of an exporter on a commission basis and the exporter acts as principal. Agents also work on behalf of purchasers and some specialise in certain tasks, for example, transport and distribution, advertising and market research.

Care should be exercised in appointing the right agent, and a company entering overseas markets should satisfy itself as to the agent's reputation and financial position. The agent may have other interests and the firm should ensure they do not conflict with its own. Agents are often key figures in a firm's overseas operations and success overseas will depend on the ability and commitment of the agent. Care therefore needs to be exercised in the choice of agent, and organisations like banks will advise and assist in their selection. In assessing the suitability of an agent, the principal needs clear answers to the following questions:

- When was the agency founded?
- What other interests does the agency have, i.e. what other agencies are held?
- Does the agent provide the required coverage for your market?
- What is the agent's standing in the business community of the market in terms of professional integrity and reputation, reliability, etc.?
- Is the agent the type of person or company that will fit in with the way your company carries out its business?
- Will you be able to work with the agency?
- Does the agent possess the resources necessary to carry out the task adequately, i.e. financial resources, transport, offices, warehouses and human resources?
- Is the agent able to provide technical support or after-sales service arrangements if these are necessary?

This list is not exhaustive and more specific details may be necessary depending on the market, industry and type of product. Once a suitable agent has been found, progress should be monitored. Agents are usually appointed for a trial period, with extensions to the contract after that.

Training agents is important to indirect selling in overseas markets, particularly if products are technically complex. Without proper knowledge and technical appreciation of the product range, the agent will be ill-equipped to conduct negotiations with professional buyers who may be experts in their field. Training may have to take place at the principal's manufacturing plant and should form a compulsory part of any agreement. Training may need to be continuous, with periodic updating sessions, especially if the firm is involved in new product development or if technology is changing rapidly.

Sales meetings and conferences in the principal's own country can be used for training purposes and as a forum for tackling specific problems and discussing future promotional strategies. Such meetings will also have a social function, bringing agents together for a few days to exchange ideas, discuss common problems and to help them feel part of the company.

Once a suitable agent has been found, the right kind of working relationship must be nurtured. Many companies feel that the appointment of a good overseas agent is an alternative to their own direct involvement in the market. This is *not* so, as the principal has to be actively involved; if the relationship is to be successful then it must be based on partnership and cooperation. The principal should visit the agent in the market to create a sense of value, importance, belonging and encouragement. Such visits also keep the agent informed of developments in the principal's country and of the principal's products. The principal will gain valuable market information on competitive actions, the overseas business environment and feedback on promotions and new products. All of this will lead to a better understanding of the dynamics of the overseas market and an improvement in sales strategy.

The principal can also give assistance to the agent by helping in commercial negotiations between the agent and important customers, assisting with special discounts or credit arrangements in order to secure business. Frequency of visiting abroad by the principal will depend on the importance of the market, the competence of the agent and distance from home base. Important markets should be visited more frequently, particularly if technical assistance or after-sales service is required.

In some cases, agents feel insecure as companies often regard them as a temporary method of servicing overseas markets. Once the market expands and matures, many companies dismiss their agents and enter direct selling or open a subsidiary company. Therefore the very success of an agent can sometimes mean downfall. In anticipation of this eventuality, agents sometimes collect a large number of agencies, resulting in a diffusion of effort and possible conflict of interests. This problem can be overcome by negotiating a long-term arrangement once the agent has been proved, or by inserting a gradual run-down clause into the agency agreement. In the latter case, the agent can often make a valuable contribution to, say, the setting up of a new overseas subsidiary company, or even manage the subsidiary. Thus, fair treatment of agents and ex-agents cultivates a reputation as a good and fair employer, and this in turn will probably be reflected in future dealings in that country.

11.5.1.2 Distributors

Distributors act in a different capacity to agents as they actually buy and sell the goods, whereas agents work principally on commission. Like an agent, a distributor will usually be a local firm or individual and a specialist in the requirements of the local market. They should be familiar with local business practices or customs, structure of the market and various socio-cultural factors. Distributors differ from agents as follows:

- They will be able to finance their own stockholding of goods.
- They will usually be able to purchase in larger quantities, thus saving on delivery costs.
- Acting as principal, they will be commercially and legally responsible for all business transactions in the market.

- They are entrepreneurs and accept risks involved in the purchase and reselling of goods, such as local falls in demand and currency fluctuations.
- In some cases they may provide an after-sales service.

A frequent complaint from companies using distributors is that, because they are independent businesses acting independently, they can decide the final selling price to the customer. If price is thought to be a significant factor in the product's success, then the manufacturer should only deal with distributors who are willing to agree a mark-up and selling price with the manufacturer.

As with agents, it is important for the manufacturer to develop good working relationships with overseas distributors as commitment to the commercial relationship is needed from both sides. Although distributors purchase goods from the manufacturer to resell on their own account, they are more than just another customer. The manufacturer relies on the distributor to achieve their own objectives, but the manufacturer must consider that distributors have objectives and interests of their own. It is in the firm's interests to give distributors as much technical and sales assistance as possible. As with agents, distributors can be used in an information-gathering capacity to report on trends and developments in the marketplace.

A decision will also have to be made about whether to use a number of smaller local distributors or a small number of large national distributors. Using a number of small distributors has the advantage of good coverage and is advantageous where there are regional differences in culture or business practices. However, large national distributors give economies of scale as goods can be shipped in bulk.

In some cases it may be desirable to have an exclusive agreement with the distributors, otherwise they might offer competitors' products to customers if they offer a higher margin.

11.5.1.3 Licensing

Licensing is another alternative open to a firm contemplating an indirect venture into overseas markets. It assumes that the company has some unique product or process (preferably protected by patent) that an overseas company will want to manufacture. This is a good way of entering and remaining in more distant markets, or in a market where it is difficult or impossible to export finished goods. In such markets, direct selling or selling via agents and distributors might be impractical, or it might be the case that import duties and other non-tariff barriers might present obstacles to exporters.

The costs of setting up a manufacturing subsidiary might be prohibitive or the foreign country might be politically unstable. Licensing avoids the danger of the firm's overseas assets being expropriated and, in some situations, repatriation of profits is sometimes difficult for a manufacturing subsidiary. Where the product is bulky and expensive to transport relative to its value, licensing might be the only way to produce that product at a competitive price. If a firm has a good product idea but is short of capital to expand and exploit the commercial opportunity itself, licensing allows the earning of at least some profit or, more precisely, royalty, without having to commit scarce financial resources.

The main problem is that if a licensing arrangement exists with a company in a politically sensitive area then, for many reasons, royalties due might not be paid. This a danger of licensing and clearly the licensee has to be chosen with care. There are two suggestions to try to overcome this situation. One is to ensure that the licensing arrangement means the acceptance of certain component parts from the licensor and if there are problems in payment then components can be withheld. The other suggestion is that where the product under licence is technically advanced it is likely that it will be continually improved through innovation; the sanction here is that if there are royalty payment problems then the latest innovation can be withheld. However, such suggestions indicate a negative aspect of licensing and the majority of such arrangements are successful. The answer is to choose a licensee of integrity in a politically stable country (the problem being that in such a situation there are probably more lucrative export arrangements than licensing).

Assuming that a licensing arrangement is agreed, then regular checks should be made as to the quality of the licensee's finished products and defined quality standards should be part of the licensing agreement.

11.5.1.4 Export Houses

The use of **export houses** is an alternative to the manufacturer having their own export department. Export houses are usually home-based organisations that carry out some or all the overseas activities in place of the manufacturer, often using their own agents, distributors or other intermediary. They are a useful alternative for small companies whose overseas operations are limited, not warranting the expense of direct involvement. They are also used by larger firms who are only marginally involved in smaller markets, or they use export houses until a market has expanded sufficiently to warrant their own overseas operation.

Manufacturers can delegate some or all of their overseas operations to an export house or they may delegate parts of the actual selling task to the export house. Thus, export houses offer flexibility and a range of services:

- export factoring: handling finance and credit arrangements on behalf of manufacturers:
- factory representation: a sales supervisor supervising sales activities of distributors or dealers on behalf of the manufacturer;
- market intelligence gathering in overseas markets;
- handling export procedures and documentation;
- help in selecting agents, distributors and dealers;
- confirming orders: paying the manufacturer on confirmation of an order from an overseas buyer and receiving commission, although here the export house is not actually paying the manufacturer, but merely confirming liability for payment.

Having looked at services that export houses can offer, we now look at the reasons why a manufacturer might want to use one:

- lack of resources to carry out overseas operations by the manufacturer.
- when overseas selling operations are only small-scale and it would not make economic sense to carry out such operations oneself;

- where the export house has particular expertise in a country or an industry;
- where the manufacturing company is predominantly production oriented and lacks marketing expertise.

There are several disadvantages; the main one is lack of direct contact with the market. The manufacturer may also experience difficulty in monitoring developments and changes in the overseas market and adapting to these changes in good time.

Having examined indirect approaches to selling, we now look at more direct methods.

11.5.2 Direct Methods of Overseas Selling

11.5.2.1 Subsidiary Companies

The subsidiary may be a selling organisation, a manufacturing organisation or both. A selling subsidiary usually replaces agents and distributors with the company's own permanent staff. In certain cases it is possible for a firm to start its own sales organisation with little investment. The usual way, however, is for a company to start by using an agent; then to open its own sales office with a limited number of staff. Once profits start to show, the unit can become self-sufficient and ultimately expand into manufacturing.

The above scenario is a generalisation and sales subsidiaries may require a larger investment than many companies can afford, especially where after-sales service has to be offered and stocking a large volume of spare parts is necessary. Manufacturing subsidiaries range from simple assembly plants to complete production units.

A simple assembly plant subsidiary is useful where the product is bulky and freight costs are high. By using local assembly, the final cost of transport may be reduced as it is often more economical to ship containers of parts for assembly than to ship bulky manufactured products. In addition, local employment is created that promotes goodwill towards the company, which in itself assists in developing markets further.

Reasons for establishing overseas manufacturing subsidiaries differ from company to company, but the following are important:

- **Production capacity.** Where overseas markets are expanding, a firm may find problems in serving the market from the home base.
- **Non-tariff restrictions.** Where these restrictions exist, the setting up of a subsidiary may be the only way round them. Many foreign governments give grants and incentives to firms to set up manufacturing bases in their countries and their purchasing strategies favour goods made at home. Sometimes restrictions placed against imports might take the form of complex (and unnecessarily prohibitive) safety or packaging regulations.
- **Costs.** Labour and manufacturing facilities are often more economical in overseas countries and setting up a manufacturing base saves transportation costs.

- **Explicit import restrictions.** Where these restrictions exist, the setting up of a manufacturing subsidiary may be the only way to enter or stay in the market.

When establishing a subsidiary, local legal and taxation regulations must make it possible to set up a profitable subsidiary and allow the parent company to extract profits from the country. It may be prudent for a firm to gain experience in the market through agents and distributors before venturing directly into setting up a manufacturing subsidiary. Many firms employ the staff of a previous agent or distributor to form the nucleus of the new company.

Although it may seem that the establishment of a foreign subsidiary exposes a firm to many of the risks that licensing minimises, a venture of this kind can offer the greatest potential. Not only may local employment and production be beneficial for reasons mentioned, but the parent company can offer the subsidiary the wealth of its business experience and resources. Other advantages are that employees working direct for a company are often better motivated than those of an intermediary and it is easier to control a subsidiary because it is under the parent company's direct control. The disadvantage is that economic or political instability within the country may cause problems outside the control of the parent company.

11.5.2.2 Joint Ventures

A **joint venture** is where usually two but sometimes more firms manufacture and sell products on a joint basis. As such it can be an indirect and a direct method of exporting, depending upon the arrangement. This is common in the transport, construction and high-technology sectors of business. Such agreements have financial benefits as the cost of development is shared, but friction and disagreement sometimes arise between members to the agreement.

11.5.2.3 Direct Selling

Despite the strengths of using intermediaries, some companies find that selling direct from the home country to overseas markets offers more advantages. **Direct selling** requires a firm to take responsibility for establishing contact with potential customers.

Direct selling provides a degree of control that is impossible to achieve through intermediaries over matters such as price, credit, after-sales service, etc. The chief disadvantage is that more frequent travel is involved and a lack of a permanent presence in the market can cause problems. The firm may find difficulty keeping abreast of developments in the market and will have to rely on customers to provide market information. Customers may also view this lack of permanent presence as a lack of definite commitment to the market. Firms supplying technically complex products that require technical service and advice often place a sales engineer in the market on a semi-permanent basis, which tends to obviate the lack of commitment. The following guidelines show where direct selling is most appropriate:

- **Buyer-specified work.** Where individual orders are large and custom-made it may be necessary for the manufacturer and purchaser to get together to discuss each job as a unique contract.

- **Continuous supply.** Once set in motion this requires only a periodic visit to negotiate such matters as price changes. These contracts are normally able to run smoothly without a permanent overseas presence.
- **Products are technically complex with a clearly defined market.** Here problems can be discussed directly between the supplier and user.
- **Geographical proximity.** Countries in Western Europe, for example, can sometimes be serviced direct from the UK because of good communication facilities.
- **Few customers but large or high-value orders.** Time and expense involved travelling abroad are sometimes small compared with the size and value of orders.

In selling direct to a customer overseas, there is an opportunity to build up close relationships with individual customers based on trust, commitment and understanding. A close interactive commercial relationship is beneficial, particularly if the exporting company is unfamiliar with the market. Speaking the language of the country is more important in direct selling than if the firm deals through an intermediary. If the salesperson is to build up a close personal relationship with customers, he or she must understand the cultural, religious and business practices of the country. There may be many mental barriers to a foreign buyer placing an order with an overseas salesperson and patience will be required to break down these barriers. Thus, emphasis must be placed on gradual acceptance rather than the expectation of instant success. This involves careful planning in building up contacts and nurturing them and not taking the first no for an answer.

11.6 Pricing

11.6.1 Freight Considerations

Pricing as an element of the marketing mix has been covered in Module 1. In considering pricing decisions for international markets, the same rationale applies. There are, however, a number of additional factors that must be considered, the most significant of which is the potentially greater logistical problem of getting the goods to their destination. This normally involves extra packaging to withstand lengthy sea journeys, although with containerisation it is possible to rent a full or partial container, so this is less of a problem for goods where containerisation is appropriate. Airfreight is a quick medium of transport, especially for goods that are perishable, or where weight is low and value high in relation to volume.

Transport adds to costs and this must be considered in relation to the price at which goods will be charged when they reach their ultimate market. For this reason many manufacturers tend to accept lower margins for export orders so they will still be competitively priced. Quotations for export orders are sometimes a simple ex-works price that does not include freight charges to the end customer. At the other extreme, the price can include delivery to the customers' works. These various price quotations form part of the legal document of contract and are considered in the next module.

11.6.2 Import Considerations

A factor when calculating price is that of tariffs that might be levied on goods entering the customer's country. This will have to be considered in the light of an additional cost before the goods reach the marketplace. Import considerations might also include a quota restriction on particular goods, which means that a numerical restriction is placed upon the amount that can be imported during a particular period. In such cases the importing country sometimes raises extra revenue by selling off these quotas to the highest bidder. An import licence is sometimes required, which apart from costing money sometimes entails a lengthy process in terms of negotiating with authorities in the country concerned. This process is detailed and complicated and only companies with large international trading departments could handle such detail internally. For smaller companies, the services of shipping and handling agents would be necessary, all of which add to the landed cost of goods.

11.6.3 Purchasing Alliances

Larger companies have an inbuilt advantage as they are able to form worldwide purchasing alliances between each other and, in a multi-country manufacturing organisation, between its own subsidiaries (see Section 11.6.4). Such an alliance might be in the form of reciprocal trading (see Section 10.3.5). On the other hand, a number of companies, particularly in the automobile industry, purchase component parts from each other; for example, one company might use another's engines for use in its vehicles. The implication for international selling is that such arrangements might impede free competition as certain markets might simply not be available because of such arrangements. The selling company should be aware of such alliances so as not to waste time exploring fruitless avenues. However, the parallel argument is that such alliances do not necessarily last for ever, so selling companies should be aware of the possibility of an alliance being broken up in good time by using market intelligence, of which the salesforce can be a good contributor.

11.6.4 Transfer Pricing

Transfer pricing is perhaps one of the most intriguing aspects of pricing and can be controversial in that it often involves detailed investigation by customs and excise and taxation authorities if they feel companies are abusing positions of relative privilege. It is of particular benefit to large international companies with manufacturing and assembly bases situated in different countries around the world.

Transfer pricing works when component parts and finished products are moved between manufacturing or assembly plants in different countries as part of the manufacturing or marketing process. Different countries have different rates of corporation tax and import duties also vary between countries. There is therefore an incentive to an international company to make as much profit as possible in a country with a low rate of corporation tax. In fact, some countries offer tax holidays for a specific period to companies willing to set up manufacturing bases.

What happens is that component parts from one country can be transferred to a high-duty country in which the company also has a manufacturing base; the transfer is at a low transfer price to minimise import duty. Components can also be transferred into countries with higher rates of corporation tax at high transfer prices in order to minimise profits. In addition, parts or finished products can be transferred at high prices into a country from which transfer of profits is difficult owing to currency restrictions or perhaps where there is an unstable currency, and so depress the profits of the manufacturing or assembly plant in that country.

In view of possible abuses of the transfer pricing system it can be seen why customs and excise and tax authorities tend to view such arrangements with a certain amount of suspicion.

11.7 Japan: A Study in International Selling

The objective of this module has not been to provide a comprehensive guide to international selling and exporting. The general case for exporting for the good of the economy and for the good of individual companies has been covered, together with an overview of organisational and cultural issues. The specific type of information that is of direct use to a potential exporter is that which follows in respect of exporting to Japan. This information has been taken from an article in the *Journal of Sales Management* for which the second author was then editor.[4]

Successful selling to Japan requires patience and sensitivity to customs and business practices not altogether appreciated by Westerners. Business in Japan is still conducted in a traditional Confucian manner where civility, politeness and the search for constructive relationships are of essence, and successful business follows the establishment of such relationships.

In many ways the Japanese do not respond in the same way as Westerners. For the most part, the Japanese keep their emotions under control and culture demands that a person of virtue will not show a negative emotion when shocked or upset by sudden bad news. This ideal of an expressionless face in situations of great anxiety was strongly emphasised in *bushido* 'the way of the warrior' which was the guideline for samurai and the ideal for many others. Furthermore, not only are negative emotions suppressed, but the control of an outward show of pleasant emotions in public is also rarely relaxed in Japan. Women tend to cover their mouths while laughing and males show true merriment (and true anger) mainly after hours when their culture allows them greater freedom of behaviour while drinking alcohol. Thus the poker-faced ideal is very common in public settings in Japan. The moral of these observations is that one must develop a sensitivity to the reactions of the Japanese because of the difficulty in telling how they are reacting.

Another noteworthy aspect is that shame is intolerable in Japan. This means that one should never put one's Japanese counterpart in a position that will force him or her to accept blame for a project going wrong, being delayed, etc. This characteristic has important implications for two elements of the sales process: handling objections and the close. The Japanese may avoid explicit objections because politeness demands that the seller does not lose face. Similarly, an attempted close may put the

Japanese in a position where they are concerned for the seller's loss of face if the answer is to be negative. The deft footwork associated with the persuasion approach to selling clashes with the Japanese character and is completely opposed to the spirit of Japanese negotiations.

In some countries it is considered socially acceptable to compliment someone directly on his or her business accomplishments or the accomplishment of the company, but in Japan anything in the way of a compliment is made indirectly. Instead, say, of complimenting someone directly on his or her taste and sophistication, the Japanese practice is often to approach this particular problem indirectly and pick out some aspect of the room which reflects the other person's taste and sophistication and comment on that.

With regard to business correspondence, Japanese companies may fail to answer written enquiries concerning possible business relationships. This does not necessarily mean a lack of interest. There can be a number of reasons for a slow response. Decision-making tends to be much slower and this is often the reason. Japanese companies are accustomed to being able to talk face-to-face with suppliers as this is the usual way of conducting business in Japan.

Personal introductions are commonly executed by a third party rather than through, say, the medium of a telephone call requesting a meeting. The person making the introduction will explain to the person one wishes to meet approximately what subjects are to be discussed, what company one comes from and one's position within that company. Because there will usually be a common understanding between the two Japanese, the Japanese business person whom one wishes to meet will generally be more favourably disposed to hearing one's opinion than if one walks in without an introduction.

The key to a successful business relationship in Japan is a successful personal relationship and nowhere in the world are business and personal relationships so intertwined. However, such friendship only opens the door. Thereafter the hard reality of the benefits to be gained and the risks to be run will take over. Friendships in Japan take more time to form, are deeper and last longer than those in the West and often these obligations extend to business relationships. For example, during a recession a large firm will commit itself to its suppliers and subcontractors for continued orders to tide them over. The lesson of these observations is that one must be prepared to operate within this two-tier business structure; establish friendship first and then move to the second stage of actual business negotiations.

To Westerners, Japanese business seems formal and ritualistic. To a degree this is true, but business relationships do no more than reflect the formality of relationships generally. As in all societies, ritual is particularly important when meeting someone for the first time. It is used to establish and signal that one has identified initial relationships. The first meeting is also a time when transgressions are most likely to cause lasting damage.

One of the most powerful forms of non-verbal communication is dress. The usual dress for Japanese business people is a dark suit for men and sober dress for women. However, most Japanese business people acquainted with foreigners have come to expect a certain variety within reasonable limits in the dress of foreign businessmen. It is not, therefore, expected that one should imitate the Japanese mode of dress. However, one should avoid extremes in dress which may cause uneasiness. For example, loud clothing will create the disturbing feeling among the Japanese business people that the foreigner has perhaps failed to take them as seriously as he or she might have, by failing to observe that the common practice in dress in Japan is some degree of formality.

At the beginning and end of every meeting, the Japanese business person will bow very formally to the members of the other side in the negotiations. This is generally observed at the first meeting and to a somewhat lesser extent at subsequent meetings. Most Japanese with experience in dealing with Westerners will be expecting to use a handshake rather than a bow. The appropriate strategy is perhaps to wait to determine whether the Japanese business person is prepared to offer his hand for a handshake or whether he is going to bow. The question of whether the non-Japanese should imitate the bow of the Japanese is controversial within Japan itself. Generally, a nod of the head or a slight bow is considered acceptable for the non-Japanese party. One should be aware that reciprocal bowing behaviour depends on the status relationship of participants; the inferior must begin the bow, and his bow is deeper, while the superior determines when the bow is complete. When participants are of equal status, they must both bow the same way and begin and end the bow at the same time.

One of the most obvious differences between Japanese and Western business practices is the use of business calling cards, or *meishi*. These are exchanged on every occasion where one business person meets another. The prime purpose is to enable the recipients of the cards to know the other's status so that not only do they bow correctly, but also use the proper form of language. Japan is a hierarchical society and the Japanese are very status conscious in that they use different forms of language and bow in different manners according to the status relationship with another individual. Business cards also serve the function of not having to memorise instantaneously the names and positions of one's business counterparts and they provide a record for future reference.

Such cards are a standard pattern and size, so they will fit in the Japanese filing systems. They must have square corners for males and round corners for females. The typical business card that the non-Japanese business person should have will show the Japanese translation of the individual's name on one side, along with his or her company, its address and the person's title. The other side will have the same information in English, which is the most common foreign language used in Japanese business.

The exchange of business cards is a very important part of the introduction process in Japan. For this reason, cards should be exchanged one at a time and with some care. The courteous method is to present it, Japanese side up, with the printing facing the receiver.

One of the peculiarities of these business cards is that there is no single standard set of English translations for the ranks and positions in Japanese companies. As mentioned earlier, Japan is a very hierarchical and status-conscious society, so an understanding of the ranks in business is very important. Table 11.1 translates some of the more common Japanese business titles.

Table 11.1 Translations of common Japanese business titles

Japanese title	Description and/or usual translation
No title	New graduate, aged 23–33
Kakaricho	Manager, aged 34–43
Kacho	Section chief, aged 44–47
Bucho	Bureau chief, aged 48+, senior manager
Torishimariyaku	Director
Fuku Shacho	Vice-president (more senior director)
Shacho or Daihyo Torishimariyaku	President (managing director)
Kaicho	Chairman

Source: Japanese External Trade Organisation (1976) 'Selling to Japan: know the business customs', *International Trade Forum*, 12.

The basic titles in a Japanese firm are usually very clear and the level of the position within a company, as indicated by the title, is usually closely related to the age of the individual. This system of ranking and responsibility, corresponding closely with age and years of service in the company, is a unique characteristic of Japanese organisations.

While the details of negotiations may be left to a representative in Japan, the managing director of the foreign firm (or some other high official in the company) should establish an initial contact with his or her equal in the Japanese firm. This is termed the *aisatsu* or the greeting. The purpose of this is to establish a presence.

The Japanese term *hai* is literally translated as 'yes', although it can also mean 'I see' or 'I understand' and does not necessarily mean agreement. Furthermore, the Japanese are very reluctant to give a direct no, because Japanese culture emphasises harmony rather than confrontation. Instead of no, one is more likely to hear something non-committal such as 'Let me think'. One must therefore learn to read the negative response signs such as hesitancy or an unwillingness to be more specific.

Postponements of negotiations are common in Japan, largely because decision-making follows a prescribed process called the *ringi* system. This means that a proposal must be circulated among various sections and departments which will be affected by the proposal, with much discussion and correction ensuing. The *rîngisho* 'request for a decision' goes back and forth and eventually a consensus is achieved among the interested parties, with the president giving final approval.

During negotiations it is common to have long periods of total silence. This is because the Japanese like time to think over what has been said and what alternatives are open to them when they next speak. Silence is also part of the Japanese communication procedure and they tend to rely heavily upon non-verbal communication. Westerners often find such silences embarrassing and feel obliged to say something unnecessary to relieve the supposed tension. The best way to handle such silences is to exercise restraint and outwait the silence.

Japanese business people have little confidence in detailed contracts which attempt to provide for all possible contingencies. Their preference is for broad agreements and mutual understanding. Contracts are drawn up with an eye to flexibility and a contract is often considered an agreement to enter into a general course of conduct rather than something fixing precise terms. The Japanese like to negotiate each issue as it arises and there is an assumption that each party is prepared to make substantial accommodations to the other. This should not be interpreted as an attempt to violate the contract, but rather the desire of the Japanese to allow both sides the ability to adjust to unforeseen circumstances. One should not expect to obtain a detailed contract, but once a commitment is made it is for the long term. Japanese firms prefer long-term, reliable and exclusive business relationships and tend to turn to established channels to develop new business initiatives.

Because of the consciousness of using the correct level of language in a conversation or discussion, any interpreter one engages may unconsciously modify statements going from English to Japanese and back to English again, according to the rank of the people involved. For example, if a senior official of a Western company is speaking with a high-level Japanese manager, the interpreter will feel in an inferior position to both of them. The statement that the senior official intends to have translated verbatim for a Japanese counterpart may end up as being something quite different.

Entertainment in Japan plays a major role in establishing personal and business relationships. Unlike the West, business luncheons are a rarity and evening entertainment almost never takes place in the home. The typical pattern is for the Japanese business person to eat at a restaurant in the evening and thereafter go to a bar or cabaret. Such evenings are for cementing business relationships rather than for discussing specific aspects of business.

The personal skills necessary to conclude negotiations successfully in Japan do not come naturally to the Westerner. What is perhaps even more disturbing is the inappropriateness of much sales training to the Japanese situation. Many skills such as reading body language are culture bound. The persuasion approach to selling seems diametrically opposed to the Japanese character and perception of the role of negotiations. Here are eight recommendations put forward by Bruderev[5] for selling to people in Japanese organisations:

- **Describe your organisation in detail.** Japanese business people welcome pamphlets and brochures that describe your organisation, its location, its products and your objectives for being in Japan. Ideally these should be in Japanese; if not, the main points should be summarised in Japanese.
- **Manage meetings Japanese-style.** Get a mutual acquaintance to introduce you. Don't be late or change appointments. Leave plenty of time for travel between meetings and bring a small gift (e.g. a modest novelty item made in your country, but not something made by your firm as this would be viewed as a paltry giveaway).

- **Recognise that decisions are often made by middle management.** On your first call you may meet the president, but this is a formality. The important person is probably the head of a department or division.
- **Do not push for a close.** Even with the most attractive product and effective sales propositions, Japanese business people will not make a decision at that meeting. They will want time to assess your proposal, your company and you personally. They will be thinking about establishing a long-term relationship, and so will demand time to consider all aspects of the sale. If they do not like your proposal, courtesy rules out their saying no to your face.
- **Use Japanese whenever possible.**: Write sales and promotional material in Japanese using a native-born translator. If you have to write in English, this will damage your image. Many Japanese business people have a limited knowledge of English, so if you have to speak in English, speak slowly, using simple words. Learn some common Japanese expressions; the effort you have made will be appreciated.
- **Make sales presentations low-key.** Use a moderate, low-key, deliberate style to reflect their preferred manner of doing business.
- **Establish a strong relationship.** Japanese people follow formal rules when beginning a relationship (e.g. the introduction, exchange of business cards, the gradual beginning of business talks) and expect you to cultivate relationships through sales calls, courtesy visits and the occasional lunch and other social events.
- **Dress conservatively.** Japanese people prefer plain, undemonstrative business dress. The objective should be to blend in quietly.

Learning Summary

Broad economic aspects of international trade have been considered and their significance to the sales function has been established. This has included balance of payments and the UK's share of international trade. UK entry into the EU was examined, together with the effects of GATT.

The advantages to companies entering international selling have been discussed, particularly in the context of how the sales approach should be adapted for different cultures, especially in relation to issues such as aesthetics, religion, education, language, social organisation and political factors.

Different types of organisation for international selling have been explained, including agents, distributors, licensing and export houses under indirect methods as well as direct methods like the use of subsidiary companies, joint ventures and direct selling. The module concluded with a specific description of the problems involved in selling to Japan. The next module considers further broader issues of selling and relates to legal and social aspects.

Review Questions

Content Questions

11.1 Why is exporting necessary to the economic survival of the UK?

11.2 Define the term 'trade surplus'.

11.3 What is an invisible export?

11.4 What are the main features of the Single European Act?

11.5 What are the four fundamental principles of GATT?

11.6 Define the term 'culture'.

11.7 What is the difference between abstract and material elements of culture?

11.8 What are the indirect methods of international selling?

11.9 What are the direct methods of international selling?

11.10 What factors should be considered when deciding prices for international markets?

Multiple-Choice Questions

11.11 Have a look at these two statements.

I. The balance of payments shows the difference between export earnings and import expenditure.

II. The balance of payments does not include invisible exports or imports.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

11.12 Suppose the value of a country's exports is greater than the value of its imports. What is the term to describe this situation?

A. Trade surplus.
B. Trade deficit.
C. Capital account surplus.
D. Capital account deficit.

11.13 If a UK electronics firm were to sell audio equipment to the US, how would the item appear on the UK balance of payments?

A. As a visible export.
B. As a visible import.
C. As an invisible export.
D. As an invisible import.

11.14 A Canadian Insurance company provides insurance against hurricane loss to a yacht owner based in Brazil. How would this transaction appear in Canada's balance of payments?

A. As a visible export.
B. As a visible import.
C. As an invisible export.
D. As an invisible import.

11.15 A Canadian Insurance company provides insurance against hurricane loss to a yacht owner based in Brazil. How would this transaction appear in Brazil's balance of payments?

A. As a visible export.
B. As a visible import.
C. As an invisible export.
D. As an invisible import.

11.16 The capital account records purchases and sales of all the following assets except one. Which one?

A. Land.
B. Bonds.
C. Invisibles.
D. Stocks.

11.17 Have a look at these two statements.

I. If a government is to balance the accounts when there is a current account deficit, it means borrowing from abroad.
II. If a government is to balance the accounts when there is a current account deficit, it means increasing the government's stock of gold and/or foreign exchange reserves.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

11.18 Have a look at these two statements.

I. Selling overseas is a cultural phenomenon.

II. Selling overseas is an economic phenomenon.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

11.19 Have a look at these two statements.

I. Abstract elements of culture include levels and types of technology and the consumption patterns within society.

II. Abstract elements of culture include ideas of beauty and good taste.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

11.20 Which of the following are important factors in a country's culture?

A. Education.
B. Language.
C. Religion.
D. All of the other options.

11.21 A sales representative trying to do business with a Latin American firm is kept waiting at reception for his business appointment. What do you advise him to do?

A. Take offence and leave immediately.
B. Complain to the receptionist.
C. Take no offence and fit in with the culture.
D. None of the other options.

11.22 Have a look at these two statements.

I. International trade is beneficial to companies when there are international differences in competitive markets.

II. International trade is beneficial to companies when there is strong product differentiation.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

11.23 Have a look at these three statements.

I. Companies may sell overseas to make up for loss of domestic market share.
II. Companies may sell overseas to achieve economies of scale.
III. Companies may sell overseas to reduce vulnerability to economic or market fluctuations.

Now choose the correct option.

A. Only statements I and II are true.
B. Only statements II and III are true.
C. Only statements I and III are true.
D. Statements I, II and III are true.

11.24 A UK manufacturer of ceramic tiles appoints an intermediary in France. The intermediary obtains sales orders on a commission basis and the exporter acts as principal. How would you describe this intermediary?

A. Distributor.
B. Agent.
C. Export house.
D. Dealer.

11.25 Which one of the following statements is false?

A. Distributors finance their own stockholding.
B. Distributors act as principal.
C. Distributors receive commission.
D. Distributors accept risks.

11.26 Have a look at these two statements.

I. It is sensible to establish an overseas manufacturing subsidiary when there exist non-tariff restrictions.
II. It is sensible to establish an overseas manufacturing subsidiary when the product is bulky and freight costs are high.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

11.27 Have a look at these two statements.

I. Direct selling is appropriate when the products are technically complex.
II. Direct selling is appropriate when the market is clearly defined.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

11.28 Does airfreight become attractive when goods are perishable or non-perishable? Does airfreight become attractive when the ratio weight/value is high or when it is low?

A. Non-perishable, low.
B. Non-perishable, high.
C. Perishable, low.
D. Perishable, high.

11.29 Better containerisation reduces problems related to what?

A. Tariffs.
B. Packaging.
C. Perishability.
D. Quota restrictions.

11.30 Have a look at these two statements.

I. Transfer pricing is of particular benefit to large international companies with manufacturing and assembly bases situated in different countries around the world.
II. Transfer pricing takes advantage of the varying rates of corporation tax and import duties that exist between countries.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

Case Study 11.1: Wardley Investment Services

ASEAN is the Association of Southeast Asian Nations. Over the past few years, private banking has been one of the main growth areas in the banking industry of the ASEAN region, but private bankers have found that newly rich ASEAN clients can be quite a different market from the traditional customer in Europe and North America.

Mr Robert Bunker and Mr John Cheung, directors of Wardley Investment Services (Hong Kong), said both Wardley and its corporate parent, HSBC Group, have adopted what has been described as the American interpretation of private banking in their approach to the ASEAN marketplace.

Mr Bunker explained, ‘We provide a one-stop shop for financial services to high net worth individuals, drawing on the wide range of services available in the group. There are many smaller banks which have seen private banking as a profitable growth area, but it is difficult for them to provide the breadth of services with just a small representative office in the region. As a result, they struggle to develop the mass of business necessary to make a living.’

And the demands of ASEAN customers do tend to differ from those of their counterparts in Europe and North America.

Mr Cheung said that in Asia as a whole, private banking is not as tax-driven as it is in much of the West: ‘There are other differences. For example, the division of corporate and private wealth in Asia is often blurred, and some Asian clients are very aggressive in the way they like to invest. Again, such tendencies can mean a different attitude on the part of the private bank.’

Mr Bunker added: ‘I think that you will notice in the marketing strategy of the group that we are trying to shrug off our traditional image and create a more adventurous and aggressive picture.' He said the infrastructure of the group provides a great boon. In the ASEAN region, the bank has some form of presence in Singapore, Thailand and Indonesia.

European banks entering the ASEAN market find it a lot more difficult to rely on name or reputation to build their market share, particularly when many potential customers are not familiar with their names. Despite its size and reputation in Europe, a bank such as Banca della Svizzera Italiana (BSI) has to fight hard to get noticed in an already crowded marketplace.

But Mr Anton Jecker, BSI's chief representative in Hong Kong, believes his bank can offer a competitive service for its clients: 'We see private banking as just that, knowing the individual needs and requirements of a customer and servicing those needs. We provide individually serviced accounts with an emphasis on the personal nature of banking. We provide safety and confidentiality as a Swiss bank, and investors do not put their money with us for us to speculate. So we do not target the entrepreneur so much and tend to go for personal assets on the whole. We make it clear where we can help from the beginning, and we do not do everything in the wide spectrum of banking services.'

Although BSI has a different emphasis to HSBC, Mr Jecker still feels there is a great future for private banking in the region. 'But it is difficult for European banks to enter such markets, especially given the dominance of US banks in the last 30 to 40 years. The same can be said for the Philippines which, despite its economic and political problems, still has a lot of potential for private banking.'

Questions

1 Suppose you are advising a UK bank about to enter the ASEAN region for the first time. Explain the problems it might face.

2 What segmentation possibilities might exist for a smaller bank in the ASEAN region?

3 Suppose a small bank is setting up in the ASEAN region for the first time. What research should it do?

4 Suppose you are advising a small bank on setting up in the ASEAN region. Suggest some strategic guidelines to help organise its selling.

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Module 12

Law and Ethical Issues

Contents

Learning Objectives

After studying this module, you should be able to

- understand the importance of consumer protection in the context of selling;
- apply appropriate terms and conditions to a contract of sale;
- appreciate how legal controls affect sales activities;
- make voluntary and legal restraints work to the advantage of both the buyer and the seller;
- appreciate ethical issues in sales.

Key Concepts

- collusion
- consumer credit
- consumer protection
- contract
- exclusion clauses
- false trade descriptions
- faulty goods
- inertia selling
- terms and conditions
- terms of trade
- unit pricing
- ethics

Consumer protection by the law is very much a twentieth-century phenomenon. Before that the prevailing attitude can be described by the phrase *caveat emptor* 'let the buyer beware'. Much of the legislation has been drawn up since 1970, when there was a recognition that sellers may have an unfair advantage compared with consumers when entering into a contract of sale. Here are some of the major laws controlling selling activity in Britain:

- Weights and Measures Acts 1878, 1963, 1979;

- Sale of Goods Acts 1893, 1979;
- Resale Prices Acts 1964, 1976;
- Restrictive Trade Practices Acts 1956, 1968, 1976;
- Misrepresentation Act 1967;
- Trade Descriptions Acts 1968, 1972;
- Unsolicited Goods and Services Acts 1971, 1975;
- Supply of Goods (Implied Terms) Acts 1973, 1982;
- Fair Trading Act 1973;
- Hire Purchase Act 1973;
- Consumer Credit Act 1974;
- Unfair Contract Terms Act 1977;
- Consumer Safety Act 1978;
- Consumer Protection Act 1987.

In addition to these Acts, consumers are protected by a range of codes of practice covering such activities as advertising, market research and direct selling. Trade associations such as the Association of British Travel Agents; the Society of Motor Manufacturers and Traders; and the Radio, Electrical and Television Retailers' Association have also drawn up codes of practice which have been approved by the Office of Fair Trading.

The consumers' interest is also protected by the Consumers' Association, which campaigns for consumers and provides information about products, often on a comparative basis, allowing consumers to make a more informed, rational choice between products and brands. This information is published in their magazine *Which?*. The National Consumer Council was established in 1975 to represent the consumer interest at national level and to issue reports on various topics of consumer concern, e.g. consumer credit.

12.1 The Contract

All this activity is centred on the contract entered into when a seller agrees to part with a good or provide a service in exchange for monetary payment.

A contract is made when a deal is agreed. This can be accomplished verbally or in writing. Once an offer has been accepted, a contract is formed and is legally binding. Thus if a builder offers to build a garage for £1000 and this offer is accepted, the builder is obliged to carry out the work and the householder is under an obligation to pay the agreed sum on completion. Although contracts do not have to be in writing – except, for example, house purchase – to place an offer and acceptance in writing can minimise the likelihood of misunderstanding over the nature of the agreement which has been struck and provide tangible evidence in the event of legal action. Important in written contracts are the terms and conditions which apply. We will consider this aspect of the contract then move on to some business practices and how they are controlled by law.

In a binding contract, one party should have made a firm offer and the offer should have received an unequivocal acceptance. An offer should be distinguished from 'an invitation to treat'. An invitation to treat (negotiate) is not an offer. For example, the display of goods at a certain price in a shop is not an offer by the shopkeeper to sell. Rather it is an invitation to shoppers to make an offer to buy. Thus if a product is accidentally priced too low, the customer cannot demand to buy at that price.

12.2 Terms and Conditions

As the name suggests, **terms and conditions** state the circumstances under which the buyer is prepared to purchase and the seller is prepared to sell. They define the limit of responsibility for both buyer and seller. Both buyer and seller are at liberty to state their terms and conditions. Usually the buyer will state them on the back of the order form and the seller will do so on the reverse of the quotation form. Often a note is typed on the front of the form in red ink: 'Your attention is drawn to our standard terms and conditions on the reverse of this order.' Here are some typical clauses incorporated into the conditions of a purchase order:

- Only orders issued on the company's printed order form and signed on behalf of the company will be respected.
- Alterations to orders must be confirmed by official amendment and signed.
- Delivery must be within the specified time period. The right to cancel is reserved for late delivery.
- Faulty goods will be returned and expenses charged to the supplier.
- All insurance of goods in transit shall be paid for by the supplier.
- This order is subject to a cash discount of 2.5 per cent, unless otherwise arranged, for payment within 28 days of receipt. Any payment made is without prejudice to our rights if the goods supplied prove to be unsatisfactory or not in accordance with our agreed specification or sample.
- Tools supplied by us for the execution of this order must not be used in the service of any other firm without permission.

Careful drawing up of terms and conditions is essential in business since they provide protection against claims made by the other party should problems arise in fulfilment of the contract. An example of a conditions of sale document for a seller is given in Table 12.1.

Table 12.1 Example of conditions of sale document

CONDITIONS OF SALE

These Conditions apply except so far as they are inconsistent with any express agreement entered into between the Seller and the Buyer before the delivery.

1 Where the Seller delivers in bulk it is the Buyer's responsibility

(a) to provide a safe and suitable bulk storage which complies in all respects with all relevant regulations made by H.M. Government or other competent authority.

CONDITIONS OF SALE

(b) to ensure that the storage into which delivery is to be made will accommodate the full quantity ordered and in the case of Petroleum Spirit to procure certification to this effect and also to the effect that the connecting hose is properly and securely connected to the filling point. In this regard the Buyer is referred to the regulations currently in force relating to the storage and use of petroleum spirit.

(c) in the case of highly inflammable products and where otherwise applicable, strictly to observe any regulations laid down by H.M. Government or other competent authority in respect of the avoidance of smoking, naked lights, fires, stoves or heating appliances of any description in the vicinity of the storage and the fill, dip and vent pipes connected thereto.

The Buyer will indemnify the Supplier against any damages, claims, expenses or costs which may arise as a result of the Buyer's non-observance of these conditions.

2 It is a condition of every bulk sale that the quantity shown by any measuring devices employed by the Seller shall for the purpose of accounts be accepted by the Buyer as the quantity delivered but the Buyer may be represented at the taking of these measurements in order to verify them if he so desires. The Seller cannot accept any responsibility whatever for discrepancies in the Buyer's tanks, dip rods or other measuring devices.

3 Prices include any Government Tax (other than Value Added Tax) in force at the time of supply. Any variation in the rate of existing tax, or any additional taxation, is for Buyer's account.

4 All products supplied are chargeable at the price ruling on the day of despatch irrespective of the date of the order or the amount of cash sent with order.

5 In the event of missing consignments, short delivery or damage the Seller can only investigate the circumstances if

(a) In the case of damage the Buyer notifies the Railway or other Carrier and the Seller of the damage immediately upon receipt of the damaged goods, such notices to be in writing and quoting the invoice number;

(b) In the case of non-receipt or short delivery the Buyer notifies the Seller in writing of non-receipt or short delivery. Such notice, quoting the invoice number, should be sent within 21 days of date of despatch.

6 Acceptance of goods will be treated as acceptance of the Seller's conditions.

12.3 Terms of Trade

In addition to the tactical and strategic aspects of international selling discussed in Module 11, sellers and buyers need to be aware of the **terms of trade** which apply when trading overseas. Differences in the terms of trade can have serious profit consequences for the unwary. Terms of trade are used to define

- who is responsible for control over the transfer of goods between importer and exporter;

- who is responsible for each part of the cost incurred in moving the goods between importer and exporter.

A number of terms are used to cover these aspects of delivery and cost. Variations in definitions led to the International Chamber of Commerce drawing up formal definitions in 1936. These were published under the title Incoterms and have since been subject to update. For example, in 1980 a new edition of Incoterms covered two new terms which were required because of the increasing importance of container transportation.

Terms of trade are useful in that they cover a range of situations extending from the case where exporters merely make their goods available for collection by importers or their agents at their factory (ex-works) to the case where the exporter agrees to deliver the goods to the importer's factory, thereby taking responsibility for the costs and administration of that delivery (free delivered). The following sections list the more commonly used terms.

12.3.1 Bills of Lading

A bill of lading is a receipt for goods received onboard a ship which is signed by the shipper (or agent) and states the terms on which the goods were delivered to and received by the ship. The Bills of Lading Act 1855 laid down the following principles:

- It maintained the right of the shipper to 'stoppage in transit'. Thus an unpaid exporter could reclaim the goods during shipping.
- It set up the principle of transferability which allowed the transfer of the bill of lading from the holder to a third person who then assumed ownership of the goods as well as any rights and liabilities stated in the bill.
- It stated that the bill of lading was prima facie evidence that the goods had been shipped.

The bill of lading thus acts as evidence that the goods have been received by the shipper. It can also act as part of the contract between the shipper and person or organisation paying for the shipping. For example, if the goods are damaged on arrival at the port of departure, a shipper can 'clause' the bill of lading to that effect. A bill of lading will usually cover the following details:

- name of the shipper;
- ship's name;
- description of the cargo;
- payment details, e.g. whether freight has been paid or is payable at destination;
- name of consignee;
- terms of the carriage contract;
- date when the goods were loaded in the ship;
- who is to be notified on arrival of the shipment at its destination;
- ports of departure and final destination.

In summary the bill of lading is a receipt for the goods shipped, a transferable document of title to the goods allowing the holder to claim his or her goods, and evidence of the terms of the contract of shipping.

12.3.2 Ex-Works

An exporter may quote a price to an importer 'ex-works'. This places the exporter's liability for loss or damage to the goods at a minimum and also means that the exporter's duties in delivering the goods are minimal. Ownership of the goods passes to the buyer once they leave the factory and the buyer pays all costs of exporting and accepts the risks once the goods pass through the factory gates. Quoting 'ex-works' may make sense if the goods are to be combined with those of another organisation to form a joint export cargo, or when the buyer has well-developed transportation facilities, e.g. buyers of commodity items such as tea and coffee beans. However, for other customers, quoting an ex-works price may not meet their needs, since they cannot easily compare the actual cost of such goods against buying in their own country where prices are quoted with delivery.

12.3.3 Free on Board

Free on board (FOB) extends the responsibility, liability and costs of delivery for the exporter until the goods have been loaded on to the ship, or 'passed the ship's rail'. From this point, the importer pays the costs of insurance and freight. However, the exporter still has the right of 'stoppage in transit' should the importer fail to pay for those goods. Variations for land transport are free on rail (FOR) and free on wagon (FOW), which mean the seller has the responsibility and cost of delivering goods on board a railway transporter or wagon.

12.3.4 Free alongside Ship

Free alongside ship (FAS) means the exporter is responsible for and must pay all the costs of transport up to the point of placing the goods alongside the ship. A provision should be made covering who is responsible for any loss or damage before the goods are actually loaded on to the ship. The importer thus pays for the loading of the cargo and the cost of insurance and freight to its destination.

12.3.5 Cost, Insurance and Freight

If a cost, insurance and freight (CIF) agreement is reached, the exporter is responsible for the delivery of the goods on to the ship and pays the insurance on the part of the buyer against loss or damage while on ship. Should any loss or damage occur after the shipping company has received the goods and given the shipment a clean bill of lading, the buyer can take action against the ship owner or underwriter. Thus responsibility has passed from the exporter once the cargo is aboard ship, although it is the exporter who pays for the shipping to the importer's port. The term cost and freight (C&F) is similar to CIF except, as its name suggests, the exporter is not responsible for insurance during shipping. Instead the importer incurs the cost of this insurance.

12.3.6 Free Delivered

Free delivered places maximum responsibility and cost on the exporter since he or she undertakes to deliver the goods to the importer with all costs paid and all of the administrative duties (e.g. obtaining an import licence) carried out by the exporter. From a marketing perspective, quoting a delivered price has the advantage that it minimises customer uncertainty and workload since the costs of transport, obtaining documentation, arranging shipping, etc., are borne by the seller. Furthermore, it allows the customer to compare actual prices from a foreign source with local prices where delivery costs are included or are of minimal amount. However, customers who have an efficient importing system may prefer to pay ex-works or FOB and organise carriage themselves, rather than pay the higher 'free delivered' price.

12.4 Business Practices and Legal Controls

12.4.1 False Descriptions

Unscrupulous salespeople may be tempted to mislead potential buyers through inaccurate statements about the product or service they are selling. In the UK a consumer is protected from such practice by the Trade Descriptions Act 1968. The Act covers descriptions of products, prices and services and includes both oral and written descriptions.

Businesses are prohibited from applying a **false trade description** to products and from supplying falsely described products. The false description must be false to a material degree, and the Act also covers 'misleading' statements. Not only would a salesperson be contravening the Act if he or she described a car as achieving 50 miles per gallon when in fact it only achieved 30 miles per gallon, he would also be guilty of putting a false trade description if he or she described a car as 'beautiful' if it proved to be unroadworthy.

The Trade Descriptions (Place of Production) (Marking) Order 1988 requires that where products are marked in such a way as to suggest they were made elsewhere than is the case, a clear statement of the actual place of manufacture must be made.

Misleading price indications are covered by the Consumer Protection Act 1987. This Act states that it is an offence to give a misleading indication of the price at which goods, services, accommodation or facilities are available. Agents, publishers and advertisers are covered by the Act as well as the person or organisation offering the goods or services. Prices can be misleading when

- it is suggested that a price is less than it actually is;
- it is suggested that other charges are included in the price when in fact they are not;
- it is suggested that prices will increase, decrease or stay the same;
- it is suggested that the price depends on certain circumstances or particular facts;
- consumers are encouraged to depend on the truth of the price indication by circumstances which do not apply;

The Act covers both products and services. Confusion over value for money due to differing pack sizes can be reduced by unit pricing, whereby packs are marked with a price per litre or kilogram, etc. An EU directive which came fully into force in 1994 requires that many supermarket products, for example, must be marked with a unit price unless packed in EU-approved pack sizes.

12.4.2 Faulty Goods

The principal protection for the buyer against the sale of **faulty goods** is to be found within the Sale of Goods Act 1979. This Act states that a product must correspond to its description and must be of merchantable quality, i.e. 'fit for the purpose for which goods of that kind are commonly bought as it is reasonable to expect'. An example is a second-hand car that is found to be unroadworthy after purchase; it is clearly not of merchantable quality, unless bought for scrap. Finally, a product must be fit for a particular purpose, which may be specified by the buyer and agreed by the seller. If, for example, a buyer bought a car in this country with the expressed desire to use it in Africa, a retailer may be committing an offence if he or she agrees that the car is fit to be used when in fact, because of the higher temperatures, it is not.

The condition that products must correspond to their description covers both private and business sales, whereas the merchantability and fitness for purpose conditions apply to sales in the course of a business only. The latter two conditions apply not only at the time of purchase but for a reasonable time afterwards. What exactly constitutes 'reasonable' is open to interpretation and will depend on the nature of the product.

To protect the consumer against faulty goods, some companies give guarantees in which they agree to replace or repair those goods should the fault become apparent within a specified period. Unfortunately, before the passing of the Supply of Goods (Implied Terms) Act 1973, these so-called guarantees often removed more rights than they gave. However, since the passing of that Act, it has been unlawful for a seller to contract out of the conditions that goods should be merchantable and fit for their purpose. Buyers can now be confident that signing a guarantee will not result in them signing away their rights under the Sale of Goods Act 1979.

The Consumer Protection Act 1987 came into operation in response to an EU directive. This protects buyers if they suffer damage (e.g. death, personal injury or damage to goods for private use). They must be able to prove that the good was defective and that the damage was caused by the defect in the product. Usually liability falls on the manufacturer or importer of the finished product or of the defective component or raw material. A product is considered to be defective when it does not provide the safety which a person is entitled to expect (including instruction for use). A major defence against claims is the 'development defence' where the manufacturer proves that the state of technical knowledge when the product was launched did not enable the existence of the defect to be discovered.

Further consumer protection is provided by the Consumer Safety Act 1978, which prohibits the sale of dangerous products, and by various EU regulations. For example, the EU mark can only be used on aerosol containers if they conform to EU regulations regarding dimensions, strength, etc.

12.4.3 Inertia Selling

Inertia selling involves the sending of unsolicited goods or the provision of unsolicited services to people who, having received them, may feel an obligation to buy. For example, a book might be sent to people who would be told that they had been specially chosen to receive it. They would be asked to send money in payment or return the book within a given period, after which they would become liable for payment. Non-payment and failure to return the good would result in letters demanding payment, sometimes in quite threatening terms.

The growing use of this technique during the 1960s led to a campaign organised by the Consumers' Association demanding that legislation be enacted curbing the use of the technique. As a result, the Unsolicited Goods and Services Act 1971 was passed, followed by the Unsolicited Goods and Services (Amendment) Act 1975.

These Acts have not prohibited the use of the technique but have created certain rights for consumers which make the use of the method ineffective. Unsolicited goods can be treated as a free gift after a period of six months from receipt if the sender has not reclaimed them. Further, if the recipient notifies the sender that they are unsolicited, the sender must collect them within 30 days or they become the property of the recipient. The 30-day rule was felt to be a fair compromise between the rights of the recipient and the rights of the sender, who may be the subject of a false order placed by a third party.

The practice of sending threatening letters demanding payment has been outlawed, as have the threats of legal proceedings or placing of names on a published list of defaulters.

Unsolicited services have also been controlled by law. For example, the practice of placing unsolicited entries of names of firms in business directories and then demanding payment has been controlled.

The law therefore gives sufficient rights to consumers effectively to deter the practice of inertia selling. Fortunately for the consumer, the trouble and costs involved in using this technique nowadays outweigh the benefits to be gained.

12.4.4 Exclusion Clauses

Another practice which some sellers have employed to limit their liability is the use of an **exclusion clause**. For example, a restaurant or discotheque might display a sign stating that coats are left at the owner's risk, or a dry-cleaner might display a sign excluding itself from blame should clothes be damaged. This practice is now controlled by the Unfair Contract Terms Act 1977. A seller is not permitted to limit liability or contract out of his or her liability for death or injury arising from negligence or breach of contract or duty.

For other situations, where loss does not include death or injury, an exclusion clause is only valid if it satisfies the requirement of 'reasonableness'. This means that it is fair taking into account the circumstances prevailing when the sale was made.

Here are some relevant factors which are taken into account when making a judgement about 'reasonableness':

- the strength of the bargaining positions of the relevant parties;
- whether the customer received an inducement to agree to the exclusion clause;
- whether the customer knew or ought to have known of the existence of the exclusion clause;
- whether the goods were produced to the special order of the customer;
- for an exclusion clause which applies when some condition is not complied with, whether it was practicable for the condition to be met.

12.4.5 Buying by Credit

Before 1974 obtaining **consumer credit** through a hire-purchase agreement was treated differently, under the law, to consumer credit by means of a bank loan. However, from the consumer's viewpoint there is very little difference between paying for a good by instalments (hire purchase) or paying in cash through a bank loan, itself repayable by instalments. The Consumer Credit Act 1974 effectively abolished this distinction. Almost all consumer credit agreements up to £15 000 are termed **regulated agreements**. A notable exception is a building society mortgage. Regulations concerned with 'truth in lending' provisions of the Act came into operation in 1985. The Act now replaces all former statutes concerning credit (e.g. hire purchase).

An important consumer protection measure which resulted from the Act was that a lender should disclose the true interest rate in advertisements and sales literature. This true rate now appears in advertisements as the annual percentage rate (APR) and enables consumers to compare rates of interest charged on a common basis. Before this Act, cleverly worded advertisements and sales literature could give the impression that the scale of charges was much lower than the true case.

Control of credit trading was achieved by a system of licensing which is placed in the hands of the director-general of fair trading. This system was designed to ensure that only people with a sound trading record are able to deal in credit. Not only finance companies but also retailers who arrange credit in order to sell their products must have a licence. Exempt from the Act, however, is weekly or monthly credit. Thus, many credit card agreements are exempt since total repayment is often required at the end of each month.

People entering credit agreements are entitled to receive at least one copy of the agreement so that they are informed of their rights and obligations. A 'cooling off' period is provided for in the Act when the agreement is preceded by 'oral representations' (sales talk) and the agreement was not signed on business premises. This provision was designed to control doorstep selling through credit arrangements. A consumer who wishes to cancel must serve notice of cancellation within five days of the date of receiving the copy of the signed agreement.

The Consumer Credit (Advertisements) Regulations 1989 laid down the minimum and maximum information that may be given in credit or hire advertisements.

Advertisements are categorised as being simple, intermediate or full advertisements and the information content is regulated accordingly.

12.4.6 Collusion between Sellers

In certain circumstances it may be in the sellers' interests to collude with one another in order to restrict supply, agree on prices (price fixing) or share out the market in some mutually beneficial way. The Restrictive Trade Practices Act 1979 requires that any such trade agreement must be registered with the director-general of fair trading, a post established under the Fair Trading Act 1973. If the director-general of fair trading considers that the registered agreement is contrary to the public interest, he is empowered to refer it to the Restrictive Practices Court. If the court agrees, the agreement may be declared void. The European Commission also has powers over collusion and has had notable successes in breaking down price cartels, for example, in plastics.

12.5 Ethical Issues

Salespeople face many ethical issues including bribery, deception, the hard sell and reciprocal buying.

12.5.1 Bribery

Bribery is the act of giving payments, gifts or other inducements to secure a sale. Such actions are thought to be unethical because they violate the principle of fairness in commercial negotiations. A problem is that in some countries bribes are necessary simply to compete for business. Organisations need to decide if they are to market in such countries. Taking an ethical stance may cause difficulties in the short term but over a longer period the positive publicity (or lack of exposure to the risk of bad publicity) that can follow may be of greater benefit.

12.5.2 Deception

A problem which many salespeople face is the temptation to mislead the customer in order to secure an order. The deception may take the form of exaggeration, lying or withholding important information that would significantly lessen the appeal of the product. This behaviour should be discouraged through training, through sales managers promoting ethical actions by their own words and behaviour and through sales managers establishing codes of conduct for their salespeople. Nevertheless, reports of malpractice in selling occasionally reach the media. For example, in the UK it was alleged that some financial services salespeople mis-sold pensions products by exaggerating their expected returns. The scandal resulted in millions of pounds of compensation being paid by the companies to their clients.

12.5.3 The Hard Sell

A criticism that is sometimes made of personal selling behaviour is the use of high-pressure (hard sell) sales tactics to secure a sale. Some car dealerships have been accused of such tactics to pressure customers into making hasty decisions on a complicated purchase that may involve expensive credit facilities. These actions encouraged Daewoo to sell cars using non-commission customer advisors whose job it is to help customers choose the car which best meets their needs rather than pressure them into an ill-considered purchase.

12.5.4 Reciprocal Buying

Reciprocal buying occurs when a customer only agrees to buy from a supplier if that supplier agrees to purchase something from the customer. This may be considered unethical if the action is unfair to other competing suppliers who may not agree to such an arrangement or who may not be in a position to buy from the customer. Proponents of reciprocal buying claim it is reasonable for a customer to extract the best terms of agreement from a supplier, even if this means reaching agreement to sell to the supplier. Indeed, they argue, countertrade where goods may be included as part payment for supplies has been a feature of international selling for many years and can benefit poorer countries and companies that cannot afford to pay in cash.

Learning Summary

This module has examined some of the laws and organisations that have been established to protect consumer interests. Unfortunately, the unscrupulous few have made it necessary to enact laws which provide consumer protection.

Central to the study of the sale is an understanding of a contract and its associated terms and conditions. Next a number of business practices and their related legal controls were described. Finally, ethical issues in sales were examined.

Part Four examines the issues and methods relevant to the management of a salesforce.

Review Questions

Content Questions

12.1 Terms of trade, what do they define?

12.2 What is a bill of lading?

12.3 What are the implications of an exporter quoting a price to an importer ex-works?

12.4 What are the implications of an exporter quoting a price to an importer FOB?

12.5 What are the implications of an exporter quoting a price to an importer FAS?

12.6 What are the implications of an exporter quoting a price to an importer CIF?

12.7 What is inertia selling?

12.8 Why might sellers decide to collude with one another?

Multiple-Choice Questions

12.9 Have a look at these two statements.

I. Contracts are entered into when a seller agrees to part with a good or provide a service in exchange for monetary payment.

II. Contracts have to be in writing.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

12.10 Have a look at these two statements.

I. Terms and conditions state the circumstances under which the buyer is prepared to buy.

II. Terms and conditions state the circumstances under which the seller is prepared to sell.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

12.11 Have a look at these two statements.

I. Terms of trade define who is responsible for control over the transfer of goods between the importer and exporter.

II. Terms of trade define who is responsible for each part of the cost incurred in moving the goods between importer and exporter.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

12.12 Suppose an exporter tries to minimise its liability for loss or damage to goods and to have limited responsibility for arranging documentation for goods delivery. Which terms of trade apply here?

A. FOB.
B. FAS.
C. Ex-works.
D. CIF.

12.13 Suppose an exporter assumes responsibility, liability and the costs of delivery until goods have been loaded on to the ship. Which terms of trade apply here?

A. FOB.
B. FAS.
C. Ex-works.
D. CIF.

12.14 Suppose an exporter must pay all costs of transport and assume responsibility for goods up to the point of placing them alongside the ship. Which terms of trade apply here?

A. FOB.
B. FAS.
C. Ex-works.
D. CIF.

12.15 Suppose an exporter is responsible for the delivery of the goods on to the ship and pays the buyer's insurance against loss and damage while on ship. Which terms of trade apply here?

A. Free delivered.
B. FAS.
C. Ex-works.
D. CIF.

12.16 Suppose an exporter undertakes to deliver the goods to the importer with all costs paid and all administrative duties carried out by the exporter. Which terms of trade apply here?

A. Free delivered.
B. FAS.
C. Ex-works.
D. CIF.

12.17 Have a look at these two statements.

I. Free delivered terms of trade place maximum responsibility and costs on the exporter.
II. Free delivered terms of trade allow customers to compare local prices with the price charged by a foreign source of goods.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

Case Study 12.1: Kwiksell Cars

John Perry spent £1500 on a second-hand car bought from Roy Clarke, the salesperson at Kwiksell Cars. He is rueing his decision. Perry had never bought a car before but believed that he was smart enough to tell a good car from a bad one. After several weekends of trying to buy a car from private sellers, he decided that to go to a dealer was the only sensible option left to him if he wanted to buy one quickly. A 4-year-old Austin Astrada 1100 in the forecourt of Kwiksell Cars had caught his eye as he travelled to work by bus. It was advertised at £1800 and looked in good condition.

When Perry and his girlfriend visited Kwiksell Cars the following Saturday, he was greeted by Roy Clarke, who asked him which car he was interested in and took him to see the Astrada. Clarke described the car as 'in lovely condition', the mechanics having been overhauled recently and the engine tuned. Perry was concerned about petrol consumption and was told that he could expect around 40 miles per gallon (14 kilometres per litre) around town, increasing to nearly 55 miles per gallon (19 kilometres per litre) on long runs. Perry was very impressed but he was a little worried about the car's capacity to pull his father's caravan. 'There's no problem there,' said Clarke. 'The Astrada might have a small engine but the carburettor has been souped up and it will cope with a caravan. No problem!'

Clarke asked Perry if he and his young lady would like a test drive. Perry agreed and found the car quite good on acceleration, although the engine was a bit noisier than his father's car. 'That's the souped-up engine,' said Clarke. 'It makes it sound a bit racy, doesn't it?' To Perry, the car looked like the solution to his long search but he knew that, as a cash purchaser, he might be able to negotiate a lower price.

'The car seems to suit my purposes but the price is a little higher than I would be prepared to pay.' 'Yes, but it's not often a car in this condition comes on to the market, sir,' retorted Clarke. 'What would you be prepared to knock off the price for a cash deal?' asked Perry. 'Usually, the maximum I am allowed to go is £200, but if you are prepared to pay a deposit now, with the remainder on, say, Tuesday when you collect the car, I'm willing to reduce the price to £1500.' Perry felt pleased with himself, and in front of his girlfriend, too! He agreed. He wrote a cheque for £500 and agreed to bring the balance in cash on the following Tuesday. Clarke asked him to sign a contract of sale and promised that the car and all the necessary documents would be ready by Tuesday.

Perry was pleased with his new purchase at first, but the following weekend when he was on a long run, Perry noticed a knocking noise coming from the engine. The car also appeared to be using much more petrol than he expected. He decided to buy a car guide and check the petrol consumption figures. The guide stated that the Austin Astrada would achieve 30 miles per gallon (11 kilometres per litre) on the urban cycle and 40 miles per gallon (14 kilometres per litre) at a steady 56 mph (90 kph). Perry was livid.

The knocking noise was still to be heard, so he took the car to his father's garage. The mechanic told Perry that the car's big ends were worn badly. It would cost £300 to be repaired: 'The engine's not souped up, it's kaput!' 'But I need the car next weekend; I'm going on holiday in my father's caravan,' said Perry. 'Well, I hope you're thinking of using your father's car,' replied the mechanic. 'You'd blow the engine for sure with a car like the Astrada. It's only got an 1100 engine.'

Perry stormed into Clarke's office. 'I'm sorry you've had these problems but engine troubles are common with Astradas,' explained Clarke. 'I'd like to help but I did take you for a test drive.' 'You conned me!' shouted Perry. 'Not at all. You will see that the contract you signed clearly states that the responsibility to check for defects was the buyer's. That means that any faults which appear after sale are your responsibility to put right. You told me you knew a bit about cars. If you didn't, you should have brought a mechanic with you. I knocked £300 off the price. That was to cover for any problems like this.'

Question

1 Did Clarke break the law regarding the sale of the car? Which laws are relevant to this case?

PART 4

Sales Management

Module 13

Recruitment and Selection

Contents

Learning Objectives

After studying this module, you should be able to

- appreciate that salesperson selection is a key to ultimate selling success;
- apply interview and selection procedures in the context of recruiting salespeople;
- understand the advantages and drawbacks of certain tests and procedures related to selection.

Key Concepts

- empathy and ego drive
- interviewing
- job description
- personnel specification
- psychological test
- recruitment
- role playing
- salesforce selection
- shortlisting

13.1 The Importance of Selection

In attempting to recruit and select a new sales representative, sales managers find themselves in an unaccustomed role. Instead of being a seller, he or she for once takes on the role of buyer. It is crucial that this transition is carried out effectively, because the future success of the salesforce depends on the infusion of high-calibre personnel. Several facts emphasise the importance of effective **salesforce selection**.

There is wide variability in the sales effectiveness of salespeople. A study of salesforce practice commissioned by the Institute of Marketing[1] asked the following question of sales managers: 'If you were to put your most successful salesperson into the territory of one of your average salespeople, and made no other changes, what increases in sales would you expect after, say, two years?'

The most commonly expected increase was 16–20 per cent and one-fifth of all sales managers said they would expect an increase of 30 per cent or over. Note that the comparison was between the top and the average salesperson, not the top and the worst salesperson. Clearly, the quality of the sales representatives which sales managers recruit can have a substantial effect on sales turnover.

Salespeople are very costly. If a company decides to employ extra sales personnel, the cost will be much higher than just basic salary (and commission). Most companies provide a car if travel is required and travel expenses will also be paid. The special skills necessary to make a sale, rather than to receive an order, imply that training will be required. No company will want to incur these costs to employ a poor performer.

Other important determinants of success, such as training and motivation, are heavily dependent on the intrinsic qualities of the recruit. Although sales effectiveness can be improved by training, it is limited by innate ability. Like other activities where skill is required, such as cricket, soccer and athletics, ultimate achievement in selling is highly associated with personal characteristics. Similarly, motivational techniques may stimulate the salesperson to achieve higher sales but they can do only so much. A lot will depend on the inborn motivation of the salesperson to complete a difficult sale or visit another prospect instead of returning home.

A study by Galbraith *et al.*[2] examined the features that attracted salespeople into selling and what they valued most about their work. The results are given in Table 13.1.

Table 13.1 Features of most interest and most value

Most interest	%	Most value	%
Working methods	60	Independence	40
Independence	13	Earnings	18
Earnings	12	Providing a service	14
Company status	5	Freedom	11
Good training	4	Dealing with people	8
Promotion chances	2	Job satisfaction	6
Professional status	2	Status	3
Exclusive territory	2	Promotion prospects	1

Source: Galbraith, A., Kiely, J. and Watkins, T. (1991) 'Sales force management – issues for the 1990s', *Proceedings of the Marketing Education Group Conference*, Cardiff Business School, July, pp. 425–45.

Table 13.1 shows that working methods and independence are more important than earnings as the attraction for entering selling. This challenges the assumption made by many companies that money is the main reason for embarking on a sales career. Independence is also highly valued when doing the selling job. The implication of these findings is that sales management should understand the reasons why people are attracted to selling in their industry to develop effective recruitment strategies. They certainly should not blindly assume that earnings are always paramount.

Sales managers are clearly faced with a difficult and yet vitally important task. However, many of them believe that the outcome of the selection process is far from satisfactory. In the Institute of Marketing survey,[1] nearly half the sales managers reported that fewer than 7 out of 10 of the salespeople they had recruited were satisfactory.

Recruitment and selection is a particularly difficult task when operating in overseas markets. The case discussion (see Box 13.1) identifies some of the key issues.

Box 13.1: Recruiting and Selecting an International Salesforce

A company wishing to recruit an international sales team has a range of options. Recruits could be expatriates, host-country nationals or third-country nationals. Expatriates (home-country salespeople) are well regarded by technical companies selling expensive products because they tend to possess a high level of product knowledge and the ability and willingness to provide follow-up service. Work overseas also provides companies with the opportunity to train managers and prepare junior executives for promotion. Furthermore, expatriates allow international companies to maintain a high degree of control over global marketing and sales activities. However, there are drawbacks. Expatriates are usually more expensive than local salespeople, they may not settle in the new country, and they may fail to understand the cultural nuances required to sell successfully abroad.

The second option is to hire host-country nationals. The advantages are that they bring cultural and market knowledge, language skills and familiarity with local business tradition. This often means a shorter adjustment period for a company wanting to be active in a new overseas market. However, these benefits must be assessed in the light of several potential disadvantages. Often host-country nationals require extensive product training together with knowledge about the company, its history and philosophies. In some countries, such as Thailand, Malaysia and India, salespeople are not held in high esteem. This restricts the supply of well-educated people into sales jobs and makes the task of recruiting local people more difficult. Finally, loyalty to a foreign company may be less than from expatriates.

The third option is to hire third-country nationals. When hired from similar countries in a particular region, they provide cultural sensitivity and language skills while allowing access to a more skilled and/or less costly salesforce than is available in the target country. Particularly for regionally focused companies, third-country nationals can be an effective compromise between expatriates and host-country nationals. However, the drawbacks are that third-country nationals may have difficulty identifying with the place where they work and the employer they work for. They sometimes suffer from blocked promotions, lower salaries and difficulties in adapting to new environments.

Sources: Based on Boyacigiller, N. (1990) 'The role of expatriates in the management of interdependence, complexity and risk in multinational corporations', *Journal of International Business Studies*, 21(3), pp. 357–81; Honeycutt, E.D. Jr and Ford, J.B. (1995) 'Guidelines for managing an international sales force', *Industrial Marketing Management*, 24, pp. 135–44; Zeira, Y. and Harari, E. (1977) 'Managing third country nationals in multinational corporations', *Business Horizons*, October, pp. 83–8.

There are several stages in the recruitment and selection process:

- preparation of the job description and personnel specification;
- identification of sources of recruitment and methods of communication;
- designing an effective application form and preparing a shortlist;
- interviewing;
- supplementary selection aids, e.g. psychological tests, role playing.

An understanding of each stage and the correct procedures to be followed will maximise the chances of selecting the right applicant.

13.2 Preparation of the Job Description and Specification

The production of an accurate **job description** should prove quite easy for the sales manager. He or she has intimate knowledge of what is required, having been a salesperson and out on the road with salespeople during training and evaluation exercises. Generally a job description will cover the following factors:

- the title of the job;
- the duties and responsibilities that will be placed on the new recruit, e.g. selling, after-sales service, information feedback, range of products, range of markets, types of customer;
- the person to whom he or she will report;
- technical requirements, e.g. the degree to which the salesperson needs to understand the technical aspects of the products he or she is selling;
- location and geographical area to be covered;
- the degree to which the salesperson will be able to control his or her own work programme.

Once generated, the job description will act as the blueprint for the **personnel specification** which outlines the type of applicant the company is seeking. The technical requirements of the job, for example, and the nature of the customers which the salespeople will meet, will be factors which influence the level of education and possibly the age of the required recruit.

Sales managers may find it more difficult to construct the personnel specification than the job description. Some of the questions posed lead to highly subjective responses. Must the recruit have selling experience? Should such experience be within the markets that the company serves? Should he or she be within a certain age range? Is it essential that the salesperson holds certain technical qualifications? If the answer to all of these question is yes, then the number of possible applicants who qualify is reduced.

The danger is that applicants of high potential in selling may be excluded. Graduates at universities often complain that jobs which they are confident they are capable of doing well are denied them because of the 'two years' experience in selling' clause in the advertisements. The implications of this are that the job specification should be drawn up bearing in mind the type of person who would be *excluded* from applying if conditions are laid down with regard to such factors as previous experience. Is it really necessary or just more convenient since less training may then be required?

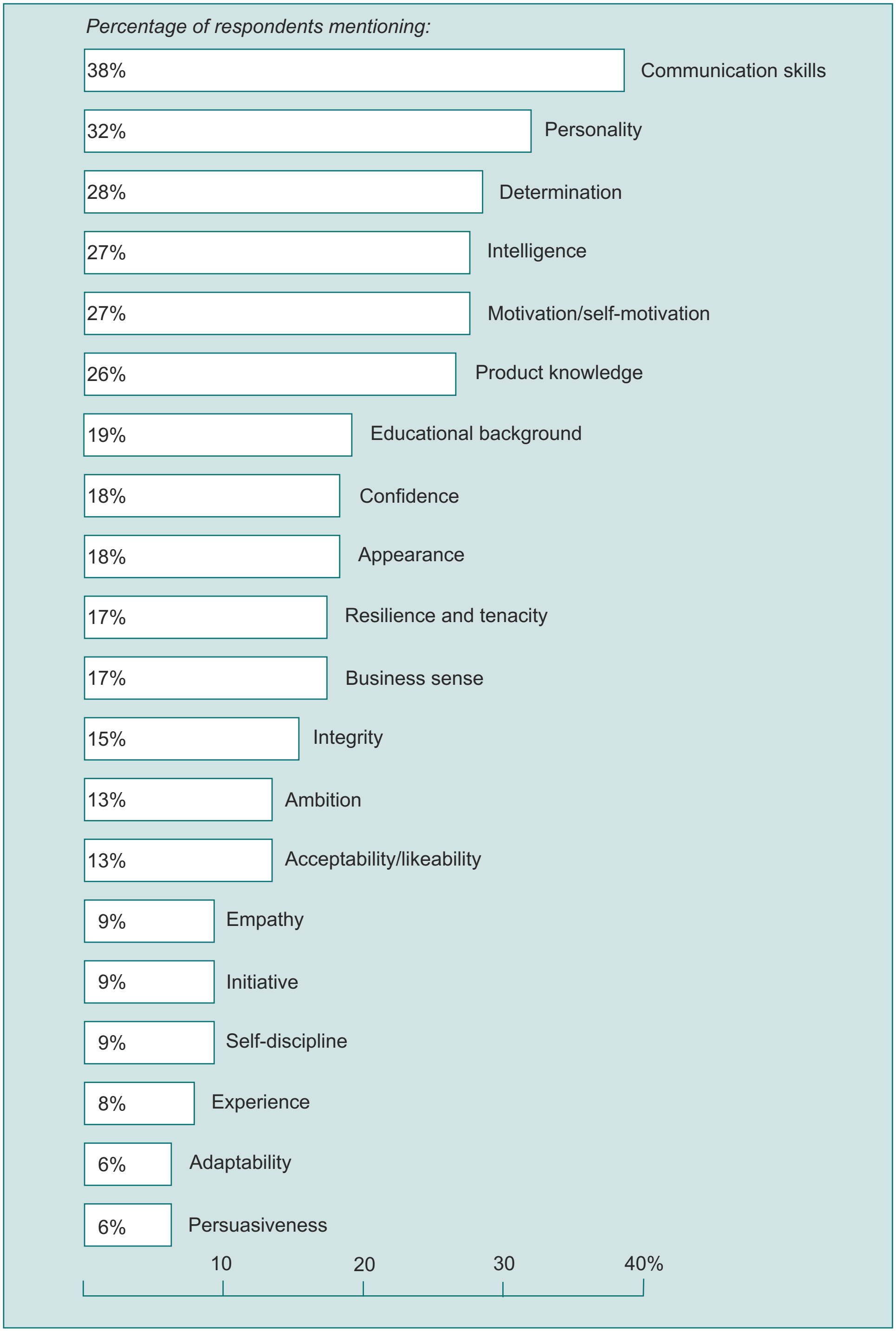

Figure 13.1 Important qualities of salespeople

Source: Jobber, D. and Millar, S. (1984) 'The use of psychological tests in the selection of salesmen: a UK survey', *Journal of Sales Management*, 1, p. 1.

Another aspect of the personnel specification is to determine qualities looked for in the new salesperson. This is a much more nebulous concept than the level of technical qualifications, age or previous experience. The qualities themselves may depend on the nature of the job, the personal prejudices of the sales manager (a good rule of thumb is that many managers favour people like themselves), or they may be based on more objective research conducted into attributes associated with successful salespeople. A survey which investigated selection practice among sales managers in large UK companies produced a plethora of qualities deemed to be important. Figure 13.1 lists the top 20 characteristics and the percentage mentioning each.[3]

Mayer and Greenberg produced a more manageable list.[4] Extensive research among over 1000 companies in the USA revealed only two qualities essential to selling – empathy and ego drive. **Empathy** is defined as the ability to feel as the buyer does, to be able to understand the customers' problems and needs. This is distinct from sympathy. A salesperson can feel and understand without agreeing with that feeling. The other basic determinant of sales success, **ego drive**, is defined as the need to make a sale in a personal way not merely for money.

Mayer and Greenberg claim that when an applicant has a large measure of both these qualities he or she will be successful at selling anything. Their research led them to believe that sales ability is fundamental, not the product being sold:

> Many sales executives feel that the type of selling in their industry (and even in their particular company) is somehow completely special and unique. This is true to an extent. There is no question that someone selling data processing equipment needs a different training and background than someone selling cars. Differences in requirements are obvious, and whether or not the applicant meets the special qualifications for a particular job can easily be seen in the applicant's biography or they can be measured. What is not so easily seen, however, are the basic sales dynamics we have been discussing, which permit an individual to sell successfully, almost regardless of what he or she is selling.

Certainly, the evidence which they have provided, which groups salespersons into four categories (highly recommended, recommended, not recommended, virtually no chance of success) according to the degree to which they possess empathy and ego drive, correlated well with sales success in three industries: cars, mutual funds and insurance. Their measures of empathy and ego drive were derived from the use of a psychological test, the *multiple personal inventory* (see Section 13.6). In summary a personnel specification may contain some or all of the following factors:

- physical requirements, e.g. speech and appearance;
- attainments, e.g. standard of education and qualifications, experience and successes;
- aptitudes and qualities, e.g. ability to communicate and self-motivation;
- disposition, e.g. maturity and sense of responsibility;
- interests, e.g. degree to which interests are social, active or inactive;
- personal circumstances, e.g. married or single.

The factors chosen to define the personnel specification will be used as selection criteria during the interview.

13.3 Recruitment and Communication

13.3.1 Six Main Recruitment Sources

13.3.1.1 Company's Own Staff

The advantage of a company's own staff is that the candidate will know the company and its products. The company will also know the candidate much more intimately than an outsider. A certain amount of risk is thereby reduced in that first-hand experience of the candidate's personal characteristics is available. However, there is no guarantee that he or she has selling ability.

13.3.1.2 Recruitment Agencies

Recruitment agencies will provide lists of potential recruits for a fee. To be entered on such a list, reputable agencies screen applicants for selling suitability. It is in the long-term interests of the agencies to provide only strong candidates. The question remains, however, as to the likelihood of top salespeople needing to use agencies to find a suitable job.

13.3.1.3 Educational Establishments

It is possible to recruit straight from higher-education personnel who have as part of their degree worked in industry and commerce. Most business degree students in the UK have to undergo a year's industrial training. Some of these students may have worked in selling, others may have worked in marketing. The advantage of recruiting from universities is that the candidate is likely to be intelligent and may possess the required technical qualifications. However, bear in mind that the applicant may not see his or her long-term future in selling. They may see a sales representative's position as a preliminary step to marketing management.

13.3.1.4 Competitors

The advantage of recruiting from competitors is that the salesperson knows the market and its customers. The ability of the salesperson may be known to the recruiting company, thus reducing risk.

13.3.1.5 Other Industries and Unemployed

Other industries and the unemployed may provide applicants with sales experience. Careful screening will be needed to assess sales ability.

13.3.2 Methods of Communication

Although some sales positions are filled as a result of personal contact, the bulk of recruitment uses advertisements as the major communication tool. Figure 13.2

shows how large companies attract applicants from outside the company. Be aware of a few principles to make advertisements more effective.

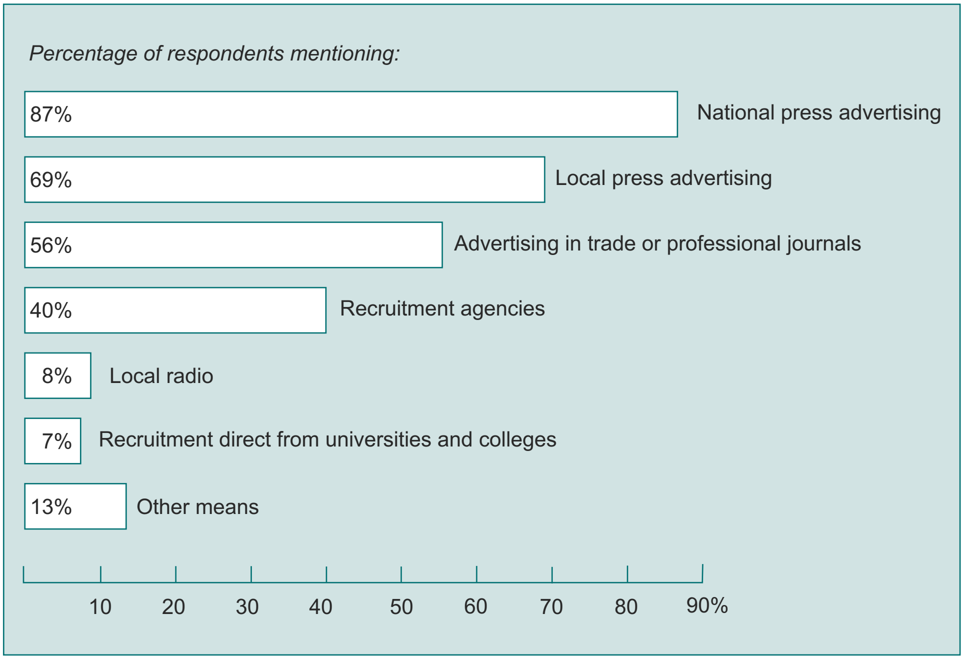

Figure 13.2 **How companies attract applicants from outside the company**

Source: Jobber, D. and Millar, S. (1984) 'The use of psychological tests in the selection of salesmen: a UK survey', *Journal of Sales Management*, 1, p. 1.

There is a wide selection of national and regional newspapers for the advertiser to consider when placing an advertisement. A major problem with such classified recruitment advertising is impact. One method of achieving impact is size. The trick here is to select the newspaper, check the normal size of advertisement which appears in it, then simply make your advertisement a little bigger than the largest. This should ensure a good position and its size will give the advertisement impact. This method assumes adequate funds, although compared with selecting a lower-quality salesperson, the extra cost to many companies is small.

The other component of impact is the content of the advertisement. The headline is the most important ingredient simply because if it does not attract and is not read, then it is very unlikely that *any* of the advertisement will be read. An inspection of any Friday night regional newspaper will highlight the lack of imagination employed in designing the average sales representative recruitment advertisement. There is plenty of scope, therefore, to attract attention by being different. As in the case of size, look at the newspaper to be used and ask yourself, If I were contemplating changing jobs, what headline would attract my attention?

Finally, if imagination is low and funds are high, it is worth considering employing a recruitment advertising specialist who will produce the advertisement and advise on media. Whether the advertisement is produced by the company itself or by a recruitment specialist, ensure all the major attractions (not just features) of the job are included in the advertisement. This is necessary to attract applicants – the object of the exercise.

13.4 Designing an Effective Application Form and Preparing a Shortlist

The application form is a quick and inexpensive method of screening out applicants in order to produce a **shortlist** of candidates for interview. The questions on the form should enable the sales manager to check if the applicant is qualified vis-à-vis the personnel specification. Questions relating to age, education, previous work experience and leisure interests are often included. Besides giving such factual information, the application form also reveals defects such as an inability to spell, poor grammar or carelessness in following instructions.

The application form can reveal much about the person who is applying. Some applicants may be inveterate job-hoppers, others may have inadequate educational qualifications. Whatever the criteria, the application form will often be the initial screening device used to produce a shortlist. Its careful design should therefore be a high priority for those involved in selection. Four categories of information are usual on application forms.

13.4.1 Four Categories of Information

1. **Personal**
   – name;
   – address and telephone number;
   – sex;
   – marital status;
   – date of birth and age.
2. **Education**
   – primary and secondary schools;
   – further and higher education;
   – qualifications;
   – specialised training, e.g. apprenticeships and sales training;
   – membership of professional bodies, e.g. Chartered Institute of Marketing.
3. **Employment history**
   – companies worked for;
   – dates of employment;
   – positions, duties and responsibilities;
   – military service.
4. **Other interests**
   – sports;
   – hobbies;
   – membership of clubs or societies.

13.4.2 Purposes of Application Forms

A well-designed application form will achieve several purposes:

- to give a common basis for drawing up a shortlist;
- to provide a foundation of knowledge which can be used as the starting point for the interview;
- to aid in the post-interview decision-making.

Having eliminated a number of applicants on the basis of the application form, an initial or final shortlist will be drawn up depending on whether the interviewing procedure involves two stages or only one. References may be sought for shortlisted candidates or simply for the successful candidate.

13.5 The Interview

The survey into the selection processes for salespeople of large UK companies[3] identified a number of facts pertinent to the **interview**:

- Most companies (80 per cent) employ two-stage interviews.
- In only one-fifth of cases does the sales manager alone hold the initial interview. In the majority of cases it is the personnel manager or personnel manager and the sales manager together who conduct the initial interview. This tends to be the case at the final interview too.
- In 40 per cent of cases the personnel manager and sales manager together make the final choice. In 37 per cent of cases the sales manager only makes the final decision. In other cases, marketing directors and other senior management may also be involved.

These facts highlight the importance of the sales manager in the selection process and indicate that selection normally uses two interviews: the screening interview and the selection interview. Already, if the procedures described so far have been followed, the sales manager will have produced a personnel specification including some or all of the factors outlined above and repeated here for convenience:

- physical requirements, e.g. speech, appearance, manner and fitness;
- attainments: e.g. standard of education, qualifications, sales experience and successes;
- aptitudes and qualities, e.g. ability to communicate, empathy and self-motivation;
- disposition, e.g. maturity and sense of responsibility;
- interests, e.g. identification of social interests, interests related to products being sold, active versus inactive interests.

The job specification will be used as a means of evaluating each of the shortlisted candidates. In reality other more personal considerations will also play a part in the decision. A candidate whom the sales manager believes would be difficult to work with or might be a troublemaker is unlikely to be employed. Thus, inevitably, the decision will be based on a combination of formal criteria and other more personal factors which the sales manager is unable or unwilling to express at the personnel specification stage.

Having carried out the essential preparation necessary to form the basis of selection, what are the objectives and principles of interviewing? The overall objective is to enable the interviewers to form a clear and valid impression of the strengths and weaknesses of the candidates in terms of the selection criteria. In order to do this, all applicants must be encouraged to talk freely and openly about themselves. However, the interviewers must exercise a degree of control so the candidate does not talk for too long on just a few issues, leaving insufficient time for other equally important factors to be discussed adequately, perhaps overlooking areas where the candidate is weaker.

13.5.1 The Interview Setting

The interview setting will have a direct bearing on the outcome of the interview. A number of examples will illustrate this point:

- A room where the sales manager is likely to be interrupted by colleagues or telephone calls is not ideal for interviewing. If such a room has to be used, visitors and telephone calls should be barred.
- A very large room with just two or three people occupying it may not have the intimacy required to obtain a free, natural discussion.
- A large desk situated between candidate and interviewer, particularly if littered with filing trays and desk calendars, can have the psychological effect of distancing the two parties involved, creating too formal an atmosphere and inhibiting rapport. A more relaxed, informal setting away from the manager's work desk is likely to enable the interviewee to relax more easily. The use of a low table which interviewers and interviewee can sit around (rather than sitting face to face) is a common method for achieving this effect.

13.5.2 Conducting the Interview

Besides creating the right atmosphere by the judicious selection of the interview setting, the interviewers themselves can do much to help establish rapport.

What happens at the beginning of the interview is crucial to subsequent events. The objective at this stage is to set the candidate at ease. Most interviewees are naturally anxious before the interview and when they first enter the interview setting. They may feel embarrassed or be worried about exposing weaknesses. They may feel inadequate and lack confidence. Above all, they may feel worried about rejection. These anxieties are compounded by the fact that the candidate may not have met his or her interviewers before and may therefore be uncertain about how aggressive they will be, the degree of pressure which will be applied and the types of question they are likely to ask. Some sales managers may argue that the salesperson is likely to meet this situation out in the field and therefore needs to be able to deal with it without the use of anxiety-reducing techniques on the part of the interviewers. A valid response to this viewpoint is that the objective of the interview is to get to know the candidate in terms of the criteria laid down in the personnel specification, or 'profile' as it is sometimes called. In order to do this, candidates must be *encouraged* to talk about themselves. If sales ability under stress is to be tested, role playing can be used as part of the selection procedure. There are several guidelines on how to reduce anxiety and establish rapport:

- One of the interviewers (preferably the sales manager) should bring the candidate into the room, rather than the candidate being sent for through a secretary or junior administrator. This reduces status differentials and hence encourages rapport.
- Open the conversation with a few easy-to-answer questions which, although not directly pertinent to the job, allow the candidate to talk to the interviewers and gain confidence.
- Continuing in this vein, questions early in the interview should be, if possible, open-ended rather than closed. Open-ended questions allow the applicant scope for talking at some length on the topic: Can you tell me about your experiences selling pharmaceuticals? Closed questions, on the other hand, invite a short answer: Can you tell me how long you worked for Beechams? Some closed questions are inevitable, but a series of them makes it difficult for the candidate to relax and gain confidence. Indeed, such questions may give the impression that the applicant is uncommunicative, when really the problem lies with the interviewer.
- Interviewers should appear relaxed and adopt a friendly, easy manner.
- Interviewers should be courteous and appear interested in what the applicant says.

Having successfully established rapport and reduced anxiety, the interviewer will wish to encourage candidates to talk about themselves, their experiences, attitudes, behaviour and expectations. To do this the interviewer not only needs to develop the art of being a good listener but also needs to develop skills in making people talk. Needs analysis skills (Module 5) may be used to good effect in an interview. Specifically, the interviewer can use the following techniques:

- the playback technique;
- the use of rewards;
- the use of silence;
- the use of probes;
- summarising;
- the use of neutral questions.

13.5.2.1 The Playback Technique

The interviewer repeats the last few words of the candidate's sentence in order to elicit the reason for what has been said. For example, the candidate might say 'I worked for XYZ company for two years, but I didn't like it very much.' The interviewer follows with 'You didn't like it very much?' Candidate: 'No, the sales manager was always on my back, checking to see that I was making my calls.'

13.5.2.2 The Use of Rewards

Obvious interest in the candidate's views, experiences and knowledge shown by the interviewer confers its own reward. This can be supplemented by encouraging noises such as 'uh, uh' or 'mmm, yes, I see'. The confidence instilled in the candidate will encourage further comment and perhaps revelations.

A further method of reward is through eye behaviour. The subtle narrowing of the eyes, together with a slight nodding of the head can convey the message 'yes, I see'. The correct use of such rewards comes only with experience, but their application is undoubtedly an aid in encouraging the candidate to talk freely.

13.5.2.3 The Use of Silence

Silence can be a very powerful ally of the interviewer. However, silence must be used with discretion, otherwise rapport may be lost and candidates may raise their barriers to open expression.

Its most common use is after the candidate has given a neutral, uninformative reply to an important question. A candidate, eager to impress, will feel uncomfortable and interpret silence as an indication that the interview is not going well. In such a situation he or she will normally attempt to fill the void, and it may be that the only way he or she can do this is by revealing attitudes or behaviour patterns which otherwise he or she would have been happy to have kept hidden. Alternatively, the pause may allow the candidate to formulate his or her thoughts and thus stimulate a more considered reply. Continuing with a follow-up question without a pause would have precluded this happening. Either way, extra potentially revealing information can be collected by the discriminate use of silence.

13.5.2.4 The Use of Probes

The salesperson who is adept at needs analysis will be well acquainted with the use of probes. In an interview, comments will be made which require further explanation. For example, the applicant might say, 'The time I spent on a sales training course was a waste of time.' To which the interviewer might say, 'Why do you think that was?' or 'That's interesting, why do you say that?' or 'Can you explain a little more why you think that?' Such phrases are preferable to a blunt why and are really alternatives to the playback technique mentioned earlier.

A choice of phrases and techniques allows the interviewer to vary his approach to probing during the course of the interview. Although it may not always be possible to guarantee, probing of particularly embarrassing events such as the break-up of an applicant's marriage (if thought relevant to job performance) or failure in examinations should be left until the interview is well under way and should not be scrutinised at the start.

13.5.2.5 Summarising

During an interview, the interviewer will inevitably be attempting to draw together points which have been made by the applicant at various times in order to come to some opinion about the person under scrutiny. A useful device for checking if these impressions are valid in the subject's eyes is to summarise them and ask for his or her corroboration.

After a period of questioning and probing, the interviewer might say, 'So, as I understand it, your first period in sales was not a success because the firm you worked for produced poor quality products, inferior in terms of technical specifications compared to competition and you felt inexperienced. But your second job, working with a larger, more well-known company, was more satisfactory, having received proper sales training and having the advantage of selling a recognised high-quality product line. Would you say that this was a fair summary?' Having obtained agreement, the interviewer can then move to another area of interest or continue to investigate the same area with the certainty that there has been no earlier misunderstanding.

13.5.2.6 The Use of Neutral Questions

A basic principle of good interviewing is to use neutral rather than leading questions. The question, Can you tell me about the sales training you received at your previous employer? is likely to lead to rather different, less biased responses than the question, I'm sure you learnt a lot from your sales training courses, didn't you? And the question, What do you feel about dealing with the type of customer we have? is more neutral than the question, I'm sure you wouldn't have any problems dealing with our customers, would you?

13.5.2.7 Other Considerations

There are other considerations which an interviewer is wise to bear in mind. First, he or she must not talk too much. The object is for most of the time spent interviewing to be used to evaluate the candidates. Second, part of the interview will be a selling task in order to ensure that the chosen applicant accepts. The balance between evaluation and selling is largely based on judgement and no hard and fast rules apply, but obviously the competitive situation and the strength of the candidate will be two factors which affect the decision.

Third, the interviewer must discreetly control the interview. A certain amount of time will be allocated to each candidate and it is the interviewer's responsibility to ensure that all salient dimensions of the candidate are covered, not only those the candidate wishes to talk about. Some of the earlier techniques, used in reverse, may be necessary to discourage the candidate from rambling on. For example, the interviewer may look uninterested, or ask a few closed questions to discourage verbosity. Alternatively, the interviewer can simply interrupt at an appropriate moment: 'That's fine, I think we're quite clear on that point now.'

Finally, the interviewer will need to close the interview when sufficient information has been obtained. Usually the candidate is forewarned of this by the interviewer saying, 'Okay we've asked you about yourself. Are there any questions you would like to ask me?' At the end of this session, the interviewer explains when the decision will be made and how it will be communicated to the candidate and then thanks him or her for attending the interview. They both stand, shake hands and the candidate is shown to the door.

13.6 Supplementary Selection Aids

13.6.1 Psychological Tests

Although success at the interview is always an important determinant of selection, some firms employ supplementary techniques to provide a valid measure of potential. A number of large firms use **psychological tests** in this way. However, care has to be taken when using these tests and a trained psychologist is usually needed to administer and interpret the results. Further, there are a number of criticisms which have been levelled at the tests:

- It is easy to cheat. The applicant, having an idea of the type of person who is likely to be successful at selling, does not respond truly but fakes the test in order to give a desirable profile. For example, in response to a question such as, Who is of more value to society, the practical man or the thinker? they go for the practical man, whatever their true convictions may be.
- Many tests measure interest rather than sales ability. The sales manager knows the interests of his or her successful salespeople and uses tests to discover if potential new recruits have similar interest patterns. The assumption here is that sales success can be predicted by the type of interests which a person has. This is as unlikely as discovering a new George Best by measuring the interests of young footballers.
- Tests have been used to identify individual personality traits which may not be associated with sales success. Factors such as how sociable, dominant, friendly and loyal a person is have been measured in order to predict sales success. While some of these factors may be useful attributes for a salesperson to possess, they have failed to distinguish between high- and low-performing sales personnel.

Earlier in the module, reference was made to the use of the multiple personal inventory in order to predict the degrees of empathy and ego drive which a person possesses. Mayer and Greenberg have shown that sales success can be reasonably accurately predicted once these characteristics are known.[4] The ideal is a person who possesses a high degree of both. A high degree of empathy (an ability to feel as the customer feels) and ego drive (the need to make a sale in a personal way) are usually associated with high sales performance. Plenty of empathy but little ego drive means that the salesperson is liked by the customers but sales are not made because of an inability to close the sale purposefully. A person with little empathy but much drive will tend to bulldoze his or her way through a sale without considering the individual needs of customers. Finally, the person with little empathy and ego drive will be a complete failure. Too many salespeople, say Mayer and Greenberg, fall into this last group.

The test itself – the multiple personal inventory – is based on the forced choice technique. From a choice of four statements, the subject picks those which are most like and least like himself or herself. Two of these statements may be termed favourable and the other two unfavourable. Mayer and Greenberg claim that the test is difficult to fake, since the two favourable statements are chosen to be equally favourable and the two unfavourable ones are equally unfavourable. The subject, then, is likely to be truthful. Since it is very difficult to produce statements which are *equally* favourable or unfavourable, the cautious conclusion is that the forced choice technique minimises cheating rather than completely eliminating it. The test also overcomes the criticism that psychological tests measure personality traits which may not be correlated with performance. Mayer and Greenberg describe empathy and ego drive as the 'central dynamics' of sales ability and produce evidence that scores on these characteristics correlate well with performance in selling cars, insurance and mutual funds.

If the multiple personal inventory, or any other psychological test, is to be used as a basis for selection of sales personnel, a sensible procedure would be to validate the test beforehand. Research has shown that other personality tests correlate with performance and that different types of people do well in different selling situations. Randall, for example, has shown that the type of person who was most successful selling tyres could be summarised as a 'grey man'.[5] His characteristics were those of a humble, shy, tender-minded person of below-average intelligence, quite unlike the stereotype of an extrovert, happy-go-lucky, fast-talking salesperson. The explanation of why such a person was successful was to be found in the selling situation. Being in the position of selling a brand of tyre that was not widely advertised and had only a small market share, the salesperson had to hang around tyre depots hoping to make sales by solving some of the supply problems of the depot manager in meeting urgent orders. He was able to do this because his company provided a quicker service than many of its competitors. Thus, the personality of the man had to be such that he was prepared to wait around the depot merging into the background, rather than using persuasive selling techniques.

This rather extreme example demonstrates how varied the sales situation can be. Contrast that situation with the skills and personality required to sell hi-fi equipment and it becomes immediately apparent that successful selection should focus on matching particular types of people to particular types of selling occupations. Indeed Greenberg, since his earlier study, does seem to have moved position and recognised that successful selling depends on other personality dynamics 'which come into play depending on the specific sales situation'.[6] Consequently, different psychological tests may be required for different situations.

Validation requires the identification of the psychological test or tests which best distinguish between a company's above-average and below-average existing salespeople. Further validation would test how the predictions made by the test results correlate with performance of new recruits. Recent research has cast doubt on the general applicability of the empathy and ego drive theory of sales success, but certainly the multiple personal inventory could be one psychological test used in this validation exercise, although it must be carried out under the supervision of a psychologist.

Psychological tests should be used to complement the selection interview, not to replace it.

13.6.2 Role Playing

Another aid in the selection of salespeople is **role playing** to gauge the selling potential of candidates. This involves placing them individually in selling situations and assessing how well they perform.

The problem with this technique is that, at best, it measures sales ability at that moment. This may depend, among other things, on previous sales experience. Correct assessment of salespeople, however, should be measuring *potential*. Further, role playing cannot assess the candidate's ability to establish and handle long-term relationships with buyers and so is more applicable to those selling jobs where the salesperson–buyer relationship is likely to be short-term and the sale a one-off. Role playing may, however, be valuable in identifying the hopeless case, whose personal characteristics, e.g. an inability to communicate or to keep his or her temper under stress, may preclude them from successful selling.

Learning Summary

The selection of salespeople is important to the long-term future of the business, but sales managers do not always give it the attention it deserves. All too often, the person profile is ill-defined and the selection procedure designed for maximum convenience rather than optimal choice. The assumption is that the right candidate should emerge whatever procedure is used. Consequently, the interview is poorly handled, the smooth-talker gets the job and another mediocre salesperson emerges.

This module has outlined a number of techniques which, if applied, should minimise this result. Specifically, a sales manager should decide on the requirements of the job and the type of person who should be able to fulfil them. He or she should also be aware of the techniques of interviewing and the necessity of evaluating the candidates in line with the criteria established during the personnel specification stage. Finally, the sales manager should consider the use of psychological tests (under the guidance of a psychologist) and role playing as further dimensions of the assessment procedure.

The next module examines two further key areas of sales management: motivation and training.

Review Questions

Content Questions

13.1 Salesforce selection, why is it important?

13.2 What are the stages in the recruitment and selection process?

13.3 What is put in a job description?

13.4 What is put in a personnel specification?

13.5 What are the main sources of recruitment?

13.6 What is the purpose of an application form?

13.7 How can an interviewer encourage candidates to talk about themselves?

13.8 How can psychological tests and role play help to select salespeople?

Multiple-Choice Questions

13.9 What is the first activity in the decision process for recruitment and selection of salespeople?

A. Analyse the job and determine selection criteria.
B. Establish policy concerning responsibility for recruitment and selection.
C. Find and attract a pool of applicants.
D. None of the other options.

13.10 A job description should cover all of the following except one. Which one?

A. Specific duties and responsibilities.
B. Technical requirements.
C. Location and geographical areas to be covered.
D. Type of customer to be called on, frequency of calls, etc.

13.11 The personnel specification may contain all of the following factors except one. Which one?

A. Standard of education and qualifications.
B. Aptitude and qualities.
C. Personal circumstances.
D. Duties and responsibilities.

13.12 Suppose a company wishes to recruit an international sales team. How can it achieve a high degree of control over global marketing and sales activities?

A. Employ home-country salespeople (ex-patriots).
B. Employ host-country nationals.
C. Employ third-country nationals.
D. None of the other options.

13.13 American research indicates only two key qualities are essential to selling. What are they?

A. Personality and determination.
B. Intelligence and personality.
C. Empathy and communication skills.
D. Ego drive and empathy.

13.14 What is defined as the ability to feel as a buyer does, to understand customer's problems and needs?

A. Determination.
B. Empathy.
C. Personality.
D. Ego drive.

13.15 Have a look at these two statements.

I. An advantage of recruiting from internal staff is that the company has experience of the candidate's personal characteristics.
II. An advantage of recruiting from internal staff is that the candidate is more likely to achieve sales success than recruits from outside the company.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

13.16 Why is it advantageous to recruit current company employees?

A. Company employees have established performance records.
B. Insiders require less orientation and training.
C. Recruiting from within reduces turnover and absenteeism.
D. All the advantages in the other options.

13.17 Which of the following is the primary function of an employment agency?

A. To screen applicants for a company.
B. To screen companies for an individual applicant.
C. To take over the recruitment and selection process for the company.
D. All the functions in the other options.

13.18 To achieve impact in classified recruitment advertising, which of the following should you pay attention to?

A. Relative size of the advert and position of the advert.
B. Position of the advert and content of the advert.
C. Relative size of the advert and content of the advert.
D. Relative size of the advert, position of the advert and content of the advert.

13.19 Have a look at these two statements.

I. Closed questions in an interview can make it difficult for candidates to relax.
II. Closed questions in an interview allow candidates to talk at some length on a topic.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

13.20 Which of the following statements is true?

A. Unstructured interviews are preferred when the interviewers are inexperienced.

B. Unstructured interviews make it easier to compare candidates' strengths and weaknesses.

C. Unstructured interviews help to identify and probe unique qualities and flaws in candidates.

D. All the statements in the other options are true.

13.21 An interviewer repeats the last few words of a candidate's sentence to get the candidate to explain what he or she has just said. Which technique is the interviewer using?

A. Probes.

B. Rewards.

C. Neutral questions.

D. Playback.

13.22 An interviewer makes encouraging noises or uses eye behaviour to boost a candidate's confidence. Which technique is the interviewer using?

A. Probes.

B. Rewards.

C. Neutral questions.

D. Playback.

13.23 Have a look at these two statements.

I. The interview is used to evaluate candidates for a job.

II. The interview is an opportunity to sell the company to the applicant.

Now choose the correct option.

A. Only statement I is true.

B. Only statement II is true.

C. Statements I and II are true.

D. Neither statement is true.

Case Study 13.1: Plastic Products Ltd

Plastic Products Ltd is a company that produces and markets plastic cups, teaspoons, knives and forks for the catering industry. It was established in 1974 in response to changes in the catering industry. The growth of the fast-food sector was seen as an opportunity to provide disposable eating utensils in a speedy way that would save on human resources and allow fast customer flow. In addition, Plastic Products has benefited from the growth in supermarkets and sells consumer packs through four of the large supermarket groups.

The expansion of sales and outlets has led Jim Spencer, the sales manager, to recommend to Bill Preedy, the general manager, that the present salesforce of two regional representatives should be increased to four. Spencer believes that the new recruits should have experience of selling fast-moving consumer goods since that is what his products are.

Preedy believes the new recruits should be familiar with plastic products since that is what they are selling. He favours recruiting from within the plastics industry, since these people are familiar with the supply, production and properties of plastic and are likely to talk the same language as other people working at the firm.

Questions

1 What general factors should you consider when recruiting salespeople?

2 Who do you agree with? Spencer? Preedy? Neither?

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Module 14

Motivation and Training

Contents

Learning Objectives

After studying this module, you should be able to:

- understand certain motivation theories in the context of selling;
- apply motivation in practice;
- set sales targets and quotas;
- understand what is required to be a successful leader;
- organise suitable sales training programmes and evaluate their usefulness.

Key Concepts

- group meetings
- Herzberg's dual-factor theory
- Likert's sales management theory
- Maslow's hierarchy of needs
- merit-based promotion system
- sales contests
- sales quotas
- sales targets
- training programmes
- Vroom's expectancy theory

14.1 Motivation

Creating and maintaining a well-motivated salesforce is a challenging task. The confidence and motivation of salespeople are being constantly worn down by the inevitable rejections they suffer from buyers as part of everyday activities. In some fields, notably life insurance and double glazing, rejections may greatly outnumber successes, so motivation may be a major problem. This is compounded by the fact that salesperson and supervisor are normally geographically separated, so the salesperson may feel isolated or even neglected unless management pays particular attention to motivational strategies which take account of his or her needs.

It is critical that sales managers appreciate that motivation is far more sophisticated than the view that all salespeople need is a kick up the pants. Effective motivation requires a deep understanding of salespeople as individuals, their personalities and value systems. In a sense, sales managers do not motivate salespeople. What they do is provide the circumstances that will encourage salespeople to motivate themselves.

An understanding of motivation lies in the relationship between needs, drives and goals: 'The basic process involves needs (deprivations) which set drives in motion (deprivations with direction) to accomplish goals (anything which alleviates a need and reduces a drive)'.[1] Thus a need resulting from a lack of friends, sets up a drive for affiliation which is designed to obtain friends. In a work context, the need for more money may result in a drive to work harder in order to obtain increased pay.

In this module both applied theory and practice will be evaluated in order to identify the means of motivating a salesforce.

14.1.1 Motivational Theories

Motivation has been researched by psychologists and others for many years. A number of theories have evolved which are pertinent to the motivation of salespeople.

14.1.1.1 Maslow's Hierarchy of Needs

Maslow's classic **hierarchy of needs** model proposed that there are five fundamental needs which are arranged in a 'hierarchy of prepotency'. Table 14.1 shows this hierarchy.

Maslow argued that needs form a hierarchy in the sense that when no needs are fulfilled, a person concentrates upon his or her physiological needs. When these needs are fulfilled, safety needs become preponderant and important determinants of behaviour. When these are satisfied, belongingness becomes important, and so on up the hierarchy.

Although people have criticised Maslow's belief that one set of needs only becomes important after lower-order needs have been completely satisfied, the theory does have relevance to salesforce motivation. First, it highlights the perhaps obvious point that a satisfied need is not a motivator of behaviour. Thus, a salesperson who already receives a more than adequate level of remuneration may not be motivated by additional payments. Second, the theory implies that what may act as a motivator for one salesperson may not be effective with another. This follows from the likelihood that different salespeople will have different combinations of needs.

Effective motivation results from an accurate assessment of the needs of the individual salespeople under the manager's supervision. The overriding need for one salesperson may be reassurance and the building of confidence; this may act to motivate him or her. For another, with a great need for esteem but a problem regarding work rate, the sales manager may motivate by displaying his or her relatively poor sales performance to colleagues at a sales meeting.

Table 14.1 Maslow's hierarchy of needs

Category	Type		Characteristics
Physical	1	Physiological	The fundamentals of survival, e.g. hunger, thirst
	2	Safety	Protection from the unpredictable happenings in life, e.g. accidents, ill health
Social	3	Belongingness and love	Striving to be accepted by those to whom we feel close (especially family) and to be an important person to them
	4	Esteem and status	Striving to achieve a high standing relative to other people; a desire for prestige and a high reputation
Self	5	Self-actualisation	The desire for self-fulfilment in achieving what one is capable of for one's own sake – 'Actualised in what he is potentially' (Maslow)

14.1.1.2 Herzberg

Herzberg's **dual-factor theory** distinguished factors which can cause dissatisfaction but cannot motivate (hygiene factors) and factors which can cause positive motivation. Hygiene factors included physical working conditions, security, salary and interpersonal relationships. Directing managerial attention to these factors, postulated Herzberg, would bring motivation up to a 'theoretical zero' but would not result in positive motivation. If this were to be achieved, attention would have to be given to true motivators. These included the nature of the work itself, which allows the person to make some concrete *achievement*, *recognition* of achievement, the *responsibility* exercised by the person, and the *interest value* of the work itself.

The inclusion of salary as a hygiene factor rather than as a motivator was subject to criticisms from sales managers whose experience led them to believe that commission paid to their salespeople was a powerful motivator in practice. Herzberg accommodated their view to some extent by arguing that increased salary through higher commission was a motivator through the automatic recognition it gave to sales achievement.

The salesperson is fortunate that achievement is directly observable in terms of higher sales (except in missionary selling, where orders are not taken, e.g. pharmaceuticals, beer and selling to specifiers). However, the degree of responsibility afforded to salespeople varies a great deal. Opportunities for giving a greater degree of responsibility to (hence motivating) salespeople include giving authority to grant credit (up to a certain value), discretion to offer discounts, and handing over responsibility for calling frequencies. The results of an experiment with a group of British salespeople by Paul *et al.*[2] showed that greater responsibility given to salespeople by such changes resulted in higher sales success.

Herzberg's theory has been well received in general by practitioners, although academics have criticised it in terms of methodology and oversimplification.[3] The theory has undoubtedly made a substantial contribution to the understanding of motivation at work, particularly in extending Maslow's theory to the work situation and highlighting the importance of job content factors which had hitherto been badly neglected.

14.1.1.3 Vroom's Expectancy Theory

This theory assumes that a person's motivation to exert effort depends upon his or her expectations for success. Vroom[4] based his theory on three concepts:

- *Expectancy* refers to a person's perceived relationship between effort and performance, i.e. the extent to which a person believes that increased effort will lead to higher performance.
- *Instrumentality* reflects the person's perception of the relationship between performance and reward; for example, it reflects the extent to which a person believes that higher performance will lead to promotion.
- *Valence* represents the value placed on a particular reward by a person. For some individuals promotion may be highly valued; for others it may have little value.

Thus, according to the theory, if a salesperson believes that by working harder he or she will achieve increased sales (high expectancy) and that higher sales will lead to greater commission (high instrumentality) and higher commission is very important (high valence), a high level of motivation should result. The nature of the relationships in the sales setting is depicted in Figure 14.1.

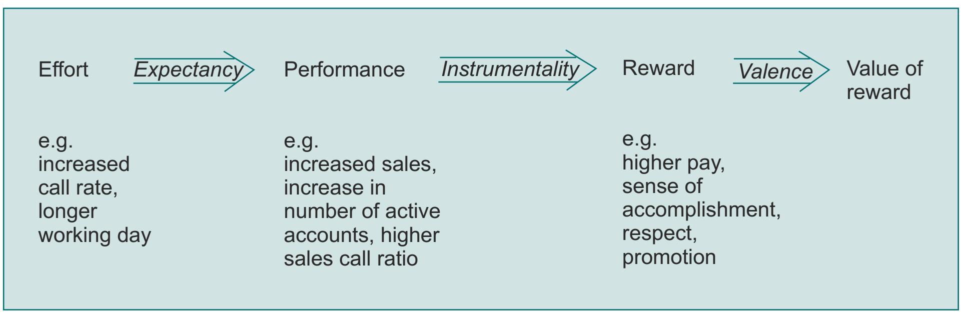


Figure 14.1 Vroom's expectancy theory of motivation

Different salespeople will have different valences (values) for the same reward. Some might value increased pay very highly, whereas others may not value it so highly. For some the sense of accomplishment and recognition may be very important, for others it will be much less important. Also, different salespeople may view the relationship between performance and reward, and between effort and performance, in quite different ways. A task of sales management is to specify and communicate to the salesforce these performance criteria, which are important in helping to achieve company objectives, and to relate rewards to these criteria. Further, this theory supports the notion that for performance targets (e.g. sales quotas) to be effective motivators they should be regarded as attainable (high expectancy) by each salesperson; otherwise the first link in the expectancy model will be severed. Finally, this model provides a diagnostic framework for analysing motivational problems with individual salespeople and an explanation of why certain managerial activities can improve motivation. Training in sales skills, for example, can improve motivation by raising expectancy levels.

14.1.1.4 Adams's Inequity Theory

Feelings of inequity (unfairness) can arise when an individual's effort or performance on the job exceeds the reward which he or she receives. Salespeople who feel they contribute more than others to the organisation expect to receive proportionately greater rewards. This is the essence of Adams's **inequity theory**.[5] For a salesperson, inequity can be felt in the following areas:

- monetary rewards;
- workload;
- promotion;
- degree of recognition;
- supervisory behaviour;
- targets;
- tasks.

The outcome of a salesperson perceiving significant inequities in any of these areas may be reduced motivation as a result of the feeling of unfairness. A study by Tyagi[6] examined the effect of perceived inequities (rewards and favouritism) on motivation of life insurance salespeople. The results showed that feelings of inequity in all areas investigated (monetary, promotion, recognition, supervisory behaviour and task inequities) had an adverse effect on motivation. Monetary reward inequity had a particularly strong effect on motivation. The implication is that sales managers must monitor their salesforce to detect any feelings of unfairness. This can be done informally during sales meetings or through the use of questionnaires. Some sales organisations survey their sales representatives periodically to measure their perceptions of inequity and the effectiveness of the company's motivational programme in general.

Motivation is often equated with incentives but Adams's work emphasises that the elimination of disincentives (e.g. injustices and unfair treatment) may be an equally powerful influence.

14.1.1.5 Likert's Sales Management Theory

Unlike Herzberg, Maslow and Vroom, who developed general theories of motivation, Likert based his theories on research which looked specifically at the motivation of salespeople.[7] His research related differing **characteristics and styles of supervision** to performance. One of the hypotheses he tested was that the sales managers' own behaviours provide a set of standards which, in themselves, will affect the behaviour of their salespeople. He found that there was a link. High-performing sales teams usually had sales managers who themselves had high performance goals.

His research also investigated the methods used by sales managers in the running of sales meetings. Two alternative styles were compared (see Figure 14.2). Sales managers who used the group method of leading sales meetings encouraged their team to discuss sales problems which had arisen in the field and to learn from one another. Sales managers who monopolised the meeting discouraged interaction between salespeople and used it as an opportunity to lecture them rather than to stimulate discussion. There was a strong tendency for higher-producing sales teams to use the group method.

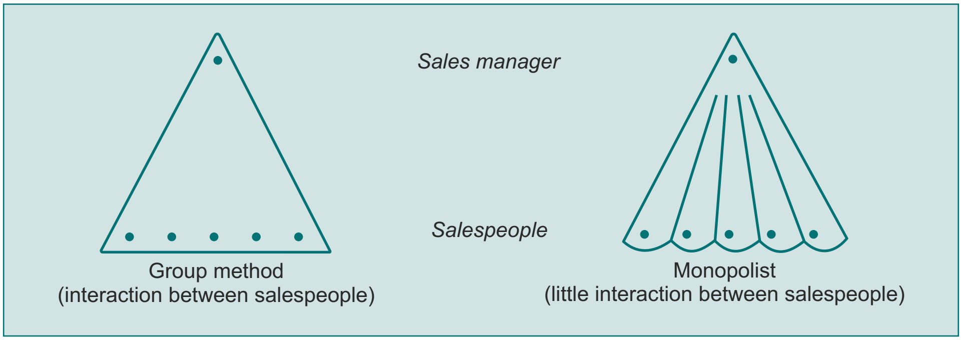


Figure 14.2 Methods of conducting sales meetings

Several reasons can be put forward to explain this. First, it is likely that a problem faced by one salesperson has been met previously by another who may have found a way of overcoming it; for example, a troublesome objection to one salesperson may have been successfully dealt with by another. The group method of leading a sales meeting encourages problem-solving and stimulates communication. Second, the more open style of meeting enables the sales manager to gain a greater understanding of the needs and problems of the salesforce. Finally, the group method promotes a feeling of group loyalty since it fosters a spirit of cooperation.

The research conducted by Likert, then, suggests that to produce a highly motivated salesforce, the sales manager should have high performance goals and encourage analysis and discussion of salespeople's performance and problems through the group method of conducting sales meetings.

14.1.1.6 The Churchill, Ford and Walker Model of Salesforce Motivation

Churchill *et al.*[8] developed a model of salesforce motivation that integrated some of the ideas of Herzberg and Vroom (see Figure 14.3). This suggests that the higher the salesperson's motivation, the greater the effort, leading to higher performance. This enhanced performance will lead to greater rewards, which will bring about higher job satisfaction. The circle will be completed by the enhanced satisfaction causing still higher motivation. Here are the implications of this model for sales managers:

- They should convince salespeople that they will sell more by working harder or by being trained to work smarter (e.g. more efficient call planning, developing selling skills).
- They should convince salespeople that the rewards for better performance are worth the extra effort. This implies that sales manager should give rewards that are valued and attempt to sell their worth to the salesforce. For example, a sales

manager might build up the worth of a holiday prize by stating what a good time he or she personally had enjoyed.

They also found that the value of rewards differed according to salesperson type. Older salespeople who had large families valued financial rewards more. Younger, better-educated salespeople who had no family or small families tended to value higher-order rewards (recognition, liking and respect, sense of accomplishment).

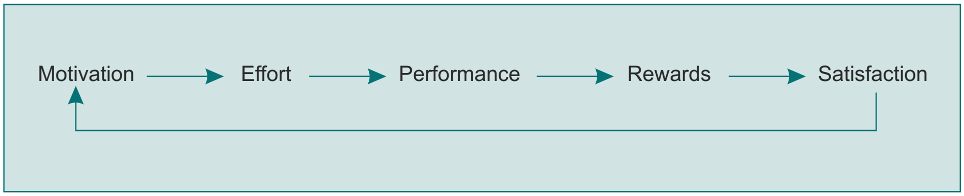


Figure 14.3 Salesforce motivation

14.1.2 Motivation in Practice

A study into salesforce practice commissioned by the Chartered Institute of Marketing[9] asked sales managers to rank eight factors (excluding salary, bonus or commission) that could be effective in stimulating their salespeople to better their usual performance. The results of this research are given in Figure 14.4.

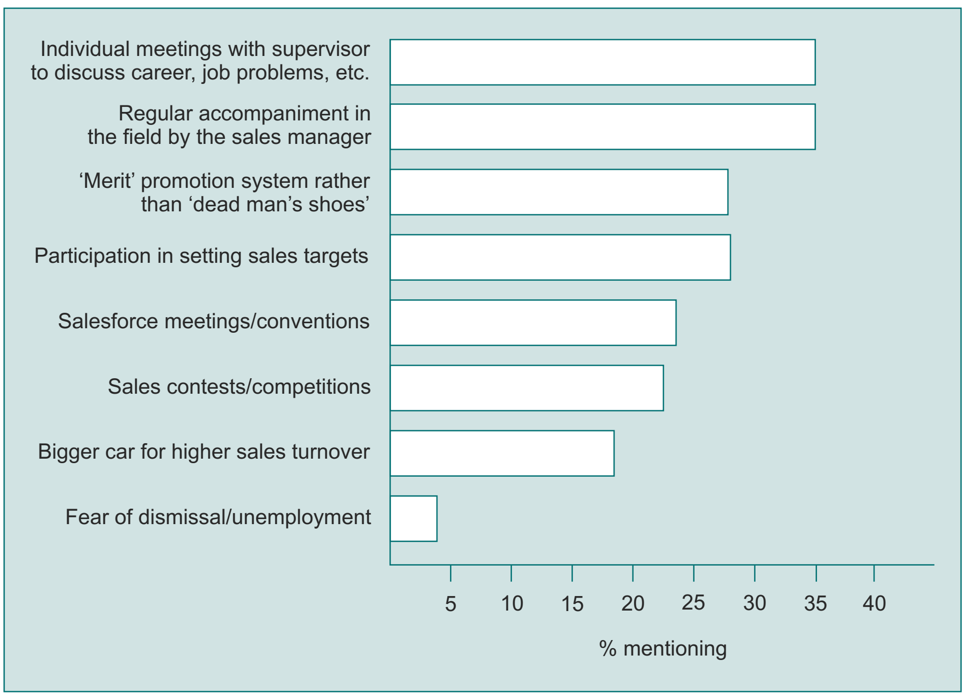


Figure 14.4 Motivating factors for salespeople

Figure 14.4 illustrates the importance of the manager–salesperson relationship in motivation. Individual meetings between manager and salesperson were thought to be the most effective of the eight factors investigated. Sales contests and competitions were ranked only sixth in importance, although a more detailed analysis of the answers revealed that this form of motivation was ranked first among the consumer goods companies replying to the questionnaire.

Surveys by Shipley and Kiely[10] and Coulaux and Jobber[11] investigated factors which motivated industrial and consumer goods salespeople. In both surveys, self-satisfaction from doing a good job was ranked as the top motivator. Achieving targets and acknowledgement of effort were also highly ranked by both industrial and consumer salespeople. However, a major difference was the factor 'satisfy customer needs'; industrial salespeople ranked it second but their consumer counterparts ranked it only sixth. The difference between industrial and consumer products and customers probably explains the discrepancy; industrial salespeople sell more technical products to customers with more complex needs (see Table 14.2).

Table 14.2 **Motivational factors for salespeople in industrial and consumer goods markets**

	Industrial			Consumer		
	Extremely strong	Moderately strong	Ranking*	Extremely strong	Moderately strong	Ranking*
Self-satisfaction from doing a good job	75	24	1	75	21	1
Satisfy customer needs	51	39	2	36	46	6
Achieve sales budgets	35	46	3	58	35	2
Acknowledgement of effort	36	43	3	50	37	4
Increase chance of promotion	89	29	5	58	31	3
Improve lifestyle	34	35	6	42	33	6
Meet family responsibilities	40	22	6	44	25	8
Make more money	38	22	8	46	33	5
Satisfy sales manager's expectations	24	32	9	29	35	9

* The ranking is based on the sum of responses to extremely strong motivator and moderately strong motivator with double weighting to extremely strong motivator.

Sources: Shipley, D. and Kiely, J. (1988) 'Motivation and dissatisfaction of industrial salespeople – how relevant is Herzberg's theory?', *European Journal of Marketing*, 22, 1 (industrial). Coulaux, C. and Jobber, D. (1989) *Motivation of Consumer Salespeople*, University of Bradford Management Centre Working Paper (consumer).

Some of these factors, along with financial incentives, will now be evaluated in terms of their potential to motivate.

14.1.2.1 Financial Incentives

Most companies, whether selling consumer or industrial goods, pay commission or bonus to their salespeople. The most usual form of payment is the salary plus commission system since this provides a level of security plus the incentive of higher earnings for higher sales. However, in some instances, salespeople are paid on a straight commission basis so that earnings entirely depend on achievement.

There are several variants of the commission system, each depending on the outcome of the following decisions:[12]

- the commission base, e.g. sales revenue or profits;
- the commission rate, e.g. a set percentage of all sales or different for various products;
- the starting point for commission, e.g. the first sale or at some predetermined sales level.

A commission system may thus comprise a given percentage, e.g. 1.5 per cent of total sales revenue generated per salesperson, or a percentage, e.g. 5 per cent of sales revenue for all sales in excess of a sales quota. Some companies may construct more complicated commission systems whereby different products have varying commission rates. Higher rates may be paid on higher-profit items, lines regarded as being harder to sell or products with high inventory levels. Thus the commission system can be used not only to stimulate greater effort in general, but also to direct salespeople towards expending greater energy on those products the company particularly wants to sell.

Commission may work in motivating salespeople through providing a direct reward for extra effort (Vroom) and by giving recognition for achievement (Herzberg).

14.1.2.2 Setting Sales Targets or Quotas

If a **sales target** or **quota** is to be effective in motivating a salesperson, it must be regarded as fair and attainable and yet offer a challenge to him or her. Because the salesperson should regard the quota as fair, it is usually sensible to allow him or her to participate in setting the quota. However, establishing the quotas is ultimately the sales manager's responsibility and he or she will inevitably be constrained by overall company objectives. If sales are planned to increase by 10 per cent, then salespeople's quotas must be consistent with this. Variations around this average figure will arise through the sales manager's knowledge of individual sales personnel and changes in commercial activity within each territory; for example, the liquidation of a key customer in a territory may be reflected in a reduced quota. The attainment of a sales target usually results in some form of extra payment to the salesperson.

14.1.2.3 Meetings between Managers and Salespeople

Meetings between managers and salespeople were highly regarded by sales managers in the motivation of their sales teams. Managers have the opportunity to meet their salespeople in the field, at head office and at sales meetings or conventions. They provide several opportunities for improving motivation.

First, they allow the sales manager to understand the personality, needs and problems of each salesperson. The manager can then better understand the causes of motivation and demotivation in individual salespeople and respond in a manner that takes into account the needs, problems and personality of the salesperson. A study by Jobber and Lee[13] showed the extent to which the perceptions of sales management and salespeople towards motivation and demotivation can differ. They investigated the perceptions of what motivates and demotivates salespeople by asking a sample of life assurance salespeople and their sales directors. Figure 14.5 gives a summary of the results.

	Motivators	*Demotivators*
Sales director value these factors more highly	Competitions/prizes Incentives based on target setting	Supervisory relations Personal problems
Sales representatives value these factors more highly	Fringe benefits	Lack of advancement Lack of security Hours of work

Figure 14.5 **Summary of the differences between sales directors and sales representatives**

Compared with the salespeople themselves, sales managers thought that competitions, prizes and targets had a significantly greater motivating effect. Salespeople, on the other hand, valued fringe benefits more highly than did the sales managers. Perceptions of demotivating issues were also at variance. Sales managers believed supervisory relations and personal problems demotivated salespeople significantly more than was thought by the salespeople, whereas the salespeople believed that lack of advancement, lack of security and long hours of work were a greater source of demotivation than considered by sales managers. Such misunderstandings can lead to wasted managerial effort devising motivational schemes and compensation plans that are not valued by salespeople. The remedy is to meet regularly with the salesforce to understand their value systems, so that what is prescribed by management is effective in raising salesforce motivation.

Second, meetings in the field, which may form part of an evaluation and training programme, can also provide an opportunity to motivate. Sales technique can be improved and confidence boosted, both of which may motivate by restoring in the salesperson the belief that performance will improve through extra effort.

Third, according to Likert, **group meetings** can motivate when the sales manager encourages an 'open' style of meeting. Salespeople are encouraged to discuss their sales problems and opportunities so that everyone in the sales team benefits from each other's experiences. This leads to a greater sense of group loyalty and improved performance. Finally, meetings between manager and salespeople provide the opportunity for performance feedback where weaknesses are identified and good work receives recognition.

The study by Coulaux and Jobber found that almost half their sample of consumer salespeople wanted more meetings with their sales managers.[11] Table 14.3 shows the topics they would most like to discuss. Three-quarters of the salespeople said that they would like more opportunity to analyse job problems and try to find a solution with their sales managers. Sales targets were second on the list of issues they would like to discuss.

Table 14.3 Topics salespeople would like to discuss more with their sales managers

Matters	%
Analyse job problems and try to find solutions together	75
Sales targets	70
Job problems	68
Promotion	45
Job career	45
Review performance together	30
Remuneration	22
Personal problems	22

The work by Herzberg highlights the importance of **recognition** as a positive motivator, and Maslow suggests that many people have a need to be accepted. Thus, what sales managers say to their salespeople can have both motivational and demotivational effects, by giving and/or taking away recognition and acceptance. Giving recognition and acceptance (e.g. by a pat on the back or a word of praise) is called *positive stroking* and can act as a motivator. Withdrawing recognition and acceptance (e.g. criticising or ignoring the person) is called *negative stroking* and can act as a motivator or demotivator depending on the circumstances. Such withdrawal can motivate when the salesperson is underperforming through lack of effort when that person has a strong desire for recognition and acceptance. However, many managers can demotivate almost unknowingly by what they say and do. Outside factors such as domestic problems may cause managers to give out negative strokes to people who do not deserve them. Under such circumstances they can have a demotivational effect. Table 14.4 gives a few examples.

A further example of the use of negative strokes was the sales manager of a financial services company who wanted to reduce his salesforce's expenses bill. The salespeople were provided with BMWs. To their astonishment, the sales manager declared that from the following month the salesperson with the highest expenses would get to drive the company's new Skoda.

Table 14.4 Positive and negative strokes

Strokes	Physical contact	Psychological
Positive	Handshake, pat on the back	Praise, smile, appreciative glance
Negative	Push, slap	Criticism, ridicule, ignore, sideways glance, frown

14.1.2.4 Promotion

Sales managers believe that a **merit-based promotional system** does act as a motivator. If the promotion is to a managerial position, there are grave dangers of promoting the company's best salesperson. The skills required of a sales manager are wider than those required of a salesperson. A sales manager must be able to analyse and control the performance of others, motivate and train them. These skills are not required to sell successfully.

If promotion is to be tied to sales performance, it is sensible to consider the creation of a dual promotional route. The first path follows the normal managerial career sequence. The second is created to reward outstanding sales success. An example of such a merit-based promotional ladder is from salesperson to senior salesperson to national account executive.

14.1.2.5 Sales Contests

Sales contests are a popular form of incentive for consumer salesforces. The purpose of the sales contest varies widely. It may be to encourage a higher level of sales in general, to increase the sales of a slow-moving product or to reward the generation of new customers. The strength of a sales contest lies in its ability to appeal to the competitive spirit of salespeople and their need for achievement and recognition. As with other financial incentives, to be effective the contest must be seen as fair and each salesperson must believe that he or she is capable of winning.

However, problems can occur. Contests can encourage cheating. In one company that used a sales contest to promote sales at a series of promotional events around the country with its dealers, salespeople 'stored up' orders achieved prior to the events in order to increase the apparent number of orders taken at the events. By pitching salesperson against salesperson, contests may militate against the spirit of mutual help and cooperation which can improve salesforce performance.

Sales managers need to be sensitive to the differences in cultural ideas and expectations of overseas salespeople when devising motivational programmes. Box 14.1 gives some examples of how such differences can impact on salesforce motivation.

Box 14.1: Motivating International Salespeople

The key to selecting appropriate salesperson motivation and compensation systems is to understand their values and expectations, and not assume that what works at home will work in foreign markets. For example, in Europe money is often viewed as a key motivator whereas in the Middle East and Japan commission is little used, and non-financial factors such as increased responsibilities or higher job security are more effective. An understanding of local customs is required. For example, in Japan salary increases are usually based on seniority. Political factors can also determine the split between fixed salary and commission, and the level of fringe benefits provided for employees.

Perceptions of unfairness can arise when the overseas salesforce consists of a mixture of expatriates and local salespeople. Because a salary increase normally accompanies an expatriate's overseas move, they may be paid more than local recruits. If this becomes common knowledge, the motivation of locally recruited salespeople may suffer.

Sources: Based on Cundiff, E. and Hilger, M.T. (1988) *Marketing in the International Environment*, Prentice Hall, Englewood Cliffs, NJ.; Hill, J.S., Still, R.R. and Boya, U.O. (1991) 'Managing the multinational sales force', *International Marketing Review*, 8(1), pp. 19–31.

14.2 Leadership

For motivation to be effective it must be channelled in the right direction, which is where leadership is crucial. Motivation provides the movement while leadership supplies the direction that allows both the company and the salesperson to achieve their objectives.[14] Leadership is the process of influencing the behaviour of people towards the accomplishment of objectives. In sales management, leadership usually focuses on the relationships between sales managers and their salespeople. However, it is also relevant for key, national or global account managers who manage account teams.

Leaders generate good performance from their sales teams by increasing their personal rewards from achieving objectives and by making the path to these rewards easier to follow through advice, training, reducing or removing obstacles and problems, and by increasing the opportunities for personal satisfaction.[15]

A key question is what is required to be a successful leader. An informal survey of sales managers' opinions on the characteristics of a successful leader produced the following comments:[16]

- Leaders have a strong, defined sense of purpose. They know what needs to be done.
- Leaders are effective communicators. They communicate their vision of the future. They provide an invitation to the sales team to link their prosperity to the success of the business. They communicate what is expected of people and how they are doing.
- Leaders are persistent and hard-working. They are prepared to invest whatever time and effort is required to achieve results.
- Leaders are self-aware. They recognise their strengths, weaknesses, skills and abilities.

- Leaders are learners. They welcome information, develop new skills and improve on existing ones.
- Leaders love their work. They view work as an adventure and are constantly renewed and stimulated by it.
- Leaders inspire others. They are able to unite people in a consolidated effort.
- Leaders establish human relationships based on trust, respect and caring.
- Leaders are risk takers. They are willing to explore and experiment.
- Leaders are keen to help others attain their goals. They reduce or remove obstacles to the attainment of salespeople's goals and help them be successful in their jobs.
- Leaders have the ability to motivate and inspire salespeople to grow and learn. Each of their salespeople feels they have control over their own destiny and feels important to their organisation.

An enormous amount of research has gone into exploring leadership.[17] While a review of all this work is beyond the scope of the book, one key study by Goleman[18] will be reported as it links leadership styles to 'working atmosphere or climate' and performance. The research is based on a study of almost 4000 executives from around the world by the management consulting firm Hay McBer.

Six leadership styles were identified and are summarised in Table 14.5. The research indicated that effective leaders do not rely on one leadership style but use all or most of them, depending on the particular situation. Goleman drew a golfing analogy: over the course of a game, a golfer chooses clubs based on the demands of the shot. That is how highly effective leaders also operate.[18]

Table 14.5 **Six leadership styles and key characteristics**

Style	Operational characteristics	Style in a phrase	Underlying competencies	When to use
Coercive	Demands compliance	Do what I tell you	Drive to achieve, self-control	In a crisis, with problem people
Authoritative	Mobilises people	Come with me	Self-confidence, change catalyst	When new vision and direction is needed
Affiliative	Creates harmony	People come first	Empathy, communication	To heal wounds, to motivate people under stress
Democratic	Forges consensus	What do you think?	Collaboration, team building	To build consensus, to get contributions
Pacesetting	Sets high standards	Do as I do, now	Initiative, drive to achieve	To get fast results from a motivated team
Coaching	Develops people	Try this	Empathy, self-awareness	To improve performance, to develop strengths

Source: Adapted from Goleman, D. (2000) 'Leadership that gets results', *Harvard Business Review*, March/April, pp. 78–90.

While coercion and pacesetting have their uses, the study showed that overall these styles can harm 'working atmosphere', reducing, for example, flexibility (how free employees feel to innovate unencumbered by red tape) and commitment to a common purpose. The other four leadership styles have a positive impact on 'working atmosphere' and financial performance. Goleman concludes that the best leaders are those who have mastered four or more styles, especially the positive ones (authoritative, affiliative, democratic, coaching) and have the ability to change styles as the situation demands. Effective leaders have the capability to match their behaviour to a situation in an automatic, flexible, fluid and seamless way. Importantly, Goleman argues that the ability to use more than those leadership styles that come naturally can be taught (or coached). Therefore sales managers who display, for example, only one or two of the necessary styles can be coached to expand their repertoire of styles, enabling them to become more effective leaders.

Consistent with these findings, Huczynski and Buchanan[17] conclude that leadership research suggests that effective leadership styles depend on context, with no one style of leadership appearing universally better. However, they argue that a good deal of research suggests that a considerate, participative or democratic style of leadership is generally (if not always) more effective than an autocratic, coercive style. Two reasons are given:

- It reflects the wider social and political trends towards increased personal freedom and the right to resist manipulation.
- The need to tap the ideas of people with knowledge and experience and the need to get greater commitment through their involvement in decision-making.

Autocratic or coercive management stifles creativity, ignores available expertise and kills motivation and commitment. However, it can be necessary when time is short, the leader is the most knowledgeable person and where potential participants would never agree on a decision.[17]

14.3 Training

A study for the Learning International Organisation[19] revealed seven sales challenges that organisations must meet if they are going to survive in the competitive marketplace:

- **Distinguish between similar products and services.** Success in sales requires more than just having an exceptional product or service. The proliferation of 'me too' products is causing buyers to become confused. Excellent salespeople are needed to capitalise on product differences so that their offerings are better than the competitor's.
- **Putting together groups of products to form a business solution.** As customers' requirements are continually becoming more complex, single product or service selling is becoming obsolete. Their needs can only be met by a 'package' of products or services. The salesperson will have to be highly trained to put together a package to satisfy these needs.

- **Handling the more educated buying population.** Today's customers are willing to work harder and take time to shop around for what they need. They are also more aware of the product features, benefits, options and prices. Today's professional salesperson must therefore work harder to close the sale.
- **Mastering the art of consultative selling.** The salesperson now needs to understand the specific business issues and problems faced by customers. His or her role is to lessen customers' responsibility to discover their own needs, and to show how the product and service being offered will fill these needs.
- **Managing a team selling approach.** In the future a team selling approach will have to be adopted to satisfy customer needs. The salesperson will have to draw on knowledge of technical staff, marketing staff and experts in other product areas.
- **Knowing the customer's business.** Future sales will require in-depth knowledge of the customer's business, with salespeople well versed in the requirements of the market segment in which they sell. Relationship building with the customer is paramount and the customer's best interests are always placed at the forefront. Accurate marketing information is needed to provide each customer with the best possible service.
- **Adding value through service.** When a product reaches a commodity status the salesperson's perceived value is diminished. They are reduced to order-takers. Companies must continue to build up their relationship with customers by adding value through services such as business consultations and ongoing product support.

These challenges have assumed greater importance since the advent of the Single European Market. For the first time there is easy access to the European markets. Thus competition has increased and only the companies that are prepared to meet these challenges will survive.

Producing the best available product or service is not enough – it has to be sold. If companies are to survive they must attach the utmost importance to training their field salesforce, not just pay lip service to the concept. Top management must be totally committed to training and authorise sufficient investment for this to occur. They must also accept that the benefits derived from sales training may not be immediate; they take time to show through.

On the whole, insufficient attention is paid to training. Presumably it is believed that salespeople will learn the necessary skills on the job. This approach ignores the benefits of a training programme that builds a reference frame within which learning can occur and provides the opportunity to practise skills with feedback which is necessary to identify the strengths and weaknesses of performance. For training to succeed, the salesperson must accept that there is a problem with his or her performance, otherwise he or she is unlikely to try to rectify the problem.

Another approach to the training problem of new salespeople is to send them out with an experienced salesperson to observe how selling is done. This in itself is insufficient for successful sales training. Its virtues are that the trainee may gain insights not only into techniques which appear to be successful in selling, such as certain closing techniques, but also into the kinds of objection raised by buyers.

However, its value is greatly enhanced if supplemented by a formal sales training programme conducted by an experienced sales trainer who is skilled in lecturing, handling role-playing sessions and providing constructive feedback in such a way that it is accepted by the trainee.

Sales training provides particular challenges in the international environment. Differences in language and culture mean that care must be taken when training overseas sales teams. Box 14.2 addresses some major points.

Box 14.2: Training Overseas Salesforces

When training local salespeople, cultural imperatives should be recognised. For example, when training Chinese and Japanese salespeople, situations where loss of face can occur should be avoided. Japanese salespeople receive on-the-job training in a ritualistic formal setting to ensure that constructive criticism does not result in loss of face for the inexperienced salesperson. Also some selling approaches may not be applicable in certain cultures. For example, problem-solving techniques may not be suitable for Chinese or Japanese salespeople. Finally, care needs to be exercised when translating sales manuals into foreign languages.

For local recruits, training will include product knowledge and an appreciation of the company, its history and philosophies. For expatriates, language training may be required and familiarity with foreign business etiquette. Often initial on-the-job training is with an experienced expatriate. Training in the language, lifestyle and culture of the people of the new country should include the salesperson's spouse and children to reduce early burnout.

Sources: Based on Hill, J.S., Still, R.R. and Boya, U.O. (1991) 'Managing the multinational sales force', *International Marketing Review*, 8(1), pp. 19–31; Honeycutt, E.D. Jr and Ford, J.B. (1995) 'Guidelines for managing an international sales force', *Industrial Marketing Management*, 24, pp. 135–44.

14.3.1 Skill Development

There are four classic stages to learning a skill. These are shown in Table 14.6. The first stage defines the situation before a trainee decides to enter a career in selling. He or she is unable to carry out the skills and has not even thought about them. By reading or being told about the skills involved, the trainee reaches the second stage, consciously unable. He or she knows what to do but cannot successfully perform any of the skills.

At the third stage, consciously able, the trainee not only knows what to do but is reasonably proficient at putting the skills into practice individually. He or she is like a learner driver who can engage gear, release the clutch, look in the mirror, gently press the accelerator and release the handbrake as a series of separate operations, but not in a coordinated manner which successfully moves the car from a standing start. The trainee may be able to make a presentation successfully, handle objections and close a sale, but may be hopelessly adrift when he or she needs to handle objections, continue making the presentation and all the while look for signs to close the sale.

Table 14.6 Skills development

Stage		Description
1	Unconsciously unable	Trainee does not think about skills
2	Consciously unable	Trainee reads about skills but cannot carry them out in practice
3	Consciously able	Trainee knows what to do and is reasonably proficient in individual skills but has difficulty putting them all into practice together
4	Unconsciously able	Trainee can perform the task without thinking about it; skills become automatic

A successful training programme takes the trainee through this difficult barrier to the fourth stage, unconsciously able, when he or she can perform all the skills at once and has the ability to think a stage in advance so that he or she has control of the selling situation. A car driver reaches this stage when able to coordinate the skills necessary to start, move and stop a car without thinking; the timing of gear changes and braking, for example, become automatic, without conscious thought. Similarly, the salesperson can open the interview, move through the stages of need identification, presentation and handling objections in a natural manner, and can alter the approach as situations demand, before choosing the right moment and most appropriate technique to close the sale.

When salespersons become unconsciously able they are likely to be competent although, like a driver, football player or cricketer, there will always be room for further improvement and refinement of their skills.

14.3.2 Components of a Training Programme

A **training programme** will attempt to cover a combination of knowledge and skill development. Five components can be identified:

- the company's objectives, policies and organisation;
- its products;
- its competitors and their products;
- selling procedure and techniques;
- work organisation and report preparation.

The first three components are essentially communicating the required level of knowledge to the salesperson. The first component will probably include a brief history of the company, how it has grown and where it intends to go in the future. Policies relevant to the selling function will be explained, such as how salespeople are evaluated and the nature of the compensation system. The way in which the company is organised will be described and the relationship between sales and the marketing function, including advertising and market research, will be described so that the salesperson has an appreciation of the support he or she is receiving from headquarters.

The second component, product knowledge, will include a description of how the products are made and the implications for product quality and reliability, the features of the product and the benefits they confer on the consumer. Salespeople will be encouraged to carry out their own product analyses so that they will be able to identify key features and benefits of new products as they are launched. Competitors will be identified and competitors' products will also be analysed to spotlight differences between them and the company's products.

Some training programmes, particularly within the industrial selling arena, stop here, neglecting a major component of a training programme – selling procedures and techniques. This component involves an examination of the factors analysed in Module 5 and will include practical sessions where trainees develop skills through role-playing exercises.

The final component of the programme – work organisation and report writing – will endeavour to establish good habits among the trainees in areas which may be neglected because of day-to-day pressures. The importance of these activities on a salesperson's performance, hence earnings, will be stressed.

14.3.3 Methods

14.3.3.1 Lectures

Lecture are useful in giving information and providing a frame of reference to aid the learning process. They should be supported by the use of visual aids, for example, professionally produced overhead projector transparencies. Trainees should be encouraged to participate so that the communication is not just one way. Discussion stimulates interest and allows misunderstandings to be identified and dealt with.

14.3.3.2 Films

Films are a useful supplement to the lecture in giving information and showing how a skill should be performed. They add an extra dimension to a lecture by demonstrating how the principles can be applied in a selling situation. In terms of the stages of learning skills, lectures and films take the trainees up to the point of being consciously unable. They will show what they are required to do, but they will lack the experience to put the theory into practice successfully.

14.3.3.3 Role Playing

Role Playing moves the trainees into the stage of being consciously able to perform a skill. It allows the trainees to learn by their own successes and failures in a buyer–seller situation. Feedback is provided by other group members, the sales trainer and by audio-visual means.

Seeing oneself perform is an enlightening and rewarding experience and can demonstrate to the trainee the points raised by other members of the group. Without this dimension some trainees may refuse to accept a fault, e.g. losing the buyer's interest, simply because in the heat of the selling discussion they genuinely do not notice it. Playback allows the trainee to see the situation through the eyes of a third person and problems are more easily recognised and accepted.

Role playing has its critics. Some say that trainees do not take it seriously enough and that by its very nature it is not totally realistic. Its main value is in teaching inexperienced salespeople the basic skills of selling in a less threatening environment than real selling. The selling process can be broken up into a series of activities, e.g. opening and need identification, sales presentation and overcoming objections, each of which requires a special set of skills. Role playing can be used to develop each set of skills in a series of exercises which gradually build up to a full sales interview.

The degree of success achieved by role playing is heavily dependent on the skills of the sales trainer. When the trainees have at least a modicum of sales experience, it is good practice to allow them to devise their own sales situations based on actual experiences. The briefs so produced are then exchanged between trainees so that each is presented with a situation which is new to them but which, at the same time, is realistic.[20]

14.3.3.4 Case Studies

Case studies are particularly appropriate for developing analytical skills. Trainees are asked to analyse situations, identify problems and opportunities and make recommendations for dealing with them. They can be used, for example, in setting call objectives. A history of a buyer–seller relationship is given and the trainee is asked to develop a set of sensible objectives for his or her next visit.

14.3.3.5 In-the-Field Training

It is essential that initial training given to trainees is reinforced by on-the-job training. The experience gained by real-life selling situations plus the evaluation and feedback provided by the sales manager should mean that the salesperson moves solidly into the final stage of the learning skills process, unconsciously able. The salesperson does the right things automatically, just as a driver can coordinate the set of skills necessary to drive a car without consciously thinking.

Although unconsciously able is the final stage in the learning process, it does not mean there is no room for improvement. Field training is designed to improve the performance of the experienced salesperson as well as the newer salesperson. In order to achieve this, the sales manager needs to

- analyse each salesperson's performance;
- identify strengths and weaknesses;
- gain agreement with the salesperson that a weakness exists;
- teach the salesperson how to overcome the weaknesses;
- monitor progress to check that an improvement has been realised.

There may be a strong temptation during a sales interview for a manager to step in when it is obvious that the salesperson is losing an order. Whether he or she succumbs to this temptation will depend on the importance of the order, but to do so will undoubtedly reduce the effectiveness of the training session. Ideally, the sales manager should use the situation as an opportunity to observe and evaluate how the salesperson deals with the situation. Stepping in may save the order but cause resentment on the part of the salesperson, who loses face with the customer. This may jeopardise future sales and damage the manager's relationship with the salesperson.

Generally, salespersons will respect criticism which they feel is fair and constructive. To achieve a sense of fairness, the sales manager should begin the post-interview assessment session by listing the positive points in the salesperson's performance. He or she should then ask the salesperson to relate any aspects of the sales interview which could be improved upon. If the salesperson realises that he or she has a weakness, then the manager does not have the problem of convincing him or her that a difficulty exists.

It is inevitable that some weaknesses will not be exposed in this way and the manager will have to explain them to the salesperson. However, since the manager has earlier praised other aspects of performance, the salesperson is unlikely to reject the manager's criticisms out of hand. Having gained agreement, the sales manager will then suggest methods to overcome the problem. Perhaps he or she will take the role of the buyer and engage in a role-playing exercise to rehearse the way in which a problem should be dealt with before the next call, or simply instruct the salesperson and suggest that he or she applies what has been said at the next call.

14.3.4 Evaluation of Training Courses

A study by Stamford-Bewley and Jobber sought to identify the methods used to evaluate training courses among a sample of companies in service, consumer and industrial sectors.[21] The results are shown in Figure 14.6. It appears that only 57 per cent attempt to measure changes in sales volume which may occur as a result of the course. More popular were field visits with salespeople (78 per cent) where the sales manager would subjectively gauge whether ability had improved as a result of the training course.

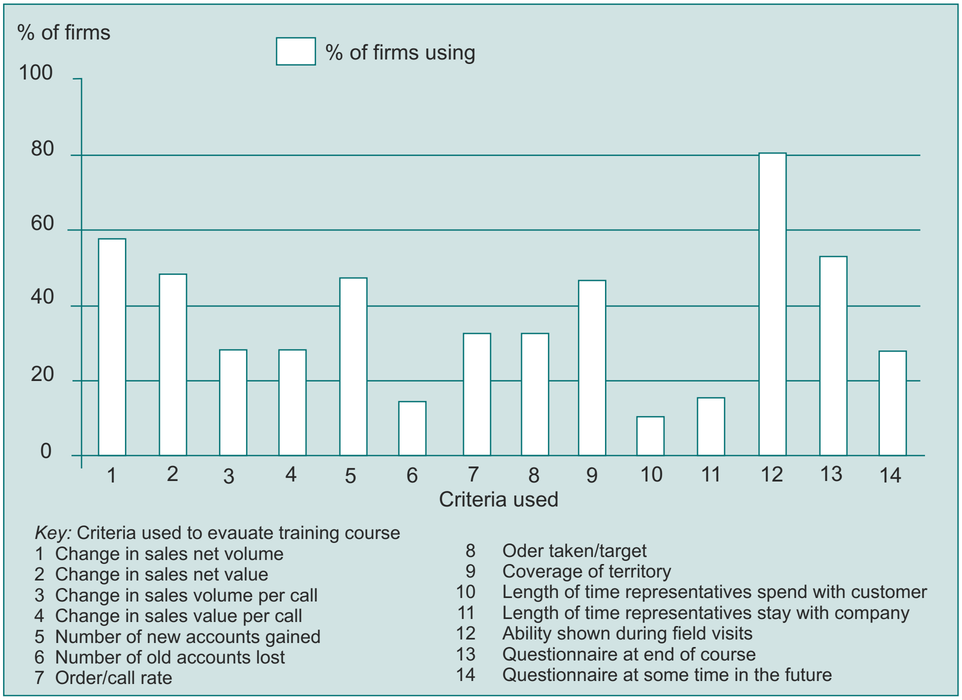


Figure 14.6 Criteria used to evaluate training courses

Source: Stamford-Bewley, C. and Jobber, D. (1989) *A Study of the Training of Salespeople in the UK*, University of Bradford Management Centre Working Paper.

14.3.5 Training Sales Managers

To succeed as a sales manager requires a formidable set of skills and roles,[22] including these:

- developing close relationships with customers and an in-depth understanding of customers' businesses;
- partnering salespeople to achieve sales, profitability and customer satisfaction goals;
- coordinating hybrid salesforces of telemarketers and field salespeople;
- keeping up to date with the latest technologies impacting the sales function;
- learning marketing skills to identify potential business opportunities and recommend strategies;
- working with other functional areas to achieve overall corporate goals through customer satisfaction;
- continually seeking ways to exceed customer expectations and create added value in buyer–seller relationships;
- creating a flexible, learning and adapting environment for the sales team.
- developing teaching, analytical, motivational, organisational, communication and planning skills.

The sales manager's job is becoming increasingly demanding because of the environmental changes discussed at the beginning of Module 11. Yet the training of sales managers appears to be neglected in many companies. Information on the extent of sales manager training is based on US studies which show that not only are most sales managers not being trained adequately, but also that most are not being formally trained at all.

The US survey conducted by Anderson *et al.*[23] showed that 57 per cent of sales managers reported their company failed to provide them with formal sales management training. They speculate that one reason may be that companies assume a newly promoted 'top salesperson' ought to be able to pass their selling skills on to other salespeople and thus smoothly make the transition from successful salesperson to successful sales manager. However, this argument overlooks the large differences between the jobs of salesperson and sales manager. While salespeople achieve their goals largely as a result of their own efforts, sales managers accomplish their goals largely through the efforts of the salesforce. Whereas the salesperson requires self-management, selling and negotiation skills, the sales manager requires a much broader range of managerial, administrative and leadership skills. Hence it is not surprising that top salespeople do not always make the best managers.

For those who did receive training, most tended to be on-the-job coaching by supervisors or peers backed up by a company-sponsored course or seminar at a college or university. Most of the training involved traditional methods such as group discussions, role playing, case studies and motivational speakers (see Table 14.7).

The topics most frequently covered were motivation, goal setting for salespeople, leadership skills, training evaluation, territory management and time management (see Table 14.8). Very little attention was given to profitability analyses (by product category, market segment, salesperson, territory or customer type), indicating that sales managers were not being given essential financial skills to support their job.

Table 14.7 Methods used to train sales managers

Method	%
Group discussions	72
Role playing	64
Case studies	50
Motivational speakers	46
Computer simulation games	44
Seminars (up to four weeks long)	44
Videotapes and films	40
College courses	24
Correspondence courses	16
In-basket exercises	10
Videoconferencing	8

Source: Anderson, R.E., Mehta, R. and Strong, J. (1997) 'An empirical investigation of sales management training programs for sales managers', *Journal of Personal Selling and Sales Management*, 17(3), pp. 53–66.

Table 14.8 Topics covered in sales training programmes

Topic	%
Motivating salespeople	82
Goal setting for salespeople	76
Leading salespeople	66
Training salespeople	64
Evaluating salespeople	64
Territory management	62
Time management	60
Developing sales strategies	58
Strategic sales planning	56
Recruiting new salespeople	52
Organising salespeople	52
Sales forecasting	50

Source: Anderson, R.E., Mehta, R. and Strong, J. (1997) 'An empirical investigation of sales management training programs for sales managers', *Journal of Personal Selling and Sales Management*, 17(3), pp. 53–66.

Learning Summary

This module considered motivational theory and practice as applied to the sales area. A number of theories were examined:

- Maslow's hierarchy of needs theory;

- Herzberg's motivator/hygiene theory;
- Vroom's expectancy theory;
- Adam's inequity theory;
- Likert's sales management theory.

Motivation in practice is focused on the use of

- financial incentives;
- sales quotas or targets;
- meetings between salesperson and manager;
- sales contests.

Successful leaders change their style depending on the situation. Sales training involves the development of a programme which enhances selling skills. The components of a training programme and methods used were examined before the skills required for sales management were outlined.

The next module explores two other management considerations: sales organisation and compensation.

Review Questions

Content Questions

14.1 What are the five fundamental needs in Maslow's hierarchy of needs?

14.2 What are the hygiene factors in Herzberg's dual-factor theory?

14.3 What are the concepts considered in Vroom's expectancy theory?

14.4 What are the potential sources of inequity in Adam's inequity theory?

14.5 According to Likert's sales management theory, what is the difference between the group method and the monopolist's method of leading sales meetings?

14.6 In practice, what does motivation tend to focus on?

14.7 What are the four classic stages of learning a skill?

14.8 Describe some ways you might deliver a training programme.

Multiple-Choice Questions

14.9 Which need in Maslow's hierarchy describes the fundamental desire to survive?
A. Safety.
B. Physiological.
C. Self-actualisation.
D. Esteem and status.

14.10 Which need in Maslow's hierarchy describes the desire to achieve a high standing relative to other people?
A. Safety.
B. Physiological.
C. Self-actualisation.
D. Esteem and status.

14.11 According to Herzberg, hygiene factors include all of the following except one. Which one?
A. Salary.
B. Physical working conditions.
C. Security.
D. Recognition of achievement.

14.12 Opportunities to grant greater responsibility include providing salespeople with any of the following except one. Which one?
A. Discretion to offer discounts.
B. Authority to offer credit.
C. Compensation linked to performance.
D. Freedom to plan their own call frequency.

14.13 Have a look at these two statements.
I. Vroom's expectancy theory states that instrumentalities are the individual's perception of the link between job performance and various rewards.
II. Vroom's expectancy theory states that expectancies are the salesperson's perception of the linkage between job effort and performance.
Now choose the correct option.
A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

14.14 Valences are the salesperson's perception of what?
A. The desirability of receiving increased rewards with improved performance.
B. How promotions are achieved with more effort in the field.
C. Matching his or her ability with desired roles in a company.
D. None of the other options.

14.15 A salesperson does not attach higher expectancies to future performance? This is probably because they attribute their past success to what?

A. Personal effort.
B. Superior skill.
C. Good luck.
D. A perception that the task was easy.

14.16 Have a look at these two statements.

I. The group method of conducting sales meetings tends not to be used by higher-producing sales teams.
II. The group method of conducting sales meetings encourages salespeople to learn from one another.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

14.17 Sales contests may have all these purposes except one. Which one?

A. To encourage a higher level of sales in general.
B. To increase sales of a slow-moving product.
C. To identify salespeople with managerial potential.
D. To reward the generation of new customers.

14.18 How would you describe a trainee whose skills have developed to the stage where they know what to do, they have individual skills, but they have difficulty combining them to do a whole task?

A. Consciously able.
B. Unconsciously unable.
C. Unconsciously able.
D. Consciously unable.

14.19 How would you describe a trainee whose skills have developed to the stage where they can perform a task without thinking about it?

A. Consciously able.
B. Unconsciously unable.
C. Unconsciously able.
D. Consciously unable.

14.20 Role playing will develop a trainee's skills to which of these ability stages?

A. Consciously able.
B. Unconsciously unable.
C. Unconsciously able.
D. Consciously unable.

14.21 A training programme has five components:

1. the company, its objectives, policies and organisation;
2. its product;
3. its competitors and their products;
4. selling procedures and techniques;
5. work organisation.

Which components of this training programme relate to the development of knowledge?

A. Components 1, 2 and 3.
B. Components 4 and 5.
C. Components 1, 2, 3, 4 and 5.
D. Components 2 and 3.

14.22 Which one of these training methods would you recommend for use in skills development?

A. Lecture.
B. Role playing.
C. Case studies.
D. In-the-field training.

14.23 Which of the following topics receives the least frequent coverage in sales training programmes?

A. Sales forecasting.
B. Goal setting.
C. Leadership.
D. Motivation.

14.24 Which of the following topics receives the greatest coverage in sales training programmes?

A. Sales forecasting.
B. Evaluation.
C. Organisation.
D. Motivation.

Case Study 14.1: Selling Fountain Pens

Practical exercise

This exercise was devised by Mr Robert Edwards, sales training manager in the UKMP Department of ICI Pharmaceuticals. We are grateful for his permission to reprint it. It can be used to develop the skills for effective selling outlined in Module 5: need identification, presentation and demonstration, answering questions and handling objections, and closing the sale.

Salesperson's profile

You are a salesperson in a stationery department of a small store. For a few minutes a customer has been looking at your range of quality pens. The person comes up to you saying, 'I'm looking for a good fountain pen for my daughter.' You take the interview from this point.

You have a display of six fountain pens (A to F) with the features shown in Figure 14.7.

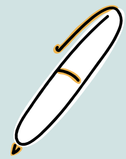
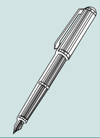
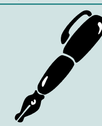
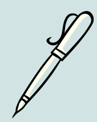
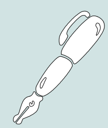
Pen	Filling method	Price	Spare nibs	Spare cartridge cost	Nib size/ type	Coinstruction material (all with pocket clips)	Shape	Colours	Other features
A	Capillary refillable	£15	£2.50	–	Medium/ gold	All-metal 'gold' finish	Round	'Silver'/ 'gold' tops	Barrel has to be unscrewed to refill with an easy grip feature; guaranteed for two years; screw cap; spare italic nib supplied; made in the UK 
B	Cartridge, 3 spare	£12	£1.50	£1 for 4	Medium/ gold	Metal/ plastic tops	Round	Black/ 'silver'	Very slim enclosed nib; screw cap; guaranteed for one year; made in France 
C	Cartridge, 2 spare	£10	£1.50	£1 for 4	Medium/ steel	Metal/ plastic	Round	Various/ 'silver' tops	Bulky easy-to-hold style; screw cap; guaranteed for one year; made in Italy 
D	Cartridge, 4 spare	£10	£1.30	£1 for 6	Fine/ steel	Plastic with 'silver' top	Round	Various/ 'silver' tops	Superslim variety; enclosed nib; screw cap; guaranteed for two years; made in France 
E	Cartridge, 1 spare	£9	£2.00	£1 for 6	Fine/ steel	Plastic	Trian- gular	Black/ red/ blue	Push-on cap; guaranteed for one year; made in Germany 
F	Cartridge, 1 spare	£7	£4.00	£0.60 for 4	Broad/ steel	Metallised plastic	Round	'Silver'	Choice of left-/ right-hand nib; push-on cap; guaranteed for six months; made in the UK 

Figure 14.7 **Fountain pen features**

Question

1 Describe a potential dialogue between yourself and the customer demonstrating your key selling skills.

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Module 15

Organisation and Compensation

Contents

Learning Objectives

After studying this module, you should be able to

- appreciate the advantages and disadvantages of different structures for salesforce organisations;
- compute the numbers of salespeople needed for different selling situations;
- understand the factors to be considered when developing sales territories;
- strike a balance between various sales compensation plans;
- establish priorities in relation to customers, travelling time, and evolving call patterns.

Key Concepts

- compensation plans
- key account selling
- organising a salesforce
- team selling
- workload approach

15.1 Organisational Structure

Perhaps the classical form of **organising a salesforce** is along geographical lines, but the changing needs of customers and technological advances have led many companies to reconsider their salesforce organisation. The strengths and weaknesses of each type of organisational structure, as illustrated in Figure 15.1, will now be examined.

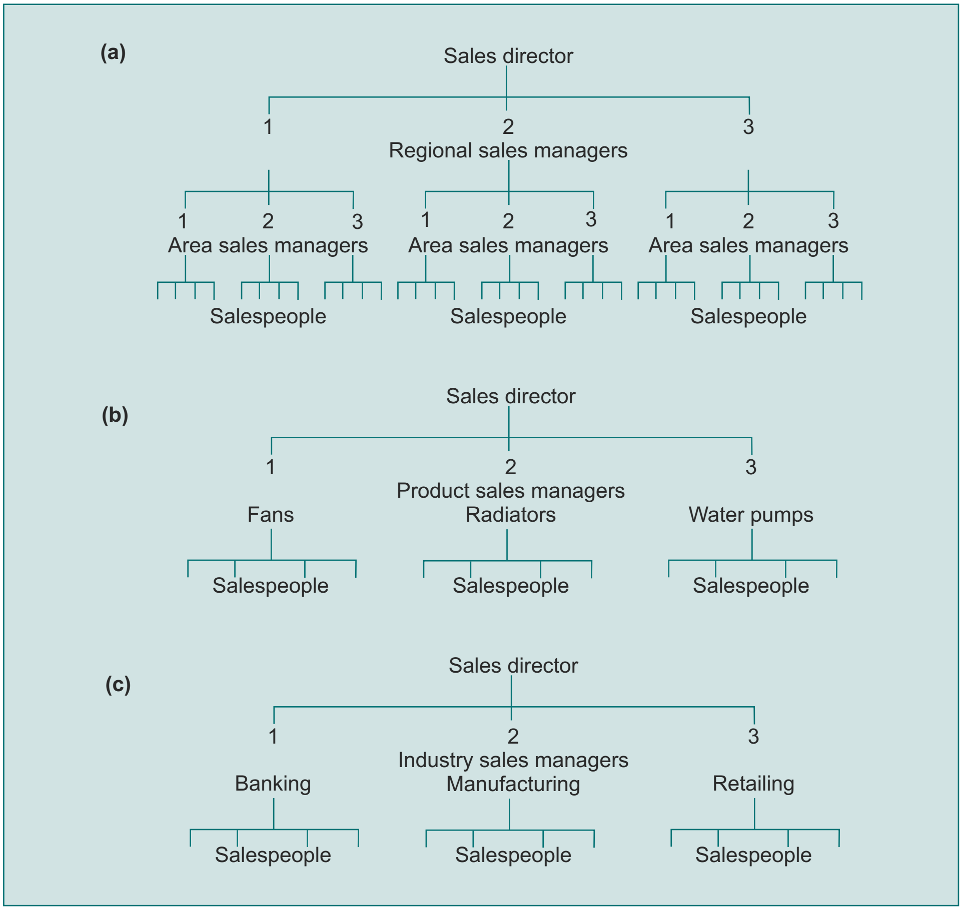

Figure 15.1 Organisation structures

(a) geographical structure, (b) product specialisation structure; (c) customer-based structure.

In a geographical structure the area sales manager level is optional, and where the number of salespeople (span of control) under each regional manager exceeds eight, serious consideration may be given to appointing area managers

15.1.1 Geographical Structure

Geographical structures have the advantage of simplicity. Each salesperson is assigned a territory over which they have sole responsibility for sales achievement. His or her close geographical proximity to customers encourages the development of personal friendships, which aids sales effectiveness. Also, compared with other organisational forms, e.g. product or market specialisation, travelling expenses are likely to be lower.

A potential weakness of the geographical structure is that the salesperson is required to sell the full range of the company's products. They may be very different technically and sell into a number of diverse markets. Then it may be unreasonable to expect the salesperson to have the required depth of technical knowledge for each product and be conversant with the full range of potential applications within each market. This expertise can only be developed if the salesperson is given a more specialised role. A further related disadvantage of this method is that, according to Moss,[1] salespeople in discrete geographical territories, covering all types of customer, are relatively weak in interpreting buyer behaviour patterns and reporting changes in the operational circumstances of customers compared with salespeople organised along more specialised lines.

15.1.2 Product Specialisation Structure

One method of specialisation is along product lines. Conditions which are conducive to this form of organisation are where the company sells a wide range of technically complex and diverse products, and key members of the decision-making unit of the buying organisations are different for each product group. However, if the company's products sell essentially to the same customers, there may be problems of route duplication (hence higher travel costs) and customer annoyance. Inappropriate use of this method can lead to a customer being called upon by different salespeople representing the same company on the same day. When a company contemplates a move from a geographical structure to a product-based structure, some customer overlap is inevitable, but the problem should be manageable if the overlap is fairly small.

15.1.3 Customer-Based Structures

15.1.3.1 Market-Centred Structure

Another method of specialisation is by the type of market served. Often in industrial selling the market is defined by industry type. Thus, although the range of products sold is essentially the same, it might be sensible for a computer firm to allocate its salespeople on the basis of the industry served, e.g. banking, manufacturing companies and retailers, given that different industry groups have widely varying needs, problems and potential applications. Specialisation by market served allows salespeople to gain greater insights into these factors for their particular industry, as well as to monitor changes and trends within the industry which might affect demand for their products. The cost of increased customer knowledge is increased travel expenses compared with geographically determined territories.

Magrath[2] looked at the way industrial sales specialists levered up sales by virtue of applications expertise. Because they knew so much about the industry, they were welcomed as 'fraternity brothers' by customers.

15.1.3.2 Account Size Structure

Some companies structure their salesforce by account size. The importance of a few large customers in many trade and industrial markets has given rise to the establishment of a **key or major account salesforce**. The team comprises senior salespeople who specialise in dealing with large customers that may have different buying habits and demand more sophisticated sales arguments than smaller companies. The team will be conversant with negotiation skills since they are likely to be given a certain amount of discretion in terms of discounts, credit terms, etc., in order to secure large orders. The range of selling skills required is therefore wider than for the rest of the salesforce, who deal with the smaller accounts. Some organisations adopt a three-tier system, with senior salespeople negotiating with key accounts, ordinary salespeople selling to medium-sized accounts, and a telemarketing team dealing with small accounts. A number of advantages are claimed for a key account salesforce structure:

- **Close working relationships with the customer.** The salesperson knows who makes what decisions and who influences the various players involved in the decision. Technical specialists from the selling organisation can call on technical people (e.g. engineers) in the buying organisation and salespeople can call upon administrators, buyers and financial people armed with the commercial arguments for buying.
- **Improved communication and coordination.** The customers know that a dedicated salesperson or sales team exists, so they know who to contact when a problem arises.
- **Better follow-up on sales and service.** The extra resources devoted to the key account mean there is more time to follow up and provide service after a major sale has been made.
- **More in-depth penetration of the DMU.** There is more time to cultivate relationships within the key account. Salespeople can pull the buying decision through the organisation from the users, deciders and influencers to the buyer, rather than the more difficult task of pushing it through the buyer into the organisation, as done with more traditional sales approaches.
- **Higher sales.** Most companies who have adopted key account selling claim that sales have risen as a result.
- **Advancement opportunities for career salespeople.** A tiered salesforce system with key (or national) account selling at the top provides promotional opportunities for salespeople who wish to advance within the salesforce rather than enter a traditional sales management position.

The term 'national account' is generally considered to refer to large and important customers who may have centralised purchasing departments that buy or coordinate buying for decentralised, geographically dispersed branches that transcend sales territory boundaries. Selling to such firms often involves

- obtaining acceptance of the company's products at the buyer's headquarters;
- negotiating long-term supply contracts;
- maintaining favourable buyer–seller relationships at various levels in the buying organisation;
- establishing first-class customer service.

The customer or small group of customers is given special attention by one key person (often known as a national account manager) or team headed by this person. This allows greater coordination than a geographically based system where each branch would be called upon by a different salesperson as part of his or her job of covering their territory.

This depth of selling activity frequently calls for the expertise of a range of personnel in the supplying company in addition to the salesperson. It is for this reason that many companies serving national accounts employ **team selling**.

Team selling involves the combined efforts of such people as product specialists, engineers, sales managers and even directors if the buyer's decision-making unit includes personnel of equivalent rank. Team selling provides a method of responding to the various commercial, technical and psychological requirements of large buying organisations.

Companies are increasingly structuring both external and internal sales staff on the basis of specific responsibility for accounts. Examples of such companies are those in the electronics industry, where internal desk staff are teamed up with outside staff around key customers. These company salesforces are able, with reasonable accuracy, to forecast future sales levels at these key locations. Further, an in-depth understanding of the buyer's decision-making unit is developed by the salesperson being able to form relationships with a large number of individual decision-makers. In this way, marketing staff can be kept informed of customer requirements, enabling them to improve products and plan effective communications.

15.1.3.3 New or Existing Account Structure

A further method of sales organisation is to create two teams of salespeople. The first team services existing accounts, while the second concentrates on seeking new accounts. This structure recognises the following three ideas:

- Gaining new customers is a specialised activity demanding prospecting skills, patience, ability to accept higher rejection rates than when calling on existing customers, and the time to cultivate new relationships.
- Placing this function in the hands of the regular salesforce may result in its neglect since the salespeople may view it as time which could be better spent with existing customers.
- Salespeople may prefer to call on long-established customers whom they know rather than prospects where they might face rejection and unpleasantness.

Pioneer salespeople were used successfully by trading stamp companies to prospect new customers. Once an account was obtained, it was handed over to a maintenance salesperson who serviced the account. This form of salesforce organisation is used in the CCTV, freight and copier industries.

New account salespeople have been found to spend more time exploring the prospect's needs and provide more information to management regarding buyer behaviour and attitudes than salespeople working under a conventional system.[1] The deployment of new account salesforces is feasible for large companies with many customers and where there is a continual turnover of key accounts which have to be replaced. The new account structure allows better planning of this vital function and eliminates competition between prospecting and servicing.

15.1.3.4 Functional Specialisation

In industrial selling, companies sometimes separate their salesforces into development and maintenance sales teams. The development salespeople are highly trained in handling very technical new products. They will spend considerable time overcoming commercial, technical and installation problems for new customers.

A major reason why companies have moved to a development and maintenance structure is the belief that one of the causes of new product failure is the inadequacy of the salesforce to introduce the product. Perhaps the cause of this failure is the psychological block each salesperson faces in terms of possible future problems with the buyer–seller relationship if the product does not meet expectations. Because of this, the salesperson is likely to doubt the wisdom of giving an unproven product his or her unqualified support. Employment of a development sales team can reduce this problem, although it is often only large companies which can afford such a team. Its use can provide other advantages, including clarity of purpose, effective presentation and reliable feedback from the marketplace. Some pharmaceutical companies use this form of salesforce organisation.

15.1.3.5 Mixed Organisation

This section has discussed the merits and weaknesses of the major sales organisational structures. In practice a combination may be used. For example, in order to minimise travelling expenses, a company using a two-product group structure may divide the country into geographically based territories with two salespeople operating within each one.

Like many selling decisions, the choice of sales organisation is not a black and white affair, which is why many salesforces are a blend of general territory representatives and specialists. Many companies use all forms of selling simultaneously: for very big accounts they use key account specialists; for the balance of small and medium accounts they use general territory representatives, perhaps supplemented by product application specialists who help generalists across several territories.

The challenge to any sales manager is to know how to assess the options. Financial, customer coverage and organisational flexibility trade-offs need to be made. The company must balance hard numbers with what the customer wants, which often means some form of specialisation, and what the competition are providing. Increasingly, the customer wants to buy total solutions and demands value-added services rather than one-off transactions.

As companies internationalise, salesforce organisation on a global scale needs to be considered. Box 15.1 covers a number of relevant issues.

Box 15.1: Organisation for International Sales

A common method of organising international salesforces is to adopt the same approach as that taken in the domestic market. Many multinational corporations use the simple geographical method within a given country or region. However, international companies that have wide product lines, large sales volumes and/or operate in large developed markets prefer more specialised organisational forms such as customer- or product-based structures. For smaller markets, as found in developing economies, such specialisation may not be economically viable, leading to geographical organisation.

Language also affects international salesforce organisation. For example, territories in Belgium are often divided by language – French in the south and Flemish in the north – or countries are combined because they speak the same language, such as Austria and Germany, which both use German. Switzerland is often organised into different regions based on the French, German and Italian languages, and some companies treat Central America as a single sales region.

Some considerations when organising an international salesforce organisation are

- geographical size;
- sales potential;
- customer expectations;
- product line width;
- current selling practices;
- language spoken.

Geographical structures tend to be used in less developed markets, when a single product line is sold, and for small sales volumes. Product- or customer-based organisation is more likely in large developed markets, for broad product lines, and where the large sales volume justifies specialisation.

Sources: Based on Hill, J.S. and Still, R.R. (1990) 'Organising the overseas sales force: how multinationals do it', *Journal of Personal Selling and Sales Management*, 10(2), pp. 57–66; Honeycutt, E.D. Jr and Ford, J.B. (1995) 'Guidelines for managing an international sales force', *Industrial Marketing Management*, 24, pp. 135–44; Samli, A.C., Still, R.R. and Hill, J.S. (1993) *International Marketing*, Macmillan, New York.

15.2 Determining the Number of Salespeople

15.2.1 The Workload Approach

The **workload method** calculates the number of salespeople needed, given that the company knows the number of calls per year it wishes its salespeople to make on different classes of customer. Talley[3] showed how the number of salespeople could be calculated by following a series of steps:

- Customers are grouped into categories according to the value of goods bought and potential for the future.
- The call frequency (number of calls on an account per year) is assessed for each category of customer.

- The total required workload per year is calculated by multiplying the call frequency and number of customers in each category and then summing for all categories.
- The average number of calls per week per salesperson is estimated.
- The number of working weeks per year is calculated.
- The average number of calls a salesperson can make per year is calculated by multiplying the answers in step 4 and step 5.
- The number of salespeople required is determined by dividing the total annual calls required by the average number of calls one salesperson can make per year.

Here is an example of such a calculation. The formula is

$$\text{Number of salespeople} = \frac{\text{Number of customers} \times \text{Call frequency}}{\text{Average weekly call rate} \times \text{Number of working weeks per year}}$$

Table 15.1 **Workload method**

Customer groups	No. of firms		Call frequencies per year	Total
A (over £1m per year)	200	×	12	2 400
B (£0.5m to £1m per year)	1 000	×	9	9 000
C (£150 000 to £499 000 per year)	3 000	×	6	18 000
D (less than £150 000 per year)	6 000	×	3	18 000
Total annual workload				47 400

Steps 1, 2 and 3 can be summarised as in Table 15.1.

Step (4) gives

Average number of calls per week per salesperson		= 30

Step (5) gives

Number of weeks		= 52
Less		
Holidays	4	
Illness	1	
Conferences and meetings	3	
Training	1	9
Number of working weeks		= 43

Step 6 gives

Average number of calls per salesperson per year	43×30 = 1290

Step 7 gives

$$\text{Salesforce size} = \frac{47000}{1290} = 37 \text{ salespeople}$$

When prospecting forms an important part of the salesperson's job, potential customers can be included in the customer categories according to potential.

Alternatively, separate categories can be formed, with their own call rates, to give an estimation of the workload required to cover prospecting. This is then added to the workload estimate derived from actual customers to produce a total workload figure.

The applicability of this method largely depends on management's ability to make a confident assessment of the number of calls to be made on each category of customer. Where optimum call rates on customers within a particular category vary considerably, management may be reluctant to generalise. However, in a company quoted by Wilson,[4] although call rates varied between one and ten calls per day, for 80 per cent of the days seven or eight calls were made.

The method is of particular relevance to companies who are expanding into new geographical territories. For example, a company expanding its sphere of operation from England to Scotland could use a blend of past experience and judgement to assess feasible call frequencies in Scotland. Market research could be used to identify potential customers. The workload approach could then be used to estimate the number of salespeople needed.

15.3 Establishing Sales Territories

There are two basic considerations which are used to allocate salespeople to territories. First, management may wish to balance workload between territories. Workload can be defined as follows:

$$W = n_i t_i + n t_k$$

where W = workload; n_i = number of calls to be made to customers in category i; t_i = average time required at a call for each category i; n = total number of calls to be made; t_k = average time required to travel to each call.

This equation is useful because it highlights the important factors which a sales manager must take into account when assessing workload. The number of calls to be made will be weighted by a time factor for each call. Major account calls are likely to be weighted higher than medium and small active accounts since, other things being equal, it makes sense to spend longer with customers who have higher potential. Also, calls on prospects may have a high weighting since salespeople need extra time to develop a new relationship and to sell themselves, their company and its products. In addition the time required to travel to each customer must be taken into account. Territories vary in their customer density, so travel time must be allowed for in the calculation of workload.

The data will be determined partly by executive judgement, e.g. how long to spend with each customer type on average, and where a salesforce already exists, by observation, e.g. how long it takes to travel between customers in different existing territories. These data can be obtained during field visits with salespeople and estimates of current workloads calculated. For new sales teams the input into the formula will have to be more judgemental, but the equation does provide a conceptual framework for assessing territory workload.

Sales potential is the second consideration that management may wish to use in working out territories. Equalising workload may result in territories of widely differing potential. This may be accepted as a fact of life by some companies and dealt with by assigning their best salespeople to the territories of higher potential. Indeed, moving salespeople from territories with lower potential to territories with higher potential could be used as a form of promotion. If company policy dictates that all salespeople should be treated equally, then a commission scheme based on the attainment of sales quotas which vary according to territory potential should establish a sense of fairness. But if, after preliminary determination of territories by workload, sales potentials are widely disparate, it may be necessary to carry out some adjustment. It may be possible to modify adjacent territory boundaries so that a high-potential territory surrenders a number of large accounts in return for gaining some smaller accounts from a neighbouring lower-potential territory. In this way, differences in sales potentials are reduced without altering workload dramatically. If this is not easily done, it may be necessary to trade off workload for potential, making territories less similar in terms of workload but more balanced in terms of sales potential.

Designing territories calls for a blend of sound analysis and plain common sense. For example, it would be crazy to design territories purely on the basis of equalising sales potential if the result produced strips of territory which failed to recognise the road system (especially motorways) as it exists in the country today.

15.3.1 Territory Revision

A sales territory should not be considered a permanent unit. The following factors may suggest the need for territory revision:

- change in consumer preference;
- competitive activity;
- diminution in the usefulness of chosen distribution channels;
- complete closure of an outlet or group of stores;
- increases in the cost of covering territories;
- salesforce complacency.

Before deciding that changes are necessary, a number of aspects of the sales effort should be investigated. The most common indicators that something might be wrong with the territorial structure is falling sales volume. However, great care must be taken before accepting this as a reason for territory revision. Sales may be falling because the selling and promotion effort within the territory is not as effective as it should be. If this is the case, then it is not the boundaries of the sales area that need revision.

Salespeople may be calling only on the prospects which offer the greatest potential. If there is no systematic plan for the territory, salespeople may make a poor job of planning their calls and this may result in an increase in non-selling time (e.g. travelling time). Furthermore, the supervision may be at fault. If sales personnel are not supervised properly, they may lose their enthusiasm for the job or even for the product.

Before changes are implemented, a reappraisal of market potential should take place. It may be that the original distributors of the products are in need of replacement or motivation because they have become disenchanted with the company, its products, or policies. Consumer acceptance of the product may need to be investigated before territories are revised. This may require a limited market survey. The current activities of competitors should also be investigated.

If territories are to be revised, the salesforce must be fully informed about the extent of the changes and the reasons behind them. The extent to which the boundaries are changed will be governed by the need to increase coverage, reduce costs or increase sales. The sales manager should enlist the aid of supervisors and salespeople when the task of altering territories begins.

While the overall design of territories, size, number of customers, etc., are the responsibility of the sales manager, once allocated, the salesperson too (sometimes in conjunction with the sales manager) can play an important role in managing this territory such as to achieve maximum sales effectiveness. In fact, much of this aspect of territory management comes down to effective self-management on the part of the salesperson. Information technology can aid territory management and revision, as discussed in Module 9.

15.4 Compensation

15.4.1 Compensation Objectives

Sales managers should consider carefully the type of **compensation plan** they wish to use. This is because there are several objectives which can be achieved through a compensation scheme. First, compensation can be used to motivate a salesforce by linking achievement to monetary reward. Second, it can be used to attract and hold successful salespeople by providing a good standard of living for them, by rewarding outstanding performance and providing regularity of income. Third, it is possible to design compensation schemes which allow selling costs to fluctuate in line with changes in sales revenue. Thus, in poor years lower sales are offset to some extent by lower commission payments, and in good years increased sales costs are financed by higher sales revenue. Fourth, compensation plans can be formulated to direct the attention of sales personnel to specific company sales objectives. Higher commission can be paid on product lines the company particularly wants to move. Special commission can be paid to salespeople who generate new active accounts if this is believed to be important to the company. Thus, compensation plans can be used to control activities.

15.4.2 Types of Compensation Plan

When designing compensation plans, sales managers need to recognise that not all of the sales team may be motivated by the thought of higher earnings. Darmon identified five types of salespeople:[5]

- **Creatures of habit** try to maintain their standard of living by earning a predetermined amount of money.
- **Satisfiers** perform at a level just sufficient to keep their jobs.
- **Trade-offers** allocate their time based on a personally determined ratio between work and leisure that is not influenced by the prospect of higher earnings.
- **Goal-oriented** salespeople prefer recognition as achievers by their peers and superiors and tend to be sales quota oriented, with money mainly serving as recognition of achievement.
- **Money-oriented** salespeople aim to maximise their earnings. Family relationships, leisure and even health may be sacrificed in the pursuit of money.

The implication is that sales managers need to understand and categorise their salespeople in terms of their motives. Compensation plans can only be effectively designed with this understanding. For example, a new plan based on greater opportunities to earn commission is unlikely to work if the sales team consists only of the first three categories. Conversely, when a sales team seems to be composed mainly of goal- and money-oriented salespeople, a move from a fixed salary to a salary and commission system is likely to prove effective.

There are three basic types of compensation plan:

- fixed salary;
- commission only;
- salary plus commission.

Each is evaluated below in terms of its benefits and drawbacks to management and salespeople, and Figure 15.2 shows how a sales target can be associated with a fixed salary, commission only, or salary plus commission system. If the target is achieved, sales costs are equal no matter which system is used.

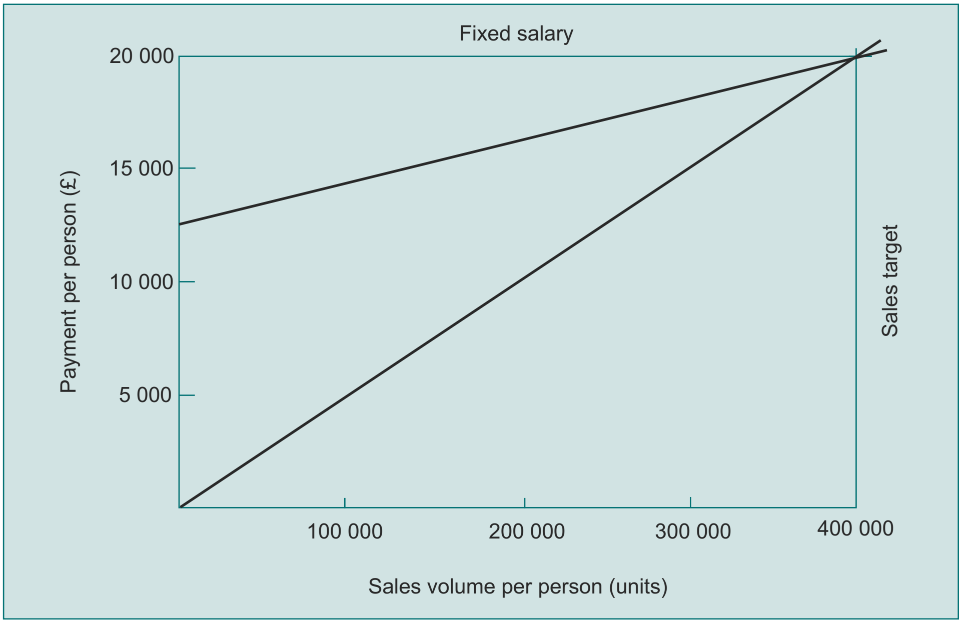

Figure 15.2 **Compensation and sales volume**

15.4.2.1 Fixed Salary

A fixed salary encourages salespeople to consider all aspects of the selling function rather than just those which lead to a quick sales return. Salespeople who are paid on fixed salary are likely to be more willing to provide technical service, complete information feedback reports and carry out prospecting than if they were paid solely by commission. The system provides security to the salesperson, who knows how much income he or she will receive each month, and is relatively cheap to administer since there are no commissions or bonuses to calculate.

The system also overcomes the problem of deciding how much commission to give to each salesperson when a complex buying decision is made by a number of DMU members who have been influenced by different salespeople, perhaps in different parts of the country. Wilson[4] cites the case of a sale of building materials to a local authority in Lancashire being the result of one salesperson influencing an architect in London, another calling on the contractor in Norwich and a third persuading the local authority itself.[4]

However, the method does have a number of drawbacks. First, no direct financial incentive is provided for increasing sales (or profits). Second, high-performing salespeople may not be attracted and holding on to them may be difficult using fixed salary since they may perceive the system as being unfair and be tempted to apply for jobs where financial rewards are high for outstanding performers. Third, selling costs remain static in the short term when sales decrease, thus the system does not provide the inbuilt flexibility of the other compensation systems.

Because of its inherent characteristics it is used primarily in industrial selling where technical service is an important element in the selling task and the time necessary to conclude a sale may be long. It is particularly appropriate when the salesperson sells very high value products at very low volumes. Under these conditions a commission-based compensation scheme would lead to widely varying monthly income levels depending on when orders were placed. A Chartered Institute of Marketing study found that roughly one-third of salespeople are paid by this method in the UK.[6]

15.4.2.2 Commission Only

The commission-only system of payment provides an obvious incentive to sell. However, since income depends on sales results, salespeople will be reluctant to spend time on tasks which they do not perceive as being directly related to sales. The result is that sales personnel may pursue short-term goals, to the detriment of activities which may have an effect in the longer term. They may be reluctant to write reports providing market information to management and spend time out of the field to attend sales training courses, for example.

The system provides little security for those whose earnings may suffer through no fault of their own and the pressure to sell may damage customer–salesperson relationships. This is particularly relevant in industrial selling, where the decision-making process may be long and pressure applied by the salesperson to close the sale prematurely may be detrimental.

From management's perspective the system not only has the advantage of directly financing costs automatically, but also allows some control over sales activities through the use of higher commission rates on products and accounts in which management is particularly interested.

It is most often used in situations where there are a large number of potential customers, the buying process is relatively short, and technical assistance and service are not required. Insurance selling is an example where commission-only payments are often used.

15.4.2.3 Salary plus Commission

Salary plus commission attempts to combine the benefits of both the previous methods in order to provide financial incentives with a level of security. Since income is not solely dependent upon commission, management gains a greater degree of control over the salesperson's time than under the commission-only system, and sales costs are to some extent related to revenue generated. The method is attractive to ambitious salespeople who wish to combine security with the capability of earning more by greater effort and ability.

For these reasons it is the most commonly used method of compensating salespeople, although the method of calculating commission may vary. Extra payment may be linked to profits or sales generated, at a constant rate for all sales or only after a certain level of sales has been generated. Payment may be based upon a fixed percentage for all products and customers or at a variable rate. Alternatively, a bonus (a given monetary sum) may be paid on the accomplishment of a particular task (e.g. achieving a sales target, opening a certain number of new accounts). The results of two surveys[7,8] which have examined the use of salary, salary plus commission/bonus and commission only are shown in Table 15.2.

Table 15.2 The use of compensation methods in the UK

	Manufacturing firms (%)	Industrial distributors (%)
Salary only	34	15
Salary plus commission or bonus	66	81
Commission only	–	4

Sources: Avlonitis, G., Manolis, C. and Boyle, K. (1985) 'Sales management practices in the UK manufacturing industry', *Journal of Sales Management*, 2(2), pp. 6–16 (manufacturing firms); Shipley, D. and Jobber, D. (1991) 'Sales force motivation, compensation and evaluation', *Service Industries Journal*, 11(2), pp. 154–70 (industrial distributors).

Learning Summary

This module discussed the two management functions organisation and compensation. There are three methods of organising a salesforce:

- geographical;
- product;
- customer.

The customer-oriented approach has four variants:

- market-centred;
- account size;
- new and existing accounts;
- functional.

Determining the number of salespeople needed may be accomplished by the workload approach. Establishing sales territories will be determined by attempting to balance workload and sales potential. Finally, the three major categories of compensation plan were examined. These are fixed salary, commission only and salary plus commission. The next part of the text looks at sales control.

Review Questions

Content Questions

15.1 List the strengths and weaknesses of the following types of salesforce organisation: (a) geographical structure, (b) product specialisation structure, (c) customer-based structure.

15.2 Why have key account salesforces become increasingly important in recent years?

15.3 What advantages are associated with introducing a key account salesforce?

15.4 What is a national account?

15.5 What is team selling?

15.6 What factors should be considered when organising an international salesforce?

15.7 What formula is used in the workload approach to determining the number of salespeople required by a company?

15.8 What factors should sales managers consider when calculating workload?

15.9 What are the three basic types of compensation plan?

Multiple-Choice Questions

15.10 Which one of the following is not an advantage of the geographic method of salesforce organisation?

A. Interpretation of buyer behaviour across different market sectors.
B. Lower travelling expenses.
C. Development of personal friendships.
D. Simplicity.

15.11 Have a look at these two statements.

I. Salespeople who specialise in different types of customer gain greater insight into needs, problems and potential product applications in their particular industry.
II. Salespeople who specialise in different types of customer make savings on travel expenses compared to salespeople who use geographically determined territories.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

15.12 BST plans to sell a single product in three states. Which type of salesforce organisation would best suit BST?

A. Geographic.
B. Product.
C. Customer.
D. No organisation is needed.

15.13 3M Company organises its salesforce so that each company division has its own salesforce. Which of the following is it using to organise its salesforce?

A. Account size.
B. Geographic region.
C. Products.
D. Function.

15.14 Have a look at these two statements.

I. The term 'national account' is generally considered to refer to large and important customers.
II. The term 'national account' is generally considered to refer to customers which have centralised purchasing departments that buy and coordinate buying for decentralised, geographically dispersed branches.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

15.15 What sales method would be best for approaching a company that has several departments and functional areas involved in the sales decision?

A. Team selling.
B. Functional specialisation.
C. Workload approach.
D. Computerised ordering.

15.16 The new/existing account structure is characterised by all of the following except one. Which one?

A. Creation of two teams of salespeople.
B. Handing over new accounts to a different salesperson.
C. Acknowledgement of the specialised skills in prospecting for new business.
D. Lack of focus on retaining existing customers.

15.17 Have a look at these two statements.

I. Organising the salesforce along functional lines separates it into development and maintenance teams.

II. Organising the salesforce along functional lines is particularly advantageous for less technical products.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

15.18 Which of the following is a factor that may suggest the need for territory revision?

A. Decreasing sales.
B. Change in consumer preferences.
C. Increases in the costs of covering territories.
D. All of the above.

15.19 Black & Decker sets up a separate salesforce to service its Wal-Mart account for power tool supplies. What is this called?

A. Qualifying the customer.
B. Prospecting.
C. National account management.
D. Closing the sale.

15.20 The ABC Company has identified 1250 A accounts, which need 18 calls per year, and 500 B accounts, which need 12 calls per year. If the average salesperson can make 750 calls per year, how many salespeople does the company require?

A. 23
B. 29
C. 38
D. 47

15.21 A company has 50 salespeople, 1000 A accounts which require 20 calls per year and 1000 B accounts which require 10 calls per year. How many calls must each salesperson make?

A. 400
B. 500
C. 600
D. 700

15.22 What type of salesperson performs to a level just sufficient to keep their job?

A. Satisfier.
B. Goal-oriented.
C. Creature of habit.
D. Trade-offer.

15.23 What type of salesperson seeks recognition as an achiever by their peers and superiors and considers money mainly as a recognition of achievement?

A. Satisfier.
B. Goal-oriented.
C. Creature of habit.
D. Trade-offer.

15.24 How do most firms establish the size of their salesforce?

A. Geographic approach.
B. Potential customer approach.
C. Existing customer approach.
D. Workload approach.

15.25 Have a look at these two statements.

I. Developing a new compensation plan based on greater opportunities to earn commission is unlikely to work if the sales team comprises salespeople who are creatures of habit, satisfiers or trade-offers.
II. Developing a new compensation plan based on greater opportunities to earn commission is unlikely to work if the sales team comprises salespeople who are goal-oriented or money-oriented.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

15.26 Have a look at these two statements.

I. In industrial selling, the fixed salary method of payment is considered advantageous because technical service is an important element in the selling task.
II. In industrial selling, the fixed salary method of payment is considered advantageous because it may take a long time to conclude a sale.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

15.27 The commission-only system of payment is used in all the following situations except one. Which one?

A. Large number of potential customers.
B. Technical service is not required.
C. High-value products at low volumes.
D. Relatively long decision-making process.

15.28 What is the most commonly used method of compensating salespeople?

A. Salary only.
B. Commission only.
C. Salary and commission.
D. Salary and non-financial incentives.

15.29 A fixed salary plan has a significant advantage over other compensation plans. What is that advantage?

A. It provides the salesperson with the time needed to build long-term relationships.
B. It relates selling expenses directly to sales volume.
C. It allows sales managers to encourage salespeople to concentrate on sales activities to the exclusion of other activities.
D. It provides the maximum amount of incentive to the salesperson.

Case Study 15.1: Silverton Confectionery

The Silverton Confectionery Company is a growing Berkshire-based company specialising in selling quality chocolates and sweets at higher-than-average prices through newsagents and confectioners.

At present its span of operation is limited to England and Wales, covered by a salesforce organised along geographical lines. Each salesperson is responsible for selling the entire product line in his or her territory and for seeking new outlets in which to develop new business. The system works well with Silverton's salespeople, who are well known by their customers and, in most cases, well liked. The salesperson's responsibilities include the selling and merchandising functions. Each salesperson is paid salary plus commission.

The success of this company, which has exploited a market niche neglected by the larger confectionery companies, has led Silverton management to expand into Scotland. You, as national sales manager, have been asked to recommend the appropriate number of salespeople.

The coverage objective is to call on all outlets with a turnover of over £200 000 three times a year, those between £100 000 and £200 000 twice a year and those below £100 000 once a year. As a first step, you have commissioned a market research report to identify the number of outlets within each size category. Here are the results.

Category	Number of outlets
Under £100 000	2950
£100 000 to £200 000	1700
Over £200 000	380

A salesperson can be expected to call on an average of 60 outlets a week; a working year, after holidays, sales meetings, training, etc., can be taken as 43 weeks.

Question

1 How many salespeople are required?

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PART 5

Sales Control

Module 16

Sales Forecasting and Budgeting

Contents

Learning Objectives

After studying this module, you should be able to

- recognise the position of sales forecasting in the marketing planning system;
- understand qualitative forecasting techniques;
- understand quantitative forecasting techniques;
- appreciate how computer software is used in forecasting;
- understand the part budgets play in the smooth running of an organisation;
- comprehend how the sales budget is derived and its purpose.

Key Concepts

- causal techniques
- diffusion models
- qualitative forecasting techniques
- sales budget
- budget determination
- quantitative forecasting
- techniques
- time series analysis
- budget allocation

16.1 Purpose

It is of utmost importance that the sales manager has some idea of what will happen in the future in order that plans can be made in advance. There would otherwise be no point in planning and all that has been said in the previous module would be negated. Many sales managers do not recognise that sales forecasting is their responsibility and leave such matters to accountants, who need the forecast to prepare budgets (see later). Sales managers do not always see the immediate need for forecasting and feel that selling is a more urgent task. Indeed the task of forecasting by the sales manager is often delayed until the last minute and the end result is a hastily put together estimation with no scientific basis, little more than an educated guess. The folly of this attitude is examined in this module.

When one is in a producer's market – similar to the situations in the immediate post-war years (see Module 1) – there is less of a need for forecasting as the market takes up all one's production; it is less a matter of selling and more a matter of allowing customers to purchase. However, in a buyer's market the situation is different. The consequence of overproduction is unsold stock, which is costly to finance from working capital borrowings. The marginal money, i.e. the cost of borrowing the last unit of revenue, comes from the bank overdraft, which is at least base rate of borrowing plus 1 or 2 per cent. It can therefore be seen that overproduction and holding stock can be costly. Conversely, underproduction can be detrimental as sales opportunities might be missed due to long delivery times and business might pass to a competitor that can offer quicker delivery.

The purpose of the sales forecast is to plan ahead and go about achieving forecasted sales in what management considers to be the most effective manner. It is again emphasised that the sales manager is the person who should be responsible for this task. The accountant is not in a position to know whether the market is about to rise or fall; all that can be done is to extrapolate from previous sales, estimate the general trend and make a forecast based on this. The sales manager is the person who should know which way the market is moving, and it is a negation of a major sales activity if the task of sales forecasting is left to the accountant. In addition the sales forecasting procedure must be taken seriously because it is an important step towards business planning. If the forecast is flawed, the business plans will also be incorrect.

16.2 Planning

Planning stems from the sales forecast, and the purpose of planning is to allocate company resources so as to achieve these anticipated sales. A company can forecast sales either by forecasting market sales, called **market forecasting**, and then determining what share of this will accrue to the company or by forecasting the company's sales directly. Techniques for doing this are dealt with later in the module. The point is that planners are only interested in forecasts when the forecast comes down to individual products in the company.

We now examine the applicability and usefulness of the short-, medium- and long-term forecasts insofar as company planners are concerned and look at each from the viewpoints of individual company departments:

- **Short-term forecasts** are usually for periods up to three months ahead and are mainly used for tactical matters such as production planning. Here the general trend of sales is less important than any short-term fluctuations.
- **Medium-term forecasts** have direct implications for planners. They are the starting point of business budgeting. If the sales forecast is incorrect, the entire budget will be incorrect. If the forecast is overoptimistic, the company will have unsold stock which must be financed out of working capital. If the forecast is pessimistic, the firm may miss out on marketing opportunities because it is not geared up to produce the extra goods required by the market. When forecasting is left to accountants, they will tend to err on the conservative side and produce a forecast that is lower than the trend of sales. This emphasises how sales forecasting is the responsibility of the sales manager. Medium-term forecasts are normally for one year ahead.
- **Long-term forecasts** are usually for periods of three years and upwards, depending on the type of industry. In the computer industry three years is considered long-term, whereas in the steelmaking industry ten years is a typical long-term horizon. They are worked out from macroenvironmental factors such as government policy and economic trends. Long-term forecasts are needed mainly by financial accountants for long-term resource implications and they are generally the concern of boards of directors. The board must decide what its policy is to be in establishing the levels of production needed to meet the forecasted demand; such decisions might involve the construction of a new factory and the training of a workforce.

In addition to those we have just listed, the sales forecast can affect the planning of other company functions either directly or indirectly. Here are some examples:

- We have already said that production needs to know about sales forecasts so that it can arrange production planning. But there will also need to be close and speedy liaison between production and sales to determine customer priorities in the short term. Production also needs long-term forecasts so that capital plant decisions can be made in order to meet anticipated sales.
- Purchasing usually receives its cue to purchase from production via purchase requisitions or bills of material. However, in the case of strategic materials or long-delivery items it is useful for purchasing to have some advance warning of likely impending material or component purchases so they can plan their purchases better. Advance warning will also help purchasing to get better prices and delivery terms.
- Human resource management is interested in the sales forecast from the viewpoint of staff planning.
- We have already said that the financial and costing functions need the medium-term forecast to budget. Later in this module we discuss the role of the sales forecast in the sales budgetary procedure. The long-term forecast helps financial accountants to provide for long-range profit plans and income flows. They also

need to make provision for capital items such as replacement plant and machinery and to meet anticipated sales in the longer term.

- Research and development (R&D) will need forecasts, although their needs will be more concerned with technological matters and not with actual projected sales figures. They will want to know the expected life of existing products and what likely changes will have to be made to their function and design in order to keep them competitive. Market research reports will be of use to R&D in that they will be able to design and develop products suited to the marketplace. This view reflects a marketing-oriented approach to customer requirements. Here reports from salespeople in the field concerning the company's own products and its competitors' products will be useful in building up a general picture; this information will be collected and collated by the marketing research function.
- Marketing needs the sales forecast so that sales strategies and promotional plans can be formulated to achieve the forecasted sales. These plans and strategies might include the recruitment of additional sales personnel, remuneration plans, promotional expenditures and other matters in Module 2 and Module 10.

A useful model, proposed by Hogarth,[1] involved three interactive forecasting components: the person performing the task of forecasting, the actions that are a consequence of that person's judgements, and the ultimate outcome of that judgement. This model is shown in Figure 16.1.

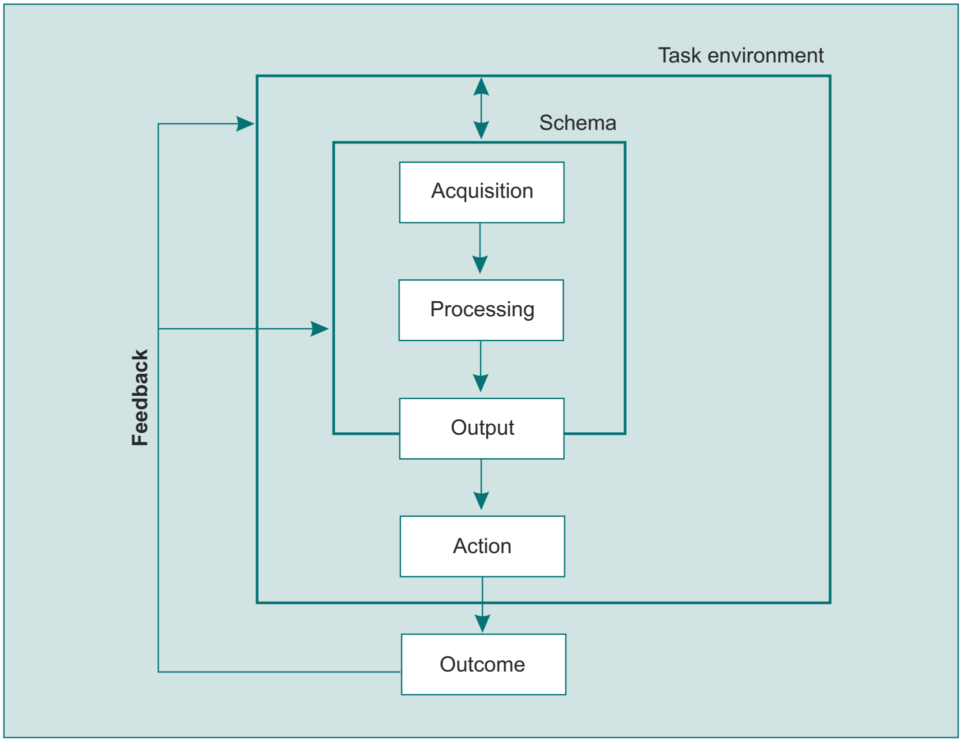

Figure 16.1 A conceptually based model of judgemental forecasting

Source: Hogarth, R. (1975) 'Cognitive processes and the assessment of subjective probability distributions', *Journal of the American Statistical Association*, 70(350), pp. 271–89.

The individual making the forecast is represented in the scheme in terms of beliefs relating to the forecasting task. This judgement relates to acquiring and processing information and the output from this information. This is then translated into action which is the sales forecast. The outcome refers to action that along with external factors then produces the final forecast. Feedback points are included as corrective measures that might be needed as the forecast becomes reality.

It can thus be seen that an accurate forecast is important because all functions base their plans on such forecasts. The short-, medium- and long-term forecasts all have relevance to some business function and, in the absence of reasonably accurate forecasting where such plans are not based on a solid foundation, they will have to be modified later as sales turn out to be different from those predicted in the sales forecast.

Now that the purpose of sales forecasting has been established, together with its role as a precursor to all planning activity, we can look at the different types of forecasting technique, remembering it is the responsibility of the sales function. Forecasting techniques are split into two types, qualitative and quantitative.

16.3 Levels of Forecasting

Forecasts can be produced for different horizons starting at an international level and going down through national level, industry level and company level until we reach product-level forecasts. The forecast is then broken down seasonally over the forecasting period and geographically right down to individual salesperson areas. These latter levels are of specific interest to sales management because they lead to the sales budgeting and remuneration systems (see later).

However, companies do not generally have to produce international or national forecasts as this information is usually available from recognised international and national sources. The company forecaster uses this information top adjust product-by-product forecasts. It is also from these market forecasts that the company can determine what share it will be able to achieve through its selling and marketing efforts. These marketing efforts involve manipulating the marketing mix to plan how it will achieve these forecasted sales (e.g. a price reduction might mean more sales will be possible). Once it reaches a detailed level of product-by-product forecasting, geographically split over a time period, it is then called the sales forecast, which is more meaningful to sales management. Indeed it could be said this is the means through which sales management exercises control over the field salesforce and, as we describe later, this is the revenue-generating mechanism for the entire sales organisation of a company.

Box 16.1: Towards the Wild Blue Yonder

Airbus is producing a super-jumbo, the A380. Boeing is going for speed rather than size with its Sonic Cruiser. Who is on the right path?

At Blagnac airport, near Airbus's headquarters in Toulouse, foundations are being prepared for the largest covered space in Europe. This is where the world's biggest airliner, the A380, will start to be assembled next year for a maiden flight towards the end of 2004. Metal is already being cut for parts of its giant body in Airbus factories in Germany and France. This is the first manifestation of a $10.7 billion programme to develop a rival to the Boeing 747, the 416-seater jumbo that has enjoyed a monopoly in big airliners for over 30 years. Airbus, which opened for business in 1970 – the year of the jumbo's first commercial flight – has now caught up with Boeing in market share. The A380 will enable it to tackle its great rival right across the product range.

Airbus's decision in December 2000 to proceed with a 555-seater super jumbo sets it head-to-head with Boeing's 747 for the first time. Boeing will tweak the jumbo here and there, improving its performance, but its big effort is going into an entirely different aircraft, the 250-seater sonic cruiser, which flies at 98 per cent of the speed of sound.

Championing speed rather than size suggests that Boeing thinks most future growth will come from frequent point-to-point flights, rather than those that go through the big hubs. Airbus, by contrast, still sees a healthy market for a relatively low-cost super-jumbo to connect the world's biggest airports. Both companies agree that air travel will triple over the next 20 years, but disagree on how the demand will be met.

Source: Adapted from *The Economist,* 27 April 2002, p. 75.

16.4 Qualitative Techniques

Qualitative forecasting techniques are sometimes known as judgemental or subjective techniques because they are formulated using opinion more than mathematics. They are often used in conjunction with the quantitative techniques in Section 16.5.

16.4.1 Consumer/User Survey Method

The consumer/user survey method involves asking customers about their likely purchases for the forecast period; it is sometimes known as the market research method. For industrial products, where there are fewer customers, the research is often carried out face-to-face by the salesforce. The only problem is that you have to ascertain what proportion of their likely purchases will accrue to your company. Another problem is that customers (and salespeople) tend to be optimistic when making predictions for the future. Both of these problems can lead to the possibility of multiplied inaccuracies.

For consumer products it is not possible to canvass customers through the salesforce. The best method is to interview customers through a market research survey (probably coupled with other questions or through an omnibus survey where questions on a questionnaire are shared with other companies). It will only be possible to interview a small sample of the total population, therefore the forecast will be less accurate. There is also a question of the type and number of questions one can ask on such a sample survey. It is better to canvass grades of opinion when embarking, and these grades of opinion can reflect purchasing likelihoods. One can then go on to ask a question about the likelihood of purchasing particular makes or brands, including your own.

This method is of most value when there are a small number of users who are prepared to state their intentions with a reasonable degree of accuracy. It therefore tends to be limited to organisational buying. It is also useful for collecting information of a technological nature, which can be fed to one's own R&D function.

16.4.2 Panels of Executive Opinion

Sometimes called the jury method, panels of executive opinion are where specialists or experts are counselled who have knowledge of the industry being examined. These people can come from inside the company and include marketing or financial personnel or people with detailed knowledge of the industry. More often the experts will come from outside the company and can include management consultants who operate within the particular industry. Sometimes external people can include customers, who can advise from a buying viewpoint. So the panel normally comprises a mixture of internal and external personnel.

These experts come with a prepared forecast and must defend their stance in committee among the other experts. Their individual stances may be altered following the discussions. In the end, if disagreement results, mathematical aggregation may be necessary to arrive at a compromise.

This type of forecasting method is known as a top-down method. A forecast is produced for the industry then the company determines its share of the industry forecast. Because the statistics have not been collected from basic market data (from the bottom up) it is difficult to allocate the forecast to individual products and sales territories, and any such allocation will probably be an arbitrary. Thus the forecast represents aggregate opinion and is only useful when developing a general picture, rather than specific product-by-product forecasts.

A variation of this method is called prudent manager forecasting. Company personnel are asked to assume the position of purchasers in customer companies. They must then look at company sales from a customer's viewpoint and prudently evaluate sales, considering factors such as external economic conditions; competitive offerings in terms of design, quality, delivery and price; and whatever other factors are deemed relevant to the company's sales evaluation.

16.4.3 Salesforce Composite

A salesforce composite involves each salesperson making a product-by-product forecast for their particular sales territory. Thus individual forecasts are built up to produce a company forecast; this is sometimes called a grass-roots approach. Each salesperson's forecast must be agreed with the manager, and divisional manager where appropriate, and eventually the sales manager agrees the final composite forecast.

Salesforce composites are a bottom-up approach. Where remuneration is linked to projected sales (through quotas or targets) there can be less cause for complaint because the forecast upon which remuneration is based has been produced by the salesforce itself.

There is a variation known as detecting differences in figures. Before having a meeting, each level in the hierarchy produces a set of figures. The salesperson produces figures, broken down by product and customer, and the area manager produces figures for the salesperson's territory. When they meet they must reconcile any differences in the sets of figures. The area manager then produces territory-by-territory figures before meeting with the regional manager, who will have produced figures for the area, until it eventually reaches the sales manager and the entire forecast is ultimately agreed.

The immediate problem with the salesforce composites is that when the forecast is used for future remuneration (by establishing sales quotas or targets) there might be a tendency for salespeople to produce a pessimistic forecast. This can be alleviated by linking selling expenses to the forecast as well as future remuneration.

When remuneration is not linked to the sales forecast there is a temptation to produce an optimistic forecast in view of what was said earlier about customers and salespeople tending to overestimate. The consequence is that the forecast might be biased either pessimistically or optimistically. As a corollary, it can also be argued that salespeople are too concerned with everyday events to enable them to produce objective forecasts and they are perhaps less aware of broader factors affecting sales of their products. Consequently, their forecasts will tend to be subjective.

16.4.4 Delphi Method

The Delphi method resembles the panel of executive opinion and the forecasting team is chosen using a similar set of criteria. The main difference is that members do not meet in committee.

A project leader administers a questionnaire to each member of the team. This asks questions which usually have a behavioural nature such as, Do you envisage new technology products supplanting our product lines in the next five years? If so, by what percentage market share? The questioning then proceeds to a more detailed or pointed second stage, which asks questions about the individual company. The process can go on to further stages where appropriate. The ultimate objective is to translate opinion into some form of forecast. After each round of questionnaires the aggregate response from each is circulated to members of the panel before they complete the questionnaire for the next round, so members are not completing their questionnaires in a void and can moderate their responses in the light of aggregate results.

The fact that members do not meet in committee means they are not influenced by majority opinion and a more objective forecast might result. However, it has limited value as a vehicle for producing a territory-by-territory or product-by-product forecast. It is of greater value in providing general data about industry trends and as a technological forecasting tool. It is also useful in providing information about new products or processes that the company intends developing for ultimate manufacture and sale.

16.4.5 Bayesian Decision Theory

Bayesian decision theory has been placed under qualitative techniques, although it is really a mixture of subjective and objective techniques. It is not possible to describe the detailed workings of this method within the confines of this text; indeed it is possible to devote a whole text to the Bayesian technique alone.

The technique is similar to critical path analysis in that it uses a network diagram and probabilities must be estimated for each event over the network. The basis of the technique can best be described by reference to a simple example.

16.4.6 Product Testing and Test Marketing

Product testing and test marketing are valuable techniques for new or modified products where no previous sales figures exist and where it is difficult to estimate likely demand. It is therefore prudent to estimate likely demand for the product by testing it on a sample of the market beforehand.

Product testing involves placing the pre-production models with a sample of potential users then noting their reactions over a period of time by asking them to fill in a diary noting product deficiencies, how it worked, general reactions, etc. The types of product that can be tested in this manner can range from consumer durables, e.g. vacuum cleaners, to canned foods such as soups. However, there is a limit to the number of pre-production items that can be supplied (particularly for consumer durables) and the technique is really of value in deciding between a 'go' or 'no go' decision.

Test marketing is perhaps of more value. It involves the limited launch of a product in a closely defined geographical test area, perhaps a test town such as Bristol or a larger area such as the Tyne-Tees Television area. Thus a national launch is simulated in a small area representative of the country as a whole, obviously at less expense. It is of particular value for branded foodstuffs. Test marketing results can be grossed up to predict the national launch outcome. However, the estimate can only cover the launch. Over time the novelty factor of a new product might wear off. In addition it gives competitors an advantage because they can observe the product being test marketed and any potential surprise advantage will be lost. It has also been known for competitors deliberately to attempt to sabotage a test marketing campaign by increasing their promotional activity in the area over the period of the test market, thereby introducing additional complications when assessing the final results.

16.5 Quantitative Techniques

Quantitative forecasting techniques are sometimes called objective or mathematical techniques as they rely more on mathematics and less on judgement. They have become very popular as a result of sophisticated computer packages, some being tailor-made for the company needing the forecast.

It is not proposed to go into the detailed working of such techniques, because they require specialist skills in their own right; indeed a single technique could take up an entire textbook. Some quantitative techniques are simple whereas others are extremely complex. We now explain enough to give you an appreciation of their usefulness and applicability. If the forecasting problem calls for specialist mathematical techniques, consult a specialist; do not try to solve it using only the small amount of information here. Quantitative techniques can be divided into time series techniques and causal techniques.

In time series techniques the only variable that the forecaster considers is time. These techniques are relatively simple to apply, but the danger is that too much emphasis might be placed on past events to predict the future. The techniques are useful in predicting sales in markets that are relatively stable and not susceptible to sudden irrational changes in demand. In other words, it is not possible to predict downturns or upturns in the market, unless the forecaster deliberately manipulates the forecast to incorporate such a downturn or upturn.

In causal techniques it is assumed there is a relationship between the measurable independent variable and the forecasted dependent variable. The forecast is produced by putting the value of the independent variable into the calculation. One must choose a suitable independent variable and the period of the forecast to be produced must be considered carefully. The techniques are therefore concerned with cause and effect. The problem arises when one attempts to establish reasons behind these cause and effect relationships; in many cases there is no logical explanation. Indeed there is quite often nothing to suppose that the relationship should hold good in the future. The reasoning behind causal relationships may not be obvious at this stage, but it should become evident later on.

16.5.1 Time Series Techniques

16.5.1.1 Moving Averages

Moving averages are a way of averaging and smoothing time series data. The longer the time series, the greater the smoothing. The principle is that one subtracts the earliest sales figure and adds the latest sales figure. The technique is best explained using a simple example such as Table 16.1. Notice that using a longer moving average produces a smoother trend line than using a shorter moving average.

Table 16.1 Office Goods Supplies Ltd: annual sales of briefcases, moving average

		Three-year		Five-year	
Year	Number	Total	Average	Total	Average
1988	1446	–	–	–	–
1989	1324	4179	1393	–	–
1990	1409	3951	1317	6543	1309
1991	1218	3773	1258	6032	1206
1992	1146	3299	1100	5855	1171
1993	935	3228	1076	5391	1078
1994	1147	3027	1009	4953	991
1995	945	2872	957	4810	962
1996	780	2728	927	5049	1008
1997	1003	2957	986	4706	941
1998	1174	2981	994	4805	961
1999	804	3022	1007	5186	1037
2000	1044	3009	1003	5470	1094
2001	1161	3492	1164	–	–
2002	1287	–	–	–	–

Figure 16.2 **Office Goods Supplies Ltd: annual sales of briefcases, moving averages**

These data are reproduced graphically in Figure 16.2. Notice that averaging smooths out the annual sales figures. Five-year averaging produces a smoother line than three-year averaging. One can then produce a forecast by extending the trend line, and it is up to the individual forecaster to decide whether three-year or five-year averaging is better. Sometimes it is unnecessary to smooth the data (in the case of a steady trend) and the technique is then called trend projection. Generally speaking, the more the data fluctuate, the more expedient it is to have a longer averaging period.

16.5.1.2 Exponential Smoothing

Exponential smoothing apportions different weightings to different parts of the data from which the forecast will be calculated. The problem with moving averages and straightforward trend projection is that it is unable to predict a downturn or upturn in the market (unless the forecaster deliberately places a downturn or upturn in the data). In this technique the forecaster apportions appropriate degrees of 'typicality' to different parts of the time series.

It is not proposed to explain the detailed mathematics behind the technique, because this is not a sales forecasting textbook. Instead, using the statistics in the previous example, we have applied weightings to earlier parts of the series. These weightings are applied by the forecaster according to his or her own judgement about earlier parts of the data and how 'typical' they are in the production of a forecast (although there is a mathematical technique for deciding this if necessary). The result is shown in Figure 16.3.

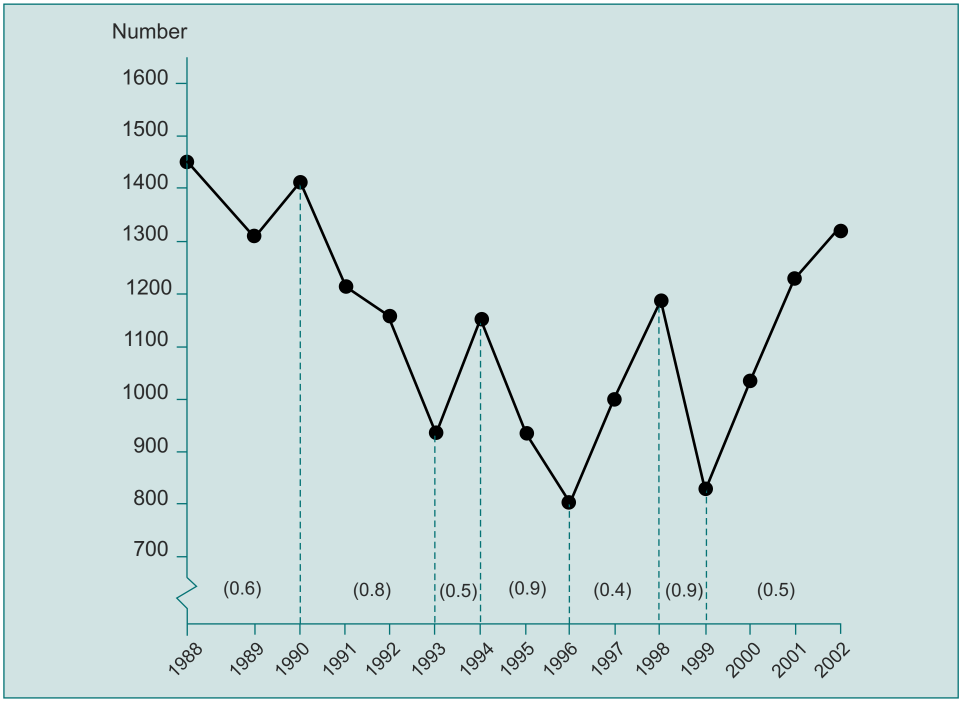

Figure 16.3 Office Goods Supplies Ltd: annual sales of briefcases, exponential smoothing, weighting shown in brackets

In the moving average technique the forecast will take some time to respond to a downturn or upturn, whereas with the exponential smoothing method the response can be immediate. In Figure 16.3 the forecaster has apportioned greater weightings to downturn periods of trade than to upturn periods, and the forecast will therefore reflect another downturn period for 2003. Had a moving average forecast been used, this would have produced a less steep continuum of the 2001–2 upturn trend.

In practice the technique is simple to operate, but it is essentially a computer technique. The forecaster can very simply alter the smoothing constant for different periods to produce a number of alternative forecasts. The skill lies in determining the weightings for earlier and later parts of the time series.

16.5.1.3 Time Series Analysis

Time series analysis is useful when seasonality occurs in a data pattern. It is of particular use for fashion products and for products that respond to seasonal changes throughout the year. It can be used for cyclical changes in the longer term (such as patterns of trade) but there are better techniques available for dealing with such longer-term trends. Thus its best application is where the seasonal pattern is repeated on a fairly regular annual basis. These seasonal movements are measured in terms of their deviation from the aggregate trend.

We explain it graphically using data from the previous example. The quarterly sales of briefcases have been taken for Office Goods Supplies Ltd for the years 1998 to 2002 (see Table 16.2) and it can be seen that sales exhibit a seasonal pattern with a peak in the final quarter of each year.

When the sums of quarterly deviations from the trend are added, the resultant sum is +40 in this particular case (see Table 16.3). The total sum must equal zero, otherwise it would mean that a positive bias would be built into the forecast. However, this correction must come from all figures equally and is calculated as 40/4 = +10.

Table 16.2 Office Goods Supplies Ltd: quarterly sales of briefcases

Year	Quarter	Unit sales		Quarterly moving total		Sum of pairs	Divided by 8 to find trend	Deviations from trend
1998	1	207						
	2	268						
	3	223	=	1174	=	2295	287	−64
	4	476		1121		2136	267	+209
1999	1	154		1015	=	1934	242	−88
	2	162		919		1723	215	−53
	3	127	=	804	=	1643	205	−78
	4	361		839		1779	222	+139
2000	1	189		940	=	1935	242	−53
	2	263		995		2039	255	+8
	3	182	=	1044	=	2110	264	−82
	4	410		1066		2156	269	+141
2001	1	211		1090	=	2197	275	−64
	2	287		1107		2268	284	+ 3
	3	199	=	1161	=	2346	293	−94
	4	464		1185		2433	304	+160
2002	1	235		1248	=	2497	312	−77
	2	350		1249		2536	317	+33
	3	200	=	1287				
	4	502						

Table 16.3 **Office Goods Supplies Ltd: sum of quarterly deviations from trend**

Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
1998	–	–	−64	+209	
1999	−88	−53	−78	+139	
2000	−53	+ 8	−82	+141	
2001	−64	+ 3	−94	+160	
2002	−77	+33	–	–	
Sum	**−282**	**−9**	**−318**	**+649**	= +40

Therefore +10 must be subtracted from each quarter's figures. The corrected figures are then as follows.

Quarter	1	2	3	4	
Corrected deviations	292	19	328	+639	= 0

In this particular example these figures must now be divided by 4 to produce a yearly aggregate (because four years' data have been used in their compilation) and the figures from which the forecast will be derived are as follows.

Quarter	1	2	3	4	
Deviations	−73	−5	−82	+160	= 0

The figures in Table 16.4 are derived as follows. Unit sales are added to provide a one-year total. This total then summates the one-year moving sales by taking off the old quarter and adding on the new quarter. The quarterly moving totals are then paired in the next column (to provide greater smoothing) and this sum is then divided by 8 to ascertain the quarterly trend. Finally, the deviations from trend are calculated by taking the actual figure (in unit sales) from the trend, and these are represented in the final column as deviations from the trend.

Table 16.4 **Office Goods Supplies Ltd: forecasted trend figures and deviations from trend that have been applied**

Year	Period	Trend	Deviation	Forecast
2002	3	326	−82	244
	4	334	+160	494
2003	1	343	−73	270
	2	352	−5	347
	3	360	−82	278
	4	369	+160	529

The statistics are then graphed and the unit sales and trend are drawn as in Figure 16.4. The trend line is extended by sight, and it is here that the forecaster must use skill and intuition. The deviations from trend are then applied to the trend line, and this provides the sales forecast.

Figure 16.4 **Office Goods Supplies Ltd: quarterly sales of briefcases and one-year forecast**

In the example in Figure 16.4 it can be seen that the trend line has been extended on a slow upward trend similar to previous years. The first two figures for periods 3 and 4 of 2002 are provided as a forecast, but these quarters have passed and the figures are disregarded. The four quarters of 2003 have been forecasted and these are included in the graph.

The technique, like many similar techniques, suffers from the fact that downturns and upturns cannot be predicted, and such data must be subjectively entered by the forecaster through manipulation of the extension to the trend line.

16.5.1.4 Z Charts

Z charts are merely a furtherance of the moving average technique. In addition to providing the moving annual total, it also shows the monthly sales and cumulative sales; Figure 16.5 shows why the charts are called Z charts. Each Z chart represents one year's data and is best applied using monthly sales data. As a vehicle for forecasting it provides a useful medium where sales for one year can be compared with previous years using three criteria: monthly, cumulative and moving annual.

The sales of briefcases for Office Goods Supplies Ltd have been provided for each month of 2001 and 2002 and this is sufficient data for the Z chart, as can be seen in Table 16.5. The figures in Table 16.5 are then transposed graphically in Figure 16.5.

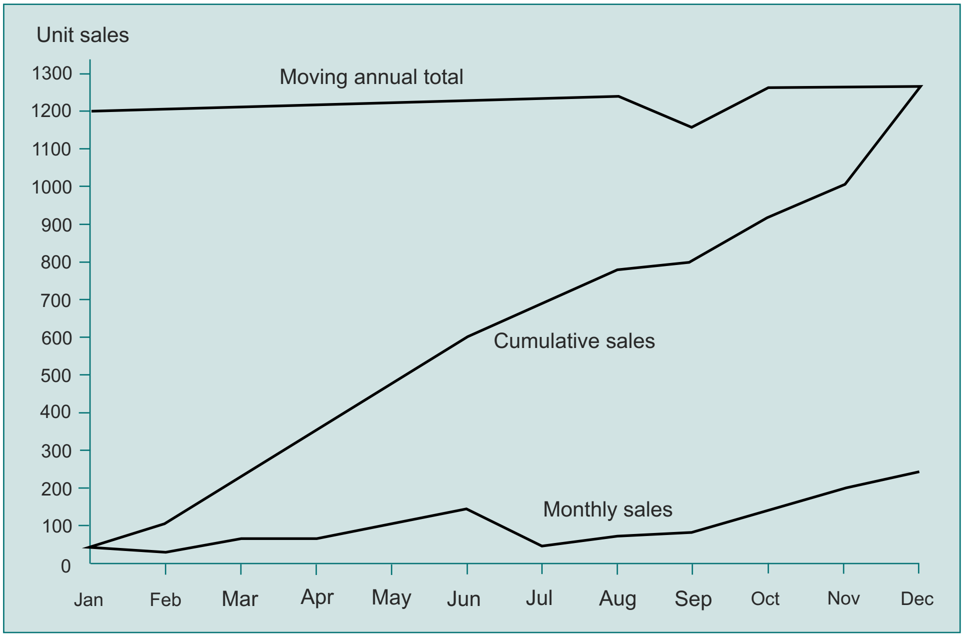

Figure 16.5 **Office Goods Supplies Ltd: monthly sales of briefcases. Z chart for 2002**

Table 16.5 **Office Goods Supplies Ltd: monthly sales of briefcases 2001–2**

Month	Unit sales 2001	Unit sales 2002	Cumulative sales in 2002	Moving annual total
Jan	58	66	66	1169
Feb	67	70	136	1172
Mar	86	99	235	1185
Apr	89	102	337	1198
May	94	121	458	1225
Jun	104	127	585	1248
Jul	59	58	643	1247
Aug	62	69	712	1254
Sep	78	73	785	1249
Oct	94	118	903	1273
Nov	178	184	1087	1279
Dec	192	200	1287	1287

Moving annual sales are obtained by adding on the new month's figure and taking off the old month's figure, 12 months previously. The cumulative sales are obtained by adding each month to the next month, and the bottom line of the Z is the monthly sales.

The method is very much a comparison by sight and in this case it would be used for the medium-term (one-year) sales forecast. However, it has limited use as a serious prediction tool; its main purpose is for comparison.

16.5.1.5 Miscellaneous

This final section briefly outlines two computer-based techniques; to describe their workings in detail would require a disproportionate amount of space plus some detailed mathematics. The techniques rely on sophisticated computer packages. If you wish to pursue the techniques any further, consult a software specialist on their applicability and their degree of accuracy for your desired intention. This is not to say that the forecaster, say the sales manager, should necessarily need to have a detailed knowledge of the technique that is being applied. All he or she needs to know is what the forecast will do and its degree of accuracy.

The first of these techniques is Box–Jenkins, a sophistication of the exponential smoothing technique that applies different weightings to different parts of the time series. In this technique the computer package takes earlier parts of the time series and manipulates and weights parts of this against known sales from later parts of the time series. The weighting that provides the best fit is finally deduced and can then be used for the forecast. It is reasonably accurate for short- and medium-term forecasting.

The other technique is termed X-11 and was developed by an American named Julius Shiskin. It is a decomposition technique and breaks a time series down into trend cycles, seasonal cycles and irregular elements. It is an effective technique for medium-term forecasting and incorporates a number of analytical methods into its computation.

16.5.2 Causal Techniques

16.5.2.1 Leading Indicators

This method seeks to define and establish a linear regression relationship between some measurable phenomenon and whatever is to be forecasted. You can find out about linear regression in most reasonably advanced statistics texts. They will describe the method and discuss its applicability.

The best way to explain the technique is to consider the following simple example. The sale of children's bicycles depends on the child population, so a sensible leading indicator for a bicycle manufacturer would be birth statistics. The bicycle manufacturer will therefore seek to establish a relationship between the two and, if the manufacturer is considering children's first two-wheeler bicycles, say at age three years on average, then births will precede first bicycles by three years. In other words, first bicycles will lag births by three years.

The example is obviously an oversimplification and there are forecasting packages available that permute a number of leading indicators, indicators which are ahead of actual sales. It is possible to provide the permutation that best fits known sales, where the sales are lagged in time and the indicator is leading. The permutation that best fits the known sales to the indicator (or permutation of indicators) is the one to use in the forecast. Thus the permutation is constantly under review as time goes on. As forecasts pass into actual sales, so the forecasting permutation is modified to take account of most recent sales.

This more sophisticated type of forecasting uses what is known as correlation analysis to establish the relationship. Again, consult any reasonably advanced statistics text for a fuller explanation of the method and its implications.

16.5.2.2 Simulation

Simulation has been made possible by the widespread use of computers. Leading indicator forecasting establishes relationships between some measurable phenomenon and whatever is to be forecasted, whereas simulation uses a process of iteration, or trial and error, to arrive at the forecasting relationship. In a reasonably complicated forecasting problem – and if simulation is being used, the problem is likely to be complicated – the number of alternative possibilities and outcomes is vast. When probabilities of various outcomes are known, the technique is known as Monte Carlo simulation and depends on a predetermined chance of a particular event occurring. It is no coincidence that the technique derives from probabilities worked out for gambling games.

We cannot explain the technique further without entering into complex mathematics. For this module, it is sufficient that you are aware of the technique; if you require further information, consult an expert forecaster.

16.5.2.3 Diffusion Models

To calculate a forecast, most of the techniques discussed so far have depended on having a series of past sales for the company and the industry. However, when new products are introduced to the market which are not simply extensions or redesigns of old products, then the technique for estimating sales comes from a body of theory called the diffusion of innovations. One of the authors made a study of the subject 20 years ago and produced a forecast for video recorders that used the Bass **diffusion model**.[2]

Again, as with most causal techniques, the mathematics is complicated and the best advice for the sales manager seeking to apply such a technique to a new product would be to seek the advice of a specialist. This is essentially a computer technique and its computation is complicated. Basically, diffusion theory assumes that the new product has four basic units:

- the innovation;
- the communication of the innovation among individuals;
- the social system;
- time.

The theory goes on to say that the innovation can be categorised into one of the following groupings:

- continuous;
- dynamically continuous;
- discontinuous.

It is a hierarchical listing, with the innovations being more widely removed from previous technology as one moves further down the list. This means that the further down the hierarchy the innovation is placed, the lower the degree of likely acceptance. In the early days of a product innovation, knowledge must be communicated to as many individuals as possible, especially those who are likely to be influential in gaining wider appeal for the innovation. This communication process is broken down into formal and informal communication. These two elements are fed into the forecasting model and then the model can be applied without large amounts of past sales data. The formal communication is controlled by the company and includes such data as advertising expenditure and sales support for the launch; the informal element relates to such matters as family and reference group influences.

Once the innovation has been launched, a measure of the rate of adoption is needed in order to produce a useful forecast. Products are born, they mature and eventually die, and it is important to the forecaster using this technique that the first few points of the launch sales are known in order to be able to determine the rate of adoption. Thus a forecast can be made using only a small amount of data covering the early launch period. An assumption is therefore made that the product being considered has a life cycle curve and that new product acceptance is through a process of imitation, i.e. later purchasers will follow the innovators.

16.5.2.4 Use of Computer Software in Sales Forecasting

Software has been written specifically for use in forecasting. The problem with any software list is that it dates very quickly, so if you propose to use a software package then the best advice is to consult an up-to-date list. Here is a list of more general packages that have withstood the test of time.

- EXEC*U*STAT from Mercia Software Ltd combines business statistics with high-quality graphics output. It provides for quick analysis of data.
- FOCA from Timberlake Clark Ltd offers modern quantitative forecasting of time series using exponential smoothing, spectral analysis, Box–Jenkins and adaptive filtering.
- MINITAB from CLE.COM Ltd is a general-purpose data analysis system that is easy to use. Its features include descriptive statistics, regression analysis with diagnostics, residual analysis and stepwise procedures, time series analysis including robust smoothers and Box–Jenkins operations.
- RATS from Timberlake Clark Ltd is an econometrics package that performs time series and cross-sectional regression. It is designed for forecasting of time series, although small cross-sectional and panel data may also be used.
- SAS/ETS from SAS Software Ltd is an econometrics and time series library which provides forecasting, planning and financial reporting. It contains procedures for time series analysis, linear and non-linear systems simulation and seasonal adjustments, and its applications include econometric modelling and cash flow planning as well as sales forecasting.
- SORITEC from Timberlake Clark Ltd includes non-linear and simultaneous estimation techniques, simultaneous non-linear simulation and solution, a full matrix processing language and transfer function estimation.

- SPSS-PC+ from SPSS (UK) Ltd is a fully interactive data analysis package with full screen editing facilities, data entry and validation and a range of analytical and reporting procedures.
- STATGRAPHICS from Cocking & Drury Ltd is a statistical and graphics package that includes plotting functions (2D and 3D), descriptive methods, estimation and testing, distribution fitting, exploratory data analysis, analysis of variance, regression analysis, time series analysis including Box–Jenkins ARIMA modelling, multivariate and non-parametric methods and experimental design.
- STATPAC GOLD from Molimerx Ltd has batch and interactive processing plus good graphics which require less memory than most other packages.

This listing only documents those packages that are available in the UK; many more are available in the USA.

16.6 Budgeting Purposes

An organisation needs to budget to ensure that expenditure does not exceed planned income. It has been shown that the sales forecast is the starting point for business planning activities. The company costing function takes the medium-term sales forecast as its starting point, and from this budgets are allocated to departments (or cost centres). Budgets state limits of spending, hence they are a means of control. The company can plan its profits based on anticipated sales minus the cost of achieving those sales (which is represented in the total budget for the organisation).

An incorrect medium-term forecast will lead to an incorrect company profit plan. If the forecast is pessimistic and the company achieves more sales than forecasted, then potential sales might be lost owing to unpreparedness and insufficient working finance and facilities being available to achieve those sales. Conversely, if the forecast is optimistic and sales revenue does not match anticipated sales, then revenue problems will arise, with the company having to approach a lender, probably a bank, to fund its short-term working capital requirements (which can be expensive if interest rates are high). This latter factor is a prime cause of many business failures, not necessarily because of bad products or a bad salesforce, but through insufficient money being available to meet working capital needs. These problems stem from incorrect medium-term forecasting in the first place.

16.7 Budget Determination

Departmental budgets are not prepared by cost accountants. Cost accountants, in conjunction with general management, apportion overall budgets for individual departments. It is the departmental manager who determines how the overall departmental budget will be used in achieving the planned sales (and production). For instance, a marketing manager might decide that more needs to be apportioned to advertising and less to the effort of selling in order to achieve the forecasted sales. The manager therefore apportions the budget accordingly and may concentrate on image rather than product promotion; he or she decides beforehand where the priority lies when planning for marketing.

The overall sales forecast is the basis for company plans and the sales department budget (also called the sales and marketing department budget and the marketing department budget) is the basis for marketing plans in achieving those forecasted sales. The sales department budget is consequently a reflection of marketing's forthcoming expenditure in achieving those forecasted sales.

At this juncture it is useful to make a distinction between the *sales department budget* and the *sales budget* (see Section 16.8). The sales department budget is merely the budget for running the marketing function for the budget period ahead. Cost accountants split this sales department budget into three cost elements.

1. The **selling expense budget** includes those costs directly attributable to the selling process, e.g. sales personnel salaries and commission, sales expenses and training.
2. The **advertising budget** includes those expenses directly attributable to above-the-line promotion (e.g. television advertising), and below-the-line promotion (e.g. a coupon redemption scheme). The level of the advertising budget can be obtained by several methods:
   - Use a percentage of last year's sales.
   - Parity with competitors is where smaller manufacturers take their cue from a larger manufacturer and adjust their advertising budget in line with the market leader.
   - The affordable method is where expenditure is allocated to advertising after other cost centres have received their budgets. In other words, if there is anything left over, it goes to advertising.
   - The objective and task method tries to ascertain the advertising expenditure needed to reach marketing objectives laid down in the marketing plan.
   - The return on investment (ROI) method assumes that advertising is a tangible item which extends beyond the budget period. It looks at advertising expenditures as longer-term investments and attempts to ascertain the return on such expenditures.
   - The incremental method is similar to the ROI method; it assumes that the last unit of money spent on advertising should bring in an equal unit of revenue.

Method 1 assumes that increasing sales will generate increasing promotion and vice versa, whereas the converse might be the remedy, i.e. a cure for falling sales might be to increase the advertising spend. Method 2 assumes status quo within the marketplace. Method 3 does not really commend itself, because the assumption is that advertising is a necessary evil and should only be entered into when other expenditures have been met. During company squeezes it often happens that advertising is the first item to be cut because of its intangibility. The cure for the company ailment might rest in increased promotional awareness. Method 4 seems to make sense, but accountants contend that marketing personnel will state marketing objectives without due regard to their value, and such objectives may not sometimes be related to profits. Methods 5 and 6 seem to make sense, but the main difficulties are in measuring likely benefits such as increased brand loyalty resulting from such advertising expenditures, and determining when marginal revenue equals marginal expenditure. In practice, firms often use a combination of methods, e.g. methods 4 and 5, when deciding their advertising budget.

3. The **administrative budget** represents the expenditure to be incurred in running the sales office. Such expenses cover the costs of marketing research, sales administration and support staff.

The marketing manager (or person responsible for the marketing and selling functions) must then determine, based on the marketing plan for the year ahead, what portion of the sales department budget must be allocated to each of the three parts of the budget described above. This expenditure should ensure that the forecasted sales will be met as the forecasting period progresses.

What has been stated so far relates to the sales department budget; the sales budget itself has not been dealt with. The sales budget has far more implications for the company and merits a section all to itself.

16.8 The Sales Budget

The **sales budget** may be considered as the total revenue expected from all products that are sold, consequently it affects all other aspects of the business. The sales budget therefore comes directly after the sales forecast.

It can be said that the sales budget is the starting point of the company budgeting procedure because all other company activities depend on sales and total revenue anticipated from the various products that the company sells. This budget affects other functional areas of the business, namely finance and production, because these two functions are directly dependent upon sales. Figure 16.6 best explains the sales budgeting procedure.

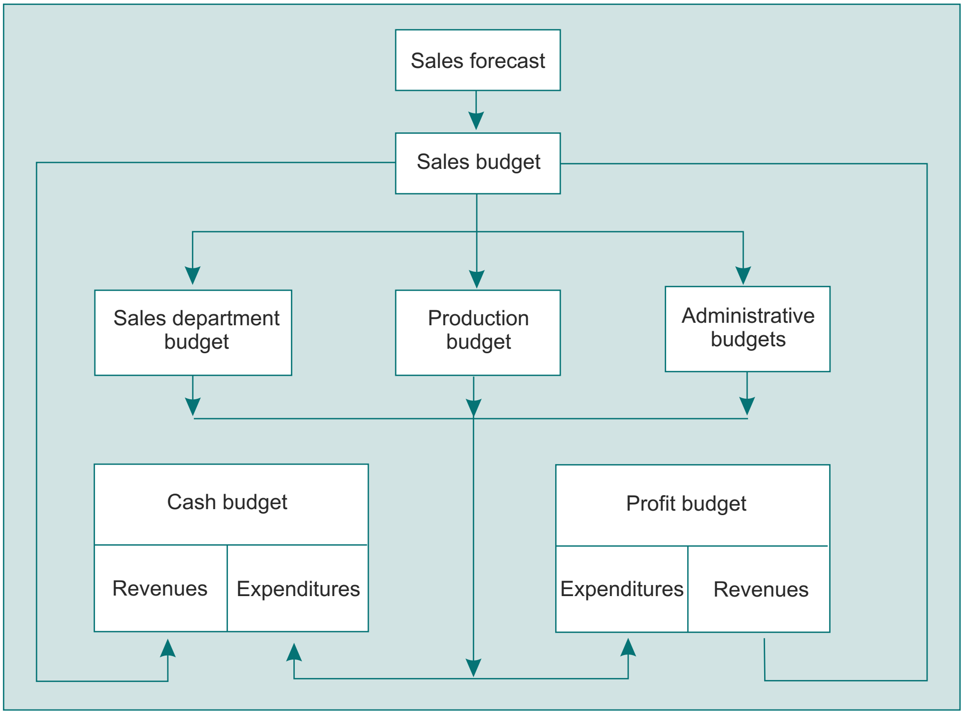

Figure 16.6 The budgetary process

Figure 16.6 represents the way that cost accountants view the budgeting procedure. From the sales budget comes the sales department budget (or the total costs in administering the marketing function. The production budget covers all the costs involved in actually producing the products. The administrative budget covers all other costs – personnel, finance, etc. – and costs not directly attributable to production and selling.

The sales budget is thus the revenue earner for the company and other budgets represent expenditures incurred in achieving the sales. Cost accountants also have cash budgets and profit budgets, each with revenue provided from company sales. It is not proposed to go into why they split into cash and profit budgets. If you want to know more about the mechanisms involved here, then any basic text on cost accountancy should provide an explanation.

16.9 Budget Allocation

The sales budget is a statement of projected sales by individual salespeople. The figure that reaches the individual salesperson is sometimes called the sales quota or sales target and this is the amount that must be sold in order to achieve the forecasted sales. Quotas or targets are therefore performance targets that must be reached, and quite often incentives are linked to salespeople reaching (and surpassing) such quotas or targets. Incentives are covered in Modules Section 14.1.2.1 and Module 15.

Each salesperson knows the individual amount they must sell to achieve their quota, and such quotas are effectively performance targets. Quotas need not necessarily be individually based, they can be group based, perhaps collectively throughout a region, with everybody from the regional or area manager downwards sharing the sales commission equally. Quotas may also be for much shorter periods than one year. The entire year's budget may be broken down in the same manner, say, month by month. When administered like this, the time horizon is more realistic and immediate than one year. Thus there is more of an incentive for a salesperson to achieve the quota or target.

For established firms the most common practice of budget allocation is simply to increase (or decrease) last year's individual budgets or quotas by an appropriate percentage, depending on the change in the overall sales budget. However, periodically it is sensible to review individual sales quotas to establish whether they are reasonable given current market conditions.

The first step in this procedure is to attempt to determine the sales potential of territories. Surrogate measures will usually be employed to give at least relative measures of potential. For consumer products, disposable incomes and number of people in the target market may be used to assess relative potential. For industrial products, the number and size of potential customers may be used. Workload is another factor to consider. Obviously two territories of equal potential may justify different quotas if one is compact and the other is more widespread. By assessing sales potential for territories and allowing for workload, the overall sales budget can be allocated between salespeople in as fair a manner as possible.

Not only does the sales quota act as an incentive to the salesforce but it also acts as a prime measure of performance. The next module looks in detail at the whole area of evaluation of sales personnel.

Learning Summary

The purpose of sales forecasting has been explained and it has been emphasised that this function rests with sales management. Its importance to the planning process has been established; without reasonably accurate forecasting, planning will be in vain. The purpose of forecasting has been considered in the short, medium and long term, and the usefulness of each has been established within the major functions of any manufacturing or service concern.

Forecasting has been considered under the headings of qualitative and quantitative techniques. Quantitative techniques were split into time series methods and causal methods. Qualitative techniques and time series methods have been explained in the amount of detail required to give you a working knowledge of their application. However, causal methods depend largely on the use of computers, and computation relies to a great extent on advanced mathematics. Therefore the techniques have been described but not explained in workable detail.

Finally, the importance of the sales budget in motivating and controlling the salesforce was considered. The sales budget, which is determined by the sales forecast, is broken down into sales quotas or targets for individual salespeople and regions. Monetary incentives may be linked to the attainment of quotas and may be used as a yardstick of achievement.

Review Questions

Content Questions

16.1 What is market forecasting?

16.2 What is the purpose of sales forecasting?

16.3 What is distinctive about qualitative forecasting techniques?

16.4 Name some qualitative methods for preparing a sales forecast.

16.5 Describe in detail the salesforce composite technique and the Delphi method.

16.6 What is distinctive about quantitative forecasting techniques?

16.7 What are the advantages and disadvantages of using time series analysis for sales forecasting?

16.8 Describe the use of leading indicators in qualitative forecasting.

Multiple-Choice Questions

16.9 Have a look at these two statements.

I. Consequences of not preparing an accurate sales forecast include increased working capital requirement.

II. Consequences of not preparing an accurate sales forecast include lost sales opportunities.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

16.10 What is a sales forecast used for?

A. To decide on capital appropriations and plan staffing requirements.
B. To determine the usefulness of a market test.
C. To ensure corporate loyalty.
D. To allocate resources and determine the quality of customer service.

16.11 Some demand estimates place emphasis on the maximum amount of a commodity or service that might be demanded by an industry or customer group. Choose the true statement about these estimates.

A. They are closer to market forecasts than sales forecasts.
B. They are less accurate than demand estimates that give great weight to the marketing effort planned for the period in question.
C. They rely on the implicit assumption that marketing effort in the future period will be similar to marketing effort in the past.
D. None of the other options.

16.12 Have a look at these five statements.

I. The user survey method is a qualitative forecasting technique.
II. The salesforce composite method is a qualitative forecasting technique.
III. The Delphi method is a qualitative forecasting technique.
IV. Time series analysis is a qualitative forecasting technique.
V. Moving averages is a qualitative forecasting technique.

Now choose the correct option.

A. Only statements I, III and V are true.
B. Only statements I, II and IV are true.
C. Only statements III, IV and V are true.
D. Only statements I, II and III are true.

16.13 Have a look at these two statements.

I. The user survey method is a useful vehicle for collecting technological information.
II. The user survey method tends to make predictions that are overoptimistic.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

16.14 Which of these qualitative forecasting techniques uses a bottom-up approach?

A. User survey method.
B. Salesforce composite method.
C. Panel of executive opinion.
D. Delphi method.

16.15 Which of these qualitative forecasting techniques is a top-down method that involves experts who meet in committees?

A. User survey method.
B. Salesforce composite method.
C. Panel of executive opinion.
D. Delphi method.

16.16 Have a look at these two statements.

I. The Delphi method minimises group effects by keeping participants apart.

II. The Delphi method gives participants a chance to moderate their forecasts in response to the input of others.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

16.17 Have a look at these two statements.

I. The salesforce composite method builds up a company forecast from forecasts made by individual salespeople.

II. The salesforce composite method is a quantitative forecasting technique.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

16.18 Have a look at these two statements.

I. The panel of executive opinion method usually brings together internal and external personnel.

II. The panel of executive opinion method produces an aggregate forecast which must then be broken down.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

16.19 Have a look at these two statements.

I. Test marketing involves the limited launch of a product in a clearly defined geographic test area.

II. Test marketing can be adversely influenced by the actions of competitors.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

16.20 Have a look at these two statements.

I. Time series analysis uses lead indicators to predict sales.

II. Time series analysis uses statistical relationships between variables and sales to predict future sales.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

16.21 Have a look at these three statements.

I. Moving averages is a quantitative approach to sales forecasting.

II. The Delphi method is a quantitative approach to sales forecasting.

III. Exponential smoothing is a quantitative approach to sales forecasting.

Now choose the correct option.

A. Only statements I and II are true.
B. Only statements I and III are true.
C. Only statements II and III are true.
D. Statements I, II and III are true.

16.22 Have a look at these two statements.

I. In time series analysis the only variable the forecaster considers is time.

II. Time series analysis can predict downturns or upturns in the market.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

16.23 Have a look at these two statements.

I. Causal techniques examine cause-and-effect relationships between variables.

II. Causal techniques examine the reasons behind the relationships between variables

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

The following information is used for Question 16.24–Question 16.25.

J-D Tractors has the following annual sales figures.

Year	Number of trucks sold
1990	2412
1991	2201
1992	3020
1993	3000
1994	3300

16.24 What is the three-year moving average in 1992?

A. 3107
B. 2544
C. 8221
D. 2740

16.25 What is the five-year moving average in 1992?

A. 2740
B. 2787
C. 2864
D. 13 933

16.26 Have a look at these two statements.

I. In Bayesian decision theory, probabilities are assigned to specified events.
II. In Bayesian decision theory, probabilities are based on objective evaluations.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

16.27 A car manufacturer is deciding whether to launch a new sport utility vehicle (SUV) in the next 12 months. It considers the probabilities of various economic conditions in the target country. What is the expected value for go-ahead in the next year?

Event	Probability
Event X: economic growth greater than 3%	0.3
Event Y: economic growth less than 3%	0.4
Event Z: economic recession	0.3

Event	Probability	Expected profit (£)
X	0.3	3 800 000
Y	0.4	3 000 000
Z	0.3	2 000 000

A. £2 930 000.
B. £2 940 000.
C. £3 000 000.
D. None of the other options.

16.28 The manager's decision to use a specific forecasting method will be based on which of the following factors?

A. How the forecast will be used.
B. How much historical data is available.
C. The forecasting expertise available to the company.
D. All the factors in the other options.

16.29 Have a look at these two statements.

I. A prime cause of business failure is inability to fund short-term working capital requirements.
II. A prime cause of business failure is incorrect medium-term forecasting.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

16.30 Which one of these items is not included in the selling expense budget?

A. Salaries and commissions of sales personnel.
B. Sales expenses.
C. Training expenses.
D. Advertising expenses.

16.31 Have a look at these five statements.

I. The incremental approach is a way of ascertaining the advertising budget.
II. The objective and task method is a way of ascertaining the advertising budget.
III. The affordable method is a way of ascertaining the advertising budget.
IV. The percentage of last year's sales is a way of ascertaining the advertising budget.
V. The competitive parity method is a way of ascertaining the advertising budget.

Now choose the correct option.

A. Only statements I, II and IV are true.
B. Only statements II, IV and V are true.
C. Only statements I, II and III are true.
D. Statements I, II, III, IV and V are true.

16.32 Which method of setting the advertising budget assumes status quo within the marketplace?

A. Affordable method.
B. Competitive parity method.
C. Incremental method.
D. Return on investment method.

Case Study 16.1: Pizza Ristorante Thaws the Frozen Pizza Market

Dr Oetker has recently entered the UK market with the launch of its flagship Pizza Ristorante frozen pizza brand, but until now little in the UK has been known of the company that is one of Europe's leading food manufacturers. So, who is Dr Oetker?

A pharmacist from Bielefeld, Germany, Dr August Oetker founded the Oetker Group in 1891. Today the group has grown to become one of Germany's largest family-owned companies with an annual turnover of more than £3.5 billion. And the key to this success? A simple philosophy that 'quality is the best recipe', both in business and its products.

Quality Is the Best Recipe

Pizza Ristorante has the responsibility of launching Dr Oetker in the UK, and the company is more than confident it will succeed. Pizza Ristorante promises an authentic pizzeria taste, and that's exactly what you get. Research indicates that 76 per cent of consumers prefer Pizza Ristorante to its competitors (Independent Market Research, September 2001), obviously enjoying the balance of a genuinely thin and crispy base with generous, quality toppings that results in a pizza which raises the standard for the entire frozen pizza market. Initially the brand, which is a European bestseller, will be available in four core varieties: Mozzarella, Speciale, Funghi and Hawaii, with an extended range consisting of Salame, Tonno, Quattro Stagione and Vegetale.

Peter Franks, sales director for Dr Oetker (UK) Ltd comments: 'Consumers have become disenchanted with frozen pizzas, often considering them to be of poorer quality than their cousins in the chilled cabinet. Pizza Ristorante will turn this perception on its head, offering the quality and taste you expect from your local pizzeria with the versatility and convenience you expect from your freezer.'

Formula for Success

Dr Oetker has plenty of experience when it comes to launching into new markets, and is already market leader in many of the 23 European countries in which its pizza brands are available. The company forecasts similar success in the UK, as Peter Franks explains: 'Pizza Ristorante is prepared from the finest ingredients to satisfy consumer demand for a quality frozen product. In addition, looking at the market, the thin and crispy sector is dominated by own label, and the introduction of a branded product offering true quality at a competitive price can only add value. Our aim is to stimulate a static market by encouraging consumers to revisit the frozen pizza category by sampling the uniquely authentic pizzeria taste Pizza Ristorante delivers.'

Investing in the Future

The launch is being supported with a fully integrated marketing campaign including a £5 million TV advertising campaign, focusing on the quality and convenience of the thin and crispy range, PR, in-store POS, sampling and promotional support. The product is excellent, the research positive and the financial investment second to none, but will Dr Oetker succeed in the UK? Well, if quality is indeed the best recipe, and consumers seem to agree it is, it would take a brave man to bet against it.

Recent developments

It was reported in The Grocer on 13 July 2002 that sales of the new range, launched in March, hit the £3 million mark in multiple grocers and co-ops in May. This impressive figure, likely to have been generated by a heavyweight TV campaign, equated to an 11 per cent share of the total frozen pizza market during that month. However, figures for June suggest than only one out of two consumers have repeated their purchase, with latest figures for the four weeks to 16 June dropping to under £1.5 million. Own label still dominates the market with average monthly sales of around £8 million. Vice president Axel Andree told The Grocer that he believed Dr Oetker would become the number one pizza brand in the UK within three years, sparking speculation that the company may enter other sectors of the UK food market.

Source: *The Grocer*, 18 May 2002, page 30 and 13 July 2002, page 48. Reproduced with permission.

Questions

1 Produce a SWOT analysis.

2 To satisfy head office, Peter Franks needs a way of forecasting sales in the first year and as accurately as possible. Advise him on the best system to adopt.

References

1. Hogarth, R. (1975) 'Cognitive processes and the assessment of subjective probability distributions', *Journal of the American Statistical Association*, 70(350), pp. 271–89.
2. Lancaster, G.A. and Wright, G. (1983) 'Forecasting the future of video using a diffusion model', *European Journal of Marketing*, 17, p. 2.

Module 17

Salesforce Evaluation

Contents

Learning Objectives

After studying this module, you should be able to

- understand the meaning of salesforce evaluation;
- understand the salesforce evaluation process;
- know how standards of performance are set so that sales can be achieved;
- understand how information plays a key role in the evaluation process;
- set qualitative and quantitative measures of performance.

Key Concepts

- appraisal interviewing
- quantitative performance measures
- salesforce evaluation process
- qualitative performance measures
- salesforce evaluation

17.1 The Salesforce Evaluation Process

Salesforce evaluation is the comparison of salesforce objectives with results. A model of the evaluation process is shown in Figure 17.1. It begins with the setting of salesforce objectives which may be financial such as sales revenues, profits and expenses, market-oriented such as market share, or customer-based such as customer satisfaction and service levels. Then the sales strategy must be decided to show how the objectives are to be achieved. Next the performance standards should be set for the overall company, regions, products, salespeople and accounts. Results are then measured and compared with the performance standards. Reasons for differences are assessed and action taken to improve performance.

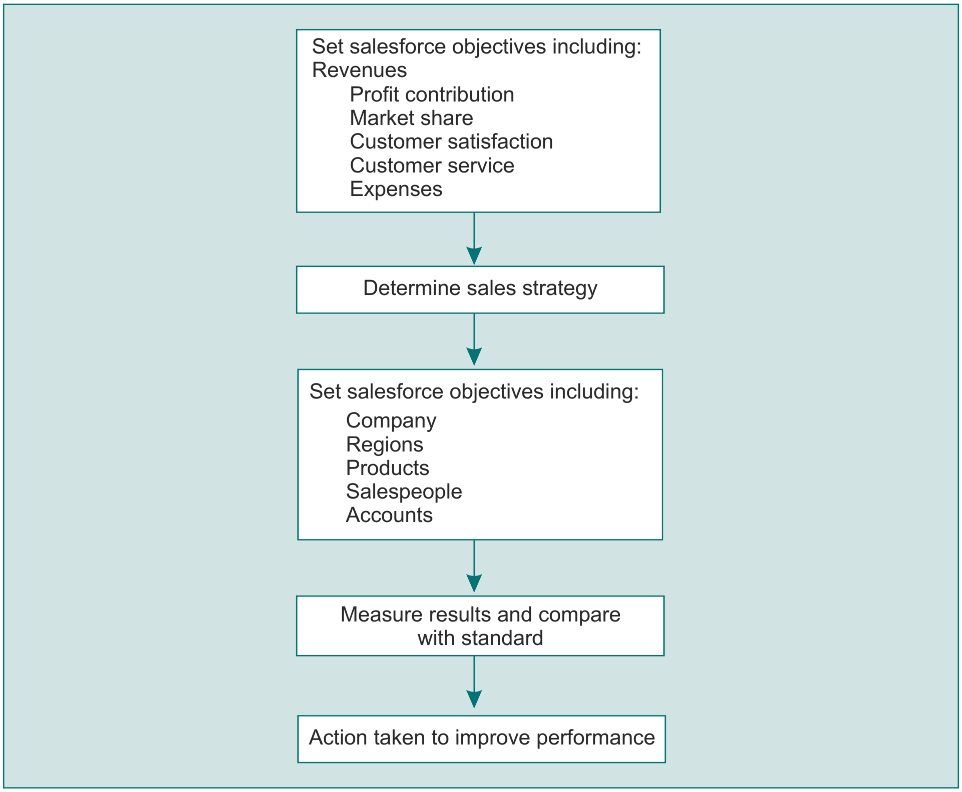

Figure 17.1 **The salesforce evaluation process**

17.2 The Purpose of Evaluation

The prime reason for evaluation is to attempt to attain company objectives. By measuring actual performance against objectives, shortfalls can be identified and appropriate action taken to improve performance. However, evaluation has other benefits. Evaluation can help improve an individual's motivation and skills. Motivation is affected since an evaluation programme will identify what is expected and what is considered good performance. Second, it provides the opportunity for the recognition of above-average standards of work performance, which improves confidence and motivation. Skills are affected since carefully constructed evaluation allows areas of weakness to be identified and effort to be directed to the improvement of skills in those areas.

Thus evaluation is an important ingredient in an effective training programme. Further, evaluation may show weaknesses, perhaps in not devoting enough attention to selling certain product lines, which span most or all of the sales team. This information may lead to the development of a compensation plan designed to encourage salespeople to sell those products by using higher commission rates.

Evaluation provides information which affects key decision areas within the sales management function. Training, compensation, motivation and objective setting depend on the information derived from evaluation, as illustrated in Figure 17.2. It is important, then, that sales management develops a system of information collection which allows fair and accurate evaluation to occur.

The level and type of control exercised over international salesforces will depend on the culture of the company and its host nations. The boxed case discussion highlights some important points.

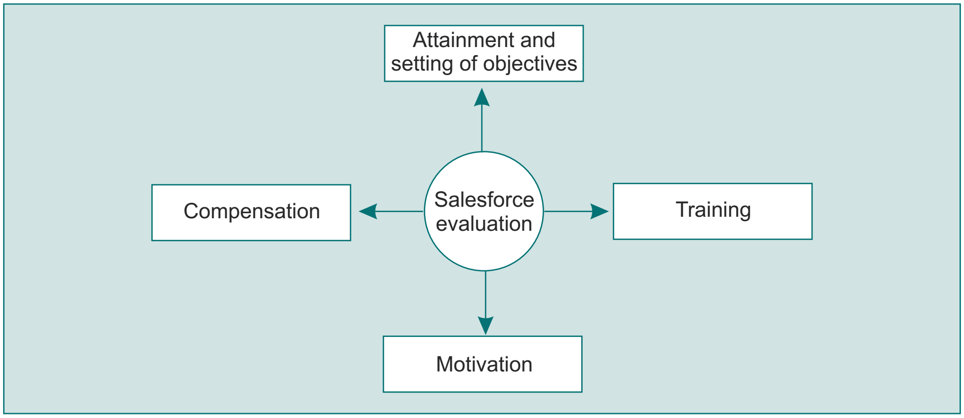

Figure 17.2 **The central role of evaluation in sales management**

Box 17.1: Controlling International Salesforces

The degree to which sales teams are controlled may depend on the culture of the employing company. Many European and US companies are profit-focused and so emphasise quantitative (e.g. sales and profit) control mechanisms. Many Japanese and Asian companies use less formal and less quantitative evaluation systems.

Control systems must take into account the local conditions in each overseas market. Furthermore, they should account for the type of salesforce employed (expatriates or foreign nationals). Systems that are used at home may be appropriate for expatriates, but for foreign nationals they may be alien to their culture and way of doing business.

Source: Based on Honeycutt, E.D. Jr and Ford, J.B. (1995) 'Guidelines for managing an international sales force', *Industrial Marketing Management*, 24, pp. 135–44.

17.3 Setting Standards of Performance

Evaluation implies setting standards of performance along certain lines which are believed to be important for sales success. The control process is based on collecting information about performance so that actual results can be compared against those standards. For the sales team as a whole, the sales budget will be the standard against which actual performance will be evaluated. This measure will be used to evaluate sales management as well as individual salespeople. For each salesperson, his or her sales quota will be a prime standard of sales success.

Standards provide a method of fairly assessing and comparing individual salespeople. Simply comparing levels of sales achieved by individual salespeople is unlikely to be fair since territories often have differing levels of sales potential and varying degrees of workload.

17.4 Gathering Information

The individual salesperson will provide much of the information on which evaluation will take place. He or she will provide head office with data relating to sales achieved by product or brand and by customer, a daily or weekly report of the names of customers called on, and problems and opportunities revealed, together with expense claims.

This information will be supplemented by sales management during field visits. Field visits are important in providing more qualitative information on how the salesperson performs in front of customers as well as giving indications of general attitudes, work habits and degree of organisational ability, all of which supplement the more quantitative information provided by the salesperson.

Market research projects can also provide information on the sales team from customers themselves. A specific project, or a more general one which focuses on the full range of customer–seller relationships, e.g. delivery and product reliability, can provide information on salespeople's performance. A market research study commissioned by Perkins Engines[1] found that salespeople with technical backgrounds were basing their sales presentation on features which were not properly understood by their audience. This led Perkins Engines to retrain its salesforce so their sales presentation focused on a simple presentation of features and the customer benefits which arose from those features.

Finally, company records provide a rich source of information for evaluation. Records of past sales levels, calls achieved, expense levels, etc., can provide bases for comparison and indications of trends which can be used both for evaluation and objective setting.

17.5 Measures of Performance

17.5.1 Quantitative Measures of Performance

There are two fundamental groups of **performance measure**. For both groups, management may wish to set targets for their sales team. One group is a set of input measures which are essentially diagnostic in nature; they help to provide indications of why performance is below standard. Key output measures relate to sales and profit performance. Specific output measures for individual salespeople include

- sales revenue achieved;
- profits generated;

- percentage gross profit margin achieved;
- sales per potential account;
- sales per active account;
- sales revenue as a percentage of sales potential;
- number of orders;
- sales to new customers;
- number of new customers.

All of these measures relate to output. The second group of measures relates to input and includes

- number of calls made;
- calls per potential account;
- calls per active account;
- number of quotations (partly an output measure too);
- number of calls on prospects.

By combining output measures and input measures, it is possible to devise a number of hybrid ratios. Here are some examples:

- Strike rate $= \frac{\text{Number of orders}}{\text{Number of quotations}}$
- Sales revenue per call ratio
- Profit per call ratio (call effectiveness)
- Order per call ratio
- Average order value $= \frac{\text{Sales revenue}}{\text{Number of orders}}$
- Prospecting success ratio $= \frac{\text{Number of new customers}}{\text{Number of prospects visited}}$
- Average profit contribution per order $= \frac{\text{Profits generated}}{\text{Number of orders}}$

All of these ratios can be applied to individual product and customer types and help to answer the following questions:

- Is the salesperson achieving a satisfactory level of sales?
- Is sales success reflected in profit achievement?
- Is the salesperson 'buying' sales by giving excessive discounts?
- Is the salesperson devoting sufficient time to prospecting?
- Is time spent prospecting being rewarded by orders?
- Does the salesperson appear to be making a satisfactory number of calls per week?
- Is he or she making enough repeat calls on different customer categories?
- Is he or she making too many calls on low-potential customers?
- Are calls being reflected in sales success?
- Are the numbers of quotations being made reflected in orders taken?
- How are sales being achieved? In a large number of small orders or a few large orders?
- Are the profits generated per order sufficient to justify calling upon the account?

Many of these measures are clearly diagnostic. They provide pointers to possible reasons why a salesperson may not be reaching his or her sales quota. Perhaps he or she is lazy – not making enough calls. Perhaps call rate is satisfactory but call effectiveness, e.g. sales per call, is low, indicating a lack of sales skill. Maybe the salesperson is calling on too many established accounts and not enough new prospects.

Ratios also provide clues to problem areas which require further investigation. A low strike rate (order to quotations) suggests the need for an analysis of why orders are not following quotations. Poor call effectiveness suggests a close examination of sales technique to identify specific areas of weakness so that training can be applied more effectively.

A further group of quantitative measures will explore the remuneration which each salesperson receives. The focus will be on expenses and compensation. With respect to expenses, comparisons will be made between salespeople and between current year and last year. Ratios which may be used include

- expenses/sales revenue generated;
- expenses/profit generated;
- expenses per call;
- expenses per square mile of territory.

Such measures should give an indication of when the level of expenses is becoming excessive. Compensation analysis is particularly valuable when

- a large part of salary is fixed;
- salespeople are on different levels of fixed salary.

The latter situation will be found in companies which pay according to the number of years at the firm or according to age. Unfairness, in terms of sales results, can be exposed by calculating for each salesperson the following two ratios:

- total salary/sales revenue;
- total salary/profits.

Total salary includes commission. These ratios will reveal when a compensation plan has gone out of control and allow changes to be made before lower-paid higher achievers leave for jobs which more closely relate pay to sales success.

A study by Jobber *et al.*[2] surveyed a sample of 450 industrial products organisations (i.e. firms manufacturing and selling repeat industrial goods such as components and capital goods such as machinery). The objective was to discover how far sales evaluation criteria were used among small firms (less than £3 million sales turnover) and large firms (greater than £3 million sales turnover). Table 17.1 shows there is a wide variation in the use of output criteria among the sample of firms and that large firms tend to use more output criteria than small organisations.

Table 17.1 **A comparison of the usage of salesforce evaluation output criteria between small and large organisations**

Evaluative criteria	Small firms (%)	Large firms (%)	Statistically significant difference
Sales			
Sales volume	87.2	93.1	
Sales volume by product or product line	61.2	80.3	*
Sales volume by customer or customer type	48.2	59.5	
Sales volume per order	22.4	26.7	
Sales volume by outlet or outlet type	22.4	38.9	*
Sales volume per call	12.9	24.4	*
Market share	32.9	57.3	*
Accounts			
Number of new accounts gained	58.8	55.7	
Number of accounts lost	44.7	42.7	
Amount of new account sales	57.6	54.2	
Number of accounts on which payment is overdue	41.2	38.2	
Proportion or number of accounts buying full product line	14.1	16.0	
Profit			
Gross profit generated	58.8	48.9	
Net profit generated	38.8	42.7	
Gross profit as a percentage of sales volume	47.1	45.0	
Net profit as a percentage of sales volume	38.8	34.4	
Return on investment	28.2	26.7	
Profit per call ratio	12.9	12.2	
Orders			
Number of orders taken	48.2	38.2	
Number of orders cancelled	14.1	13.7	
Order per call ratio	25.9	29.0	
Strike rate $\frac{\text{(Number of orders)}}{\text{(Number of quotations)}}$	37.9	40.5	
Average order value	28.2	26.0	
Average profit contribution per order	21.2	16.8	
Value or orders divided by value of quotations	29.4	21.4	
Other output criteria			
Number of customer complaints	23.5	22.3	

* Significant at $p < 0.05$.

Table 17.2 shows that the use of input criteria is also quite variable. Statistics relating to calls are the most frequently used by both large and small firms. Again, there is a tendency for large firms to use more input criteria when evaluating their salesforces.

The growth in the penetration of personal computers is mirrored by the development of **software packages** that will do simple compilation and analysis of salesforce evaluation measures. The creation of a databank of quantitative measures over time allows a rich source of information about how the salesforce is performing.

On their own, these quantitative measures cannot produce a complete evaluation of salespeople. To provide a wider perspective, qualitative measures will also be employed.

Table 17.2 A comparison of the usage of salesforce evaluation input criteria between small and large organisations

Evaluative criteria	Small firms (%)	Large firms (%)	Statistically significant difference
Calls			
Number of calls per period	49.4	69.7	*
Number of calls per customer or customer type	15.3	37.4	*
Calls on potential new accounts	56.5	53.8	
Calls on existing accounts	55.3	61.8	
Prospecting success ratio: $\frac{\text{(Number of new customers)}}{\text{(Number of potential new customers visited)}}$	28.2	32.8	
Expenses			
Ratio of sales expense to sales volume	38.8	45.4	
Average cost per call	21.2	30.8	
Other input criteria			
Number of required reports sent in	42.0	42.0	
Number of demonstrations conducted	23.5	22.3	
Number of service calls made	21.2	23.1	
Number of letters or telephone calls to prospects	14.1	7.7	

* Significant at $p < 0.05$.

17.5.2 Qualitative Measures of Performance

Assessment along qualitative lines will necessarily be more subjective and will mainly take place during field visits. Here are the usual dimensions that are applied.

- **Sales skills.**
  - How well does the salesperson handle the opening and develop rapport?
  - How well does the salesperson identify customer needs and ask questions?
  - How well does the salesperson give the sales presentation?
  - How well does the salesperson use visual aids?
  - How well does the salesperson overcome objections?
  - How well does the salesperson close the sale?
- **Customer relationships.**
  - How well received is the salesperson?
  - Are customers well satisfied with the service, advice and reliability of the salesperson? Or are there frequent grumbles and complaints?
- **Self-organisation**
  - How well does the salesperson prepare calls?
  - How well does the salesperson organise routing to minimise unproductive travelling?
  - How well does the salesperson keep customer records up to date?
  - How well does the salesperson provide market information to headquarters?
  - How well does the salesperson conduct self-analysis of performance in order to improve weaknesses?
- **Product knowledge.**
  - How well informed is the salesperson on his or her own products, their customer benefits and applications?
  - How well informed is the salesperson on competitors' products, their benefits and applications?
  - How well informed is the salesperson on relative strengths and weaknesses between his or her own products and competitors' products?
- **Cooperation and attitudes.**
  - To what extent will the salesperson respond to the objectives determined by management in order to improve performance, e.g. increase prospecting rate?
  - To what extent will the salesperson cooperate with suggestions made during field training for improved sales technique?
  - To what extent will the salesperson use his or her own initiative?
  - What are his or her attitudes towards the following the company and its products?
  - What are his or her attitudes towards hard work.

The 1993 study by Jobber *et al.*[2] also investigated the use of qualitative evaluative measures by industrial goods companies. Table 17.3 shows the results, with most criteria being used by the majority of sales managers in the sample. Although differences between small and large firms were not as distinct as for quantitative measures, more detailed analysis of the results showed that managers of small firms tended to hold qualitative opinions 'in the head', whereas managers of large firms tended to produce more formal assessments, e.g. in an evaluation report.

Table 17.3 A comparison of the usage of qualitative salesforce evaluation criteria between small and large organisations

Evaluative criteria	Small firms (%)	Large firms %	Statistically significant difference
Skills			
Selling skills	81.9	86.9	
Communication skills	77.1	85.4	
Knowledge			
Product knowledge	94.0	90.8	
Knowledge of competition	80.7	83.1	
Knowledge of company policies	56.6	68.5	
Self-management			
Planning ability	77.1	76.2	
Time management	54.2	61.5	
Judgement or decision-making ability	74.7	68.5	
Report preparation and submission	63.9	77.7	*
Personal characteristics			
Attitudes	91.6	88.5	
Initiative	92.8	83.1	
Appearance and manner	90.4	86.9	
Aggressiveness	45.8	50.8	
Creativity	49.4	56.9	

* Significant at $p < 0.05$.

The use of quantitative and qualitative measures is interrelated. A poor sales per call ratio will inevitably result in close scrutiny of sales skills, customer relationships and degree of product knowledge in order to discover why performance is poor.

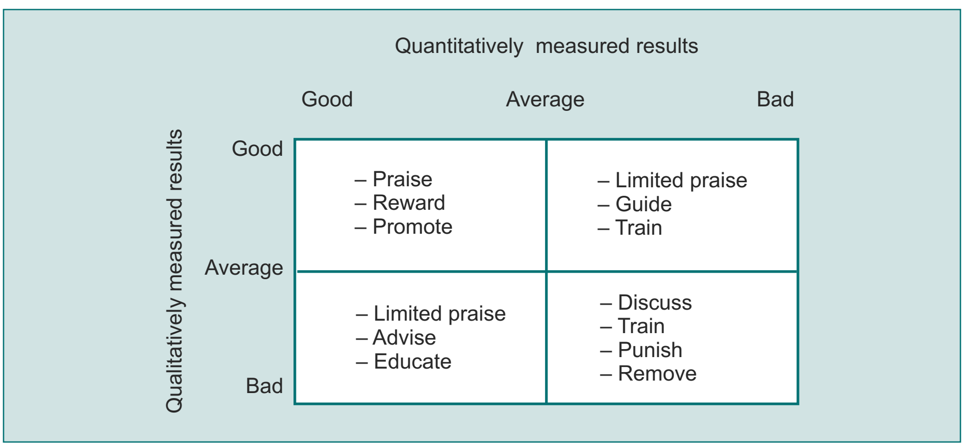

Figure 17.3 Salesperson evaluation matrix

Sales management response to the results of carrying out salesforce evaluation is shown in Figure 17.3. Lynch[3] suggests four scenarios with varying implications:

- **Good quantitative + good qualitative evaluation.** The appropriate response would be praise and monetary reward. For suitable candidates promotion would follow.
- **Good quantitative + poor qualitative evaluation.** The good quantitative results suggest that performance in front of customers is good, but certain aspects of qualitative evaluation, e.g. attitudes, report writing and market feedback, may warrant advice and education regarding company standards and requirements.
- **Poor quantitative + good qualitative evaluation.** Good qualitative input is failing to be reflected in quantitative success. The specific causes need to be identified and training and guidance provided. Lack of persistence, poor closing technique, or too many or too few calls might be possible causes of poor sales results.
- **Poor quantitative + poor qualitative evaluation.** Critical discussion is required to agree problem areas. Training is required to improve standards. In other situations, punishment may be required or even dismissal.

For an evaluation and control system to work efficiently, it is important for the sales team to understand its purpose. For them to view it simply as a means for management to catch them out and criticise performance is likely to breed resentment. It should be used, and be perceived, as a means of assisting salespeople in improving performance. Indeed the quantitative output measures can be used as a basis for rewarding performance when targets are met. In essence, controls should be viewed in a positive manner, not a negative one.

17.5.3 Winning or Losing Major Orders

A key qualitative evaluation question that sales managers have to ask is, Does it appear that we are going to win or lose this order? This is particularly important for major sales. For example, a sales manager may be asked by the managing director, 'Will you find out whether the Saudis are really going to place that new big aero-engine order? I have to tell the board next week so that we can decide whether we will have to expand our plant.'

The obvious response would be to ask the salesperson in charge of the sale directly. The problem is that many salespeople delude themselves into believing they are going to be successful. How do you come to terms with the fact that you are going to lose an order worth £5 million? Asking the direct question, 'Bill, are we going to win this one?' is likely to get the answer, 'Yes, the customer loves us!' What the salesperson really means is that the customer likes the salesperson, not necessarily the product.

Consequently, the sales manager needs to probe much more deeply in order to assess the situation more accurately. This involves asking a series of who, when, where, why and how questions. It also means that the sales manager needs to work out what would be considered acceptable (winning) answers, and what would be thought of as unacceptable (losing) responses. Table 17.4 gives an example of the use of this procedure in connection with a £10 million computer sale. The losing answers are thin and unconvincing (e.g. the director of MIS would not have the power to authorise an order of this size).

The salesperson is deluding him or herself and misleading the sales manager. The winning answer is much more assured and provides clear, credible answers to all of the questions (e.g. an executive director is likely to have the power to authorise a purchase of this magnitude).

If the outcome is a losing answer, the sales manager has to decide how important the sale is and how important the salesperson is. If they both have high potential, the sales manager, sales trainer or top salesperson should work with him or her. He or she should be counselled so that they understand why they are being helped and what the sales manager hopes they will learn. In the process they will also realise that management cares about their development and the success it can bring to both parties.

Table 17.4 **Winning and losing orders**

Question	Poor (losing answer)	Good (winning answer)
Who will authorise the purchase?	The director of MIS	The director of MIS, but it requires an executive director's authorisation, and we've talked it over with him or her
When will they buy?	Right away. They love the new model	Before the peak processing load at the year end
Where will he or she be when the decision is made – in the office alone, in his or her boss's office, in a meeting?	What difference does that make? I think he or she has already decided	At a board meeting. But don't worry, the in-supplier has no one on their board and we have two good customers on it
Why will they buy from us? Why not their usual supplier?	He or she and I go way back. They love our new model	The next upgrade from the in-supplier is a big price increase, and ours fits right between their models. They are quite unhappy with the in-supplier about that
How will the purchase be funded?	They've lots of money, haven't they?	The payback period on reduced costs will be about 14 months and we've a leasing company willing to take part of the deal.

If the salesperson is viewed as having high potential but the situation has low potential, only a counselling session is needed. Usually it is best done at the end of the day, driving back from a call, using an 'oh, by the way' introduction, and avoiding serious eye contact. By these means the salesperson's ego is not offended.

When the salesperson does not have high potential but the sale does, the alternatives are a little nastier. Perhaps the salesperson would be a candidate for redeployment to a more suitable post. When neither the salesperson nor the sale has much potential, the basic question is whether the salesperson is redeployed before or after the sale is lost.

17.6 Appraisal Interviewing

Appraisal interviewing can provide the opportunity to identify a salesperson's weaknesses and to give praise when it is deserved. One method is to ask the salesperson to write down between five and ten expectations that they hope to achieve during the next year, e.g. to go on a presentation skills course, to go on a time management course, to have monthly sales visits from their sales manager, to meet targets, to move into marketing, etc. The sales manager then sits down with the salesperson and goes through this list, breaking it down into quarterly (three-monthly) sections. At the end of each quarter, they have another meeting to see if expectations have been met or shifted in any way. These meetings also provide an opportunity to give or withdraw recognition and acceptance.

Learning Summary

This module has shown the importance of the sales budget in motivating and controlling the salesforce. The sales budget, itself determined by the sales forecast, is broken down into sales quotas or targets for individual salespeople and regions. Monetary incentives may be linked to the attainment of quotas and may be used as one yardstick of achievement.

A more detailed look at the kinds of measures used to evaluate salespeople was then taken. Two broad measures are used: qualitative and quantitative indicators. These indicators can be used to evaluate, control and motivate salespeople towards better performance.

Review Questions

Content Questions

17.1 What is the purpose of evaluation?

17.2 What types of quantitative measure can be used to assess the performance of salespeople? Give examples of each type.

17.3 What ratios might you use to investigate salespeople who are not achieving their sales targets?

17.4 What types of qualitative measure can be used to assess the performance of salespeople? Give examples of each type.

Multiple-Choice Questions

17.5 Have a look at these two statements.

I. Sales quotas are performance targets set for an individual salesperson or group of salespeople.

II. Sales quotas are often linked to incentives.

Now choose the correct option.

A. Only statement I is true.
B. Only statement II is true.
C. Statements I and II are true.
D. Neither statement is true.

17.6 Which of the following ratios does not reflect how well salespeople are capturing the potential business that exists in their territories?

A. Expenses per call ratio.
B. Prospecting success ratio.
C. Order per call ratio.
D. Sales per call ratio.

17.7 What is suggested by a low strike rate?

A. The salesperson is not calling on enough customers.
B. The need to analyse why orders are not following quotations.
C. The salesperson has a higher than average number of days worked.
D. None of the other options.

17.8 Which of the following is not an output measure?

A. Sales revenue achieved.
B. Number of new customers.
C. Number of orders.
D. Calls per active account.

17.9 Which of the following is not an input measure?

A. Number of calls made.
B. Calls per active account.
C. Calls per potential account.
D. Sales to new customers.

17.10 Suppose you wanted to answer the question, Is the time calling on prospective customers being rewarded by orders? Now choose the ratio you would use.

A. Strike rate.
B. Average order value.
C. Prospecting success ratio.
D. Sales revenue per call.

17.11 Suppose you wanted to answer the question, Are the number of quotations being made reflected in orders taken? Now choose the ratio you would use.

A. Strike rate.
B. Average order value.
C. Prospecting success ratio.
D. Sales revenue per call.

17.12 Suppose you wanted to answer the question, Are sales being achieved by a large number of small orders or a few large orders? Now choose the ratio you would use.

A. Strike rate.
B. Average order value.
C. Prospecting success ratio.
D. Sales revenue per call.

Question 17.13–Question 17.15 use the following table.

	Rep 1	Rep 2	Rep 3	Rep 4
Number of calls made	90	125	100	100
Number of orders taken	50	70	50	80
Total accounts available	250	260	240	275
Accounts sold	40	70	70	75
New accounts	3	7	6	7
Number of prospects visited	6	16	10	10
Days worked	20	20	20	20

17.13 Based on the table, which sales representative had the best orders per call ratio?

A. Rep 1.
B. Rep 2.
C. Rep 3.
D. Rep 4.

17.14 Based on the table, which sales representative had the best calls per day ratio?

A. Rep 1.
B. Rep 2.
C. Rep 3.
D. Rep 4.

17.15 Based on the table, which sales representative had the worst new account conversion ratio?

A. Rep 1.
B. Rep 2.
C. Rep 3.
D. Rep 4.

17.16 Working two days in Glasgow, Graham Pitch made 24 sales calls on new business prospects. 18 of the companies visited requested quotations from Graham and the final number of orders generated was 6. What was Graham's strike rate?

A. 0.75
B. 3.0
C. 0.33
D. 0.44

Question 17.17–Question 17.18 use the following table.

Salesperson	Number of calls	Number of orders	Units sold (000)	Total sales (£000)	Total cost of sales (£000)
A	200	250	15.0	750.0	600.0
B	295	230	18.0	900.0	720.0

17.17 From the table, which salesperson has the better order per call ratio and what is it?

A. Salesperson A; it is 1.25.
B. Salesperson B; it is 0.78.
C. Salesperson A; it is 0.80.
D. Salesperson B; it is 1.28.

17.18 From the table, which salesperson has the better sales revenue per call ratio and what is it?

A. Salesperson A; it is 3750.
B. Salesperson B; it is 3051.
C. Salesperson A; it is 3000.
D. Salesperson B; it is 3913.

Case Study 17.1: MacLaren Tyres

MacLaren Tyres Ltd is involved in the import and marketing of car tyres manufactured in the Far East. David MacLaren established the business in 1990 when a friend living in Singapore told him about the supply of tyres from that area which substantially undercut European prices. Although Far Eastern tyres were not as long-lasting as European tyres – average 18 000 miles (29 000 km) compared with 25 000 miles (40 000 km) – they were produced to a high standard, which meant that problems like weak spots, cracks and leaks were no more serious than with European tyres.

MacLaren believed that a viable target market existed for the sale of these tyres in the UK. He thought that many people were primarily interested in the purchase price of tyres. This price-sensitive target market could roughly be described as the middle- to lower-income family who owned a second-hand car over three years old.

He decided to buy a consignment of tyres and visited tyre centres to sell them. Initially business was slow but as distributors began to believe in the quality of the tyres, sales began to grow. By 1997 MacLaren had become general manager and had recruited five salespeople to handle the sales function. Here are MacLaren's profiles of his salespeople.

MacLaren's Profiles of His Salespeople

Peter Killick Joined the company in 1992. Has an HND in business studies and previously worked as an insurance salesperson for two years. Aged 27. Handles the Tyneside area. Gregarious and extrovert.

Barrie Wilson Joined the company at the same time as Olford. Has an HNC in mechanical engineering. Was a technical representative for an engineering firm. Aged 28. Handles the London area. Appears to enjoy his work but lacks the necessary push to be really successful in selling.

Ron Haynes Joined the company in 1994. Has a degree in industrial technology. Previous experience includes selling bathroom suites and textile fabrics. Aged 29. Covers the Birmingham area. Appears to lack enthusiasm but sales record is about average.

Kevin Harris Joined the company in 1996. Has a degree in business studies. Only previous experience was as a marketing assistant during the industrial training period of his degree. Aged 25. Handles the Bristol area. Keen but still very raw.

Salesforce Data

MacLaren decided to look in detail at the sales records of his sales representatives. His plan was to complete a series of statistics that would help to evaluate their performance. Here are basic data for the year 1998/99.

	Sales (£000)	Gross margin (£000)	Live accounts (1998/99)	Calls made	Number of different customers called on
Killick	298	101	222	1472	441
Olford	589	191	333	1463	432
Wilson	391	121	235	1321	402
Haynes	440	132	181	1152	211
Harris	240	65	296	1396	421

Market Data

From trade sources and from knowledge of each salesperson's working boundaries, MacLaren was able to produce estimates of the number of potential accounts and the territory potential for each area.

	Number of potential accounts	Territory potential (£000)
Killick (Tyneside)	503	34 620
Olford (Lancashire)	524	36 360
Wilson (London)	711	62 100
Haynes (Birmingham)	483	43 800
Harris (Bristol)	462	38 620

Questions

1 Evaluate the performance of each of MacLaren's salespeople.

2 What further information is needed to produce a more complete appraisal?

3 What action would you take?

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Appendix 1

Practice Final Examinations

Practice Final Examination 1

Case Study 1: Corrugated Products

Corrugated Products Ltd is a UK based manufacturer of corrugated and solid fibre boxes. The sales manager is presently working on the size of sales force required for next year 2004.

The sales forecast for 2004 is 600 000 corrugated boxes and 180 000 solid fibre boxes which are used mainly for food manufacturers to package products for distribution to supermarkets. Projected sales revenue for 2004 is £2 500 000.

It is estimated that a typical sales person can generate £312 500 income.

The size of Corrugated Products' existing customer base is approximately 500 food manufacturers.

The customer base is broken as follows according to call frequency and desired length of call.

Customers are categorised as Type A, B or C according to value of sales p.a.

Type of customer	% total	Frequency of visit
A (High sales)	10	every week (52)
B (Medium sales)	40	twice a month
C (Low sales)	50	once a month

The average working week is 40 hours (5 days) and the average number of sales calls per week per salesperson is 20.

Each sales person receives 1 week of training per year and 5 weeks per year paid vacation.

1 Calculate the size of the sales force required using the workload method.
(20 marks)

2 The sales manager wishes 2000 prospective customers to be visited by the sales team during 2004. What are the implications of this decision on the salesforce?
(5 marks)

3 Advise the sales manager on other factors which should be taken into account when assessing workload.
(5 marks)

Case Study 2: Pharmaceutical Challenge

> The pharmaceutical industry faces a big challenge in the way it sells its products. Typically, companies in this sector field hundreds of sales people, each attempting three or four morning appointments with GPs (doctors in general practice) and, perhaps, a hospital specialist in the afternoon.
> Their work never generates a direct order. Their role is simply to influence, or hope to influence, the doctor or surgeon so that when the symptoms are relevant, he can prescribe their new drug.

Source: Institute of Personal Sales (UK).

1 How would you approach the development of a compensation and incentive programme to motivate pharmaceutical sales representatives in selling new drugs to medical practitioners?

(30 marks)

Essay Question

1 Organisations are major buyers of goods and services and are characterised by distinctive buying processes. Explain how an understanding of organisational buying behaviour is the key to the development of an effective sales strategy.

(40 marks)

Practice Final Examination 2

Case Study 1: Pennsylvania Battery Company

The Pennsylvania Battery Company has for many years based its sales forecasts for automative battery replacements on past sales history using a four year moving average.

	Year	Actual unit sales of battery replacements p.a. (000's)
	1999	120
	2000	121
	2001	126
	2002	128
	2003	138
Forecast	2004	128

At a recent sales meeting a number of area sales managers expressed concern that the forecast sales for 2004 do not truly reflect the potential of the various sales territories in Pennsylvania and have suggested that a new approach be taken to forecasting sales.

1 Explain the sales forecasting method presently used by the Pennsylvania Battery Company and the difference between this method and exponential smoothing.

(5 marks)

2 Describe two qualitative methods of sales forecasting which could be used by the Pennsylvania Battery Company to estimate sales in 2004. Consider the advantages and disadvantages of each method.

(10 marks)

3 Why should the concerns of the area sales managers be taken seriously?

(15 marks)

Case Study 2: Naturel

Naturel is a manufacturer of specialist hair care products which use only natural ingredients in a range of innovative eco-friendly bio-degradable packages, Naturel seems to have the hit the market at the right time as sales across the product range increased 70 per cent last year. The appointment of ten new sales representatives is now a matter of priority, however, it is important that the people chosen fit within the company culture. The last time Naturel recruited, press advertising drew 250 applications of which 20 were interviewed for 5 jobs. Two of the people who were hired left after six months and one of those who still works for Naturel has begun to openly sneer about the firm's 'green' credentials.

1 Advise Naturel on how they might develop a sales force recruitment programme which provides for more effective screening of applicants.

(30 marks)

Essay Question

> 'Today as a food manufacturer, if you're not a supplier to the major supermarkets there are few people you can go to outside to make a living. Get delisted by one of the top five supermarkets and there is nowhere for you to go'.

Source: Institute of Professional Sales (UK).

1 What are the advantages and disadvantages of developing a Key Account Management policy for a food manufacturer which wishes to strengthen its relationship with a major supermarket customer?

(40 marks)

Examination Answers

Practice Final Examination 1

Case Study 1: Corrugated Products

1 The question relates to Module 15 of the text.

A seven step approach can be used to calculate sales force size using the **Workload Method**.

Step I: Classify all the firm's customers into categories.

Type A – 50 customers
Type B – 200 customers
Type C – 250 customers

Step II: Determine the frequency with which each type of account should be called upon (call frequency).

Type A – 52 times p.a.
Type B – 24 times p.a.
Type C – 12 times p.a.

Step III: Calculate the required workload.

Type A	50 accounts × 52 calls	= 2 600 calls
Type B	200 accounts × 24 calls	= 4 800 calls
Type C	250 accounts × 12 calls	= 3 000 calls
Total annual workload		10 400 calls

Step IV: The average number of calls per week is 20.

Step V: The number of working weeks is:

Number of working weeks per year			52 weeks
Less:	Training	1 week	
	Vacation	5 weeks	
			6 weeks
Total number of working weeks			46 weeks

Step VI: The average number of calls a salesperson can make per year:

$46 \times 20 = 920$ calls

Step VII: The number of salespeople required is calculated by:

$$\frac{\text{Number of customers} \times \text{call frequency}}{\text{Average weekly call rate} \times \text{number of working weeks per year}}$$

$$= \frac{10400}{920} = 11.3 \text{ salespeople}$$

2 Assuming the average number of sales calls per week remains at 20, the implication of this decision is that additional sales people will need to be employed.

The requirement that 2000 prospective customers be visited during 2004 increases the total annual workload of the salesforce from 10 400 calls to 12 400 calls.

The revised number of salespeople required is calculated by:

$$\frac{\text{Number of customers} \times \text{call frequency}}{\text{Average weekly call rate} \times \text{number of working weeks per year}}$$

$$= \frac{12400}{920} = 13.47 \text{ salespeople}$$

Alternatively the average number of calls per week per salesperson must increase from 20 calls per week to 23.8 calls per week.

3 The sales manager should also take into consideration: the time factor (length of time spent on each sales call e.g. Type A customers (high sales) may warrant a longer sales visit than Type B and C sales calls; travel time; and sales potential issues. Each of these points should be discussed in the context of the case (Ref: see Section 15.3).

Case Study 2: Pharmaceutical Challenge

1 The appropriate modules are Module 1, Module 14, Module 15 and Module 17.

The type of selling explained in the case is Missionary Sales, where a salesperson's primary task is not to close a sale but to persuade the customer to specify the seller's products. Here the selling task is to create awareness of the product, educate on the benefits of the product and generate goodwill for the company (Ref: Section 1.3).

It is important to consider the range of possible compensation methods and make a judgement on which method will be best for motivating pharmaceutical sales representatives (Ref: Section 15.4.).

The compensation plan should be aligned with the specific company sales objective(s) e.g. to inform and educate health professionals on the merits of particular drugs/ treatment programmes.

Clearly a compensation plan based on a commission system linked to sales achievement is not appropriate. In this case situation, it is appropriate to have a compensation package which includes:

basic salary + performance related bonus

In determining the base level of fixed salary, the company needs to be careful and sensitive enough to strike a balance. Paying salespeople too much would increase costs and demoralise other non-sales members of staff. A below average compensation package would only attract low quality recruits, thus leading to low performance, high turnover of staff and disgruntled customers which could be very damaging to a firm's long-term effectiveness. It is also important to take account of industry standards is setting the base level of fixed salary.

The basic salary should reflect the individual's performance history, years of experience and years with the company.

The performance-related bonus can be designed to reflect the company's objective of selling new drugs but this should be translated into realistic performance measures. e.g. the number of sample drugs offered to specific customers, rates of participation in trials, distribution of technical literature, the number of account calls made, etc.

As a result each salesperson's performance can be compared to a pre-determined (better to be agreed upon) set of quotas to determine incentive level.

Qualitative performance measures, based on subjective assessment of sales personnel performance during sales visits might include: knowledge of the new drug (research, trial performance, efficacy); sales skills; self organisation; customer relationships, etc. (Ref: Section 17.5).

It is important to consider non-financial incentives. These might take the form of individual meetings between the manager and members of the sales-team, fringe benefits, giving and withdrawing recognition, and merit based promotions (Ref: Section 14.1.2.3–Section 14.1.2.4).

In terms of merit-based promotions, one possibility is promotion to sales and marketing management. Since not everyone is equipped, or willing, to work in management, a possible alternative award might be to increase a salesperson's responsibilities such as key account sales executive, or award bigger/ better territories, etc.

Essay Question

1 The background to organisations' distinctive buying behaviour lies in the differences which exist between organisational buyers and consumers. These differences have important implications for sales strategy. The first step, therefore, is to consider the nature of these differences which include: the fact that organisational buyers are fewer in number than consumers; the importance of developing close, long-term working relationships between organisational buyers and sellers; the use of more rational decision-making processes by organisational buyers, etc. (Ref: Section 3.1).

It is also important to understand the key elements of organisational buying behaviour: structure (who participates in the decision-making process and their particular roles); process (the pattern of information gathering, analysis, evaluation and decision-making process issues); and content (the choice criteria used at different stages of the process by different members of the decision-making unit) and the influence of: the buy class; the product type; and the importance of the purchase to the buying organisation on the way organisational purchase decisions are made (Ref: Section 3.5).

Finally trends within the purchasing function, such as just-in-time purchasing, centralised purchasing, reverse marketing and leasing are also relevant and the implications of these developments for supplier firms should be assessed (Ref: Section 3.6).

Practice Final Examination 2

Case Study 1: Pennsylvania Battery Company

1 The relevant module is Module 16. The method presently used by the Pennsylvania Battery Company to forecast sales is four year moving average. The forecast for 2004 is the average of the number of units sold in the four previous years.

The four year moving average gives equal weight to each of the last four years' unit sales in forecasting sales for 2004. Exponential smoothing is a type of moving average; however, instead of weighting all observations equally in generating the forecast, exponential smoothing apportions different weightings to different parts of the data.

2 The qualitative methods described might include consumer/user survey method, panels of executive opinion, salesforce composite method, the delphi method, etc. (Ref: Section 16.4). Two of these methods should be described and the merits and drawbacks of each discussed in the context of the case.

3 The area sales managers are right to be concerned because the sales forecast is a vital element of managerial decision-making.

It is used by top management to allocate resources among functional areas and to control the operations of the firm. Finance use it to project cash flows, to decide capital appropriation and to establish operating budgets. Production uses it to determine quantities and schedules and to control inventories, etc.

From the area sales managers' point of view of particular interest will be the use of the sales forecast in planning marketing and sales programmes. The sales forecast will be used to plan and evaluate the personal selling effort. It will be used to set sales quotas, as input to the compensation plan, and in evaluating field sales force performance. On the one hand if the area sales managers feel the projected figure is too high then it will be difficult for them to reach the sales targets set, resulting in lower financial compensation and a decline in morale in the sales team. If the projected figure is set too low clearly this might result in lower sales effort and lost business opportunities for Pennsylvania Battery Company - this will be of concern if area sales management have a vested interest in overall performance of the business e.g. through share options.

In the case of the Pennsylvania battery Company the forecast sales for 2004 is 128 000 batteries - a reduction of 10 000 on the sales achieved in 2003. This forecast is made despite an upwards trends in sales since 1999. The area sales managers are right to be concerned about the use of the four year moving average technique.

Case Study 2: Naturel

1 The question relates to Module 13 of the text which covers recruitment and selection.

The first step is to consider the importance of salesforce selection and the important determinants of success (Ref: Section 13.1).

It is clear from the case that a well-defined policy concerning recruitment and selection of staff needs to be put in place to provide for effective screening of applicants and in order to achieve a quality sales team which has the motivation and vision to realise Naturel's sales objectives.

It is essential that the salesforce selection programme be effective because:

- there is wide variability in the sales effectiveness of salespeople;
- salespeople are very costly;
- the intrinsic qualities of sales recruits are key determinants of success.

Naturel should prepare a detailed job description which should include: the title of the job; duties and responsibilities; reporting mechanisms; technical requirements; location and geographical are to be covered; and degree of autonomy.

Naturel should also think carefully about the content of the personnel specification, which provides details of the characteristics of the applicants sought for the position. In this case an important characteristic is shared values in relation to the marketing of 'green' products (Ref: Section 13.2).

In preparing the personnel specification, Naturel may also want to conduct interviews with successful employees and their managers to determine which specific characteristics add to success in this firm. It may also be worthwhile to examine the performance of those who left, and if exit interviews were conducted, determine reasons for leaving. The characteristics of unsuccessful salespeople can also help to determine which people **not** to hire.

The next step that Naturel should take is to find a pool of potential applicants. Naturel must remember that a smaller pool of applicants with good potential is preferable to a large pool of poorly qualified applicants. It could be expensive for Naturel to separate the 'wheat from the chaff'.

The method that the company previously chose was a newspaper advertisement. This is only one of several potential sources which include might include applicants from other departments in Naturel (internal sources). While applicants from other departments in Naturel may not have great sales experience, at least these individuals would have a performance record available and would require less orientation. Recruitment from within the organisation can also boost morale amongst the workforce generally.

Naturel may also wish to see if there are any personal referrals from current reps or even customers. Naturel could also go to a recruitment agency. These agencies are expensive in terms of commission, but setting up a positive relationship with a recruitment agency, and providing them with a good job description, could make all the difference in the future. Naturel could also recruit from educational institutions.

Again these individuals may lack sales experience, but many will possess the intellectual abilities to perform the job.

If Naturel decides to continue using newspaper advertisements careful consideration should be given to size, position and content issues to achieve maximum impact.

Recruitment communications should clearly specify both attractive and unattractive aspects of the job. In Naturel's case, the company's environmental concerns and image should be highlighted (Ref: Section 13.3).

A standard application form (Ref: Section 13.4) to aid comparison of applicants is desirable and particularly helpful where a high level of applications is anticipated. Following screening of applications, Naturel should conduct personal interviews (Ref: Section 13.5). Personal interviews could be supplemented by tests (Ref: Section 13.6).

Essay Question

1 The appropriate modules are Module 6 and Module 15.

The food retailing sector has become increasingly concentrated in recent years as a result of globalisation and growth. The result is that a few large supermarkets dominate the industry and exercise a high level of buyer purchasing power over suppliers, a position which is exacerbated by centralised purchasing patterns. This buyer power (Porter's 5 Forces) has resulted in the margins of many suppliers (food manufacturers) being squeezed as they compete to retain/ capture the business of the major supermarkets.

As the concentration of sales continues to increase through the major supermarkets, it is important that suppliers examine their key account policies with a view to achieving improved customer service and to ensure future prosperity.

First, the supplier must determine the best way to structure the salesforce. Organisation by geography or by product are options but one of the best ways to strengthen relationships with customers is to organise the salesforce by customer or account size. This enables the key account manager to develop a close working relationship with the customer and intimately know the details of the customer's problems and needs. Other advantages of key account salesforce structure include: improved communications and coordination; better follow-up on sales and service; more in-depth penetration if the decision-making unit; higher sales and the provision of an opportunity for advancement for career salespeople (Ref: Section 15.1).

A KAM policy emphasises sales generation **AND** the development of long-term relationships with large customers.

KAM should be defined clearly (Ref: Section 6.1) and the advantages and disadvantages of KAM to the food manufacturer should be assessed. The factors which should be taken into consideration before committing to KAM should also be addressed (Ref: Section 6.2).

KAM is increasingly used by food manufacturers to combat the bargaining power of their customers, and as part of a customer retention strategy to strengthen relationships. This manifests itself in a range of cooperative arrangements and working initiatives.

Specific KAM initiatives which can be undertaken to strengthen the relationship with major customers should also be discussed. These include: development of personal trust; technical support, resource support; service levels; and risk reduction (Ref: Section 6.7).

KAM policies on logistics also help to strengthen customer relationships. By developing logistical alliances with the customer, suppliers can give themselves a competitive advantage. These systems can include automatic replenishment ordering, and EDI (electronic data interchange ordering). Wal-Mart is a good example of a company which employs an automatic replenishment system with key vendors. Sophisticated inventory systems recognise out of stocks, and an order is immediately generated to the supplier's customer service department. EDI has also reduced the amount of paperwork and effort that was previously necessary to generate an order.

At the end of the day, it is important that the KAM policies chosen have the objective of increasing customer satisfaction. When the customer perceives that the supplier is making an effort to add value to the supermarket chain, this can go a long way to build and strengthen the relationship. The ultimate goal for the supplier is to achieve sales, and through these KAM policies, suppliers can increase revenue, and ensure its generation in the future.

Appendix 2

Answers to Review Questions

Contents

Module 1

Review Questions

Content Questions

1.1 *See* Section 1.2.

1.2 *See* Section 1.3.

1.3 *See* Section 1.3.1.

1.4 *See* Section 1.3.2.

1.5 *See* Section 1.3.3.

1.6 *See* Section 1.5.

1.7 *See* Section 1.6.

1.8 *See* Section 1.7.1.

1.9 *See* Section 1.7.1.

1.10 *See* Section 1.7.1.

1.11 *See* Section 1.7.2.

1.12 *See* Section 1.7.2.2.

1.13 *See* Section 1.7.3.

1.14 *See* Section 1.7.3.2.

Multiple-Choice Questions

1.15	B	1.16	B	1.17	D	1.18	C	1.19	A
1.20	C	1.21	C	1.22	C	1.23	A	1.24	D
1.25	A	1.26	A	1.27	B	1.28	A	1.29	B
1.30	A	1.31	A	1.32	C	1.33	C	1.34	D
1.35	D	1.36	D	1.37	C	1.38	A		

Case Study 1.1: Mephisto Products

1 The obvious point is that the company is very much production oriented. It has attempted to develop a sales orientation but this is undermined through the use of the fear factor as a sales tactic, i.e. the company is emphasising the negative aspects of not having electromechanical control devices rather than the positive quality aspects and time-saving capability. Mephisto needs to develop a marketing orientation, identifying the needs and wants of customers and providing products to satisfy these needs and wants. The company must try to build relationships by establishing trust and confidence at individual levels among its regular clients. The devices should be marketed along the lines of satisfying modern safety requirements rather that as individual control devices. There should be a move away from a contracts-based approach towards a safety solutions approach.

2

(a) Marketing orientation is not part of the Mephisto culture, although there is a hint in the case study that Jim Bullins might be amenable to the suggestion of applying marketing orientation. At present the company is production oriented, although attempting to apply sales orientation using the fear factor as a sales tactic.

(b) **Price**: accounts dictating cost-plus margins. This means that the role of sales is one of order-taking rather than any kind of proactive marketing. **Product**: there is a refusal to accept that new products are making serious inroads into the marketplace and that these new products are based on new technology which is obviously proving itself among customers. **Channels of distribution** are direct, which is not unusual for industrial products of this nature. Perhaps consideration might be given to the appointment of agents in addition to the direct salesforce, perhaps in other EU countries to counter EU inroads into the UK. **Promotion** is only done when there is spare cash available, again another pointer towards production orientation. It certainly does not form part of any concerted marketing approach to target customers. Customers seem to be canvassed on a contract-by-contract basis rather than attempting to build long-term sustainable relationships.

(c) Mephisto Products is in the late maturity or decline stage of its product life cycle.

3 There will obviously be problems for Jim Bullins in getting the idea of marketing accepted. Although Jim is the chief executive, the company seems to be very much under the philosophical control of James Watkinson. Perhaps the accounting department is the first function to convince in relation to market-based pricing, followed by production or research in terms of producing products that are suited to the modern marketplace. Facts speak for themselves and it is a serious situation to have static turnover in a market that is growing at 20 per cent per year.

4 There might also be problems for the new appointee if he or she is not a positive personality in gaining an acceptance for marketing philosophies and ideas. Clearly a good communicator (of marketing ideas) and a persuasive personality are prime requirements.

5 Typical advice: pricing to be market based, not cost based; consideration should be given to a new system of sales remuneration which encourages representatives to build up long-term relationships; product development to be based on marketing research data that reflects the requirements of customers rather than simply ideas from the research and development function; advertising to be based on the job to be done rather than simply on what the company can afford to pay; agents to be considered for tackling the broader EU marketplace; a more proactive involvement with customers, perhaps with a view to gaining an acceptance of the company's products at customers' product specification stages. Encourage long-term relationships and a solutions-based approach rather than the contracts-based approach that currently exists.

Module 2

Review Questions

Content Questions

2.1 *See* Section 2.2.

2.2 *See* Section 2.3.1.

2.3 *See* Section 2.3.1.

2.4 *See* Section 2.3.2.1.

2.5 *See* Section 2.3.2.2.

2.6 *See* Section 2.3.5.2.

2.7 *See* Section 2.4.2.1.

2.8 *See* Section 2.4.2.1.

2.9 *See* Section 2.4.2.1.

2.10 *See* Section 2.4.2.1.

Multiple-Choice Questions

2.11	A	2.12	D	2.13	C	2.14	B	2.15	C
2.16	C	2.17	B	2.18	D	2.19	D	2.20	D
2.21	C	2.22	A	2.23	C	2.24	D	2.25	C
2.26	A	2.27	D	2.28	C	2.29	D	2.30	A

Case Study 2.1: Auckland Engineering

Memo on Preparation of the Marketing Plan

1 Selling in most industrial situations comprises the largest component of communications and even marketing expenditure. Certainly, as a component of the communications mix it usually outstrips other promotional mix components many times over, which makes it rather worrying that 5 per cent of turnover is devoted to advertising.

In view of the fact that Withey is dictating advertising budget, this infers that he is responsible for advertising as well as for the selling function, so this makes it very important for him to provide a major input to the marketing planning process.

The tone of the memorandum from the newly appointed marketing director suggests that he is in overall control of marketing, which includes the sales function. In other words, there are not two parallel positions of sales management and marketing management, and indeed it is logical that marketing should drive sales. The tone of the memorandum from the 'new boy' also suggests that he means business, and rightly so in view of market share being 3.5 per cent down on the previous year, advertising being 5 per cent of sales revenue and no apparent thought being given to any kind of formalised planning framework.

The sales manager should therefore provide a number of specific inputs into the marketing plan as a priority and not as something he will do when he has time. It might even be the case that this input could be done in conjunction with the marketing director.

Here are some of the inputs to include:

- assisting the marketing director in identifying macroenvironmental factors (PEST or STEEPLE);
- helping to compile the market analysis of competitors, customers and other factors;
- helping the marketing director to compile an analysis of the current marketing situation (marketing audit procedure);
- setting sales objectives;
- determining market potential through a sales forecast (Module 16);
- generating sales strategies;
- helping to prepare the marketing mix programme, especially the promotional mix;

- agreeing with the marketing director on how to allocate resources to make the marketing plan work;
- implementing the sales portion (i.e. the major component) of the marketing plan;
- controlling the sales component of the marketing plan.

2 The major issue is an almost complete lack of any formalised marketing or sales planning procedure. This is probably reflected in a lack of accountability in reaching sales targets by members of the field salesforce (witnessed through the decline in sales of 3.5 per cent on the previous year). Budgeting and evaluation are dealt with in Module 16; do not dwell on them here.

3 Mr Duncan is right to query the level of advertising expenditure. It is swallowing up a large proportion of resources. In fact, 5 per cent of sales turnover is more in line with FCMG companies not industrial companies like Auckland Engineering. Using a percentage of sales reflects a more mechanistic approach to advertising. Auckland needs to establish sales objectives and then establish the advertising costs alongside other costs of achieving these objectives. Wait until Module 16 for the details.

4 Strengths and weaknesses refer to the microenvironment (or company) factors; opportunities and threats refer to the macroenvironment. The purpose of SWOT analysis is to provide a foundation for detailed tactical plans that come later in the planning process.

Module 3

Review Questions

Content Questions

3.1 *See* Section 3.1.

3.2 *See* Section 3.2.1.

3.3 *See* Section 3.2.2.3.

3.4 *See* Section 3.3.1.

3.5 *See* Section 3.3.2.

3.6 *See* Section 3.3.2.1.

3.7 *See* Section 3.4.

3.8 *See* Section 3.4.1.

3.9 *See* Section 3.4.1.

3.10 *See* Section 3.4.2

3.11 *See* Section 3.4.3.

3.12 *See* Section 3.5.

Multiple-Choice Questions

3.13	B	3.14	D	3.15	B	3.16	A	3.17	C

3.18	D	3.19	C	3.20	B	3.21	D	3.22	A
3.23	D	3.24	D	3.25	D	3.26	B	3.27	A
3.28	D	3.29	A	3.30	C	3.31	C	3.32	A
3.33	C	3.34	C	3.35	B	3.36	D	3.37	B
3.38	D	3.39	D	3.40	B	3.41	D	3.42	D
3.43	B	3.44	A	3.45	D				

Case Study 3.1: The Lost Computer Sale

1 Jim was the initiator, decider, user and buyer; Mary was the influencer in the DMU. Jim's choice criteria appear to be ability to conduct cash flow monitoring and ease of use (technical) plus reduced risk and hassle (personal). Mary's choice criteria appear to be price and value for money (economic).

Beyond these criteria we can assume that a key need from the purchasing encounter is to be treated sympathetically by the salesperson and not to be confused by jargon or shown up as lacking computer knowledge or expertise. Such fears can act as need inhibitors. A salesperson who fails to recognise these essential psychological needs of customers is likely to be rejected by them.

2 The salesperson failed to understand the choice criteria being applied to the purchase and the psychological needs of Jim and Mary during the sales encounter. The reason was that the salesperson was focused on making statements rather than asking questions to discover what was important to the customers. Often making statements is much easier than having to think of intelligent questions to discover customer needs. By displaying his knowledge of personal computing technology, the salesperson may have been massaging his ego in the mistaken belief that the customers would be impressed. The reality was that Jim and Mary's worst fears were realised as they were subjected to a meaningless barrage of computer jargon.

The salesperson made the classic mistake of presenting product features (e.g. computer graphics facilities, 128 megabytes) without explaining the customer benefits that they confer to Jim and Mary. Without knowing their needs, it was impossible to choose features that conferred benefits important to Jim and Mary.

Although the salesperson opened positively by stating 'this is the fastest-growing network of personal computer centres', it was inexcusable to leave Jim and Mary for five minutes without explaining why and seeking their agreement. There may have been a compelling reason to leave (e.g. a delivery truck may have been about to leave without an important parcel); otherwise the salesperson should have delayed the visit or delegated it to someone else.

Finally, the salesperson inadequately dealt with customer objections. Mary objected to the price by claiming she had seen computers advertised in newspapers for a lot less. The salesperson's response was to counter with product features that were unconvincing and incomprehensible to Jim and Mary. Jim complained about the computer looking complicated to use, which prompted the reply that the salesperson's 12-year-old son could use it, reinforcing Jim's feeling of computer ignorance.

The statement that there was a special offer, which may have been relevant to Mary, certainly did not allay Jim's concerns about ease of use.

Another topic for classroom discussion is the issue of why the salesperson chose that particular model to show Jim and Mary. It could have been for the following reasons: it was the one he would have chosen if he had wanted a new computer (self-reference criteria); it gave the highest commission; it was the model he knew most about; it was the most sophisticated, allowing the salesperson to display his extensive knowledge of computers. There can be many other forces acting on salespeople that distract them from understanding customer needs and selling the most appropriate product to match those needs.

3 The sales interview should begin by attempting to understand why Jim and Mary need a personal computer. This involves questioning them to discover the reason for purchase, what the computer is to be used for (applications), and how much experience the customers have in using a computer. This conversation will undoubtedly reveal that Jim is the managing director of a small cleaning company and Mary is his wife. Furthermore, by understanding their needs, their choice criteria become apparent. They should also be questioned about future computing needs.

Having obtained a clear understanding of needs (choice criteria), the salesperson can select the computer which best matches those requirements and then relate product features to benefits to customer needs.

In doing this, the salesperson is acting as a problem solver, providing added value to his or her customers, who are clearly in a high-involvement situation since high expenditure and personal risk are involved. When a purchase is highly involving, customers are likely to carry out extensive evaluation, providing salespeople with an opportunity to aid that process. Even if extensive evaluation means that more than one store is visited, salespeople can build up goodwill, improving their chances of the customer returning by providing helpful advice.

Reference selling – citing other satisfied customers – can be used to build positive beliefs and attitudes towards the product. By raising purchase intentions in this way, a sale is more likely.

Finally, the salesperson should remember that customers may suffer from buyer remorse, so he or she should follow up the sale to check that Jim and Mary are having no problems with their recent purchase.

Module 4

Review Questions

Content Questions

4.1 *See* Section 4.1.

4.2 *See* Section 4.1.

4.3 *See* Section 4.1.1.1.

4.4 *See* Section 4.1.2.

4.5 *See* Section 4.1.4.

4.6 *See* Section 4.2.1.

4.7 *See* Section 4.2.1.3.

Multiple-Choice Questions

4.8	C	4.9	A	4.10	B	4.11	D	4.12	D
4.13	C	4.14	C	4.15	A	4.16	B	4.17	C
4.18	B	4.19	C						

Case Study 4.1: The O'Brien Company

1 Sales objectives should be set in terms of what the salesperson wants the customer to do rather than what the salesperson will do. Therefore the first objective will be to obtain agreement from Brian Forbes for an interview. Here are some possible sales objectives: for Brian Forbes to confirm that he is the right person to contact about the purchase of briefcases; for Forbes to identify any other people the salesperson should talk to; for Forbes to try the product; for Forbes to buy a quantity of briefcases.

The acquaintance may furnish you with some useful background information. Here are some questions to ask: What is Brian Forbes like? Does he have any particular likes or dislikes? Is the company successful or expanding? Secondary data is important here. Are there any problems getting to see him? How may they be overcome? Who else might be influential in the purchasing decision? Who are Brian Forbes' close allies?

2 The hallmark of a good presentation is flexibility. Nevertheless, preparation can play a useful part in developing an effective presentation. The salesperson should practise questioning. He or she needs to know if Forbes is the correct person to speak to; perhaps a more junior person, e.g. a buyer, is more suitable. He should also ask about other people who may have influence. He needs to know the current situation. When was the last batch of briefcases bought? Who was the supplier? What key features, benefits and problems arose? This will provide background and reference information that may be useful for the presentation.

A key aspect of a sales presentation is to relate product features to customer benefits. A number of product features are given in the case. The salesperson could usefully link features to benefits by using phrases such as 'which means that' and 'which enables you to'. Here are some examples. This briefcase is lockable, which enables you to have the peace of mind of added security for private documents. This briefcase is priced at £25, which means it is the least expensive on the market for its specification. This briefcase is manufactured from leather and real hide and comes with personalised gilt initials, which gives the kind of prestige your company may be seeking. This briefcase can expand for when you need that extra space to carry many documents.

3 **O**: the price of the de luxe range is too high.

R: you are right in thinking that the price is higher than many briefcases but it reflects the quality of the leather and hide we use in its manufacture. We do give a quantity discount, which reduces the cost somewhat.

O: I can't see the point in having a briefcase that expands.

R: I have one like that myself. I don't use it often but it is really useful occasionally when I have a lot of documents to carry.

O: why don't you do an expandable version of the standard model?

R: an expandable version would be much more expensive to produce.

O: why then do you have two lockable or non-lockable versions?

R: our aim is to provide a standard, affordable briefcase to cater for most circumstances. The extra cost in producing the lockable version is small as reflected in the price.

O: you don't have a very wide colour range for the de luxe version.

R: we carried out market research to find out the colours customers most wanted. These are the ones we produce.

Module 5

Review Questions

Content Questions

5.1 *See* Module 5.

5.2 *See* Module 5.

5.3 *See* Section 5.1.

5.4 *See* Section 5.1.

5.5 *See* Section 5.2.

5.6 *See* Table 5.1.

5.7 *See* Section 5.3.1.

5.8 *See* Figure 5.2.

5.9 *See* Figure 5.4.

5.10 *See* Section 5.7.

Multiple-Choice Questions

5.11	C	5.12	C	5.13	B	5.14	B	5.15	C
5.16	D	5.17	B	5.18	C	5.19	B	5.20	C
5.21	B	5.22	B	5.23	D	5.24	B		

Case Study 5.1: The Mordex Photocopier Company

1. The correct response is not to rush the rest of the sales presentation but to arrange a time for another meeting so the issues can be fully discussed.
2. With good knowledge of competitors' products, the salesperson should know the weaknesses of the Clearprint machine. This will allow the salesperson to question specific aspects of its performance. For example, the salesperson might say, 'Yes, most photocopiers are fairly reliable these days but have you had any problems with the Clearprint jamming at all?'
3. One possible approach is to question the objection. What does bad reputation mean? Once this is clear, the salesperson can deal with the specifics. Another possible approach is straight denial with reference sell: 'Absolutely not, Mr Kirby. I can give you a list of customers who have been happy with us for many years.'
4. Once again, competitor knowledge is the key. Supposing that the hire charges are higher, a suggested approach would be an agree and counter with offsetting competitive advantages: 'Yes, our hiring charges are a little more than Clearprint's. However, our machine operates at a higher speed, which means less staff time being taken up with photocopying'. If possible, the salesperson should quantify the savings.
5. The salesperson should implement risk reduction strategies such as reference selling and guarantees with penalty clauses: 'We have a strong satisfied list of customers, Mr Kirby. I should be delighted if you contacted Jim Talbot of Rail Engineering Services or Stan Watkins of Southern Dairies.

   I am sure they would be willing to tell you about our excellent service. 'If your machine breaks down, we guarantee to have an engineer on site within two hours. If we are late, which we never are, we agree to pay the customer £50 for every hour over the guaranteed period.'
6. The correct strategy is to minimise the costs and maximise the value of change. The salesperson might say, 'Training staff comes as part of the package. I am happy to arrange a time with you for our sales engineer to show your staff how to use the machine. It takes a maximum of half an hour. Immediately after that, you begin to reap the gains from our superior photocopying speed.'
7. Although it is tempting to try a concession close where Mr Kirby makes up his mind there and then, it has the danger of antagonising the customer and encouraging him to believe the salesperson is worried about the meeting with the Clearprint salesperson. An alternative approach is to arrange for a demonstration. The question then focuses on timing.

   A demonstration before the Clearprint meeting gives an opportunity to convince Mr Kirby before the Clearprint salesperson has a chance to influence him. A demonstration after the Clearprint salesperson has called gives Mordex the benefit of having the last word (provided the Clearprint rep does not arrange a further meeting.

   The advantages and disadvantages of each approach can be debated in class. The ultimate decision will depend on which approach seems most likely to produce a sale. The bigger the product's competitive advantage, the more likely a demonstration will clinch it.

Module 6

Review Questions

Content Questions

6.1 *See* Module 6.

6.2 *See* Section 6.1.

6.3 *See* Section 6.1.

6.4 *See* Section 6.1.

6.5 *See* Section 6.1.

6.6 *See* Section 6.2.

6.7 *See* Section 6.2.

6.8 *See* Section 6.5.

6.9 *See* Section 6.7.

6.10 *See* Section 6.8.

Multiple-Choice Questions

6.11	D	6.12	D	6.13	A	6.14	B	6.15	C
6.16	B	6.17	C	6.18	B	6.19	B	6.20	A
6.21	D	6.22	C	6.23	B	6.24	D	6.25	D

Case Study 6.1: Cloverleaf

1 **Reasons for failure**

This analysis can be subdivided into introduction to the DMU, managing the DMU, closing the sale.

Introduction to the DMU

- *Got into the decision-making process late.*
  Despite being a potentially key account (it had a reputation for technical excellence and innovation), Commercial called Cloverleaf to communicate its decision to purchase bottling plant. Seemingly, a competitor, Hofstead, had already visited Commercial and influenced the specification (presumably to suit their own product).
  Although Cloverleaf's bottling line exceeded the specifications, the net result may have been to alienate M. Artois, the production engineer. He was supposed to know state-of-the-art specifications and is likely to have been required to write them into the specification drawn up for Commercial. Thus, if Cloverleaf wins

with its higher specifications, he loses. It would be a slur on his professionalism if Cloverleaf were to win the order.

This all stems from Cloverleaf's lack of prior contact with Commercial and the failure to cultivate relationships. Had Cloverleaf got into the decision-making process first and influenced the specifications, this would have effectively created lockout criteria vis-à-vis Hofstead.

- *Failure to ask questions.*
  Goodman was fortunate that he had an ally at Commercial. Because M. Bernard was impressed with the Cloverleaf product (as technical director he would gain prestige from it), he volunteered information on the people Goodman should talk to. Salespeople cannot rely on DMU members volunteering such information. They need to be skilled in asking questions to find out the people in the DMU.

Managing the DMU

- *Low credibility.*
  M. Bernard asked Goodman the price of the bottling line (March 13). Goodman did not know and said he would get back to Bernard.
  This lack of basic information lowered Goodman's credibility in the eyes of Bernard. It is a week since he first called on Commercial, so Goodman should have had time to set the price.
- *Poor communication.*
  Goodman failed to communicate in the language that Bernard understood, i.e. costs, revenues and return on investment. The analysis of the DMU showed that purchasing managers were interested in the financial aspects of a purchase. Goodman talked about greater reliability and bottling speed. These factors (product factors) needed to be translated into lower costs to justify Cloverleaf's higher price. Cloverleaf should have conducted tests (preferably under the control of an independent expert) to show what faster bottling speeds can be expected over competition and how that leads to lower costs. A return on investment calculation could be used to justify the higher price. Leblanc also needed to know this information so he could argue convincingly for Cloverleaf's product.
- *Total absence of sales support.*
  Despite the fact that Cloverleaf provided technical specialists, they were not employed by Goodman. Nor did any of Cloverleaf's sales management visit Commercial. Consequently, in the customers' eyes, Goodman was Cloverleaf. Even if Goodman had done his job properly, there is always the likelihood of the customer thinking, 'What are the rest of them like?'
- *Lack of demonstration.*
  At no point did Goodman suggest that the DMU members should actually see the product. They were being asked to spend around £1 million without seeing the bottling line in action. A sensible strategy would have been to arrange a visit to a satisfied customer so they could see the line in action. This would also have given the opportunity for people in the company to talk to Commercial about

the product, i.e. they could confirm the lower costs due to the faster bottling speed. This would have provided an ideal opportunity for a reference sell.

Closing the sale

- The double price drop was unconvincing as it undermined Cloverleaf's positioning strategy. Cloverleaf's approach was to set a relatively high price based on performance benefits. Dropping the price twice discredited this strategy and only served to cause confusion in the customer's mind. A key problem was that since the customer (especially Bernard) was never convinced of the performance or financial advantages, the emphasis was on price. Another more minor issue was the relative size of the price drops. Since they were equal, it is reasonable to assume that another one might follow. Good negotiators always make the second price concession smaller (often considerably smaller) than the first to signal to the customer that no more can be expected.

Lessons to be learnt

- *Strategy implementation.*
  Strategy developers should avoid the trap of believing that appropriate implementation will automatically follow. Strategy and the related justification, including financial analysis, need to be communicated to those who will implement it, here the salesforce. Price discounting needs to be discussed in the light of overall positioning strategy, so tactical price drops do not discredit that strategy. Market segmentation may reveal price-sensitive target markets where discounts are expected and other segments where prices should be held.
- *Proactive versus reactive account management.*
  Account management means more than responding to customer enquiries. It means proactive involvement with potential new accounts, establishing lines of communications and managing relationships over time. Potential suppliers need to be involved early in the customer's decision-making process.
- *Selling customer benefits.*
  Salespeople and companies need to prepare well for a sale, making the necessary cost and revenue calculations to convince financially oriented people like Bernard.
- *Team selling.*
  Team selling shows commitment and allows people with similar interests (e.g. technical people) from supplier and customer organisations to come together, and people of similar status to discuss issues. Often senior people in the buying organisation expect to be called on by senior people from the supplier, i.e. not Goodman.
- *Product advantages.*
  The case illustrates that having a better product is not sufficient for marketing success. All of the marketing mix elements have to be managed well, not just the product aspect. Cloverleaf failed on the promotional element, at the very least. Its sales strategy failed to convince a potential major account to buy its superior product.

Module 7

Review Questions

Content Questions

7.1 *See* Section 7.1.1.
7.2 *See* Section 7.1.1
7.3 *See* Section 7.2.
7.4 *See* Section 7.2.
7.5 *See* Section 7.2.
7.6 *See* Section 7.4.
7.7 *See* Section 7.5.
7.8 *See* Figure 7.2.

Multiple-Choice Questions

7.9	C	7.10	B	7.11	D	7.12	A	7.13	B
7.14	B	7.15	C	7.16	B	7.17	B	7.18	D
7.19	B	7.20	A	7.21	D	7.22	A	7.23	D

Case Study 7.1: Midlands Switchgear

1

(a) Midlands Switchgear is clearly production oriented, with the engineers very prominent and in charge. Purchasing seems to be reduced to a simple clerical function. The modern notion of purchasing seems to be a long way off. The situation seems to be quite cosy from Midland Switchgear's viewpoint as competition is excluded for historical reasons. But how long can this last? The effects of electricity privatisation are working their way through the system and Midlands Switchgear may soon find its situation has changed.

(b) The current system discourages prospective companies from becoming approved suppliers because it is hardly worth the effort of overcoming the hurdles. But is this a healthy environment in which to conduct normal business? Currently it is hard to compete on price.

2 This is related to the first question. The clear threat is that the few major customers provide most of the revenue for Midlands Switchgear. Suppose new switchgear is developed that does not need the four-hour service back-up? Companies making this new switchgear will have overcome the quality and availability hurdles and can try to compete on price.

Midlands Switchgear needs to reorganise its marketing to become more marketing oriented, which means becoming customer led. The commercial director is currently responsible for this function and that very title suggests a production orientation. Salespeople should be used for market intelligence gathering and building long-term relationships, the essence of relationship marketing. Midlands Switchgear should capitalise on the cosy relationships that currently prevail. Unless they are nurtured in a strategic manner, existing customers may go elsewhere.

3 This will require a lot of patience. There are five approved suppliers, two of which are preferred suppliers. So why bother? Perhaps this is a valid attitude but it is also defeatist, so here is a suggested strategy.

Target the company using direct mail sent to individual members of the DMU. Spell out the benefits of doing business with your company and explain that you already hold the appropriate approvals. Seek an exploratory sales interview to put across your products and their relative benefits. Try to build confidence and develop relationships to the point where the DMU gives you a trial order, perhaps at no cost to Midlands Switchgear. Then use relationship selling.

Module 8

Review Questions

Content Questions

8.1 *See* Section 8.1.

8.2 *See* Section 8.2.

8.3 *See* Section 8.3.4.1.

8.4 *See* Section 8.3.4.1.

8.5 *See* Section 8.3.4.2.

8.6 *See* Section 8.3.4.2.

8.7 *See* Section 8.3.4.3.

8.8 *See* Section 8.3.4.4.

Multiple-Choice Questions

8.9	C	8.10	C	8.11	D	8.12	D	8.13	B
8.14	C	8.15	B	8.16	C	8.17	B	8.18	C
8.19	A	8.20	D						

Case Study 8.1: RU Receiving Me?

1 People are happy to pay to receive information on products that interest them, particularly if a special offer is part of the package. Often people do not make the connection that they are actually paying to be sold to, as receiving information about their favourite band or football team is an attractive proposition. In fact, this is only one step removed from the purchase of a magazine or newspaper, or even a TV set. Few people would consider any of those purchases to involve paying for a marketing message, but in fact this is exactly what is happening.

2 Almost any kind of brand-building message might be delivered, particularly since segmenting the target audience should be relatively simple. Marketers would need to be careful to send only those messages likely to be of interest to the recipient. Sending indiscriminate product promotions would certainly reduce the likelihood of individuals signing up for SMS services.

3 Indiscriminate messaging would certainly reduce the acceptability of SMS for consumers, as would excessive messaging. In the long run, both would be difficult to control; overuse of the medium is extremely likely, given the difficulty of reaching the specific target audience.

4 The positive response might be accounted for by the specificity of the messages, the control which the recipient has over whether and when to receive the messages, and the novelty. Since SMS recipients have opted into the service, there is a degree of power and control over what happens, and the interactive nature of the service means that recipients can easily express their displeasure if they wish.

5 At present, companies dealing with a youth market are likely to benefit most. As text messaging becomes more widespread, other beneficiaries will be companies that have a national reach and that can give special offers or deals to SMS club members.

Module 9

Review Questions

Content Questions

9.1 *See* Section 9.1.

9.2 *See* Section 9.2.1.

9.3 *See* Section 9.2.2.

9.4 *See* Section 9.3.

9.5 *See* Table 9.1.

9.6 *See* Section 9.5.

Multiple-Choice Questions

9.7	B	9.8	C	9.9	C	9.10	C	9.11	C
9.12	D	9.13	D	9.14	D	9.15	B	9.16	A

Case Study 9.1: Understanding Customer Value Creation

1 **Analysis and Planning**

- Value is created by understanding which customers you want to manage.
- Value is created by retaining those who are worth retaining.
- Value is destroyed by a lack of customer understanding.
- Value is destroyed by a mismatch between costs and revenues.

Proposition

- Value is created by using a proposition to attract very similar customers then retaining and developing them.
- Value is created by using the whole supply chain to ensure the proposition can actually be delivered.
- Value is created by effective communication with the front-line team who deliver the proposition, ensuring consistency of delivery.
- Value is destroyed by poorly defined and poorly articulated brand values.
- Value is destroyed by aiming at low-value customer groups.
- Value is destroyed by poor communication with the front-line team.

People and Organisation

- Value is created by having effective people and partners.
- Value is created by visible and clear leadership for customer management.
- Value is created by smooth communication works between levels in the organisational hierarchy.
- Value is created by having structures for slick decision-making.
- Value is destroyed by a lack of clear leadership from the board.
- Value is destroyed by stifling decision-making.
- Value is destroyed by misaligning objectives with corporate goals.
- Value is destroyed by demotivating staff.

Processes

- Value is created by being customer-centric.
- Value is created by considering the customer when defining processes.
- Value is created by having a deep knowledge of customers.
- Value is destroyed by ignoring good customer management.

Information and Technology

- Value is created by efficiency, service and intelligence.
- Value is created by having professional data acquisition and management.
- Value is created by distributing data appropriately.
- Value is destroyed by having poor data.
- Value is destroyed by having data without a purpose.
- Value is destroyed by a poorly maintained information system.
- Value is destroyed by failing to provide customer access.

Measurement

- Value is created by understanding performance.
- Value is created by understanding the relationship between resources, activities and performance.
- Value is destroyed by not measuring effectiveness and efficiency.

- Value is destroyed by not learning from successes and failures.

Customer Experience

- Value is created by understanding the customer experience.
- Value is created by understanding how to achieve customer satisfaction and customer commitment.
- Value is destroyed by not collecting data on customer experiences.
- Value is destroyed by not understanding how to achieve customer satisfaction and customer commitment.

Customer Management

- Value is created by having excellent acquisition, retention, development and recovery.
- Value is created by executing plans efficiently.
- Value is created by making the most of all enquiries.
- Value is created by helping new customers to understand and enjoy the product so they are retained and developed.
- Value is created by serving customers well.
- Value is created by giving good service to dissatisfied customers so they can be recovered.
- Value is destroyed by inactivity.
- Value is destroyed by activities that are not aligned with the CM objectives.
- Value is destroyed by poor control and efficiency.
- Value is destroyed by allowing customers to leave without asking them why.
- Value is destroyed by poor handling of dissatisfied customers.

Module 10

Review Questions

Content Questions

10.1 *See* Section 10.1.1.

10.2 *See* Section 10.1.3.

10.3 *See* Section 10.2.1.

10.4 *See* Section 10.3.

10.5 *See* Section 10.4.1.

10.6 *See* Section 10.4.2.

10.7 *See* Section 10.5.

10.8 *See* Section 10.6.

10.9 *See* Section 10.6.

10.10 *See* Section 10.8.2.

Multiple-Choice Questions

10.11	B	10.12	B	10.13	C	10.14	D	10.15	D
10.16	A	10.17	C	10.18	D	10.19	D	10.20	C
10.21	B								

Case Study 10.1: Yee Wo Plastic Piping Components

1 It is difficult to predict exactly what will happen, but the first way could produce a loss in sales. The second way might lead the company to become overly dependent on a small number of large customers. The third way would most certainly upset distributors, who would then look for other suppliers. Yee Wo direct sales would then have to compete with these goods. The upside would be direct contact with the end customer and increased margins by saving the commission formerly paid to the distributors. Better margins give more room to offer price discounts.

2 The aim of trade promotion is to push products through the sales channel towards the customer. Yee Wo Plastic Piping Components might use trade promotion to persuade more stockists to hold the full range of Yee Wo products, to achieve better levels of in-store display, or to encourage salespeople employed by stockists to recommend the Yee Wo brand. The incentives may take the form of extra discounts, increased margins on sales, distributor competitions, etc.

Module 11

Review Questions

Content Questions

11.1 *See* Section 11.2.

11.2 *See* Section 11.2.1.

11.3 *See* Section 11.2.1.

11.4 *See* Section 11.2.3.1.

11.5 *See* Section 11.2.3.2.

11.6 *See* Section 11.4.

11.7 *See* Section 11.4.

11.8 *See* Section 11.5.

11.9 *See* Section 11.5.

11.10 *See* Section 11.6.

Multiple-Choice Questions

11.11	A	11.12	A	11.13	A	11.14	C	11.15	D
11.16	C	11.17	A	11.18	C	11.19	B	11.20	D
11.21	C	11.22	C	11.23	D	11.24	B	11.25	C

11.26	C	11.27	C	11.28	C	11.29	B	11.30	C

Case Study 11.1: Wardley Investment Services

1. Do not treat the ASEAN marketplace like the UK marketplace; go with a completely open mind. Be prepared to offer some kind of specialist service that general banks do not offer; do not try to offer a full range of banking services. Do not attempt to display a traditional paternalistic image that traditionally surrounds banking services. The fact that the bank is small should not detract from its potential competitiveness, because many large international banks are not known in this region.
2. Apply segmentation possibilities that are sensible given the circumstances of a small UK bank. The case talks about private banking and individual needs, so this sector is a likely target market.
3. Do secondary research to determine the size of the market by value. This research should also include an investigation of offerings being made from other banks. Then you might need to do primary research, perhaps using focus groups to determine the kind of niche services that might be required and which are not being adequately met by current providers.
4. Refer to the planning structure in Figure 1.8. Each of the more tangible areas should be dealt with in turn: salesforce size, salesforce organisation, recruitment and selection, training, motivating and compensation, salesforce personnel evaluation.

Module 12

Review Questions

Content Questions

12.1 *See* Section 12.3.

12.2 *See* Section 12.3.1.

12.3 *See* Section 12.3.2.

12.4 *See* Section 12.3.3.

12.5 *See* Section 12.3.4.

12.6 *See* Section 12.3.5.

12.7 *See* Section 12.4.3.

12.8 *See* Section 12.4.6.

Multiple-Choice Questions

12.9	A	12.10	C	12.11	C	12.12	C	12.13	A
12.14	B	12.15	D	12.16	A	12.17	C		

Case Study 12.1: Kwiksell Cars

1 Although Perry's approach to buying the car was naive, Kwiksell Cars did break the law regarding the sale of the car. Two laws in the UK are relevant here: the Trade Descriptions Act 1968 and the Sale of Goods Act 1979.

The Trade Descriptions Act 1968 outlaws false trade descriptions, written and oral. Roy Clarke described the car as 'in lovely condition' and capable of pulling a caravan. He attributed the noise to the 'souped-up engine' and said the car would do 40–55 miles per gallon. These were misleading statements, therefore they contravened the Trade Descriptions Act. Perry would need to prove that Clarke made the misleading statements. It is debatable whether Perry's girlfriend would be considered an unbiased witness.

The Sale of Goods Act 1979 states that products must correspond to their descriptions and must be of merchantable quality. Since the car broke down so soon, it was clearly not of merchantable quality. Although Perry signed a contract that said it was the buyer's responsibility to check for defects, this does not take away his rights under the Sale of Gods Act, nor does the fact that Perry said he 'knew a bit about cars' and nor does the price reduction he obtained.

Module 13

Review Questions

Content Questions

13.1 *See* Section 13.1.

13.2 *See* Section 13.1.

13.3 *See* Section 13.2.

13.4 *See* Section 13.2.

13.5 *See* Section 13.3.1.

13.6 *See* Section 13.4.

13.7 *See* Section 13.5.2.

13.8 *See* Section 13.6.

Multiple-Choice Questions

13.9	A	13.10	D	13.11	D	13.12	A	13.13	D
13.14	B	13.15	A	13.16	D	13.17	A	13.18	D
13.19	A	13.20	C	13.21	D	13.22	B	13.23	C

Case Study 13.1: Plastic Products Ltd

1 Before recruitment, a job description and personnel specification should be drawn up. These are described in detail in Section 13.2 but here is a summary of the job

description: title, duties and responsibilities, who the person reports to, technical requirements, location and geographical region to be covered, degree of autonomy. This will act as a blueprint for the personnel specification that describes the type of applicant the company is seeking.

Here is summary of the personnel specification: physical requirements, attainments, aptitude and qualities, disposition, interests, personal circumstances. These will form the selection criteria in the interviews.

2 Preedy favours recruitment from within the plastics industry; he takes a product-based approach to recruitment. While good communication within Plastic Products is desirable, effective communication with customers should be the key criterion. Customers are likely to want to discuss the benefits of using plastic products not the physical properties of the plastics used to make them.

Spencer favours people who have experience of selling fast-moving consumer goods. The advantages are that they are likely to have experience of selling into supermarkets and dealing with organisational buying situations. Any necessary product training can be given following appointment. Plastic cups, teaspoons, knives and forks are not complex technical products that require extensive knowledge.

But, according to Mayer and Greenberg, successful selling is founded on more fundamental issues than past experience. They stress empathy and ego drive. The case can be used as the basis for considering these important sales qualities. The sales qualities identified in Figure 13.1 can also be usefully integrated.

Module 14

Review Questions

Content Questions

14.1 *See* Section 14.1.1.1.

14.2 *See* Section 14.1.1.2.

14.3 *See* Section 14.1.1.3.

14.4 *See* Section 14.1.1.4.

14.5 *See* Section 14.1.1.5.

14.6 *See* Section 14.1.2.

14.7 *See* Section 14.3.1.

14.8 *See* Section 14.3.3.

Multiple-Choice Questions

14.9	B	14.10	D	14.11	D	14.12	C	14.13	C
14.14	A	14.15	C	14.16	B	14.17	C	14.18	A
14.19	C	14.20	A	14.21	A	14.22	B	14.23	A

14.24 D

Case Study 14.1: Selling Fountain Pens

1 The customer brief is that he wants a pen for his daughter. She has been using a ballpoint up to now but she is about to start her GCSE courses, so both he and his daughter think an ink pen is appropriate. This is a key piece of information the salesperson needs to find out by questioning the customer.

Exam candidates need to write as quickly as possible, so a key issue for the customer is to have a pen that is easy to hold. Once more the salesperson must discover this need by questioning. Then a salesperson with good product knowledge will know that pens A and C fulfil that need.

Usually pen A is chosen since it is more expensive than C, so there is a bigger profit margin. Here is a possible objection: 'This isn't of the refillable type, is it?' The salesperson should then question the objection. 'Yes, why do you ask?' The customer can then state that they bought a refillable pen a few years back and it broke after six months. The salesperson should provide reassurance using an agree and counter with reference selling approach. 'Yes there were problems a few years ago but the manufacturers have solved them. We have been selling refillable pens for several years without any problems.'

The customer should be encouraged to hold the pens; paper or cardboard cut-outs suffice. While the customer is evaluating the pens, the salesperson should remain quiet. The customer should ask the salesperson the cost of the two pens and the cost of the spare cartridges for pen C; this tests for good product knowledge. The salesperson should be allowed to consult the pen feature and price chart if they wish; salespeople cannot be expected to carry all product information in their head.

If there are no more objections, the customer can make a choice: 'Pen A looks fine.' This is a buying signal and should be followed by the salesperson closing the sale: 'Would you like that one then sir/madam?' The salesperson should then ask if the customer requires a pot of ink (pen A) or a set of cartridges (pen C). The key issue is that successful selling does not rely on slick, fast-talking showmanship, but a concern for understanding customer needs and the willingness to help solve customer problems, here finding a suitable pen, based on questioning skills and product knowledge.

Module 15

Review Questions

Content Questions

15.1 *See* Section 15.1.

15.2 *See* Section 15.1.3.2.

15.3 *See* Section 15.1.3.2.

15.4 *See* Section 15.1.3.2.
15.5 *See* Section 15.1.3.2.
15.6 *See* Section 15.1.3.5.
15.7 *See* Section 15.2.1.
15.8 *See* Section 15.2.1.
15.9 *See* Section 15.4.

Multiple-Choice Questions

15.10	A	15.11	A	15.12	A	15.13	C	15.14	C
15.15	A	15.16	D	15.17	A	15.18	D	15.19	C
15.20	C	15.21	C	15.22	A	15.23	B	15.24	D
15.25	A	15.26	C	15.27	C	15.28	C	15.29	A

Case Study 15.1: Silverton Confectionery

1 Substitute the values in the formula:

Number of salespeople

$$= \frac{\text{Number of customers} \times \text{Call frequency}}{\text{Average weekly call rate} \times \text{Number of working weeks per year}}$$

$$= \frac{2950 + (1700 \times 2) + (380 \times 3)}{60 \times 43}$$

$$= \frac{2950 + 3400 + 1140}{2580}$$

$$= \frac{295 + 340 + 114}{258} = \frac{749}{258} = 2.9$$

Therefore three extra salespeople are needed for Scotland.

Module 16

Review Questions

Content Questions

16.1 *See* Section 16.2.
16.2 *See* Section 16.3.
16.3 *See* Section 16.4.
16.4 *See* Section 16.4.
16.5 *See* Section 16.4.3.
16.6 *See* Section 16.5.
16.7 *See* Section 16.5.1.3.

16.8 *See* Section 16.5.2.1.

Multiple-Choice Questions

16.9	C	16.10	A	16.11	A	16.12	D	16.13	C
16.14	B	16.15	C	16.16	C	16.17	A	16.18	C
16.19	C	16.20	B	16.21	B	16.22	A	16.23	A
16.24	D	16.25	B	16.26	C	16.27	B	16.28	D
16.29	C	16.30	D	16.31	D	16.32	B		

Case Study 16.1: Pizza Ristorante Thaws the Frozen Pizza Market

1 **Strengths**: Dr Oetker is one of Europe's leading food manufacturers and a market leader in many other European countries; frozen pizza is convenient and fast; frozen pizza is cheaper than takeaway pizza.

Weaknesses: awareness is low in the UK market; frozen pizzas are seen as inferior to takeaway pizzas; the market is highly competitive and many companies are attempting to gain market share.

Opportunities: a trend towards healthy eating might be a chance to develop and promote healthy frozen pizzas; the age category 45+ is growing in size and could be targeted.

Threats: some see takeaway pizzas as healthier than frozen pizzas; though they have a shorter shelf life, chilled pizzas are considered to be of better quality; other fast-food products, such as burgers and sandwiches, are also convenience foods and have a large share of this segment.

2 As there is no previous sales record, macro factors should be examined. Lifestyle changes will continue to influence the demand for frozen pizzas. Working people and students have less time for themselves because of hectic lifestyles, so demand for fast food and frozen food has increased because it is convenient and fast. The UK population has become more health conscious. It is debatable whether frozen pizzas are regarded as being healthy. The number of working women has increased and so has the number of single-person households; both increases might have a positive effect on sales. Longer working hours in the UK and changing eating patterns mean that the convenience of frozen food is seen as important.

Module 17

Review Questions

Content Questions

17.1 *See* Section 17.2.

17.2 *See* Section 17.5.1.

17.3 *See* Section 17.5.1.

17.4 *See* Section 17.5.2.

Multiple-Choice Questions

17.5	C	17.6	A	17.7	B	17.8	D	17.9	D
17.10	C	17.11	A	17.12	B	17.13	D	17.14	B
17.15	B	17.16	C	17.17	A	17.18	A		

Case Study 17.1: MacLaren Tyres

1 The raw data can be used to provide **statistics** that throw light on the performance profiles of the individual salespeople. The results may confirm or contradict David MacLaren's subjective assessments. Here is an analysis of each salesperson. Emphasise the need to go out with each salesperson to assess their behaviour and performance in the field. Perhaps MacLaren should consider appointing a sales manager to do this.

Salesforce Analysis

	Killick	Olford	Wilson	Haynes	Harris	Average
Territory	Tyneside	Manchester /Liverpool	London	Birmingham	Bristol	
Age of salesperson	27	35	28	29	25	29
Territory potential (£m)	35	36	62	44	38	43
Potential accounts	503	524	711	483	462	537
Potential per account	68 827	69 389	87 341	90 683	85 593	79 967
Sales (£000)	298	589	391	440	240	392
Live accounts	222	333	235	181	296	253
Customers called on	441	432	402	211	421	381
Live accounts as a percentage of customers called on	50	77	58	86	70	68
Sales per live account	1342	1768	1664	2431	811	1603
Gross margin (£000)	101	191	121	132	65	122
Gross margin (%)	34	33	31	30	27	31
Calls per year	1472	1463	1321	1152	1396	1360
Calls per potential account	2.9	2.8	1.9	2.4	2.4	2.5
Sales per call (£)	202	403	296	382	172	291
Gross margin per call (£)	69	131	92	115	47	91
Calls per different customers called on	3.3	3.4	3.3	5.5	3.3	3.8

Customers called on as percentage of potential accounts	88	82	56	44	91	72

Peter Killick: MacLaren considers Killick to be gregarious and extrovert. No real assessment of his sales performance is made. His territory appears to have lower sales potential than average and his sales achievement places him fourth out of five. He has the lowest percentage of live accounts and the penultimate sales per live account. However, he has called on more actual and potential customers than anyone. His calls per year figure is also the highest and so is his percentage gross margin. Perhaps his gregarious nature is making him call too many times on too many customers. This may be causing each sales visit to be too short. He may need to make fewer but longer calls on each of his accounts. He may also benefit from being a little more flexible with certain customers to achieve a higher level of sales. His field performance needs to be assessed as a matter of urgency. Sales training may be necessary.

Gary Olford: the oldest salesperson, thought to be hard-working but lacking in initiative by MacLaren. Unless MacLaren acknowledges Olford's contribution, he may soon find himself deprived of his star salesman. Olford, from a territory of below average potential, has achieved the highest sales from the highest number of live accounts, produced the highest gross profit margin, sales per call and gross margin per call. Olford's lack of initiative, if true, may augur badly for a sales management position but as a salesman he is excelling. His contribution needs to be reflected in financial and non-financial rewards.

Barrie Wilson: MacLaren considers Wilson to enjoy selling but to lack drive. His performance is at best average as indicated by the following measures that are all around the average mark: sales, gross profit, sales per live account, sales per call. His number of live accounts and calls per year are below average. He is only calling on a little over half his potential accounts. This is from a territory which holds the most sales potential. MacLaren may well be right about Wilson. He cannot afford a mediocre performance in his best territory. Wilson needs to be moved; perhaps Olford might be interested in the potential to earn more. If Wilson decides to leave the company, MacLaren should not be distressed.

Ron Haynes: Haynes is thought of by MacLaren as lacking enthusiasm but achieving an average performance level. The lack of enthusiasm appears to be borne out by him having the lowest calls per year. Also he is calling on less than half his potential accounts and has the lowest number of live accounts. On the other hand, he is making the highest number of calls per customer called on, and achieving above average sales and gross margin per call. Haynes appears to be focusing his energies on a relatively small number of customers and selling well to them, while neglecting over half his customer base. This strategy is achieving the second highest sales figure from a sales territory with average potential. He may well be a very talented salesperson who either lacks the energy to cover his territory sufficiently or focuses his energy on the most productive accounts. MacLaren's bland assessment of his sales record overlooks a very interesting set of performance results.

Kevin Harris: the youngest of the sales team, MacLaren considers him enthusiastic but inexperienced. His performance suggests that he needs considerable help to raise his effectiveness. He is bottom performer on the following measures: sales, sales per live account, gross margin, percentage gross margin, sales per call, gross margin per call. This appears to indicate a lack of sales ability. He needs to be accompanied on customer visits and his selling skills should be assessed. It is highly likely that he will require training before he will show any improvement in performance.

2 Either MacLaren or a newly appointed sales manager needs to accompany each of the salesmen to make qualitative assessments of their performance. Module 17 gives a comprehensive list of qualitative measures under the following broad headings: sales skills, customer relationships, product knowledge, cooperation and attitudes. This is particularly necessary in the cases of Killick, Haynes and Harris, as explained in Question 1. MacLaren might also consider broadening the range of quantitative measures used to assess his salespeople. Module 17 gives a wide range of quantitative measures from which he could select the most relevant to his situation.

3 MacLaren should consider the following actions: appoint a sales manager; move Olford to London; urgently assess the qualitative performance of all salespeople; provide tailored sales training on courses and in the field; scrutinise Haynes' performance. Is Haynes following a sensible focused strategy or is he exhibiting lack of energy and a desire to remain in his comfort zone? MacLaren should provide financial and non-financial incentives to reward success.

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