Uttarakhand Open University, Haldwani

MS 508

School of Management Studies and Commerce

Sales and Distribution Management

Block I Sales Management

Block II Sales Organization

MS 508

Sales and Distribution Management

Block – I
Block Title- Sales Management
Block – II
Block Title- Sales Organisation

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Course Name: Sales and Distribution Management

Course Code-MS 508

Course Objective: The objective of this course is to provide an extensive knowledge about sales function as well as the intricacies of the distribution mechanics of goods and services to the students.

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Meaning, definition, Characteristics, Importance, Objectives, Sales Organization

Unit II Personal Selling

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Suggested Readings:

1. Richard R.Still, Edward W.Cundiff, Norman A.P.Goveni,Sales Management
2. Decisions, Strategies & Cases, Prentice Hall, 5th Edition, 2005.
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8. Market & Sales Forecasting, Gordon Bolt, Crest Publishing House.

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Block I

Sales Management

UNIT-1 INTRODUCTION TO SALES MANAGEMENT

1.1 INTRODUCTION

The term sale can be defined as a business activity which deals with selling of goods and services for money or compensation by one party to another. It is an act of completion of a commercial activity. Sales involves most or many of the following activities, including cultivating prospective buyers (or leads as they are known in the world of sales) in a market segment; conveying the features, advantages and benefits of a product or service to the lead; and closing the sale (or coming to agreement on pricing and services). The process of sales management involves planning, coordination, controlling and motivating sale force in an organization to achieve sales targets. This unit deals with the understanding of meaning of sales management, objectives and importance of sales management, types of sales people and their skills.

If we look back into the past, we find that business units used to be small in size, located near to the consumers, and shopkeepers were able to serve the consumers competently. In the present times, the importance of sales management has increased considerably as businesses are catering to the demand at both domestic and global levels, with large business operations and an increase in the volumes of production. Now-a-days, almost all business firms have an efficient sales department to look after the various aspects related to sales. With growing competition in the every sector, companies have a dedicated sales department to look after sales process and customer-centric sales activities.

1.2 OBJECTIVES

After studying this unit, you will be able to:

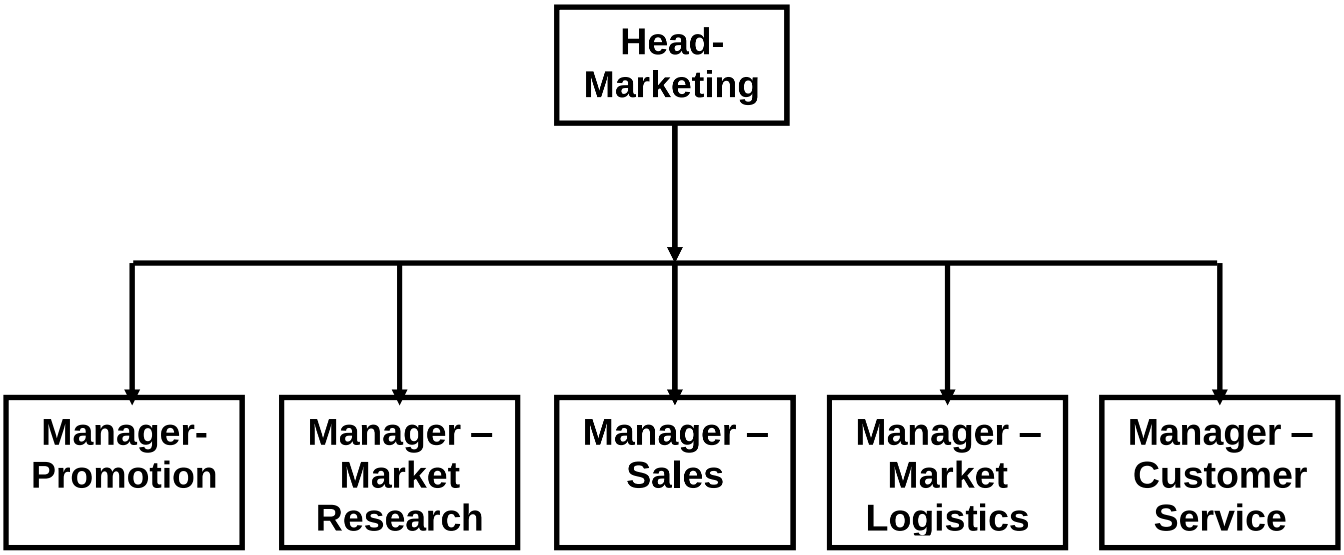
- Understand meaning and importance of sales management
- Know types and skills of modern sales people
- Understand objectives of sales management
- Analyze emerging trends in sales management
- Learn about cross-functional linkages of sales management
- Establish the criteria for setting up a sales organisation so as to enhance sales effectiveness
- Analyze the need for cross-functional interfaces between sales and other departments of an organization to achieve organisational sales effectiveness

1.3 INTRODUCTION TO SALES MANAGEMENT

We become part of various buying and selling transactions on a regular basis while purchasing goods and services. The person other than us who is trying to persuade us to make a purchase is involved in selling activity. We can define selling as an act of persuading people to buy a goods or services to satisfy their needs. The person responsible for carrying this act is known as a salesman and the transaction performed here is termed as sales. The sales management is a process of monitoring and controlling the efforts of salesman and sales team is known as sales management. In simple words, sales management could be understood as management of sales effort of an organization.

The sales management has evolved over a period from pre-industrialization to post industrialization era. With growing competition and excess production capacity the marketing function of companies got split into sales, marketing research, advertising, physical distribution etc. At present, sales management is a managerial process and the people hired in sales team are professionals. The sales team is planned, built, maintained and controlled as an effective organization. The sales requires a detailed analysis, professional selling strategy to capture the market. The sales operations of an organization are conducted based on skilful application of organisational principles. The professional approach is essential to develop, implement and use control procedures to achieve sales objectives of a firm. There is a dearth of professional sales people in the market today.

Integration of Sales Management with Marketing



Source: Havaldar, Cavale

1.3.1 Meaning and Definition

Sales management means the management and administration of personal selling aspect of marketing mix of a company. The meaning and details of personal selling are discussed in Unit 2 of this course.

Sales management comprises of two broad aspects:
- Management of sales function in an organization
- Management of sales team/ force

The sales management consists of management of sales effort. Sales department plan, recruit, train, develop compensation plans and evaluate efforts of sales team and implement and control sales programs of a company. The nature and size of sales department of an organization is decided by its size. Generally it is observed that in a small organization usually the owner performs all these functions or they are performed by a specialist known as sales manager.

As shown in the figure in above section, sales management is one of the integral component of marketing function. One of the important elements of marketing mix i.e. product, price, place and promotion of a company is promotion which consists of personal selling, advertising, public relations and sales promotion tools and direct marketing. Personal selling is the personal communication between a firm’s sales force and customers for the purpose of making sales and building customer relationships. Personal selling requires use of skills and tactics by a sales person to develop relationships and strike a deal with the customer (those involved in a purchase decision) so that each party may obtain value at the end of the deal. Personal selling belongs to the domain of sales manager.

Sales manager of an organization is assigned with the role to develop sales programs and administer them effectively to achieve revenue goals of a company. As you studied above, it is the sales manager role to identify the requirement of sales people, to select, recruit and train them, to develop their compensation plans and to reward and motivate them. The sales manager train his sales force on sales pitch and presentation and arrange the sales force in suitable organization structure.

Thus, we can say that organization of sales effort both internally within an organization and externally with the customers is performed by sales managers. Organization within the company requires a sales manager to build formal and informal organizational structures to develop effective communication both within the sales department and with other functional units of a company such as production, finance and HR etc.

The sale manager plays a boundary spanner role. It is the point of contact for customers and general public outside the company and also represent its own company to them. It is responsibility of sales manager to build and maintain an effective distribution network to deliver sales.

Other key responsibilities of sales managers are: gathering critical information relevant to marketing decisions such as designing sales quotas, and territories; providing customer service and to process customer orders throughout the personal selling stages such as pre-sales, order management and post shipment.

You can define sales management as the management of the personal selling part of a company's marketing function. Another definition of sales management is the process of planning, directing, and controlling of personal selling, including recruiting, selecting, equipping, assigning, supervising, paying, and motivating the personal sales force.

According to American marketers association (AMA's), 'Sales management is the planning, direction, and control of the personnel, selling activities of a business unit including recruiting, selecting, training, assigning, rating, supervising, paying, motivating, as all these tasks apply to the personnel sales-force'.

Types of Sales Person and Their Roles

Sales Position	Brief Description	Examples
• Delivery salesperson	• Delivery of products to business customers or households. • Also takes orders.	• Milk, newspapers to households • Soft drinks, bread to retail stores.
• Order taker (Response selling)	• Inside order taker • Telemarketing salesperson takes orders over telephone • Outside order taker. Also performs other tasks	• Behind counter in a garment shop • Pharma products' orders from nursing homes • Food, clothing products' orders from retailers
• Sales support • Missionary selling • Technical selling	• Provide information, build goodwill, introduce new products • Technical information, assistance	• Medical reps. in pharma industry • Steel, Chemical industries
• Order-getter (Creative, Problem-solving, Consultative selling)	• Getting orders from existing and new household consumers • Getting orders from business customers, by solving their business and technology problems	• Automobiles, refrigerators, insurance policies • Software and business solutions

Source: Havaldar, Cavale

1.3.2 Characteristics and Cross-Functional Linkages

As discussed in the above section, majority of sales management decision are related to the development and management of an effective sales team. The sales manager is required to develop a suitable structure for its sales force. While designing and planning sales force structure, sales manager needs assistance from the human resource managers of the organization. The sales manager spreads the overall sales tasks of his organization among the members of his sales force/ team. The major elements of sales management are: planning, coordinating, controlling and motivation.

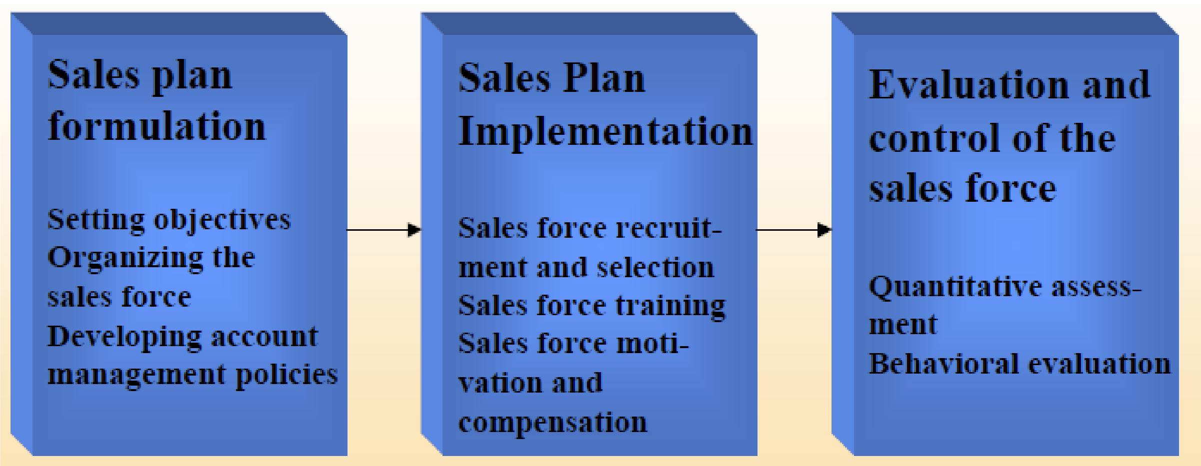
Planning: The sales managers take variety of decisions such as division of sales efforts, devising sales territories, allocation of sales people to territories, allocation of operational and specialized roles. The sales territories are developed with the help of workload and market potential methods, you will study about sales territories in detail in the subsequent units. Sales territories structures are rigid in nature only short term frequent revisions are made as and when required. The planning and controlling of sales team efforts is done on a periodic basis by a sales manager. The sales planning calls for sales forecasting and fixing of sales quotas based on these forecasts. The sales quotas are established in terms of product line, geography, time period etc. These quotas are often negotiated between sales person and his sales manager.

Coordination: It is crucial for the sales manager to coordinate the efforts of the sales team and to coordinate with other departments as well. The sales persons are required to record their sales activities in appropriate formats. A suitable reporting and information system is developed to capture the sales related data such as inventory levels, effectiveness of promotion, customer preferences and competitive activities etc. This information enables a sales manager to coordinate the efforts of his sale team to achieve results.

Controlling: Periodic sales analysis is conducted to identify relevant market trends. Each salesperson has been provide with a specific target for a given period say a particular month. From the weekly and monthly sales-reports, the control system is established, that will prepare records whether a particular salesman is working efficiently or not. There are variety of evaluation tools available to evaluate the performance of sales team and to motivate them.

Motivation: Companies make use of incentive based compensation plans, sales contests, rewards, and recognitions to motivate their sales teams. Sales management is an outgoing and dynamic process in which sales managers has to continuously keep on formulating sales plan and to monitor and evaluate the performance of sales team against these plans and to take necessary corrective actions.

Sales Management Process



Source: Berkowitz, Kerin, Hartley and Rudelius

Cross-functional linkages:

As discussed above coordination is an integral element of sales management. It is the responsibility of a sales manager to co-ordinate sales activities with other departments such as finance, production, IT and HR etc. in the company. This is important since the sales process of selling goods and services is performed by the sales people. The coordination of different departments with sales department is briefly explained below:

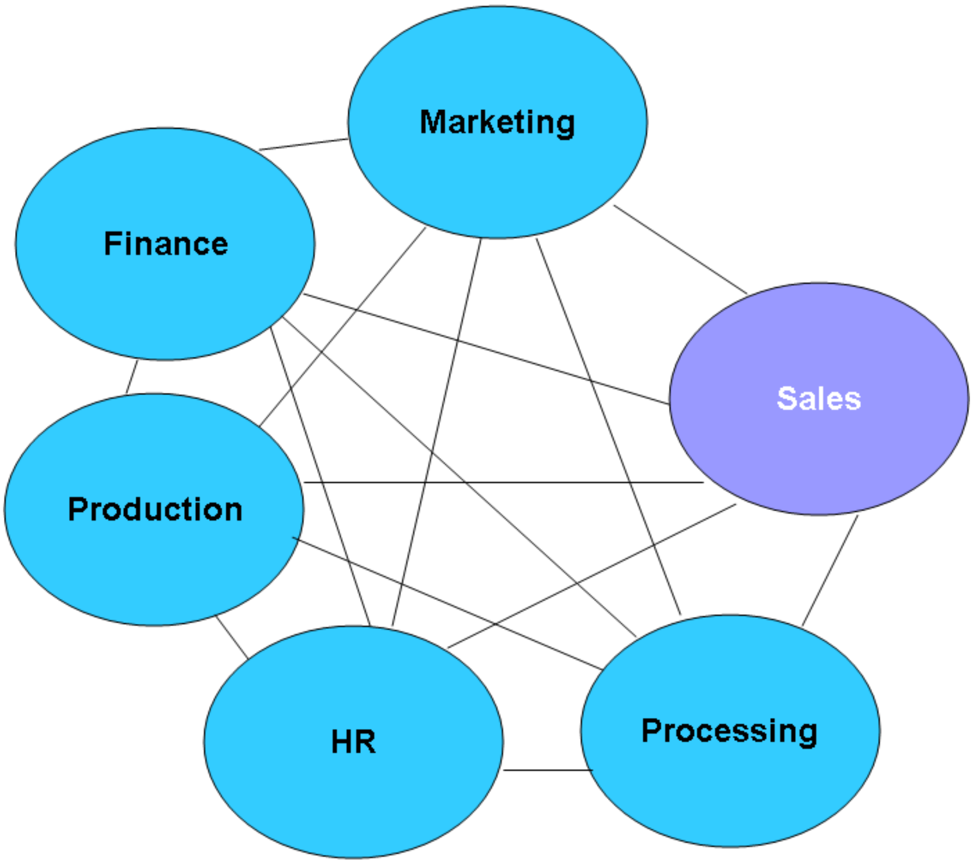
- Sales and Marketing -Salespersons need to be updated with the new policies and practices developed by the marketing department and implement them accordingly.

- Sales and Finance: The finance department needs to be in a position to provide critical data to the sales and marketing team. In return, sales team needs to be receptive to making decisions about potential clients or opportunities that actually serve the firm best.

- Sales and Production: Production department needs to have the knowledge of the projected sales in order to produce the right quantity of goods and services. The sales person are required to forecast the sales and provided required sales estimates to the production department for smooth production process.

- Sales and HR: It is the duty of the HR department to train and develop the salesperson and on other hand salespersons should keep them updated on any HR issues that crop up in the sales department.

- Sales and IT: Salespersons should provide all the relevant data related to the sale and customers so that people in IT department can record them for future references.



Cross-Functional Linkages

1.4 IMPORTANCE AND OBJECTIVES OF SALES MANAGEMENT

The role of sales management is very crucial in any organization since this function is responsible for generating revenue for the organization. It is the performance of the sales team on which the financial results of a company relies upon. Though a good number of students don’t prefer to take any sales job in their career but worldwide best paid jobs are in sales. Sales jobs are considered to be the fastest and definite route to the top hierarchy of management.

The key roles performed by a sales manager in a sales department are:

- Staff recruitment and training – Staff selection, management and training is crucial to any company's success. Hiring of competent sales team help the organization to manage the sales process and meet or exceed sales targets. Sales managers train and motivate their staff to perform and replace non-performers.
- Development of sales territories and sales quotas and resolving conflicts pertaining to quota or commissions allocation among sale force
- Formation and implementation of sales compensation plans
- Maintain linkages and interaction with other functional departments for product delivery and support, customer service and finance.
- Preparation of a sales budget as per company’s financial objectives.
- Plan and facilitate sales meetings at regular intervals. This meetings are conducted to provide required information to both sales staff and other employees of an organization, to motivate and energize them.

The role of sales management depends upon the organization size and orientation, however the above listed points are required to be addressed by every senior sales manager.

The key objectives of sales management as per company are:

• To maximize sales volume: The sales manager conducts research and analysis to identify the market potential for his products and services in the market and coach his team to cover the maximum share to generate higher sales volumes.

• To make positive contribution to profits: The objective of the sales management is not just to maximize the revenue but also to control the sales costs and selling expenses. This will contribute to the company’s profits.

• To grow continuously: The sales targets and quotas are dynamic in nature and sales managers frequently revise them for their teams to achieve growth continuously.

Check Your Progress-A

Q1. How do you define sales management?

Q2. What are the objectives of sales management?

Q3. Discuss the cross-functional linkages for sales department.

Q4. Write short notes on:

- **a. Missionary selling**
- **b. Role of a sales manager**

Q4. True or False

- a. Periodic sales analysis is conducted to identify relevant market trends.
- b. Sales jobs are underpaid.
- c. A sales person delivering newspaper, milk etc. is an example of order getter.

1.5 EMERGING TRENDS IN SALES MANAGEMENT

Sales management activities have evolved and taken new shape with the changing marketing environment. Some of the latest trends in this are:

Global outlook: The world is connected and geographical boundaries have merged. Thus, the sales managers need to develop a global outlook while performing sales functions. Most of the products and services are sold and purchased globally. The cultural, social, and economic factors of the countries where a sales team is going to conduct its business should be considered and sales policies and procedures should be framed accordingly.

Technological revolution: Sales managers has access to large number of softwares and hardware to manage and control sales functions. The technological revolution has led to the development of effective information systems, data analysis tools, routing and scheduling softwares etc.

Customer relationship management (CRM): Sales has come away from transactional selling approach i.e. making sales for once and then leaving the customer to relationship selling where a sales person nurtures a relation both with its existing customers and potential customers. A good CRM platform helps a company to generate leads and to maintain customer database.

Salesforce diversity: As we discussed above that majority of companies have their operations across the globe thus they also have diversity in their sales force in terms of culture, region, language and also in gender as more and more females are joining sales function.

Team selling approach: A good number of companies stress upon the development of effective sales team which consists of people with skills complementing to each other. In a typical business to business (B2B) sales situation such as selling a central air-conditioning unit, the sales team will comprise of an engineer, finance team member and a sales person.

Managing multi-channels: Another significant trend in sales management is the existence of multiple channels to distribute and sell products and services such as physical/ offline stores, online/ e-stores etc.

Ethical and social issues: With growing consumerism, ethical and socially acceptable behavior has become the corner stone for sales people.

Sales professionalism: Sales people represent company to their customers and to the outside world. Their person and professional attributes is key in building long-term rapport with their customers. The commonly expected behaviour, etiquettes and mannerism as reflected by the sales people is known as sales professionalism. There are institutes which provide specific certifications for sales functions.

1.6 MEANING OF A SALES ORGANISATION

Sales organisations are structural entities, which execute a combined sales plan and are designed to carry out mutually agreed business goals with clear structures, roles, and responsibilities for each person, group and department.

The objective of a sales organisation, therefore, is the performance of various activities necessary to promote sales. The structure of the sales organisation depends on the objectives of the business enterprises. It is the most important department of the enterprises because the work of the enterprise is not complete until the product and services created are sold to the customer.

Let us understand the meaning of sales organization with the help of the exhibit given below:

Strategic Sales Organisation

Those sales organizations that invest in teaching salespeople to identify what their customers want and then encouraging the flexibility in their own operations that is needed to be better positioned are winning deals in every sector and, winning them handsome margins.

The key to success in today's strategic sales environment is to develop solutions that have no competitors. And whilst one may believe that this is hardly possible, there are companies that have, and continue to develop, non-competitive products and services and play the game differently. These companies have sales operations that focus on how to outsmart, not out-muscle rivals. They invest in better customer and business intelligence analytical systems so that they can find better ways to identify what their customers will need and are prepared to buy. They invest in introducing flexibility into the company by including everyone in the sales process. These companies are the leaders in their sector. They do not have production, finance, administration, transport, or customer service departments. All of these are mere extensions of the sales operation. Selling is the heart of their business, not an appendage!

Let us take an example of a company which has been successful with right sales-oriented philosophy.

More than 30 years ago, when Raymond Ackerman started Pick 'n Pay (South Africa), his vision then epitomized the philosophy of developing a non-competitive offering in a competitive market space by providing consumers with an easy, pleasant shopping experience where low food prices were more easily attainable. At that time, Greatermans, OK, and Checkers the competitors provided shoppers with a harrowing experience high prices, dimly lit, narrow isles, and limited range. Spar (competitor), too, managed to change the rules of the game, offering limited options at higher prices, but providing consumers with neighbourhood stores that remained open for longer and, where personal attention of the manager was an inherent ingredient in the shopping experience. The company maintained its commitment to customer service, launching in 2005 a partnership with Nedbank to launch GO Banking, an in-store banking service that featured checking and savings accounts customers could literally buy off the shelf. After nearly 30 years, Pick 'n Pay remained true to its philosophy of customer sovereignty and continued to reap its rewards.

Developing a winning sales strategy is easy if the company is prepared to invest in writing the rules of the game. But to do that, the sales philosophy has to be based on more than just "selling what the company makes". It has to be based on delivering to the buyer what he wants.
Source: http://www.bizcommunity.com/Article/196/20/1446.html

1.6.1 Factors Determining the Structure of Sales Organization

A typical sales organisation consists of structural frame work specifying the formal authority and responsibility of various employees working in the organisation.

The success of the sales organisation depends on whether the functions of each department are carefully planned, co-ordinated, and efforts are supervised regularly.

The structure of the sales organisation should be evolved in such a way that salesmen and sales manager carry out their activities effectively and efficiently.

Factors determining the Sales Organization Structure

Factor	Explanation
Product Price	The price of the product also plays an important role in determining the structure of the sales organisation. ***For example***: Products which are expensive and of high involvement, like motor cars, air conditioners, automatic machines etc. have a small sales organisation because these products are not bought so often by the customers, so the demand is not recurring, On the contrary, those products which are comparatively cheap but are of everyday use require comparatively large sales organisation such as ghee, blades, cloth, toothpaste, biscuits, cosmetics etc. Their demand is recurring and they sell in large volumes.
Product Type	The nature of the product occupies key position in determining the structure of the sales organisation. ***For example***: Consumer goods of everyday use like oil, ghee, cloth blade, soap, cosmetics that are bought repeatedly require comparatively more complex and a large sales organisation. On the contrary, services like banking, insurance, airlines, membership clubs or articles like motor cars, color TV, air conditioners etc., the demand of which is hardly repeated, require a small sales organisation. Further, if the products are of perishable nature such as fish, milk, vegetables, and milk products etc, in that case we will require a larger sales force along with close supervision.
Nature Of Market	The nature of the market is also an important factor in determining the structure of the sales organisation. If the product is such which is produced and consumed locally such as vegetables, the sales organisation will be simple and a small one. On the contrary, if the product is such which has international market like petrol, jute goods, cotton textiles etc., then it will have a complex and large market.
Organization Size	The size of the enterprise also plays an important role in deciding the structure of the sales organisation. ***For example***: the large enterprises like LIC, State Bank of India or ICICI Bank will have a large and complex sales organisation. On the contrary, the small enterprise with limited area of operation will have a simple and small sales organisation.
Ability of Executives	Ability of the executives can also determine the structure of sales organisation. If an enterprise has a large number of able and competent executives like

	HDFC Bank and ICICI Bank or Tata Group and Birla Group etc., they will attract more customers and garner more sales. In such a case, the organisation will have a large and complex sales organisation. On the contrary, if the executives of an enterprise are not so competent, they would not be able to bring in more customers and sales would be low and therefore, the enterprise would require a smaller and simpler sales organisation.
Sales Policies of the Organization	The sales policies of the enterprise also determine the structure of the sales organisation. If an enterprise adopts aggressive sales policies, then it should have a large, complex and extensive sales organisation. ***For example:*** if an organization resorts to cold calling and extensive lead generation, it would require a larger sales organisation. On the contrary, if the enterprise adopts non-aggressive sales policies, then it can also do with a comparatively smaller and simpler sales organisation.
Distribution System	The distribution system or method also determines the structure of the sales organisation of enterprise. ***For example:*** those enterprises which sell their products through a chain of shops or intermediaries like Bata Shoe Company, Delhi Cloth Mills etc., require a large, complex and extensive sales organisation. On the contrary, those enterprises which make purchases from manufacturers or wholesalers require comparatively a small sales organisation.
Finance	The size of the enterprise also plays an important role in deciding the structure of the sales organisation. ***For example:*** the large enterprises like LIC, State Bank of India or ICICI Bank will have a large and complex sales organisation. On the contrary, the small enterprise with limited area of operation will have a simple and small sales organisation.
Number of Products	Number of products manufactured by an enterprise also plays an important role in deciding the structure of the sales organisation. ***For example,*** if an organization manufactures multiple variety of products in large numbers such as Nestle, Patanjali etc., then it would require a large, complex and extensive sales organisation. On the contrary, if the enterprise is manufacturing only one or two products, then it would require comparatively a small and simple sales organisation.

Miscellaneous	Besides above, the following factors also determine the structure of the sales organisation: - Organisation policy of the top management - Customs and Traditions - Extent of Competition - Types of Customers - Volume of Sales

1.6.2 Functions of Sales Organisation

A sales organisation performs the following functions:

- Analysis of markets thoroughly, including products and market research.
- Adoption of sound and defensible sales-policy.
- Accurate market or sales forecasting and planning the sales campaign, based on relevant data or information supplied by the marketing research staff.
- Deciding about prices of the goods and services; terms of sales and pricing policies to be implemented in the potential and existing markets.
- Labelling, Packaging and packing, for the consumer, who wants a container, which will satisfy his desire for attractive appearance; keeping qualities, utility, quantity, and correct price and many other factors in view.
- Branding or naming the product(s) and/or services to differentiate them from the competitors and to recognise easily by the customer.
- Deciding the channels of distribution for easy accessibility and timely delivery of the products and services.
- Selection, training and control of salesmen, and fixing their remuneration to run the business operations efficiently and effectively.
- Allocation of territory, and quota setting for effective selling and to fix the responsibility to the concern person.
- Sales-programmes and sales-promotion-activities prepared so that every sales activity may be completed in a planned manner
- Arranging for advertising and publicity to inform the customer about the new products and services and their multiple uses.
- Order-preparation and office-recording to know the profitability of the business and to evaluate the performance of the employees.
- Preparation of customer s record-card to the customer loyalty about the products.
- Scrutiny and recording of reports to compare the other competitors and to compare with the past period.

- Study of statistical-records and reports for comparative analyses in terms of sales, etc.
- Maintenance of salesman's records to know their efficiency and to develop them.

Check Your Progress- B

Q1. Write a note on emerging trends in sales management.

Q2. What is a sales organization? Discuss the factors determining a sales organization.

Q3. List the functions of sales organization.

Q4. Fill in the blanks

1. A good _______________ helps a company to generate leads and to maintain customer database.
2. The commonly expected behaviour, etiquettes and mannerism as reflected by the sales people is known as ___________________________.
3. The structure of the __________________ should be evolved in such a way that salesmen and sales manager carry out their activities effectively and efficiently.
4. Selling is characterised by increasing _______________ and wide _______________.

1.7 SUMMARY

In this unit we have studied meaning of sales, sales management and sales organization. The major elements of sales management are planning, coordination, controlling and motivation. Cross-functional linkages between sales and other departments plays an important role in success of a sales organisation. These linkages are especially important for providing smooth delivery of products and services to customers and acquiring and retaining satisfied, long-term customers.

The other aspects covered in this unit are: the performance of sales management depends on the effectiveness of the sales organisation. Sales managers are faced with some problems when designing a sales organisation. The decision depends on the type, structure and ownership of the sales force.

1.8 GLOSSARY

Sale: A sale is an institutional activity involved in the selling of products or services in return for money or other compensation.

Sales management: It encompasses of planning, recruiting, training, compensation and evaluation of sales team and implementation and control of sales programs of an organization.

Cross-functional linkages: It is the responsibility of a sales manager to co-ordinate sales activities with other departments such as finance, production, IT and HR etc. in the company.

Delivery sales person: He provides delivery of products to business customers or households and also takes orders.

Missionary sales person: These sales persons provide information, build goodwill, and introduce new products to their customers such as medical representatives.

Order getter: The get orders from existing and new household consumers and from business customers, by solving their business and technology problems.

Sales organisations: These are the sales structures created in an organization to staff sales o team to plan and perform sales function to achieve the business goals. The sales organization depicts clear structures, roles, responsibilities for each sales team member.

1.9ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

Q1. How do you define sales management?

Ans. The management and administration of personal selling aspect of marketing mix of a company is termed as sales management. You can define sales management as the management of the personal selling part of a company's marketing function. Another definition of sales management is the process of planning, directing, and controlling of personal selling, including recruiting, selecting, equipping, assigning, supervising, paying, and motivating the personal sales force.

Q2. What are the objectives of sales management?

Ans. The key objectives of sales management as per company are:

• To maximize sales volume: The sales manager conducts research and analysis to identify the market potential for his products and services in the market and coach his team to cover the maximum share to generate higher sales volumes.

• To make positive contribution to profits: The objective of the sales management is not just to maximize the revenue but also to control the sales costs and selling expenses. This will contribute to the company's profits.

• To grow continuously: The sales targets and quotas are dynamic in nature and sales managers frequently revise them for their teams to achieve growth continuously.

Q3. Discuss the cross-functional linkages for sales department.

Ans. It is the responsibility of a sales manager to co-ordinate sales activities with other departments such as finance, production, IT and HR etc. in the company. This is important since the sales process of selling goods and services is performed by the sales people. The coordination of different departments with sales department is briefly explained below:

- Sales and Marketing -Salespersons need to be updated with the new policies and practices developed by the marketing department and implement them accordingly.
- Sales and Finance: The finance department needs to be in a position to provide critical data to the sales and marketing team. In return, sales team needs to be receptive to making decisions about potential clients or opportunities that actually serve the firm best.
- Sales and Production: Production department needs to have the knowledge of the projected sales in order to produce the right quantity of goods and services. It is the responsibility of the salesperson to make estimates about the sales and pass it on the production department.
- Sales and HR: It is the duty of the HR department to train and develop the salesperson and on other hand salespersons should keep them updated on any HR issues that crop up in the sales department.
- Sales and IT: Salespersons should provide all the relevant data related to the sale and customers so that people in IT department can record them for future references.

Q4. Write short notes on:

a. Missionary selling

Ans. In missionary selling, sales person provide information, build goodwill, introduce new products to the customers. The popular example of this type of selling is pharmaceutical companies' sales persons.

b. Role of a sales manager

Ans. The key roles performed by a sales manager in a sales department are:

- Staff recruitment and training – Staff selection, management and training is crucial to any company's success. Hiring of competent sales team help the organization to manage the sales process and meet or exceed sales targets. Sales managers train and motivate their staff to perform and replace non-performers.
- Development of sales territories and sales quotas and resolving conflicts pertaining to quota or commissions allocation among sale force
- Formation and implementation of sales compensation plans
- Maintain linkages and interaction with other functional departments for product delivery and support, customer service and finance.
- Preparation of a sales budget as per company's financial objectives.

- Plan and facilitate regular sales meetings to keep staff and rest of company informed, energized and motivated. The role of sales management varies from company to company, but the points above should be addressed by every senior sales manager.

Q4. True or False

a. Periodic sales analysis is conducted to identify relevant market trends. **True**
b. Sales jobs are underpaid. **False**
c. A sales person delivering newspaper, milk etc. is an example of order getter. **False**

<u>Check Your Progress –B</u>

Q1. Write a note on emerging trends in sales management.

Ans. Sales management activities have evolved and taken new shape with the changing marketing environment. Some of the latest trends in this are:

Global outlook: The world is connected and geographical boundaries have merged. Thus, the sales managers need to develop a global outlook while performing sales functions. Most of the products and services are sold and purchased globally. The cultural, social, and economic factors of the countries where a sales team is going to conduct its business should be considered and sales policies and procedures should be framed accordingly.

Technological revolution: Sales managers has access to large number of softwares and hardware to manage and control sales functions. The technological revolution has led to the development of effective information systems, data analysis tools, routing and scheduling softwares etc.

Customer relationship management (CRM): Sales has come away from transactional selling approach i.e. making sales for once and then leaving the customer to relationship selling where a sales person nurtures a relation both with its existing customers and potential customers. A good CRM platform helps a company to generate leads and to maintain customer database.

Salesforce diversity: As we discussed above that majority of companies have their operations across the globe thus they also have diversity in their sales force in terms of culture, region, language and also in gender as more and more females are joining sales function.

Team selling approach: A good number of companies stress upon the development of effective sales team which consists of people with skills complementing to each other. In a typical business to business (B2B) sales situation such as selling a central air-conditioning unit, the sales team will comprise of an engineer, finance team member and a sales person.

Managing multi-channels: Another significant trend in sales management is the existence of multiple channels to distribute and sell products and services such as physical/ offline stores, online/ e-stores etc.

Ethical and social issues: With growing consumerism, ethical and socially acceptable behavior has become the corner stone for sales people.

Sales professionalism: Sales people represent company to their customers and to the outside world. Their person and professional attributes is key in building long-term rapport with their customers. The commonly expected behaviour, etiquettes and mannerism as reflected by the sales people is known as sales professionalism. There are institutes which provide specific certifications for sales functions.

Q2. What is a sales organization? Discuss the factors determining a sales organization.

Ans. Sales organization are the sales structures created in an organization to staff sales o team to plan and perform sales function to achieve the business goals. The sales organization depicts clear structures, roles, responsibilities for each sales team member. The factors determining a sales organization are:

Product Price
Product Type
Nature of Market
Organization Size
Ability of Executives
Sales Policies of the Organization
Distribution System
Finance
Number of Products
The following factors also determine the structure of the sales organisation:

- Organisation policy of the top management
- Customs and Traditions
- Extent of Competition
- Types of Customers
- Volume of Sales

Q3. List the functions of sales organization.

Ans. A sales organisation performs the following functions:

- Analysis of markets thoroughly, including products and market research.
- Adoption of sound and defensible sales-policy.
- Accurate market or sales forecasting and planning the sales campaign, based on relevant data or information supplied by the marketing research staff.
- Deciding about prices of the goods and services; terms of sales and pricing policies to be implemented in the potential and existing markets.

- Labelling, Packaging and packing, for the consumer, who wants a container, which will satisfy his desire for attractive appearance; keeping qualities, utility, quantity, and correct price and many other factors in view.
- Branding or naming the product(s) and/or services to differentiate them from the competitors and to recognise easily by the customer.
- Deciding the channels of distribution for easy accessibility and timely delivery of the products and services.
- Selection, training and control of salesmen, and fixing their remuneration to run the business operations efficiently and effectively.
- Allocation of territory, and quota setting for effective selling and to fix the responsibility to the concern person.
- Sales-programmes and sales-promotion-activities prepared so that every sales activity may be completed in a planned manner
- Arranging for advertising and publicity to inform the customer about the new products and services and their multiple uses.
- Order-preparation and office-recording to know the profitability of the business and to evaluate the performance of the employees.
- Preparation of customer s record-card to the customer loyalty about the products.
- Scrutiny and recording of reports to compare the other competitors and to compare with the past period.
- Study of statistical-records and reports for comparative analyses in terms of sales, etc.
- Maintenance of salesman’s records to know their efficiency and to develop them.

Q4. Fill in the blanks

1. A good CRM platform helps a company to generate leads and to maintain customer database.
2. The commonly expected behaviour, etiquettes and mannerism as reflected by the sales people is known as sales professionalism.
3. The structure of the sales organisation should be evolved in such a way that salesmen and sales manager carry out their activities effectively and efficiently.
4. Selling is characterised by increasing professionalism and wide diversity.

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1.12 TERMINAL QUESTIONS

Q1. What do you mean by sales management objectives?

Q2. Explain various types of sales positions with example.

Q3. Define sales management. Discuss key roles of a sales manager.

Q4. What do you mean by organisation for sales-management? Explain it functions.

Q5. Identify and discuss the factors which has resulted in the evolution of sales management in present times.

Q6. What are the factors to be considered while designing sales organization structure?

UNIT-2 PERSONAL SELLING

2.1 INTRODUCTION

Among the various tools of promotional mix used by a business is personal selling. It is a two-way interaction between a sales person of an organization and customer to sell and deliver goods and service. Companies make use of telemarketing and direct-response advertising to generate leads of high potential customers who can then be approached with the help of personal selling team. This is a cost effective way of generating business leads.

Personal Selling is an art and it is not easy, especially selling business goods, insurance and banking products to customers. It is crucial for salespersons to have strong interpersonal skills. The individuals involved in personal selling profile needs to have strong sales ability and willingness to relate to clients. Analytical skills are also crucial for sales people as they need to make complex products and service understand to the customers. Additionally, because of frequent rejection, sales persons need to be confident.

Personal selling involves specific steps, requires training and experience, and employs some highly talented people. Selling does not require a degree or highest qualification, but smart selling skills and a passion to perform. Salesmen should not only possess skills but should know how and when to use them properly. This unit deals with the role of personal selling in promotion mix, various kinds of selling situations, personal selling process and different selling theories in detail. Before we proceed further, let us understand the time allocation done by sales people over different tasks.

Time Allocation by Sales People

Source: http://salesmarks.com/archives/do-you-know-how-much-time-to-spend-on-each-sales-activity/

The chart given above clearly depicts that majority of time (i.e. 36%) is allocated to the selling activity. Thus, we can say that personal selling is one of the most crucial activity for a sales person. The sales person can conduct personal selling in two ways: at his place i.e. office or organization and at customers' place.

2.2 OBJECTIVES

This unit will help you to:

- Relate sales in the promotion mix so as to create long-term mutually beneficial relationship with the customers.
- Analyze the diversities of selling situations for identifying the appropriate sales process.
- Apply the theories of selling to improve sales performance.
- Analyze the personal selling process to close sales deals and the ability to manage key accounts.

2.3 INTRODUCTION TO PERSONAL SELLING

Promotion/ communication is an integral element of 4P's of marketing which are also known as marketing mix elements. Promotion itself is mix which consists of variety of tools such as advertising, sales promotion, publicity and public relations, personal selling and direct marketing.

Advertising is a non-personal way to reach out to masses in a cost-effective way. This communication tool is preferred at the introductory stage of a new product or service.

Sales promotion means incentivisation of customers and channel partners by providing them variety of discounts, offers, premiums and gifts etc. There exists two types of sales promotion: trade promotion i.e. the tools used to promote sales with the help of channel partners such as distributors, retailers and agents etc. and consumer promotion i.e. tools used to provide incentives to the end customer.

Public relations and publicity by default are ways to garner positive public image for a company free of cost. PR tools are often used by companies to tackle any issue resulting in negative public image for a company or its products and services. The tools used for PR are press releases, publication of annual reports, in-house publications of a corporate, variety of corporate social responsibility (CSR) initiatives taken up by the company from time to time and sponsoring the events.

Coming to personal selling, you can understand it as a personal communication which is done by a company's representative i.e. a sales person with its customers to make a sales happen and to build customer relationships.

Here the sales person uses various skills and techniques for building relationships with the customer (those involved in a purchase decision) which results in both the parties obtaining value.

Components of Marketing Communication Mix

Source: http://www.themarketingguywhodrivessales.com/crashcourse/graphix/promix.gif

2.3.1 Characteristics of Personal Selling

Personal selling refers to the presentation of goods and services before the customers and convincing them to buy the products or services.

The characteristics of personal selling are:

Interaction at a personal front: The distinguishing feature of personal selling among other promotion tools is that it requires an interactive, immediate relationship building opportunity between a sales person and a prospective buyer. This enables both a sales person and a customer to observe and understand each other’s need and adjust accordingly.

Relationships Creation: Apart from just developing a sales relationship, personal selling also helps in developing deep rooted long lasting relationships between buyers and company due to personal interface. It is imperative for an effective sale person to think and do best for the interest of their customers and should always aim for long-term relationship. Happy customers bring in more customers.

Immediate Response: Both the salesperson and the potential customer can expect immediate response from each other. Salespersons can also read the facial expressions of the customers to know if they are really interested or not or something is holding them back.

Personal selling makes the potential customer feel under some obligation to respond, even if the response is only a polite “thank you”.

Key aspects of personal selling are:

- It results in improved customer’s confidence in the company and its products
- Personal intimacy enhances long-term business relations
- A human interface and touch is provided to business transactions
- Personal selling provides a better insight in the needs and wants of customers
- Better understanding of customers allow a company to modify its offerings to better meet the customer requirements
- Companies can attain competitiveness in the market on the basis of product customization as per customer’s preferences
- Personal selling acts as a powerful and effective tool for convincing the customer about the goods and services
- Personal selling helps in reducing the lead time between product promotion via media and its actual sales
- Prospective customers can have a better understanding of the product and they have an interactive opportunity to liaise with the sales person in a typical personal selling situation

2.3.2 Selling Skills

It is very difficult to identify a set of fixed characteristics for guaranteed success in the Personal Selling process. The skills would vary from sheer hard work to smart work to the ability to set goals to dependability, and integrity to communicative ability. All these skills can make a successful sales person.

We should understand that in certain situations, a sales person may naturally possess these skills, but in majority of the situations, these skills can be developed through training and practice.

It is a fact that, since there are different kinds of sales jobs and sales situations, one kind of skill or personality may help more in a particular selling type or situation than some other types of selling / situations.

Thus, varieties of selling skills need to be acquired to have a successful selling career.

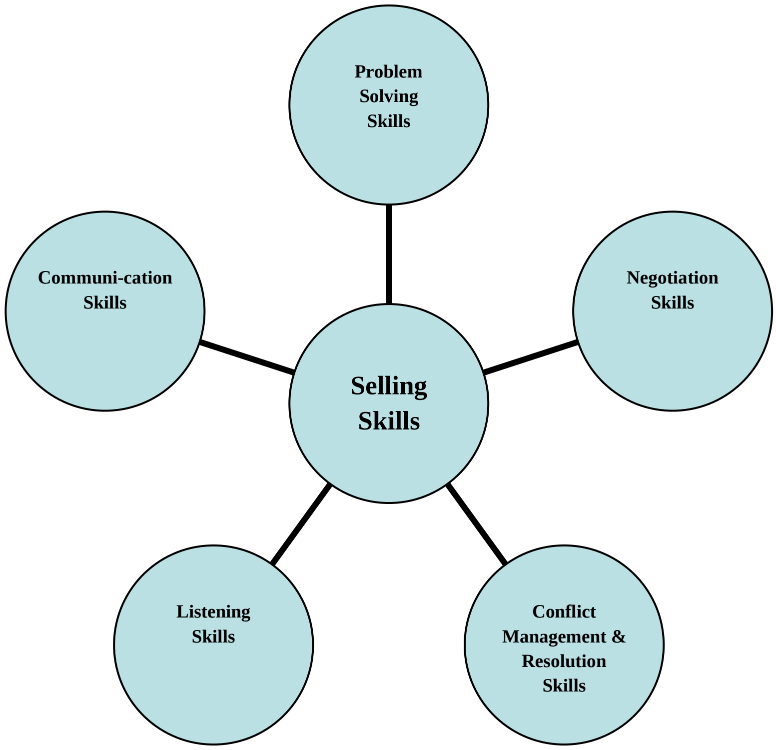
Communication Skills: The ability to communicate is a necessary skill in selling function. The sales people should possess a good vocabulary and be able to express themselves intelligently.

Listening Skills: It is generally observed that most salespeople spend more time in receiving communication and information than transmitting it. Poor listening skills may make a sales manager miss-out on certain key issues in customer interaction, which may lead to non-resolution of problems and poor realization of sales.

Conflict Management Skills: Conflict in Sales function is more evident than in any other organization. This is due to the fact that there is always conflict of interest among people at different levels as the goals are different at each level of the organization. Ideally, sales personnel should always be able to evaluate the situation and be able to quickly resolve any conflicts.

Negotiation Skills: Negotiations are very important in selling because majority of selling is done without a list price. The core skill required for negotiation includes the ability to define and prioritize a range of objectives, the ability to explore a wide range of options, the ability to prepare well and interactive competence.

Problem Solving Skills: Problem-solving skills are also very crucial for effective selling. Most of the selling approaches demand that a sales person should not be a mere order-taker; rather he should act as a problem-solver to the customer.



Selling Skills

2.4 DIVERSITIES OF SELLING SITUATION

Selling situation refers to a situation in which a sales person reaches out to a prospective buyer for a sales. Each selling situation is different from another. The selling situations can be classified in to following types:

- Service Selling
- Developmental Selling

Service Selling

'Salespersons in a company often make sales calls to customers who may already be aware of the company's products. This type of selling is less complex as the customers already know the brand.

For example, a salesperson making a call from Apple Inc. is likely to face less difficulty, as it does not require convincing the customer about the company and about the value for money that the product offers. So, service selling aims to obtain orders from existing customers whose habits and patterns of thought are already conducive to the products.

Let us understand the concept of service selling with the help of a scenario. Arjun Sharma is a senior sales team leader at the Lucknow office of Crompton Greaves Company. He has been assigned the target of sourcing 20 key account of the company. His team comprises of four salespersons. He divides his team into two groups. The first group is assigned the northern part of the city. They decide to approach customers who already purchase products from the company or had transactions with the company in the past. During their conversation with customers, they are delighted when most of the customers reveal that they like buying with Crompton Greaves. This opportunity can be encashed by selling more products with a host of benefits for making savings on quantity purchases. These salespersons realize that they do not need to convince this group about the quality of products offered at Crompton Greaves. Thus, the sales process is smooth and successful in most cases.

Service selling also includes sales of newer or enhanced versions of products offered by the company, salespersons still need to convince them regarding new product being offered' (http://docplayer.net/56968902-Sales-and-promotions-management-dmgt507.html).

Developmental Selling

'Developmental selling aims at converting prospects into customers. It attempts to create customers out of people who may not view the company products favorably, be unaware of the company's products or are resistant to changing their present source of supply. It is relatively tougher than service selling. It requires a lot of convincing before a customer finally agrees to buy the product.

Let us understand this selling situation with the help of above given scenario: The second team at Crompton Greaves is assigned the southern region of the city. They decide to contact customers who do not have any past experiences with the company and are buying from other competing companies. The team is faced with the task of convincing prospective customers about the value for money of their product. One prospective customer, Rajan Malhotra, shows some inclination towards the deal. Arjun, the Group Leader, attempts to convince Rajan by conducting a detailed presentation about the company's history, its services, its reputation in the market, the benefits of the products and services, happy experiences of the existing customers etc. and then following up rigorously. Arjun's efforts finally pay off and he makes a successful sale.

So the diverse nature of the situation is quite evident from the scenario. One developmental selling requires much more convincing and creativity on the part of the salesperson" (http://docplayer.net/56968902-Sales-and-promotions-management-dmgt507.html).

Check Your Progress-A

Q1. Explain the role of personal selling in promotion mix of a company.

Q2. What are the salient aspects of personal selling?

Q3. Write short notes on:

a. Service selling vs. developmental selling

b. Selling skills

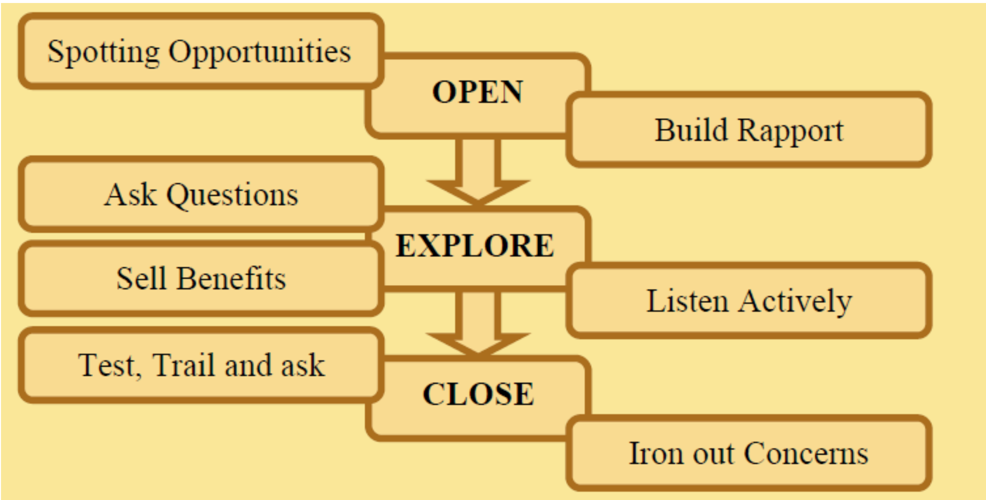
c. Time allocation of a sales person

Q5. True or False

a. Selling new products to an existing customer refers to developmental selling situation.
b. Negotiations are very important in selling because majority of selling is done without a list price.
c. A variety of customer promotions such as offers, premiums, discounts, and rebates etc. are given to the retailers and distributors to attract them.

Case-Study: Selling Banking Services: It is Not about Pushing

The most successful people in any industry are seldom the smartest or best looking ...they're the people who can sell‖—Len Foley (2008)
I am not ever going to be in sales! that is a statement made by majority of professionals.
If you have ever been in a conversation in which you were trying to express an opinion or influence an event, then you were selling. The truth is that everyone is constantly trying to sell an idea, belief, proposition, opinion, or a goal.
You use sales skills throughout the day, every day. With your spouse, your kids, your peers, your neighbour, your parents, at the store, when you buy a car or a house, or when you simply go out to dinner. Sales skills are life skills.
All these are the activities that a Sales person MUST perform to be successful…



Sales persons have to sell more effectively to current customers and generate new business through prospective customers.
There was a time in the banking business when the customers came to bank. The local banker simply sat at the desk and waited for customers to walk through the door, eager to receive whatever help the bank was willing to offer. Those days are gone. Retail banking is one of the most highly competitive sectors in sales, and this means that bankers must come out from behind the desk and become aggressive sales professionals if they want to stay in business.
Any Sales person today should be able to quickly gain an understanding of what the sales process is all about, how to assess a customer's needs without being pushy, and how to present an opportunity in a way that will have the customer excited about doing business.
ICICI Bank realized the importance of imparting vital selling skills in a structured manner and thus it opted for a customized program from Achieve Global (AG) India.
ICICI Bank approached Achieve Global (AG) India, to assist them in implementing their retail branch banking sales strategy. As a result of AG sales training, coaching and measurement, ICICI retail bank sales went up over 50% after the training program. This training intervention also supported the ASTD award ICICI bank received for the being the top Learning Organization in India. The bank attributed part of their success in becoming a learning organization to the quality of training from AG India.

Source: http://www.selfgrowth.com/articles/definition_selling_skills.html,
http://www.secretsellingtips.com/SalesArticles.htm#Articles.
http://www.achieveglobal.com/About/GlobalOffices/India

2.5 THEORIES OF SELLING

There are three main theories of personal selling, which are as follows:

- AIDAS Theory
- Buying Formula Theory

AIDAS Theory: E. St. Elmo Lewis developed a theory known as AIDA (attention/awareness, interest, desire and action) in 1898 to explain the concept and process of personal selling based on his customer studies conducted in US life insurance market. This theory was later edited and a new step 'satisfaction' was added to it. The premise of this theory is that a customer passes through five different stages in a selling process i.e. first he pays attention to or gets aware, then interest is generated for the product which leads to a desire to own it, which in turn results in a customer action of purchase and gets over with customer satisfaction.

The five stages of AIDAS theory are explained here:

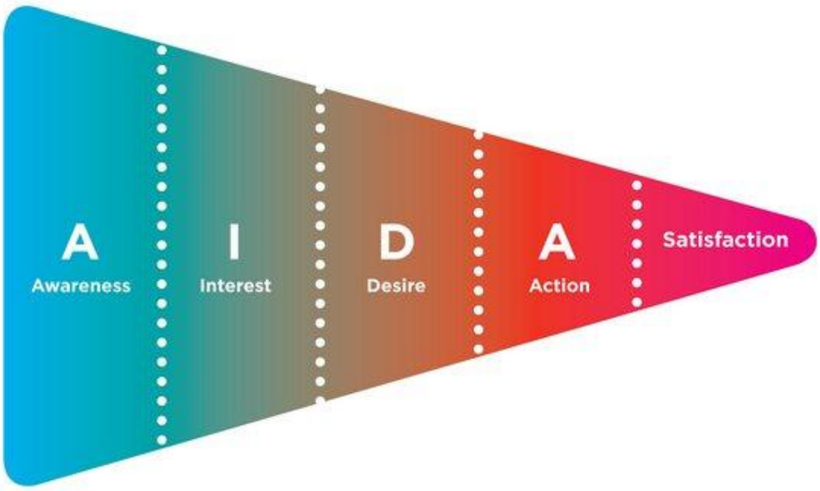
Awareness/attention: This stage calls for the getting the attention of the prospective buyer by a sales person before making an actual presentation of goods and services. The sales person can engage a buyer both physically and mentally if he is successful in getting his attention.

Interest: It is very important for a sales person to keep his presentation engaging and interesting so that the prospective buyer doesn't wander away. The sales people should collect information about the likes, dislikes, interests and attitude of the buyer to whom they are presenting to make it relevant and interesting for them.

Desire: The purpose of this stage is to arouse the customer interest to a level where he/she is ready to make a purchase. This requires that a sales person should present the benefits of his products in a manner that they are relevant to the needs and motivations of a prospect. For example, while selling insurance if a sales person knows that the main motivation of a buyer is regarding the safety and wellbeing of his family then the sales person should stress this particular benefit of his insurance policy. At the same time the sales person should be prepared to handle any kind of resistance or objection made by the prospect. The answers to anticipated objections should be ready with the sales person.

Action: After the successful completion of above three stages the sales person should induce the prospect to make an actual purchase of the product or service. The prospect may have uncertainty regarding the purchase even after above three stages, thus the sales person should help the prospect in taking final purchase decision. The skills and tact of a sales person and incentives provided to the buyer will be very effective in closing the sale.

Satisfaction: The sales process doesn't get over with the purchase of a buyer. A sales person should appreciate the buyer for making a right decision and for giving him confidence that he is with right product. It is important for a sales person to ensure that timely delivery of the product or service should take place and all the promises made at the time of deal such as discounts, gifts etc. are fulfilled. A sales person should maintain contact with the buyer to learn about his experience with the product or service.



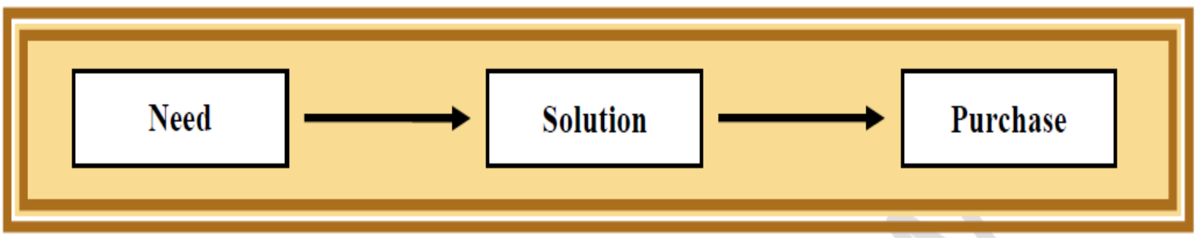
AIDAS Theory

Source: https://cdn.marketing91.com/wp-content/uploads/2010/10/AIDAS-Theory.jpg

Buying formula theory: In the earlier theories, emphasis was laid on the salesperson or the seller. In this theory, the emphasis is on the buyer. This theory emphasizes on the needs or problems of the buyer. As per this theory, the role of the sales person is to help a prospective buyer to choose an appropriate solution to his problem. The solution to a problem can be arrived in terms of a purchase of a product or service.

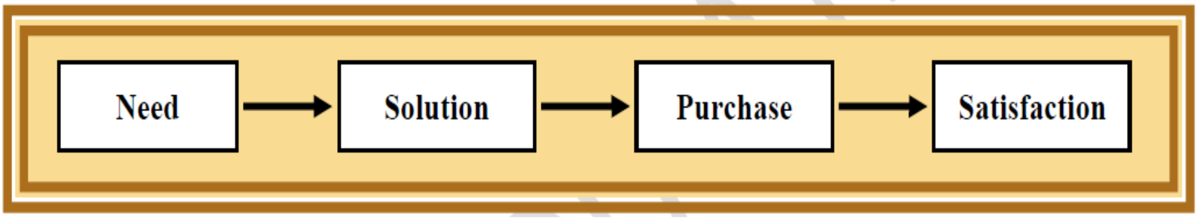
The buying formula theory is based on the analysis of the sequence of events that goes on in the buyer's mind during the sales presentation. The name ―buying formula‖ was given to this theory by psychologist E K Strong, Jr. (1955), and the step by step explanation is adapted from his teachings and writings.

The figure given below represents the sequence of events which occur in a customer mind before making a purchase:



Sequence of events in the mind of a customer

There are all the chances that a continuous relationship will develop between the prospect and the salesperson. As a result of sales, the satisfaction will also come in the sequence. This sequence can be presented as:



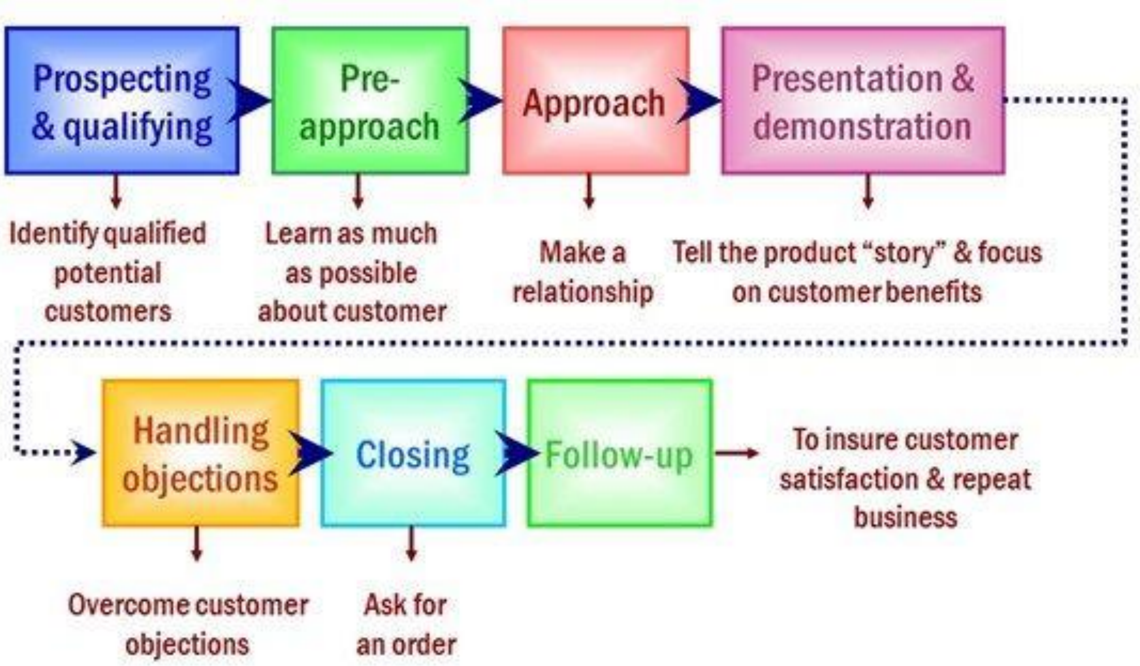
Satisfaction as an extension to the sequence of events

We have seen that a customer will buy a product or a service or a combination of both to find a solution to his needs. Manufacturers or a marketing agency provides products or services. The product, service or manufacturing may also have a brand name.

In practice, most of the sales presentations or the personal selling efforts are based on one or a combination of these theories.

2.6 THE PERSONAL SELLING PROCESS

An integrated approach based on the experience of sales person over years is devised in the form of a selling process which results in successful selling. There are series of steps involved in this process. The personal selling process is depicted in the image below:



Personal Selling Process

Source: https://i.pinimg.com/564x/6d/94/b2/6d94b2fc304b6251184db8e7a7f4a4e4.jpg

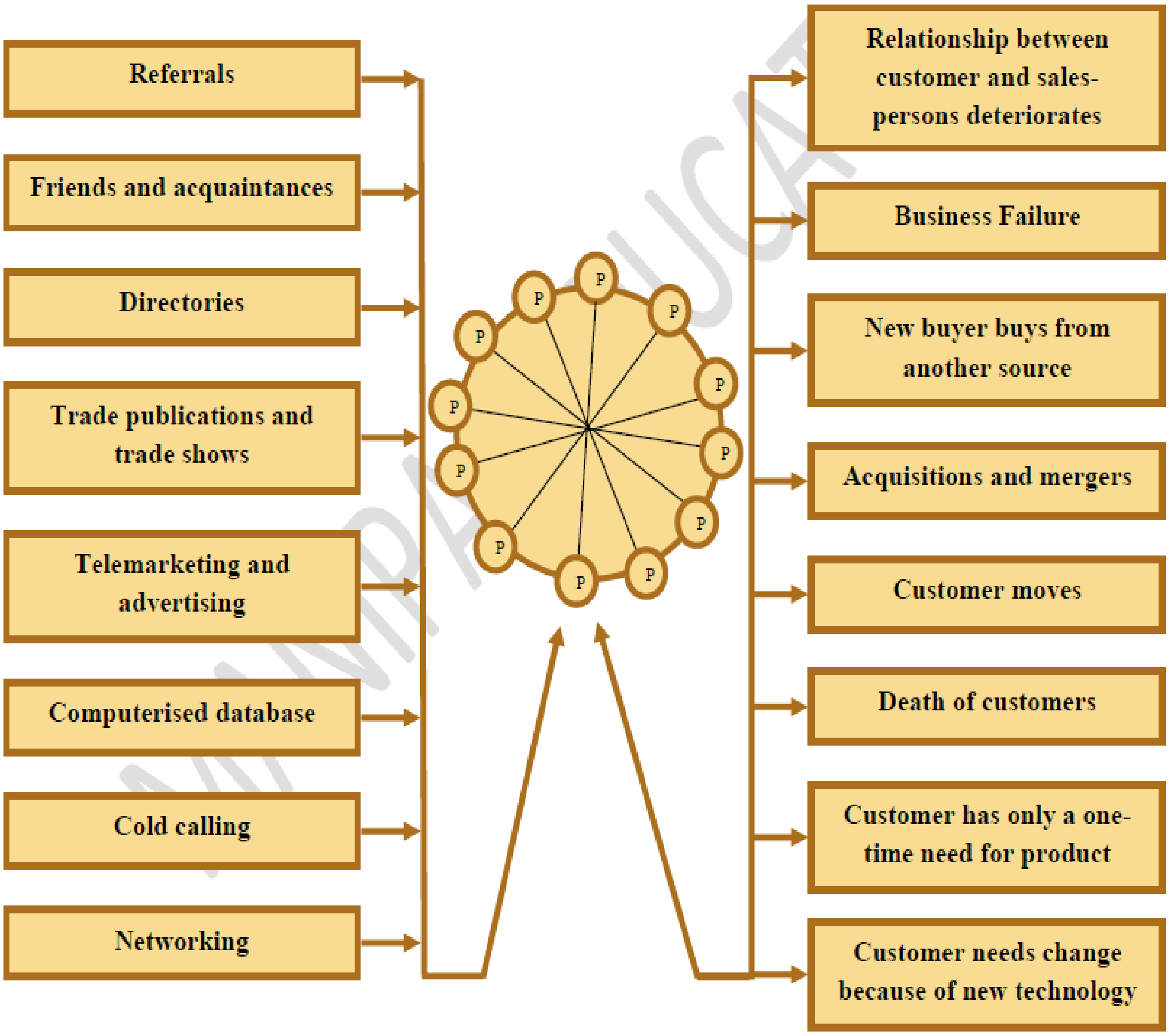
Let's study the steps of personal selling process:

Prospecting: The process of identification of prospective list of buyers is referred as prospecting. It can be understood as a process or identifying the prospects, discovering their newer needs and preferences. Once a list of prospects is ready the next thing is to qualify them i.e. if they should be pursued further. The prospect qualification depends upon their authority, needs, ability and eligibility to make a purchase.

Joe Girard, popular sales trainer, used the ―Ferris Wheel‖ (1978) concept for prospecting.

Girard wrote about Ferris Wheel Principle which was based on his experience as a salesperson working for the leading Chevrolet dealer in Detroit, USA. He is listed in the Guinness Book of Records for having sold over 13,000 used cars, all at retail level. Girard's ―Ferris Wheel Principle‖ is that everyone goes round and round on the Ferris Wheel of life, and as far as cars are concerned, they ride around for between 2 and 5 years after which they are in the market for another car purchase.

Joe likened the process to filling up the seats on a Ferris wheel that you might see at any county or state fair these days. When the ride first starts up for the day, one person or couple gets in each seat and the wheel rotates slightly so the next passenger can get on. The process continues until the wheel makes it all the way around and then passengers start getting off so that new passengers can get on. No matter what you sell, if you will spend some time each day filling the seats on the Ferris wheel, you will soon have a line of people waiting to be sold. The overall point Joe was making here is that sales is a process and because of one must continuously keep marketing so that we always have someone in our sales "pipeline or on our ―Ferris wheel." As shown in the figure, the people can be attracted towards the Ferris Wheel by adopting a host of measures like referrals, directories, cold calling, networking etc.



Joe Girad's Ferris Wheel, 1978

The aim at this stage is to find out potential customers, identify good ones and screen out poor ones.

Ratios of Prospecting to Customer Conversion

- Insurance industry: One out of nine prospects becomes a customer.
- Computer business: 125 phone calls results in 25 interviews leading to five demonstrations and one sale.

Source: Vincent L. Zirpoli, "You Can"t „Control" the Prospect, So Manage the Presale Activities to Increase Performance," Marketing News, March 16, 1984, pp.

Pre-approach: This is the stage where the sales person does his homework about the prospective buyer's likes, dislikes, needs, preferences, economic and social status etc. Once all this information is collected, sales person is prepared to make an effective sales pitch. And this preparation stage is known as pre-approach.

Pre-approach helps a sales person in concentrating on fruitful prospects and provides them with all possible information. Pre-approach also helps a sales person to make best use of available time and reduce the wastage of time in meeting with less profitable buyers.

Approach: This is the stage where both prospective buyer and sales person come across each other face to face. This is the platform where sales person gets an opportunity interact and make presentation to the buyer. There are variety of methods to make an approach. These approaches are discussed as below:

Using company's reputation or brand name: It is one of the most used method:

- As the title suggests, in this method the sales person garners the attention of his prospect based on the reputation or brand name of his company.
- Sales person representing non-famous brands cannot use this method.

Customer benefit method: Here, the sales person entice a prospective buyer by offering those features which will benefit him.

- Examples of this approach are "Would you like to cut down your credit card bills by 40%" or "Would you like to earn more interest on your savings" or "Would you be interested in a personal loan that is provided to you within 2 hours without much hassles" etc. will definitely arouse the curiosity of the prospect and develop an interest in learning more about the product.

The shock method: In this approach, sales person presents shocking facts on crime rates, old age risks, and uncertainties etc. to attract a buyer.

- Sales people dealing in financial products such as securities, insurance, and banking etc. use this approach.

Prospect centric method: Many times sales person lure his prospective buyer by keeping their customer at the center by using lines such as, 'you are our esteemed customer' or 'we are happy to be associated with you' etc. to make the customers feel important.

The survey method: In this approach, the sales person survey the needs and expectations of the prospect to make an effective presentation. This method is very helpful while approaching for high net worth individuals.

Interactive method: In this approach, the sales person interacts with the buyer to understand his requirements. This method is often used along with other approaches such as customer benefit method.

The choice of approaching a prospective buyer is based on the type of goods and services offered on sale and the type of prospect.

Presentation and demonstration: At this stage the sales person makes an effective presentation of goods and services to the prospective buyer. An effective presentation helps a sales person in making a sales.

The key aspects of an effective sales presentation are:

- ‘Quick presentation creates a good impression in the mind of the customer as he feels that he is being dealt with promptly and this satisfies his feeling of self-importance.
- Attractively packaged, decorated and well-organized articles create a good impression in the mind of the prospect.
- The salesman should explain the product with its features and price advantage to the customer in simple and easy terms.
- The presentation can also be given through models, slides, pictures and videos to make the presentation interesting.
- An intelligent salesman should never compare his product with rival products. Under circumstances, he can stress on high points of his offering rather than pointing out the negatives of the rivals.
- It is very important that the customer be shown the kind of quality that he is looking for. Too many varieties will only confuse the customer, while too little does not help him make a choice.
- Half the battle is won, if the salesman is able to make the product appeal to the customer’s senses. If the product appeals to the prospect, he will make a subconscious decision to own that product’.

Sales person performs live demonstration of the product to explain its characteristics. Demonstration helps a sales person to exhibit the product attributes such as performance, utility, service and quality etc. This is the platform where a buyer gets a chance to validate all the facts and figures shared by the sales person regarding the product or service. Thus, demonstration is a critical stage in personal selling process.

Handling objections: As the sales process continues, prospects poses both real and virtual objections. It is very important for a sales person to tackle and answer these objections with courtesy without offending the prospect. It is important for the sales person to understand customer needs to handle these objections. The two effective techniques to understand customer needs are:

- Make the prospective buyer share more and more
- A sales person should have rick experience and knowledge both about his own products and services and those of competitors

The following table provides information regarding variety of objections and ways to handle them:

Objections	Way to handle them
Price based objection	• Sales person can offer and show less expensive variants of the product • He can win the confidence of the prospect by sharing bills and cash memos of other customers' purchases • He can offer some discounts if nothing else works
Objection regarding quality	• Sales person can handle this by providing testimonials of other satisfied clients regarding quality • He can compare key characteristics of product with other brands
Objection regarding after sales service	• Sales person should ensure clients that he will maintain regular contact and provide after sales service post sales • He can also offer free service coupons
Objection regarding payment	• Sales person can offer variety of payment options such as credit facility or instalments
Objection regarding timing	• Sales person should use his intelligence to make a customer to purchase on the spot • He can offer incentives for on-spot purchases

Despite of the strategies discussed above it is very difficult for a sales person to convince a customer who has decided to postpone his purchase. It is very convenient for the customer to leave the presentation or meeting at any stage. Thus, a sales person should be tactful to close a deal.

The close: 'This is the last stage and the most crucial stage for a salesman. The whole exercise becomes useless if the sale does not take place. The main aim of the close is to convince the prospect to sign the order form or to place an order immediately rather than in the future.

- The salesman should be alert and use his good judgment to spot an opportunity when he is in a position to close the sale.
- This requires judging the mood, attitude and perception of the prospect.
- Although this comes through experience and constant understanding of different types of prospects, the general rule remains that right from the start, the salesman should be calm and should give due regard and importance to the views of the prospect.
- It is also important that through proper planning, prospecting, presentation and demonstration, the salesman should try to capture the attention of the prospect and not let the prospect change his mind.

After sales, he should follow up with calls and letters to ensure that the customer is satisfied' (http://docplayer.net/56968902-Sales-and-promotions-management-dmgt507.html).

Type of Close	
Action Close	Here the sales person takes an action that will complete the sale like negotiating for supplying financial assistance to the prospects.
Gift Close	The sales person provides an added incentive on immediately buying the product.
Benefit Close	Here the sales person restates the benefits of the product in order to elicit a positive response from the prospect.
Direct Close	It is a simple technique and is most appropriate if the buyer is showing strong positive buying motives. The sales person gives a summary of the major points of the presentation and directly asks for the order.
Alternative Close	This technique provides the customer with alternatives with regard to the product like a black or red-colored one or payment on cash or credit basis.
Objection Close	If an objection is the major hurdle in the way of making sales, the sales person should try to gain a commitment from the buyer that if the objection is removed he will buy the product.

Types of Close

Follow-up: Post-purchase follow-up is very important in building customer confidence and long-term relationship with the company. It is instrumental in management of key accounts in banks.

- The salesperson contacts customer to learn if there are any problems and answers any questions that the customer does.
- He also contacts customers regularly to ascertain that they are happy with their purchase and offered services.
- Relationship selling not just focuses on selling the product but to understand changing customer needs, and solving their problems.

As long as both the customer and the seller are successful in achieving their goals, the relationship continues to prosper.

heck Your Progress- B

Q1. What are various selling theories?

Q2. What are the stages of personal selling process?

Q3. List the essential elements of a good presentation.

Q4. Write short notes on:

- **a. Ways of handling objection**
- **b. Company brand vs. customer benefit approach**
- **c. Usage of prospecting time**
- **d. Significance of pre-approach**

Q5. True or False

1. The whole personal selling exercise becomes useless if the sale does not take place.
2. In survey approach sales person interacts with customers to know them better.
3. Aim of prospecting is to identify potential customers and to screen poor ones.

2.7 SUMMARY

In this unit we have studied that today, personal selling has become a challenging and rewarding profession. In personal selling, a salesperson has to deal with an individual client, take account of the personal style and attitude of the client so as to make his approach and attitude acceptable to the client.

If a salesperson is meeting clients in a group, then it is important to distinguish the different individuals who make up the group. In the interaction, the salesman should adapt his style and behave appropriately to the different group members who are present.

In order to be successful, a salesperson must possess a set of personal, product-related and functional qualities as a variety of analytical and administrative duties are important components of the job.

Selling situation refers to a situation in which a sales person reaches out to a prospective buyer for a sales. Each selling situation is different from another. The selling situations can be classified in to following types: service selling and developmental selling.

Before approaching a prospect every salesperson is advised to do a bit of homework regarding the company's name, size, authority, concern and general requirements.

The salesperson should introduce himself, his company, the product under promotion, product presentation and overcome any customer objections.

2.8 GLOSSARY

Personal selling: It refers to the presentation of goods and services before the customers and convincing them to buy the products or services.

Selling skills: Varieties of skills need to be acquired to have a successful selling career. This include communication, listening, problem solving, and conflict management and negotiation skills.

Service Selling: Salespersons in a company often make sales calls to customers who may already be aware of the company's products. This type of selling is less complex as the customers already know the brand.

Developmental selling: It aims at converting prospects into customers. It attempts to create customers out of people who may not view the company products favorably, be unaware of the company's products or are resistant to changing their present source of supply.

AIDAS theory: It is based on the premise that during a sales presentation, the prospect consciously goes through five different stages: Awareness/Attention, Interest, Desire, Action and Satisfaction.

The buying formula theory: It is based on the analysis of the sequence of events that goes on in the buyer's mind during the sales presentation.

Personal selling process: It comprises of series of steps such as: prospecting, pre-approach, approach, presentation and demonstration, handling objections, close and follow-up.

2.9ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

Q1. Explain the role of personal selling in promotion mix of a company.

Ans. Personal selling is the personal communication between a firm's sales force and customers for the purpose of making sales and building customer relationships.

Here the sales person uses various skills and techniques for building relationships with the customer (those involved in a purchase decision) which results in both the parties obtaining value.

Q2. What are the salient aspects of personal selling?

Ans. Key aspects of personal selling are:

- It results in improved customer's confidence in the company and its products
- Personal intimacy enhances long-term business relations
- A human interface and touch is provided to business transactions
- Personal selling provides a better insight in the needs and wants of customers
- Better understanding of customers allow a company to modify its offerings to better meet the customer requirements
- Companies can attain competitiveness in the market on the basis of product customization as per customer's preferences
- Personal selling acts as a powerful and effective tool for convincing the customer about the goods and services
- Personal selling helps in reducing the lead time between product promotion via media and its actual sales

- Prospective customers can have a better understanding of the product and they have an interactive opportunity to liaise with the sales person in a typical personal selling situation

Q3. Explain the selling skills desired in a sales person.

a. **Ans. Selling skills**

Ans. Thus, varieties of selling skills need to be acquired to have a successful selling career.

Communication Skills: The ability to communicate is a necessary skill in selling function. The sales people should possess a good vocabulary and be able to express themselves intelligently.

Listening Skills: It is generally observed that most salespeople spend more time in receiving communication and information than transmitting it. Poor listening skills may make a sales manager miss-out on certain key issues in customer interaction, which may lead to non-resolution of problems and poor realization of sales.

Conflict Management Skills: Conflict in Sales function is more evident than in any other organization. This is due to the fact that there is always conflict of interest among people at different levels as the goals are different at each level of the organization. Ideally, sales personnel should always be able to evaluate the situation and be able to quickly resolve any conflicts.

Negotiation Skills: Negotiations are very important in selling because majority of selling is done without a list price. The core skill required for negotiation includes the ability to define and prioritize a range of objectives, the ability to explore a wide range of options, the ability to prepare well and interactive competence.

Problem Solving Skills: Problem-solving skills are also very crucial for effective selling. Most of the selling approaches demand that a sales person should not be a mere order-taker; rather he should act as a problem-solver to the customer.

Q4. Write short notes on:

a. **Service selling vs. developmental selling**

Ans. Salespersons in a company often make sales calls to customers who may already be aware of the company's products. This type of selling is less complex as the customers already know the brand and it is known as service selling.

Developmental selling aims at converting prospects into customers. It attempts to create customers out of people who may not view the company products favorably, be unaware of the company's products or are resistant to changing their present source of supply. It is relatively tougher than service selling. It requires a lot of convincing before a customer finally agrees to buy the product.

b. Time allocation of a sales person

Ans. The sales person allocate his time across variety of activities such as prospecting, admin, selling and account management. In which personal selling is one of the most crucial activity for a sales person with 36% percent of time allocated for this activity. The sales person can conduct personal selling in two ways: at his place i.e. office or organization and at customers' place.

Q5. True or False

a. Selling new products to an existing customer refers to developmental selling situation. **False**
b. Negotiations are very important in selling because majority of selling is done without a list price. **True**
c. A variety of customer promotions such as offers, premiums, discounts, and rebates etc. are given to the retailers and distributors to attract them. **False**

Check Your Progress –B

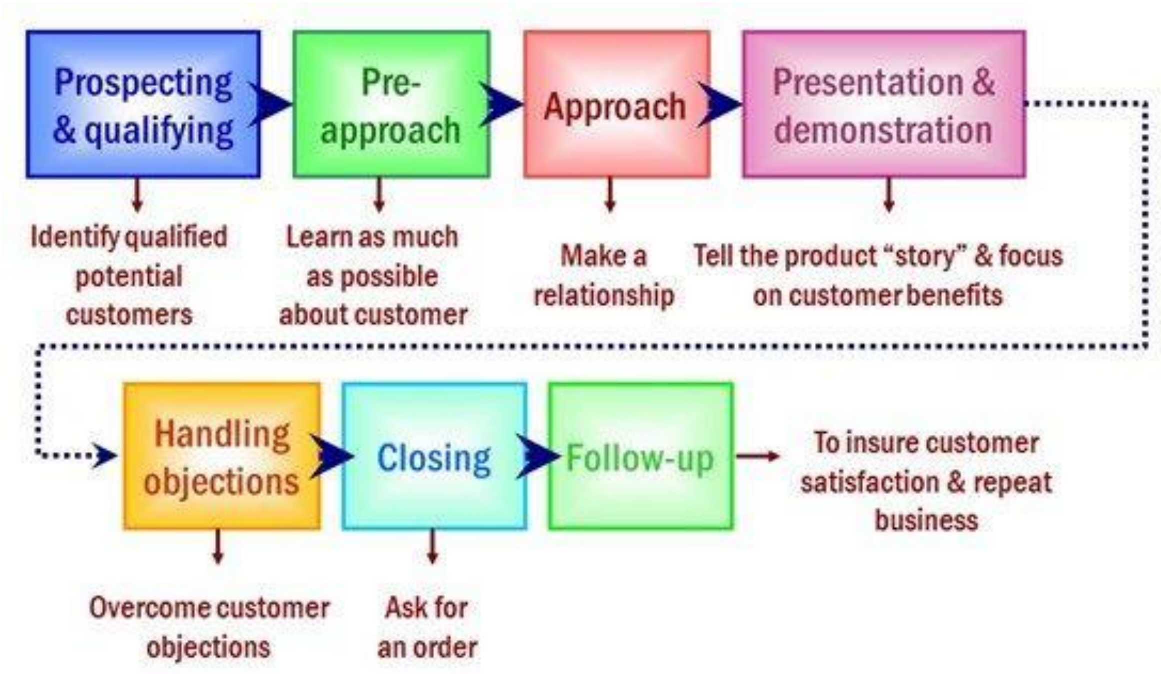
Q1. What are various selling theories?

Ans. The various selling theories are: AIDAS Theory and Buying-formula theory. The premise of this theory is that a customer passes through five different stages in a selling process i.e. first he pays attention to or gets aware, then interest is generated for the product which leads to a desire to own it, which in turn results in a customer action of purchase and gets over with customer satisfaction.

The buying formula theory is based on the analysis of the sequence of events that goes on in the buyer's mind during the sales presentation.

Q2. What are the stages of personal selling process?

Ans. The personal selling process is depicted in the image below:



Q3. List the essential elements of a good presentation.

Ans. Essentially, a good presentation should fulfill the following requirements:

- Quick presentation creates a good impression in the mind of the customer as he feels that he is being dealt with promptly and this satisfies his feeling of self-importance.
- Attractively packaged, decorated and well-organized articles create a good impression in the mind of the prospect.
- The salesman should explain the product with its features and price advantage to the customer in simple and easy terms.
- The presentation can also be given through models, slides, pictures and videos to make the presentation interesting.
- An intelligent salesman should never compare his product with rival products. Under circumstances, he can stress on high points of his offering rather than pointing out the negatives of the rivals.
- It is very important that the customer be shown the kind of quality that he is looking for. Too many varieties will only confuse the customer, while too little does not help him make a choice.
- Half the battle is won, if the salesman is able to make the product appeal to the customer's senses. If the product appeals to the prospect, he will make a subconscious decision to own that product.

Q4. Write short notes on:

a. Ways of handling objection

Prospects can raise many kinds of objection and salesperson should handle them effectively. Some ways to handle objections are:

Objections	Way to handle them

Objection on price	• Cheaper variations of the same products can be shown. • Cash memos of bills of previous customers can be shown or some discount can be offered as a last resort.
Objection on quality	• Reference of prominent customers may be given and the product be supplied in the right size, color etc. • Prominent features of the product may be compared and elaborated with other brands
Objection on after sales service	• Regular contact must be maintained with the customers after sales has occurred • Free service coupons can be given
Objection on payment	• The product can be offered on credit or on instalments on verifying the identity of the customer. • Offer him various options of making payment
Objection on timing	• The salesman should use his intelligence and tact to convince the customer and persuade him to take a decision on the spot. • Offer incentives on ―on-spot‖ purchase

b. Company brand vs. customer benefit approach

Cashing in on Brand Name or the Company's Reputation: This is the commonest of all the methods.

- The salesman here uses the influence of the brand name of his product or the reputation of his company to attract the attention of his prospect.
- This method, however, is not suitable for lesser known firms or brands.

Customer Benefit Approach: In this approach, the salesman arouses his prospect's interest by making the prospect realize that buying the product will definitely benefit him.

- Statements such as "Would you like to cut down your credit card bills by 40%" or "Would you like to earn more interest on your savings" or "Would you be interested in a personal loan that is provided to you within 2 hours without much hassles" etc. will definitely arouse the curiosity of the prospect and develop an interest in learning more about the product.

c. Usage of prospecting time

Quality usage of prospecting time means that the sales force must plan its time in such a manner that maximum time is made available for those prospects who are likely to give a large volume of business to the company. It follows that the least time must be spent on activities that are required to support such objectives and devoting more time on significant prospects.

d. Significance of pre-approach

The following factors describe the importance of the pre-approach method:

- It is a method by which a salesman concentrates only on the prospects and not the suspects, thus saving his time and energy.

- It helps a salesman gain all the possible information about the prospect before approaching him.
- As the salesman has prior knowledge about the prospect, he is able to give a sales presentation more efficiently, effectively and with confidence.
- The sales presentation is focused around the needs of the prospect and is short, meaningful and to the point.

Q5. True or False

a. The whole personal selling exercise becomes useless if the sale does not take place. **True**
b. In survey approach sales person interacts with customers to know them better. **False**
c. Aim of prospecting is to identify potential customers and to screen poor ones. **True**

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2.12 TERMINAL QUESTIONS

Q1. Explain several components of marketing communication mix. How is personal selling different to other components?

Q2. Describe the variety of selling skills required in a sales person.

Q3. Is service selling situation similar to developmental selling, explain with example?

Q4. Explain stages of personal selling process.

Q6. Write short notes on:

- **a. AIDAS vs. buying formula selling theory**
- **b. Types of close**
- **c. Relevance of follow-up in personal selling process**
- **d. Methods of approach**

UNIT-3 GOALS AND PROCESS OF SALES MANAGEMENT

3.1 INTRODUCTION

In the earlier two units, you have learnt the basic concepts of sales management and personal selling process. The major objective of this unit is to introduce you to the sales management process which delineates the structure for the entire sales management course to be covered in the further units. In this unit we will examine the sales goals and objectives with the help of practical examples.

This unit will provide you with the understanding of technical concepts such as consumer and industrial demand. You will study the ways to determine these demands. The essence of sale effort planning is dependent upon the estimates of market and sales potential. This unit will throw light on determination of market potential and sales potential.

3.2 OBJECTIVES

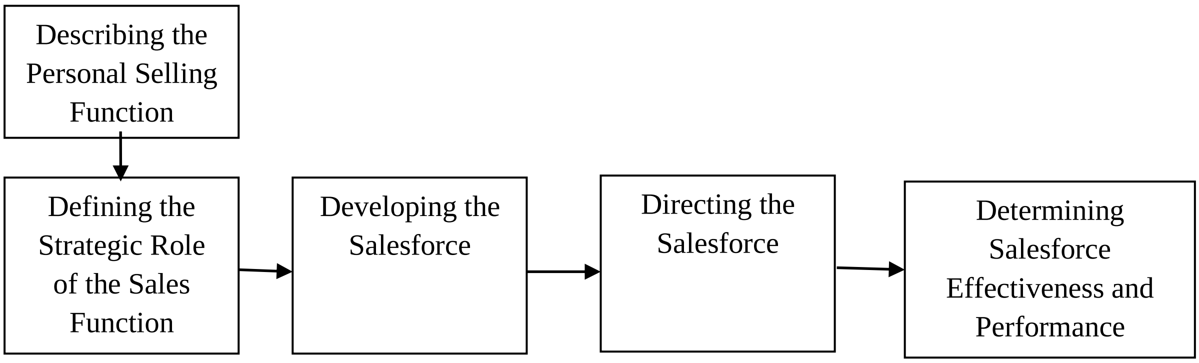
After studying this unit, you will be able to:

- Understand the meaning and relevance of sales management process.
- Determine the sales goals and objectives for a real life sales organization.
- Determine consumer and industrial demand.

- Analyze the target market and estimate the market potential.
- Determine sales potential for any specific organization.

3.3 SALES MANAGEMENT PROCESS

As we have studied in Unit 1, sales management is the process of planning, directing, and controlling of personal selling, including recruiting, selecting, equipping, assigning, supervising, paying, and motivating the personal sales force. In simple words sales management is understood as the management of sales function or personal selling function of an organization. This involves both planning and implementation of personal selling aspect, and evaluation and control of selling activities of an organization. The people involved in the sales function of an organization must deal effectively both internally with other department employees and with the customers externally. The sales management process consists of five stages. These stages are:



Source: Ingram Et. Al.

Stage 1: Personal Selling Function

It is imperative for the sales managers to understand the personal selling function thoroughly. The details regarding the personal selling function are covered adequately in Unit 2.

Stage 2: Strategic Role of the Sales Function

In present times, there are numerous organizations which market multiple products and services to various customer groups. The sales function of a multiple-product, multiple-market is to be organized across different organization levels to integrate strategic decisions. The unit dealing with sales organization structure, functions, and types will address this stage in detail. Corporate and business level strategic decisions typically provide guidelines within which sales managers and sales people must operate. The essence of this is great for the companies focusing upon customer relationship management strategy. On the other hand, personal selling is an important component of marketing strategies in specific product market situations.

Strategic decisions at the corporate, business, and marketing levels must be translated into strategies for individual accounts. The major elements of sales strategy are, account targeting strategy, relationship strategy, selling strategy, and sales channel strategy. Because personal selling is typically important in organizational marketing situations, it is important for you to understand organizational buyer behavior for developing these strategies.

Account targeting strategy helps a sales person to identify and categorize the types of clients/ accounts in to categories based on their needs and characteristics. This identification will further help them to design a suitable selling approach and a mix of sales channel to approach them effectively. Thus, these decisions will help you in integrating sales strategy for each targeted account.

You should know that an integration of strategy at different levels i.e. corporate, business and marketing will help you to set basic strategic direction for your sales efforts and sales management activities as a sales manager. And this is where an effective sales organization is a must. The concepts of centralization, decentralization, general, specific, span of control, and line versus staff position are discussed in detail in subsequent unit on this topic. The organization structures for sales function is guided by variety of factors some of them are discussed in Unit 1 of this course.

Next strategic decision to be taken in this regard is amount and allocation of selling effort. The decisions regarding Salesforce deployment, sales force size, territory design are interrelated and addressed in next units.

Stage 3: Salesforce Development

After designing the sales organization structure as discussed in the stage above the next key step in the sales management process is to determine the right number and type of sales people with adequate skills to perform the sales function.

The unit dealing with recruitment, selection and training of sales force will deal with this decision in detail. The key activities involved in this stage are determining the type of salespeople desired, identifying prospective candidates for sales role, and evaluating them to ensure that the best are hired. Apart from the recruitment and selection, need for continuous training is very important. The sales training process consists of assessing training needs, developing objectives, evaluating alternatives, designing the training program, carrying it out, and evaluating it. Sales managers face difficult decisions at each stage of the sales training process, because it is not only very important but expensive too.

Stage 4: Providing Direction to the Salesforce

The sales management process doesn't end with the recruitment of the right sales candidates, it also requires providing them right direction to guide their sales efforts. A good amount of time of a sales manager is consumed in motivating, supervising, and leading the sales force members.

Sales mangers perform both leadership activities such as motivating and influencing their team and supervising functions such as controlling and monitoring their team's routine tasks. The sales management process also comprises of decisions regarding the compensation and reward system planning for sales force. You will study the details on compensation and reward management is subsequent units of this course. For now, you can understand that there are variety of motivation theories and which can be used by sales managers to motivate their teams. Similarly, there are different types of compensation plans such as regular income, commission only and a combination plan. Each compensation plan has their own set of merits and demerits.

Stage 5: Salesforce Performance Measurement
The role of a sales manager is to monitor and evaluate the performance of its sales team on an ongoing basis. The task of the sales manager here is to evaluate both effectiveness of different units within the sales organization and the performance of individual sales people.

The sales managers can evaluate the effectiveness in terms of territories, districts, regions, and zones. The analysis is also conducted in terms of sales revenue, costs, and profitability. There is a dedicated unit to discuss evaluation of sales people performance in detail. The key reason for evaluating the performance of sales people is to determine if the sales objectives and targets are achieved and if any corrective action is required.

3.4 GOALS OF SALES MANAGEMENT

Companies plan and operate on the basis of multiple goals and objectives set for a given time frame. Sometimes, in case of small companies these goals are too vaguely defined such as 'We want to be number one in the industry.' This goal does not provide clear understanding of the term number one i.e. in what ways. It is very essential for all the units and employees of an organisation to understand and imbibe the goals and objectives to perform in the unified direction in a consistent manner to achieve them. It is must for the people involved in planning to communicate the goals in an explicit manner in order of priority. The goals established for different departments should be consistent with each other and should not conflict. Let us understand the goals and objectives established for a national sales manager with the help of an example of a large office-supply manufacturing company. The goals and objectives are:

Goals: These are long term targets ranging from 3-10 years to be achieved by the sales team.

- Planning and execution of a sales monitoring and information system in the next three years.
- Market area expansion to cover all the metro and tier-1 cities of the nation in the next 5 years.
- Improvement in the Salesforce retention rate over and above the industry average in the next 5 years.

Objectives: These are short term targets established in the time frame of 1-2 years.

- To achieve an increase of 15 percent in sales revenue by next year.
- Reduction of 10% in consumer complaints by next year.
- Salesforce turnover to be reduced by 5% in next year.
- Addition of minimum 20% new customer accounts by next year.

The goals and objectives established for individual sales persons are discussed in detail in the unit discussing sales territory and sales quota management.

SMBO Approach: Similar to Management by Objectives (MBO) approach for managing an organization, SMBO i.e. Sales Management by Objectives is an approach used to formulate and achieve sales objectives of an organization. It is formulated together by sales manager and members of a sales team. The goal of this approach is twofold; to achieve results within a specified set of objectives and to encourage participative style of management in the sales team.

SMBO Process:

The SMBO is a process comprises of the following steps:

a. Joint goal setting by sales manager and sales persons: In this process the goals for sales-person and sales managers are settled simultaneously in the organisation so that they can built a close coordination between them and lastly they achieve the main objective of the organisation.

b. Formulating strategy: This participative style of sales management is beneficial to the top-management, in the sense of the close familiarity of the sales persons, with their markets. The outcome of the joint exercise would be the development of a strategy that directs the sales person towards his objectives, following a plan, in the correct sequence, with the correct timing, and must be efficient, in the use of resources of time and money.

Advantages of SMBO: The advantages of SMBO for a business firm is as follows:

- It directs the sales person towards the broader sales and marketing objectives of the organization;
- It provides a better approach, from the sales people perspective; and
- It helps in motivating members of a sales team.

Check Your Progress-A

Q1. Enumerate the steps of a sales management process.

Q2. Distinguish between sales goals and objectives with the help of an example.

Q3. What do you mean by SMBO approach? What are its advantages?

Q4. Fill in the blanks

a. The role of a sales manager is to monitor and evaluate the ______________ of its sales team on an ongoing basis.

b. _______________ helps a sales person to identify and categorize the types of clients/ accounts in to categories based on their needs and characteristics.
c. The major elements of sales strategy are, account targeting strategy, relationship strategy, selling strategy, and __________________.
d. ___________ is an approach used to formulate and achieve sales objectives of an organization.

3.5 DEMAND MEASUREMENT: CONSUMER AND INDUSTRIAL DEMAND

Sales managers are required to estimate consumer demand based on primary economic data to coordinate and monitor sales force efforts. A leading Sales & Marketing magazine's Buying Power Index (BPI) make use of weighted combination of population of an area, income and retail sales in that area which is calculated in terms of a percentage of total national buying power in that area. The use of weights is done to exhibit the relative importance of each of these three factors. The formula for BPI_i i.e. percentage of total national buying power in area 'i', I_i, which is percentage of a nation's disposable personal income, R_i is percentage of nation's retail sales, and P_i is the percentage of a nation's population.

$$BPI_i = \frac{5I_i + 3R_i + 2P_i}{10}$$

In the context of United States, the sales managers and sales people are not required to make any calculations to determine consumer demand as the annual survey conducted by Sales & Marketing magazine reports the BPIs by different cities, countries and metropolitan areas.

The use of consumer demand in the form of BPIs can be done by sales managers to assess their actual sales performance in the respective areas against the total consumer demand. The use of BPI is also made by sales managers to obtain an adjusted market potential for different regions or districts.

Industrial demand refers to the total demand existing for a given industry in a particular area at for a specific time frame. To estimate industrial demand, we can use either of the two systems i.e. standard industrial classification (SIC), a uniform numbering system for categorizing nearly all industries according to the type of economic activity; and the other approach is survey of buyer intentions. The use of SIC approach is most widely done to estimate industrial demand in United States.

A most widely used approach in Indian market to estimate industrial demand is to conduct surveys of buyer's buying intention. These surveys can be conducted by the marketing research department of an organization, or by its sales team or with the help of an outside research agency. These surveys are conducted with the help of questionnaires which are mailed to prospective buyers to determine what they intend to buy over a given period of time. Survey of buyer's intention is a popular sales forecasting technique which is discussed in detail in the further units.

3.6 MARKET AND SALES POTENTIAL

After determining overall goals and objectives for the organization, the next step in the sales planning process is to determine market potential and sales potential. Market potential refers to the maximum volume of sales possible for an entire industry i.e. all the organizations operating in that particular industry and sales potential means the maximum sales possible for a particular organization. The organizations determine market and sales potential for a given time period in the light of the factors operating in the marketing environment and marketing expenditures.

3.6.1 Market Potential

Market Potential: It is the highest possible expected industry sales of a product or service during a set time period for a specific market. For example, highest expected sales of tetra pack juices in Indian market for the financial year 2017-18.

Market potential determination: The sales managers should begin the determination of market potential with their understanding of present customers and their buying characteristics such as place of purchase, payment mode, purchase frequency, usage rate, quantity of purchase etc. The sales managers should also take in to account the increase usage of product resulting due to modification in an existing product for its existing customers or due to repositioning of a product for potential new customers. Sales managers also need to determine the market potential for the new products developed in the research and development center of an organization. The market potential forms the foundation for the development of a sales forecast for the next planning period i.e. next quarter or year. The meaning and methods of sales forecasting are discussed in detail in subsequent unit of this course.

There are various categories of target markets for which market potential is determined. These are:

Households or personal consumers: Those consumers who purchase for their personal consumption purpose.

Industrial buyers: These are manufacturing, government or non-profit organizations or business buyers who purchase goods or services for using them in production of their goods and services.

Intermediaries: The wholesalers and retailers who purchase and resale or rent these goods and services.

Government: The local, state and central government agencies who procure goods and services to perform government functions.

Example: Market Potential for cola-flavored carbonated drink in Delhi-NCR:

1. **Population (P) = 10 million**
2. **Proportion of P that consumes carbonated beverages (R) = 65%**
3. **Proportion of R that consumes cola-flavored carbonated beverages (C) = 70%**
4. **Average number of liters of cola consumed per cola-consumer per week (L) = 1.5 liters**
5. **Average price per liter of cola (A) = Rs. 45**

Market Sales Potential = P x R x C x L x A

= 10 Million x 0.65 x 0.70 x 1.5 x 40 x 45 = Rs. 12,285 Million

3.6.2 Sales Potential

Sales Potential: This represent the maximum market share that a company or a brand could possibly occupy in a specific time period. For example, Parle's Frooti maximum market share in the Indian tetra pack juice market for the financial year 2017-18.

The estimate for sales potential indicates how much a company could sell if it had all the necessary resources and desired to use them.

Analyzing sales potential: The process of analyzing sales potential of an organization consists of three steps:

Identifying market: The organization needs to identify its market in terms of: who are prospective buyers of its products and who uses them. The answers to these questions are often available in the internal records of the organizations such as sales reports. A field study of channel partners such as wholesalers and retailers will also provide this information. The identification of the market will help the organization to segment its market and to determine sales potential for each of these segments. The market identification studies provides customer data regarding their purchase frequency, searching time expended, unit of purchase, and seasonal buying habits. These data help in estimating sales potential.

Market motivation: The next step in analyzing sales potential is to uncover the motivations of customers to buy their product. Motivation studies provide reasons for why people buy a particular brand and why they don't buy. This will help the sales executive seeking to increase the effectiveness of promotional programs by understanding how to reach their customers, how to present their goods and services.

Determining sale potential: Once the potential buyers and their motivations are determined the next step is to analyze sales potential in quantitative terms.

Sales Potential Calculation

1. **Market potential (M)**
2. **Proportion of market you are Targeting (T)**
3. **Extent of market Coverage (C)**
4. **Number of Units expected to sell per customer during the year (U)**
5. **Average Price per unit (P)**

Sales Potential = M x T x C x U x P

Example: Sales Potential for cola-flavored carbonated drink in Delhi-NCR for Pepsi:

Total number of potential buyers = 1 Million

Target Market (25%) = x 0.25

Market Coverage (75%) = x 0.75

Units purchased per year (20) = x 20

Average Price (Rs.10) = x Rs. 10

Sales Potential = Rs. 37.5 Million

Check Your Progress- B

Q1. Explain the categories of target market to be considered while determining market potential.

Q2. What is sales potential and how do we determine it?

Q3. Write short notes on:

a. **Buying Power Index (BPI)**

b. **Industrial Demand**

c. **Survey of Buyer's Intention**

Q4. True or False

a. Buying Power Index (BPI) make use of an average combination of population of an area, income and retail sales in that area which is calculated in terms of a percentage of total national buying power in that area.
b. The estimate for sales potential indicates how much a company could sell if it had all the necessary resources and desired to use them.
c. It is not important to understand present customers and their buying characteristics such as place of purchase, payment mode, purchase frequency, usage rate, quantity of purchase etc. while determining market potential.
d. Standard industrial classification (SIC) is a uniform numbering system for categorizing nearly all industries according to the type of marketing activity.

3.7 SUMMARY

In this unit we learnt about the sales management process and its stages i.e. managing personal selling function; determining strategic role of the sales function, development of sales force, providing direction to the sales force and measuring performance of sales force. The importance of sales goals and targets and importance of using sales management by objectives (SMBO) approach is also discussed in this unit.

In this unit, we have understood the concept of consumer demand and its estimation with the help of basic economic data. Consumer demand is the market's ability to buy which is determined as a weighted combination of population, income, and retail sales, expressed as a percentage of the national potential. The two approaches i.e. standard industrial classification (SIC) and survey of buyer intention are discussed to estimate industry demand.

Then we studied about market potential which is the highest possible expected industry sales of a product or service during a set time period for a specific market. The concept of sales potential which represent the maximum market share that a company or a brand could possibly occupy in a specific time period. We have also learnt the formula for calculating both market potential and sales potential.

3.8 GLOSSARY

Personal selling: It refers to the presentation of goods and services before the customers and convincing them to buy the products or services.

Sales management process: It consists of five stages: managing personal selling function; determining strategic role of the sales function, development of sales force, providing direction to the sales force and measuring performance of sales force.

Sales management: It is understood as the management of sales function or personal selling function of an organization.

SMBO i.e. Sales Management by Objectives: It is an approach used to formulate and achieve sales objectives of an organization. It is formulated together by sales manager and members of a sales team.

Market Potential: It is the highest possible expected industry sales of a product or service during a set time period for a specific market.

Sales Potential: This represent the maximum market share that a company or a brand could possibly occupy in a specific time period.

Buying Power Index (BPI): It make use of weighted combination of population of an area, income and retail sales in that area which is calculated in terms of a percentage of total national buying power in that area. The use of weights is done to exhibit the relative importance of each of these three factors.

Industrial demand: It refers to the total demand existing for a given industry in a particular area at for a specific time frame.

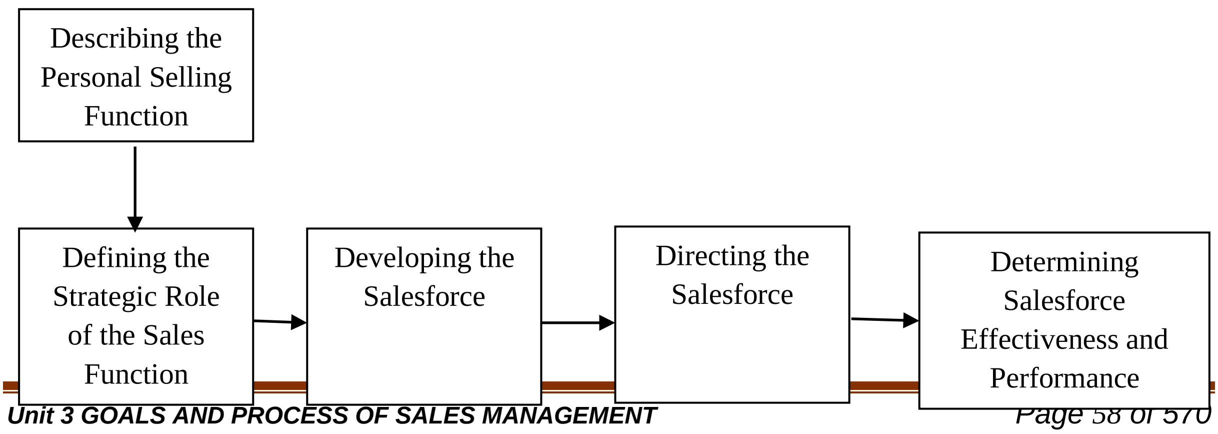
Survey of buyer’s intention: These surveys are conducted with the help of questionnaires which are mailed to prospective buyers to determine what they intend to buy over a given period of time.

3.9ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

Q1. Enumerate the steps of a sales management process.

Ans. The sales management process consists of five stages. These stages are:



Source: Ingram Et. Al.

Stage 1: Personal Selling Function
It is imperative for the sales managers to understand the personal selling function thoroughly. The details regarding the personal selling function are covered adequately in Unit 2.
Stage 2: Strategic Role of the Sales Function
In present times, there are numerous organizations which market multiple products and services to various customer groups. The sales function of a multiple-product, multiple-market is to be organized across different organization levels to integrate strategic decisions. The unit dealing with sales organization structure, functions, and types will address this stage in detail. Corporate and business level strategic decisions typically provide guidelines within which sales managers and sales people must operate. The essence of this is great for the companies focusing upon customer relationship management strategy. On the other hand, personal selling is an important component of marketing strategies in specific product market situations.

Strategic decisions at the corporate, business, and marketing levels must be translated into strategies for individual accounts. The major elements of sales strategy are, account targeting strategy, relationship strategy, selling strategy, and sales channel strategy. Because personal selling is typically important in organizational marketing situations, it is important for you to understand organizational buyer behavior for developing these strategies.

Account targeting strategy helps a sales person to identify and categorize the types of clients/ accounts in to categories based on their needs and characteristics. This identification will further help them to design a suitable selling approach and a mix of sales channel to approach them effectively. Thus, these decisions will help you in integrating sales strategy for each targeted account.

You should know that an integration of strategy at different levels i.e. corporate, business and marketing will help you to set basic strategic direction for your sales efforts and sales management activities as a sales manager. And this is where an effective sales organization is a must. The concepts of centralization, decentralization, general, specific, span of control, and line versus staff position are discussed in detail in subsequent unit on this topic. The organization structures for sales function is guided by variety of factors some of them are discussed in Unit 1 of this course.

Next strategic decision to be taken in this regard is amount and allocation of selling effort. The decisions regarding Salesforce deployment, sales force size, territory design are interrelated and addressed in next units.

Stage 3: Salesforce Development

After designing the sales organization structure as discussed in the stage above the next key step in the sales management process is to determine the right number and type of sales people with adequate skills to perform the sales function.

Stage 4: Providing Direction to the Salesforce

The sales management process doesn't end with the recruitment of the right sales candidates, it also requires providing them right direction to guide their sales efforts. A good amount of time of a sales manager is consumed in motivating, supervising, and leading the sales force members.

Stage 5: Salesforce Performance Measurement

The role of a sales manager is to monitor and evaluate the performance of its sales team on an ongoing basis. The task of the sales manager here is to evaluate both effectiveness of different units within the sales organization and the performance of individual sales people.

Q2. Distinguish between sales goals and objectives with the help of an example.

Ans. The goals and objectives established for a national sales manager of a large office-supply manufacturing company are:

Goals: These are long term targets ranging from 3-10 years to be achieved by the sales team.

- Planning and execution of a sales monitoring and information system in the next three years.
- Market area expansion to cover all the metro and tier-1 cities of the nation in the next 5 years.
- Improvement in the Salesforce retention rate over and above the industry average in the next 5 years.

Objectives: These are short term targets established in the time frame of 1-2 years.

- To achieve an increase of 15 percent in sales revenue by next year.
- Reduction of 10% in consumer complaints by next year.
- Salesforce turnover to be reduced by 5% in next year.
- Addition of minimum 20% new customer accounts by next year.

Q3. What do you mean by SMBO approach? What are its advantages?

Ans. Similar to Management by Objectives (MBO) approach for managing an organization, SMBO i.e. Sales Management by Objectives is an approach used to formulate and achieve sales objectives of an organization. It is formulated together by sales manager and members of a sales team. The goal of this approach is twofold; to achieve results within a specified set of objectives and to encourage participative style of management in the sales team.

The advantages of SMBO for a business firm is as follows:

- It directs the sales person towards the broader sales and marketing objectives of the organization;
- It provides a better approach, from the sales people perspective; and

- It helps in motivating members of a sales team.

Q4. Fill in the blanks

a. The role of a sales manager is to monitor and evaluate the <u>performance</u> of its sales team on an ongoing basis.
b. <u>Account targeting</u> strategy helps a sales person to identify and categorize the types of clients/ accounts in to categories based on their needs and characteristics.
c. The major elements of sales strategy are, account targeting strategy, relationship strategy, selling strategy, and <u>sales channel strategy</u>.
d. <u>SMBO</u> is an approach used to formulate and achieve sales objectives of an organization.

<u>Check Your Progress –B</u>

Q1. Explain the categories of target market to be considered while determining market potential.

Ans. There are various categories of target markets for which market potential is determined. These are:

Households or personal consumers: Those consumers who purchase for their personal consumption purpose.

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Intermediaries: The wholesalers and retailers who purchase and resale or rent these goods and services.

Government: The local, state and central government agencies who procure goods and services to perform government functions.

Q2. What is sales potential and how do we determine it?

Ans. This represent the maximum market share that a company or a brand could possibly occupy in a specific time period. For example, Parle's Frooti maximum market share in the Indian tetra pack juice market for the financial year 2017-18.

The process of analyzing sales potential of an organization consists of three steps:

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Sales Potential Calculation

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4. **Number of Units expected to sell per customer during the year (U)**
5. **Average Price per unit (P)**

Sales Potential = M x T x C x U x P

Q3. Write short notes on:

a. **Buying Power Index (BPI):** It make use of weighted combination of population of an area, income and retail sales in that area which is calculated in terms of a percentage of total national buying power in that area. The use of weights is done to exhibit the relative importance of each of these three factors.

b. **Industrial Demand:** Industrial demand refers to the total demand existing for a given industry in a particular area at for a specific time frame. To estimate industrial demand, we can use either of the two systems i.e. standard industrial classification (SIC), a uniform numbering system for categorizing nearly all industries according to the type of economic activity; and the other approach is survey of buyer intentions.

c. **Survey of Buyer's Intention:** A most widely used approach in Indian market to estimate industrial demand is to conduct surveys of buyer's buying intention. These surveys can be conducted by the marketing research department of an organization, or by its sales team or with the help of an outside research agency. These surveys are conducted with the help of questionnaires which are mailed to prospective buyers to determine what they intend to buy over a given period of time.

Q4. True or False

a. Buying Power Index (BPI) make use of an average combination of population of an area, income and retail sales in that area which is calculated in terms of a percentage of total national buying power in that area. **False**

b. The estimate for sales potential indicates how much a company could sell if it had all the necessary resources and desired to use them. **True**

c. It is not important to understand present customers and their buying characteristics such as place of purchase, payment mode, purchase frequency, usage rate, quantity of purchase etc. while determining market potential. **False**

d. Standard industrial classification (SIC) is a uniform numbering system for categorizing nearly all industries according to the type of marketing activity. **False**

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3.12 TERMINAL QUESTIONS

Q1. Discuss the sales management process in detail.

Q2. Explain Sales management by objectives and its process.

Q3. Determine the sales goals and objectives for a two-wheeler company operating in global market.

Q4. What are the benefits of using goals and objectives for a sales department?

Q5. Distinguish between market potential and sales potential.

Q6. How is industry demand different to consumer demand?

Q7. Try to think some of the industries which make inadequate estimates of market potentials for their products and services. What are the possible reasons for wrong estimates of market potential?

UNIT- 4 SALES FORECASTING

4.1 INTRODUCTION

In the dynamic world of business, achieving consistent growth and profitability requires a blend of strategic planning and informed decision-making. Sales forecasting, sales budgeting, and selling strategies serve as the cornerstone of this approach, helping businesses anticipate market demands, allocate resources, and drive revenue.

Sales forecasting involves predicting future sales performance by analyzing historical data, market trends, and influencing factors. It empowers businesses to make proactive decisions, optimize operations, and prepare for market fluctuations. Accurate forecasting lays the foundation for efficient inventory management, resource allocation, and financial planning.

Complementing forecasting, sales budgeting provides a financial roadmap that outlines projected revenue and allocates resources effectively. By setting measurable targets, controlling costs, and aligning operations with sales goals, businesses can streamline their financial activities, improve cash flow management, and ensure long-term sustainability.

Finally, selling strategies play a crucial role in translating plans into action by driving customer acquisition, retention, and revenue growth. These strategies involve understanding customer needs, leveraging marketing channels, and refining sales processes to gain a competitive edge. Together, sales forecasting, budgeting, and selling strategies form an integrated framework that enables businesses to adapt, compete, and thrive in today's evolving marketplace.

4.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the meaning of Sales Forecasting, Sales Budgeting and Selling strategies.
- Explain the objectives of Sales Forecasting, Sales Budgeting and Selling strategies.
- Prepare for Risk Management.
- Learn about Selling Strategies.

4.3 MEANING OF SALES FORECASTING

Sales forecasting is a crucial aspect of business planning that involves predicting future sales performance based on historical data, market analysis, and various influencing factors. By analyzing trends, customer behavior, and economic conditions, businesses can estimate future sales volumes and revenue, helping them make informed decisions about inventory, staffing, and marketing strategies. Accurate sales forecasts enable companies to align their resources efficiently, optimize their operations, and achieve strategic goals. Effective forecasting not only aids in budgeting but also enhances the ability to respond proactively to market changes and opportunities.

4.4 OBJECTIVES OF SALES FORECASTING

Sales forecasting is a crucial business function that helps organizations predict future sales and make informed decisions. It involves estimating the amount of products or services that a company expects to sell in a given period. Accurate sales forecasting can significantly impact various aspects of a business, including budgeting, inventory management, and overall strategy. The following are key objectives of sales forecasting:

1. Resource Allocation

One of the primary objectives of sales forecasting is to ensure optimal allocation of resources. Accurate sales forecasts enable businesses to allocate financial, human, and operational resources effectively. For instance, if a company anticipates higher sales in a particular region or season, it can allocate more inventory, hire additional staff, or increase marketing efforts in that area. This helps prevent both overinvestment in low-demand areas and underinvestment in high-demand ones.

2. Inventory Management

Effective sales forecasting allows businesses to maintain an appropriate inventory level. By predicting future demand, companies can avoid excess inventory, which leads to higher holding costs and potential wastage. On the other hand, it also helps prevent stockouts that can lead to lost sales and customer dissatisfaction. Proper inventory management ensures a smooth flow of goods, improves cash flow, and enhances the overall operational efficiency of the company.

3. Budgeting and Financial Planning

Sales forecasting plays a crucial role in the financial planning of an organization. By predicting future sales, businesses can develop more accurate budgets. This includes estimating future revenues, profits, and costs associated with production, marketing, and other business operations. Sales forecasting helps management make informed decisions about capital investments, debt management, and cash flow requirements. A well-prepared financial plan ensures that the company can meet its financial obligations and pursue growth opportunities.

4. Marketing and Sales Strategy

Sales forecasting is essential for developing marketing and sales strategies. Understanding future sales trends enables businesses to align their marketing efforts with expected demand. For example, during periods of high demand, a company may increase its advertising budget to capture more market share. Conversely, in times of expected low demand, a business might focus on targeted promotions or discounts to stimulate sales. A data-driven sales strategy ensures that marketing efforts are aligned with business objectives and market conditions.

5. Customer Demand Analysis

Sales forecasting allows businesses to analyze and understand customer demand patterns. By studying historical sales data and market trends, companies can identify factors that influence customer behavior, such as seasonality, economic conditions, and competitor actions. This insight helps businesses to adjust their offerings and pricing strategies accordingly. Understanding customer demand helps improve customer satisfaction by ensuring that the right products are available at the right time and at the right price.

6. Risk Management

Sales forecasting aids in risk management by identifying potential challenges and opportunities in the market. An accurate forecast helps businesses anticipate changes in demand and adjust their operations to mitigate risks. For example, if a sales forecast indicates a potential drop in demand, companies can take preemptive actions such as cost-cutting, adjusting pricing, or introducing new products to stay competitive. Forecasting helps in maintaining business stability and prepares the organization for both market growth and downturns.

7. Long-term Strategic Planning

Long-term sales forecasting is vital for strategic business planning. It helps organizations set realistic long-term goals based on projected market trends and demand. This includes expanding into new markets, launching new products, or entering strategic partnerships. Forecasting allows businesses to envision future growth scenarios, make long-term investments, and create contingency plans for potential market fluctuations.

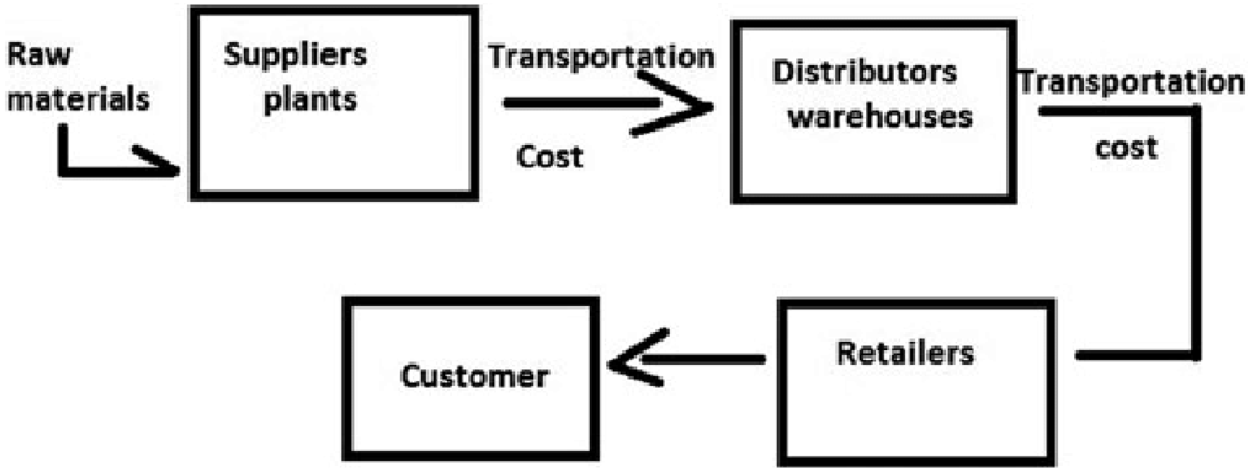
4.5 CONCEPT OF INVENTORY MANAGEMENT

Inventory management is a vital component of supply chain management that focuses on maintaining the optimal level of inventory to meet customer demands while minimizing costs. It involves tracking the quantities of products on hand, managing their movement through the supply chain, and making decisions about restocking. By ensuring that inventory levels are neither too high nor too low, businesses can improve their operational efficiency, avoid disruptions, and enhance customer satisfaction. Accurate inventory management supports seamless operations and helps businesses adapt to changes in market demand or supply conditions.

The process of inventory management typically includes several key activities: monitoring stock levels, ordering new inventory, and managing the storage of goods. Businesses use various methods and technologies, such as inventory tracking software and bar-coding systems, to keep accurate records of their inventory. These tools help in assessing current stock levels, predicting future needs, and planning purchases accordingly. By leveraging data analytics, companies can optimize their inventory turnover rates and avoid the pitfalls of overstocking or stock outs, both of which can impact profitability.

Effective inventory management also involves strategic planning and forecasting to align inventory levels with projected demand. Businesses often use historical sales data, market trends, and seasonal variations to anticipate future inventory needs. This proactive approach allows companies to make informed decisions about purchasing and managing inventory, ensuring they have the right products available when customers need them. Additionally, it helps in negotiating better terms with suppliers and reducing carrying costs, which can have a significant impact on the bottom line.

Finally, inventory management plays a crucial role in financial performance and customer satisfaction. By minimizing excess inventory, businesses can reduce holding costs, such as storage fees and insurance, and free up capital for other uses. Conversely, effective management helps prevent stock outs, ensuring that customers can find and purchase the products they want without delays. This balance between supply and demand is essential for maintaining a competitive edge in the market and achieving long-term business success.



- ## Budgeting and Financial Planning

Budgets and financial planning are fundamental components of managing a business's finances.

Budgets are essential financial tools that provide a detailed plan for managing a company's finances over a specified period, typically a fiscal year. They involve projecting future revenues and expenses, which helps set financial targets and guide spending decisions. By creating a budget, organizations can allocate resources effectively across various departments or projects, ensuring that expenditures are aligned with strategic priorities. Budgets play a crucial role in controlling costs and managing cash flow, making it possible for businesses to operate within their financial means and avoid overspending.

The process of budgeting involves several key steps, including estimating income, forecasting expenditures, and setting financial goals. Organizations often use historical data, market trends, and anticipated changes in operations to develop accurate and realistic budgets. Regularly monitoring and comparing actual financial performance against the budgeted figures allows companies to identify variances and make necessary adjustments. This ongoing evaluation helps in maintaining financial discipline and making informed decisions to stay on track with the set financial objectives.

Financial planning, on the other hand, takes a broader perspective and involves the development of long-term strategies to achieve overall business goals. It starts with assessing the current financial situation, including assets, liabilities, cash flow, and profitability. From this assessment, businesses project future financial scenarios based on various assumptions and potential market conditions. Financial planning encompasses setting long-term objectives such as expansion, capital investments, or managing debt, and devising strategies to meet these goals.

Effective financial planning requires a thorough analysis of potential investment opportunities and an understanding of market trends. It involves forecasting future financial needs, evaluating risks, and creating strategies to mitigate those risks. By planning for different financial scenarios, businesses can better prepare for economic fluctuations, optimize their investment decisions, and ensure long-term stability. This proactive approach helps in aligning financial practices with the organization's strategic vision and objectives.

The integration of budgeting and financial planning provides a comprehensive framework for managing a company's finances. While budgets focus on short-term financial management and operational control, financial planning addresses long-term goals and strategic direction. Together, they enable businesses to manage day-to-day operations effectively while also preparing for future growth and challenges. This balanced approach ensures that financial resources are used efficiently and supports sustainable development.

Regular reviews and updates to both budgets and financial plans are crucial for adapting to changing market conditions and maintaining financial health. By continuously assessing and adjusting their financial strategies, organizations can navigate uncertainties, optimize performance, and achieve their long-term goals. Effective budgeting and financial planning are key to maintaining control over finances, ensuring that both immediate needs and future objectives are met with foresight and strategic alignment.

- ## Resource allocation

Resource allocation in sales forecasting is the strategic process of distributing a company's resources—such as budget, personnel, inventory, and operational capabilities—based on anticipated sales performance. This ensures that resources are allocated efficiently to support projected sales targets and overall business objectives. Accurate sales forecasts provide a foundation for these decisions, allowing businesses to align their resource distribution with expected demand and market conditions.

Understanding demand is the first step in effective resource allocation. By analyzing sales forecasts, companies can predict which products or regions will experience higher demand. This insight allows for targeted allocation of resources, such as directing more inventory and marketing efforts to high-demand areas. For example, if a forecast indicates a surge in demand for a specific product, businesses can increase production and stock levels for that item, ensuring that supply meets anticipated customer needs and minimizing the risk of lost sales.

Budgeting and staffing are crucial components influenced by sales forecasts. With accurate projections, businesses can allocate budgets for various activities such as advertising, promotions, and operational costs. Higher sales forecasts might justify increased spending on marketing campaigns to capitalize on the growth opportunity or hiring additional staff to handle the anticipated increase in sales. Conversely, lower forecasts may lead to cost-cutting measures and a reallocation of resources to more critical areas, such as customer service or product improvement.

Operational efficiency is enhanced when resources are allocated according to sales forecasts. Businesses can adjust their production schedules, supply chain processes, and operational capacities based on anticipated sales volumes. For instance, if forecasts predict a high volume of orders, companies can scale up production and streamline supply chain logistics to ensure timely fulfillment. Strategic allocation of resources also supports long-term growth by prioritizing investments in areas that will drive future success, such as expanding into new markets or developing new product lines.

In summary, effective resource allocation guided by sales forecasting ensures that a business's resources are utilized optimally to support anticipated sales and strategic goals. By aligning resource distribution with projected demand, companies can improve operational efficiency, manage costs, and enhance their ability to capitalize on growth opportunities, ultimately contributing to sustained profitability and business success.

- ## Sales strategy development

Sales strategy development involves creating a structured plan to achieve specific sales goals and drive revenue growth. It encompasses analyzing market opportunities, understanding customer needs, and determining the best approach to reach target customers effectively. This strategic process ensures that sales efforts are aligned with overall business objectives and are designed to maximize sales performance.

Customer Understanding is another critical component. Developing a sales strategy requires a deep understanding of customer needs, behaviors, and purchasing motivations. This involves segmenting customers based on various criteria such as demographics, buying habits, and preferences. By gaining insights into what drives customer decisions, businesses can craft personalized sales approaches and messaging that resonate with different customer groups.

Sales Tactics and Channels are then determined based on the insights gathered. This includes choosing the most effective sales tactics—such as direct sales, digital marketing, or partnerships—and selecting the appropriate sales channels to reach target customers. The strategy may involve setting pricing strategies, developing promotional offers, and defining sales processes that optimize lead generation and conversion rates.

Performance Measurement is integral to refining and improving the sales strategy. Establishing key performance indicators (KPIs) and regularly monitoring sales performance against these metrics allows businesses to assess the effectiveness of their strategy. Performance measurement helps identify what works well and what needs adjustment, enabling continuous improvement and adaptation to changing market conditions or customer preferences.

Implementation and Training ensure that the sales strategy is executed effectively. This involves aligning the sales team with the strategic goals, providing necessary training, and equipping them with the tools and resources needed to execute the strategy. Clear communication of the strategy and ongoing support are crucial for ensuring that the sales team is motivated and capable of achieving the set objectives.

In summary, sales strategy development is a comprehensive process that involves market analysis, understanding customer needs, selecting appropriate sales tactics, and continuously measuring performance. By systematically developing and implementing a well-defined sales strategy, businesses can enhance their sales effectiveness, better meet customer needs, and drive sustainable revenue growth.

• Performance tracking

Performance tracking in sales forecasting involves monitoring and evaluating the actual sales results against the forecasted figures to assess the accuracy and effectiveness of sales predictions. This process is crucial for understanding how well the sales forecast aligns with real-world outcomes and for making necessary adjustments to strategies and operations.

Establishing Key Performance Indicators (KPIs) is the first step in performance tracking. KPIs are metrics used to evaluate the success of sales efforts relative to forecasted goals. Common KPIs include sales revenue, sales growth, conversion rates, average deal size, and customer acquisition costs. By setting clear and relevant KPIs, businesses can effectively measure their performance and identify areas that require attention.

Regular Monitoring and Comparison involve continuously tracking actual sales data and comparing it against the forecasted figures. This requires accurate and timely data collection from sales reports, CRM systems, and other relevant sources. Regularly reviewing these comparisons helps in identifying variances—whether positive or negative—and understanding their causes. For example, if actual sales exceed forecasts, it may indicate stronger market demand or successful sales strategies. Conversely, if sales fall short, it may highlight issues such as market changes, ineffective tactics, or operational challenges.

Analyzing Variances is a critical part of performance tracking. Variance analysis involves investigating the differences between forecasted and actual sales to understand their underlying reasons. This analysis helps in identifying trends, assessing the impact of external factors, and evaluating the performance of different sales channels or strategies. By understanding why discrepancies occur, businesses can adjust their forecasts and refine their sales strategies to better align with market realities.

Adjusting Sales Strategies based on performance tracking insights is essential for maintaining accuracy and effectiveness. If performance tracking reveals consistent deviations from forecasts, businesses need to revisit their forecasting methods and sales strategies. This may involve recalibrating sales models, adjusting resource allocation, or modifying sales tactics to better meet changing market conditions and customer needs.

Reporting and Communication ensure that insights from performance tracking are effectively shared with relevant stakeholders. Regular reports and meetings help keep the sales team, management, and other departments informed about performance trends and necessary adjustments. Clear communication fosters a collaborative approach to addressing performance issues and implementing improvements.

In summary, performance tracking in sales forecasting involves setting KPIs, monitoring actual sales against forecasts, analyzing variances, and adjusting strategies as needed. This process ensures that sales forecasts remain accurate and relevant, helping businesses to optimize their sales efforts, respond to market changes, and achieve their revenue goals.

- ## Market Analysis

Market analysis in sales forecasting is a critical process that involves examining various aspects of the market to make informed predictions about future sales performance. It provides the foundation for understanding market dynamics, customer behavior, and competitive positioning, all of which are essential for creating accurate and actionable sales forecasts.

Understanding Market Trends is the first step in market analysis. This involves identifying and analyzing trends that could impact sales, such as shifts in consumer preferences, technological advancements, or economic conditions. By staying updated on these trends, businesses can anticipate changes in demand and adjust their sales forecasts accordingly. For example, a rise in eco-conscious consumer behavior might lead a company to forecast higher sales for environmentally friendly products.

Assessing Competitive Landscape is another crucial aspect. This involves analyzing competitors' strengths, weaknesses, market share, and strategies. Understanding how competitors position themselves and their performance can help in identifying potential market opportunities or threats. If competitors are expanding into new regions or launching new products, businesses might need to adjust their forecasts to account for increased competition or changing market dynamics.

Evaluating Customer Segments provides insights into different groups of customers and their purchasing behaviors. By segmenting customers based on demographics, purchasing habits, and preferences, businesses can tailor their forecasts to reflect the specific needs and buying patterns of each segment. For instance, if a particular customer segment is expected to grow significantly, businesses can adjust their forecasts to reflect this potential increase in sales.

Analyzing Economic and Environmental Factors is also important in market analysis. Economic indicators such as unemployment rates, interest rates, and inflation can affect consumer spending and purchasing power. Additionally, environmental factors like regulatory changes or geopolitical events can impact market conditions. Incorporating these factors into sales forecasts helps businesses prepare for potential fluctuations and uncertainties in the market.

Utilizing Market Research and data sources enhances the accuracy of market analysis. Market research includes surveys, focus groups, and industry reports that provide valuable insights into market conditions and customer preferences. Combining these research findings with historical sales data helps in creating more precise forecasts. Advanced analytics tools and software can also aid in analyzing large datasets and identifying patterns that inform sales predictions.

In summary, market analysis in sales forecasting involves understanding market trends, assessing the competitive landscape, evaluating customer segments, analyzing economic and environmental factors, and utilizing market research. By conducting thorough market analysis, businesses can make informed forecasts, anticipate changes in demand, and develop strategies to effectively navigate the market and achieve their sales objectives

Check Your Progress-A

1. What is the primary purpose of sales forecasting?
   a. To determine product quality
   b. To estimate future sales revenue
   c. To assess employee performance
   d. To set marketing budgets
2. Which of the following is a qualitative method of sales forecasting?
   a. Time series analysis
   b. Market research
   c. Moving averages
   d. Regression analysis
3. The time series method of sales forecasting is based on which of the following?
   a. Expert opinions
   b. Historical sales data
   c. Customer surveys
   d. Competitor performance
4. Which method of sales forecasting uses mathematical models to predict future sales?
   a. Jury of executive opinion
   b. Econometric models
   c. Delphi method
   d. Sales force estimation
5. Which sales forecasting method relies on the input of experienced sales personnel?
   a. Market analysis method
   b. Sales force estimation method
   c. Econometric modeling
   d. Bottom-up approach
6. What is one disadvantage of using historical sales data for forecasting?
   a. It's difficult to obtain historical data
   b. It doesn't account for future market changes
   c. It requires too much time to analyze
   d. It's too expensive
7. Which of the following best describes the "Delphi Method" of sales forecasting?

   a. Using statistical models to predict sales
   b. Combining expert opinions in rounds to reach a consensus
   c. Analyzing past sales data to predict future trends
   d. Using customer surveys to estimate demand
8. Which of these methods is most suitable for a new product with no historical sales data?
   a. Time series analysis
   b. Jury of executive opinion
   c. Historical method
   d. Moving averages
9. A significant advantage of using regression analysis in sales forecasting is:
   a. It is quick and inexpensive
   b. It provides a detailed understanding of sales drivers
   c. It relies on simple averages
   d. It uses qualitative data only
10. The sales force estimation method assumes that:
    a. Market trends are always stable
    b. Salespeople have the best knowledge of potential sales
    c. All customers will make purchases
    d. Sales trends can be predicted using econometric models

4.6 METHODS OF SALES FORECASTING

Sales forecasting methods can be categorized into qualitative and quantitative approaches, each with various techniques. Here's a brief overview of the most common methods:

Quantitative Methods

- **Historical Sales Data**
  1. **Trend Analysis:** Examines historical sales data to identify patterns or trends over time. Uses past data to predict future sales, often applying statistical methods to determine growth rates or seasonality.
  2. **Moving Averages:** Smoothes out short-term fluctuations and highlights longer-term trends. For instance, a 3-month moving average averages the sales of the past three months to forecast the next month.
- **Exponential Smoothing**

A statistical technique that weights recent sales data more heavily than older data. It adjusts forecasts based on recent trends and seasonal patterns. Variations include Simple Exponential Smoothing and Holt-Winters Exponential Smoothing.

- **Regression Analysis**

Uses statistical methods to understand the relationship between sales and one or more independent variables (e.g., advertising spend, economic indicators). Linear regression, multiple regression, and logistic regression are common types.

- **Time Series Analysis**

Involves analyzing sales data points collected or recorded at specific time intervals. Techniques include autoregressive integrated moving average (ARIMA) models, which account for trends, seasonality, and noise in data.

- **Sales Force Composite**

Involves collecting forecasts from individual sales representatives or teams. Their insights, based on direct customer interactions and market knowledge, are aggregated to form a comprehensive forecast.

Qualitative Methods

- **Market Research**
  1. **Surveys and Questionnaires:** Collects data from customers, industry experts, or market analysts to gauge future buying behavior, preferences, and trends.
  2. **Focus Groups:** Engages small groups of customers or experts in discussions to provide insights into market conditions and potential sales.
- **Delphi Method**

A structured communication technique where a panel of experts provides forecasts or opinions in multiple rounds. Feedback is aggregated and shared with the panel after each round, refining predictions through consensus.

- **Expert Judgment**

Relies on the experience and intuition of industry experts or senior management to make forecasts. Useful when quantitative data is limited or when entering new markets.

- **Sales Pipeline Analysis**

Evaluates the current status of sales opportunities in the pipeline. Forecasts are based on the likelihood of closing deals, the value of potential sales, and the stage of each opportunity.

- **Scenario Planning**

Involves creating multiple scenarios based on different assumptions about future conditions (e.g., economic downturns, new product launches) and estimating how each scenario could impact sales.

Hybrid Methods

- **Causal Models**
  1. Combine both qualitative and quantitative data to understand relationships between sales and influencing factors. For example, integrating market research findings with historical sales data.
- **Machine Learning and AI**
  1. Uses advanced algorithms and models to analyze large datasets, identify patterns, and generate forecasts. Machine learning techniques can improve accuracy by learning from historical data and adapting to new information.

Each method has its strengths and limitations, and the choice of method often depends on the availability of data, the industry, and the specific forecasting needs of the business. Combining different methods can also enhance forecast accuracy and reliability.

4.7 MEANING OF SALES BUDGETING

A sales budget is a crucial financial plan that outlines a company's projected sales revenue over a specific period, typically a fiscal year. It serves as a roadmap for sales teams and management, providing clear targets and benchmarks to guide business strategies and decision-making. By estimating the number of units expected to be sold and their associated revenues, the sales budget helps in aligning production, inventory, and marketing efforts with anticipated demand. This forward-looking approach enables companies to allocate resources efficiently, manage cash flow, and identify potential areas for growth or adjustment.

Additionally, a sales budget plays a vital role in performance evaluation and strategic planning. It establishes financial goals that can be measured against actual sales performance, allowing businesses to assess their effectiveness in reaching targets and adjusting strategies as needed. Regular comparisons between budgeted and actual sales figures provide insights into market trends, customer preferences, and potential challenges. This ongoing analysis supports informed decision-making and helps organizations stay agile in a dynamic market environment, ultimately driving long-term success and profitability

4.8 OBJECTIVES OF SALES BUDGETING

Sales budgeting is a crucial financial management tool that allows businesses to plan, monitor, and control their sales-related expenses and revenue. A sales budget outlines expected sales volumes, revenue, and the costs associated with achieving these sales over a specific period, usually a fiscal year or quarter. By setting a clear financial framework, sales budgeting helps align business strategies with market realities. The following are the key objectives of sales budgeting:

1. Revenue Forecasting

One of the primary objectives of sales budgeting is to forecast revenue for a given period. A sales budget helps estimate how much revenue the business expects to generate based on projected sales volumes and pricing strategies. This revenue forecast provides a financial target for the sales team and helps management plan for growth, expansion, or necessary adjustments. It also allows for proactive financial planning, ensuring that the company can meet its obligations and pursue future opportunities.

2. Cost Management and Control

Sales budgeting enables businesses to manage and control costs associated with generating sales. It helps to identify and allocate the financial resources required for sales-related activities such as marketing, advertising, distribution, and sales force management. By setting budget limits, businesses can prevent overspending on promotional efforts or sales initiatives that might not yield a proportionate return. Effective cost control through sales budgeting helps maintain profitability by balancing revenue and expenses.

3. Performance Measurement

Sales budgeting provides a benchmark for evaluating the performance of the sales team and the overall sales function. By comparing actual sales results with the budgeted figures, management can assess whether sales objectives are being met. Deviations from the budget can indicate the need for corrective actions, such as adjusting sales strategies, improving employee performance, or reallocating resources. Regular performance measurement through sales budgeting ensures that the company stays on track to achieve its financial goals.

4. Resource Allocation

Another key objective of sales budgeting is to ensure the efficient allocation of resources. By estimating the financial requirements for achieving sales targets, the budget helps management determine how much to invest in different areas of the sales process. This could include hiring additional sales personnel, increasing marketing spend, or expanding distribution channels. Proper resource allocation helps avoid underfunding critical sales activities or over-investing in areas that don't deliver sufficient returns.

5. Profit Planning

Sales budgeting is an integral part of profit planning. It not only forecasts revenue but also helps estimate the profit margins based on projected sales figures and associated costs. By understanding the relationship between revenue and expenses, businesses can plan for profitability. The sales budget provides a clear picture of how much sales volume is required to cover costs and generate desired profit levels. Profit planning ensures that the business remains financially healthy and can pursue long-term growth.

6. Strategic Decision-Making

A well-prepared sales budget plays a critical role in strategic decision-making. It provides management with insights into market conditions, sales trends, and competitive dynamics. Armed with this information, businesses can make informed decisions regarding product launches, pricing strategies, market expansion, or entering new customer segments. Sales budgeting also helps assess the feasibility of these decisions by determining their financial impact on the company's overall goals.

7. Risk Management

Sales budgeting helps businesses identify and manage potential risks associated with sales activities. By analyzing market trends and setting realistic sales targets, companies can anticipate market fluctuations, economic downturns, or competitive pressures. A sales budget that accounts for uncertainties provides a safety net, allowing management to adjust plans if sales don't meet expectations. Additionally, budgeting can help companies prepare for potential financial shortfalls and develop strategies to mitigate the impact of adverse market conditions.

8. Coordination and Communication

Sales budgeting fosters better coordination and communication between various departments within the organization. The sales budget is often developed in collaboration with marketing, finance, production, and other departments. This cross-functional coordination ensures that all aspects of the business are aligned with the sales targets and overall business objectives. It also helps ensure that all teams work together toward common goals, improving operational efficiency and reducing misunderstandings.

9. Sales Planning

Sales budgeting is closely tied to sales planning. It provides a clear framework for setting sales goals, timelines, and strategies. The budget helps define specific sales targets for different products, markets, or geographic regions. It also outlines the resources and efforts required to achieve these goals. Sales planning through budgeting ensures that the company's sales efforts are focused and that the necessary steps are taken to meet financial targets.

4.9 METHODS OF SALES BUDGET

Sales budgeting is a process that involves estimating future sales revenue and setting targets based on market conditions, historical sales data, and business strategies. There are several methods used to prepare a sales budget, each with its own approach to estimating future sales performance. The choice of method depends on the type of business, industry, and the accuracy needed for the budget. Below are some of the common methods used for sales budgeting:

1. Historical Method

The historical method is one of the simplest and most commonly used techniques in sales budgeting. This method involves using past sales data as a basis for estimating future sales. Businesses analyze trends from previous years or periods to predict future performance. This approach is particularly useful when there is a consistent growth pattern, and external factors are not expected to change significantly.

- **Advantages**:
    - Simple and easy to apply.
    - Based on actual historical performance, making it relatively accurate for stable businesses.
- **Disadvantages**:
    - May not account for changes in the market, such as new competitors or changing customer preferences.

- Ignores any potential external shocks like economic recessions or technological advancements.

2. Percentage of Sales Method

The percentage of sales method involves projecting future sales based on a fixed percentage increase or decrease in sales compared to the previous period. Businesses analyze historical sales growth rates and apply a percentage change to project sales for the next period. This method is often used in conjunction with financial statements to maintain consistency between sales growth and expenses.

- **Advantages**:
  - Easy to apply and understand.
  - Aligns sales forecasts with expected business growth.
- **Disadvantages**:
  - Assumes that future growth will follow past trends, which may not always be the case.
  - May not be accurate during periods of rapid market change.

3. Market Analysis Method

The market analysis method relies on detailed research and analysis of the market conditions, customer behavior, and industry trends to forecast future sales. This method involves studying competitor performance, industry reports, market surveys, and customer demand forecasts to create a sales budget. Businesses using this method focus on both internal performance and external factors that could affect sales.

- **Advantages**:
  - Provides a comprehensive view by incorporating both internal and external factors.
  - More accurate in dynamic industries where market trends and customer preferences change rapidly.
- **Disadvantages**:
  - Time-consuming and requires extensive market research.
  - The accuracy of the budget depends on the quality of market data.

4. Sales Force Estimation Method

This method involves gathering input directly from the sales team. Sales personnel are asked to estimate their future sales based on their knowledge of the market, customer behavior, and any upcoming deals or leads. Since salespeople are closest to the customers, they often have valuable insights that can make the forecast more accurate.

- **Advantages**:
    - Utilizes on-the-ground insights from sales teams who interact directly with customers.
    - Salespeople feel more accountable for achieving targets since they contributed to the estimation.
- **Disadvantages**:
    - Estimates may be overly optimistic or pessimistic depending on the sales team's confidence.
    - May lead to inconsistent estimates if not managed properly.

5. Trend Projection Method

The trend projection method uses statistical techniques to analyze historical sales data and project future trends. Businesses apply time series analysis, moving averages, or regression models to identify patterns and predict future sales. This method assumes that past sales performance can be a reliable indicator of future sales.

- **Advantages**:
    - Uses mathematical and statistical models to enhance accuracy.
    - Suitable for businesses with consistent historical data and predictable trends.
- **Disadvantages**:
    - Assumes that past patterns will continue into the future, which may not always hold true in changing markets.
    - Requires technical expertise to apply statistical models effectively.

6. Econometric Modeling

Econometric modeling is a more advanced method that uses economic theories and statistical techniques to estimate future sales. Businesses create models that include various factors such as pricing, consumer income, market demand, and economic indicators to forecast sales. Econometric models are often used by large corporations with access to significant amounts of data and advanced analytical capabilities.

- **Advantages**:
    - Highly detailed and can incorporate a wide range of variables.
    - More accurate in complex markets where multiple factors influence sales.

- **Disadvantages**:
    - Requires advanced knowledge of econometrics and statistical analysis.
    - Time-consuming and resource-intensive.

7. Bottom-Up Approach

In the bottom-up approach, the sales budget is created by estimating sales at a granular level, such as individual products or regions, and then aggregating these estimates to form the total budget. Each sales unit or department provides input on expected sales, and these figures are combined to create an overall sales forecast.

- **Advantages**:
    - Involves detailed estimates from different departments or regions.
    - Provides a more precise and realistic forecast, as estimates are made at the operational level.
- **Disadvantages**:
    - Time-consuming, especially for large organizations with many sales units.
    - May result in inconsistencies if not all units follow the same forecasting approach.

8. Top-Down Approach

The top-down approach involves setting an overall sales target at the organizational level, which is then broken down into smaller units such as product lines, departments, or regions. Senior management determines the total sales budget, and it is divided among various units to achieve the overall goal.

- **Advantages**:
    - Ensures that the sales budget aligns with the company’s strategic goals.
    - Provides a clear overall target for all departments.
- **Disadvantages**:
    - May not consider the specific market conditions or challenges faced by individual units.
    - Can lead to unrealistic targets if the top-down estimates are not well-informed.

4.10 METHODS OF SELLING STRATEGIES

Selling strategies are critical for businesses to successfully promote and sell their products or services. The right selling approach depends on the nature of the business, the target market, and the complexity of the product or service. Different methods of selling strategies can help businesses reach their sales goals, engage customers, and maintain a competitive edge. Below are the most common methods of selling strategies:

1. Transactional Selling

Transactional selling focuses on closing a sale quickly and efficiently, often in one-off customer interactions. The objective is to sell a product or service with minimal effort toward building a long-term relationship. This method is suitable for businesses offering simple, low-cost products that do not require much personalization or consultation.

- **Advantages**:
  - Fast and efficient for simple, low-involvement purchases.
  - Effective in high-volume sales environments, such as retail or e-commerce.
- **Disadvantages**:
  - Limited focus on customer relationships and retention.
  - Not suitable for complex or high-value sales that require a consultative approach.

2. Consultative Selling

Consultative selling, also known as solution selling, emphasizes understanding the customer's needs and providing tailored solutions. Salespeople act as advisors, helping customers solve specific problems through the company's products or services. This strategy requires in-depth knowledge of both the product and the customer's challenges.

- **Advantages**:
  - Builds long-term relationships with customers.
  - Helps in selling complex, high-value products or services.
- **Disadvantages**:
  - Time-consuming and requires extensive customer engagement.
  - Relies on skilled salespeople who can effectively diagnose customer needs.

3. Relationship Selling

Relationship selling focuses on creating and nurturing long-term relationships with customers. The aim is not just to close a single deal but to build loyalty and trust that leads to repeat business. This method is common in industries like real estate, financial services, and high-end retail, where maintaining customer relationships is critical for sustained success.

- **Advantages**:
  - Increases customer loyalty and leads to repeat business.
  - Builds a strong brand reputation through positive customer relationships.
- **Disadvantages**:
  - Requires significant time and effort to maintain relationships.
  - May not lead to immediate sales, especially in the early stages.

4. Solution Selling

In solution selling, the salesperson identifies the customer's pain points and positions the product or service as the best solution to address these needs. This method involves a deep understanding of both the customer's challenges and the specific features of the product that can solve those challenges. Solution selling is ideal for businesses that offer complex, customizable products.

- **Advantages**:
  - Provides tailored solutions that meet specific customer needs.
  - Builds strong customer trust and satisfaction.
- **Disadvantages**:
  - Requires highly knowledgeable and consultative sales professionals.
  - Can be time-intensive due to the need for in-depth customer interactions.

5. Insight Selling

Insight selling is a strategy where the salesperson provides valuable insights and new perspectives to the customer that they may not have considered. Instead of simply responding to a customer's needs, the salesperson actively challenges the customer's assumptions and educates them on new ways to achieve their goals. This method is particularly effective in industries undergoing rapid change or where customers may lack expertise.

- **Advantages**:
  - Differentiates the salesperson by offering valuable knowledge.
  - Establishes the salesperson as a trusted advisor, leading to long-term partnerships.
- **Disadvantages**:

- Requires deep industry expertise and confidence in delivering insights.
- May be perceived as confrontational if not handled with care.

6. Social Selling

Social selling leverages social media platforms to build relationships with prospects, engage them in conversation, and ultimately drive sales. Salespeople use platforms like LinkedIn, Twitter, and Facebook to research prospects, share valuable content, and interact with potential customers. This strategy is particularly effective in B2B sales where building credibility and trust is crucial.

- **Advantages**:
  - Expands the reach of the sales process to online platforms.
  - Enables salespeople to build personal connections in a less formal setting.
- **Disadvantages**:
  - Requires consistent and active social media engagement.
  - Success may take time, as building online relationships can be a slower process.

7. Challenger Selling

Challenger selling focuses on teaching the customer something new about their business and challenging their existing assumptions. Salespeople act as educators and consultants, providing fresh perspectives that customers may not have considered. This strategy is particularly effective in highly competitive markets where customers are looking for new ways to differentiate themselves.

- **Advantages**:
  - Helps salespeople stand out by offering new, valuable insights.
  - Builds credibility and positions the salesperson as an expert.
- **Disadvantages**:
  - Requires a deep understanding of the customer's business and industry.
  - May be challenging to execute if the salesperson lacks confidence or expertise.

8. Value Selling

Value selling is a method that focuses on demonstrating the value of a product or service rather than its features or price. The salesperson emphasizes how the product will solve the customer's problems, improve efficiency, or deliver return on investment. Value selling is effective in B2B markets where customers are looking for clear business benefits.

- **Advantages**:
    - Shifts the focus from price to long-term value and ROI.
    - Helps justify higher-priced products by highlighting their benefits.
- **Disadvantages**:
    - Requires a clear understanding of the customer’s goals and challenges.
    - May be difficult to quantify the value for more intangible products or services.

9. Collaborative Selling

Collaborative selling involves working closely with the customer to co-create solutions that meet their needs. This strategy is common in industries where customization or partnership is essential, such as software development or manufacturing. The customer is actively involved in the sales process, and the focus is on building a strong partnership.

- **Advantages**:
    - Deepens customer engagement and creates long-term partnerships.
    - Tailors solutions to the customer’s specific requirements.
- **Disadvantages**:
    - Time-intensive and requires significant resources.
    - Success depends on the strength of the collaboration between the salesperson and the customer.

10. Direct Selling

Direct selling involves selling products or services directly to customers without the use of intermediaries like retailers or distributors. This method is often used in industries such as cosmetics, wellness, and household products, where salespeople interact directly with customers through personal meetings, home visits, or online platforms.

- **Advantages**:
    - Allows for personalized interactions and relationship-building with customers.
    - Eliminates intermediaries, increasing profit margins for the business.
- **Disadvantages**:
    - May require a large and motivated sales force.
    - Can be time-consuming, especially for salespeople who must travel or meet customers individually.

Check Your Progress- B

1. Which of the following methods uses external economic factors to predict sales?
    a. Moving averages
    b. Trend projection
    c. Econometric modeling
    d. Sales force estimation
2. A limitation of the moving average method is that it:
    a. Is too complex for most businesses
    b. Can only predict short-term sales trends
    c. Ignores sudden market changes
    d. Requires expert opinions
3. What type of sales forecasting method is "Jury of Executive Opinion"?
    a. Quantitative
    b. Qualitative
    c. Time-series based
    d. Regression analysis
4. Which of the following is NOT a quantitative forecasting method?
    a. Time series analysis
    b. Regression analysis
    c. Econometric modeling
    d. Delphi method
5. In trend projection, future sales are predicted by:
    a. Studying market competition
    b. Using surveys to estimate customer behavior
    c. Extending past sales trends into the future
    d. Relying on sales force input
6. Which of the following is a disadvantage of the bottom-up approach in sales forecasting?
    a. It often ignores market conditions
    b. It doesn't involve input from different departments
    c. It is time-consuming to collect data from various units
    d. It lacks accuracy for long-term forecasting
7. Which of the following forecasting methods relies heavily on current sales trends to predict future sales?
    a. Time series analysis
    b. Delphi method
    c. Jury of executive opinion
    d. Econometric modeling
8. Why is the top-down approach in sales forecasting often criticized?
    a. It is too complicated for small businesses
    b. It may not accurately reflect ground-level realities
    c. It requires too much data
    d. It doesn't involve upper management
9. Which of the following is a benefit of using market analysis for sales forecasting?
    a. It's the fastest method of forecasting
    b. It takes both internal and external factors into account
    c. It ignores competitor behavior

   d. It only uses internal data

10. Which of these is a key factor in the success of the sales force estimation method?
    a. Accuracy of past data
    b. Effective communication with sales teams
    c. Use of econometric models
    d. Reliance on statistical averages

4.11 SUMMARY

Sales forecasting is the process of estimating future sales revenue over a specific period. It plays a critical role in business planning, helping organizations allocate resources, manage cash flow, and set goals. Accurate sales forecasts enable companies to make informed decisions regarding production, staffing, marketing, and budgeting. There are two main types of forecasting methods: quantitative and qualitative. Quantitative methods rely on historical sales data and statistical models, while qualitative methods use expert judgment and market research. Each approach has its advantages and limitations, and businesses often use a combination of methods to improve accuracy. Factors such as market conditions, economic trends, and competitor activities must be considered when developing sales forecasts.

4.12 GLOSSARY

1. Time Series Analysis: A quantitative forecasting method that uses historical data to predict future sales by identifying trends, seasonal patterns, and cycles over time.
2. Delphi Method: A qualitative forecasting technique where experts provide estimates in multiple rounds, and their opinions are refined through feedback until a consensus is reached.
3. Econometric Model: A statistical model that forecasts sales by considering various economic indicators, such as inflation, unemployment rates, and consumer spending.
4. Regression Analysis: A statistical method used to predict sales based on the relationship between dependent and independent variables, such as advertising spend or market size.
5. Sales Force Estimation: A qualitative method where the sales team provides input on expected sales based on their interactions with customers and market knowledge.

4.13 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

1. B
2. B
3. B
4. B
5. B
6. B

7. B
8. B
9. B
10. B

Check Your Progress –B

1. C
2. C
3. B
4. D
5. C
6. C
7. A
8. B
9. B
10. B

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4.16 TERMINAL QUESTIONS

1. Discuss the importance of sales forecasting in business planning and decision-making. How does accurate sales forecasting impact different departments within an organization, such as marketing, finance, and production?
2. Explain the various quantitative and qualitative methods used in sales forecasting. Compare and contrast at least two methods in detail, highlighting their advantages, disadvantages, and situations where each would be most appropriate.

3. How do external factors such as economic conditions, competitor activity, and technological advancements influence sales forecasts? Provide examples of how businesses can adjust their forecasting models to account for these variables.
4. What challenges do organizations face when trying to forecast sales for new products? Discuss the strategies and methods that can be used to predict sales for products that have no historical data.
5. Analyze the role of big data, artificial intelligence (AI), and machine learning in improving the accuracy of sales forecasting. How do these technologies enhance traditional forecasting methods, and what are their limitations?

UNIT- 5 SALES TERRITORIES AND SALES QUOTAS

5.1 INTRODUCTION

Sales territories and sales quotas are essential tools in the management of a successful sales force. Together, they help organizations strategically allocate resources, streamline sales operations, and ensure that sales teams are effectively targeting the right markets to achieve their goals. Sales territories, which divide a market into manageable segments, ensure that sales efforts are focused on specific geographic or customer-based areas. On the other hand, sales quotas set clear, measurable targets that guide and motivate salespeople to achieve desired performance outcomes.

The creation and management of sales territories and quotas require careful planning and analysis. Sales territories must be designed to reflect factors such as geography, customer demographics, market potential, and competition, while quotas need to be realistic, attainable, and aligned with both the capabilities of the sales team and the business's broader objectives. When done correctly, these strategies not only enhance the productivity of the sales force but also drive consistent revenue growth and customer satisfaction.

This chapter will explore the key concepts of sales territories and quotas, including how to design effective territories, set appropriate quotas, and manage performance. It will also address the critical relationship between the two, examining how aligning sales territories with quotas can optimize sales efforts and outcomes. By understanding these foundational elements, organizations can better manage their sales teams, ensure fair and balanced workloads, and ultimately, achieve sustainable success in a competitive marketplace.

5.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the meaning of Sales Forecasting, Sales Budgeting and Selling strategies.
- Explain the objectives of Sales Forecasting, Sales Budgeting and Selling strategies.
- Prepare for Risk Management.
- Learn about Selling Strategies.

5.3 SALES TERRITORIES AND SALES QUOTAS

Sales territories and sales quotas are fundamental pillars of effective sales management. They provide structure and direction for sales teams, helping businesses optimize their resources, streamline operations, and meet organizational goals. While sales territories help define the geographical or customer-based areas that each salesperson is responsible for, sales quotas set the performance targets for these teams. Together, these tools guide sales efforts, motivate employees, and facilitate the evaluation of performance. When implemented strategically, sales territories and quotas enhance efficiency, increase market share, and ultimately drive business growth.

This chapter will provide an in-depth exploration of **sales territories** and **sales quotas**, beginning with their definitions and importance in sales management. The chapter will then delve into the objectives behind their implementation, the methods used for designing sales territories and setting sales quotas, and the relationship between the two. Additionally, it will address the challenges businesses face when managing sales territories and quotas, the role of technology in optimizing these processes, and best practices for achieving sales success.

Definition of Sales Territories

A **sales territory** refers to a specific geographic area or a group of potential customers that a salesperson or sales team is responsible for. It is essentially a boundary that demarcates the market the salesperson should target. The assignment of sales territories ensures that each salesperson has a defined set of prospects and clients to focus on, which prevents overlap in efforts and ensures that all market segments are covered effectively.

Sales territories are not static and may be defined by a variety of factors, including geography, demographics, industry type, or customer segments. For example, a salesperson might be assigned a specific region (e.g., North America, Western Europe), a specific industry (e.g., healthcare), or a group of customers in a particular revenue bracket. The size of a territory can vary based on the organization's needs, the product or service being sold, and the market dynamics.

The design of sales territories plays a pivotal role in sales performance. A well-designed territory takes into account factors such as market potential, competition, geographical boundaries, and the characteristics of target customers. The goal is to ensure that each territory is balanced, offering sales representatives a fair opportunity to achieve success while minimizing wasted efforts or missed opportunities.

Factors Affecting the Design of Sales Territories

1. **Geographical Factors**: The geographic layout of a market often influences territory boundaries. In some cases, territories are divided by regions, states, or cities. Larger territories may be created based on geographic proximity to minimize travel time, while smaller territories are designed for greater market penetration and customer focus.
2. **Market Potential**: Different regions or customer segments have varying levels of market potential. Territories should be designed to align with areas that have the greatest opportunity for growth, ensuring sales efforts are concentrated where they are most likely to be successful.
3. **Customer Demographics**: Understanding the customer profile is essential when designing sales territories. Customer size, industry type, purchasing behavior, and other demographic characteristics play a crucial role in determining which areas or groups of customers should be assigned to specific salespeople.
4. **Competition**: The level of competition in a particular area can also influence territory design. If a certain region or customer segment is highly competitive, it may require a larger sales force or more specialized salespeople to capture market share.

Thus, sales territories must be designed to balance sales potential, market conditions, and salesperson capabilities. An effective sales territory system not only increases the efficiency of the sales force but also ensures that each salesperson has access to a manageable and profitable market.

Definition of Sales Quota

A **sales quota** is a specific, measurable target or goal set for a salesperson or sales team to achieve within a predetermined period (typically a month, quarter, or year). The sales quota provides a clear performance benchmark, motivating salespeople to strive toward the target and incentivizing them to work toward achieving it.

Sales quotas can be based on various metrics, including sales volume (e.g., number of units sold or total revenue), profit margins, new customer acquisition, or even a combination of factors. Quotas are generally used to assess the performance of individual salespeople, sales teams, or the entire sales force. The concept of quotas is essential because it provides a clear, tangible goal, guides decision-making, and aligns the efforts of the sales team with the organization’s overall business objectives.

Types of Sales Quotas

1. **Sales Volume Quotas**: These quotas are based on the total sales volume that a salesperson or team is expected to achieve, measured by revenue or units sold. This is the most common type of quota, especially in industries where sales performance is directly linked to sales figures.
2. **Profit-Based Quotas**: These quotas focus on the profit generated by sales, not just the volume. Profit-based quotas incentivize salespeople to sell higher-margin products or services, promoting both volume and profitability.
3. **Activity-Based Quotas**: Activity quotas focus on the number of sales-related activities, such as calls made, meetings scheduled, or proposals submitted. These quotas are useful for driving specific sales behaviors that lead to revenue generation.
4. **Combination Quotas**: A combination quota sets multiple goals, including both volume and activities, as well as profit metrics. This type of quota helps sales teams strike a balance between focusing on quantity and quality.

Sales quotas are critical for motivating salespeople, guiding their efforts, and evaluating their performance. They provide clear objectives, facilitate performance tracking, and help ensure that sales teams are focused on the right targets.

Setting Sales Quotas

Setting effective sales quotas requires a deep understanding of the market, the salesperson’s capabilities, and the broader business strategy. Quotas should be realistic, attainable, and aligned with the business’s overall sales objectives. Unrealistic quotas can lead to frustration and burnout, while overly lenient quotas can result in a lack of motivation and underperformance. Therefore, careful consideration must be given to factors such as historical performance data, market trends, and customer behavior when setting quotas.

There are several approaches to setting sales quotas:

1. **Top-Down Approach**: In this approach, quotas are set at the top level of the organization and are then distributed among the sales force. This method ensures alignment with overall business objectives but may not take into account individual salesperson performance or market conditions.
2. **Bottom-Up Approach**: This approach involves setting quotas by first evaluating the sales potential at the individual level. Salespeople or sales managers provide input regarding what they believe is achievable, based on their knowledge of the market and customers.

3. **Hybrid Approach**: A combination of the top-down and bottom-up approaches, the hybrid method incorporates input from both senior management and the sales force to arrive at a quota that is both achievable and aligned with organizational goals.

Importance of Sales Territories and Quotas in Sales Management

Sales territories and quotas are critical for several reasons in sales management. First, they provide a framework for **resource allocation**. By assigning territories based on factors like market potential and competition, businesses can ensure that sales efforts are focused on areas with the greatest growth potential, reducing wasted time and resources. Similarly, sales quotas direct sales efforts towards specific, measurable outcomes, aligning the team’s actions with business goals.

Second, sales territories and quotas are crucial for **performance measurement**. Quotas serve as a clear benchmark, enabling organizations to track sales performance and identify areas for improvement. With sales territories, managers can monitor performance across different regions or market segments and adjust strategies as needed to improve coverage and market penetration.

Additionally, these tools play a significant role in **motivation**. Salespeople are more likely to be motivated and productive when they know what is expected of them and are provided with a clear path to achieve success. A well-designed sales territory can also foster a sense of ownership and accountability, as salespeople are responsible for managing their own customer base or market area. Similarly, well-set quotas create a sense of purpose, guiding salespeople toward achieving tangible goals.

Moreover, sales territories and quotas are integral to achieving **fair and balanced workloads**. By dividing territories effectively, businesses can ensure that each salesperson has an equitable workload, preventing burnout and ensuring that all customers are adequately serviced. Setting appropriate quotas also ensures that no salesperson is overburdened or underutilized.

Finally, these tools help drive **business growth** by optimizing sales strategies. Sales territories ensure that every market opportunity is targeted, and quotas ensure that salespeople remain focused on achieving results. When combined, they help businesses maximize their revenue potential, capture more market share, and stay competitive.

Objectives of Sales Territories and Quotas

The primary objectives of sales territories and quotas include:

1. **Maximizing Sales Efficiency**: By defining clear territories, businesses ensure that sales efforts are focused and coordinated, reducing overlap and waste. Quotas help prioritize sales activities, ensuring that sales teams focus on the most important opportunities.

2. **Motivating Sales Teams**: Clear quotas provide goals for salespeople to work toward, boosting morale and driving performance. Territories give salespeople a sense of

ownership over their customer base, encouraging them to take responsibility for achieving targets.

3. **Achieving Balanced Workloads**: Well-designed territories ensure that sales efforts are distributed evenly, preventing burnout and ensuring fair performance expectations. Quotas provide a framework for managing individual and team workloads effectively.
4. **Enhancing Customer Service**: Sales territories enable salespeople to focus on specific groups of customers, allowing them to build stronger relationships and provide more personalized service. Quotas ensure that salespeople remain focused on delivering results that meet customer needs.
5. **Driving Revenue Growth**: By aligning sales efforts with clearly defined targets, businesses can increase sales volume and profitability. Effective territory and quota management ensures that sales teams are working toward mutually reinforcing goals, driving business success.

Sales territories and sales quotas are foundational tools in sales management that help organizations optimize their sales strategies, improve team performance, and achieve business growth. By understanding how to design effective territories, set realistic quotas, and manage these processes strategically, businesses can ensure their sales teams are working efficiently and focused on the right goals. In an increasingly competitive and dynamic market, mastering the art of territory and quota management is essential for achieving sustained success.

5.4 SALES TERRITORIES

Concept of Sales Territories

A **sales territory** refers to a defined geographical area or customer segment assigned to a particular salesperson or sales team. These territories are structured in such a way that each salesperson or team can focus their efforts on a specific set of potential customers without competing with other salespeople for the same prospects. The objective of sales territories is to streamline the sales process by providing clear boundaries for sales efforts, ensuring optimal coverage and resource allocation.

Sales territories are integral to sales management, as they are designed to manage and optimize sales force productivity. By segmenting a market into manageable parts, sales territories prevent overburdening individual salespeople and avoid redundancies in customer outreach. Furthermore, they allow businesses to better assess regional or market segment performance, track growth opportunities, and allocate resources accordingly. A well-designed territory also helps in the strategic placement of sales personnel based on their strengths, expertise, and regional knowledge.

Sales territories can be defined by geographic locations, customer types, product lines, or a combination of these factors. The segmentation of the market into defined territories allows salespeople to focus on specific accounts, build stronger relationships, and offer personalized service to customers. This level of focus can drive efficiency, improve sales performance, and enhance customer satisfaction.

Criteria for Designing Sales Territories

Designing effective sales territories is crucial to optimizing sales performance, balancing workloads, and ensuring that salespeople can focus on areas with the highest potential. Several factors must be considered when creating sales territories. These include **geographical factors**, **market potential**, **customer demographics**, and **competition**. Each of these factors plays a critical role in shaping the boundaries of sales territories and ensuring that they are effective and efficient.

Geographical Factors

Geography is often the primary determinant when defining sales territories. A sales territory may be defined based on physical location, such as a specific region, district, or country. Geographical factors can include the size of the area, the ease of access to various parts of the region, and logistical considerations such as travel time, transportation costs, and customer distribution within the area.

Territories should be designed with the aim of reducing travel time and costs, which can impact a salesperson's efficiency. For example, territories should be large enough to ensure a reasonable customer base but not so large that salespeople spend the majority of their time traveling. Additionally, urban and rural areas may require different sales strategies, as urban areas may have higher concentrations of customers but may also present more competition.

Geographic factors also include the consideration of natural barriers like rivers or mountains, which may limit access to certain areas. In cases where such natural boundaries exist, sales territories may be adjusted to reflect these constraints.

Market Potential

Market potential is another important criterion in territory design. It refers to the total sales opportunity within a given area. When designing territories, sales managers must consider the revenue potential of each region, which is influenced by factors such as market size, the number of potential customers, and the purchasing power of those customers.

Understanding market potential helps ensure that territories are balanced and that salespeople are not assigned regions that are too small (with insufficient sales opportunities) or too large (which could overwhelm the salesperson). Territories with higher market potential may warrant more attention or additional resources, such as a larger sales team or more support, to maximize opportunities.

Sales managers typically evaluate market potential through data analysis, examining historical sales data, trends, and customer buying patterns. Identifying emerging markets and growth sectors is also crucial, as these may represent untapped opportunities that can be prioritized in territory design.

Customer Demographics

Customer demographics are critical when designing sales territories, as they directly impact the sales approach, customer targeting, and relationship-building strategies. Demographic factors include age, income level, industry, purchasing behavior, and buying frequency.

For example, territories that are rich in high-income customers may require a more consultative selling approach, whereas territories with a large number of small businesses may require a high-volume, low-touch sales model. Similarly, businesses operating in B2B markets may design territories around industries, with salespeople focusing on specific sectors such as healthcare, manufacturing, or technology.

Analyzing customer demographics within a territory can help sales managers identify customer needs, purchasing habits, and preferred communication channels, allowing sales teams to tailor their approach. In industries where personalization is key, understanding customer demographics can lead to more effective selling strategies and increased customer loyalty.

Competition

The level of competition within a given area is another key factor to consider when designing sales territories. Competitive dynamics can significantly impact the potential success of a salesperson in a given territory. If a region is saturated with competitors, salespeople may need to employ more aggressive sales tactics or differentiate their products and services to capture market share.

In highly competitive regions, sales managers may need to assign more experienced salespeople who can navigate complex competitive environments. Conversely, in areas with fewer competitors, salespeople may be able to achieve success more easily by simply capitalizing on existing market demand.

Territory design should take into account the competitive landscape, ensuring that salespeople are equipped with the resources, training, and strategies needed to thrive in competitive environments. Additionally, sales managers must continuously monitor the competitive landscape to ensure that territories are adjusted as market conditions evolve.

Methods for Territory Design

Several methods can be used to design sales territories. These methods aim to create balanced, efficient territories that maximize sales potential while minimizing inefficiencies. Two widely used methods for territory design are the **Equalized Workload Method** and the **Equalized Sales Potential Method**.

Equalized Workload Method

The **Equalized Workload Method** focuses on ensuring that the workload is distributed evenly among all salespeople. In this method, the goal is to assign sales territories based on the number of potential customers, the complexity of the sales process, and the amount of time required to manage each customer effectively.

This method requires an analysis of the workload in each region, including factors like customer size, frequency of sales calls, and customer service needs. Sales managers aim to create territories with similar levels of workload so that each salesperson has an equal opportunity to meet their sales goals.

While this method helps achieve fairness in workload distribution, it may not always reflect market potential. As a result, some territories may have greater revenue potential than others, even if the workload is equal. Therefore, this method is typically used in conjunction with other methods to ensure balance in both workload and sales opportunities.

Equalized Sales Potential Method

The **Equalized Sales Potential Method** focuses on distributing sales potential equally across territories. In this method, sales managers analyze the market potential of each region, considering factors such as the number of customers, market size, and revenue opportunities. The goal is to ensure that each salesperson is assigned a territory with roughly the same level of sales potential.

This method takes into account factors such as the number of leads in each region and the historical performance of each market segment. It aims to distribute sales opportunities so that each salesperson has an equitable chance of achieving their sales targets. While the Equalized Sales Potential Method helps ensure that territories have a similar revenue potential, it may not always result in an equal workload for salespeople.

Territory Allocation and Balancing

Once territories have been designed, the next step is to allocate them among the sales team. This process requires careful consideration of salesperson strengths, experience, and geographical familiarity. Territory allocation ensures that the right salesperson is assigned to the right region based on their skill set and market knowledge.

In larger organizations, territories may be allocated based on factors like product specialization or sales experience. For example, more experienced salespeople might be assigned to high-value or complex territories, while less experienced representatives handle smaller or less competitive regions.

Balancing sales territories is also crucial. Territory balancing ensures that each salesperson has a fair chance to succeed. This involves assessing factors like customer potential, territory size, and workload to ensure that no salesperson is overburdened or underutilized. Adjustments may be necessary over time as market conditions change or sales teams grow.

Managing Sales Territories

Managing sales territories involves monitoring performance, adjusting territories as needed, and providing ongoing support to salespeople. Sales managers must ensure that territories remain balanced and aligned with the overall sales strategy. Effective territory management involves regularly evaluating territory performance, identifying opportunities for expansion, and ensuring that salespeople have the resources they need to succeed.

Sales managers also need to maintain open communication with their teams to understand any challenges or issues related to territory management. Providing salespeople with regular feedback and coaching is essential for helping them navigate their territories effectively and achieve their quotas.

Challenges in Sales Territory Management

Sales territory management is not without its challenges. One of the primary challenges is ensuring that territories remain balanced as market conditions change. As new customers enter the market, existing customers shift their purchasing behavior, or competitors gain ground, territories may need to be adjusted to reflect these changes.

Another challenge is managing salesperson performance across territories. While some territories may have high sales potential, others may be underperforming due to factors like market saturation, customer preferences, or competition. Sales managers must be able to identify these issues and adjust strategies accordingly.

Finally, changes in organizational structure or sales team size can complicate territory management. As sales teams grow or reorganize, territories may need to be redefined to accommodate new salespeople or shifts in the product portfolio.

Benefits of Effective Territory Management

Effective territory management offers numerous benefits, including:

1. **Optimized Resource Allocation**: Properly managed territories ensure that resources are allocated efficiently, with salespeople focusing their efforts on the most lucrative opportunities.
2. **Improved Sales Performance**: By balancing workloads and aligning territories with market potential, salespeople are better equipped to meet their sales goals.
3. **Increased Customer Satisfaction**: Salespeople who focus on specific territories can build stronger relationships with customers, leading to higher levels of customer satisfaction and loyalty.
4. **Enhanced Productivity**: With clearly defined territories, salespeople can plan their routes and schedules more efficiently, increasing their productivity and effectiveness.
5. **Fair and Balanced Workloads**: Sales territories ensure that workloads are distributed evenly, preventing burnout and ensuring that no salesperson is overwhelmed.

5.5 SALES QUOTA

A **sales quota** is a set target or goal assigned to a salesperson, sales team, or sales division. It serves as a performance benchmark, helping organizations measure the effectiveness of their sales activities and motivate employees to reach certain revenue or performance goals. Sales quotas are essential in driving productivity, setting clear expectations, and ensuring that resources are used efficiently to meet organizational objectives. By establishing quotas, businesses can track progress, assess team performance, and align sales efforts with corporate goals.

Sales quotas are typically designed to challenge salespeople but should also be realistic and achievable. Well-set quotas can motivate individuals to perform at their best, driving both personal success and business growth. In this section, we will explore the different types of sales quotas, the importance of quotas in sales management, factors to consider when setting quotas, and methods of setting and monitoring quotas.

Types of Sales Quotas

Sales quotas come in several forms, each with distinct advantages and challenges. The four primary types of sales quotas are **sales volume quotas**, **profit-based quotas**, **activity-based quotas**, and **combination quotas**. Each type of quota is designed to align sales efforts with different strategic goals, such as increasing revenue, improving profitability, or enhancing specific sales behaviors.

Sales Volume Quotas

Sales volume quotas are the most common type of quota and are based on the total amount of sales a salesperson is expected to generate within a specified period. These quotas are typically expressed in terms of sales revenue or the number of units sold. For example, a salesperson may be tasked with generating Rs.500,000 in revenue or selling 1,000 units of a product by the end of the quarter.

Sales volume quotas are often straightforward and easy to track, making them a popular choice for businesses that want to motivate their sales teams to focus on top-line growth. However, sales volume quotas can sometimes encourage salespeople to focus solely on quantity, potentially neglecting factors like profitability or customer satisfaction.

Profit-Based Quotas

Profit-based quotas shift the focus from volume to profitability. In this case, salespeople are given a target related to the profit margin, rather than total sales revenue. For instance, a profit-based quota may set a goal for a salesperson to achieve a specific profit level, such as Rs.100,000 in profit from sales.

Profit-based quotas encourage salespeople to sell higher-margin products and adopt sales strategies that maximize profitability. This type of quota can also incentivize salespeople to negotiate better prices, upsell, and cross-sell products to boost the overall profit. However, profit-based quotas can be more difficult to measure and may require additional data on cost structures and product margins.

Activity-Based Quotas

Activity-based quotas focus on the specific activities and behaviors that lead to sales success. Rather than setting a goal based on revenue or profit, activity-based quotas require salespeople to meet targets related to sales-related activities, such as the number of calls made, meetings held, proposals sent, or leads generated.

Activity-based quotas are particularly useful when a business is trying to improve specific aspects of the sales process, such as lead generation, customer outreach, or relationship-building. They also work well in cases where the sales cycle is long, and focusing on intermediate steps is important. However, while activity-based quotas can drive desired behaviors, they may not directly correlate with sales outcomes and may require additional methods to track and evaluate their effectiveness.

Combination Quotas

Combination quotas integrate elements of sales volume, profit, and activity-based quotas into a single, comprehensive target. For example, a combination quota might set a goal for sales revenue along with specific targets for profitability and activity levels (e.g., 500 units sold, Rs.50,000 in profit, and 50 meetings with potential customers).

Combination quotas provide a more balanced approach to sales performance, ensuring that salespeople are not just focusing on one aspect of sales but rather a combination of factors that contribute to overall success. These quotas are ideal for companies that want to encourage balanced performance, but they can be complex to manage and require careful tracking of multiple metrics.

Importance of Sales Quotas

Sales quotas are critical tools for sales management and play several important roles in driving business success:

1. **Performance Measurement**: Quotas provide a clear benchmark for assessing the performance of salespeople. By setting targets, organizations can evaluate how well individual salespeople or teams are performing against predetermined goals, and identify areas where improvement is needed.

2. **Motivation and Incentivization**: Sales quotas are motivational tools that push salespeople to meet or exceed targets. They create a sense of urgency and competition, providing a clear path to incentives, such as bonuses, commissions, or other rewards. Quotas give salespeople a tangible goal to strive for, encouraging them to stay focused and committed to their sales efforts.

3. **Alignment with Organizational Goals**: Sales quotas help align individual sales activities with the broader goals of the organization. By setting quotas that reflect the company's overall objectives—whether those objectives are increasing revenue,

boosting profitability, or expanding market share—businesses can ensure that their sales teams are working toward common targets.

4. **Resource Allocation and Planning**: Sales quotas help organizations allocate resources effectively by providing data on expected sales outcomes. Quotas guide decisions on staffing levels, marketing expenditures, and inventory management, ensuring that the company is prepared to meet its sales targets and has the necessary resources in place.
5. **Improvement of Sales Processes**: By establishing quotas, sales managers can identify which processes are working and which need to be improved. For instance, if salespeople are consistently failing to meet their quotas, managers can analyze the underlying reasons—whether it's inadequate training, lack of leads, or inefficiencies in the sales process—and make the necessary adjustments.

Factors to Consider When Setting Sales Quotas

Setting effective sales quotas involves understanding both internal and external factors that can influence sales performance. Several considerations must be taken into account when setting quotas:

1. **Historical Sales Data**: Past sales performance is a key consideration when setting quotas. Analyzing historical sales data can provide valuable insights into achievable targets. Trends, seasonal fluctuations, and growth patterns can all inform realistic and challenging sales quotas.
2. **Market Conditions**: The state of the market—such as economic conditions, customer behavior, and competitive dynamics—can have a significant impact on sales. Quotas should be adjusted based on current market realities to ensure they remain achievable and relevant.
3. **Salesperson Capabilities**: Sales quotas should reflect the abilities and experience levels of the sales team. Quotas that are too high may demotivate underperforming salespeople, while quotas that are too low may fail to challenge top performers. Tailoring quotas to different individuals or teams based on their capabilities can improve motivation and performance.
4. **Product or Service Complexity**: The complexity of the product or service being sold plays a role in determining sales quotas. If a product requires a longer sales cycle or more complex negotiations, quotas may need to account for the additional time and effort required.
5. **Territory or Market Size**: The size of a salesperson's territory or market will influence their sales targets. Larger or more competitive territories may require higher quotas, while smaller or less competitive regions may warrant lower goals. Understanding market potential in each territory ensures that quotas are fair and realistic.

6. **Organizational Strategy**: Quotas should align with the broader strategic goals of the organization. For instance, if a company is focusing on expanding into new markets, sales quotas might emphasize market penetration and new customer acquisition.

Methods of Setting Sales Quotas

There are several approaches to setting sales quotas. The most commonly used methods are the **top-down approach**, **bottom-up approach**, and **hybrid approach**.

Top-Down Approach

In the **top-down approach**, sales quotas are set by senior management or executives and then cascaded down to the sales team. This approach typically relies on high-level business objectives, such as revenue targets or market share goals, to set quotas. Senior leaders define the overall sales goal, and quotas are allocated across regions, territories, or salespeople based on these objectives.

The top-down approach is efficient and ensures alignment with organizational goals. However, it may not always take into account the unique challenges and opportunities faced by individual salespeople or regions, potentially leading to quotas that are unrealistic or demotivating.

Bottom-Up Approach

The **bottom-up approach** involves gathering input from salespeople and managers at the ground level to set quotas. Salespeople provide insights into what they believe is achievable based on their knowledge of customers, market conditions, and sales activities. These inputs are then used to develop quotas that reflect the realities of the sales process.

This approach tends to result in more realistic and achievable quotas since they are based on actual market conditions and salesperson input. However, it can be time-consuming and may lead to quotas that are too low if salespeople are overly conservative in their estimates.

Hybrid Approach

The **hybrid approach** combines elements of both the top-down and bottom-up approaches. Senior management sets broad strategic goals and targets, while sales managers and salespeople contribute their perspectives on what is achievable at the regional or individual level. This approach balances high-level organizational goals with insights from the sales team, leading to more effective and well-rounded quotas.

The hybrid approach helps ensure that quotas are both aligned with business objectives and realistic based on market conditions and salesperson capabilities.

Monitoring and Evaluating Sales Quotas

Once quotas are set, it is important to monitor and evaluate sales performance regularly. This involves tracking progress against the established quotas, identifying areas of underperformance or overachievement, and adjusting strategies as needed. Key performance indicators (KPIs) such as sales volume, revenue, profitability, and activity levels should be tracked to assess how well salespeople are meeting their quotas.

Sales managers should provide regular feedback to salespeople, highlighting areas of strength and areas for improvement. In cases where sales quotas are consistently unmet, sales managers should analyze the reasons behind the shortfall and offer support, such as additional training, resources, or strategy adjustments.

Adjusting Quotas Based on Market Changes

Market conditions can change rapidly, and sales quotas should be flexible enough to accommodate these changes. For example, economic downturns, shifts in consumer behavior, or competitive challenges may require quota adjustments. Sales managers should continually assess market dynamics and adjust quotas accordingly to ensure they remain challenging but achievable.

Regularly reviewing and adjusting quotas can also help maintain motivation. If quotas are consistently set too high or too low, salespeople may lose confidence or become complacent. Adjusting quotas based on changing conditions ensures that salespeople stay engaged and focused on meeting realistic, yet ambitious targets.

Check Your Progress-A

1. What is the primary purpose of sales territories?
    a. To increase the number of salespeople
    b. To ensure salespeople focus on a specific market segment
    c. To divide a market into manageable parts for better coverage and sales performance
    d. To measure the sales quota achievement
2. Which of the following is NOT a factor for designing sales territories?
    a. Geographical factors
    b. Employee preferences
    c. Market potential
    d. Competition
3. What does a sales quota primarily measure?
    a. Customer satisfaction
    b. The effectiveness of a sales representative
    c. Sales target achievements
    d. The total number of customers served
4. Which of the following is an example of a sales volume quota?
    a. Achieving a target profit margin
    b. Generating a specific number of sales leads
    c. Selling 1,000 units of a product
    d. Completing 10 customer visits
5. Which sales quota type is based on the profit generated by sales activities?
    a. Sales Volume Quota
    b. Profit-Based Quota

   c. Activity-Based Quota
   d. Combination Quota
6. What is the main challenge in sales territory management?
   a. Balancing customer satisfaction
   b. Preventing overlap of sales territories
   c. Hiring enough salespeople
   d. Increasing market size
7. What is the 'equalized workload method' used for in sales territory design?
   a. To divide territories based on competition
   b. To allocate an equal number of customers to each salesperson
   c. To assign territories based on geographical location
   d. To design territories based on customer demographics
8. Which of the following best describes the hybrid approach to setting sales quotas?
   a. Combining both top-down and bottom-up approaches
   b. Setting quotas solely based on previous performance
   c. Setting quotas from the lowest-level salesperson upwards
   d. Setting quotas based on company profit goals only
9. Which sales quota type measures the number of sales activities completed by a salesperson?
   a. Sales Volume Quota
   b. Activity-Based Quota
   c. Profit-Based Quota
   d. Combination Quota
10. What role does a sales manager play in coordinating sales territories and quotas?
   a. Setting individual sales quotas for customers
   b. Overseeing sales team recruitment
   c. Balancing the sales territories and adjusting quotas for performance
   d. Implementing technology to monitor sales data

5.6 RELATIONSHIP BETWEEN SALES TERRITORIES AND SALES QUOTAS

Sales territories and sales quotas are two core components of an organization's sales strategy, yet their relationship is often complex. Both sales territories and sales quotas play distinct but interrelated roles in driving sales performance. Sales territories define the geographical or market-based areas assigned to individual salespeople or teams, while sales quotas establish the sales targets or goals that must be achieved within those territories. For effective sales management, aligning sales territories with quotas is essential to ensure that sales goals are realistic, achievable, and motivate salespeople to perform at their best. A well-designed relationship between these two elements not only drives efficiency and productivity but also improves customer satisfaction and enhances the overall success of the business.

This section will explore the relationship between sales territories and sales quotas by discussing how to align the two, the impact of territory size on quota achievement, the importance of balancing workload with sales expectations, and the role of the sales manager in coordinating both aspects.

Aligning Sales Territories with Quotas

Aligning sales territories with sales quotas is crucial to creating a fair, efficient, and motivating sales environment. A misalignment between territories and quotas can result in unrealistic targets, overworked salespeople, and missed sales opportunities. When territories are designed appropriately and quotas are set according to the market potential and resources available, sales teams are more likely to meet or exceed their targets.

Key Elements of Aligning Sales Territories with Quotas:

1. **Market Potential and Territory Design**: When designing sales territories, it is essential to consider the market potential within each territory. Market potential refers to the total sales opportunity available within a given area, including customer demographics, purchasing behaviors, and industry trends. By considering these factors, sales managers can assign realistic quotas that reflect the unique characteristics of each territory.

For instance, a territory with a high concentration of potential customers or high-demand products may have a higher quota than a less densely populated or low-demand area. On the other hand, quotas should not be set arbitrarily high or low based on assumptions. They should be data-driven and informed by detailed market research, past sales data, and insights from the sales team.

2. **Balanced Workload**: Aligning territories with quotas also requires balancing the workload across salespeople. If a salesperson is given an overly large territory with little time or resources, they may struggle to meet their sales targets, leading to burnout or dissatisfaction. Alternatively, a territory that is too small or lacks sufficient market potential may not present enough opportunities to achieve a meaningful quota.

To achieve alignment, it is important to assign quotas that reflect both the market potential and the time required to cover a territory effectively. If a territory has vast geographical boundaries, it may need a lower sales quota to account for travel time and other logistical factors. Conversely, smaller or more concentrated territories may require higher quotas since salespeople have more time to devote to each customer.

3. **Salesperson Experience and Skill Level**: The experience and skill level of salespeople also play a role in aligning sales territories with quotas. More experienced and skilled salespeople may be able to handle larger or more challenging territories with higher quotas, while newer or less experienced salespeople might need smaller territories with lower quotas to ensure they can succeed.

4. **Quota Achievement Metrics**: Once territories have been aligned with quotas, it is important to establish clear, measurable performance metrics. These should include sales volume, revenue generation, new customer acquisition, and retention rates. Regularly tracking and reviewing these metrics allows sales managers to determine whether quotas are appropriate and achievable or if adjustments need to be made to ensure alignment.

Impact of Territory Size on Sales Quota Achievement

The size of a sales territory plays a crucial role in the ability of salespeople to meet their quotas. Territory size is not simply a matter of physical geography but encompasses the overall sales potential, customer base, and logistical factors that impact sales productivity. Understanding the relationship between territory size and quota achievement helps sales managers set more realistic quotas, prevent overburdening salespeople, and optimize performance across the team.

Key Considerations for Territory Size and Sales Quotas:

1. **Large Territories**: Large territories—especially those covering vast geographic areas or multiple regions—can present significant challenges in quota achievement. A salesperson with a large territory might face difficulty reaching all customers within the assigned area, leading to underperformance or missed opportunities. Large territories also require more time and resources for travel, which can reduce the amount of time available for face-to-face meetings, relationship-building, and sales activities.

If the quota for a large territory is set too high, salespeople may become overwhelmed and fail to meet their targets, leading to frustration and low morale. To address this, sales managers must consider reducing quotas for larger territories to account for the time and effort required to service a larger number of customers. Furthermore, quotas for large territories can be adjusted based on market conditions, customer potential, and the availability of support resources such as customer service teams or marketing efforts.

2. **Small Territories**: Conversely, small territories, particularly those with limited market potential, can also present challenges. Salespeople working in smaller territories may find their quotas easy to achieve but may not be sufficiently challenged to drive growth or contribute to the overall success of the organization. In such cases, sales managers may need to adjust the quota to ensure it remains motivating. Salespeople may benefit from additional responsibilities, such as targeting new market segments or cross-selling new products.

Another issue with small territories is that if the quota is too easy to achieve, it may result in complacency or lack of motivation. To combat this, sales managers can adjust quotas by considering factors like the potential for upselling or increasing market penetration in those small areas.

3. **Territory Saturation**: Territory size and the corresponding sales quota can also be affected by market saturation. In territories that are already saturated with competitors or have a stable customer base, sales quotas may need to be adjusted to reflect the reduced growth opportunities. In contrast, emerging markets or less saturated territories might offer higher growth potential, which should be reflected in the quota.

4. **Sales Cycle Length**: The length of the sales cycle in a given territory is another factor that influences the relationship between territory size and quota achievement. A longer sales cycle means that salespeople may have fewer opportunities to close deals within a specific period, which can impact their ability to meet their quota. Managers must

factor in sales cycle length when designing territories and setting quotas to avoid unrealistic expectations.

Balancing Territory Workload with Sales Expectations

Balancing the workload within a sales territory with the sales expectations set through quotas is an essential aspect of sales management. An unbalanced workload can lead to frustration, burnout, or disengagement, while a manageable workload can enhance productivity and morale. Achieving this balance requires careful consideration of the various factors that affect a salesperson's ability to perform in their territory.

Strategies for Balancing Workload and Sales Expectations:

1. **Territory Design**: One of the most important steps in balancing workload is effective territory design. Sales territories should be divided based on a clear understanding of the market potential and customer density. Territories that are too large or too small will create disparities in workload distribution. Sales managers must ensure that territories are divided in a way that allows each salesperson to effectively cover their market without overwhelming them.

2. **Time Allocation**: The time required to cover a territory plays a significant role in balancing workload. Sales managers need to factor in time for meetings, customer support, travel, administrative tasks, and lead generation. A well-balanced workload allows salespeople to focus on high-priority activities, such as closing deals and building long-term relationships, while minimizing the time spent on low-impact tasks.

3. **Resource Allocation**: Balancing workload also involves providing salespeople with the necessary resources, support, and tools to meet their quotas. This can include access to CRM software, lead generation tools, customer data, marketing support, and administrative assistance. By equipping salespeople with the right resources, managers can ensure they are more efficient in their efforts and are not overwhelmed by administrative burdens.

4. **Quota Setting**: Setting realistic and attainable quotas is central to balancing workload. If quotas are set too high, salespeople may feel pressured to overwork themselves, leading to burnout and frustration. On the other hand, if quotas are too low, salespeople may lack motivation and engagement. It is essential that quotas are aligned with the size and scope of the territory, considering the available time, resources, and opportunities.

5. **Sales Team Collaboration**: In some cases, balancing workload can be achieved through collaboration within the sales team. Salespeople can share insights, collaborate on leads, and offer support to one another when covering larger or more complex territories. Encouraging teamwork can reduce individual pressure and ensure that quotas are more achievable across the team.

Role of the Sales Manager in Coordinating Territories and Quotas

The sales manager plays a central role in ensuring that sales territories and quotas are aligned, workload is balanced, and performance is maximized. Effective coordination between territories and quotas requires a deep understanding of both the market and the sales team's capabilities. A sales manager must monitor performance, provide guidance, and adjust strategies to ensure sales targets are realistic and achievable.

Key Responsibilities of the Sales Manager in Coordinating Territories and Quotas:

1. **Territory Design and Allocation**: The sales manager is responsible for designing and allocating sales territories. They must consider factors such as market potential, geographic location, customer needs, and sales team capabilities to ensure that territories are equitable and manageable. A good sales manager ensures that no salesperson is overwhelmed by a disproportionately large territory or burdened with unrealistic quotas.

2. **Quota Setting and Adjustment**: The sales manager must set and adjust quotas based on factors such as territory size, market conditions, salesperson performance, and overall business objectives. Sales quotas should be adjusted periodically to reflect changing market dynamics and to ensure that they continue to motivate and challenge the sales team.

3. **Performance Monitoring**: A sales manager must regularly track the performance of salespeople against their quotas. By using CRM software, sales analytics, and performance metrics, they can monitor individual and team performance. If salespeople are consistently falling short of their quotas, the sales manager can investigate the causes and provide support, whether through training, additional resources, or adjustments to the quota.

4. **Coaching and Support**: The sales manager is responsible for coaching their sales team, helping them navigate challenges, and providing guidance on how to meet quotas. They must act as a mentor, offering strategic advice, encouraging effective sales techniques, and providing constructive feedback. By ensuring that salespeople feel supported, sales managers can help them stay motivated and focused on achieving their quotas.

5. **Conflict Resolution**: Sales managers must address conflicts or issues that arise within their sales teams, particularly regarding territory and quota distribution. Disputes may occur when salespeople feel their territories are too large or when quotas are perceived as unfair. The sales manager's role is to mediate these conflicts, ensure equitable distribution of opportunities, and maintain a positive sales environment.

The relationship between sales territories and sales quotas is fundamental to the success of a sales organization. Effective alignment of territories with quotas ensures that salespeople are provided with realistic targets based on the market potential and resources available. The size and design of a territory have a significant impact on a salesperson's ability to achieve their quota, with factors such as workload balance, resource allocation, and territory segmentation playing key roles in success.

Sales managers are integral to coordinating territories and quotas, as they oversee the design and allocation of territories, the setting and adjustment of quotas, and the performance management of their sales teams. By understanding the complex relationship between these two elements, sales managers can foster a motivated, efficient, and successful sales force.

5.7 SALES PERFORMANCE MANAGEMENT

Sales performance management (SPM) is the process by which an organization ensures its sales teams and individual salespeople are working effectively toward achieving organizational goals. SPM involves measuring, analyzing, and improving sales performance through the use of various strategies, tools, and performance metrics. Effective sales performance management is essential for aligning the sales force with the company's overall objectives, driving revenue growth, and ensuring that sales quotas and targets are met.

This comprehensive process includes measuring sales performance, setting and monitoring key performance indicators (KPIs), offering incentives and rewards, and addressing the common challenges that may arise in achieving sales quotas. By understanding and optimizing these aspects of sales performance, organizations can motivate their sales teams, track progress, and ensure that both short-term and long-term goals are met.

Measuring Sales Performance

Sales performance measurement is essential to understand the effectiveness of a sales strategy, assess individual or team performance, and ensure that quotas and targets are being met. Without a clear and consistent approach to performance measurement, organizations cannot identify underperformance or areas for improvement. To measure sales performance accurately, a combination of quantitative and qualitative methods is used, supported by various sales metrics.

Key Metrics for Measuring Sales Performance:

1. **Sales Revenue**: The most direct measure of sales performance is revenue generation. By tracking the revenue generated by each salesperson or team, managers can assess how well the sales force is performing relative to their targets. This metric is typically compared to the sales quota to determine whether the goals set at the beginning of the period have been met.

2. **Sales Growth**: Measuring sales growth over time is critical to understanding how well the sales force is contributing to the overall growth of the organization. By comparing current sales against historical data, sales managers can assess whether the sales team is improving, maintaining, or declining in performance.

3. **Conversion Rates**: This metric calculates the percentage of prospects or leads that a salesperson successfully converts into paying customers. A high conversion rate indicates that the salesperson is effective at closing deals, while a low rate may suggest the need for additional training or support.

4. **Average Deal Size**: The average deal size provides insight into how much revenue each salesperson is generating per sale. A larger average deal size could indicate that a salesperson is successfully upselling or targeting higher-value clients. Conversely, smaller deal sizes may indicate the need for better targeting or selling techniques.

5. **Sales Cycle Length**: This measures the amount of time it takes for a salesperson to convert a lead into a sale. A shorter sales cycle is typically a sign of efficiency and strong selling skills, while a longer sales cycle may signal inefficiencies or obstacles in the sales process.

6. **Customer Retention**: Sales performance is not just about acquiring new customers; retaining existing customers is equally important. Measuring customer retention rates helps gauge the long-term success of the sales team in fostering relationships and ensuring repeat business.

7. **Quota Achievement**: One of the most critical performance metrics is the degree to which salespeople meet or exceed their quotas. Sales managers track the percentage of quota attainment and may segment this by individual salesperson, territory, or product category to identify areas for improvement.

Tools and Technologies for Measuring Sales Performance:

1. **CRM Software**: Customer Relationship Management (CRM) software is one of the most powerful tools for tracking and measuring sales performance. CRM systems provide real-time data on customer interactions, deal progress, lead conversion, and sales cycle length, enabling sales managers to track performance and make data-driven decisions.

2. **Sales Analytics Tools**: These tools offer deeper insights into sales performance by analyzing historical data, identifying trends, and predicting future sales outcomes. They enable managers to make informed decisions about resource allocation, territory management, and quota setting.

3. **Sales Dashboards**: Dashboards provide a visual representation of sales data, enabling managers to quickly assess performance and identify areas of concern. They typically include KPIs such as sales revenue, quota attainment, and win rates, and can be customized to track specific metrics that are most important to the business.

4. **Performance Reviews**: In addition to quantitative metrics, qualitative performance reviews are essential to measure the effectiveness of a salesperson. Feedback from colleagues, managers, and customers can provide valuable insight into aspects of performance such as communication skills, customer service, and teamwork.

Key Performance Indicators (KPIs) in Sales Territories and Quotas

KPIs are the metrics that organizations use to evaluate the success of their sales teams and individual salespeople in achieving specific objectives. In the context of sales territories and quotas, KPIs provide the data needed to track progress and assess whether sales targets are realistic, achievable, and motivating.

Common KPIs for Sales Territories:

1. **Sales Revenue by Territory**: This KPI measures the total revenue generated within a specific sales territory. It helps to understand the sales potential of each territory and evaluate whether salespeople are meeting their targets.

2. **Quota Achievement by Territory**: This metric assesses the percentage of the sales quota achieved by salespeople within a specific territory. It allows sales managers to identify which territories are performing well and which require additional attention or resources.

3. **Market Penetration**: This measures the percentage of the target market that a salesperson has penetrated within their assigned territory. A higher market penetration rate indicates that the salesperson is effectively reaching potential customers and expanding their client base.

4. **Customer Acquisition Rate**: This KPI tracks the number of new customers acquired within a territory over a given period. It is a key indicator of sales effectiveness in generating new business and expanding market share.

5. **Customer Retention by Territory**: Customer retention is a critical metric for evaluating the long-term effectiveness of a sales team. By tracking retention rates by territory, sales managers can determine which territories have strong customer loyalty and which may require more effort to maintain customer relationships.

Common KPIs for Sales Quotas:

1. **Quota Attainment Percentage**: This is the percentage of the sales quota that has been achieved by an individual salesperson or team. For instance, if a salesperson has a quota of $100,000 and has generated $85,000 in sales, their quota attainment is 85%. This KPI is a direct measure of how well the sales force is meeting their targets.

2. **Sales Pipeline Progress**: The progress of a salesperson's pipeline is crucial in understanding their ability to meet quotas. By tracking the number of deals at each stage of the sales process, managers can estimate whether quotas will be met by the end of the period.

3. **Win Rate**: The win rate measures the percentage of sales opportunities that are successfully closed. A higher win rate suggests that a salesperson is effectively selling and closing deals, which is essential to meeting their quota.

4. **Revenue Per Rep**: This KPI measures the amount of revenue generated by each salesperson. It helps sales managers evaluate the productivity of their sales team and determine if quotas are being met across the organization.

5. **Sales Cycle Time**: This measures the time it takes to close a deal from initial contact to final sale. Shorter sales cycles typically correlate with higher quota achievement rates, as salespeople can close more deals within a given period.

Incentive Plans and Rewards for Achieving Quotas

Incentive plans and rewards play a significant role in driving sales performance. They provide motivation for salespeople to exceed their quotas, reward exceptional performance, and help retain top talent. The structure of incentive plans varies from organization to organization, but the objective is always the same: to align the salesperson's goals with the company's business objectives.

Types of Incentive Plans:

1. **Commission-Based Plans**: The most common type of incentive plan is the commission-based structure, where salespeople receive a percentage of the revenue or profit generated from the sales they close. This plan directly links the salesperson's compensation to their performance, providing a strong incentive to achieve quotas and generate revenue.

2. **Bonus-Based Plans**: In addition to or instead of commissions, some organizations offer bonuses for achieving sales targets. These bonuses may be paid out quarterly, annually, or upon reaching specific milestones, such as exceeding the sales quota by a certain percentage.

3. **Tiered Commission Plans**: A tiered commission plan provides increasing commission rates as salespeople exceed certain sales thresholds. For example, a salesperson might earn a 5% commission for the first $100,000 in sales and 7% for any sales beyond that threshold. This motivates salespeople to exceed their quotas and strive for higher performance.

4. **Non-Monetary Incentives**: Non-monetary incentives, such as awards, recognition, or career development opportunities, can also be effective in motivating salespeople. For instance, the salesperson who exceeds their quota may be rewarded with a trip, gift, or recognition at company meetings. These types of rewards can boost morale and foster a sense of accomplishment.

5. **Profit-Sharing Plans**: In some cases, organizations offer profit-sharing plans that allow salespeople to share in the company's overall profitability. These plans often include a mix of individual sales performance and company-wide goals and are designed to align the interests of the salesperson with the long-term success of the company.

Designing Effective Incentive Plans:

To ensure that incentive plans are effective, they should be:

- **Fair and Transparent**: Salespeople must clearly understand the criteria for earning incentives and rewards. If the goals are ambiguous or the rules are perceived as unfair, the incentive plan will not motivate the sales force.
- **Aligned with Company Goals**: The incentives should align with the overall objectives of the business. For example, if a company is focused on acquiring new customers, incentives should be structured to reward new customer acquisition.
- **Realistic and Achievable**: Setting goals that are too high can demotivate salespeople, while goals that are too low may not drive sufficient performance. The sales quotas and corresponding incentives should be challenging yet attainable.
- **Timely**: The reward should be given shortly after the goal is achieved. Delayed rewards may lose their motivational impact.

Common Challenges in Meeting Quotas

Achieving sales quotas is often challenging, and various factors can prevent salespeople from meeting their targets. Some of these challenges are external, such as market conditions and competition, while others are internal, such as a lack of motivation or insufficient support. Understanding these challenges is essential for sales managers to provide effective support and guidance to their teams.

Common Challenges in Meeting Sales Quotas:

1. **Market Conditions**: Economic downturns, changing customer preferences, or new regulations can negatively impact sales performance. In such cases, even the best sales teams may struggle to meet quotas.
2. **Unrealistic Quotas**: Sales quotas that are too ambitious or not aligned with the market potential of a territory can be discouraging. When quotas are perceived as unattainable, salespeople may become demotivated and disengaged.
3. **Lack of Resources**: Salespeople may struggle to meet their quotas if they lack the necessary resources, such as support staff, marketing materials, or technology tools. This can lead to inefficiencies and missed opportunities.
4. **Inadequate Training**: Salespeople who are not adequately trained on the products, services, or sales techniques are less likely to meet their quotas. Continuous training and development are essential for improving sales performance.
5. **Poor Sales Process**: A disorganized or inefficient sales process can hinder a salesperson’s ability to close deals. Poor lead management, lack of follow-up, or ineffective communication can all contribute to underperformance.

Check Your Progress- B

1. Why is it important to align sales territories with quotas?
   a. To avoid confusion in the sales process
   b. To ensure that sales representatives are motivated to reach their targets
   c. To allow salespeople to focus on non-sales tasks
   d. To maintain a balanced workload for each sales representative
2. Which approach to setting quotas involves taking input from both salespeople and managers?
   a. Top-Down Approach
   b. Bottom-Up Approach
   c. Hybrid Approach
   d. Forecasting Approach
3. In sales territory management, what does balancing territory workload refer to?
   a. Ensuring that each salesperson has a reasonable and fair workload across territories
   b. Distributing territories based on employee preferences
   c. Dividing territories equally by population size
   d. Prioritizing high-profit territories for key salespeople
4. Which of the following is a benefit of effective sales territory management?
   a. Reduced travel time for salespeople
   b. Increased customer churn rate
   c. Higher sales quotas for all territories
   d. Fewer resources allocated to marketing
5. Which of the following types of sales quotas is often used to encourage salespeople to pursue new business rather than just existing customers?
   a. Activity-Based Quota
   b. Sales Volume Quota
   c. Profit-Based Quota
   d. Combination Quota
6. What is a common challenge in setting sales quotas?
   a. Finding the right technology
   b. Adjusting quotas based on seasonality and market changes
   c. Determining the geographical boundaries of territories
   d. Hiring enough salespeople to cover all territories
7. How can sales managers ensure that sales quotas are achievable?
   a. By setting quotas higher than last year's targets
   b. By considering historical performance and market trends
   c. By ignoring competitor activity
   d. By focusing solely on revenue targets
8. Which of the following is an advantage of using a profit-based sales quota?
   a. It motivates salespeople to focus on customer satisfaction
   b. It encourages salespeople to increase the volume of sales
   c. It ensures a more sustainable approach to growth by focusing on profitable sales
   d. It increases the workload of sales representatives
9. What does sales territory allocation ensure?
   a. That each salesperson is motivated to sell

b. Equal opportunity for all salespeople to succeed
c. High competition between sales representatives
d. That quotas are assigned based on seniority

10. Which method of setting sales quotas is based on the organization's objectives and imposed by management?
    a. Bottom-Up Approach
    b. Top-Down Approach
    c. Hybrid Approach
    d. Participative Approach

5.8 SUMMARY

Sales territories and sales quotas are critical elements in sales management, designed to optimize the performance of sales teams and align their efforts with organizational goals. A **sales territory** is a defined geographical area or group of customers assigned to a sales representative, aimed at ensuring effective coverage, avoiding overlap, and maximizing sales. The **sales quota**, on the other hand, is a performance target set for an individual or team, usually related to sales volume, profit, or activity, and is used to track performance and incentivize results.

The chapter explores the relationship between sales territories and quotas, emphasizing the importance of aligning them to ensure balanced workloads and realistic targets. It covers the **criteria for designing sales territories**, such as geographical factors, market potential, customer demographics, and competition, as well as the various **methods for territory design**, like the equalized workload method and equalized sales potential method.

Sales managers must also focus on the **allocation and balancing of territories** to ensure each salesperson has an equal opportunity for success. Effective **territory management** involves overcoming challenges such as market fluctuations, resource constraints, and uneven workload distribution.

Regarding **sales quotas**, the chapter discusses different types, including **sales volume quotas**, **profit-based quotas**, **activity-based quotas**, and **combination quotas**, and explains the importance of setting quotas that are realistic, motivating, and aligned with business goals. It outlines three approaches to setting quotas: the **top-down approach**, **bottom-up approach**, and **hybrid approach**.

The chapter also highlights the **relationship between sales territories and quotas**, including the alignment of quotas with territories, the impact of territory size on quota achievement, and the role of sales managers in coordinating the two. Additionally, the management of **sales performance** through measuring performance, setting key performance indicators (KPIs), and providing incentives for achieving quotas is emphasized.

Ultimately, effective **territory and quota management** can significantly enhance the overall sales performance, drive growth, and ensure that sales teams are well-aligned with organizational objectives.

5.9 GLOSSARY

1. Sales Territory: A specific geographic area or customer group assigned to a sales representative for the purpose of organizing and managing sales efforts effectively.
2. Sales Quota: A predefined sales target or goal that a salesperson or sales team is expected to achieve within a given period, often tied to performance incentives or rewards.
3. Equalized Workload Method: A sales territory design method where territories are created to ensure that each sales representative has an equal amount of work or sales opportunities, considering factors like customer numbers and sales potential.
4. Sales Volume Quota: A type of sales quota based on the amount of product or service sales expected from a salesperson or team within a specified time frame.
5. Incentive Plan: A compensation scheme designed to motivate salespeople to achieve or exceed their sales targets, often linked to achieving specific quotas, revenue goals, or performance benchmarks.

5.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

1. C
2. B
3. C
4. C
5. B
6. B
7. B
8. A
9. B
10. C

Check Your Progress –B

1. B
2. C
3. A
4. A
5. A
6. B
7. B
8. C
9. B
10. B

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5.12 SUGGESTED READINGS

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5.13 TERMINAL QUESTIONS

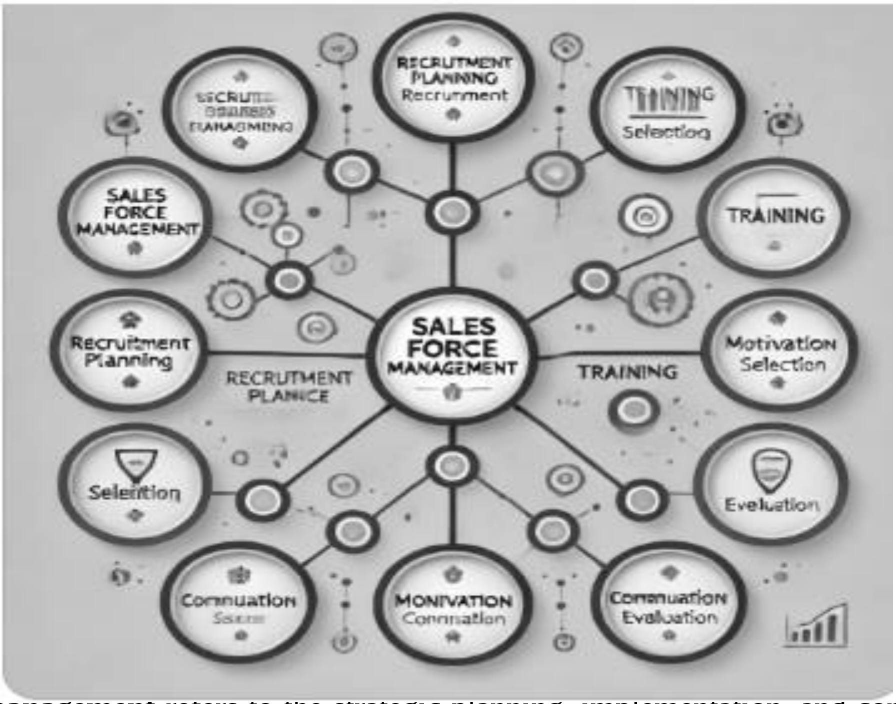
1. Discuss the importance of sales forecasting in business planning and decision-making. How does accurate sales forecasting impact different departments within an organization, such as marketing, finance, and production?
2. Explain the various quantitative and qualitative methods used in sales forecasting. Compare and contrast at least two methods in detail, highlighting their advantages, disadvantages, and situations where each would be most appropriate.
3. How do external factors such as economic conditions, competitor activity, and technological advancements influence sales forecasts? Provide examples of how businesses can adjust their forecasting models to account for these variables.
4. What challenges do organizations face when trying to forecast sales for new products? Discuss the strategies and methods that can be used to predict sales for products that have no historical data.
5. Analyze the role of big data, artificial intelligence (AI), and machine learning in improving the accuracy of sales forecasting. How do these technologies enhance traditional forecasting methods, and what are their limitations?

UNIT-6 - SALES FORCE MANAGEMENT: STRUCTURE AND SIZE OF THE SALES FORCE

6.1 INTRODUCTION

Sales Force Management is a critical function in any organization that relies on personal selling to drive revenue and achieve business objectives. It involves the strategic planning, directing, and controlling of a company's sales team, ensuring that they are equipped, motivated, and aligned with the overall goals of the organization. Effective sales force management goes beyond merely overseeing the day-to-day activities of sales personnel; it encompasses the recruitment, training, motivation, and performance evaluation of the sales team, as well as the design and implementation of sales strategies that align with market demands and organizational goals.

In today's competitive business environment, the role of sales force management has become increasingly complex. Managers must not only ensure that their sales teams are meeting targets but also adapt to rapid changes in technology, customer expectations, and market dynamics. By leveraging data-driven insights, embracing new technologies, and fostering a culture of continuous improvement, sales force management can help organizations stay ahead of the competition, achieve sustainable growth, and build lasting relationships with customers. This chapter explores the key elements of sales force management, offering strategies and best practices for building and maintaining a high-performing sales team.



Sales force management refers to the strategic planning, implementation, and control of an organization's sales activities and the personnel involved in those activities. It encompasses recruiting, training, compensating, and supervising salespeople, as well as setting sales targets, defining territories, and evaluating performance. The goal of sales force management is to optimize the performance of the sales team, ensuring that they meet or exceed sales targets while aligning their efforts with the organization's overall business objectives.

The importance of sales force management lies in its direct impact on an organization's revenue generation and customer satisfaction. An effectively managed sales force can drive higher sales volumes, increase market share, and build strong, lasting relationships with customers. By aligning the sales team's activities with the company's strategic goals, sales force management ensures that resources are allocated efficiently, sales opportunities are maximized, and customer needs are met promptly and effectively.

Moreover, sales force management is crucial for maintaining motivation and productivity within the sales team. Through effective leadership, training, and incentive programs, sales force management can foster a positive work environment that encourages high performance and continuous improvement. This, in turn, leads to better job satisfaction for sales personnel, lower turnover rates, and a more cohesive, results-driven sales force, ultimately contributing to the long-term success and sustainability of the organization.

6.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the Importance of Sales Force Structure.
- Identify Different Types of Sales Force Structures.
- Learn How to Determine the Optimal Size of a Sales Force
- Analyze the Impact of Sales Process Complexity on Structure and Size.
- Recognize Best Practices for Structuring and Sizing the Sales Force.
- Appreciate the Need for Flexibility and Regular Review
- valuate the Role of Technology and Data in Sales Force Management
- Apply Knowledge to Real-World Scenario

6.3 UNDERSTANDING SALES FORCE MANAGEMENT

Sales force management is a critical aspect of business strategy, focusing on the effective oversight and guidance of a company's sales team. Different authors and scholars have defined sales force management in various ways, highlighting its multifaceted nature. Here are a few definitions from different perspectives:

1. **H. Davidow and S. Davidow (1994)**: Sales force management involves "the planning, direction, and control of the sales force's activities to ensure that the sales goals of the organization are achieved." This definition emphasizes the comprehensive nature of managing a sales team, from planning to execution.
2. **Johnston and Marshall (2016)**: They define sales force management as "the process of designing and implementing sales strategies and programs, recruiting and selecting salespeople, training and motivating them, and evaluating their performance to

achieve organizational objectives." This definition highlights the strategic and operational aspects of managing a sales team.

3. **Ingram, LaForge, and Ahearne (2007)**: They describe sales force management as "the systematic process of planning, organizing, leading, and controlling the sales efforts of an organization." This perspective focuses on the structured approach to managing sales activities.

4. **Churchill, Ford, and Walker (2000)**: They define it as "the process of managing the sales force to achieve optimal sales performance through effective recruitment, training, motivation, and evaluation." This definition underscores the importance of managing the human elements of the sales team.

5. **Kotler and Keller (2016)**: In their marketing framework, they mention sales force management as "a critical function in a company that involves designing and implementing strategies for sales force recruitment, training, motivation, and performance evaluation." Their definition is oriented towards integrating sales force management within broader marketing strategies.

These definitions collectively highlight the key components of sales force management, including planning, recruiting, training, motivation, and performance evaluation. They reflect the complex nature of managing a sales team to meet organizational goals effectively

6.4 DESIGNING THE SALES FORCE STRUCTURE

The structure of a sales force is a fundamental element in the management and effectiveness of a company's sales activities. It defines how the sales team is organized, how responsibilities are allocated, and how the sales force interacts with customers and other parts of the organization. A well-structured sales force enables a company to maximize market coverage, improve customer satisfaction, and achieve its sales objectives. This chapter delves into the various types of sales force structures, their advantages and disadvantages, and the factors influencing the choice of structure.

The Role of Sales Force Structure

The sales force structure is a critical factor that influences the effectiveness of a sales team. It determines how salespeople are organized to cover markets, manage customer relationships, and achieve sales targets. The right structure ensures that each salesperson's skills are utilized effectively, market coverage is optimized, and the sales force can adapt to changes in the business environment.

An effective sales force structure aligns with the company's strategic goals and market conditions. For instance, a company focusing on expanding its market share in a specific region may adopt a geographic sales structure to ensure comprehensive coverage of that area. Conversely, a company with a broad product range might choose a product-based structure to leverage specialized knowledge within its sales team. By aligning the sales force structure with business strategy, companies can better meet customer needs, improve efficiency, and drive revenue growth.

Designing sales force structure

Designing the sales force structure is a pivotal component of sales management that significantly impacts a company's ability to achieve its sales goals and maintain competitive advantage. An effective sales force structure ensures that sales teams are organized efficiently to maximize their performance, align with the company's strategic objectives, and cater to customer needs. This two-page discussion explores the fundamental elements of designing an effective sales force structure, including the strategic considerations, organizational models, and implementation strategies.

Strategic Considerations

1. **Company Objectives and Strategy**: The first step in designing a sales force structure is aligning it with the overall business objectives and strategy. The sales force structure should support the company's goals, whether they focus on market penetration, expanding into new markets, or increasing product sales. Understanding the strategic priorities helps in determining the appropriate structure to meet these objectives.
2. **Market Segmentation**: Identifying and segmenting the market is crucial. Sales forces can be structured based on different market segments such as geographic regions, industry sectors, or customer types. This approach ensures that sales representatives can specialize in specific areas, gaining deeper insights and building stronger relationships with their clients.

3. **Product Lines**: Companies with diverse product lines may require a product-based sales force structure. Sales representatives specializing in particular products or product categories can provide expert knowledge and tailored solutions, enhancing customer satisfaction and driving sales effectiveness.
4. **Sales Channels**: The structure must accommodate various sales channels, including direct sales, online sales, and partnerships. A well-designed structure will integrate these channels effectively to ensure a seamless customer experience and optimize sales efforts across all platforms.

Organizational Models

1. **Geographic Structure**: In this model, the sales force is divided based on geographical territories. Each salesperson or team is responsible for a specific region. This approach is particularly effective for companies with a broad geographic market. It helps in localizing sales efforts and addressing regional market needs efficiently.
2. **Product-Based Structure**: Here, the sales team is organized according to different product lines or categories. This structure is ideal for companies with a diverse range of products. Sales representatives become specialists in their respective products, leading to better product knowledge and more effective selling.
3. **Customer-Based Structure**: This model organizes the sales force around specific customer segments or industries. For instance, different teams might be assigned to handle large corporations, small businesses, or government clients. This specialization helps in understanding the unique needs and buying behaviors of different customer types.
4. **Functional Structure**: In a functional sales force structure, sales representatives are organized based on their specific roles or functions, such as prospecting, closing, or account management. This model allows for a high degree of specialization and efficiency in handling different stages of the sales process.

Implementation Strategies

1. **Recruitment and Training**: Once the structure is defined, recruiting the right talent is crucial. Sales representatives should possess the skills and expertise required for

their specific roles. Comprehensive training programs are essential to ensure that sales teams understand their responsibilities and the company's products or services.

2. **Performance Management**: Establish clear performance metrics and evaluation criteria aligned with the sales force structure. Regular assessments and feedback help in maintaining high performance and addressing any issues promptly. Implement incentive programs to motivate and reward top performers.
3. **Technology Integration**: Utilize sales force automation (SFA) tools and customer relationship management (CRM) systems to support the sales team. These technologies can enhance productivity by streamlining processes, providing valuable insights, and facilitating effective communication within the sales force.
4. **Adaptability and Flexibility**: The sales force structure should be adaptable to changing market conditions and business needs. Regularly review and adjust the structure as necessary to respond to shifts in customer preferences, competitive dynamics, or organizational goals.

Designing an effective sales force structure involves a thoughtful approach that aligns with the company’s strategic goals, market demands, and organizational capabilities. By considering strategic objectives, market segmentation, product lines, and sales channels, and by choosing the appropriate organizational model, companies can create a structure that maximizes sales performance. Effective implementation strategies, including recruitment, training, performance management, and technology integration, further ensure that the sales force operates efficiently and drives business success.

Factors Influencing the Choice of Sales Force Structure

Several factors influence the choice of a sales force structure, including:

a. Market Conditions:

- The nature of the market, including its size, diversity, and level of competition, plays a significant role in determining the best sales force structure. For example, a fragmented market with diverse customer needs might benefit from a customer-based structure.

b. Product Complexity:

- The complexity and diversity of the product portfolio influence the need for specialized sales roles. Complex products often require a product-based structure, while simpler offerings may fit well within a geographic structure.

c. Customer Preferences:

- Understanding customer preferences and buying behavior is crucial. Customers in different industries or regions may have varying needs, which can be best addressed through a market-based or geographic structure.

d. Company Strategy:

- The overall business strategy, including goals for growth, market penetration, and customer retention, should align with the sales force structure. A strategy focused on rapid market expansion may favor a geographic structure, while a strategy centered on product innovation might lean towards a product-based structure.

e. Resource Availability:

- The availability of resources, including budget, talent, and technology, also influences the choice of structure. Some structures, such as functional or hybrid, may require more resources to implement and manage effectively.

Check Your Progress-A

Q1. State the meaning of Sales Force Management?

Q2. Explain the need for structuring sales force.

Q3. MCQs

- **What is the primary goal of structuring a sales force effectively?**

  a) To increase the number of sales representatives
  b) To ensure market coverage and optimize sales performance
  c) To minimize the cost of sales training
  d) To expand the number of products offered

- **Which sales force structure is based on dividing the team by product lines or services offered?**

  a) Geographic structure
  b) Product-based structure
  c) Customer-based structure
  d) Market-based structure

- **Which sales force structure involves assigning teams based on the types of customers they serve?**

  a) Geographic structure
  b) Product-based structure
  c) Customer-based structure
  d) Market-based structure

- **To enhance the efficiency of a sales force, companies often use __________ to track and manage potential sales opportunities.**

  a) Sales quotas
  b) Sales funnels
  c) Sales forecasts
  d) Sales pipelines

- **When assessing the effectiveness of a sales force structure, which of the following metrics is commonly used?**

  a) Number of sales representatives
  b) Sales cycle length
  c) Customer satisfaction scores
  d) Total marketing expenses

Q 4. Fill In the Blanks

1. **The process of dividing the market into distinct segments and assigning each segment to a specific sales representative is known as __________.**
2. In order to set realistic and achievable performance targets, companies often use __________, which are specific goals set for each sales representative to meet within a given period.
3. The __________ model is a visual representation that outlines the various stages a potential customer goes through, from initial contact to closing the sale.
4. To ensure that the sales force is adequately sized to handle the market potential, companies must consider factors such as __________, sales goals, and the overall capacity of the sales team.

6.5 IMPORTANCE OF SALES FORCE STRUCTURE

The sales force structure is a critical element in achieving a company's sales objectives and driving overall business success. Its importance can be highlighted through several key aspects:

1. **Alignment with Strategic Goals**: A well-designed sales force structure aligns with a company's strategic objectives, whether they involve market expansion, product diversification, or customer segmentation. By organizing the sales team in a way that supports these goals, companies can more effectively reach their target markets and achieve their business objectives.
2. **Enhanced Specialization and Expertise**: Structuring the sales force according to product lines, customer types, or geographic regions allows for specialization. Sales representatives can develop in-depth knowledge and expertise in their specific areas, leading to more effective sales pitches, better customer service, and improved overall sales performance.
3. **Improved Customer Focus**: An effective sales force structure ensures that different customer segments or regions receive tailored attention. This targeted approach helps in understanding and meeting the unique needs of various customer groups, resulting in higher customer satisfaction and loyalty.
4. **Increased Efficiency and Productivity**: A well-organized sales force structure streamlines the sales process by clearly defining roles and responsibilities. This reduces overlap and confusion, leading to more efficient use of resources and

increased productivity. Sales representatives can focus on their specific tasks, whether it's prospecting, closing deals, or managing accounts.

5. **Better Resource Allocation**: With a structured sales force, companies can allocate resources more effectively. For instance, they can deploy sales teams to high-potential regions or prioritize high-value customer segments. This strategic allocation ensures that efforts and investments are directed where they are likely to yield the best returns.
6. **Facilitates Performance Measurement**: A clear sales force structure provides a framework for setting performance metrics and evaluating results. It allows for the tracking of individual and team performance against specific goals and targets. This visibility helps in identifying strengths and areas for improvement, leading to more informed management decisions.
7. **Supports Scalability and Growth**: As companies grow, having a well-defined sales force structure makes it easier to scale operations. The structure can be adjusted to accommodate new markets, additional products, or expanded customer bases without disrupting existing sales activities.
8. **Enhances Communication and Coordination**: An organized structure facilitates better communication and coordination within the sales team. It ensures that everyone understands their roles and how they contribute to the overall sales strategy, reducing conflicts and fostering a collaborative environment.

In summary, an effective sales force structure is essential for maximizing sales performance, enhancing customer relationships, and supporting overall business strategy. It enables companies to operate more efficiently, adapt to market changes, and achieve their sales goals with greater precision and effectiveness

6.6 TYPES OF SALES FORCE STRUCTURES

When designing a sales force structure, organizations must choose a model that best aligns with their strategic goals, market demands, and operational needs. Here is a comparative analysis of the most common types of sales force structures: Geographic, Product-Based, Customer-Based, and Functional.

1. ***Geographic Structure***

Description: Sales force is organized based on geographical regions or territories. Each sales representative or team is responsible for a specific geographic area.

Advantages:

- **Local Expertise**: Sales reps can develop a deep understanding of the local market, including customer preferences and competitive dynamics.
- **Efficient Coverage**: Ensures comprehensive market coverage and minimizes duplication of effort.
- **Reduced Travel Costs**: Localized territories mean less travel and associated expenses for sales representatives.

Disadvantages:

- **Limited Specialization**: Sales reps may lack specialized knowledge in complex products or services due to broad territory coverage.
- **Inconsistent Customer Service**: Different regions may experience varying levels of service quality.

Best For: Companies with a broad geographic footprint and uniform product offerings.

2. ***Product-Based Structure***

Description: The sales force is organized according to different product lines or categories. Sales representatives specialize in specific products or product ranges.

Advantages:

- **Product Expertise**: Representatives gain deep knowledge and expertise in their assigned products, leading to more effective sales pitches and customer support.
- **Focused Selling**: Easier to tailor sales approaches and marketing strategies to specific products.

Disadvantages:

- **Coordination Challenges**: Potential for overlap and lack of coordination between different product lines, especially if customers use multiple products.

- **Limited Market Coverage**: May not address regional variations or specific customer needs effectively.

Best For: Companies with diverse or complex product lines where specialized knowledge is critical.

3. *Customer-Based Structure*

Description: The sales force is organized around specific customer segments or industries. Each team or representative focuses on a particular type of customer, such as large enterprises, small businesses, or government agencies.

Advantages:

- **Tailored Solutions**: Sales reps can develop a deeper understanding of customer needs and provide customized solutions.
- **Strong Relationships**: Building strong, long-term relationships with specific customer segments.

Disadvantages:

- **Resource Allocation**: May lead to uneven distribution of resources across different customer segments.
- **Complex Management**: Requires effective coordination between teams to avoid gaps or duplication in service.

Best For: Companies that serve diverse customer types with distinct needs and buying behaviors.

4. *Functional Structure*

Description: Sales force is organized based on specific functions or roles within the sales process, such as prospecting, closing deals, and account management.

Advantages:

- **Specialization**: Sales representatives can focus on particular stages of the sales process, leading to high efficiency and expertise in their roles.
- **Improved Performance**: Allows for the development of specialized skills and better handling of complex sales processes.

Disadvantages:

- **Integration Issues**: Potential for gaps in communication and coordination between different functional areas.
- **Customer Experience**: May create a disjointed experience for customers if they interact with multiple representatives.

Best For: Organizations with complex sales processes that require distinct roles for effective management and execution.

Each sales force structure offers distinct advantages and challenges:

- **Geographic Structure** excels in local market coverage and cost-efficiency but may lack specialization.
- **Product-Based Structure** provides deep product knowledge but can lead to coordination issues.
- **Customer-Based Structure** enables tailored customer engagement and strong relationships but requires careful resource management.
- **Functional Structure** enhances role specialization and process efficiency but can lead to integration challenges.

The choice of structure depends on factors such as market characteristics, product complexity, customer diversity, and overall business strategy. Organizations should carefully evaluate these factors to select the structure that aligns best with their strategic goals and operational needs.

6.7 DETERMINING OPTIMAL SIZE OF SALES FORCE

Determining the optimal size of a sales force is crucial for maximizing sales performance and achieving business goals. An adequately sized sales team can drive revenue growth, enhance customer relationships, and effectively cover market territories. Conversely, an inadequately sized team can lead to missed opportunities, poor customer service, and inefficient use of resources. This write-up explores the factors influencing the optimal size of a sales force, methods for determining the right size, and the impact of sales force size on organizational performance.

Factors Influencing Optimal Sales Force Size

1. **Market Potential and Coverage**: The size of the sales force should align with the market potential and the need for coverage. Companies must assess market size, customer density, and the geographic spread of their target audience. For example, a company operating in a large and diverse market may require a larger sales team to ensure comprehensive coverage and penetrate various market segments effectively.
2. **Sales Goals and Objectives**: Organizational sales targets and growth objectives directly impact the required size of the sales force. High sales targets or aggressive growth plans necessitate a larger team to handle increased sales activities, prospecting, and customer engagement. Conversely, modest sales goals may be achievable with a smaller team.
3. **Sales Cycle and Complexity**: The complexity of the sales process and the length of the sales cycle influence the size of the sales force. Products or services with long sales cycles and complex buying processes often require more sales representatives to manage each stage of the cycle effectively. For simpler, shorter sales processes, fewer representatives may suffice.
4. **Sales Territory Size and Structure**: The size and structure of sales territories play a significant role in determining the sales force size. Larger territories may require more representatives to ensure adequate coverage and customer service. The effectiveness of territory design also impacts how many salespeople are needed to cover each area efficiently.
5. **Sales Productivity and Efficiency**: Assessing the productivity of existing sales representatives provides insights into whether the current team size is optimal. Metrics such as sales revenue per representative, customer acquisition costs, and conversion rates help evaluate the effectiveness of the sales team and determine if additional resources are needed.

Methods for Determining Sales Force Size

1. **Workload Analysis**: Workload analysis involves evaluating the amount of work required to meet sales targets and manage customer accounts. This method estimates the time needed for sales activities such as prospecting, meetings, and follow-ups, and calculates the number of sales representatives required based on their capacity to handle these tasks.

Example: If a company's target is to generate $1 million in revenue and each salesperson is expected to generate $200,000, the company would need at least five sales representatives to meet the target, assuming uniform performance.

2. **Sales Forecasting**: Sales forecasting involves projecting future sales based on historical data, market trends, and business conditions. By estimating the expected sales volume, companies can determine how many sales representatives are needed to achieve these projections.

   Example: If historical data indicates that each salesperson generates $500,000 annually and the company forecasts $5 million in sales, ten salespeople would be required to meet the forecast.

3. **Benchmarking**: Benchmarking involves comparing the company's sales force size with industry standards or competitors. By analyzing how similar organizations structure their sales teams, companies can gain insights into optimal size and adjust their teams accordingly.

   Example: If industry benchmarks suggest that companies in the same sector typically have one salesperson per $1 million in revenue, a company with $10 million in revenue might aim for ten sales representatives.

4. **Sales Force Allocation Models**: Various allocation models, such as the sales force allocation model or the sales coverage model, can be used to determine the optimal size. These models consider factors such as market potential, sales volume, and representative productivity to allocate sales resources effectively.

Impact of Sales Force Size on Organizational Performance

1. **Sales Efficiency and Effectiveness**: An optimal sales force size enhances efficiency by ensuring that representatives can focus on high-priority tasks and manage their workloads effectively. It improves the overall effectiveness of the sales team by providing adequate coverage and support to meet customer needs and achieve sales targets.
2. **Customer Service and Satisfaction**: Properly sizing the sales force ensures that customers receive timely and attentive service. A well-sized team can provide

personalized interactions, address customer inquiries promptly, and build strong relationships, leading to higher customer satisfaction and loyalty.

3. **Resource Utilization and Cost Management**: An optimal sales force size balances the need for adequate coverage with cost management. It prevents overstaffing, which can lead to increased expenses and diminished returns, and avoids understaffing, which can result in missed sales opportunities and overstretched representatives.

4. **Sales Growth and Revenue Generation**: A well-sized sales force can drive sales growth by effectively managing territories, targeting high-value customers, and executing sales strategies. It contributes to achieving revenue goals and supporting the company's growth objectives.

Determining the optimal size of a sales force requires a thorough understanding of market potential, sales goals, sales cycle complexity, and other influencing factors. Utilizing methods such as workload analysis, sales forecasting, benchmarking, and allocation models can help organizations determine the right team size. An appropriately sized sales force enhances sales efficiency, customer satisfaction, and resource utilization, ultimately contributing to improved organizational performance and achieving business objectives. Regularly reviewing and adjusting the sales force size based on evolving business needs and market conditions is essential for maintaining optimal sales performance.

heck Your Progress- B

Q1. What do you mean by Optimal Size of sales force?

Q2. Write a short note on the Role of Sales Force Structure

Q3. Distinguish Between sales efficiency and sales effectiveness

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Q4. Write a note on sales force structure implementation strategies

Q5. Multiple Choice Questions-

- **Which of the following best describes the purpose of sales territory management?**

  a) To assign sales goals to individual team members
  b) To ensure effective market coverage and minimize sales overlap
  c) To determine the total budget for the sales department
  d) To create training programs for new sales recruits

- **When determining the size of a sales force, which of the following factors is most crucial to consider?**

  a) The number of current sales representatives
  b) The market potential and sales goals
  c) The company's historical revenue
  d) The size of the sales territory

- **Which type of sales force structure involves assigning sales representatives to specific geographic regions?**

  a) Product-based structure
  b) Customer-based structure
  c) Geographic-based structure
  d) Market-based structure

- **What is a key benefit of having an effective sales force structure?**

  a) Increased product costs
  b) Enhanced market coverage and sales efficiency
  c) Decreased customer satisfaction
  d) Reduced need for sales training

- **What is a common strategy to ensure that a sales team is aligned with company objectives?**

  a) Implementing a commission-only compensation plan
  b) Providing regular training on product features
  c) Setting clear, measurable sales goals and quotas
  d) Increasing the number of sales territories

6.8 IMPACT OF SALES PROCESS COMPLEXITY ON STRUCTURE AND SIZE

The complexity of a sales process significantly influences both the structure and size of a sales force. Understanding this impact is crucial for designing an effective sales strategy and optimizing sales team performance. Sales process complexity encompasses factors such as the length of the sales cycle, the number of stages involved, the level of customization required, and the decision-making dynamics of customers.

Impact on Sales Force Structure

1. **Specialization**: Complex sales processes often require a more specialized sales force structure. For instance, if the sales process involves multiple stages like lead generation, qualification, proposal, and closing, organizations may adopt a functional structure where sales representatives focus on specific stages. This specialization allows for deeper expertise in handling each phase of the process, improving efficiency and effectiveness.
2. **Account Management**: In cases where the sales process is complex, particularly with high-value or long-term contracts, companies may use a customer-based structure. Sales representatives are assigned to manage specific accounts or client segments, ensuring dedicated attention and customized solutions. This structure supports relationship building and tailored service, which are crucial in navigating intricate sales processes.
3. **Coordination and Communication**: A complex sales process requires effective coordination among different roles within the sales team. If the process involves cross-functional activities or collaboration with other departments (e.g., technical support, legal), a more hierarchical or matrix structure might be necessary. This ensures that all relevant parties are engaged and that communication flows smoothly, preventing bottlenecks and enhancing the sales process.

Impact on Sales Force Size

1. **Increased Staffing Needs**: More complex sales processes typically demand a larger sales force. The need for additional roles, such as specialists for different stages of the sales cycle or account managers for high-touch customer interactions, can increase the total number of sales representatives required. Additionally, complex processes often involve longer sales cycles, which can necessitate more staff to maintain coverage and manage extended timelines effectively.

2. **Higher Training and Support**: As sales processes become more complex, the need for thorough training and support increases. A larger team may be required to ensure that all members are well-versed in the nuances of the sales process. Training programs must be robust to equip the sales force with the necessary skills and knowledge to handle complex sales effectively.
3. **Resource Allocation**: Managing a complex sales process often involves balancing a larger sales team across various functions and stages. Effective resource allocation becomes critical to avoid overstaffing in some areas while under-resourcing others. Regular assessments and adjustments are necessary to ensure that the sales force size aligns with the demands of the sales process and market conditions.

6.9 BEST PRACTICES FOR STRUCTURING AND SIZING THE SALES FORCE

Structuring and sizing a sales force effectively is crucial for maximizing sales performance and achieving organizational goals. An optimally structured and sized sales force can enhance productivity, improve customer satisfaction, and drive revenue growth. Implementing best practices in these areas ensures that the sales team is well-equipped to meet market demands and company objectives. This write-up explores key best practices for structuring and sizing the sales force.

Best Practices for Structuring the Sales Force

1. **Align Structure with Business Objectives**: The sales force structure should align with the company's strategic goals and market strategy. Whether the focus is on geographic expansion, product diversification, or customer segmentation, the structure should support these objectives. For instance, a company aiming for market penetration might use a geographic structure to ensure local coverage, while one focusing on high-value accounts might adopt a customer-based structure.
2. **Define Clear Roles and Responsibilities**: Establish clear roles and responsibilities within the sales force to avoid overlap and confusion. Different structures—such as functional, product-based, or customer-based—require well-defined roles to ensure

that each team member knows their specific duties. This clarity helps in streamlining processes, enhancing coordination, and improving overall efficiency.

3. **Leverage Specialization**: Specialization is crucial in handling complex sales processes and diverse product lines. Implement structures that allow for specialization, such as product-specific sales teams or dedicated account managers. This approach ensures that sales representatives develop deep expertise in their areas, leading to more effective selling and better customer service.
4. **Ensure Effective Coordination**: In complex sales environments, effective coordination between different roles and functions is essential. Implement a structure that facilitates communication and collaboration among sales teams, support staff, and other departments. A matrix structure or a team-based approach can enhance coordination and ensure that all aspects of the sales process are managed efficiently.
5. **Adapt to Market Changes**: The sales force structure should be flexible and adaptable to changing market conditions. Regularly review and adjust the structure based on shifts in market dynamics, customer needs, or business strategy. This adaptability ensures that the sales force remains aligned with current business priorities and competitive pressures.

Best Practices for Sizing the Sales Force

1. **Conduct a Thorough Workload Analysis**: Use workload analysis to determine the optimal size of the sales force. This involves assessing the volume of sales activities, such as prospecting, meetings, and follow-ups, and estimating the number of sales representatives needed to handle these tasks effectively. Consider factors like territory size, customer base, and sales cycle length in this analysis.
2. **Utilize Sales Forecasting**: Sales forecasting helps in predicting future sales volume and setting appropriate sales force size. Analyze historical sales data, market trends, and growth projections to estimate the number of sales representatives required to meet future sales targets. Accurate forecasting ensures that the sales force is appropriately sized to achieve desired revenue outcomes.
3. **Benchmark Against Industry Standards**: Benchmarking involves comparing the size of the sales force with industry standards and best practices. Analyze how competitors or similar organizations structure and size their sales teams. This

comparison provides insights into optimal sales force size and helps in identifying gaps or opportunities for improvement.

4. **Monitor and Evaluate Performance**: Regularly monitor and evaluate the performance of the sales force to ensure it aligns with business goals. Assess metrics such as sales revenue per representative, customer acquisition costs, and conversion rates. Use these insights to adjust the size of the sales force, reallocating resources or hiring additional staff as needed to maintain optimal performance.
5. **Implement Scalable Solutions**: Design a scalable sales force strategy that can grow with the business. Implement tools and technologies, such as CRM systems and sales force automation, to support a growing team and streamline operations. Scalable solutions ensure that the sales force can adapt to increasing demands and continue to operate efficiently as the company expands.

6.10 SUMMARY

This unit on delves into the critical aspects of designing and managing a sales team to optimize performance and achieve organizational goals. It covers how to effectively structure a sales force by defining roles, responsibilities, and reporting relationships, and how to strategically allocate territories to maximize market coverage. The unit also explores methods for determining the appropriate size of the sales team, balancing factors such as market potential, sales goals, and resource availability. Key concepts include sales territory management, quota setting, and sales forecasting, alongside best practices for aligning the sales team's efforts with overall business objectives. By understanding these elements, businesses can enhance their sales force's efficiency, drive revenue growth, and adapt to evolving market conditions.

6.11 GLOSSARY

Sales Force: The team of employees responsible for selling a company's products or services and managing customer relationships.

Sales Structure: The organizational framework used to manage and oversee a sales team, including roles, responsibilities, and reporting relationships.

Sales Territory: A defined geographic area or market segment assigned to a sales representative or team to manage and generate sales within.

Sales Quota: A target or goal set for a sales representative or team, typically expressed in terms of sales revenue or units sold, to be achieved within a specific period.

Sales Funnel: A model representing the stages of the sales process, from initial contact with potential customers to closing a sale.

Account Manager: A sales professional responsible for managing and nurturing relationships with specific clients or accounts.

Lead Generation: The process of identifying and attracting potential customers or sales leads for further engagement by the sales team.

Sales Strategy: A plan or approach designed to achieve sales targets and objectives, including tactics and methods for reaching and persuading customers.

Sales Incentive: Rewards or bonuses offered to sales representatives to motivate and encourage higher performance and achievement of sales targets.

Sales Forecasting: The process of predicting future sales performance based on historical data, market trends, and sales strategies.

Territory Management: The practice of organizing and optimizing sales territories to ensure effective coverage and maximize sales opportunities.

Sales Process: The series of steps or stages involved in selling a product or service, from initial contact with a prospect to finalizing the sale.

Key Account: A major client or customer with significant value to the company, often receiving specialized attention and services from the sales team.

Sales Cycle: The duration and stages of the sales process, from lead generation to closing a sale, including the time taken to move through each stage.

Sales Pipeline: A visual representation of potential sales opportunities and their status in the sales process, used to track and manage progress toward sales goals.

6.12 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

MCQs **1. B 2. B 3 C 4. D 5 .C**

Fill Ups

1 Sales Territory Management
2 Sales Quotas
3 Sales Funnel
4 Market Potential

Check Your Progress –B

MCQS **1. B 2. B 3 C 4. B 5 C.**

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6.15 TERMINAL QUESTIONS

1. Explain the key factors to consider when designing the structure of a sales force. How do these factors impact overall sales performance?
2. Describe the different types of sales force structures (geographic, product-based, customer-based, and market-based). Discuss the advantages and disadvantages of each structure in relation to sales management.
3. How can a company determine the optimal size of its sales force? Discuss the role of market potential, sales goals, and resource availability in this decision-making process.
4. What are sales quotas, and how do they contribute to managing and evaluating the performance of a sales force? Provide examples of how quotas can be set and monitored.
5. Discuss the concept of sales territory management. How can effective territory management enhance sales force efficiency and prevent overlap or conflicts?
6. Analyze the impact of sales force scaling on organizational performance. What are the potential challenges associated with expanding or downsizing a sales force?
7. How does sales forecasting contribute to effective sales force management? Describe the methods used for forecasting and their impact on sales force planning and resource allocation.

<u>Block II</u>

Sales Organisation

UNIT- 7 SALES ORGANIZATION

7.1 INTRODUCTION

A sales organization is a structured framework designed to manage and optimize the sales activities within a business. It plays a pivotal role in aligning a company's sales strategy with its overall goals, ensuring that sales teams are working efficiently to meet targets, serve customers, and drive revenue. In the context of both large and small enterprises, a well-organized sales structure enhances communication, decision-making, and performance across various levels.

The primary purpose of a sales organization is to manage the sales force effectively, streamline processes, and provide direction to achieve company objectives. It ensures that the company's products or services reach the target market in the most efficient and cost-effective way. A sales organization covers various functions, including market research, product promotion, sales forecasting, customer relationship management (CRM), and the actual sales process.

7.2 OBJECTIVES

After reading this unit you will be able to:

- Conceptualize the meaning of a sales organization.
- Identify with the various aspects of sales organization.
- Enlarge upon the types of sales organization.

- Comprehend the notion of a modern day sales organization.
- Outline the various benefits of sales organization.
- Enlarge on the concept of outsourced sales.

7.3 MEANING OF SALES ORGANIZATION

Sales organisation consists of human beings or individuals working jointly for the valuable promotion of merchandises produced by the company or the merchandises procured for resale. Sales organisation synchronizes the endeavours of constituents of a group to bring about an advantageous outcome. It offers a competent, fiscal and elastic organizational unit to guarantee appropriate progress of merchandises from the storehouse to the eventual customer consequently it offers acceptable occupation to purchasers and merchants. A sales organisation has a number of subdivisions hence it has an intended and well synchronized arrangement. It executes the purposes of scheduling, classifying and managing advertising and allocation of merchandises. Sales organisation is groundwork for effectual sales planning and sales policies. Methodical implementation of diagrams, strategies and agendas of a sales organisation control all the sales activities as such it guarantees utmost effectiveness and productivity without losing customer examination and contentment.

As per C.L. Boiling "A good sales organisation is one wherein the functions or departments have each been carefully planned and co-ordinated towards the objective of putting the product in the hands of the consumers the whole effort being efficiently supervised and managed, so that each function is carried out in the desired manner." Efficient sales executives persist upon reasonable association as they differentiate that the sales organization must accomplish both qualitative and quantitative personal selling purposes. Over the long heave it must accomplish qualitative purposes those concerning personal selling's anticipated payments to accomplishment of generally corporation purposes. In the short run it must accomplish the quantitative personal selling purposes not only sales quantity but other purposes related to earnings (such as observance selling expenditures within assured boundaries) and to aggressive arrangement (such as accomplishing given marketplace contributions) as accomplishing short-run quantitative personal selling purposes heralds' accomplishment of the long-run qualitative personal selling purposes.

The efficient sales executive looks upon the sales organization both in relation to here and now and to the future but the sales association makes its main donation in the present and the near term-recognizing this the effective sales executive fabricates both sales-minded less and profit-mindedness into the sales association. A sales organization is both a familiarizing point for accommodating enterprise and an arrangement of human associations. It is collection of persons striving jointly to reach qualitative and quantitative purposes and bearing comfortable and prescribed relationships to one another. Implicit in the notion of a sales organization is prescribed relationships to one another as implicit in the notion of a sales organization is the conception that individual associates oblige to accomplish ends.

The sales organization is not an end in itself but rather the vehicle by which individuals achieve given ends. Existence of a sales organization implies the existence of patterns of relationship among subgroups and individuals established for purposes of facilitating accomplishment of the group's aims. Organization defects often trace to lack of attention given to sale organization during the early existence of a company. When setting up business, management is more concerned with financing and non-marketing problems. Executives of new enterprises consider organization, but most often these relate to no marketing activities. In manufacturing, for example, as products are improved, production quantities increased, new products added, and production processes developed, the manufacturing organization is adapted to changed situations.

Comparable modifications in the sales association are recurrently abandoned or rescheduled as the associations in many companies develop without regard for altering circumstances. The essential unit intended when the corporation was new lingers in spite of for example modifies in selling style and size of sales force. The sales organization after all is the medium through which personal-selling approach is executed as a well designed sales organization like a well–designed vehicle achieves more and more inexpensively than does one that is a relic. The sales organization should be attuned to fit-ideally to predict changing circumstances as swings in marketing in competition and in other business issues describes for changes in the sales organization as the ideal sales association has a built in adaptableness allowing it to counter suitably in liquefied and assorted marketing surroundings.

7.4 FUNCTIONS OF SALES ORGANIZATION

Sales are the life blood of business as each business responsibility must have a competent sales organization for trade its merchandises. In case of small companies the administrator does this implement himself or with the facilitate of a few salesmen under their direct supervision and control and so the need for sales association does not occur but as the business enlarges and the marketplace to be wrapped becomes wider it becomes too complicated for the owner to commence and control the sales activities individually. So there happens the need for an efficient sales organization as a sales organization executes a number of utilities. The main purposes of a sales organization are specified under:

- ✓ It has to accumulate marketing data with the help of market research and other foundations.
- ✓ It has to commence product planning i.e. choose about the parcel, variety and trade names among others for the merchandises.
- ✓ It has to predict the sales and make preparations for the sales campaign consequently.
- ✓ It has to commence sales budgeting i.e. assess the credible gross revenue from sales and the selling and distribution prices so as to standardize and manage the selling and distribution expenditures.
- ✓ It has to lay down a apparent and noise selling strategy i.e. policy relating to the means or outlets of allotment, words and circumstances of sale, prices of the merchandises, the rate

of trade and cash concessions, stipulations in relation with the return of goods, the period of credit, the mode of payments among others.

- ✓ It has to commence the employment of staffing and collection of salesmen.
- ✓ It has to commence the assignment of training salesmen.
- ✓ It has to execute the chore of supervision and control of salesmen.
- ✓ It has to develop appropriate plans for compensating the salesmen.
- ✓ It has to organize for advertising and publicity.
- ✓ It has to organize sales promotion activities.

It is also related with the selling routine i.e. it has to do the routing work in relation to the sale of goods, such as responding the inquiries, accepting the orders, completing of the commands, sanctioning of credit, preparation of invoices and bills. Sending of statement of accounts, collection of outstanding amount among others.

7.5 IMPORTANCE OF SALES ORGANIZATION

A sales organisation is the apparatus through which a sales manager's viewpoint is interpreted into action. The sales organisation affords the medium for making conclusions on planning, organisation, selection and training of salesmen, their inspiration, expressing and organizing them as it also affords medium through which these judgments are executed.

As per V. Vepner, "A business organisation is like a home. It has characteristic atmosphere. In some homes the head of the household and all its members are vitally concerned about religion, politics or some other interest—the occupations of the individual members being only of minor interest. In other homes where the personality of the head of the household dominates the activities and spirit of the members the opposite occurs. Like any group a business organisation has its own culture, traditions, and to some extent its own language and climate."

According to C.L. Boiling, "A sale organisation is like a power-station sending out energy which is devoted to the advertising and selling of particular lines and there is a tremendous waste of energy between the power station and the points where it reaches the consumers. Therefore, there arises the necessity of organizing the sales department."

Sales are the life blood of business because a sales organisation is part and parcel of a business organization because all the subdivisions are cautiously interlaced in a good sales administration. The importance of a sales organization is discussed in the below points:

- ✓ As the blood circulation of a human body keeps a human being breathing and in good health correspondingly the sales toughen the company because the more are the sales the more is the profit for the company.

- ✓ Rising sales means advancement of the company and if the sales decrease it will be lethal because sales are the life blood of the company as the blood is for a human being body.
- ✓ Customers are the kings because companies manufacture commodities for the customers. The consumers must be content in the market which is full of opponents with merchandises for related utilization so the appropriate merchandises are indispensable and for this a business establishment is obligatory.
- ✓ To shift the merchandises from the industrial unit to the customers the sales establishment is indispensable for demand establishment.
- ✓ To hold the orders without delay i.e. from the periods of query to order at complete contentment to customers.
- ✓ Compilation of dues is also imperative as numerous drops make an ocean and at the same time milking cows should not be abandoned.

To keep good public relations by rectifying the grievances if any and to craft a good image of the business

Check Your Progress-A

1. What is the primary role of a sales organization?
    a. Manufacturing products
    b. Managing and optimizing sales activities
    c. Designing marketing strategies
    d. Handling customer complaints
2. A sales organization typically structures its sales force based on:
    a. Product lines, geographic regions, and customer segments
    b. Employee preferences
    c. Marketing budgets
    d. Competitor pricing
3. Which of the following is NOT a function of a sales organization?
    a. Market research
    b. Product promotion
    c. Employee recruitment for all departments
    d. Sales forecasting
4. A clear sales strategy includes:
    a. Randomized targeting
    b. Product positioning, pricing, and sales techniques
    c. Only marketing plans
    d. Customer feedback collection
5. What is a CRM system used for in a sales organization?
    a. Manufacturing products
    b. Customer Relationship Management
    c. Shipping logistics
    d. Employee attendance
6. Sales targets in a sales organization are typically set to achieve:
    a. Production goals

   b. Revenue, market share, or customer acquisition
   c. Customer complaints
   d. Office space optimization
7. Which of the following is a key benefit of having a sales organization?
   a. Inefficiency in managing resources
   b. Confusion in roles and responsibilities
   c. Better customer management and relationship-building
   d. Increased product returns
8. Sales channels in a sales organization could include:
   a. Employee engagement programs
   b. Direct sales, e-commerce, and retailers
   c. Internal communication systems
   d. Production facilities
9. Continuous training in a sales organization helps in:
   a. Reducing employee salaries
   b. Adapting to market changes and improving skills
   c. Increasing product prices
   d. Reducing work hours
10. Which of the following is considered a performance metric in a sales organization?
    a. Vacation time
    b. Customer satisfaction, revenue, and sales growth
    c. Production speed
    d. Employee dress code

7.6 SUCCESSFUL SALES ORGANIZATION

When sales are downhill many businesses are predisposed to put culpability on the efficiency of their sales personals and while endowment occasionally plays a character flourishing sale endeavours are not just about spotlighting on the individuals. Flourishing sales are the consequence of taking a complete approach focusing at the apparatus, knowledge, approach, education and surroundings that the sales purpose needs for the persons doing the selling to accomplish their ambitions. People connect this to captivating squads whereas the squads focus on the aptitude of the players because winning squads work because they have the accurate apparatus, the accurate configuration, the precise trainers and an attractive policy.

As an illustration a year after applying the seven strategies given underneath a regional insurance firm made a twenty five percent enlargement in requests and the outcome was a considerable raise in proceeds. Conceivably just as imperative was the information that the organisation also tackled the business's sales operation as a total leading to a modernized procedure effecting in even superior prosperity. This was improved by making the submission procedure more resourceful moving to a well-designed client responsive online submission procedure that diminished the call centre dimensions.

The subsequent seven centre features are the explanation to not only escalating sales but to reshuffling the endeavour it takes to do so resultant in superior productivity for the business:

- ✓ **Strategy Configuration:** The whole business has to have an apparent realizing of the general business vision and the sales strategy should completely sustain this vision and pose the business to fruitfully influence its market unique points.

- ✓ **Business Efficiency:** The interdepartmental business including peripheral vendors in the value-chain should be completely optimized to transport and implement on the sales plan.

- ✓ **Capacity Improvement:** The business should have the ability to hire on the team and widen the precise endowment and reserves to guarantee the appropriate career evolution while making sure that the wellbeing and durability of the corporation and the contentment of its workers.

- ✓ **Manoeuvre Enablement:** The business should have the apparatus, procedures and date to carry and implement on the sales plans in an efficient and competent behaviour.

- ✓ **Prospect Administration:** The business should constantly utilize established methodologies and sales traditions with ascertained incessant enhancement process in place to assist and develop client association and capitalize on value across all touch points.

- ✓ **Answerability:** The business should be in a position to recognize the correct performance supervision metrics and detain the essential information to correctly gauge efficiency and steer individual responsibility while correctly incentivizing the personal donors.

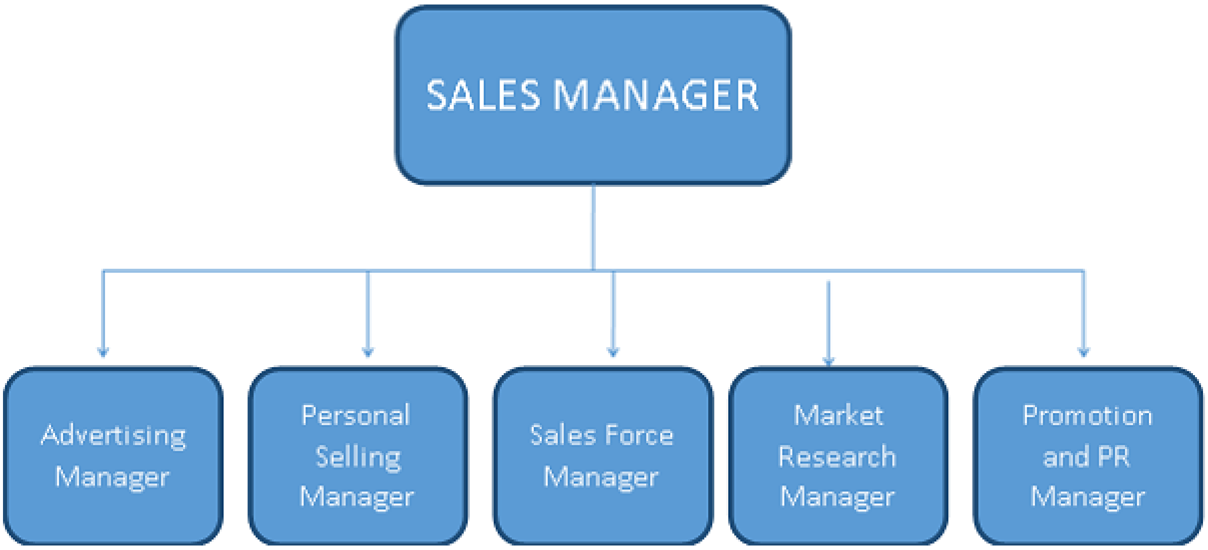
- ✓ **Client Recognition:** The business should be in a position to have an cherished and perceptive appreciative of its present and prospective consumers which facilitates it to linger eternally pertinent by distributing the precise product or services to the precise client at the right time, place and value.

Types of Sales Organization:

A company is devised in an approach where the organization can categorize the work or activity executed by a person or cluster. The functions and tasks are classified which assists in constructing associations to facilitate individuals to work efficiently and resourcefully as this assists in attaining the objectives of the association. The subsequent are the four categories of sales organizations:

1 Functional Type:

Functional type of sales organization is separated and classified on the foundation of the occupations executed the subsequent diagram shows a functional type of sales organization.



The above diagram shows the functional type of sales organization. The following lines talks about the advantages and disadvantages of functional type of sales organization.

Advantages of Functional Type: The subsequent are the advantages of a functional type of sales organization:

- ✓ **Specialization:** In the above diagram one can observe that the separation has been made as per the functions by this one can suppose each function is dedicated in its action.
- ✓ **Elasticity:** The number of subdivisions can be inserted or eliminated as per the conditions of the company.
- ✓ **Decision Making:** Decisions can be made swiftly as the individual would be a professional in their respective division and will be conscious of the impact of their judgment.
- ✓ **Synchronization:** The synchronization between the various occupations can be done without problems.

Disadvantages of Functional Type: Let us now comprehend the difficulties related with functional type of sales organization:

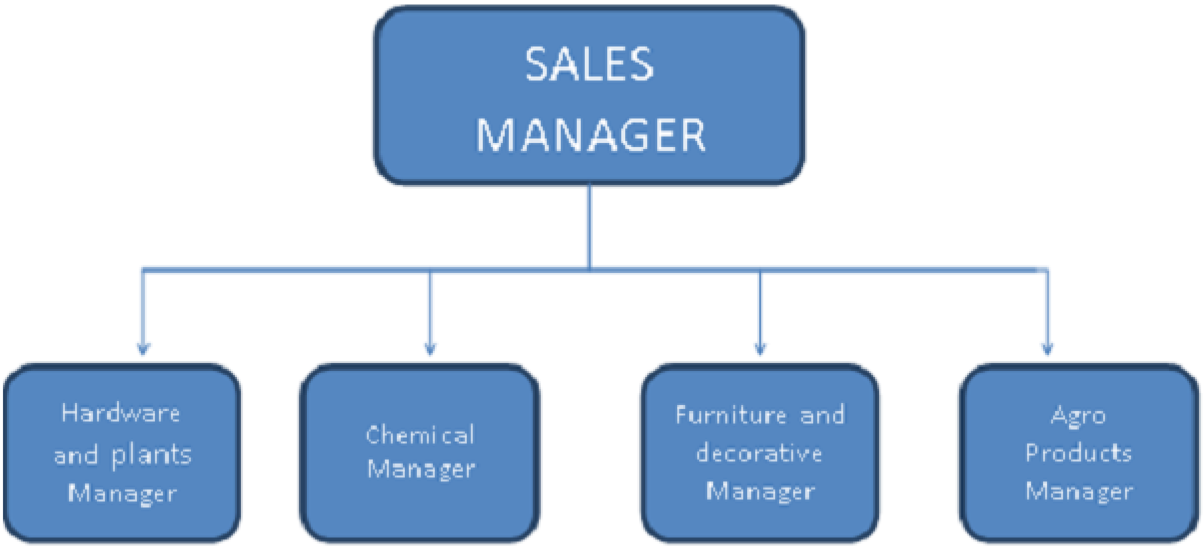
- ✓ **Appropriate Awareness:** Every subdivision is only dedicated in their own doings therefore there is no thought is given to the product or service.
- ✓ **Hindrance:** There is hindrance in making decisions because of synchronization between all the subdivisions.
- ✓ **Synchronization:** From the above diagram one can observe that all the subdivisions report to the General Manager as a result in times of high demand it may become complicated for the General Manager to sustain synchronization between the various subdivisions.
- ✓ **Quarrels:** There is constantly disagreement between the various subdivisions due to being dedicated only in one core area and deficiency of cross training.

In general functional type of sales organization is appropriate where the association structure is small in size with having limited merchandises.

2 Product Type:

This type of dissection is made as per the merchandises of the company. The business separates the subdivisions based on the merchandises.

The subsequent diagram illustrates the design of the product type of sales organization.



Advantages of Product Type: The advantages are discussed below:

- ✓ **Appropriate Awareness:** Because of the separation as per the product each product gets necessary concentration.
- ✓ **Speciality:** The salesperson is particular in explicit products therefore they have the benefit in managing the division.
- ✓ **Accountability:** The accountability can be effortlessly allocated to a salesperson because all the salespersons are dedicated in their particular product or division and are well acquainted with the merchandise which assists them to grip clients effortlessly.

Disadvantages of Product Type: The disadvantages are discussed below:

- ✓ **Synchronization:** There would be dilemma of synchronization between two product divisions.
- ✓ **Selling Expenditure:** The selling expenditure of merchandise may amplify because of the separation as per the merchandises.
- ✓ **Functioning Expenditure**: Functioning expenditure may also rise because of each good being treated in a different manner.

- ✓ **Autonomy:** There is no restriction on the autonomy enjoyed by workers because the salesperson is dedicated only on their particular good or division will not be able to grip other good or division of the company. .

Suitability of Product Type: Product type is appropriate in the subsequent instances:

- ✓ Where the business has many merchandises and it can segregate the divisions as per the goods.
- ✓ Suitable for business which sell products which have high price tag.
- ✓ When the merchandises of a business are more technical oriented and the company can segregate the divisions as per the merchandises because the salesperson will be competent and valuable to converse the merchandise with the client in an efficient manner.

3 Consumer Specialization Type:

As per the consumer specialization the divisions are segregated on the basis of the clients to whom the merchandises are proposed. Most of the time market appearance plays an imperative responsibility in knowing the customer requirements and to segregate the divisions consequently.

The subsequent diagram illustrates the design of the consumer specialization type of sales organization:

Advantages of Consumer Specialization Type: The advantages are given below:

- ✓ **Customer:** Here the separation is as per the customers so that each customer gets appropriate consideration.
- ✓ **Customer Contentment:** Customer contentment is the first precedence as greatest provisions are given to the customer.
- ✓ **Preparation and Strategies:** The sales planning is completed in an appropriate technique and strategies considered keeping each grouping in focus to accomplish the objective.
- ✓ **Trademark:** The association is competent to accomplish customer needs, wants and generate its own trade name to increase market share.

Disadvantages of the Consumer Specialization Type: The disadvantages are given below

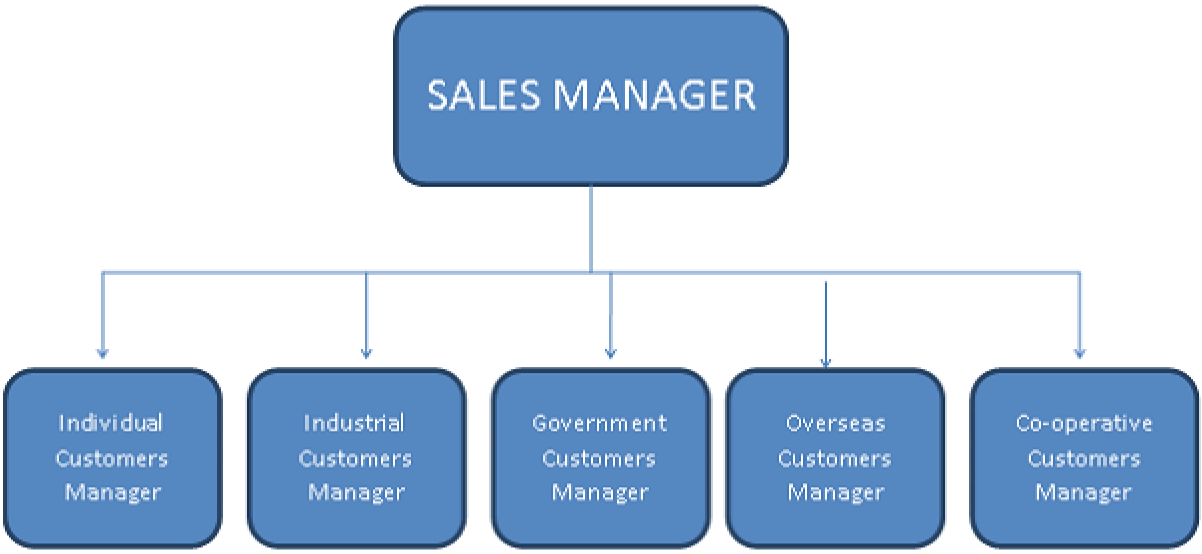
- ✓ **Expenditures:** The expenditures for the business is to fabricate and plan as per the customer and increase the market are huge.
- ✓ **Sales Activities:** It becomes tricky for the sales manager to synchronize the sales activities of the salesperson.
- ✓ **Investments:** In this case of speciality the investments are towering and occasionally replicated which in turn is a thrashing for the business.

Suitability of the Consumer Specialization Type: Consumer type is appropriate in the subsequent cases:

- ✓ When there are a large number of customers who are looking out for unique facilities.
- ✓ The clients are ready to shell out for the services offered at this juncture the objective is predominantly foremost clients.

4 Area Type:

In this type of business divisions are separated as per the characteristics of areas they can also be separated geographically. The subsequent diagram demonstrates the design of the area type organization.



Advantages of Area Type: The advantages are as follows:

- ✓ **Products:** Clients can be provided with the most modern products and personalized merchandises.
- ✓ **Logistics Expenditure:** Logistics expenditure can be diminished because the separation has been made as per the neighbourhoods.

- ✓ **Client Service**: The business can make available better client services as the separation is made as per the neighbourhood accordingly the business can comprehend the client psychology and insight better.
- ✓ **Sales Performance:** The sales performance can be evaluated as per the regions and actions can be engaged to improve.

Disadvantages of Area Type: The disadvantages are as follows:

- ✓ **Expensive:** It is expensive in as contrast with other categories and raises expenditures of the business.
- ✓ **Marketplaces:** It becomes complex for synchronization for the General Manager for dissimilar marketplaces.
- ✓ **Disagreements:** There may be disagreements in relation to resource allocation between the various regions.

Suitability of Area Type: The area category of business is appropriate in the subsequent instances:

- ✓ When the region or the province for market is very huge.
- ✓ Where the marketplace is dissimilar based on region.
- ✓ Where the product is distinguished depending on the region.
- ✓ Where the sales volumes are elevated and produce more incomes

7.7 BENEFITS OF SALES ORGANIZATION

Sales organization is a division in business inside the company as per the sales obligations because sales organization is held accountable for the sales and distribution of goods and services. The selling component is symbolized as a legal unit because the salesperson plays a decisive role in the sales company because they are accountable for many actions in the business. Let us now comprehend the benefits of sales organization.

- ✓ **To Chart Procurement:** The sales of the business are dependent on the sales expectation as the sales will enhance only when the customer procures the goods or services. Consequently the business has to plan the sales as per the customer requirement and desire detonating where they want the product, what they want and so on because the planning and expansion is carried out to please the requirements of the clients.
- ✓ **To Generate Blueprint of Demands for Merchandises:** The demand of the product is generated to lead to sell in the marketplace when a product is produced in the industrial unit but it is not sold robotically. Salespersons push the product to the clients but even they cannot compel the customer to purchase the product. The sale depends on the customer's requirements and observation as this need is crafted by the selling skills, promotions through advertisements which in turn help in creating demand in marketplace.

- ✓ **To Lever the Orders Received:** This is a significant stride where the salesperson has to respond to the calls and queries of the clients, take orders and make the product prepared as per the demand of consumers. Ultimately the products are packed and transmitted as per the anticipation of customer all these are crucial and useful assignments.

- ✓ **To Gather the Dues:** Sales cannot always be done for cash because most of the sales are made on credit. It's very complicated for a business to execute only on the basis of cash sales in this competitive market as credit sales play a critical role. After the credit sales have been completed the business has to collect dues. It is a very demanding mission as the salesperson has to preserve the dealing and still get the task done.

- ✓ **To Handle the Task of Personnel Management:** Every association wants best sales personnel to boost the sales and this depends on training. The association has to choose, coach, inspire, observe and organize its sales personnel at this point the corporation has to make an outlay in sales personal.

Modern Sales Organization:

How sales organizations look and function has altered radically in recent years with around ninety percent of purchasing procedures now opening with an internet search and this enormous alteration in purchaser's conducts has many business speculating what they can do to keep buoyant during this alteration phase. It's no doubt that even with a completely hoarded team of competent persons companies are finding themselves at a breaking point trying to scrutinize existing procedures and structures. In the recent years sales personals were spending much less time on the selling process which is much less than they used to spent in the earlier decades so how do sales managers get their team back on path and understanding the contemporary sales procedures that will keep them at the forefront of the game.

The manner in which the sales experts job is changing the world has arrive at a new age leaving the sales industry in much of the same state of affairs as the marketing industry was in the late 2000's without comprehensible indications of what's to come. The science of selling is buyer-centric and necessitates that sales expert's focus on the value of what they're selling. Consumers want to know how a product will change their daily lives relatively than basically the attributes of the merchandise. How can a sales association become accustomed to generate the most favourable course for a purchaser?

- ✓ **Modern Day Sales Organizations Exploit Technology and Effectiveness:** The first step into the contemporary sales world should be to distinguish the significance of the digital world. Having an armoury of workers well-versed in technology keeps your sales team malleable to the ever-changing market. Going digital first in the last few years is a no-brainer as digital means grants more than twenty percent of incomes for around forty percent of fast-growing B2B and customer business. Internal procedures when equalled with the functioning of technology can factually change the company from the inside out. Even though numerous business assert to be process-driven but the matter of the fact is that very few are. To make it in the modern sales nation focus on implementing technology and bettering internal sales procedures relatively than recruiting more employees. The carry off is that contemporary sales experts are tech-savvy and employ new technologies to modernize better sales progressions.

- ✓ **Modern Sales Organizations Centre of Attention is Value and Not Just the Good:** Conventionally sales organizations give importance on building associations. Association building with clients is an imperative advantage of a trusted sales business but it is not the most significant value-add. Somewhat modern sales organizations comprehend that the most important value-add to buy is value itself. Clientele want to know how an outlay will absolutely alter their daily lives and it's that status united with competence and superior associations that will keep generating leads. Most sales managers aren't adapting to the changing market at the speed that purchaser's conducts are changing thus creating an enormous delta. Contemporary purchasers find merchandises physically and do their research more than seventy five percent clients favour seeing various portions of content while moving through the sales channel and by adding value across numerous stages to a purchase a purchaser has a wide-reaching pure familiarity with the product. The trade off is that modern sales organizations give importance to competence and value. They employ persons who add enormous value and actually act as experts rather than product pushers.

- ✓ **Modern Sales Organizations are Varied:** Astonishingly the constituents of squads within both conventional and contemporary sales organizations are moderately identical and comprise of marketing squads, sales experts, leaders of sales & new business possessions, channel partner manager and a function and execution squad. The elementary distinction between contemporary and conventional sales organizations is the multiplicity and competence of the squad. Across industries the average age of a leader is around forty years and it's at this age that they first get leadership training as it comes as no bombshell that many sales managers have a tricky time finding and retaining an efficient squad. Squads who are gender diverse are more probable to do better than squads with a low gender variety and this number jumps for ethnically assorted squads. Winning sales teams take benefit of their dissimilarities to produce innovative thoughts and encourage their own lead method. The carry off is that modern sales managers must make space for a assorted situation and adapt their procedures and team arrangement at the same rate that purchaser's customs are shifting.

- ✓ **Modern Sales Organizations Employ Professional Freelancers Before Full Time Workers:** Hiring a full time worker permits sales teams to have a everlasting working expert at their board but what many sales professionals don't recognize is the choice to employ only full-time team members can be limiting and expensive. Even though freelancers habitually charge more per hour than a conventional full-time worker employing a full-time staff member comes with extra charges that can increase your payroll. Modern sales organizations appreciate the magnitude of having a system of industry professionals also known as freelancers. In the next few years a good number of America's employees will be contractors meaning that the pool of qualified industry specialists is already increasing. Employing skilled freelancers allows sales teams to see which locations are most efficient in-house by employing for proficiency and inevitability rather than ease the team will be able to rise faster and more resourcefully. The carry off is that the spotlight on hiring industry professionals who are in line with your business and its values and by doing so the company will be able to clean-up your in-house procedures and synchronize endeavours with freelancers to research and find what works for the business.

Go additional with Actionable Information: Information tracking is a custom within conventional sales organizations but much of the time squads are running after the incorrect information. Many sales companies focus on collecting big data i.e. pipelines, closed deals or leads generated which helps them to track their progress and from the outside information is symbolized as one clean line but once the company start to peel back coats of information they are left with a bumpy and mountainous grid nonetheless this information often doesn't lead to income increases or more leads generated. Big data doesn't emphasize where the lead or revenue generation is going array amazingly only a very small percentage of sales leaders track lead follow-up rate. Real change is probable when sales teams reconsider information that goes down to the delegate point various apparatus help track both statistics and progress in modern sales organizations and these numbers symbolize who's doing what or who's closing more deals.

Implications of Outsourced Sales:

Sales outsourcing is a technique for business to draw boosted high volumes of sales for their products or services by using a third party. The business characteristically uses outsourcing firms to develop sales volumes lacking connections to the sales teams that carry out those operations. The firm that assumes the outsourcing will usually be paid based on the consequences they are able to produce and consequently generates equally advantageous circumstances for both consumer and the outsourcing business. Full sales outsourcing is viewed when business have an outside third party sales force as it is differentiated from value added reselling or sharing in that the business model can be based on shared risk even though there are models where the outsourcer is paid for all of their activity just as with a hired direct sales force but the outsourcer provides speediness, elasticity and knowledge other names for sales outsourcing comprise indirect sales and channel sales.

Full sales outsourcing is dissimilar from telemarketing in that it necessitates direct recruitment of sales personnel with precise backdrops for each sales operation. Frequently the sales executives will be part of a team that may include telemarketing, marketing, apparatus structures and methodologies as well as sales management. Sales outsourcing companies offer answerability in relation to all sales effects and activities while representing the brand of the customer and for the end-customer it typically emerges as if the sales team sold the product themselves rather than the sales outsourcing firm. The outsourcing company is in spirit an extension of the client but is accountable for all process connected with direct sales activities often receiving sales engineering and initial product or service training support from the customer.

The only rationale of a contract sales organization is to afford sales resource to its customers without taking name to their merchandises. Sales outsourcing suppliers include manufacturers' agents, contract sales associations, sales agents or sales outsourcing consultants. One way of organising the sales endeavour particularly when product deliverance is unpredictable is to restore or supplement internal resources with functionality and expertise brought in from contract sales organisations. Sales outsourcing is fairly dissimilar from large-scale service outsourcing which has its benefits but also necessitates pro-active contract and relationship management. In addition to full sales outsourcing many partial models are examined predominantly in huge companies.

Advantages of Outsourced Sales:

Sales outsourcing is a great chance to supplement the sales team and expand the company and enhance the profits however company managers are often unenthusiastic to outsource any of their sales functions since these areas are considered as core areas in relation to the overall sales strategy. Renouncing any degree of control over a characteristic of the sales process can be dangerous predominantly when sales managers are on the popper for hitting presentation goals and in other instances there's a fear of the unknown. Some of the advantages are discussed below:

- ✓ **Aim at New or Underserved Areas:** Small businesses, mid-market and even big business are often elongated when it comes to having the right number of salespeople to cover different territories and vertical industries. In addition business often has abundant business leads available to them that they're incapable to trail because of resource limitations. Hence sales outsourcing help the companies to aim at new or under-served areas to help increase their sales.

- ✓ **Leapfrog Technology Limitations:** Investing in the latest instruments is one thing but having the acquaintance and proficiency to influence those instruments is another. It's not just about having the instruments it's about knowing how to get the most value out of them which is why you need specialists. Business can accomplish time-to-market advantages by outsourcing to a collaborator that has built and preserves state-of-the-art information and technology situations.

- ✓ **Break Out of Silos:** An outsourcing business model permits business to manage to outcomes in a more direct way than can be sometimes done in an in-house sales organization. The truth is many teams function in a silo as most internal sales teams don't frequently work together with marketing or other divisions. Furthermore each team may not approach concerns holistically and in its place preserves a laser focus on departmental tasks. The process of sales outsourcing helps the companies to break this silo and makes them ready to face the reality.

- ✓ **Support New Product Rollouts:** One of the furthermost gains to outsourcing sales and marketing is that it can permit a business to use an outsourcing partner as a sandbox atmosphere to test out new crusades and endorsements as part of their sales strategy. For instance an IT firm partnered with the call customers and views about new products it's testing. The company then analyzes the outcomes and decides whether or not to commence the product into the market or make adjustments based on opinion it has received

Check Your Progress- B

1. The effectiveness of a sales team is directly linked to:
   a. Company branding
   b. Market research departments
   c. The organization's overall sales performance
   d. Employee work-life balance
2. A sales force organized by geographic region focuses on:
   a. Promoting one product to all customers
   b. Serving specific customer needs in distinct locations

   c. Following random leads
   d. Targeting only e-commerce customers
3. Sales automation tools primarily help with:
   a. Speeding up manufacturing
   b. Reducing paperwork and tracking customer interactions
   c. Increasing prices
   d. Monitoring employee attendance
4. In a product-based sales force structure, the sales team is organized:
   a. Based on different customer groups
   b. By geographic territories
   c. By the specific products they are responsible for selling
   d. According to employee preferences
5. What is the purpose of setting sales quotas?
   a. To confuse the sales team
   b. To measure sales performance against set targets
   c. To allocate office space
   d. To regulate company expenses
6. Which of the following is a challenge faced by sales organizations?
   a. Managing customer data
   b. Rapid technological changes
   c. Employee recruitment
   d. Designing office interiors
7. A customer-centric sales approach focuses on:
   a. Meeting company sales targets without considering customer needs
   b. Understanding and satisfying customer needs
   c. Selling low-quality products at high prices
   d. Ignoring customer feedback
8. A well-structured sales organization helps with:
   a. Slow decision-making
   b. Efficient resource allocation and scaling as the business grows
   c. Reducing customer satisfaction
   d. Increasing costs
9. Sales organizations typically use which type of strategy to sell products?
   a. Market-driven sales strategy
   b. Cost-cutting strategy
   c. Employee retention strategy
   d. Stock market investment strategy
10. The overall success of a sales organization depends on:
   a. Sales force training, technology, and customer relationships
   b. Reducing product quality
   c. Cutting down the sales team
   d. Limiting customer communication

7.8 SUMMARY

A **sales organization** is a formal structure within a business dedicated to managing and optimizing sales efforts. It aligns the company's sales strategies with its overall goals, ensuring that products or services reach the target market efficiently. The sales organization encompasses various functions, including market research, sales force management, customer relationship management (CRM), sales forecasting, and performance evaluation.

Effective sales organizations structure their sales force based on product lines, geographic regions, customer segments, or sales channels. The primary goals are to drive revenue, enhance customer satisfaction, and ensure that sales teams meet or exceed their targets. Sales organizations use tools like CRM systems, analytics, and automation to streamline operations, track performance, and forecast future sales.

The structure and efficiency of the sales organization are critical to a company's success. By focusing on sales strategy, team training, customer management, and the proper allocation of resources, businesses can increase their competitiveness, improve decision-making, and ultimately grow their market share.

7.9 GLOSSARY

1. Sales Organization: The structured framework within a company that manages all sales-related activities, from sales strategy development to execution.
2. Sales Force: A team of individuals within a sales organization responsible for building customer relationships, generating leads, and closing deals.
3. Sales Strategy: A plan that outlines how a company will sell its products or services, including target markets, pricing, and sales techniques.
4. CRM (Customer Relationship Management): A technology system used to manage a company's interactions with current and potential customers, helping track sales, manage leads, and improve customer service.
5. Sales Forecasting: The process of predicting future sales based on historical data, market trends, and sales team performance.
6. Sales Channels: The various methods through which a company sells its products, such as direct sales, e-commerce, distributors, or retailers.
7. Sales Quota: A specific sales target assigned to a salesperson or team to achieve within a given time frame.
8. Sales Automation: Tools or software that automate repetitive tasks in the sales process, such as lead tracking, customer follow-ups, and data entry, to improve efficiency.
9. Sales Performance Metrics: Key indicators used to measure the effectiveness of the sales team, such as revenue growth, customer satisfaction, and the number of sales closed.
10. Sales Force Structure: The way a sales team is organized, typically based on product lines, geographic regions, customer types, or sales channels.
11. Sales Funnel: The step-by-step process that potential customers go through, from the initial contact to making a purchase, often visualized as a funnel with different stages.
12. Target Market: The specific group of consumers a sales organization aims to reach with its products or services.
13. Sales Training: Programs designed to improve the skills and knowledge of the sales team, such as customer handling, product knowledge, and sales techniques.
14. Key Accounts: High-value customers that are critical to a company's business and are often given special attention by the sales team.

15. Lead Generation: The process of identifying potential customers who may be interested in a company's products or services.
16. Sales Territory: A geographic or customer segment assigned to a salesperson or sales team to manage and generate sales.
17. Market Penetration: A strategy where a company tries to sell more of its products or services within an existing market.
18. Cross-Selling: The practice of encouraging existing customers to purchase additional products related to the ones they already own.
19. Up-Selling: A sales technique where the salesperson encourages the customer to buy a higher-end product or upgrade.
20. Sales Pipeline: A visual representation of where potential customers are in the sales process, helping sales teams prioritize efforts and close deals.

7.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

1. B) Managing and optimizing sales activities
2. A) Product lines, geographic regions, and customer segments
3. C) Employee recruitment for all departments
4. B) Product positioning, pricing, and sales techniques
5. B) Customer Relationship Management
6. B) Revenue, market share, or customer acquisition
7. C) Better customer management and relationship-building
8. B) Direct sales, e-commerce, and retailers
9. B) Adapting to market changes and improving skills
10. B) Customer satisfaction, revenue, and sales growth

Check Your Progress –B

1. C) The organization's overall sales performance
2. B) Serving specific customer needs in distinct locations
3. B) Reducing paperwork and tracking customer interactions
4. C) By the specific products they are responsible for selling
5. B) To measure sales performance against set targets
6. B) Rapid technological changes
7. B) Understanding and satisfying customer needs
8. B) Efficient resource allocation and scaling as the business grows
9. A) Market-driven sales strategy
10. A) Sales force training, technology, and customer relationships

7.11 REFERENCES

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7.13 TERMINAL QUESTIONS

Q.1 Explain the meaning of a sales organization?
Q.2 State the functions of a sales organization in India.
Q.3 Give a brief outline of the importance of a sales organization?
Q.4 Describes the features of a successful sales organization as found in India?
Q.5 Analyze various advantages and disadvantages of a functional type of sales organization?
Q.6 Figure out the product type of a sales organization and its various aspects?
Q.7 Explain consumer specialization type of sales organization and its areas of suitability?
Q.8 Discuss the importance of area type of sales organization for an FMCG company.
Q.9 Comprehend the prominent attributes of a modern sales organization in detail.
Q.10 Furnish a brief outline regarding the benefits of a sales organization in recent years?
Q.11 Discuss the various aspects of sales outsourcing for an IT company in India?
Q.12 What are provisions of sales outsourcing in Indian legal laws?
Q.13 Discuss various perceptions of sales outsourcing from viewpoint of global scholars

UNIT- 8 SALES ORGANIZATION AND ITS TYPES-

TYPES OF SALES ORGANIZATION STRUCTURES AND OUTSOURCED SALES

8.1 INTRODUCTION

An organization of sales is an organized framework in a business to enable coordinating, designing, and executing sales activities. The general outcome of such an organization is revenue generation and the development of proper relationships with customers. Such an organizational structure would be crucial when aligning sales strategies with company objectives, efficient resource allocation, and the different needs of the market. Creating a well-structured sales organization makes for effective processing sales, a high performance of the teams, and an effective response to market demands and customers' preferences.

Sales organizations may take various forms, and could stretch from operational to strategic needs. Some of the most common ones include geographic structures, whereby teams work with specific regions, product-based structures specialize in different types of products, and customer-based structures focus on a particular customer segment. More than this, market-based and hybrid structures are flexible when faced with complex conditions of the market. Different structures assist businesses in choosing the best structure for the most optimal means of optimizing sales efforts, enhancing market penetration, and thus the achievement of growth objectives.

8.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the General Function of Sales Organizations
- Determine and Define Various Types of Sales Organizations
- Discuss how various sales structures can impact business performance
- Explore the concept and benefits of outsourced sales
- Analyze the risks and challenges in the selling process and outsourced sales alignment with in-house sales planning and deployment strategy

8.3 UNDERSTANDING SALES ORGANIZATION

A sales organization is a core business function that effectively carries out the sales strategy and generates revenues. Its structure and roles are designed to optimize sales performance and to achieve overall business objectives. Thus, learning the concept and definition of a sales organization will help companies better design their sales strategies, manage their sales teams, and realize their growth goals. Strategic alignment within the sales organization and effective management is important to sustain long-term success and competitive advantage. Understanding a sales organization deals with understanding it as an important part of a business that orchestrates the processes and activities necessary for generating revenue.

Fundamentally, the sales organization is structured to strategize, execute, and orchestrate sales plans that favor the main goals of the organization. Its members include sales representatives, managers, and directors, all playing integral roles in the implementation of the sales plan. A sales organization's structure differs based on whether it focuses on geographic, product, or customer factors in the attempt to tackle various challenges of the market and optimize performance. Role management, therefore, ensures that resources are utilized effectively and that sales goals are achieved while maintaining a customer relationship. An efficiently working sales organization is also one of the significant components of business performance because its functionality affects market presence directly, as well as revenue growth.

It is far more than merely recruiting sales people; it demands strategic fit into the company's broader business strategies, constant monitoring and assessment of performance, and adaptation to market dynamics. A sales organization should encourage collaboration among members, enable communication at various levels, and utilize data better as the basis for decision-making processes. This approach will guide the development of a sales structure that will make productivity prolific, ignite efficient selling strategies, and thus benefit the company with competitive advantage and long-term profitability.

8.4 DEFINITION AND ROLE OF SALES ORGANIZATIONS

A sales organization can be defined as a structured system within a company dedicated to managing the processes involved in selling products or services. This structure typically includes various roles, processes, and resources designed to execute sales strategies effectively. The organization is responsible for the planning, execution, and monitoring of sales activities, aiming to maximize revenue and market share. Key components of a sales organization include the sales force, sales management, and supporting infrastructure.

Sales organizations are critical to business success, and different authors have offered various definitions and perspectives on their structure and function. Here's a summary of how several notable authors define sales organizations:

1. Philip Kotler

Philip Kotler, a leading marketing scholar, defines a sales organization as a structured entity responsible for achieving sales targets through the effective management of sales personnel and strategies. According to Kotler, a sales organization includes the processes of planning, organizing, and controlling sales activities to ensure they align with broader marketing and business objectives. Kotler emphasizes the role of a sales organization in coordinating sales efforts, managing customer relationships, and driving revenue growth.

2. Peter Drucker

Peter Drucker, renowned for his management theories, views a sales organization as an essential component of a business's overall management system. Drucker defines it as a mechanism designed to implement the company's sales strategy, focusing on efficiency and effectiveness. He highlights that the primary function of a sales organization is to convert market opportunities into sales results through systematic management and strategic alignment. Drucker stresses the importance of understanding customer needs and organizing sales efforts to meet those needs effectively.

3. David A. Aaker

David Aaker, a marketing professor and author, defines a sales organization as a framework that supports and executes a company's sales strategies and objectives. Aaker emphasizes the importance of structuring the sales force, developing sales strategies, and managing sales processes to achieve business goals. He discusses how a sales organization should be designed to facilitate communication, coordination, and collaboration among sales teams, ensuring that sales efforts are aligned with the company's overall strategy.

4. John E. Capon

John E. Capon, a specialist in sales management, defines a sales organization as a formal system of roles and responsibilities within a company that focuses on selling activities. Capon underscores that a sales organization is responsible for developing and implementing sales plans, managing sales personnel, and optimizing sales processes. He highlights the importance of a well-defined sales structure to manage resources effectively and achieve sales targets.

5. Kurt Matzler

Kurt Matzler, a business strategy expert, defines a sales organization as a structured entity that drives the sales process through the strategic allocation of resources and management of sales teams. Matzler focuses on the alignment of sales activities with market opportunities and business goals, emphasizing the need for a flexible and responsive sales organization that can adapt to changing market conditions and customer demands.

6. W. Edwards Deming

W. Edwards Deming, known for his work in quality management, describes a sales organization as a system within a company that aims to improve sales performance through continuous process improvement. Deming's definition focuses on the sales process by encouraging systematic analysis and improvement for higher efficiency in sales strategies and operations.

All of these authors have collectively made valuable contributions through their own individual views on what a sales organization is, and its role for the organization to prosper through effective management and strategic alignment.

ROLE OF SALES ORGANIZATION:

Sales organizations, therefore, are the driving wheels of revenue generation by a company and its market success. They operate with strategic sales plans that are in line with the broad business objectives. This includes managing the entire cycle of the sales process from lead generation to closure of deals and also developing and sustaining customer relations along with satisfaction of the customer. Sales organizations help reach the right target market, fine-tune tactics to optimize the sales process, and adapt for changing customer needs through effective coordination of sales efforts. Their role goes beyond transactions as they help create long-lasting customer loyalty and repeat business, which is essential for sustained growth.

Sales organizations also serve as a liaison between the company and its customers, which enables the company to gain valuable market insight and feedback that can be useful for developing and marketing products. They play a significant role in capturing and analyzing data related to customer preferences, market trends, and competitor interactions. All these help the companies refine their offerings, adjust pricing strategies, and enhance their market position in overall terms. Thus, proper sales data management and usage enable the organization to do itself better as well as contribute to the competitive advantage of the organization within the marketplace while supporting strategic decisions.

Each of these authors provides a unique perspective on the definition and role of a sales organization, highlighting its importance in driving business success through effective management and strategic alignment.

ROLE OF SALES ORGANIZATION

Sales organizations play a pivotal role in driving a company's revenue and ensuring its market success. They are responsible for executing the strategic sales plans that align with the company's overall business objectives. This involves managing the sales process from lead generation to closing deals, nurturing customer relationships, and ensuring customer satisfaction. By effectively coordinating sales efforts, sales organizations help in targeting the right market segments, optimizing sales tactics, and adapting strategies to meet evolving customer needs. Their role extends beyond mere transactions; they contribute to building long-term customer loyalty and driving repeat business, which is essential for sustained growth.

Additionally, sales organizations serve as the bridge between the company and its customers, providing valuable market insights and feedback that inform product development and marketing strategies. They play a critical role in capturing and analyzing data on customer preferences, market trends, and competitive dynamics. This information helps the company to refine its offerings, adjust pricing strategies, and enhance overall market positioning. By effectively managing and leveraging sales data, sales organizations not only improve their own performance but also contribute to the company's strategic decision-making and competitive edge in the marketplace

8.5 OBJECTIVES AND GOALS OF SALES ORGANIZATIONS

Any company that sells its company's products or services primarily looks to generate revenue through effective promotion and selling. Such fundamental goals are achieved through several strategies: increase market share, attract new customers, and retain existing customers. Sales organizations are concerned about finding target markets, discovering customer needs, and developing customized approaches for the job. The sales team should synchronize overall business objectives with sales strategies so that the company can attain the desired financial outcomes and ascertain long-term profitability. The other important objective of a sales organization is to develop and maintain a sound relationship with the customer.

Such would include not only acquiring new customers but also taking care of the old ones by high-quality service and support. Great sales teams use CRM systems and other means to record interaction, receive feedback, and modify their approach to improve customer satisfaction, leverage loyalty, and get repeat business. Strong relationship also gives valuable referrals and positive word-of-mouth, adds to the success of the organization. Sales organizations also work on increasing operational efficiency and effectiveness.

This includes setting measurable performance standards, such as the amount of sales worth, conversion rates, and average deal size to measure and optimize the productivity of the team. The sales organizations now have also paid their attention towards simplifying the processes with the assistance of cost-cutting best practices and technological solutions. Training and development programs are the required tool that enables the performance of the best job possible for the sales representatives. Better bet would be to continually improve operations and invest in their teams as the change of market is leading ahead.

Check Your Progress-A

Q1. State the meaning of Sales Organization?

Q2. Explain the Role of Sales Organization.

Q3. MCQs

- **What is the primary role of a sales organization?**

  A) Product Development

  B) Financial Management

  C) Revenue Generation

  D) Human Resources Management

- **How does a sales organization contribute to customer satisfaction?**

  A) By managing the company's inventory

  B) By designing marketing materials

  C) By building and maintaining strong customer relationships

  D) By overseeing production processes

- **What role does a sales organization play in strategic business decision-making?**

  A) It provides market insights and customer feedback to inform product development and strategy.

  B) It handles all aspects of financial reporting and budgeting.

  C) It is responsible for manufacturing and quality control.

  D) It manages company-wide administrative tasks.

- **Which of the following is a key function of a sales organization in relation to market opportunities?**

A) Implementing internal financial controls

B) Developing sales strategies to exploit market opportunities

C) Conducting employee performance reviews

D) Managing supply chain logistics

- **How does a sales organization impact overall business performance?**

  A) By directly controlling production schedules

  B) By implementing the company’s financial investment strategies

  C) By influencing revenue growth and market presence through effective sales execution

  D) By managing external vendor relationships

Q 4. Fill In the Blanks

- A sales organization structure determines how a company’s sales team is __________, including roles, responsibilities, and reporting relationships.
- In a __________ sales organization structure, sales teams are divided based on the geographic locations they serve, allowing for better local market coverage.
- Outsourcing sales functions to third-party providers can offer benefits such as __________ costs and access to specialized sales skills, but it also carries risks like __________ over quality and control.
- The use of __________ in sales organizations can enhance efficiency by providing tools for tracking customer interactions, managing leads, and analyzing sales data.

8.6 TYPES OF SALES ORGANIZATION STRUCTURES

Types of sales organization structures refer to the various ways in which a company's sales team can be organized to optimize their effectiveness in reaching sales goals and managing customer relationships. Each structure aligns sales resources and efforts based on different criteria, such as geography, product lines, customer segments, or sales channels. Here’s a closer look at what each type of structure entails:

1. Geographic Sales Organization Structure

The geographic sales organization structure is designed to align sales teams with specific geographic regions. This type of structure is particularly effective for companies that operate in diverse or expansive markets where local knowledge is crucial. Sales representatives are assigned territories based on geographic boundaries, allowing them to develop expertise in the local market and build relationships with regional customers. This localized approach helps sales teams to better understand regional preferences, address market-specific challenges, and tailor their sales strategies accordingly. As a result, the geographic structure often leads to improved customer service and higher sales effectiveness in each territory.

2. Product-Based Sales Organization Structure

In a product-based sales organization structure, teams are organized around specific products or product lines. This structure is ideal for companies that offer a wide range of products or services, each requiring specialized knowledge and expertise. Sales representatives focus on a particular product or product category, allowing them to become experts in that area and provide detailed information and support to customers. This specialization enhances the sales team's ability to address product-specific questions and objections, resulting in more effective sales presentations and higher conversion rates. Additionally, product-based structures facilitate better product development and marketing alignment.

3. Customer-Based Sales Organization Structure

The customer-based sales organization structure focuses on organizing sales teams around different customer segments or industries. In this structure, sales representatives are assigned to specific types of customers, such as small businesses, large enterprises, or government agencies. This approach enables the sales team to tailor their strategies and solutions to the unique needs of each customer segment. By understanding the specific challenges and requirements of different customer groups, sales representatives can offer more relevant products and services, leading to stronger customer relationships and increased sales. This structure is particularly beneficial for businesses with diverse customer bases and complex sales processes.

4. Channel-Based Sales Organization Structure

The channel-based sales organization structure organizes sales teams around different sales channels, such as direct sales, online sales, or distributor sales. This structure allows companies to focus on optimizing performance across various distribution methods and ensures that each channel receives the necessary support and resources. Sales representatives or teams are dedicated to managing relationships with channel partners, developing channel-specific strategies, and driving sales through their respective channels. The channel-based structure helps companies effectively manage multi-channel distribution, enhance channel partner relationships, and align their sales efforts with the unique characteristics of each channel.

5. Matrix Sales Organization Structure

The matrix sales organization structure combines elements of different sales structures to create a flexible and dynamic approach. In a matrix structure, sales teams are organized based on both product lines and geographic regions or customer segments. This dual reporting system allows for better coordination and collaboration across different sales functions, enabling teams to leverage expertise from multiple areas. For example, a sales representative might work with a product specialist to address specific customer needs within a geographic territory. The matrix structure supports a more adaptable and responsive sales approach but can also introduce complexity in terms of reporting and resource allocation

8.7 CONCEPT AND BENEFITS OF OUTSOURCED SALES

Outsourced sales refer to the practice of hiring external organizations or third-party vendors to handle some or all aspects of a company's sales functions. This can include lead generation, sales calls, customer acquisition, account management, and other sales-related activities. Outsourcing sales allows businesses to leverage the expertise, resources, and technology of specialized sales firms to achieve their sales goals. The concept is based on the idea that external partners can provide high-quality sales services while allowing the company to focus on its core competencies.

Outsourced sales can be structured in various ways, including partnerships with independent sales representatives, working with sales agencies, or employing business process outsourcing (BPO) firms that offer comprehensive sales solutions. The scope of outsourcing can range from specific tasks, such as cold calling and lead qualification, to full-scale sales operations, including team management and strategy development. By outsourcing these functions, companies can access specialized knowledge, advanced tools, and established processes that may not be available in-house.

Benefits of Outsourced Sales

1. Cost Efficiency

One of the primary benefits of outsourced sales is cost efficiency. Outsourcing allows companies to reduce the expenses associated with maintaining an in-house sales team, such as salaries, benefits, training, and office space. By engaging with external sales partners, businesses can convert fixed costs into variable costs, paying for services based on performance or contractual agreements. This model can be particularly advantageous for companies with fluctuating sales needs or those looking to scale operations without incurring substantial overhead costs.

2. Access to Expertise and Technology

Outsourced sales firms often bring specialized expertise and advanced technology to the table. These external partners are typically experienced in specific industries or sales methodologies and can offer insights and strategies that internal teams may lack. Additionally, outsourced sales providers often use cutting-edge tools and technologies, such as Customer Relationship Management (CRM) systems, sales analytics platforms, and automated marketing solutions. Access to these resources can enhance the effectiveness of sales efforts, improve lead quality, and increase conversion rates.

3. Scalability and Flexibility

Outsourcing provides companies with scalability and flexibility to adjust their sales operations based on market demands and business needs. When a company experiences rapid growth or seasonal fluctuations in sales volume, outsourced sales partners can quickly scale their efforts to accommodate these changes. This flexibility ensures that businesses can maintain a consistent level of sales performance without the need to constantly recruit, train, and manage an internal sales team. It also allows companies to experiment with new markets or sales strategies without significant upfront investment.

4. Focus on Core Competencies

By outsourcing sales functions, companies can concentrate on their core competencies and strategic initiatives. Sales outsourcing enables businesses to offload time-consuming and resource-intensive sales activities, allowing internal teams to focus on areas such as product development, customer service, or strategic planning. This alignment helps organizations optimize their resources and ensure that their primary business activities receive the attention they require to drive overall success.

5. Enhanced Performance and Results

Outsourced sales providers are often performance-driven and motivated by contractual agreements tied to sales outcomes. This performance-based approach can lead to enhanced results compared to traditional in-house teams. External sales partners typically employ well-established sales processes, performance metrics, and continuous improvement practices to deliver high-quality results. As a result, businesses can benefit from improved sales productivity, higher conversion rates, and a more efficient sales cycle.

Outsourced sales offer a range of benefits that can enhance a company's sales performance and overall business efficiency. By leveraging the expertise, technology, and flexibility of external sales partners, companies can achieve cost savings, access specialized resources, and focus on their core business activities. Whether seeking to scale operations, improve sales outcomes, or enter new markets, outsourcing sales functions can provide valuable advantages and support long-term business growth

Check Your Progress- B

Q1. How outsourced sales is beneficial?

Q2. Write a short note on the Matrix Sales organization structure.

Q3. Distinguish Between Scalability and Flexibility

Q4. Write a note on objectives and role of sales organizations.

Q5. Multiple Choice Questions-

- **What is a primary benefit of outsourcing sales functions for a company?**

  A) Increased in-house training costs

  B) Greater control over every aspect of sales

  C) Cost efficiency and reduced overhead expenses

  D) Larger internal sales team

- **Which of the following is NOT typically a function that might be outsourced in a sales process?**

  A) Lead generation

  B) Customer acquisition

  C) Product development

  D) Account management

- **Outsourcing sales can provide access to which of the following?**

  A) Advanced sales technology and tools

  B) Higher internal salaries

  C) Increased in-house administrative tasks

  D) Unnecessary training for in-house employee

- **Which structure is commonly used by companies to engage third-party sales providers?**

  A) In-house sales team

  B) Internal customer service department

  C) Independent sales representatives or agencies

  D) Product development team

- **Why might a company choose to outsource sales functions rather than managing them internally?**

  A) To focus on core competencies and strategic initiatives

  B) To increase the number of in-house employees

  C) To gain direct control over every sales activity

D) To ensure that every sales decision is made internally

8.8 CHALLENGES AND RISKS ASSOCIATED WITH OUTSOURCED SALES

Outsourcing sales operations presents several challenges and risks that organizations must navigate to ensure success. One major challenge is maintaining **quality control** across different teams. When sales functions are outsourced, it can be difficult to ensure that the external team meets the company's standards for product knowledge, customer service, and overall performance. This inconsistency can lead to variable customer experiences and potential damage to the company’s reputation. Companies need robust processes and frequent evaluations to monitor performance and align outsourced teams with internal quality expectations.

Another significant challenge is **strategic alignment**. Outsourced sales teams may lack a deep understanding of the company's brand, values, and strategic objectives. This can lead to misaligned messaging and ineffective market positioning, which could undermine brand consistency and impact market penetration. Furthermore, outsourced teams may not be as familiar with the company’s strategic goals and customer base, leading to suboptimal sales strategies and missed opportunities for growth. Organizations need to invest in thorough training and communication to bridge these gaps and ensure strategic alignment.

Financial risks also pose a considerable challenge in outsourced sales. Companies may encounter issues such as unexpected cost overruns, where the expenses associated with outsourcing exceed initial projections. Additionally, measuring the return on investment (ROI) can be challenging, as it may be difficult to directly attribute sales performance to outsourced efforts. Contractual disputes over terms and performance metrics can also arise, potentially leading to legal and financial complications. Careful contract management and regular financial reviews are essential to mitigate these risks and ensure that outsourcing arrangements are cost-effective.

Finally, **cultural and ethical risks** must be carefully managed. Outsourced sales teams may operate in different cultural contexts, leading to potential misunderstandings or misalignment with the company's values. Differences in ethical standards and practices can also pose risks, particularly if the outsourced team does not adhere to the company's ethical guidelines. These issues can affect employee morale, impact customer trust, and lead to reputational damage. Organizations should prioritize selecting outsourcing partners with compatible cultural and ethical values and implement rigorous oversight to address these concerns effectively.

The diagram above, outlines various types of risks and challenges that organizations may face, categorized into six main areas. In the context of outsourced sales, here’s how these risks apply:

1. **Operational Risks:**
   - **Quality Control:** Ensuring that the outsourced sales team meets the company's quality standards can be challenging. There might be discrepancies in the way sales are handled compared to in-house teams.
   - **Process Alignment:** Aligning the outsourced sales process with the company's internal operations can be difficult. Misalignment can lead to inefficiencies and communication issues.
   - **Communication:** Clear communication between the company and the outsourced team is crucial. Any breakdown can result in misunderstandings and reduced effectiveness.
2. **Strategic Risks:**

- **Brand Consistency:** Maintaining a consistent brand message can be difficult when the sales function is outsourced. The external team may not fully grasp the brand's ethos or communicate it effectively to customers.
- **Market Knowledge:** The outsourced team may lack deep knowledge of the company's target market, which can affect sales performance and customer relationships.
- **Customer Retention:** Retaining customers might be challenging if the outsourced team doesn't have the same level of commitment or understanding of customer needs as an internal team.

3. **Financial Risks:**
    - **Cost Overruns:** The cost of outsourcing can exceed initial estimates due to hidden costs or changes in scope.
    - **ROI Uncertainty:** It can be hard to predict the return on investment when outsourcing sales, especially if the external team doesn't perform as expected.
    - **Contractual Disputes:** Disputes over contract terms, such as performance metrics or payment schedules, can arise, leading to financial and legal challenges.
4. **Compliance Risk:**
    - **Legal Compliance:** Ensuring that the outsourced team complies with all relevant laws and regulations, such as data protection or labor laws, is essential but can be challenging to monitor.
    - **Data Security:** There is a risk of data breaches or mishandling of sensitive customer information by the outsourced team.
    - **Regulatory Issues:** The outsourced team must be aware of and comply with industry-specific regulations, which can vary across regions.
5. **Cultural and Ethical Risks:**
    - **Cultural Misalignment:** The outsourced team may have different cultural norms or business practices, which can lead to conflicts or misunderstandings.
    - **Ethical Standards:** The outsourced team might not adhere to the same ethical standards as the company, leading to potential reputational damage.

- **Employee Morale:** Outsourcing sales can affect the morale of in-house employees, who may feel threatened or undervalued.

6. **Legal and Regulatory Risks:**

   - **Data Security:** As with compliance risks, ensuring that the outsourced team securely handles data is critical to avoid breaches.
   - **Regulatory Issues:** The company remains responsible for ensuring that the outsourced team complies with all relevant regulations, which can be complex and vary by location.

In summary, outsourcing sales introduces various risks and challenges that need to be carefully managed to ensure the arrangement is successful and aligns with the company's overall strategy

8.9 SALES ROLES AND RESPONSIBILITIES

To operate efficiently and achieve their goals, these organizations rely on a structured approach where various roles are clearly defined and responsibilities are distributed accordingly. Understanding the distinct roles within a sales organization is crucial for streamlining processes, maximizing productivity, and ensuring the alignment of sales efforts with the overall business strategy.

Core Sales Roles

1. Sales Representative (Sales Rep):

o Role Overview: Sales representatives are the primary touchpoints between the company and its customers. They are tasked with driving sales by identifying potential customers, building relationships, and converting leads into actual sales. Their role is critical as they directly influence the customer's decision-making process.

o Responsibilities:

 Prospecting and identifying potential customers through various channels such as cold calling, social media, and networking.

 Understanding customer needs and presenting relevant products or services to address those needs.

 Conducting sales presentations, demonstrations, and negotiations to close deals.

 Building and maintaining strong, long-term relationships with customers to foster loyalty and repeat business.

 Achieving assigned sales targets and reporting progress to sales management.

2. Sales Manager:

o Role Overview: The sales manager oversees the entire sales team, ensuring that sales targets are met and strategies are effectively implemented. They play a vital role in mentoring and developing the sales team while also liaising with other departments to align sales activities with broader company goals.

o Responsibilities:

 Setting sales goals, quotas, and performance targets for the sales team.

 Developing and implementing sales strategies and plans to meet business objectives.

 Monitoring sales performance, analyzing data, and providing regular reports to upper management.

 Recruiting, training, and mentoring sales representatives to enhance their skills and effectiveness.

3. Account Executive (AE):

o Role Overview: Account executives manage key customer accounts in order to ensure client satisfaction. These individuals often work on the organization's most important clients and are responsible for developing these relationships to ensure continued business and long-term success.

o Responsibilities:

 Manages a portfolio of key accounts and provides a primary point of contact for those clients.

 Negotiates contracts, renewals, and pricing with mutually beneficial agreement.

 Engagements with internal teams: This would be to ensure that the needs of customers are met and problems are solved on time.

4. Sales Development Representative SDR

o Role Overview SDRs are involved in the initial stages of the sales funnel. They are given the task of generating new leads and qualifying them so that there is an assured supply of qualified leads for sales representatives and account executives to follow up on.

o Responsibilities:

 Leads to be researched and identified through various sources databases, events, and online channels

 Communicate with prospects via outbound calls and emails as well as social media for their interest level.

- Set meetings or demos for the sales team

- Logging interactions and follow up in CRM system

5. Customer Success Manager (CSM):

o Role Overview The role of a CSM is as post-sale customer care in such a way that customers achieve their desired outcomes through the company's products or services. The role is therefore core to creating customer loyalty, reducing churn, and driving renewals and expansion.

o Responsibilities:

- Onboarding new customers for training on the best usage of the product or service.

Customer satisfaction with proactive resolution of issues or concerns.

- Engage the customer regularly in some standard check-in exercise to determine if they are getting any value out of the use of the product.

- Advocate for the customer within the organization and incorporate their feedback into the development of the product and strategy.

6. Sales Engineer:

o Role Overview: Sales engineers provide technical expertise to support the sales process. They work closely with both the sales team and customers to ensure that the products or services offered meet the technical requirements and solve the customer's specific problems.

o Responsibilities:

- Assisting in product demonstrations and presentations, particularly in situations where technical knowledge is required.

- Working with the sales team to develop tailored solutions for complex customer requirements.

- Providing pre-sales and post-sales technical support to ensure customer satisfaction.

- Collaborating with the product development team to relay customer feedback and contribute to product enhancements.

- Offering training to customers and internal sales staff on technical aspects of products and services.

Additional Roles in Sales Organizations

1. Sales Operations Manager:

o Role Overview: The sales operations manager focuses on optimizing the sales process and ensuring that the sales team has the tools, data, and resources needed to succeed. This role is crucial for driving efficiency and scalability within the sales organization.

o Responsibilities:

 Managing the CRM system and ensuring data integrity and accuracy.

 Analyzing sales metrics and KPIs to identify trends and areas for improvement.

 Implementing sales processes, tools, and technologies to streamline sales activities.

2. Vice President of Sales (VP Sales):

o Role Overview: The VP of Sales is a senior leadership role responsible for setting the overall sales strategy, driving revenue growth, and managing the sales leadership team. This position requires a deep understanding of market dynamics, customer behavior, and competitive landscapes.

o Responsibilities:

 Developing and executing the company's sales strategy to achieve revenue targets.

 Leading and mentoring the sales leadership team, including sales managers and directors.

 Collaborating with other executives to align sales strategies with company goals.

 Reporting on sales performance to the CEO and board of directors, providing insights and recommendations

8.10 SUMMARY

This Unit delves into the fundamental structures and classifications of sales organizations within businesses. It begins by exploring the various forms of sales organizations, such as geographic, product-based, customer-based, and functional structures. Each type is analyzed for its advantages and disadvantages, allowing readers to understand how different configurations can affect sales efficiency and customer satisfaction. For example, a geographic structure organizes sales teams based on territory, which can enhance local market expertise, whereas a product-based structure aligns sales efforts with specific product lines, potentially increasing focus on product development and marketing.

The chapter further examines how businesses choose the appropriate sales organization based on their size, industry, and strategic goals. Factors such as market complexity, product range, and customer diversity play a critical role in determining the most effective sales structure. The discussion includes case studies and examples of companies that have successfully implemented various sales organizational types, providing practical insights into how these structures operate in real-world scenarios.

8.11 GLOSSARY

1. Sales Organization: The structure and system used by a company to manage its sales activities and teams. This includes the distribution of roles, responsibilities, and reporting relationships within the sales function.
2. Sales Territory: A designated geographic area or segment assigned to a sales representative or team. Territories are used to organize sales efforts and ensure coverage of different regions.
3. Sales Team: A group of sales professionals working together to achieve sales targets and objectives. Teams can be structured in various ways, such as by geography, product, or customer type.
4. Sales Strategy: A plan that outlines how a company will achieve its sales objectives, including the methods and tactics used to reach and convert prospects into customers.
5. Market Segmentation: The process of dividing a broad consumer or business market into sub-groups of consumers based on shared characteristics, such as demographics, needs, or purchasing behavior.
6. Sales Funnel: A model that describes the stages a potential customer goes through before making a purchase, from initial awareness to final decision.
7. Sales Performance Metrics: Key performance indicators (KPIs) used to measure the effectiveness and efficiency of sales activities, such as sales revenue, conversion rates, and customer acquisition costs.
8. Territory Management: The planning and execution of sales activities within a specific geographic area or market segment, including the allocation of resources and the monitoring of performance.

8.12 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

MCQ- **1- C** **2. C** **3. A** **4. B** **5. C**

Fill Ups **1. Organized** **2. Geographic** **3. Reducing**
4.Loss of control 5. Technology

Check Your Progress –B
MCQ- **1. C** **2. C** **3. A** **4 C** **5 A**

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8.15 TERMINAL QUESTIONS

1. Compare and contrast the key features of centralized and decentralized sales organization structures. How do these structures impact sales performance and decision-making?
2. Discuss the advantages and disadvantages of implementing a matrix sales organization structure. In what types of businesses or industries might this structure be most effective?
3. Explain how a geographic sales organization structure differs from a product-based sales organization structure. What are the potential benefits and drawbacks of each approach?
4. Evaluate the role of technology in optimizing sales organization structures. How can tools like CRM systems and sales analytics impact the efficiency and effectiveness of different sales structures?
5. Analyze the strategic reasons for outsourcing sales functions. What are the potential risks and rewards associated with outsourcing sales, and how can companies mitigate these risks?

UNIT- 9 RECRUITMENT AND SELECTION & TRAINING OF SALES FORCE

9.1 INTRODUCTION

In today's competitive market, sales teams play a vital role in business growth and profitability. As front-line representatives, sales reps are responsible for building customer relationships, closing deals and contributing to the company's overall revenue. Therefore, the recruitment, selection and training process is essential to ensure that your organization has a competent and motivated sales team – that is, it depends on your colleagues in the company.

9.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the critical aspects of recruiting, selecting, and training a sales force

9.3 IMPORTANCE OF SALES FORCE IN AN ORGANIZATION

Sales professionals serve as the driving force behind any organization, playing a vital role in increasing revenue, building customer relationships, and ensuring a company’s products and services are effectively marketed. But their importance goes beyond just the bottom line; they are an essential part of the company’s overall success and sustainability. Here is a detailed study on the importance of salespeople in an organization:

1. Revenue Generation

• Primary Revenue Drivers: A salesperson's most direct and tangible contribution is revenue generation. Salespeople are responsible for turning prospects into customers, which directly impacts the company's bottom line. Without a competent sales team, even the best products and services may not generate the desired revenue.

• Upselling and Cross-Selling: In addition to the simple closure of transactions, sales teams determine the possibility of sales and cross -selling, increasing the average cost and total income of transactions.

2. Customer Relationship Management

• Building Trust and Loyalty: Sales staff are often the primary point of contact between a business and its customers. Through personal interactions, they build trust, understand customer needs, and foster loyalty. This type of relationship building is essential to long-term customer retention, which is more cost-effective than acquiring new customers.

• Customer Feedback Loop: Salespeople collect valuable information directly from customers, including product reviews, service reviews, and overall satisfaction. This information is essential for a company to make informed decisions about product development, customer service, and other business strategies.

3. Market Penetration and Expansion

• Identifying Market Opportunities: A well-trained and competent salesperson can identify new opportunities and market segments. She is often the first to notice trends, changes in consumer behavior, and unmet needs that can lead to new product development and market expansion strategies.

• Competitive Advantage: A strong sales team can provide a competitive advantage by understanding competitors' offerings and more effectively positioning a company's products or services in the marketplace.

4. Brand Representation

• Ambassadors of the Brand: Salespeople are the face of the company. Their interactions with customers shape the perception of the brand. Professional, competent and sophisticated sales can increase the brand's reputation, but a decline in sales may cause damage.

• Consistency in Messaging: The sales team ensures that the company’s message and value proposition are communicated consistently to the market, aligning them with the overall marketing strategy and reinforcing the brand image.

5. Product and Service Advocacy

• Educating the Market: Sales unit plays a decisive role in teaching potential customers about company products or services. This is especially important for complex or innovative products that require detailed explanations and demonstrations.

• Overcoming Objections: Salespeople are skilled at resolving customer issues and objections, helping to remove barriers to purchase. This ability to convince and reassure is essential for converting hesitant leads into customers.

6. Adaptation to Market Changes

• Responsive to Economic Shifts: Sales departments are often on the front lines of economic and market developments. They are usually the first to feel the effects of economic downturns and recoveries and can adapt their strategies accordingly. This real-time adaptation allows organizations to remain flexible and responsive.

• Adjusting Sales Strategies: Sales teams are adept at changing their approach based on changing consumer behavior, technological advancements, and competitive pressures. The ability to pivot quickly helps organizations maintain or even grow market share during times of change.

7. Contribution to Organizational Growth

• Scaling Operations: As sales teams generate more revenue, organizations can scale their operations, invest in new technologies, expand their product lines, or enter new markets.

• Influence on Business Strategy: The knowledge and experience of the sales department often influences strategic decisions at the highest levels of the organization. This includes decisions about pricing, marketing strategies, product development, and improving customer service.

8. Customer Retention and Lifetime Value

• Maintaining Long-Term Relationships: A strong sales team isn't just focused on closing the deal. They also strive to maintain long-term relationships with their customers. Keeping customers happy and engaged helps increase customer lifetime value (CLV), which is essential for sustained profitability.

• Loyalty Programs and Personalized Offers: Sales teams often manage initiatives such as loyalty programs and personalized offerings. This can improve the maintenance of customers and enhance the overall value obtained by each client.

9. Impact on Organizational Culture

• Motivational Leadership: A motivated and high-performing sales force can influence the overall culture of an organization. Their drive to meet targets and achieve success can inspire other departments to perform better, fostering a culture of excellence and achievement.

• Team collaboration: Successful sales often requires close collaboration with other departments such as marketing, product development, customer service, etc. This cross-functional collaboration can lead to a more cohesive and unified organizational culture.

10. Data-Driven Decision Making

• Sales Analytics: The sales force generates a wealth of data that can be analyzed to inform decision-making. Sales metrics such as conversion rates, sales cycle length, and customer acquisition costs provide insights into the effectiveness of sales strategies and help in optimizing them.

• Predictive Sales Strategies: Through data analysis, the sales team can predict trends, identify high-value leads, and focus their efforts more strategically. This proactive approach helps the company stay ahead of competitors and respond more effectively to market demands.

11. Influence on Product Development

• Customer Insights: Sellers often collect feedback directly from customers, which can be invaluable to product development teams. By understanding customer problems, preferences, and suggestions, sales teams can feed that information back into the organization to influence product improvements and new product development.

• Real-time market feedback: Sales teams provide real-time market feedback that is critical for quickly adjusting product features, pricing, or marketing strategies.

12. Enhancing Customer Experience

• Personalized Service: Sales staff often provide personalized service and attention to customers, which enhances the overall customer experience. They tailor their approach based on customers' individual needs and preferences, leading to greater satisfaction and loyalty.

• Problem Solving: Sales teams frequently act as problem solvers, addressing customer issues and concerns promptly. Their ability to resolve problems efficiently contributes to a positive customer experience and can turn dissatisfied customers into loyal ones.

13. Training and Development

• Skills Development: The dynamic nature of sales requires continuous learning and skills development. A strong sales force is constantly evolving, learning new techniques, understanding market changes, and adapting to new technologies. This culture of continuous improvement contributes to the growth of the entire organization.

• Leadership Pipeline: Sales roles often serve as a training ground for future leaders within an organization. Skills developed in sales, such as negotiation, relationship management and strategic thinking, are highly transferable to leadership roles.

14. Strategic Alignment

• Implementing the sales strategy: The sales department plays a key role in implementing a company's sales strategy. Whether it's entering new markets, launching new products, or increasing market share, the sales team's efforts are essential to achieving strategic goals.

• Feedback to management: Sales provides key feedback to management on the effectiveness of sales strategies, enabling real-time adjustments and more informed decision-making

9.4 OVERVIEW OF RECRUITMENT

Recruitment, selection and training processes are key elements of human resource management, especially for developing an efficient and productive workforce. These processes ensure that an organization attracts, identifies and develops the right talent to achieve its strategic objectives. Below is an overview of each process, highlighting its importance, key steps and relationships:

Recruitment Overview: Recruitment is the process of attracting and identifying potential candidates for job openings within an organization. This involves creating a pool of qualified candidates from which the organization can select the most suitable candidate for the position. Recruitment is the first step in building a strong workforce as the quality of the employees hired directly impacts the overall performance of the organization.

Key Steps:

- Job Analysis and Workforce Planning: Understanding the needs of the organization and defining the roles and responsibilities of the positions. This includes identifying the skills, qualifications and experience required for the role.
- Job listings and advertisements: Job listings and advertisements are created that clearly explain the roles, responsibilities and qualifications, which are then posted on various platforms including job boards, company website and social media.
- Candidate Sourcing: Actively seeking candidates through various channels, such as employee referrals, recruitment agencies, social media, and professional networks.
- Application Process: Collecting applications from interested candidates. This can be done through an online form, email, or physical submission.
- Screening and pre-screening: Review resumes and applications to identify candidates who meet minimum requirements. Shortlisted candidates are then invited for the next stage of the selection process.

Importance:

- Attract the best talent: A well -planned recruitment process can help you attract various skilled candidates.
- Build a solid employer brand: Recruitment activities, such as employment offers and interactions with candidates, contribute to the reputation of the employer as an employer.
- Efficiency of cost and time: Effective employment process reduces time and costs related to the employment of new employees.

Recruitment of Sales Force

Recruiting is the process of attracting and identifying potential candidates who have the skills, qualifications, and characteristics required for a sales position. It is the first step in building a strong sales team, as the quality of employees hired directly impacts the effectiveness of the entire sales team.

Importance of Recruitment: Recruiting is the foundation of the sales management process. A strategic approach to recruiting ensures that organizations have access to a pool of talented candidates from which they can develop successful sales professionals.

Strategies for Recruiting Sales Personnel: To attract top talent, organizations must adopt various recruitment strategies, including:

- **Employer Branding:** Developing a strong employer brand to attract high-caliber candidates.
- **Networking:** Leveraging professional networks, industry events, and social media platforms to reach potential candidates.
- **Recruitment Agencies:** Partnering with specialized recruitment agencies to source sales professionals.
- **Campus Recruitment:** Engaging with educational institutions to identify and recruit young talent.

Sources of Recruitment:

- **Internal Recruitment:** Promoting existing employees from within the organization. This approach is cost-effective and can motivate employees by providing career advancement opportunities.
- **External Recruitment:** Sourcing candidates from outside the organization. This includes job postings, recruitment agencies, and social media platforms.

Recruitment Challenges in Sales: Recruiting sales personnel comes with its own set of challenges, such as:

- **High Turnover Rates:** The sales industry is known for high turnover, making it difficult to maintain a stable team.
- **Finding the Right Fit:** Identifying candidates with the right mix of skills, experience, and personality traits can be challenging.

Competition for Talent: Organizations often compete for top sales talent, making it essential to offer attractive compensation packages and career growth opportunities

9.5 OVERVIEW OF SELECTION

Selection is the process of evaluating and choosing the most suitable candidates from the pool of applicants identified during recruitment. The goal of the selection process is to ensure that the organization hires individuals who not only possess the required skills and experience but also fit well with the company's culture and values.

Key Steps:

- Screening Interviews: Initial interviews, often conducted over the phone or virtually, to assess the candidate's basic qualifications and interest in the role.
- Assessment Tests: Depending on the role, candidates may be required to complete various tests, such as aptitude tests, psychometric assessments, or skills-based evaluations.

- In -depth interviews: more detailed interviews, often conducted in several rounds, to assess competencies, experience and cultural correspondence of the candidate. They may include behavioral interviews, technical interviews and panel interviews.
- References: Verification of candidate history, labor history, insurance and reliability.
- Make a decision: Job team selects the best candidate for this position, based on evaluation and interviews.
- Work proposal and negotiations: expand the labor proposal for the chosen candidate and negotiations on the conditions of employment, such as salary, services and the start date.

Importance:

- Secure appropriate conformity: Thorough selection processes help not only qualify but also to hire candidates that match the culture and value of the company.
- Reduction of sales: By selecting candidates suitable for roles, organizations can reduce employees and increase their work satisfaction.
- Compliance with legal and ethical standards: The selection process must be fair, impartial and consistent with legal requirements to avoid discrimination and other ethical issues.

Selection of Sales Force

Selection is the process of evaluating and choosing the best candidates for a sales position. A rigorous selection process is essential to ensure that an organization hires talent that is not only qualified but also fits the company values and culture.

Importance of proper selection: The selection process directly impacts the performance of the sales department. The right candidate is more likely to work effectively, stay motivated, and make a positive contribution to the team.

Selection Criteria: When selecting sales personnel, organizations typically look for the following qualities:

- **Communication Skills:** The ability to articulate ideas clearly and persuasively.
- **Sales Experience:** Previous experience in sales or a related field.
- **Product Knowledge:** Understanding of the product or service being sold.
- **Interpersonal Skills:** The ability to build and maintain relationships with clients.
- **Motivation and Drive:** A strong desire to achieve targets and succeed in a sales environment.

Selection Process: The selection process typically involves several stages, including:

- **Screening:** Reviewing resumes and applications to shortlist candidates.
- **Interviews:** Conducting interviews to assess candidates' skills, experience, and cultural fit.
- **Testing:** Using assessment tools such as psychometric tests, aptitude tests, and situational judgment tests to evaluate candidates' suitability for the role.
- **Background Checks:** Verifying candidates' credentials, work history, and references.

Legal and Ethical Considerations: Organizations must ensure that their selection process complies with legal and ethical standards. This includes avoiding discrimination based on gender, race, age, or other protected characteristics, and ensuring that all candidates are treated fairly.

Challenges in Selecting the Right Candidates:

- **Bias in Selection:** Unconscious biases can affect decision-making, leading to the selection of less suitable candidates.
- **Overemphasis on Experience:** Focusing too much on experience can lead to overlooking potential talent.
- **Cultural Fit vs. Diversity:** Balancing cultural fit with the need for diversity in the sales team.

Check Your Progress-A

1. __________ is the process of attracting qualified candidates for a job.
2. The method used to systematically gather and analyze job information is called __________.
3. A structured conversation between a recruiter and a candidate is known as a __________.
4. The process of verifying a candidate's qualifications, work history, and background is called __________.
5. An __________ is a software application used to streamline the recruitment process.
6. __________ refers to the suitability of a candidate's values, beliefs, and behaviors with the organizational culture.
7. The method of evaluating a candidate's skills, competencies, and behaviors through simulations and exercises is called __________.
8. __________ recruitment involves hiring candidates who are already working within the organization.
9. The process of selecting the best candidate for a job is known as __________.
10. A job posting shared within the company for internal candidates is known as __________.

9.6 OVERVIEW OF TRAINING

Training is a process that improves employee skills, knowledge, and abilities so that employees can work effectively. When the recruitment and selection process are completed, the training guarantees that new recruiters are equipped to meet the roles and contribute to the organizational goals. Training isn't just necessary for new employees. Continuous learning and development is essential for continuous improvement and career progression.

Key Steps:

- Evaluation of needs: Identify the needs of staff training according to the requirements of their roles, gaps in skills and organizational objectives. This includes an analysis of the instructions for the workplace, the efficiency of employees and future commercial needs.

- Training design: Develop a training plan that outlines the objectives, content, methods, and schedule of the training program. Training can be delivered in a variety of ways, including classroom training, e-learning, on-the-job training, workshops, and seminars.
- Implement: Organize employee training using the method you have chosen. This step may involve trainers, instructional designers, and subject matter experts.
- Evaluation: Assess the effectiveness of the training program through feedback surveys, tests, and performance evaluations. Evaluation helps determine whether learning objectives were met and what improvements can be made to future programs.
- Continuous Development: We encourage continuous learning and development, ensuring employees stay up to date with the latest trends, technology and industry best practices.

Importance:

- Improvement of efficiency: Effective training programs have the skills and knowledge needed to enhance employee efficiency and succeed to employees.
- Employee satisfaction and maintenance: The possibility of training and development contributes to labor satisfaction and employee establishment, providing the possibility of career growth and development.
- Adaptation to Change: Training helps employees adapt to changes in the organization, such as new technologies, processes, or regulations, ensuring that the workforce remains agile and competitive.

Training of Sales Force

Training is an essential part of sales management because it provides salespeople with the knowledge, skills, and tools they need to perform their roles well. Effective training programs lead to improved performance, increased job satisfaction, and reduced turnover.

Importance of Training: Training helps ensure that your salespeople are well prepared to interact with customers, understand the products or services you are selling, and close deals effectively. It also helps align your salespeople with your company's goals and strategies.

Types of Sales Training:

- Product Training: Provides in-depth knowledge about the product or service being sold.
- Sales Skills Training: Learn basic sales techniques such as negotiating, closing, and handling objections.
- CRM Training: Training on how to use customer relationship management (CRM) software to manage leads, track sales activities, and analyze performance.
- Compliance Training: Ensuring that sales personnel understand and adhere to legal and regulatory requirements.

Training Methods:

- **On-the-Job Training:** Learning through hands-on experience and mentorship.
- **Classroom Training:** Structured learning sessions led by instructors, either in-person or virtually.
- **E-learning:** Online training modules that allow salespeople to learn at their own pace.
- **Role-plays:** Simulations of sales scenarios to practice and improve selling techniques.

Evaluation of Training Effectiveness: To assess the effectiveness of training programs, organizations can use various methods, such as:

- **Feedback surveys:** Collect participant feedback to assess the relevance and quality of the training.
- **Performance indicators:** Analyze business performance before and after training to measure its impact.
- **Holding rate:** monitor employee retention and evaluate the long -term efficiency of training.

Continuous Development and Up-skilling: Sales professionals need to continually hone their skills to remain competitive in an ever-evolving marketplace. Organizations need to provide opportunities for continuous learning and up-skilling through workshops, seminars, and advanced training programs.

Challenges in Training a Sales Force:

- **Budget constraints:** Limited budgets can limit the scope and quality of training programs.
- **Resistance to change:** Some salespeople may resist new training methods or changes to their selling processes.
- **Measuring ROI:** Quantifying the return on investment (ROI) of a training program can be difficult.

Interconnection of Recruitment, Selection, and Training

These three processes are deeply interconnected and must be aligned to ensure organizational success:

- Recruitment and selection: The quality of your recruitment process impacts the selection process. A strong recruitment strategy ensures a strong candidate pipeline, making the selection process more effective and efficient.
- Selection and training: The outcome of the selection process will affect the training needs of new employees. Understanding the strengths and weaknesses of selected candidates will allow you to develop individualized training programs that address specific areas for improvement.
- Recruitment and training: Training programs can be used as a selling point when recruiting, attracting candidates seeking professional development opportunities. Additionally, feedback from the training process can inform future recruitment and selection strategies, ensuring organizations continually improve their talent acquisition and development efforts.

Integration of Recruitment, Selection, and Training

The recruitment, selection, and training processes are interdependent and must work together to ensure the success of your sales team. An integrated approach allows organizations to identify training needs during recruitment and selection and then tailor training programs to meet those needs.

Impact of Recruitment and Selection on Training Needs: The skills and experience of recruits influence the type and extent of training required. For example, a candidate with extensive sales experience may need less basic training but more advanced skill development

9.7 CHALLENGES IN RECRUITING AND MANAGING A SALES FORCE

1. **High Turnover Rates**

    - **Challenge:** Sales professionals often experience high turnover due to high job pressure, the need for consistent performance, and frequent dissatisfaction with compensation structures and opportunities for career advancement. This turnover can disrupt sales operations, lead to lost revenue, and increase recruitment and training costs.
    - **Impact:** High employee turnover can lead to unstable sales teams and inconsistent service, which can lead to dissatisfaction with customers and lost sales opportunities. Additionally, the ongoing hiring and training of new sales representatives can be costly.

2. **Identifying the Right Talent**

    - Challenge: Finding candidates with the right mix of skills, experience and personality traits for a sales role can be a difficult task. Sales requires a combination of technical skills like product knowledge and selling techniques, and soft skills like communication, resilience and relationship building.
    - Impact: A mismatch between a sales rep's skills and job requirements can lead to poor performance, reduced sales, and ultimately attrition. Hiring the wrong candidate can also have a negative impact on team morale and productivity.

3. **Ensuring Cultural Fit**

    - Challenge: Sales companies are often operated with strong pressure to achieve their goals and bring cultural compliance to organizations and sales teams. Candidates who do not respond to the culture and value of the company can fight for adaptation, which can lead to separation or dispute.
    - Impact: Cultural mismatches can lead to lower job satisfaction, increased stress and higher turnover. They can also create conflict within teams and reduce overall productivity and cohesion.

4. **Balancing Compensation and Motivation**

    - **Challenge:** Developing a motivating and sustainable compensation program can be a challenge for organizations. Sales roles typically combine base salary with variable compensation (commissions, bonuses), and finding the right balance is key to motivating salespeople without encouraging unethical behavior (such as overselling or misrepresenting products).

- **Impact:** Inadequate compensation can demotivate salespeople, leading to poor performance and high turnover. Conversely, overly aggressive compensation structures can encourage undesirable sales practices that can damage a company's reputation and cause customer dissatisfaction.

5. **Adapting to Technological Changes**

- **Challenge:** The selling environment is rapidly evolving due to technological advancements such as CRM systems, AI-powered analytics, and digital selling platforms. Sales professionals must continually adapt to these changes to remain effective.
- **Impact:** Failure to keep up with technological change can lead to inefficiencies, missed opportunities, and competitive disadvantage. Additionally, resistance to adopting new tools can hurt the overall performance of your sales team.

6. **Maintaining Continuous Training and Development**

- **Challenge:** Sales are dynamic fields that require continuous training and development. However, it is complicated to secure constant, relevant, and efficient training, especially due to distributed or remote peeling.
- **Impact:** Lack of continuous development can lead to skills gaps, outdated knowledge, and a reduced ability to adapt to market changes. This can lead to poor sales performance and hinder the career growth of sales professionals.

7. **Managing Remote or Distributed Teams**

- **Challenge:** Managing distributed sales teams is becoming increasingly common with the rise of remote work, which creates challenges in communication, collaboration, maintaining team cohesion, and ensuring consistent productivity across all locations.
- **Impact:** Remote teams can suffer from a lack of direct oversight, reduced team bonding, and potential misalignment with company goals. These challenges can affect sales performance and require new strategies for management and support.

Best Practices in Recruiting and Managing a Sales Force

1. **Developing a Strong Employer Brand**

- **Best Practice:** A strong employer brand attracts top business talent by demonstrating your organization's values, culture, and career opportunities. This can be achieved through a thoughtful online presence, positive employee reviews, and showcasing your company's accomplishments.

- **Implementation:** Regularly update the company's website and social media profiles with success stories, employee experiences, and industry recognitions. Engage with potential candidates through thought leadership and participation in industry events.

2. **Structured Recruitment Process**

- **Best Practice:** Implement a structured and systematic hiring process to ensure consistency, fairness, and selection of the best candidates. This includes clear job descriptions, defined selection criteria, and a standardized interview process.
- **Implementation:** Develop detailed job descriptions that clearly define the role, responsibilities and required qualifications. Use assessment tools such as psychometric tests and role-playing scenarios to evaluate candidates' suitability for the sales position.

3. **Behavioral Interviewing Techniques**

- **Best Practice:** We use behavioral interviewing techniques to assess how candidates have handled situations in the past and predict how they may behave in the future, which helps us evaluate important soft skills such as communication, problem-solving and resilience.
- **Implementation:** During the interview, ask candidates to describe specific instances when they encountered a challenge, achieved a goal, or solved a problem with a customer. Focus on their actions, decision-making process, and the outcomes of those situations.

4. **Offering Competitive and Transparent Compensation**

- **Best Practice:** Design a compensation structure that is competitive, transparent, and aligned with market standards. It should incentivize performance while ensuring fairness and sustainability for the organization.
- **Implementation:** Conduct regular market research to compare compensation to industry standards. Ensure transparency by clearly communicating compensation elements, including how commissions and bonuses are calculated.

5. **Continuous Training and Development Programs**

- **Best Practice:** We invest in ongoing training and development programs to keep our salespeople up to date on industry trends, product knowledge and selling techniques, supporting their career growth and keeping our team competitive.
- **Implementation:** Develop a mix of in-person and online training modules, covering topics such as new product launches, advanced sales strategies, and the use of sales technologies. Encourage a culture of learning by offering incentives for completing training programs.

6. **Leveraging Technology and Analytics**

- **Best Practice:** We invest in ongoing training and development programs to keep our salespeople up to date on industry trends, product knowledge and selling techniques, supporting their career growth and keeping our team competitive.
- Implementation: Develop a mix of in-person and online training modules, covering topics such as new product launches, advanced sales strategies, and the use of sales technologies. Encourage a culture of learning by offering incentives for completing training programs.

7. **Fostering a Positive and Inclusive Culture**

- **Best Practice:** Create a positive and inclusive sales culture that supports collaboration, diversity, and work-life balance. A supportive environment can increase job satisfaction, reduce employee turnover, and improve overall productivity.
- **Implementation:** Encourage team-building activities, recognize and reward achievements, and ensure open communication between salespeople and management. Promote diversity and inclusion by actively seeking diverse candidates and fostering an inclusive work environment.

8. **Effective Onboarding Process**

- **Best Practice:** Implement a comprehensive onboarding process to help new hires adjust to the company culture, understand their role, and quickly become productive members of the sales team.
- **Implement:** Create an onboarding plan that includes orientation sessions, product and process training, and mentoring from experienced team members. Install clear expectations and provide the required resources and support during the first period.

9. **Regular Performance Reviews and Feedback**

- **Best Practice:** Conduct regular performance reviews and provide constructive feedback to help salespeople improve their performance. This also helps identify areas for career development and progression.
- **Implementation:** Schedule quarterly or semi-annual performance reviews that evaluate both quantitative measures (sales goals, conversion rates, etc.) and qualitative aspects (customer feedback, teamwork, etc.). Use these reviews to set new goals and provide actionable feedback.

10. **Retention Strategies and Career Development**

- Best Practice: Implement a retention strategy that focuses on career development, work-life balance and recognition. Retain top talent by providing clear career paths and opportunities for growth.
- Implementation: Provide personalized career development plans that include leadership training, cross-functional opportunities, and clear advancement paths. Recognize and reward top performers with bonuses, promotions, and public recognition

Check Your Progress- B

1. ___________ is the process of improving the skills and knowledge of the sales team to enhance their performance.
2. The initial training and orientation provided to a new sales employee is called ___________.
3. ___________ is a training technique where employees act out sales scenarios to practice their skills.
4. The one-on-one development activity where a manager provides guidance to a salesperson is called ___________.
5. A structured sales training program that focuses on how to handle customer objections is called ___________.
6. The continuous process of providing sales teams with tools and resources to enhance their selling capabilities is known as ___________.
7. ___________ refers to setting sales goals and performance expectations for a sales team.
8. A training session that includes product knowledge, pricing strategy, and customer interaction techniques is called ___________.
9. ___________ is the practice of regularly evaluating a salesperson's performance and identifying areas for improvement.
10. ___________ is the process of ensuring that the sales force has the necessary skills and resources to meet the organization's sales objectives.
11.

9.8 SUMMARY

Recruiting, selecting, and training a sales force are critical components of building a successful sales team that can drive organizational growth and profitability. The process of recruitment requires a strategic approach to identify candidates with the right blend of skills, experience, and cultural fit. Effective selection techniques, such as behavioral interviewing and psychometric testing, help in choosing candidates who are likely to perform well and stay with the organization.

Once the right candidates are on boarded, continuous training and development are essential to keep the sales force motivated and equipped with the latest knowledge and techniques. This includes comprehensive onboarding programs, regular performance reviews, and ongoing training opportunities that cover both product knowledge and sales skills. Leveraging technology, such as CRM systems and AI-driven analytics, can enhance the efficiency and effectiveness of the sales team, providing valuable insights and streamlining processes.

However, the sales function also faces significant challenges, including high turnover rates, the need for a balanced compensation structure, and the rapid pace of technological change. Addressing these challenges requires a combination of best practices, such as developing a strong employer brand, offering competitive and transparent compensation, fostering a positive and inclusive culture, and implementing effective retention strategies.

In conclusion, a well-structured approach to the recruitment, selection, and training of a sales force can lead to higher performance, reduced turnover, and sustained business success. By focusing on both the immediate needs of the sales team and their long-term development, organizations can ensure that their salespeople remain motivated, skilled, and aligned with the company's goals. This strategic focus not only enhances the sales force's effectiveness but also contributes to the overall growth and competitive advantage of the organization

9.9 GLOSSARY

1. Job Analysis: A systematic process of gathering, documenting, and analyzing information about the content, context, and requirements of a job, forming the basis for hiring decisions.
2. Talent Acquisition: The ongoing process of identifying, attracting, and onboarding skilled individuals to meet organizational needs, focusing on long-term human resource planning.
3. Competency-Based Interview: A method of interviewing where candidates are asked to provide examples of past behavior that demonstrate specific competencies relevant to the job.
4. Applicant Tracking System (ATS): A software application that helps organizations manage their recruitment and hiring process, from posting jobs to tracking candidates and streamlining the selection process.

9.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

1. Recruitment
2. Job Analysis
3. Interview
4. Background Check
5. Applicant Tracking System (ATS)
6. Cultural Fit
7. Assessment Center
8. Internal
9. Selection
10. Internal Job Posting

Check Your Progress –B

1. Sales Training
2. Onboarding
3. Role-Playing
4. Sales Coaching

5. Objection Handling Training
6. Sales Enablement
7. Sales Target Setting
8. Sales Workshop
9. Performance Appraisal
10. Sales Force Development

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9.13 TERMINAL QUESTIONS

1. What are the key qualities and skills that an organization should look for when recruiting salespeople?
2. How can an organization effectively balance internal promotions and external recruitment to build a strong sales force?
3. What role does employer branding play in attracting top sales talent, and how can companies enhance their employer brand?
4. What are the most effective sourcing strategies for finding high-quality sales candidates in today's job market?
5. How can organizations create a continuous training and development program that keeps salespeople motivated and up-to-date with industry trends?
6. How can a company design a compensation structure that motivates salespeople while ensuring ethical sales practices?

UNIT- 10 MOTIVATING THE SALES FORCE AND COMPENSATION

10.1 INTRODUCTION

A company's SALES FORCE comprises employees who engage, convince and sell the products or services to the customers. Undoubtedly the SALES FORCE is like the eyes and ears of any organisation as it gets in direct contact with the customers. It knows the exact pulse of the customers and can assist the organisation to adjust the business offerings accordingly. The SALES FORCE'S job is to make a complex buying process a lot easier and comfortable for the buyers.

A SALES FORCE which is actually the representative of the company's philosophy and principles need to be motivated and compensated adequately. This will help to keep the morale of the SALES FORCE high and enable it to contribute to the best of its ability. In this UNIT we will discuss the various aspects of motivation and the methods adopted by the organisation in framing their compensation packages so well that their SALES FORCE remains motivated.

10.2 OBJECTIVES

After reading this unit you will be able to understand:

- Generalization Of Motivation
- Motivation In Respect Of The Output Of The Sales Team

- Motivating The Sales Force At Different Stages Of Their Career
- The Procedure And Techniques For Keeping The Sales Team Highly Motivated
- Criteria For Designing A Compensation Plan

10.3 GENERALIZATION OF MOTIVATION

The word motivation is derived from the latin word MOVERE which means to move.

Motivation is a process that initiates, guides and maintains goal oriented behaviour. Motivation encompasses a desire to continue striving towards the attainment of objectives.

Motivation in psychology is regarded as the process that starts, directs, and sustains goal oriented behaviours. It includes the biological, emotional, social and cognitive forces that drive behaviour in the direction of meeting ends or achieving objectives or goals.

It is important to understand motivation because it is motivation that drives peoples actions and behaviours. Goal attainment, personal satisfaction and psychological health are all influenced by motivation.

Stephen P Robbins defines ‚motivation as ‚"the willingness to exert high levels of effort to reach organisational goals condition by the efforts ability to satisfy some individual needs".

Effective strategies in a variety of life domains can be guided by understanding of the motivational principles. Aligning tasks with the employees' intrinsic motivation and needs at work can improve performance and job satisfaction.

The sales personnel plays a very crucial role in the success, growth and development of any organisation. Any organisation's growth, progress, expansion are totally dependent on its sales personnel. Hence it is extremely crucial and all important to keep them highly motivated. The success of the organisation is directly related to the level of the motivation of its sales people.

1 Need for motivating the sales personnel

A) The sales job is a challenging job as a sales person is not easily entertained by the prospective buyers.

B) In a highly competitive market the salesperson has to face acute competition from similar product manufacturing companies.

C) The salesperson has to indulge in repetitive sales activities which makes it even more dull and monotonous.

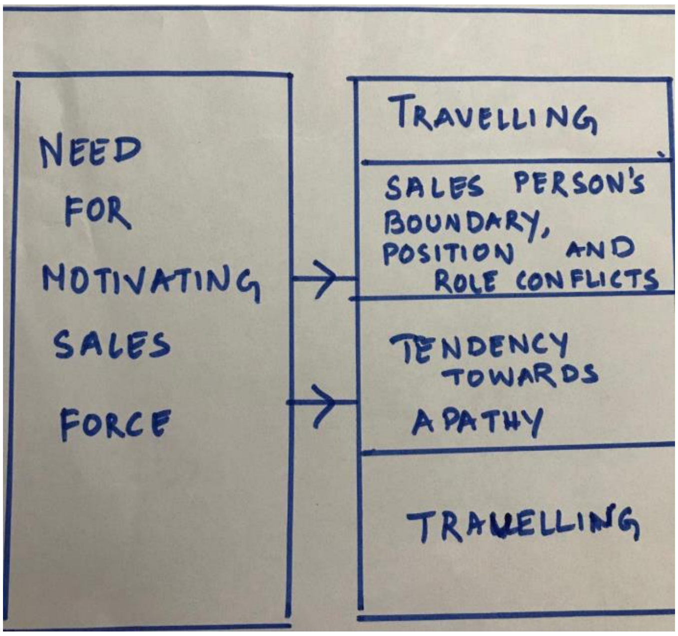
D) There is a lot of stress from the customers with the wholesalers, retailers and consumers on the one hand and the supervisors on the other hand. Each one wishes to get the best deal from him.

E) The salesperson has to do a lot of travelling and hence stay away from his home and other duties and obligations.

F) Most of the sales persons feel that they cannot satisfy their personal needs by remaining in this job hence feel disappointed and disillusioned easily.

G) Motivation helps to build the morale of the salespersons; it is the driving force behind the efficiency of the sales persons

G) The motivational level must be kept high at all stages so that the Sales Force Performs the duties in a highly interested, passionate and devoted manner.



2 INSPIRATIONAL AND MOTIVATIONAL THEORIES AND THEIR RELEVANCE IN MOTIVATING THE SALES TEAM

A) MASLOW'S NEED HIERARCHY THEORY

Abraham Maslow's Model Is basically designed on ranking or grading of human needs from the most primary or elemental to the most elaborate and foremost. Maslow asserted that every person possesses a scale of needs or desires and the fulfilment of these needs from the lowest to the highest will determine the level of motivation that is there in him / her. Maslow believed that one set of needs becomes important only after the lower order needs are totally satisfied.

Till no needs are satisfied a person yearns for the satisfaction of his gross physiological needs. When the physiological needs are satisfied, he goes up the hierarchy and has other needs from the lowest to the highest.

Thus, it is clear that a person moves from the physiological needs to the safety needs then to love and belongingness next to esteem needs, to cognitive needs, to the aesthetic needs and finally to self-actualization.

B) APPLICATION OF MASLOW'S THEORY TO SALES FORCE MOTIVATION

It is imperative for the sales manager to know the needs of a sales force. The satisfaction of the needs is the motivator. Once that needs satisfied another need arises and motivation is for required further more.

The sales manager must be able to assess whether for a sales person, it is the lower or higher order needs that have to be satisfied for motivation.

Maslow's theory also points to the fact that the needs may differ from one salesperson to another hence understanding the needs and satisfying it is a challenging task for the sales managers.

C) HERZBERG TWO FACTOR THEORY

The theory proposed by Frederick Herzberg is also called MOTIVATION HYGIENE

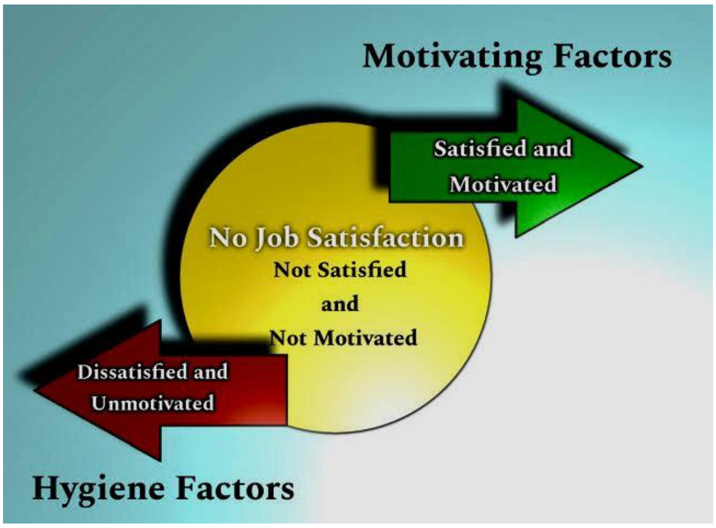
THEORY. According to HERZBERG there are two sets of factors: -

1) One That prevents dissatisfaction and is called HYGIENE factor.

2) The other which leads to motivation and is called the MOTIVATING factor.

- This theory is also called dual factor theory – motivation – hygiene theory.
- The HYGIENE FACTORS include the companies' policies, supervision, the working conditions, the internal personal relations, salary, job security, status, personal life, and employee benefits.
- The MOTIVATING FACTORS Include achievement, recognition for accomplishment,

increase responsibility, opportunity for growth and development, and creative and challenging work.



D) APPLICATION OF HERZBERG'S THEORY OF MOTIVATION

The Team leaders have the responsibility to see that there must be such an environment that creates such circumstances that do not promote job disappointment and discontentment. These circumstances are the HYGIENE FACTORS. These entail provision of excellent conditions for working and satisfactory monetary packages, excellent policies of the organisation etc. It is for the sales leaders to corroborate and make certain that the team gets opportunities to grow, be accepted and appreciated. These Are motivating factors.

The Team members will then give their very best to the organisation.

E) VROOM'S EXPECTANCY THEORY

1) This theory assumes that a person's motivation to exert efforts depends upon his expectations for success. Vroom based his theory on three concepts – EXPECTANCY, INSTRUMENTALITY, VALENCE.

2) VALENCE measures the value of a person attaches to a given reward.

3)EXPECTANCY measures a person's confidence in being able to get the expected results.

4)INSTRUMENTALITY measures the extent to which an individual believes that the manager/ organisation will deliver the due and promised rewards to the person.

F) APPLICATION OF VROOM'S THEORY TO SALES FORCE MOTIVATION

1) EXPECTANCY: The team leaders have the responsibility to impart guidance and training to the whole team. This will help in the improvement and strengthening of the performance abilities of the sales personnel.

2) INSTRUMENTALITY: The Team managers of the sales team have to convince and guarantee that Outstanding performance will always be suitably rewarded and incentives will be given.

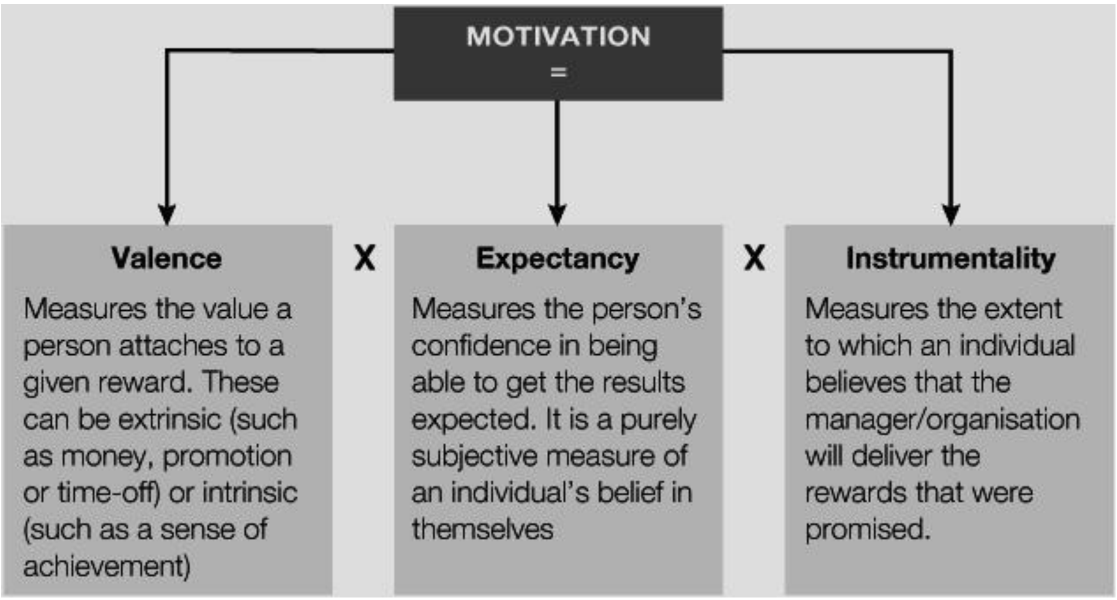
3) VALENCE: The team managers must reassure that all the incentives and remuneration will be worthwhile and purposeful to the sales force it is due the duty of the city manager to see that whatever remuneration is given to the sales team is worth the effort made

10.4 MOTIVATION IN RESPECT OF THE OUTPUT OF THE SALES TEAM

The two most crucial causal factors of a outstanding achievement of the sales team are :-

- The propensity to execute and the readiness and preparedness to carry out the task given.
- The Accomplishment of the sales team and its success in fulfilling the objectives and goals truly indicate the level of the productive capacity. It implies that the success of the sales team is indicated clearly by the productive capacity of the whole team.

Productivity is the ratio of output to input and is represented in the following ratio: –
PRODUCTIVITY =OUTPUT/INPUT
Sales Productivity Is the ratio of sales revenues to sales expenses.
Sales Productivity =Sales Revenues/Sales Expenses
Sales force productivity is not the same as manufacturing/sales productivity.
Sales force productivity depends on work environment, work methods, communication ability and most importantly motivation The level of motivation of the sales force greatly determines the performance. Motivation Is directly proportional to salesforce performance which is directly proportional to salesforce productivity. The more the motivation, the better the sales for performance; the better the sales force performance the more the sales force productivity.
Sales persons having a high level of motivation tend to do their job very well and have high productivity. Salesperson who lack proper motivation tend to be poor performers and fail to achieve their target and have low productivity. Thus the sales force managers can take steps to improve their communication within the sales department of the organisation by ensuring that they're always accessible to the fields sales force for any kind of guidance. There can be several schemes for the benefit of the sales force so that their productivity level reaches the DESIRED LEVEL .



10.5 MOTIVATING THE SALES FORCE AT DIFFERENT STAGES OF THEIR CAREER

It is a well-known fact that with the passage of time, several changes take place in any persons perceptions and his/her attitude towards life, career etc

CAREER STAGES refer to the various stages in one's professional take on from the entry stage to the stage of retirement. The study of CAREER STAGES is extremely important in sales management because several sales persons continue to remain in the same official position right from the ENTRY LEVEL till the retirement.

However there has been an extensive research on the changes that take place in a sales person's perception, efficiency, capability and attitude towards his job in the whole span of his career.

According to the career stage model, a sales persons career passes and spans through four stages –

1. EXPLORATION STAGE
2. ESTABLISHMENT STAGE
3. MAINTENANCE STAGE
4. DISENGAGEMENT STAGE

5.1) THE EXPLORATION STAGE

This stage occurs between the ages of 20 to 30 years of one's career. In this stage an individual doesn't have much work experience and just wishes to find the right job and workplace. The individual makes conscious efforts to create a self-image. There are several job openings before the individual, hence he / she can hop from one job to another.

MOTIVATION AT EXPLORATION STAGE

The salesperson, in this exploration stage tends to be dissatisfied and wishes to experiment with job changes quickly for better remuneration.The sales manager faces a daunting task of motivating the sales people in the exploration stage to work hard to achieve high targets. Hence it is a big responsibility on the sales managers to motivate the sales force effectively and efficiently.

5.2) THE ESTABLISHMENT STAGE

The stage occurs between the ages of 30 years to 40 years in one's life. In this stage an individual shifts the focus from searching the right job to settling down in a particular workplace and progressing there itself. This tendency/feeling is basically generated by the desire to settle down in his career. In some cases the search for the right job may continue but by and large and individual wishes to settle down professionally. In this state an individual seeks to strike a harmonious balance between his professional and personal lives.

MOTIVATION AT ESTABLISHMENT STAGE

In most sales organisations career enhancement of sales persons usually implies getting promoted to a Sales Management position. But not all sales persons are willing to take up this post as it requires different kinds of skills this is a definite motivation for promotion and better monetary gains. The sales managers also suggest DUAL CAREER options to sales people. Examples of dual career position includes key Accounting sales position and product group specialists. Salesmen who are transferred to the specialised non-management positions as part of the dual career strategy of the management often regard the transfer as a promotion and and feel extremely satisfied.

5.3) THE MAINTENANCE STAGE

This stage in a person's career starts around the age of 40 and goes on till the age of 50 years. In this stage, an individual faces tremendous psychological strain due to growing awareness of physical ageing, limited opportunities for career growth and an increasing threat of technical obsolescence. The individual feels the need to be in touch with the latest developments in his field and to acquire new knowledge and skills in order to enhance job performance.

Thus, there are a lot of changes in an individual's career at this stage. They may be of physiological, attitudinal, occupational or social in nature. The individual holds on to what he has already achieved and continues to maintain his position status and performance level in the organization

MOTIVATION AT THE MAINTENANCE STAGE

At this stage, more or less the salesperson is satisfied with his position in the organisation. Even if he is dissatisfied he does not show any inclination to change the status quo ought to go in for a change in job. Motivation at maintenance stage is not possible as the salespersons have already

achieved much in their professional life by then. Even if the sales manager promotes a sales person in the maintenance stage or he offers monetary benefits these have little or no effect on the post sales personnel.

5.4) THE DISENGAGEMENT STAGE

This stage in an individual's life is characterised by his efforts to withdraw or disengage himself. In this stage an individual is no longer interested in the betterment of his professional position and begins to plan for retirement. Some persons retire early in the disengagement stage and immerse themselves in activities that are religious social and philanthropic in nature.

MOTIVATION IN THE DISENGAGEMENT STAGE

In this stage, too, the sales managers can do very little to motivate the salesperson and make them improve their job performance. Moreover, the sales persons do not wish for any kind of motivation as he or she is already getting disengaged from the professional callings

Check Your Progress-A

1. __________ is the process of stimulating people to achieve organizational goals by providing them with appropriate incentives.
2. The primary objective of sales force compensation is to align the sales force's goals with the company's overall __________.
3. __________ is a type of compensation where employees receive a fixed payment regardless of performance.
4. __________ plans reward salespeople based on the number of units they sell or the total value of the sales they generate.
5. The __________ theory suggests that employees are motivated when they perceive fairness in their compensation relative to others.
6. Sales incentives can be classified into two types: monetary and __________ incentives.

7. A __________ is a combination of salary and commission that gives salespeople a fixed income along with performance-based pay.
8. __________ motivation refers to the internal drive of a salesperson to perform well due to personal satisfaction and growth.
9. A __________ plan is designed to reward sales teams when they collectively achieve their targets.
10. Non-monetary rewards such as recognition and promotions are examples of __________ motivation tools.

10.6 THE PROCEDURE AND TECHNIQUES FOR KEEPING THE SALES TEAM HIGHLY MOTIVATED

Motivation of the sales team by the sales team leader calls for the complete grasping of each team members distinct and definite requirements and wants.

The sales head, then needs to figure out the most perfect combination of motivational strategies for the different team members.

Motivational strategies are basically classified into two distinct kinds: –

- Financial/monetary rewards
- Non-financial/non-monetary rewards.

9.6.1) FINANCIAL REWARDS

Money is often used as an incentive for sales people. Most sales people prefer the financial benefit because at the lower level of organisation there are more of physiological and safety needs rather than those of esteem and self actualisation. Social needs are also necessary at all levels.

The financial rewards include: –

- Higher salary.
- More commission
- Profit sharing.
- Other monetary incentives.
- Travelling allowance.
- Bonus (quarterly and annual bonuses).

9.6.2) NON FINANCIAL REWARDS

Dawson rightly commented “Business is on the threshold of a new era of human and social concern which will inevitably result in greater attention to total human resource development by sales management. “

The non-financial incentives, thus become an important component of the motivation mix of a company and they include: –

- Promotions.
- Good working conditions.
- Opportunity for giving suggestions.
- Participation in management.
- More responsibility.
- Freedom in working.

- Competent leadership.
- Job security.

CREATIVE REWARDS

Creative non-financial rewards can be highly effective in motivating the sales team .
These include: –

- Paid time off.
- Rewarding high-performers can be a great motivator.
- Team events
- Organising team building activities or celebration for achieving targets can foster a positive

and motivating work environment.

- Mentorship programmes.
- Pairing high achievers with senior leaders can be a valuable reward.
- Feature in companies newsletter.
- Highlighting achievements in the internal communication of the company website
- Office celebrations
- Hosting celebrations for achieving team targets such as themed parties or lunches for the

sales personnel.

TAILORED REWARDS

- Understanding individual motivation
- Incentives to individual preferences and motivation can be more effective.
- Tiered Targets : Setting tiered (step wise) targets can help motivate both high and low performance as the goal provided are easily achievable for everyone according to the tier or level they occupy

THE MAIN AIMS OF COMPENSATION PLANS

Selling is one vital employment where in the sales personnel can have several suitable locations to experience a large span of earnings which depend on the size of the sales targets achieved. The greatest motivating factor is actually the REWARD and COMPENSATION STRUCTURE.

Compensation plans need to clarify all the jobs that the sales force needs to execute, the way the performance will be evaluated and the way they can enhance their performance to get more compensation.

1 FULFILLING THE NEEDS OF THE SALES PERSONNEL

A perfect compensation plan fulfils the fundamental desires like secure permanent income, monetary security, wish to have a perfect position in the organisation.

2 ADMINISTERING FINANCIAL SECURITY

An ideal compensation plan must make provision for monetary security, security in the society, all the benefits that the sales person will receive after retirement and introduction of the insurance schemes. This will help greatly in making the Sales personnel feel monetarily confident and hopeful.

3 NEED FOR SELF ACKNOWLEDGEMENT FULFILLED

A salesperson would definitely wish to get recognition and respect from subordinates, the colleagues and also the superiors. An ideal compensation plan will help to fulfil the salesperson's desire for self-acknowledgement and recognition.

4 POSITIVE SUPPORT FOR COMMENDABLE PERFORMANCE

A compensation plan must give incentive to the sales personnel in keeping with whatever their expectations are. if the team leader provides positive support for commendable performance of a particular salesperson, he or she will then carry out the work in a way that will prove to be of great asset not just to the customer but also to the organisation. It is seen that the organisations award commissions to the Sales persons in case they are able to finish their tasks within the allotted costs and the allotted time and if they do it really well. It is only then that the sales personnel will opt for a work culture that is truly advantages to the organisation and the customers.

5 ASSIST IN CONTROLLING THE EFFECTS OF TIME

An effective compensation plan will see to it that the output of the sales personnel remains steady and constant not just in the present time but also in the future. It actually implies adjusting the time lapses to bring out the best work culture within the whole team.

CHIEF ATTRIBUTES OF A WELL BALANCED COMPENSATION PLAN

The compensation plan is a tool that aids any organisation to achieve its objectives. It gives an impetus to the salesforce efforts towards achieving the desired goals. This definitely will have an impact on other functions of the organisation. It can influence the quantity of production, the cash flow and the training needs of the salesperson. Hence the sales manager should make an in-depth study of the characteristics or features of the compensation plan before going deep into the detailed aspects of deciding on which type of compensation plan will be applicable. Any compensation plan should fulfil a certain criterion. A compensation plan is meant basically to motivate hence there should be equality in compensation to all the sales personnel. The design should have flexibility So that the sales manager can modify or make alterations whenever required.

1 COMPENSATION PLAN MUST BE UNBIASED, IMPARTIAL AND BALANCED.

A perfect compensation plan needs to be unbiased and straightforward in its design and framework. All the sales personnel must be regarded impartially. The rewards and monitory benefits must be disbursed in an unbiased way to all the team members of the sales force including the team leader.

2 COMPENSATION PLAN SHOULD BE ADAPTABLE, ALL TERRIBLE AND ADJUSTABLE.

A superior sales compensation plan needs to be adaptable so that it can be easily adapted by the organisation and also alterable so that in case there is need for any changes/alterations, they can be easily made. These alterations will depend exclusively on the market fluctuations and the business up down cycles.

3 Must support encouragement and provide for sales rewards – financial or non-financial.

An excellent compensation plan will provide a great connect between the efforts made, the results achieved and the rewards disbursed. Unless this assurance is given, the main objective of motivating the sales force will become very difficult to achieve. There must be a proper amalgamation of salary, commissions and incentives in a proper mix so that the sales force tries to do its best to achieve all the organizational objectives and goals.If the sales personnel feels that the plan is not in keeping with the efforts that they have made then it will be quite difficult to make them do the best.

4. NEEDS TO GUIDE THE SALES FORCE TO HELP ACHIEVE COMPANY GOALS

A good compensation plan must direct all the activities of the sales force in such a way that it finally culminates in the achievement of the objectives and goals of the company or organisation. Compensation Plans can also focus on the Sales activities that the management wants the sales-personnel to focus on .For example if any organisation has introduced a new port product in the market. A good compensation plan can formulate a system that rewards the sales personnel in the form of special incentive or bonus for each unit of the new product sold. This will help to motivate the salesperson adequately and the achievement of the goal will be far easier!

5 MUST BE EASILY COMPREHENSIBLE AND MAKE MANAGEMENT EASIER

An Immaculate and impeccable sales compensation Plan facilitates the easy and relaxed administration of the work culture of the sales personnel. A flawless compensation plan which is discussed with the sales team during the framing stage will be more intelligible and far easier for the whole team to understand. This will help a lot As each of the sales team member already knows about the terms and conditions laid down in the compensation plan because each member was present when the compensation plan was being framed.

TYPES OF COMPENSATION PLANS

Sales compensation plans can look pretty different from one organisation to another, depending totally on the structure of the sales teams, the resources that they have and the goals and objectives of the company. Some companies may give their sales personnel a bigger regular salary, while others might put more emphasis on the commissions that they earned for achieving their targeted sale goals .

1. SALARY ONLY PLANS

This is the fixed remuneration given to the salesperson not influenced by business fluctuation or business sales. Salary only plans give a feeling of financial security and conformity in their total earnings. This is the most clear-cut compensation plan as it simply conformity in their total earnings. This is the most clear-cut compensation plan as it simply provides a fixed income that is paid out regardless of whether the sales are made according to their target or not.

A) Advantages of Salary Only

- This type of sales compensation plan is beneficial to the sales persons as the income to each is assured and is certain ,regardless of business or sales fluctuations.
- It is the easiest to administer and is direct in comparison to the other compensation plans
- It promotes equality among the sales personnel.

B) Disadvantages of Salary Only

- Sales personnel do not have any motivation to put an extra effort in selling as they know that they will not get any rewards.
- The sales person shows lack of interest in being extra skilful in selling articles because of the awareness that, it will not make any difference to the salary disbursed to them.

- Hence, there is laxity in the selling technique. Be it a hard-working, salesperson or a dull, disinterested one, both will eventually get the same salary.
- Hence there is lack of interest.

2 DIRECT INCENTIVE COMPENSATION PLAN

- This is also termed as variable compensation or pay poor for performance plan. The sales personnel will get incentive depending on their selling attitude.
- There are SALES ACCELERATORS the incentives, monetary benefits. When the sale is beyond target. There are SALES DECELERATORS and fine is levied when the sale is much below the target.
- The method of calculating the incentive/compensation differs from one organisation to another. Some companies will award incentives depending on the total sales achieved while others will do it based on the number of products sold.
- The Base / Elementary charges used for calculating the incentive/compensation differs from one company to another. The base/ Elementary charges may differ for different articles or maybe constant for the same articles
- Sometimes a salesperson becomes eligible to receive a commission only if the sales quota is achieved. In other words, he or she will get a commission only if the sales volumes or above the sales quota or above the sales quota.
- Broadly speaking, There are two types of Direct Incentives Compensation Plans. These include: –
    - Incentives totally based on Net Earnings
    - Incentives totally based on Gross Profits / Profit Margin

NET EARNINGS INCENTIVES PLANS

This is the most popularly accepted category of direct incentive/compensation plan. According to this particular plan an incentive or a commission is paid to the salesperson calculated as a percentage of the total sales achieved without deduction of any refunds or returns.

GROSS PROFIT/ PROFIT MARGIN INCENTIVES PLANS

These incentive/compensation plans are infrequent rare and sporadic. Nonetheless this plan proves to be more beneficial for certain particular kinds of businesses. According to this plan the sales people are bestowed with incentives based on the gross profit or the profit margin of the total sales incurred. The calculation of the gross profit margin is done by removing the actual cost of the products sold from the real selling price of the products.

A) Advantages of Direct incentive/Commission Plans

- Such incentives or commissions can measure consistently the performance level of the sales personnel.
- The sales personnel show the preference for such commission plans because these plans actually assist them to know how much salary they will get on the basis of the total volume of sales that they have achieved.
- Plans like these assists tremendously in designing targets, goals and objectives for the sales personnel.
- These plans also encourage inspire and motivate the sales personnel to go for greater sales targets and to be worthy of better financial returns.

B) Disadvantages of Direct Incentive / Commission plans.

- The main centre of attention of the sales force is just to enhance the sales output. The team has not much concern with the gross profit or the net profit margin.
- Establishing social rapport also takes a backseat as the sales personnel shifts the attention entirely to enhancing sales output because they know that they will get more and better incentives. It is also seen that the sales person will be primarily interested in selling the products he/she will not take the trouble to find out or make an assessment of the utility of the particular object to the buyer/customer.
- There can be internal conflict among the team members of the sales force because some members may get more commission than the others. This will happen when one salesperson performs better than the other hence becomes worthy of more commission. This can lead to disappointment and bad blood among the members of the sales team.
- The condition of the economy and business will also affect the income of the sales team members. If there is a boom in the economy, the sales force members will be entitled to more commissions but in times of recession they may get very little or less incentive.
- The personal touch of the salespeople with the customer / buyer also gets affected. There isn't much of a cordial relationship between the buyer and the salesperson as the salesperson's Goal or priority lies in getting a hefty compensation package and more incentives. So, the one-to-one approach gets missed.

3. CONSOLIDATED OR MERGER PLAN

Consolidated or merger plans basically include an amalgamation of salary/wages,commission and other types of incentive plans. The merger plan implies the amalgamation of salary, commission and a couple of other incentives. The combination can be in various forms – salary and bonus or salary and incentive or salary and bonus and incentives all combined.

What is remarkable is the fact that in consolidated type of compensation plan there is a fixed ratio between the set and fluctuating constituents of the Compensation Plan. Mostly the organisations or the industries adopt 80% base salary and 20% incentive component. Sometimes it could be 70% 30% mix or even a 60% 40% mix. It is observed that usually the organisations pay the fixed salary component on the monthly basis, commission component by weekly or monthly, and bonus on a quarterly, half yearly or annual basis.

A) Advantages of Consolidated/ Merger Plans

- Steady and regular income which could be once or twice in a week or in a month or after every three months in the form of financial incentives, Profit Proceeds or compensation earnings Keep the sales team highly encouraged, motivated throughout the year.
- The advantage of a consolidated plan is that the salesperson derives the benefit of getting a fixed income and a variable income also which is in the form of different incentives.
- Due to various financial encouragements, The sales personnel remains highly motivated and encouraged to perform truly well.
- This plan enables the younger sales persons to make heavy selling as they are amply motivated to earn more.The young energetic sales persons are fully aware that they have adequate financial cover and also the impetus to supplement their fixed income.

B) Disadvantages of Consolidated/ Merger Plan

- This plan involves a lot of calculations and proper administration because there are a multiple of composition combinations possible for different sales personnel.

- The administering costs are higher than other plans because a lot of complex calculations are needed and a greater number of Sales persons have to coordinate.
- These plans have to be regularly analyzed due to changes in the external environment. In case they are not revised periodically the variable component may become very high. This will lead to the loss of morale when the pay reduces drastically during lean selling periods.
- Monitoring and controlling have to be greater in this plan as compared with the other plans.

4. INCENTIVE PAY / PAY FOR PERFORMANCE PLAN

An Incentive Pay or Pay for Performance Plan is basically a plan that honours and bestows awards and incentives to the employees in accordance with the outcome and the rating of their performance. The evaluation of the performance of the employee and giving the proper rating based on their performance and output is carried out on a quarterly/ half yearly or annual review basis.

Pay for performance plan is a commendable effort for it encourages all the employees to enhance their output level so that they can also claim the reward and honour. But it is very important to see that this plan is implemented properly otherwise there can be feelings of animosity and resentment among the team members.

A) Advantages of Incentive Pay/ Pay for Performance Plan

- This particular plan is highly advantageous because it motivates and inspires all the members of the team to work harder and to better their performance level. All the team members know that the better their performance the more will be the reward and vice versa.

B) Disadvantages of Incentive Pay / Pay for Performance Plans

- If this plan is not implemented properly it can lead to negativity and the morale of the sales personnel will naturally take a downturn.

This plan requires detailed and most perfect data to measure the performance of the sales force in the most accurate way and that can be a difficult task sometimes

10.7 CRITERIA FOR DESIGNING A COMPENSATION PLAN

While framing and shaping a compensation plan certain standards and benchmarks have to be considered. These benchmarks only will help to give final brilliant shape to the compensation plan. The criteria or the standards for framing the compensation plan or as follows.: –

- Among the most important criterion is the laying out or mapping out the financial budget for the execution of the compensation plan of the sales force in the best possible manner.
- It also becomes important to make a thorough study of the various requirements of job and also a precise description of the job.
- While framing the compensation plan layout it becomes imperative to take into consideration the Structural hierarchy of the sales personnel and the desired characteristics and recommended functions of each member of the team in the whole setup

- The company's policy of motivating sales personnel whether through an inbuilt incentive system or through the provision of indirect benefits like allowances and other reimbursements
- Formal and compulsory training programmes for all sales personnel to make them feel a part of the company as well as to develop their skills and provide them with the necessary break from the monotony of the daily routine sales reports;
- HRD (human resource development programmes to create a feeling of attachment towards the job at hand and also to take in the culture of the organisation.

The present-day scenario is such that there is more emphasis on the last two considerations along with the direct compensation program inclusive of direct salary. With selling having become more and more difficult and complex a satisfactory compensation package is a must to avoid high turnover within the sales force

DESIGNING AND IMPLEMENTING A FUNCTIONAL SALES COMPENSATION PLAN

A compensation plan designed with style, ingenuity and practicality can unleash or open any organisations complete potential, enhance the output level and guide the sales margin to the maximum and optimum level. In contrast to this a compensation plan designed haphazardly, In efficiently, impractically and in effectively will ultimately result in the sales force team becoming totally disinterested and and involved. This would definitely have its effect on the sales and the long and short of this is that the influence of this would be depreciation in the volume of the sales within a period of time.

1 Establishing a Committee for Preparing the Compensation Scheme

The framing of a productive and phenomenal sales compensation plan starts with the layout of the main blueprint by the compensation planning committee.

The Next step involves the various, diversified and distinct Members of the planning committee offering their skilful and adept suggestions to develop and frame a just and efficacious Sales compensation scheme.

These distinct members of the planning committee are from various spheres and domains of sales management. These include: –

- Financial experts
- Human resource development experts
- Sales Specialists
- Legal experts
- A few consultants from outside the organisation
- A couple of board members.

Framing of the compensation plan is a rigourous task and calls in for constant meetings on a regular basis. It is not one day meeting but the members of the planning committee have to constantly meet to see the working out of the plan, make an appraisal of whatever has been done till then and skilfully plan out the Next step. Irrespective of the size of the organisation, whether big or small the compensation planning committee has to do its job in the most skilled fair and effectual manner so that the compensation plan is a phenomenal one !

2 COMPILE AND EXAMINE PAST DATA OF PERFORMANCE ANALYSIS OF THE SALES TEAM MEMBERS

To maximise the impact of any compensation plan the organisation's compensation committee should meet regularly and analyse SALES PERFORMANCE MANAGEMENT (SPM) Data. This will enable the committee to monitor the plans effectiveness continuously.

It is essential For the organisations to have an INDICATOR DATA MANAGEMENT (I D M) platform which will analyse ,scrutinise and give the results on the past performance levels of the members sales team. This indicator data management (IDM) will examine and analyse the sales performance of each salesperson and submit its report on the basis of the scrutiny

3 DISCLOSURE AND PRESENTATION OF THE NEW SALES COMPENSATION PLAN

The presenting of the new sales compensation scheme has to be done in an extremely effectual manner. This is important because the Sales Force needs to understand clearly each point of the new sales compensation plan so that they can then decide how to work within a certain framework and the given strategy.Each sales team member will then know how to work effectively to make profit from it.

The Sales Team will then work in keeping with the rolled out compensation plan and steer the organisation towards the achievement of the much desired goals and objectives

Check Your Progress- B

1. __________ is an example of an external factor that can influence a salesperson's motivation.
2. _________ compensation strategies focus on long-term retention by offering rewards over an extended period.
3. In a sales compensation plan, __________ refers to the portion of earnings that vary depending on the salesperson's performance.
4. __________ is the practice of offering additional financial rewards to salespeople who exceed their sales targets.
5. __________ programs help increase sales force engagement by setting up specific, attainable goals that challenge salespeople.
6. One of the challenges in motivating a sales force is finding the right balance between fixed and __________ pay.
7. A sales force may be demotivated if their compensation plan is too __________, leaving little room for performance-based incentives.
8. __________ theory emphasizes that motivation comes from a combination of expectancy, instrumentality, and valence.
9. A well-designed sales compensation plan must be __________, meaning that it should be clear and easy to understand.
10. __________ incentives focus on rewarding salespeople with trips, gifts, or special recognition events, rather than cash.

10.8 SUMMARY

In this unit we have studied that the sales job is actually very monotonous and a proper motivation program is to be followed. The Sales Managers play an important role in motivating the sales force as they interact mostly with their sales force and can understand or empathise closely with the sales personnel.

Their role as a primary source of understanding the team and motivating the team is of great importance. The framing of all the inspirational and motivational programmes must be done in a detailed and effectual manner so that the desired results can be achieved. The motivational programmes in order to enhance sales growth can make use of certain approaches and ways that can be monetary and non-monetary; monetary ones including salaries/wages, commissions, incentives, merit pay, bonuses benefits, sales incentives. Non-monetary ones include suitable promotions, imparting recognitions and honours making the sales team members participate in the training programmes and organising the meeting of the sales force team within a stipulated time period.

All the inspirational, motivational strategies, practises when properly implemented and followed will definitely assist in bringing out the best from the sales force team at the individual base level, the team level, the managerial level, and the highest which is the organisational level. When the SALES FOCE remains adequately motivated, the best targets, the well-established goals and objectives are easily achieved

10.9 GLOSSARY

1. ***MOTIVATION:*** The how – to aspect of getting sales people to do their jobs efficiently and really well.
2. ***COMPENSATION:*** Remuneration that is given to any sales worker.
3. ***COMMISSION:*** A payment based on performance.
4. ***FINANCIAL INCENTIVES:*** Direct monetary payment such as salaries and wages.
5. ***BONUS:*** A payment made at the discretion of the management for a particular achievement.
6. ***FRINGE BENEFITS:*** Indirect rewards such as paid vacations, pension plans medical reimbursement and insurance payments
7. ***NON-FINANCIAL INCENTIVES:*** Incentive techniques used for specific special efforts situation. Sales conventions and meetings, sales contests honours and awards special privileges and favourable communication are the major forms of non-financial incentives.
8. ***COMBINATION PLANS:*** A compensation plan that uses salary, commission and/or bonus.

10.10 ANSWERS TO CHECK YOUR PROGRESS

<u>Check Your Progress –A</u>

1. Motivation
2. objectives
3. Salary
4. Commission

5. Equity
6. non-monetary
7. combination plan
8. Intrinsic
9. team-based compensation
10. intrinsic

Check Your Progress –B

1. Economic conditions
2. Deferred
3. Variable
4. Bonuses
5. Sales contest
6. variable
7. rigid
8. Expectancy
9. transparent
10. Non-cash

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10.13 TERMINAL QUESTIONS

1. Discuss the key components of a successful sales compensation plan. How do salary, commission, and bonuses contribute to motivating the sales force, and what are the potential challenges in balancing these components?

2. Examine the role of intrinsic and extrinsic motivation in driving sales performance. How can organizations use non-monetary rewards to complement traditional compensation structures to maintain a high-performing sales force?
3. Analyze the impact of different sales incentive programs, such as team-based incentives, individual commissions, and sales contests, on employee motivation and performance. What are the pros and cons of each approach in the context of different organizational goals?
4. Evaluate the importance of aligning the sales force's compensation plan with the company's overall strategic objectives. How can mismatches between sales compensation and organizational goals affect both employee morale and business performance?
5. How does equity theory apply to the design of sales compensation plans? Discuss how perceptions of fairness and inequality in compensation can affect sales force motivation and performance, and suggest ways to mitigate these issues.

UNIT- 11 SALES MEETINGS

11.1 INTRODUCTION

A sales meeting which is also sometimes known as a sales conference is an assembly of sales personals in which a merchandise or facility is conversed and the advantages are delineated to the prospective consumer. The sales meeting is not constantly in a presentation layout as it can sporadically be a casual discussion, phone call or online communication. The parties engaged have this meeting between the primary contact and ultimate acquisition in order to attract the client.

It is a approaching collectively of an agent of the business selling the merchandise or the facility and the prospective purchaser typically it is in a presentation arrangement but it can be a phone conversion or an online conference as well. Throughout a sales meeting the seller presents a narrative of the merchandise and describes the methods in which it will meet the requirements of the purchaser. It is significant during the meeting for the sales person to give attention to the characteristics that resolve the consumer’s difficulties or else they may lose the purchasers awareness if the facility or the merchandise presents too many inappropriate attributes.

A sales meeting is intended to sell the merchandise, construct associations, recognize requirements and delineate advantages of the merchandise. A good sales person would use a sales meeting to converse about objectives, construct relationship and describe how the merchandises will fulfil the objectives of the prospective customer. Sales meetings in a diverse circumstance are held inside the business establishment for the sales teams in order to organize and stimulate the employees to track more customers and secure contracts. In this illustration the sales meeting can be an evaluation of the newest sales intentions which engage the presentation of the team and persons and comprise conversations of issues the side has gone through.

Sales meetings held inside the business premises normally do not comprise customers and are frequently led by sales managers or management who supervise the sales department of a business. The meeting may feature on campaigns to hurl merchandises and facilities to clients, the foreword of new marketing endeavours and other constituents that may influence the sales procedure. For illustration the sales team may need to be brought up to hustle on how to influence online services for linking with and motivating sales panoramas to execute the deal. Employees from other divisions might be embraced in sales meetings to include perception on the merchandise being sold. Non-sales personnel might also join a sales agent when selling merchandise to a prospective consumer for instance a sales person might bring along a technical specialist to assist demonstrate to the client how the merchandise functions.

It is not rare for sales meetings inside the business premises to emphasize the top players of the sales team demonstrating them as illustrations for their colleagues to imitate. Sales supervisors might also use the occasion to converse how the sales team approaches customers and the techniques they try to convince them to procure the facility or merchandise. There may be new regulation on the speech the sales team should use when conversing a prospective sale with a future client sometimes even directives on how frequently to contact sales visions might also be delineated.

11.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the meaning of sales meetings.
- Categorize with the various stages of sales meetings.
- Broaden upon the types of sales meetings.
- Figure out the objectives of sales meetings.
- Delineate the various aspects of national sales meetings.
- Enlarge upon the concept of regional sales meetings.

11.3 OBJECTIVES OF SALES MEETINGS

As businesses go through procedure of planning their forthcoming annual sales meetings we will share a few deliberations and examples educated which the companies have selected up along the technique from operational with the customers. Two enquiries the companies often like to enquire of executive supporters and meeting schemers are fundamental ones but all too often elapsed and these two enquiries are:

✓ What are you trying to achieve with this meeting?

- ✓ What do you anticipate the contestants to imagine, experience and do in a different way as a outcome of this meeting?

In most of the instances the objectives of the sales meeting aren't well defined because it emerges as if someone is challenging to fill timeslots so that everyone is occupied for two or three days but with no solid memorandum or required conclusion. While there may be numerous precedence and purposes that the conference is challenging to achieve because it is extremely significant to believe which of the abundant intentions are practical and achievable in a comparatively short period of time. To help out with this objective a good sales meeting may achieve quite a few of the subsequent purposes but not all in one occasion and infrequently by one sales meeting.

1. **Inspiration:** Inspiration and motivation are frequently been the trademark of annual sales meetings and there is a complete business division which focus on making optimistic and encouraging vocalizations for these meetings. Former sportspersons, armed forces experts, superannuated government bureaucrats, pop-psychology writers and many others offer extraordinary alternatives for these motivational meetings. What is frequently misplaced is a concrete relationship between the cultured management and the precedence facing the business. Although the motivational constituent might be inspirational it is significant to enquire from the mangers what the participants will take away from the conference and how they can connect it to their professions in the times to come.

2. **Learning:** For better or worse many participants at a sales meeting have come to learn about the latest developments happening or about to happen in their respective industries. This can be a priceless prospect for the sales managers to get collectively and blow-off the pressure while taking away an optimistic remembrance from the occasion. This is an enormous intention but it is frequently merged in an ill-fated endeavour to do too numerous things i.e. stimulate, learn, team-build and instruct and all at the same time. The submission of many sales experts is to keep any learning activity separate from other preparation and development conferences.

3. **Edification and Instruction:** The sales teams regularly get demands to make a two day rigorous sales training program accommodated into a half a day session. To make affairs more demanding the slot is frequently listed on the last day of the session and which is generally filled with non-stop presenters and relationship building episodes. This background is not perfect nor is it practical to imagine individuals to be extremely occupied and adjusted in at this point in the session. The best way to move forward will be either to commence the conference with training or using the session to basically kick-off a more complete training session and follow it up at a later date. Giving an attractive impression and interactive slot can afford a enormous orientation to the training objects but do not imagine to educate the absolute prospectus during the sales meeting if only a few hours are left. The training material can be pursued up with online training slots or by in-person short courses planned at later times during the year.

4. **Team Building:** Team building efforts is often at the receiving end of the sessions in the sales meetings because these conferences are programmed with the best of objectives as

participants frequently imagine of anything intended to pressurize them into working better together. If team building exercises is one of the objects of the session then it should be guaranteed that it is well scrutinized, always receives high-marks by participants and is customized to the exclusive traditions of the company. A badly planned and implemented session put on by the company or an external agency can essentially have pessimistic consequences on the entire session. If a eminence team-building session is not accessible then the company might be better off giving everybody the session for some kind of leisure activity such as a sporting event, mountain climbing, tourism to name a few and let the team-building become more organic than artificial.

5. **Information Slots:** Having the whole sales department together provides a great occasion to communicate information about new merchandises and facilities, business developments, opponent dangers and other business announcements. While an essential and significant ingredient of any sales meeting the question again should be what are the participants being asked to do with this information? Are there apparatus and reference resources existing to sustain the information? Why should the participants pay attention and what's in it for them? Progressing to ask these types of questions can help to focus in these slots and make them more significant and creative.

6. **Relationship Building:** For many sales teams the sales meeting may be the solitary occasion they have to meet face to face and relationship building during the year because the importance of these dealings should not be undervalued. Frequently these slots are where participants casually barter best practices, help one another, teach each other and converse what they are observing in the industry. The best thing to do with these networking buildings exercises would be to strengthen and maintained all through the session by providing many chances for the participants to intermingle with the help of techniques such as small group working slots, break-out clusters and allowing casual slots between the program. In addition the event plotters should provide for a means for everybody to stay attached after the conference with the help of social media, participant lists, internal applications among others. Construction on the sales expert's yearning to bond and interrelate can have a thoughtful impact on the company's skill to acclimatize and expand.

7. **Objective Setting:** Setting and discussing yearly sales targets for the coming year is a conventional action accomplished in a sales meeting. Whether done at the divisional, regional or team level the annual sales meetings this allows for each assembly to actually jump into their preparations for the coming by conversing as a group and perpetrate independently to what they will do to accomplish the required consequences. A few enquiries that can facilitate the annual sales arrangement are as follows:

- ✓ What is the vision for the sales team the coming year?
- ✓ What are the objectives that will be calculated that sustain the vision?
- ✓ What are the plans and methods to accomplish this vision?

- ✓ What are the special obligations to accomplish the consequences?
- ✓ What is the follow up or answerability arrangement?

8) Long Term Course: At the end of the day no sales meeting would be comprehensive without a dialogue of the coming times. Characteristically wrapped by a main administrative or numerous supervisory the sales meetings should include where the company is headed and what the preparations are to get there. This should be conveyed in advance to the divisional and team divisions if feasible so that each group can modify their preparations based on the long term strategy of the organization. The objective of the strategy gathering is to have the participants feel affirmative about where the organization is headed and to motivate the sales team to accomplish superior objectives. Keep in mind it is not practical to achieve all of these intentions at one meeting at a time. Nevertheless with cautious preparation and rendezvous with the right collaborators the sales meeting can be a attractive, enlightening and fruitful beginning to the new sales year

11.4 STAGES OF SALES MEETINGS

Many sales personals phizog a universal confront as they commence and expand their organizations generally in their first gatherings with forecast. Still if everyday business conferences are old hat then they will still find that holding fresh business conferences with viewpoints and concluding sales head to head necessitate mastering a diverse set of plans and abilities. To this juncture here are ten stages to triumphant meetings to get the business off to an enormous commencement.

1. Collect Backdrop Data: A pre-qualifying telephone conversion will assist the business to foresee what the prospects' requirements are because this will help the business to discover as much about the potential clients as feasible. As the business get ready to meet with a company viewpoint become proverbial with fundamental data of the company. Then they should prepare an inventory of all the aspects of the merchandise or facility that will assist the clients in the times to come.

2. Make a Reasonable Objective: Depending on the business and where it is based because some professionals assess the standard congregation with a viewpoint can outlay up to several thousand rupees. That is why it is indispensable that every meeting moves the potential client incrementally nearer to a purchasing verdict. Before you leave the business premises the sales personals should decide a principal target for the meeting. If the sales personal is a public relations specialist then for example a practical crucial target for a first meeting might be to set a time to present an inclusive plan. If the sales personal is a painting freelancer then the principal objective might be to offer estimation for the labour and acquire a moniker to commence.

3. Arrange Eminence Resources: Produce children of high-class printed apparatus that comprises everything from company cards and stationery to printed estimate pieces, catalogues and management instruments. Take a hard look at all the resources the sales personal will employ in a characteristic sales meeting as they should be well-written. Do all the colours, styles and imaginative constituents labour mutually to generate a consistent and qualified reflection? The company should pay close attention to any objects they wish to leave with their potential clients particularly if they are in an aggressive proposal state of affairs as these matters must help seal the sale deal after the meeting is over.

4. Review the Arrangement: It will be a gigantic blunder to carry the supplies to a new sales meeting unless the concerned personals have rehearsed the manner in which they will be used. This is predominantly accurate if the sales personal are preparing for a new business presentation to an assembly. The sales personals should employ the presentation using the visuals and handheld materials if possible they should film their preparation and scrutinize it seriously to be confident that the pitch is optimistic the materials are valuable and the velocity is suitable.

5. Construct Affinity Using Possession Surveillances: The sales personals should visualize the business premises of a potential client like an autographed football is on the table, a painting is on the wall which depicts a mansion enclosed by undulating meadows or a tape of the Mukesh Kumar is playing tenderly in the backdrop. By noticing the football, the painting and the song the sales personal have made three material goods examinations. The sales personal have also noticed three opportunities to construct camaraderie and bond with the potential client. They can engage in joint gratification of football or the person growing up on a mansion or refer to your favourite Mukesh Kumar song as any of these will assist in breaking the ice and construct a association based on thoughtful and belief.

6. Examine the Potential Client Vigilantly: In the course of a sales meeting the sales personal should notice how the potential client is sitting forward and nodding with curiosity or is the potential client sitting back with hands folded and head tilted to one side demonstrating a lack of bond, dullness, disinterest or scepticism? The sales personal should be conscious of the substantial signals the potential client is sending and reacting consequently.

7. Enquire Qualifying Enquiries: A new sales meeting is not a hurl but it is a discussion for an opening to unearth the potential client wants and to present explanations for meeting them. If the sales team find themselves doing all the conversation in new business meetings then in all probability talking yourself right out of business. It is just as significant to ask good questions and pay attention cautiously to the responses as it is to offer concrete and supportive details. One of the most significant and frequently ignored questions to ask is whether who will be taking the ultimate choice.

8. Illustrate Successful Examples: The sales personals should talk about successful examples that exhibit the techniques in which the company have productively fulfilled the requirements of their buyers or users. The sales personals should organize about half a dozen successful examples representing a broad variety of capabilities and be ready to consider them in their new sales meetings. Successful examples are great for placing the organization against the rivals that recommend parallel packages the sales personals should under no circumstances unswervingly condemn an opponent but as an alternative present a successful example that displays the advantages the buyers or users have benefited from purchasing a product or service from the sales personal company.

9. Recommend Superior Explanations: In order to effectively close the sales contract the potential client must be persuaded by giving an answer to their problems. It all comes down to how well the potential client judges the merchandise or it will meet their requirements and their assurance in the sales personal to fulfil the guarantees. To seal the deal by reviewing the given explanation and respond any final questions that may arise in the way of the potential client's choice.

10. Take a Decision: The sales personal should be completely equipped, should employ belongings scrutiny, enquire relevant subjects, pay attention vigilantly to the responds, illustrate successful examples and give concrete explanations. At the end of all this the sales personals should ask for what you want. It's astonishing how numerous sales personals take a meeting successfully to this end and then plainly discontinue and walk away without closing the business deal. If the sales personal is having intricacy in closing the sales deal then they may be because you haven't given adequate rationales to the potential client to buy the product

11.5 TYPES OF SALES MEETINGS

All sales meetings are not shaped identical although it may seem like a superior initiative to have the same type of weekly meeting to flesh everything out it may not be the most successful. As a sales manager it is your most important responsibility to find the most excellent technique to converse with your sales personals. The most excellent technique to accomplish this is to comprehend the numerous categories of meetings each with their own benefits and how to correctly finish them to get those most out of each and every sales meeting.

1. **The Daily Debrief:** This type of sales meeting has quite a few different names but whether you call it a stand-up meeting, a huddle, quick chat the rationale does not changes as it is fundamentally to register that should provide a rationale The time of day that this takes place may establish the theme of discussion. If the sales manager has to have a rapid sales meeting first thing in the morning the meeting may be to converse what the sales personals have planned for the day and how they propose to achieve their daily objective. Are they out in their field? Are they emailing potential clients? Are they trying to make new clients? This will get each person set for the day and focused on their precise objective. If they have the sales meeting a little later in the day it may be a check in to see how the day went. Did the sales personals meet the objective they had set out? What went well and what did not go as per the plan? How might this influence the plan for the coming day or the rest of the week? This should be a quick meeting where the manager makes notes and then hold the sales personals responsible for what they said they would do. If the sales meeting at the start of the day then this will be to send out a quick mail at the end of the day to check in with the sales personals and ask explicit questions about how they achieved what they said they would do. Nevertheless the manager should choose how to set it up for making the sales personals answerable and if they are not meeting their targets then to help them to make a arrangement for reaching the objective next time.

2. **Sales Coaching:** Sales coaching should be the prime objective of a sales manager as these types of meetings should be fragmentary and there should be vibrant discussion about the industry in which the company is operating and how it influences the sales market. These meetings need to be regular as this type of sales meeting also needs to be sales personals centric so that the spotlight is on what the sales personals need and what will help them in the field and help them to meet their target.

3. **Sales Forecast:** The sales forecast meeting is one of the most significant meetings because the timing of this meeting in particular is significant. So the manager needs to know when it is best to have the meeting for it to be the most valuable and provide the right information at the right time. The main objective of the sales forecast meeting is to focus on metrics and

help to forecast future sales so the manager should be discussing movement and how the sales personals will get to the next level. The manager should use this meeting to manoeuvre techniques for sales personals to meet their objectives and then hold them responsible for putting what has been discussed into tradition.

4. **Sales Pipeline:** As often as the sales forecast meetings take place the sales pipeline meeting will be less common because the rationale of the sales pipeline meeting is in its place to focus on the advanced picture inside the business organization. Ahead of the meeting the manager need to know how the sales personals are performing so here once more metrics becomes important. In this manner the sales manager will know if the sales personals are achieving their targets on a regular basis. If the sales personals are doing this then this is very good or if they are not then the meeting should focus on what the sales personals need to achieve their targets. Another thing this meeting looks at is long term plans the methods to be uses to drive business as well as problem solving. This type of sales meetings also looks whether the sales personals are not getting enough leads and to establish why that is and what can be done to fix it.

5. **Team Development:** Team development sales meetings are the most entertaining of all the meetings as it is the time to work mutually and advance as a team. This can be accomplished by sharing plans and working together to solve issues to consider about it this manner: have the sales manager ever been to an interactive escape room? The sales manager gets fastened in a room and has to decipher riddles and hints to break out in a set amount of time. Well that's a great team development exercise that puts the importance on teamwork and cooperation

Check Your Progress-A

1. The primary objective of a sales meeting is to __________ the team on company objectives and performance goals.
2. A __________ is a sales target set for individual sales reps or teams to achieve within a specific period.
3. Sales meetings often start with a review of the __________, a visual representation of where prospects are in the sales process.
4. In a sales meeting, team members often share __________ to discuss effective strategies and techniques.
5. Sales meetings provide an opportunity to __________ any challenges faced by the sales team in achieving their targets.
6. __________ is the process of identifying and attracting potential customers for future sales.
7. Sales meetings often include training on __________ to ensure that the sales team understands the latest products or services.
8. __________ is an estimate of future sales based on current performance and market conditions, typically discussed during sales meetings.
9. A __________ is a presentation given in a sales meeting to highlight the company's latest performance figures.
10. One of the key purposes of a sales meeting is to provide __________ to the sales team to help them stay motivated and engaged.

11.6 PLANNING SALES MEETINGS

Meetings can take many structures as they can be extremely successful in appealing, fascinating and stimulating the sales team or they can be counterproductive, squander time and divert the team from the assignment at hand. There are definite ingredients that every sales meeting should have in order to supercharge the sales personals and send them back into the field sporting their game face and elevated self-confidence stages at this juncture are the best instructions for successively a planning a sales meeting:

1. Sustain Stability: It is accommodating to hold the meeting at the same time each week so that the sales personals get into a habit and inclination of jamming off the same time on a weekly basis. This will advance turnout as the sales personals will always know not to overbook that time except it's completely essential. If the team of sales personal comprises of experienced salespeople then only the sales manager can likely scale your sales meeting back to twice a week to give them more time to close deals. It is also accommodating to have a schema model that wraps the same contemporary areas each time. Of course the sales manager will make an effort to mix it up from time to time but following a consistent schedule to help keep the meeting on course and avoids from going into the unnecessary topics. The sales manager can comprise a block of time for various articles if he/she experience the requirement this will help to facilitate to bring in new articles when it makes logic and not break with your set schedule.

2. Keep Meetings to Maximum One Hour: As per sales managers across the globe individual's interest and concentration start to fall down speedily after half an hour with an average of around eighty percent of people paying attention at the half hour mark decreasing to around sixty percent at the quarter hour mark. If the sales manager can converse about all the issues inside half an hour then that would be the best thing to do. Nevertheless larger sales teams likely need quarter hour to an hour to discuss all the issues. These things should be considered as per the requirements of the sales team and the meetings should be arranged as per the issues in hand but all of these should as brief as feasible.

3. Set and Share the Schedule Previously: As talk about earlier the sales managers can decrease the time needed for meetings by distributing the sales meeting schedule in advance. This will give the sales team the opportunity to find explanations to some of the questions they would otherwise take up a meeting time. In addition this persuades the sales team to come organized to thrash out the schedule articles the sales manager allocates and allows you to hold them answerable for doing so. Ultimately it helps the meeting flow efficiently and obtains a more fruitful conversation.

4. Assign Time for Sharing Success Stories: The sales manager should allocate one or two minutes during the meetings for the sales team to share one achievement from the last week. It can be as straightforward as an accolade or optimistic opinion that a customer has given. The point here is not to heighten the person's self-esteems but moderately to give confidence for reflecting positively about their week and find a little to appreciate. This will facilitate to generate an atmosphere of cheerfulness which is enormous inspiration for the sales personals.

5. Be On Time and Never Run Over: First the team's time is essential to the company and to the company's net profit. Starting on time and ending on time allows the sales personals to get back to potential client outreach and moving deals through the pipeline. Second being on time sets an example for the sales personals to follow as it is significantly imperative that they build upon a deep respect for potential client's and purchasers' time. If the potential clients show up late to prospect meetings then they probable lose deals. Sticking to a stringent schedule in the sales meeting strengthens the significance of promptness which they will then take with them back into the field.

6. Recognize Performance and Honour Praise: Encouraged praise on the sales personals will open more sales deals and close more deals this is why it's so significant for the sales managers to recognize the performance of the team. It's also accommodating to reward the team for their performance. This doesn't need to take the shape of monetary rewards or bonuses often a plain thank you will provide motivation enough.

7. Comprise an Interactive Constituent: Sales isn't a predominantly mutual profession and the sales meetings may be the only time all week the sales personals have a chance to cooperate with one another. Whether it's a simple role play to help the team appreciate a distinctive use case a scrupulous client has or a group learning activity including an interactive constituent helps to preserve centre and brings the team together. Further if there is no interactive constituent and all to do is to converse sales strategy, tips and the pipeline the sales manager could just as easily converse this to them in a long email.

8. Only Address Articles That Pertain to Everybody: This is significant to keep everyone's attention during the meeting do not let the discussion get disrupted by a theme that applies to just one or two sales personals. As an alternative when those questions get asked and those topics raised tell the sales personals that you can take that subject offline and discuss it directly with them after the conference terminates and particularly manoeuvre apparent of reprimanding anyone in front of the group as that will kill confidence in a big way.

9. Comprise a Skills-Building or Educational Component: It is significant to make certain that the sales personals maintain to grow their skills and learn new sales tactics and notions on a regular basis. Block off time for something each week that helps them grow as experts. This could be a group teaching movement a guest speaker or even sharing a blog with an industry thought manager and asking them to converse it during the meeting.

10. Wrap it up Precisely: Do not leave any articles pending when the meeting closes if there are open items on the table be sure to follow up after the meeting to close them rapidly. Address all next steps to be taken by team members so that everyone is clear on what is expected of them. Follow the gathering by sending out a meeting synopsis via email so there is no room for anyone to misunderstand what took place and what should happen next

National Sales Meetings

National sales conferences are characteristically held for foremost incidents such as the launch of a new product or a presentation of annual results because of their high profile national conferences can be used to produce high levels of eagerness, obligation and effort. For instance high achievement by an individual or a team might be documented and rewarded at the national conference. In addition a national conference provides an occasion to lift awareness of the company's overall vigour and can be leveraged to construct dependable benchmarks and enhance presentation. A national conference is an occasion to which the entire sales team is invited to attend and this type of event may last for a longer period than a normal meeting. The conference is usually held for a main occasion such as the launch of a new product or presentation of annual results and is intended to produce high levels of eagerness and dedication. It also presents an occasion to increase consciousness of the business's overall forces and to construct unswerving benchmarks and presentation.

A national conference has the additional benefit of bringing together employees from around the country who would not normally meet each other, so it offers a valuable team-building opportunity. A national conference should have purpose and it should be planned and executed flawlessly. Many product launches have a high theatrical content, because the intention is to create impact. Car manufacturers, for example, may take their sales teams to exotic locations when they launch a new model. The focal point of the event is the launch itself, which must be impressive, but the remaining time can be spent building the level of team spirit within the sales force. By assembling employees who are usually separated by physical location, a conference presents a unique opportunity for them to create stronger relationships, understand each other's strengths, and form alliances, thereby increasing the team spirit within the organization

11.7 REGIONAL SALES MEETINGS

Regional business meetings on the other hand are minor with includes minor outline sales meetings comprising workers in a distinct geographical location. Frequently lasting less than a day these meetings can be a precious technique of maintaining personal contact between the business and its sales teams. Area office updates and teleconferences or videoconferences contain supplementary alternatives for communicating with a group of sales personals at one time. Regional meetings have a minor outline than national conferences but they assist regular contact at a high level. Such occasions should include presentations by senior management from headquarters and should cover national policy as well as issues of regional importance.

Numerous business associations espouse a half-day format for regional business meetings as team members might arrive at midday for an informal lunch followed by a series of afternoon consultations covering new merchandises, commercial improvements, management modifications, promotional events, pricing, marketing programs and goals for the next quarter. The amount of time required will depend on the topics being covered as this type of sales meeting offers the head office team an occasion to modernize local sales employees on current events and helps sustain contact between the teams. Gathering the sales force presents exclusive occasions for a two way communication. A regional sales meeting should offer opportunities for the sales personals to contribute in and participate in the company overall strategy. Discussion groups, question-and-answer sessions, feedback forms and forums are effective two way communication techniques that give confidence to the sales personals for participation and enhance their self-confidence

Check Your Progress- B

1. Sales meetings often involve __________ problem-solving, where the team discusses solutions to sales-related issues.
2. In many companies, the sales team’s __________ is directly tied to the performance targets discussed in sales meetings.
3. Sales meetings can be held weekly, __________, or quarterly, depending on the organization’s needs.
4. __________ reports are commonly used in sales meetings to track the progress of individual sales reps or teams.
5. The process of __________ enables sales teams to have the tools, content, and information they need to close deals more effectively.
6. __________ is a discussion point in sales meetings to ensure that customers’ needs and concerns are being addressed.
7. Sales managers use sales meetings to provide feedback and __________ to their teams to improve their performance.
8. The use of __________ software during sales meetings helps track the sales pipeline and forecast future deals.
9. Sales meetings provide an opportunity to set __________ for the upcoming week or month.
10. The __________ of sales meetings is to ensure that the sales force is aligned, motivated, and equipped to meet or exceed targets.

11.8 SUMMARY

Sales meetings are gatherings where sales teams come together to discuss strategies, track progress, set goals, and review overall sales performance. These meetings typically serve to align the team on company objectives, provide updates on sales pipelines, share best practices, and address any challenges faced by the sales force. They can take place weekly, monthly, or quarterly, depending on the company’s sales structure and goals. Sales meetings often involve presentations, performance reviews, motivational discussions, and training on new tools or products. They also allow for collaborative problem-solving and fostering a team-oriented culture, essential for achieving sales targets.

11.9 GLOSSARY

1. Pipeline
   A visual representation of the sales process, showing prospects at different stages of the buying journey, from initial contact to closing the sale.
2. Quota
   A target sales goal set for sales representatives or teams within a specific period, which often influences performance evaluations and incentives.
3. Lead Generation
   The process of identifying and attracting potential customers (leads) who may be interested in a company’s products or services.
4. Sales Forecasting
   The process of estimating future sales based on historical data, market trends, and current sales pipeline, helping businesses set realistic targets.
5. Sales Enablement

The resources, tools, and information provided to sales teams to help them close more deals effectively and efficiently. This often includes training, content, and technology platforms.

11.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

1. align
2. quota
3. pipeline
4. best practices
5. address
6. Lead generation
7. new products/services
8. Sales forecasting
9. sales report
10. motivation

Check Your Progress –B

1. collaborative
2. compensation/incentives
3. monthly
4. performance
5. Sales enablement
6. Customer feedback
7. coaching
8. CRM (Customer Relationship Management)
9. goals
10. purpose

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11.13 TERMINAL QUESTIONS

1. Explain the meaning of a sales meeting?
2. State fundamentals questions behind conducting a sales meeting for an FMCG company.
3. Give a brief outline of the objectives of a sales meeting?
4. Describe a few enquiries that can facilitate the annual sales arrangement.
5. Analyze the various stages of a sales meeting for an IT company?

UNIT- 12 SALES CONTESTS, EVALUATION AND ANALYSIS

12.1 INTRODUCTION

In the previous unit you learnt about sales meetings ,the way these are helpful and also act as guidelines for achieving the targets set by the sales department.

In this unit, you will study about meaning and importance of sales contests in the lives of sales manager and sales persons, the ways of sales evaluation and sales analysis techniques and their use in the practical lives.

12.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the meaning of Sales contests, evaluation and analysis
- Explain the objectives of Sales contests, evaluation and analysis
- enumerate various types of sales contests, formats, and the prize distribution process.
- sales evaluation techniques and process for the same

12.3 MEANING OF SALES CONTESTS

It refers to the *motivational programs offered for providing rewards to the sales employees and sales force for their achievements*

The sales contest is an important tool to motivate salesperson. The purpose of the sales contest varies widely. It may 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. It provides an incentive to show better performance and secure more satisfactory results

Sales contests provide incentives to increase profitable sales volume and achieve more specific objectives. Sales meetings and sales contests require thorough planning and effective implementation. The judicious use of meetings and contests builds individual and sales force morale and helps to accomplish company goals.

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

The sales force could decide upon organizing sales contests in several ways. **Direct competition, Team effort and Goal accomplishment** may be some amongst many such ways

OBJECTIVES OF SALES CONTESTS

Sales contests are aimed to accomplish the following objectives:

I. To obtain new customers.

II. To secure larger orders per sales call.

III. To push slow moving items, high-margin goods, or new products.

IV. To overcome a seasonal sales slump.

V. To sell a more profitable mix of products.

VI. To improve the performance of distributors' sales personnel.

VII. T o promote seasonal merchandise.

VIII. To obtain more product displays by dealers.

IX. To get reorders.

X To promote special deals to distributors, dealers, or both

12.4 FORMAT OF SALES CONTESTS

A format should be timely, and its effectiveness is enhanced if it coincides with an activity in the news. The theme should bear an analogous relationship to the specific contest objective-for example, climbing successive steps on a ladder can be made analogous to different degrees of success, experienced at different timesin persuading dealers to permit the erection of product displays. Finally, the theme should lend itself to contest promotion.

Basically, the contest formats are classified into two groups:

1. Direct format
2. Novelty format.

A direct format has a contest theme describing the specific objective, such as obtaining new accounts, for example; Let' s go after new customers.

A novelty format uses a theme, which focuses upon a current event, sport, or the like, as in Let's hoot for hidden treasure (find new customers) or Let's start panning gold (sell more profitable orders).

Some executives say a novelty format makes a sales contest more interesting and more fun for the participants. Others say that novelty formats are insults to mature people

CONTEST PRIZES

Contest prizes

There are four kinds of contest prizes:

1. cash,
2. merchandise,
3. travel,
4. special honors or privileges.

Cash and merchandise are the most common prizes. Many sales contests feature more than one kind of prize, for example, travel for large awards and merchandise for lesser awards.

Some contests give participants the option of accepting one prize rather than another.

1. **Cash**: The cash as an incentive weakens as an individual's unfulfilled needs; which are pushed farther up in the need of hierarchy. Once basic physiological needs and safety and security needs are satisfied whatever potency money retains as an incentive relates to unfulfilled esteem and achievement needs. Non-cash prizes fill these needs better than cash. If the compensation plan provides sales personnel with sufficient income to meet basic physiological needs and safety and security needs, a cash prize is a weak incentive unless it is a substantial sum-say, 10 to 25 percent of an individual's regular annual income. A cash prize of Rs. 100 means little to most sales personnel, and they exert token efforts to win it. .Another objection to cash prizes is that winners mix them with other income, and thus have no permanent evidence of their achievements.

2. **Merchandise**: Merchandise is superior to cash in respects. Winners have permanent evidence of their .achievement. The merchandise prize is obtained at wholesale, so it represents a value larger than the equivalent cash. For the same total outlay, too, more merchandise prizes than cash awards can be offered; hence, the contest can have more winners. Merchandise prizes should be those items; which salespersons and their families desire. One way to sidestep this problem is to let winners select from a variety of offerings. From the psychological standpoint, people feel good when they are permitted to assert their individuality and take their choice. A number of merchandise incentive agencies, some of them providing a. complete sales contest planning service, specialize in finishing prizes. Agencies issue catalogs with prices stated in points rather than in money.

3. **Travel**: Travel awards are popular. Few things can be glamorized more effectively than a trip to a luxury resort or an exotic land. The lure of a trip of a lifetime is a strong incentive, especially for the person to escape the job’s routine. Travel awards generally provide trips for winners and their spouses, this being advisable both to obtain the spouse’s motivational support and to avoid the spouse’s opposition to solo vacation trips by the salesperson.

4. **Special honours or privileges**: This award has many forms: a letter from a top executive recognizing the winner’s superior performance, a loving cup, a special trip to a home office meeting, or membership in a special group or dub has certain privileges. Winners, in addition, receive publicity through house organs and in home town newspapers. These awards provide strong incentives, as, for example, they do with life insurance salespersons that push to gain membership in the million-dollar club. Mainly firms employing sales personnel who are almost independent entrepreneurs use the special honor or privilege award. Such awards, however, are appropriate wherever management desires to strengthen group identity and build team spirit. This type of award appeals to the salesperson’s belongingness and social relations needs, which, according to Maslow, an individual strives to satisfy after fulfilling basic physiological needs and safety and security needs. It also appeals to esteem and self-actualization needs.

Awarding the prizes for sales contests

It is a good idea to make it possible for everyone to win to stimulate widespread interest in the contest. This means that the basis for awards should be chosen with care. Contest planners recommend that present performance levels be taken into account-to motivate the average or inexperienced salesperson along with the star performer-and the basis of award be for improvement rather than total performance. Hence, total sales volume is less effective as an award basis than, for example, percent of quota achieved or percent of improvement in quota achievement. Many contests offer awards to all showing improvement, but the value of individual awards varies with the amount of improvement. The danger in offering only a few large prizes is that the motivational force will be restricted to the few who have a real chance of winning-the rest, knowing they have no chance to win, give up before they start.

1. **Contest Duration**: Contest duration is important in maintaining the interest of sales personnel. Contests run for periods as short as a week and as long as a year: but most run from one to four months. One executive claims that thirteen weeks (a calendar quarter) is ideal;

another states that no contest should last longer than a month; still another points to a successful contest lasting six months. There are no set guides. Contest duration should be decided after considering the length of time interest and enthusiasm can be maintained, the period over which the theme can be kept timely, and the interval needed to accomplish the contest objective.

2. **Contest Promotion**: Effective contest promotion is important. To most sales personnel a contest is nothing new. A clever theme and attractive prizes may arouse interest, but a planned barrage of promotional material develops enthusiasm. A teaser campaign sometimes precedes the formal contest announcement; at other times, the announcement comes as a dramatic surprise. As the contest progresses, other techniques hold and intensify interest. Results and standings are reported at sales meetings or by daily or weekly bulletins. The sales manager dispatches telegrams carrying news of important developments or changes in relative standings. At intervals, new or special prizes are announced. Management encourages individuals or groups to compete against each other. Reports of standings are addressed to spouses. If the prizes selected arouse the spouses' interest, continuing enthusiasm is generated in the home, the contest administrator should from time to time inject new life into the contest. From the start regular news flashes on comparative standings should be sent out, and, if initial contest incentives are not producing the desired results, the administrator adds the stimuli needed

12.5 SALES EVALUATION

Sales evaluation involves an analysis of the performance of your sales personnel. Through sales evaluation, your sales team members learn about their strengths and weaknesses, so they know which areas to improve. If you conduct proper sales evaluations regularly, you may improve the efficiency of your sales efforts and drive up your profits.

The Sales department has to continuously monitor and control sales activities. Inspite of this, many companies have inadequate control procedures. The main issues are

1. Smaller companies do a poorer job of setting clear objectives and establishing systems to measure performance.

2. less than half of the companies studied knew their individual products' profitability. About one third of them had no regular review procedures for spotting and deleting weak products.

3. Almost half the companies fail to compare their prices with those of their competition, to analyze their warehousing and distribution costs, to analyze the

causes of returned merchandize, to conduct formal evaluations of advertising effectiveness, and to review their sales force's call reports.

4. Many companies take four to eight weeks to develop control reports, which are occasionally inaccurate.

Annual Plan Control: The purpose of annual plan control is to ensure that the company achieves the sales, profits, and other goals established in its annual plans. The heart of annual plan is management by objectives. The four steps involved are:

1. Management sets monthly or quarterly goals.

2. Management monitors its performance in the marketplace.

3. Management determines the causes of serious performance deviations.

4. Management takes corrective action to close the gaps between the goals and performance.

Goal Setting	What do we want to achieve?
Performance Measurement	What is happening?
Performance Diagnosis	Why is it happening?
Corrective Action	What should we do about it?

Managers use five tools to check on plan performance: sales analysis, market share analysis, marketing expense to sales analysis, financial analysis, and market based scorecard analysis.

1. **SALES ANALYSIS:** consists of measuring and evaluating actual sales in relation to sales goals. Two specific tools are used in sales analysis: • Sales Variance Analysis: measures the relative contribution of different factors to a gap in sales performance. • Micro sales Analysis: looks are specific products, territories, and so on and so forth that failed to produce expected sales.

2. **MARKET SHARE ANALYSIS:** Company sales do not reveal how well the company is performing relative to the competitors. For this purpose, management needs to track its market share.

Market share can be measured :

• **Overall market share** is the company's sales expressed as a percentage of total market sales. Served market share is its sales expressed as a percentage of the total sales to its served markets. Its served market is all the buyers who are willing and able to buy its products. Served market share is always larger than overall market share.

• **Relative market share** can be expressed as a market share in relation to its largest competitor. A rise in relative market share means that the company is gaining on its competitor.

Conclusions from Market Share Analysis:

• The assumption that outside forces affect all companies in the same way is often not true.

• The assumption that a company's performance should be judged against the average performance of all companies is not always valid.

• If a new firm enters the industry, then every existing firms market share might fall. Share loss depends on the degree to which the new firm hits the company's specific markets.

• Sometimes a market share decline is deliberately engineered to improve profits. E.g management may drop unprofitable customers or products to improve its profits.

• Market share can fluctuate for many minor reasons.

*Overall Market Share = Customer penetration * Customer loyalty * Customer Selectivity * Price Selectivity*

(Customer penetration is the % of all the customers who buy from the company • Customer loyalty is the purchases from the company by its customers expressed as a percentage of the size of the average customer purchase from an average company. • Price Selectivity is the average price charged by the company expresses as a % of the average price charged by all the companies.)

3. **Marketing Expense** – To- Sales Analysis: Annual-plan control requires making sure that the company is not overspending to achieve sales goals. The key ratio to watch is marketing expense-to-sales. This ratio consists of following components:
   • Advertising to sales
   • Sales-promotion to sales
   • Marketing research to sales
   • Sales administration to sales

The period to period fluctuations in each ratio can be tracked on a control chart. The behaviour of successive observations even within the upper and lower control limits should be watched.

This section describes the methods of evaluation and control in sales efforts.

4 **MARKET BASED SCORECARD ANALYSIS:** Only financial performance scorecards have been used till now. Qualitative score cards reflect performance and provide possible early warning signals

1**. Customer-Performance scorecard**-customer based measures are recorded • New Customers • Dissatisfied customers • Lost customers • Target market awareness • Target market preference • Relative product quality • Relative service quality

2. **Stakeholder performance Scorecard-** Du Pont Chart method – to find out return on Net Worth

Norms should be set for each group and management should take action when one or more groups register increased levels of dissatisfaction.

5 .PROFITABILITY CONTROL PROFITABILITY needs to be judged on
- • Products
- • Territories
- • Customer groups

• Segments • Trade channels
• Order sizes

Marketing Profitability Analysis:

Steps:

1. From P&L statement, find out the marketing related expenses
2. Identify Functional expenses like sales/ advt./packing and delivery and divide the expenditure under these heads.
3. Measure how much of each functional expense like selling etc. was attributed from each channel and finding cost/unit of item sold.
4. Make a P&L for every channel and find out which channel is most profitable

DETERMINING CORRECTIVE ACTIONS

Sales profitability analysis indicates the relative profitability of the different channels, products, territories or other analysis. It doesn't prove best course of action. It only opens a door to evaluate options.

Direct vs. full costing

- Choice of basis- Here choice of basis has been taken as Number of sales calls to allocate Selling expenses. A better base can be chosen -Whether Full costs or only direct and traceable costs be used in evaluating marketing performance? Here only simple costs have been taken, but the above 3 types of costs have to be taken into account

- DIRECT COSTS: That can be assigned directly to the proper marketing entity egg. Sales Comm.
- TRACEABLE COMMON COSTS – That can be assigned only indirectly, but on a plausible basis to the marketing entities eg. Rent
- NON-TRACEABLE COMMON COSTS: - Whose allocation to marketing entities is highly arbitrary E.g. Corporate Image Cost.even though all the goods may or may not be benefiting from this.

There is a controversy on the non-traceable costs, and a method where this cost is also included is called **FULL COST METHOD.**

Weaknesses of FULL COSTING METHOD are: -

1.The relative profitability of the marketing entities can shift radically when one arbitrary way to allocate Non traceable common costs is replaced

2. This arbitrariness demoralizes the managers, as their performance may be judged adversely.

3. The inclusion of non-traceable cost could weaken the control on real cost control. Operating mgmt. Is most effective in controlling the direct and traceable costs.

Advantages of ACTIVITY BASED ACCOUNTING is increasing. :

- It gives managers a clear picture of how products, brands generate revenues and consume resources
- It refocuses the management's attention away from using only labour or material std. Costs towards capturing actual costs of supporting individual products.

Check Your Progress-A

1. A sales contest is designed to ___________ sales performance by motivating the sales team through competition.
2. Sales contests often have specific ___________, such as increasing product sales or boosting customer acquisition.
3. To keep the team motivated, sales contests usually include ___________ such as bonuses or prizes for top performers.
4. The ___________ of the sales contest should be measurable and aligned with overall business goals.
5. ___________ criteria are used to determine the winners of a sales contest based on factors like sales volume or new accounts opened.
6. Sales contests should have a defined ___________, which outlines the start and end dates of the competition.
7. ___________ reports are used to track the progress of each participant during a sales contest.
8. One way to ensure fairness in sales contests is to categorize participants based on ___________ or regional territories.
9. A sales contest evaluation should include an assessment of ___________ participation levels to ensure all employees were engaged.
10. After a contest ends, ___________ is necessary to determine if the sales goals were met and the contest was effective.

12.6 SALES ANALYSIS

Sales analysis is the detailed examination of a company's sales data and involves assimilating, classifying, comparing, and drawing conclusions. The essence of business analysis is to enable management to have accurate information on sales in an effort to improve company profit margins. Analysis helps a business come up with a sales strategy by identifying customers through demographics, for instance. Sales analysis also helps a business know which products are selling and which are not.

Analysis is necessary to uncover the reason for poor performance:

1. Was the quota set too high?
2. Are salespeople having trouble with a particular product line?
3. Can the problem be narrowed down to a particular salesperson, sales district, product, or price line?

4. Do any sales divisions or districts have poor management?

Uses of Sales Analysis:

- Planning sales force activities.
- Evaluation of salespeople's performance.
- Measuring the effect of advertising and other sales promotional activities.
- Evaluating channels of distribution.
- Modifying channels of distribution

The 80/20 or "concentration" principle states that the majority of a company's sales (or profits) may result directly from a very small number of the company's accounts, product or price lines, or geographic areas.

12.7 EVALUATION OF SALES CONTESTS

There are two times when management should evaluate a sales contest-**before and after**. Revaluation aims to detect and correct weaknesses, Post-evaluation seeks insights helpful in improving future contests. Both pre- and post evaluations cover alternatives, short- and long-term effects, design, fairness, and impact upon sales force morale.

1. The contest versus alternatives:

If serious defects exist in key aspects of sales force management, a sales contest is not likely to provide more than a temporary improvement. Deficiencies caused by bad recruiting, ineffective training, incompetent supervision, or an inappropriate compensation plans are not counterbalanced, extemporarily let alone permanently, by a sales contest. The underlying purpose of all sales contests is to provide extra incentives to increase sales volume, to bring in more profitable volume, or to do both-this purpose is 'not accomplished if sales force management has basic weaknesses. Other avenues to improvement of selling efficiency need exploring and evaluating at the time that a sales contest is being considered. Probable results of pursuing these other avenues are taken into account in contest planning and in the post mortem evaluation.

2. Short and long term effects:

A sales contest accomplishes its pose if it increases sales volume, brings in more profitable volume, or does both in the short and the long nm. No contest is a real success if it borrows sales from preceding months, succeeding months, or both. Successful contests increase both contest period sales and long-run sales (although there may be a temporary sales decline after the contest is over) because they inculcate desirable selling patterns those personnel retain. Furthermore, successful contests so boost the spirits of sales personnel that there is a beneficial carryover effect.

3Design:

A well-designed contest provides motivation to achieve the underlying purpose, while increasing the gross margin earned on sales volume by at least enough to pay contest costs. The contest format, whether direct or novel, should tie in directly with the specific objectives, include easy-to-understand and fail' contest rules, and lend itself readily to promotion.

4Fairness:

All sales personals should feel that the contest format and roles give everyone a fair chance of winning the more attractive awards. While the contest is on, all sales personnel should continue to feel that they have real chances of winning something. A sales contest is unfair if its format causes some to give up before it starts and others to stop trying before it is over.

5. **Impact upon sales force morale**

: Successful sales contests result in permanently higher levels of sales force morale. If the contest format causes personal rivalries, it may have the counterproductive effect of creating jealousy and antagonism among the sales force. Even if sales personnel compete for individual awards, it is often advisable to organize teams and place the emphasis on competition among teams for recognition rather than among individuals for personal gain.

Objections of sales contests

Only one- fourth departments use sales contests. The remaining give the standard objections:

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

2. High-caliber and more experienced sales personnel consider sales contests infantile and silly. 3. Contests lead to unanticipated and undesirable results, such as increased returns and adjustments, higher credit loss, and overstocking of dealers.

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

5. The disappointment suffered by contest losers cause a general decline in and safes force morale.

6. Contests ate temporary motivating devices and, if used too frequently, have a narcotic effect. No greater results in the aggregate are obtained with contests than without them.

7. The competitive atmosphere generated by a sales contest weakens team spirit. The foremost objection indicates misunderstanding of both personne1 motivation and contest design, and the second mayor may not be true in individual situations. All the other objections are overcome through good contest design, intelligent contest administration, and proper handling of other aspects of sales forces management. Assuming that sales management is competent, thorough planning and effective administration of a contest can produce lasting benefit for both sales personnel and company. If a contest is used as a substitute for management, it is likely to have bad results. Under some circumstances, nevertheless, sales contests are ill advised. When a firm's products are in short supply, for instance, it is ridiculous to use a contest to stimulate

orders, but the same firm might find a contest appropriate to lower selling expense or improve sales reports. Companies distributing industrial goods (that is, raw materials, fabricating materials and parts, installations, accessory equipment, and operating supplies) do not find sales contests effective for stimulating sales except, of course, where it is possible to take sales away from competitors. But, again, industrial goods-companies use contests to reduce selling costs, improve salespeople's reports, and improve customer service. Similarly, where the product is highly technical and is sold only after long negotiation, as with many industrial goods, sales contests for stimulating sales volume are inappropriate.

Sales quotas are used frequently in conjunction with sales contests. Companies mostly use 'performance against quota' as the main basis for giving away awards in sales contests. Sales contests are more powerful incentives if all participants feel they have a more or less equal chance of winning by basing awards on percentage of quota fulfilment which is a common denominator. Hence, it causes average salesperson to turn into above average performers

Check Your Progress- B

1. A ___________ analysis is performed to measure the financial impact of the sales contest on overall revenue.
2. The ___________ of the sales contest should be communicated clearly to the participants at the start to avoid confusion.
3. Post-contest evaluation involves reviewing ___________ to see if the contest improved long-term sales performance.
4. Sales contests should promote healthy ___________ among team members to maintain a positive work environment.
5. One key element of a successful sales contest is frequent ___________ updates to keep participants informed of their standing.
6. The ___________ for measuring success in a sales contest may include metrics like sales growth, market share, or customer satisfaction.
7. In a contest evaluation, ___________ behavior may be analyzed to see if the contest incentivized positive sales techniques.
8. When evaluating the effectiveness of a sales contest, ___________ feedback from participants can provide insights for future improvements.
9. Sales contests should be ___________ periodically to determine if they continue to yield positive results for the company.
10. ___________ is the process of examining the data from the sales contest to understand the factors behind the performance results.

12.8 SUMMARY

The sales contest is an important tool to motivate salesperson. The purpose of the sales contest varies widely. It may 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. It provides an incentive to show better performance and secure more satisfactory results Sales contests provide incentives to increase profitable sales volume and achieve more specific objectives. Sales meetings and sales contests require thorough planning and effective implementation. The judicious use of meetings and contests builds individual and sales force morale and helps to accomplish company goals.

The Sales department has to continuously monitor and control sales activities. Inspite of this, many companies have inadequate control procedures. Sales evaluation involves an analysis of the performance of your sales personnel. Through sales evaluation, the sales team members learn about their strengths and weaknesses, so they know which areas to improve. If sales evaluations is conducted proper regularly, the efficiency of your sales efforts may improve and profits may drive up .

Sales analysis is the detailed examination of a company's sales data and involves assimilating, classifying, comparing, and drawing conclusions. Analysis is necessary to uncover the reason for poor performance.

12.9 GLOSSARY

- **sales contest :**A special selling campaign offering incentives in the form of prizes or awards beyond the compensation plan
- **direct format** :a contest theme describing the specific objective, such as obtaining new accounts
- **Sales evaluation** :an analysis of the performance of your sales personnel.
- **Sales analysis**: the detailed examination of a company's sales data and involves assimilating, classifying, comparing, and drawing conclusions

12.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

1. boost
2. objectives
3. incentives
4. goals
5. Performance
6. timeframe
7. progress
8. experience levels
9. employee
10. analysis

Check Your Progress –B

1. cost-benefit
2. rules
3. data
4. competition
5. status
6. criteria
7. sales rep
8. qualitative
9. evaluated
10. Analysis

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12.13 TERMINAL QUESTIONS

1. What do you mean by Sales-analysis? Explain with suitable example.
2. How the sales analysis techniques have become so important in success of firm?

UNIT- 13 SALES CONTROL AND COST ANALYSIS

13.1 INTRODUCTION

In the previous unit you learnt about sales contests, evaluation and analysis. In this unit, you will study about sales control ,methods for sales control and cost analysis.

13.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the meaning of sales control
- Analyse the methods of sales control
- Know about cost analysis
- Understand cost analysis techniques

13.3 MEANING AND OBJECTIVES OF SALES CONTROL

The scope of control is very wide It includes all the areas of business, namely production, finance, inventory ,marketing etc Control may be physical or financial Physical control is quantitative or qualitative Control is influenced by personal supervision and checking

One of the most important responsibilities of a sales manager is to exercise control over sales and the performance of selling/sales activities. Sales need to be controlled both on an ongoing (continuous) basis as well as overall, periodically. The sales control function assists the manager in ascertaining which level of sales have been achieved ,why there has been a variance and what remedial action can be taken to achieve the targets.

Sales Control Assists The Manager In:

- Initiating remedial steps
- Revising the sales policy and strategies followed
- Implementing steps for improving the productivity of sales force
- Improving the quality of target setting sales plans and budget functions
- Increasing sales profitability

THE SALES CONTROL SYSTEM

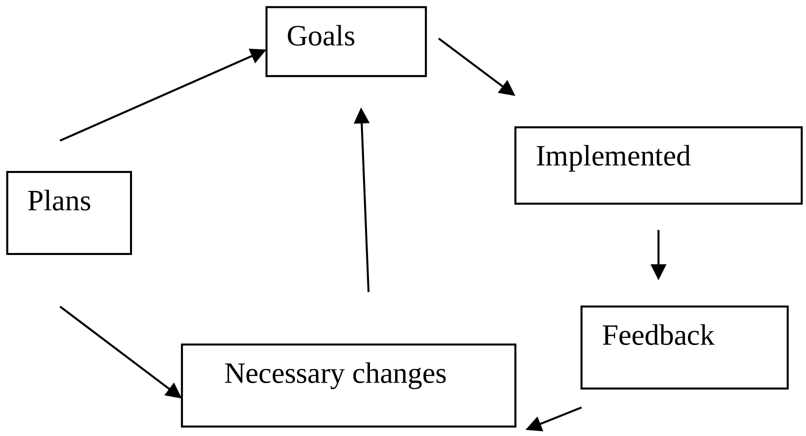
A sales control system set up on the following guidelines:

1. Setting detailed objectives
2. Establishing standards for appraising performance
3. Gathering information on actual sales activities and results
4. Comparing actual with expected sales
5. Taking remedial action

The existence of a comprehensive sales information system in the firm is a prerequisite for an effective sales control system. This can be done by recording sales by values ,by customers, by sales person by territories, by distribution outlet, by cash or credit

13.4 NATURE OF SALES CONTROL

The key role played by evaluation and control in the management process is depicted in the feedback-control system .Company goals initiate the process by serving as targets that guide the formulation of plans. Once decided, the plans need to be implemented to become the part of daily operation so that it can compare the data with its goals to determine how well it is doing Such evaluation and control provide control for the enterprise.



Control of Sales Operation

Comparison between budgeted and actual cost result in the analysis of factors causing variations and enabled the sales manager to spot problems areas or plan better for expected outcomes

13.5 METHODS OF SALES CONTROL

Three methods of sales control are discussed here:

1.Sales volume analysis

This is a detailed examination of sales volume by territory, sales person , customer, product line etc, which is recommended in order to know the real situation and gain meaningful insight.

The sales manager scans the total sales on territory basis Any unusual conditions in any territory such as intense competition, strike by labour union or transportation etc which has an adverse effect on the company's products, is considered for further sales analysis.

2.Cost analysis technique

A cost analysis attempts to isolate the costs incurred in producing various…..inorder to determine the segment –wise profitability of sales of the business can be used by sales manager to investigate the profitability of regions, territory, and various channels of distribution

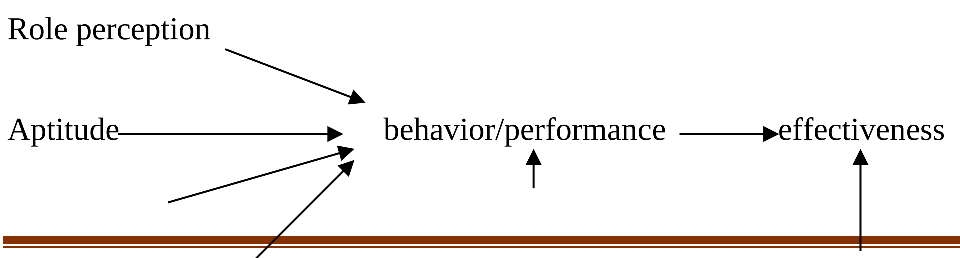
A successful cost analysis benefits the manager in ascertaining:

- The relative cost and profitability of the sales operations
- Profitability , not so profitable and not profitable territories
- The products, pack size, market segments, distribution channels
- The minimum order level quantity
- The productivity of sales persons
- The profitability of different sales promotion techniques
- The profitability of different marketing mix programmmes

Performance analysis

This analysis is used to judge the performance of the sales representative based on following factors:

Role perception ,Aptitude ,skill level, motivation level ,personal and organizational values that affect performance all these factors are linked to behavior performance sales person and the effectiveness in performing his duties Behaviour refers to what sales person do Performance is behavior evaluated in terms of contribution >effectiveness is the outcome of the individual in the job he has to perform.



Skill level selling/sales/activities

Motivation level sales jobs organizational goals

Performance analysis model

Sales management audit

A sales management audit is a comprehensive, systematic, independent and periodic audit of sales policy, objectives, strategies, organization and procedures followed by the firms. The purpose of a sales management audit is to evaluate the soundness of the sales management of firms. It examines the validity of the very basis and the assumption on which the sales function is planned and managed .By critically evaluating the sales management against the changing markt environment, it points out the emerging areas of opportunity as well as the areas that need observation

Some aspects covered in sales audit are as follows:

- The appropriateness of selling functions and objectives
- The role of selling function in promotional mix and marketing integration
- Organization and work norms of the sales and force and its sizes
- Recruitment , selection, promotion policy, compensation motivation of the sales force
- The basis of sales, quotas, sales budget , territory allocation and their market suitability
- The quality of the sales force, appraisal criteria, training and development of sales personnel

Marketing audit

The most thorough mechanism for evaluating the marketing efforts is the marketing audit. A marketing audit is a complete ,systematic, objective evaluation of the total marketing effort of a firm..Marketing audits examine the firm's goals, policies, organization, methods and procedure, and personnel.

The two basic types of marketing audit are:

- Vertical and
- Horizontal

The horizontal audit is often referred to as a marketing audit mix audit that it examines all the elements that go into the marketing mix. It emphasises the relative importance of the various elements and the mix among them. In contrast ,the vertical audit singles out selected elements of the marketing operation and subjects them to thorough study and evaluation.

Sales report

A sales report is an instrument of control and regulation of activities of a sales person. A report can be a daily sales report or a weekly one. The salesperson fills the tasks and activities of the day in the sales .this sales report is used by the sales managers to evaluate the performance of the sales person, as well as compare the sales report with the budget and sales target set for the salesperson by the sales organization

Check Your Progress-A

1. Sales control helps a business ensure that sales activities are aligned with its ___________ objectives.
2. ___________ analysis allows a company to determine the expenses associated with selling a product or service.
3. Effective sales control ensures that sales teams are working towards achieving their ___________ goals.
4. One of the primary goals of cost analysis is to identify areas where ___________ can be reduced.
5. ___________ is the process of comparing actual sales performance to the planned targets.

6. Sales control systems help track __________ across different products, regions, and sales channels.
7. A key component of sales control is setting measurable __________ for sales teams to meet.
8. __________ analysis helps businesses understand the profitability of specific products or customer segments.
9. Regular cost analysis helps companies identify __________ that may not be immediately apparent in sales processes.
10. Sales control ensures that sales representatives follow standardized __________ to maximize efficiency.

13.6 SALES COST ANALYSIS

Marketing cost analysis, or distribution cost analysis, is the analysis of costs that affect sales volume, with the purpose of determining the profitability of different segment operations.

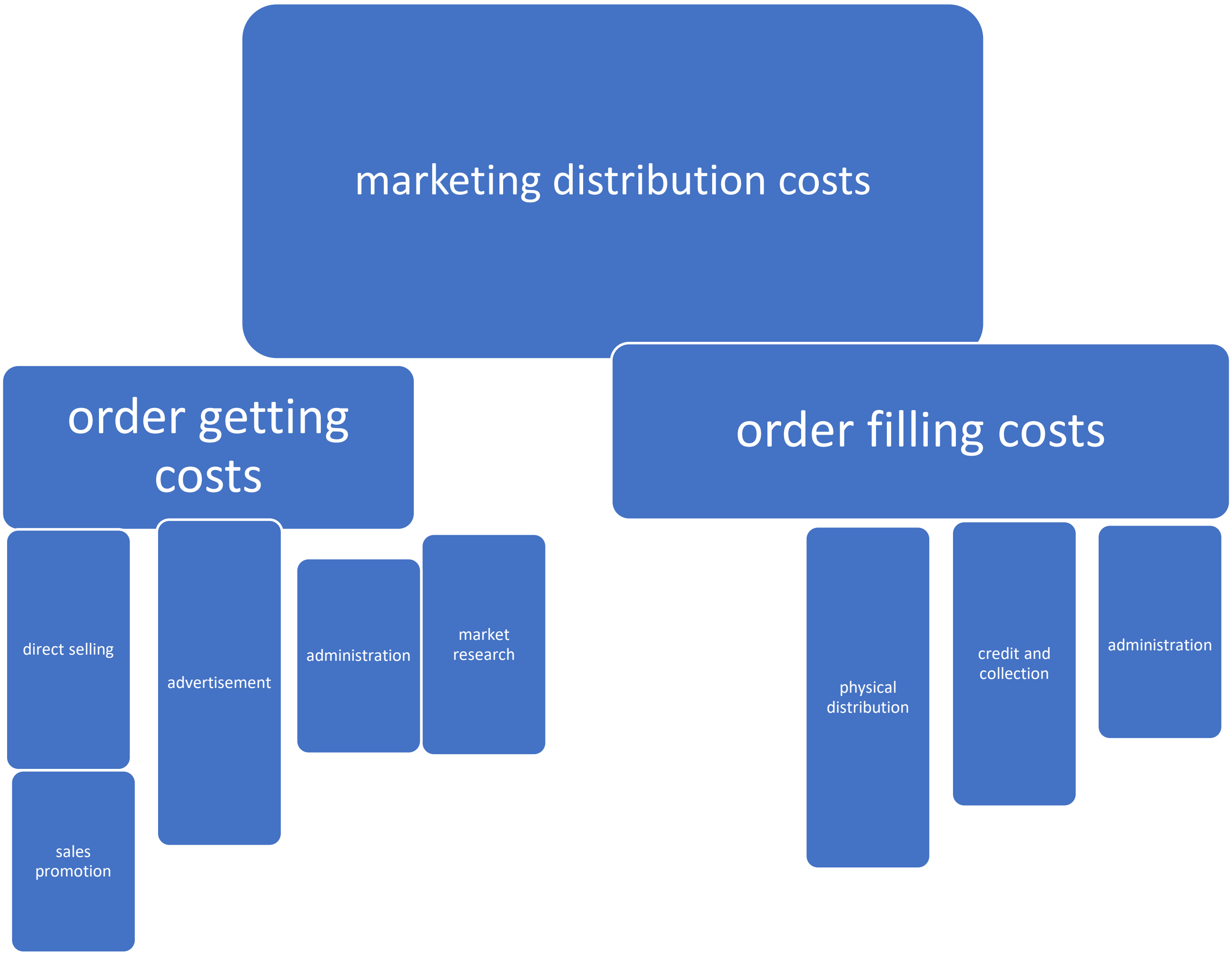
Profitability is determined by sales volume and its associated costs and expenses.

Marketing vs. Production Costs

A production cost is the cost incurred by processing a product from its raw elements to a finished state.

Marketing, or distribution costs, can be broken down into two distinct categories

- **Costs incurred by getting orders.**
- **Costs incurred by filling orders.**



USES OF MARKETING COST ANALYSIS

- An integral part of the decision-making process.
- Serves as the basis for management decisions

Allocating sales effort: 'Iceberg principle' says that only a small part of the total situation is visible; the rest has to be gauged through sales analysis. There are customers who account for a smaller percentage of sales but time, money and effort to tap them is no less. These situations must be analysed & corrective action taken. The desirable outcome is that allocation be done based on sales potential and actual sales

13.7 IMPORTANCE OF SALES CONTROL AND COST ANALYSIS

Maximizes Profitability

Sales control ensures that sales efforts are productive and aligned with financial objectives, while cost analysis helps identify inefficiencies in sales processes. Together, they enable businesses to minimize costs, improve margins, and boost profitability.

Efficient Resource Allocation

By analyzing sales costs, businesses can allocate resources more effectively, focusing on the most profitable sales channels, products, and regions. This helps optimize marketing, staffing, and operational investments.

Performance Evaluation

Sales control allows companies to set and track performance metrics for individual sales reps, teams, or departments. Cost analysis provides a financial perspective, helping identify top performers and areas where improvement is needed.

Informed Decision-Making

Cost analysis provides insights into the true cost of acquiring customers and selling products, guiding strategic decisions such as pricing, discount policies, and sales tactics. Sales control ensures that sales processes remain in line with business objectives.

Forecasting and Budgeting

Sales control and cost analysis contribute to more accurate forecasting of future sales and expenses. This helps businesses set realistic sales targets and budgets, ensuring they are prepared for fluctuations in demand or market conditions.

Risk Management

Monitoring sales activities and associated costs helps identify potential risks, such as overspending on certain sales initiatives or underperformance in specific regions. By controlling these factors, businesses can take corrective actions before losses occur.

Improves Sales Efficiency

Sales control ensures that processes are standardized and that best practices are followed. Cost analysis highlights areas where sales processes can be streamlined or where unnecessary expenditures can be reduced, leading to greater efficiency.

Enhances Competitive Edge

By controlling sales processes and analyzing costs, companies can adjust pricing strategies, offer better customer incentives, or improve service quality, which helps them stay competitive in the market.

Check Your Progress- B

1. A ___________ ratio compares the cost of sales efforts to the revenue generated, helping to assess efficiency.
2. Cost analysis is essential for determining the ___________ of customer acquisition and retention.
3. One of the benefits of sales control is that it provides insights into ___________ issues that may hinder performance.
4. Monitoring the ___________ of sales efforts helps ensure that resources are being used effectively.
5. Sales control and cost analysis are critical for ___________ decision-making about product pricing and discounts.
6. ___________ management in sales control involves assessing which sales tactics are working and which need improvement.
7. Sales control can help prevent ___________ spending by ensuring that sales activities remain within the allocated budget.
8. Cost analysis allows management to perform a ___________-benefit analysis of sales campaigns and initiatives.
9. Inadequate sales control can lead to ___________, where sales teams do not meet their performance expectations.
10. By performing cost analysis, companies can better understand their ___________ margin and how to improve it.

13.8 SUMMARY

The sales control function assists the manager in ascertaining which level of sales have been achieved ,why there has been a variance and what remedial action can be taken to achieve the targets. The scope of control is very wide It includes all the areas of business, namely production, finance, inventory ,marketing etc Control may be physical or financial Physical control is quantitative or qualitative Control is influenced by personal supervision and checking

Three methods of sales control are discussed :-Sales volume analysis, Cost analysis and Performance analysis.Sales volume analysis is a detailed examination of sales volume by territory, sales person , customer, product line etc, which is recommended in order to know the real situation and gain meaningful insight. A cost analysis attempts to isolate the costs incurred in producing various…..inorder to determine the segment –wise profitability of sales of the business can be used by sales manager to investigate the profitability of regions, territory, and various channels of distribution. Performance analysis is used to judge the performance of the sales representative based on factors such as Role perception ,Aptitude ,skill level, motivation level ,personal and organizational values A sales management audit examines the validity of the very basis and the assumption on which the sales function is planned and managed .By critically evaluating the sales management against the changing market environment, it points out the emerging areas of opportunity as well as the areas that need observation A sales report is an instrument of control and regulation of activities of a sales person. A report can be a daily sales report or a weekly one.

Marketing cost analysis, or distribution cost analysis, is the analysis of costs that affect sales volume, with the purpose of determining the profitability of different segment operations. Cost analysis is an integral part of the decision-making process..It also serves as the basis for management decisions.

13.9 GLOSSARY

- Control: includes all the areas of business, namely production, finance, inventory ,marketing etc
- Audit :purpose of a sales management audit is to evaluate the soundness of the sales management of firms
- Performance analysis: This analysis is used to judge the performance of the sales representative based on following factors:
- Cost analysis: , is the analysis of costs that affect sales volume, with the purpose of determining the profitability of different segment operations

13.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

1. financial
2. Cost
3. sales
4. expenses
5. Sales control
6. performance
7. targets
8. Profitability
9. inefficiencies
10. processes

Check Your Progress –B

1. cost-to-sales
2. cost
3. operational
4. effectiveness
5. strategic
6. Performance
7. unnecessary
8. cost

9. underperformance
10. profit

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13.13 TERMINAL QUESTIONS

1. Explain the role of sales control in improving overall sales performance. How does it help businesses ensure that sales activities are aligned with strategic goals?
2. Discuss the significance of cost analysis in the sales process. How can businesses use cost analysis to optimize resource allocation and increase profitability?
3. How do sales control systems contribute to risk management in sales operations? Provide examples of how tracking sales performance and costs can prevent financial losses.
4. What are the key components of an effective sales control system, and how do they impact the efficiency and productivity of the sales force?
5. Describe the relationship between sales control, cost analysis, and decision-making in business strategy. How can these tools guide pricing decisions, sales forecasting, and long-term growth planning?

UNIT- 14 MARKETING INTERMEDIARIES

14.1 INTRODUCTION

In the previous unit you learnt that how sales are controlled and the process of cost analysis for sales control. In this unit, you will study about marketing intermediaries, their types, the role they play in the smooth functioning of the department, their selection and design in the market.

14.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the meaning and objectives of marketing intermediaries
- know about types of marketing intermediaries.
- select and design marketing channels

14.3 MEANING OF MARKETING INTERMEDIARIES

A marketing intermediary is the link in the supply chain that links the producer or other intermediaries to the end consumer. The intermediary can be an agent, distributor, wholesaler or a retailer. These parties are used in the selling, promotion or the availability of the goods/services through contractual agreements with the manufacturer. They receive the products at a particular price point, add their margins to it and move it to the next link in the supply chain at the higher price point. They are also known as middlemen or distribution intermediaries. Marketing intermediaries, also known as middlemen or distribution intermediaries, are an important part of the product distribution channel. Intermediaries are individuals or businesses that make it possible for the product to make it from the manufacturer to the end user, essentially facilitating the sales process.

14.4 OBJECTIVES OF MARKETING INTERMEDIARIES

Most producers do not sell their goods directly to the final users; between them stands a set of intermediaries performing a variety of functions. The bodies involved in transacting the product from the producer till the time it gets purchased by the ultimate consumer can be termed as the market intermediaries. Market intermediaries can be individuals or firms These intermediaries constitute a marketing channel. The products keep changing the possession at each level where subsequent transporting and inventory costs get added. Finally, the product gets available at the retail outlet at a certain price.

- Effective coverage of the target market.
- Efficient and cost-effective distribution.
- Ensuring that consumers incur minimum exertion in procuring the product.
- Helping the firm to carry on manufacturing uninterrupted, confident that the channels will take care of sales.
- Partnering the firm in financing and sub-distribution tasks

14.5 NATURE AND IMPORTANCE OF MARKETING INTERMEDIARIES

A marketing channel system is the particular set of marketing channels employed by a firm.

Channels not only link a producer of goods to the goods' buyer but also provide the means through which an organization implements its marketing strategy. Though intermediaries pose a challenge to firms when they compete on the prices yet they are indispensable as a vast distribution network cannot be handled by the company alone.

The major role of marketing channels is to make products available at the right time at the right place in the right quantities.

Functions that a marketing intermediary can perform:

- **Provide Distribution Efficiency:** The core function of intermediaries is to deliver goods to the consumers when and where they want them. To achieve this, they buy the products from the producers, store them as they search for viable markets, and then transport them to the consumers.

- **Provide Salesmanship:** Like salesman middleman also ascertain and activates the needs or wants of the buyers and satisfies these needs or wants to the mutual continuous advantage of both the buyer and seller. They also help the sales promotional activities through displays and salesmanship.
- **Help in Price Mechanism:** Middleman reduces the transaction costs (It covers information discovery cost, legal fees, negotiation cost and transportation cost) of producers by directly dealing with consumers. They have close relation with the buyers. They know their spending power, so they are the best judge for accurate price determination. Thus they assist the manufacturers in determining the price of their products.
- **Look After a Part of Physical Distribution and Financing:** Middlemen provide the necessary working capital in the form of advance payments for goods and services.
- **Provide after sales services:** The middleman being local people are more effective. They arrange for the after sales services and handle all kinds of complaints by consumers locally.
- **Act as Change Agents and Generate Demand**: Middlemen are the furnishers of valuable information to the producers about consumer behaviour, the changes in tastes and fashions, etc. Feedback provided by Intermediaries about the market influence the decisions made by the manufacturers. Buyers, on the other hand, gain from the services offered by intermediaries, such as promotion and delivery.
- **Take Care of the Flows Involved in Distribution:** Intermediaries are very important players in the market, who ensure that there is a seamless flow of goods in the market by matching supply and demand. Buyers can get the right quantity they want, as

intermediaries are able to sell in small units. They make available the goods according to the consumers' needs, fashion, tastes, etc.

- **Help in advertising:** The middleman advertises the products on which they deal and its advantage goes to the manufacturer.
- **Launching of new products:** The middleman introduces the consumers with new products and distribute free samples

Check Your Progress-A

1. Marketing intermediaries are businesses or individuals that help move products from the ___________ to the final consumer.
2. ___________ are the most common type of marketing intermediaries who sell goods directly to end customers.
3. ___________ typically buy products in large quantities from manufacturers and sell them to retailers or other intermediaries.
4. A ___________ is an intermediary that facilitates the sale of products but does not take ownership of the goods.
5. Intermediaries help reduce the number of ___________ required between producers and consumers.
6. One of the functions of marketing intermediaries is to provide ___________ by storing goods until they are needed by retailers or consumers.
7. Agents and brokers are intermediaries that typically earn a ___________ for facilitating sales between buyers and sellers.
8. ___________ wholesalers provide additional services such as product delivery, while others may operate on a cash-and-carry basis.
9. Retailers perform an important role by offering ___________ services, helping customers choose between different products.
10. ___________ is a common form of retailing where products are sold directly to consumers without any physical store.

14.6 TYPES OF MARKETING INTERMEDIARIES

The producer seeks the easiest ways to make his product/service available to the ultimate consumer. In his efforts he builds business ties with number of middle-men…Selection of appropriate marketing intermediaries depends on number of factors After careful analysis the producer decides which intermediary is to be selected Based on such thought the channel divides the marketing intermediaries into four types

The different types of marketing intermediaries are

- Agents
- Distributors

- Wholesalers And
- Retailers.

The agent is an independent entity that acts as the manufacturer’s representative for the buyer. Agents have possession of the products without actually owning them. They work on commission basis. Any intermediary with legal authority to act on behalf of the manufacturer The agent as a marketing intermediary is an independent individual or company whose main function is to act as the primary selling arm of the producer and represent the producer to users. Agents take possession of products but do not actually own them. Agents usually make profits from commissions or fees paid for the services they provide to the producer and users.

Wholesalers purchase product in bulk and resell it. They own the products that they sell. They usually sell these products to retailers at a profit. An intermediary who sells to other intermediaries, usually to retailers; usually applies to consumer markets Wholesalers are independently owned firms that take title to the merchandise they handle. In other words, the wholesalers own the products they sell. Wholesalers purchase product in bulk and store it until they can resell it. Wholesalers generally sell the products they have purchased to other intermediaries, usually retailers, for a profit. In this distribution channel, wholesalers buy the products and then distribute to consumers. Wholesalers directly purchase goods from the manufacturer in large quantity at a discounted price. Several service taxes and sales taxes are also reduced, which in turn reduces the cost of the final product

Distributors are different from wholesalers in that the wholesalers carry many product lines, say Tide and Surf Excel, but distributors carry only one of complementary lines, either tide or Surf Excel products. Distributors will carry these products to points of sale and they maintain very close working relationships with suppliers and buyers. An imprecise term, usually used to describe intermediaries who perform a variety of distribution functions, including selling, maintaining inventories, extending credit, and so on; a more common term in industrial markets but may also be used to refer to wholesalers Distributors are similar to wholesalers, but with one key difference. Wholesalers will carry a variety of competing products, for instance Pepsi and Coke products, whereas distributors only carry complementary product lines, either Pepsi or Coke products. Distributors usually maintain close relationships with their suppliers and customers. Distributors will take title to products and store them until they are sold.

A retailer can be independent, like small kirana stores, or they can be supermarket chains, like Big Bazaar or Reliance Fresh. They own the products that they stock. The retailer is usually the last link of the supply chain, reaching products to the end consumer for a profit. An intermediary who sells to consumers A retailer takes title to, or purchases, products from other market intermediaries. Retailers can be independently owned and operated, like small “mom and pop” stores, or they can be part of a large chain, like Walmart. The retailer will sell the products it has purchased directly to the end user for a profit.

A value-added reseller is an intermediary that buys a product from the manufacturer, improves it and then resells it.

Middleman : Any intermediary between manufacturer and end- user markets

Dealer : An even more imprecise term that can mean the same as distributor, retailer, wholesaler, and so forth

Other types of intermediaries include, manufacturers' representatives, sales agents - Facilitators - transportation companies, independent warehouses, banks, advertising agencies

(A)SATISFYING INTERMEDIARY REQUIREMENTS AND TRADE RELATIONS
Intermediaries often choose those suppliers with whom they wish to deal Intermediaries are concerned with the adequacy of the manufacturer's offering in improving its product assortment for its own target markets. Intermediaries concerned with competition usually seek a degree of exclusivity in handling the manufacturer's offering. Intermediaries expect a profit margin on sales consistent with the functions they are expected to perform.
Marketing channels are the ways that goods and services are made available for use by the consumers. All goods go through channels of distribution, and your marketing will depend on the way your goods are distributed. The route that the product takes on its way from production to the consumer is important..Below are discussed such routes:-

1. MANUFACTURER TO CUSTOMER
Manufacturer makes the goods and sells them to the consumer directly with no intermediary, such as a wholesaler, agent or retailer. Goods come from the manufacturer to the user without an intermediary. For example, a farmer may sell some produce directly to customers. For example, a bakery may sell cakes and pies directly to customers.
2. MANUFACTURER TO RETAILER TO CONSUMER
Purchases are made by the retailer from the manufacturer and then the retailer sells the merchandise to the consumer. This channel is used by manufacturers that specialize in producing shopping goods. For example, clothes, shoes, furniture and fine china. This merchandise may not be needed immediately and the consumer may take her time and try on the items before making a buying decision. Manufacturers that specialize in producing shopping goods prefer this method of distributor must decide which route or channel is best for his particular product.
3. MANUFACTURER TO WHOLESALER TO CUSTOMER
Consumers can buy directly from the wholesaler. The wholesaler breaks down bulk packages for resale to the consumer. The wholesaler reduces some of the cost to the consumer such as service cost or sales force cost, which makes the purchase price cheaper for the consumer. For example, shopping at some of the warehouse clubs, the customer may have to buy a membership in order to buy directly from the wholesaler.
4. MANUFACTURER TO AGENT TO WHOLESALER TO RETAILER TO CUSTOMER
Distribution that involves more than one intermediary involves an agent called in to be the middleman and assist with the sale of the goods. An agent receives a commission from the producer. Agents are useful when goods need to move quickly into the market soon after the order is placed. For example, a fishery makes a large catch of seafood; since fish is perishable it must be disposed of quickly. It is time consuming for the fishery to contact many wholesalers all over the country so he contacts an agent. The agent distributes the fish to the wholesalers. The wholesalers sell to retailers and then retailers sell to consumers

14.7 CHANNEL SELECTION DECISIONS

To customers, the channels are the company. Marketing channels are the source through which the product/service reaches the consumers effectively and efficiently.These marketing channels provide confidence and feeling of assurance to the consumers regarding product's safe delivery.

Channel selection involves specifying the type, location, density, and function of intermediaries, if any, in a marketing channel. The marketing manager has to be very competent while taking decisions regarding selection of marketing channel and marketing intermediaries.

Marketing manager should answer following questions:

- Who are potential customers?

– Where do they buy?

- When do they buy?

- How do they buy?

- What do they buy?

1.8 THE DESIGN OF MARKETING CHANNEL

1.Direct distribution is usually employed when:

- Target markets are composed of easily identifiable buyers

- Personal selling is major component of organization's communication program

- The organization has a wide variety of offerings for the target markets

- Sufficient resources are available to satisfy target market requirements that would normally be handled by intermediaries

Direct distribution must be considered when intermediaries are not available for reaching target markets, or when they don't possess the capacity to service the requirements of target market. Mainframe computers, unstandardized offering such as build custom-build machinery, and offering of high unit value are distributed directly. Also if the organization seeks to differentiate its offering from others distributed through intermediaries. Contacting buyers, storage, delivery, and credit are functions that should be considered when deciding whether to distribute directly or through intermediaries. Therefore, even though all signs favor direct distribution, the capacity of the organization to perform tasks normally assigned to intermediaries may eliminate this alternative.

2. Electronic Marketing Channels

A feature of these channels is that they often combine electronic and traditional intermediaries. It also must be assessed on its revenue- producing capability relative to the costs of achieving market coverage and satisfying buyer requirements.

3. Channel Selection at Retail Level

Three questions should be considered when choosing marketing channel:

- Which channel and intermediaries will provide the best coverage of the target market?
- Which channel and intermediaries will best satisfy the buying requirements of the target market?
- Which channel and intermediaries will be the most profitable?

Decide on the density and type of intermediaries to be used. Three degrees of distribution density exist:

1. **Intensive distribution** consists of the manufacturer placing the goods or services in as many outlets as possible. It is generally used for items such as tobacco products, soap, snack foods, and gum, products for which the consumer requires a great deal of location convenience. Intensive distribution increases product and service availability but may also result in retailers competing aggressively.

2. **Exclusive distribution** means severely limiting the number of intermediaries. It is used when the producer wants to maintain control over the service level and outputs offered by the resellers. Often it involves exclusive dealing arrangements. A common form of an exclusive agreement is a franchise agreement.

3. **Selective distribution** involves the use of more than a few but less than all of the intermediaries who are willing to carry a particular product. The company does not have to worry about too many outlets; it can gain adequate market coverage with more control and less cost than intensive distribution. Dell, inc. is a good example.

(B)SATISFYING BUYER REQUIREMENTS

Decide on channels that satisfy at least some of the interests buyers want fulfilled when purchasing a firm's products or services. These interests fall into four broad categories:

1**. Information** important requirement when buyers have limited knowledge or desire specific data about a product or service. Intermediaries communicate with buyers through in-store displays, demonstrations, and personal selling.

2. **Convenience** has multiple meanings for buyers such as proximity or driving time to a retail outlet, or minimum of time and hassle. For those who shop on the Internet, convenience means that websites are easy to locate and navigate, and image downloads are fast.

3**. Variety** reflects buyers' interests in having numerous competing and complementary items from which to choose. Variety is evident in both the breadth and depth of products and brands carried by intermediaries.

4. **Attendant services** – important buying requirement for products such as large household appliances that require delivery, installation, and credit.

CHANNEL SELECTION AT OTHER LEVELS OF DISTRIBUTION

Marketing manager must specify the type, location and density of intermediaries that will be used to reach retail outlets. Should the manager select a specialty wholesaler, a general-merchandise wholesaler, a general-line wholesaler, or a combination of wholesalers? The location of wholesalers is determined by the location of retail outlets to the extent that geographical proximity affects logistical considerations such as transportation costs and fast delivery service. The density of wholesaler is influenced by the density of the retail network and wholesaler service capabilities.

TYPES OF WHOLESALING INTERMEDIARIES

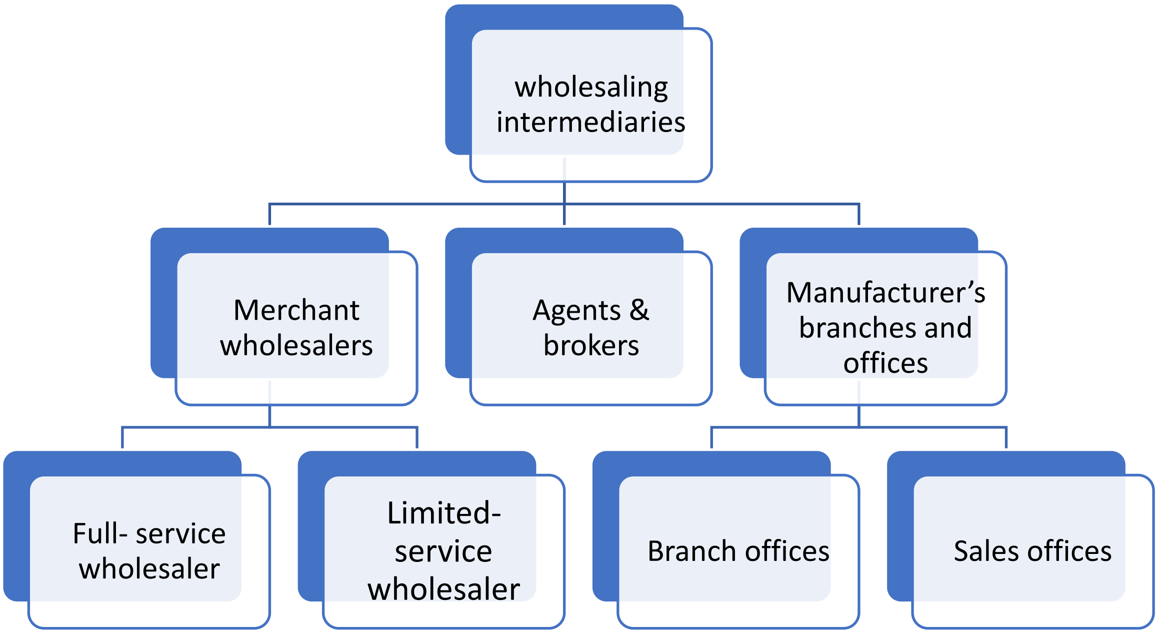
The wholesaling intermediaries are further divided into three types. This depends on the types of product the wholesaler is dealing with and the market he is operating in…

These are as follows:

- Merchant wholesalers
- Agents and brokers
- Manufacturer's branches and office

Merchant wholesaler deals with full service and limited time service wholesaler, which solely depends on the amount of time particular wholesaler, devotes to this particular business.

Manufacturer's branches and offices are designed at two destinations viz. branch office and sales office respectively.



DUAL DISTRIBUTION AND MULTI-CHANNEL MARKETING

Many organizations use dual and multiple channels simultaneously.

DUAL DISTRIBUTION

Dual distribution occurs when an organization distributes its offering through two or more different marketing channels that may or may not compete for similar buyers. It is adopted if:

- Manufacturer produces its own brand as well as a private store brand
- Manufacturer may distribute directly to major large-volume retailers, and may use wholesaler to reach smaller retailer outlets.

Geography itself may affect whether direct or indirect methods of distribution are used.

MULTI-CHANNEL MARKETING

Multi-Channel marketing involves the blending of an electronic marketing channel and a traditional channel in ways that mutually reinforcing in attacking, retaining, and building relationships with customers. It is pursued for a number of reasons:

- The addition of an electronic marketing channel can provide incremental revenue.

- Electronic marketing channel can leverage the presence of a traditional channel.

- Multi-channel marketing can satisfy buyer requirements.

Intermediaries and retailers are concerned with disintermediation- when traditional intermediary member is dropped from a marketing channel and replaced by an electronic storefront.

CHANNEL POWER CAN TAKE FOUR FORMS.

1**. Economic power**- arises from the ability of a firm to reward or coerce other members.

2. **Expertness**

3. **Identification** with a particular channel member.

4. **Legitimate right** of one channel member to dictate the behavior of other members.

CHANNEL-MODIFICATION DECISIONS

A change in marketing strategy often initiates a channel-modification program. At the base of the channel-modification decision should lie the marketing manager's intent to: - provide the best coverage of the target market sought - satisfy the buying requirements of the target market - maximize revenues and minimize costs

QUALITATIVE FACTORS IN MODIFICATION DECISIONS

The qualitative assessment of a modification decision rests on a series of questions which imply that the modification decision involves a comparative analysis of the existing and the new channels.

- Will the change improve the effective coverage of the target markets?
- Will the change improve the satisfaction of buyer needs and how?

- Which marketing functions must be absorbed in order to make a change?
- Does the organization have the resources to perform the new functions?
- What effect will the change have on other channel participants?
- What will be the effect of the change of the achievement of long-range organizational objectives

Check Your Progress- B

1. Intermediaries help manufacturers by handling ___________ tasks such as transportation, storage, and financing.
2. ___________ marketing involves selling products through a series of intermediaries, including wholesalers and retailers.
3. One benefit of using intermediaries is that they help reach a ___________ audience, including customers in different geographic regions.
4. A ___________ intermediary takes ownership of the goods and bears the risk of carrying inventory until the products are sold.
5. Marketing intermediaries help in the ___________ of goods, ensuring that products are available where and when they are needed.
6. Direct channels eliminate the need for ___________, as products are sold directly from the producer to the consumer.
7. One disadvantage of using intermediaries is that they can add to the ___________ of products, affecting the final price to consumers.
8. ___________ stores are intermediaries that provide a wide variety of products under one roof, such as supermarkets and department stores.
9. The use of ___________ marketing intermediaries, such as online platforms, has increased due to the rise of e-commerce.
10. The main goal of marketing intermediaries is to increase ___________ by bridging the gap between producers and consumers.

14.8 SUMMARY

The producer/manufacturer of the product/service adopts the best possible route to deliver his product/service to the ultimate consumer He selects either of four marketing intermediaries which best suits the channel Most producers do not sell their goods directly to the final users; between them stands a set of intermediaries performing a variety of functions. The bodies involved in transacting the product from the producer till the time it gets purchased by the ultimate consumer can be termed as the market intermediaries. A marketing intermediary is the link in the supply chain that links the producer or other intermediaries to the end consumer. The intermediary can be an agent, distributor, wholesaler or a retailer. Market intermediaries can be individuals or firms These intermediaries constitute a marketing channel.

Marketing manager must specify the type, location and density of intermediaries that will be used to reach retail outlets Channel selection involves specifying the type, location, density, and function of intermediaries, if any, in a marketing channel. The marketing manager has to be very competent while taking decisions regarding selection of marketing channel and marketing intermediaries.

Dual and multi-channel marketing is also in prevalence now a days e channels also have been of great help and approach to the consumers A feature of these channels is that they often combine electronic and traditional intermediaries. It also must be assessed on its revenue-producing capability relative to the costs of achieving market coverage and satisfying buyer requirements.

Consumers are benefitted as they have a variety of options with which they can decide the ease of product availability as the present era is defined as consumer era.

14.9 GLOSSARY

- Agents: is an independent entity that acts as the manufacturer's representative for the buyer. Agents have possession of the products without actually owning them.
- E channel: they often combine electronic and traditional intermediaries
- Dual distribution: when an organization distributes its offering through two or more different marketing channels that may or may not compete for similar buyers.
- Multichannel marketing: involves the blending of an electronic marketing channel and a traditional channel in ways that mutually reinforcing in attacking, retaining, and building relationships with customers

14.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

1. producer
2. Retailers
3. Wholesalers
4. broker/agent
5. transactions
6. storage
7. commission
8. Full-service
9. personalized
10. Online

Check Your Progress –B

1. logistical
2. Indirect
3. wider
4. merchant
5. distribution
6. intermediaries
7. cost
8. Retail
9. digital
10. efficiency

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5. 5. Tapan Panda and Sunil Sahadev, Sales and Distribution Management, Oxford Higher Education, 20014.

14.13 TERMINAL QUESTIONS

1. Explain the role of marketing intermediaries in the distribution channel. How do they add value to the supply chain and contribute to the overall marketing strategy of a company?
2. Discuss the different types of marketing intermediaries, including wholesalers, retailers, agents, and brokers. How do their functions differ, and what is their significance in the marketing process?

3. Analyze the advantages and disadvantages of using marketing intermediaries for both producers and consumers. In what situations might a producer choose to eliminate intermediaries and sell directly to customers?
4. How has the rise of e-commerce and digital platforms transformed the role of traditional marketing intermediaries? What are the challenges and opportunities for intermediaries in the digital age?
5. Describe the key functions performed by marketing intermediaries in terms of logistics, promotion, and customer service. How do these functions help create an efficient and effective marketing channel?

Sales and Distribution Management
MS 508

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MS 508

School of Management Studies and Commerce

Sales and Distribution Management

Block III Distribution

Block IV Management of Channels

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Block – III
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Course Contents

Course Name: Sales and Distribution Management

Course Code-MS 508

Course Objective: The objective of this course is to provide an extensive knowledge about sales function as well as the intricacies of the distribution mechanics of goods and services to the students.

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Meaning, definition, Characteristics, Importance, Objectives, Sales Organization

Unit II Personal Selling

Unit III Goals and Process of Sales Management

Process, Demand and Sales Potential

Unit IV Sales Forecasting

Sales Budget and Selling Strategies

Unit V Sales Territories and Sales Quota

Unit VI Sales Force Management

Structure and Size of Sales Force

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Unit VIII Sales Organization and Its Types - Sales Organization Structures and Outsourced Sales

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Unit XXII Channel Profitability Analysis
Unit XXIII Rural Distribution
Unit XXIV Retailing
Unit XXV Inventory Management in Sales and Distribution
Unit XXVI Market Logistics

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Block III

Distribution

UNIT- 15 DISTRIBUTION CHANNELS

15.1 INTRODUCTION

The utmost requirements of the producer in any economic system is to deliver the goods and services to the users and in this regard distribution channels play a pivotal role .Distribution channels can be defined as a bridge between the producers or manufacturers of goods and services and the final consumers benefitted by them .The size of a particular market decides the nature of the distribution channels .In fact distribution channels are a systematic ,organized group of interdependent bodies that are involved in the process of the movement of products or services from the place of production to the consumers without any barriers of place and time .In this way distribution channels are an organized network of diversified intermediaries like wholesalers and retailers(merchants) brokers and producer’s representatives(agents) and those who provide assistance in the distribution process(facilitators).

15.2 OBJECTIVES

After reading this unit you will be able:

- To link the producers with the end users.
- To ensure the delivery of goods and services.
- To develop a sense of trust between the manufacture and the consumer.
- To act as a facilitator in the distribution network for both the producers and the consumers.
- To recognize and convey the needs of members in the distribution channel and to help them fulfill their respective needs.

- To develop an effective and efficient network of contacts among the members in the distribution network.
- To overcome any barrier in the distribution.

15.3 NATURE AND FUCTIONS OF DISTRIBUTION CHANNEL

The nature of the distribution channels can be compared with the flow of blood in a human body. Just like the smooth and easy flow of blood keeps a human body healthy, in the same way an effective and efficient distribution channel ensures the healthy movement of goods and services from the producers to the end users. The various members participating in the distribution channels help in the easy transfer of a product or a service from the point of production to the ultimate consumer or industrial users.

FUNCTIONS OF DISTRIBUTION CHANNEL

Information Providing:

- Collecting information from the market and its communication
- Communicating and negotiating with the suppliers and consumers over quality. quantity, price, terms and conditions etc

Marketing and Selling function:

- Promotions of a product or a service
- to buy products from sellers usually for resale

Financial function:

- Giving credit to consumers
- Maintaining inventories for the manufacturer ensuring payment from the customers to the producers after deduction of different expenses

Physical function:

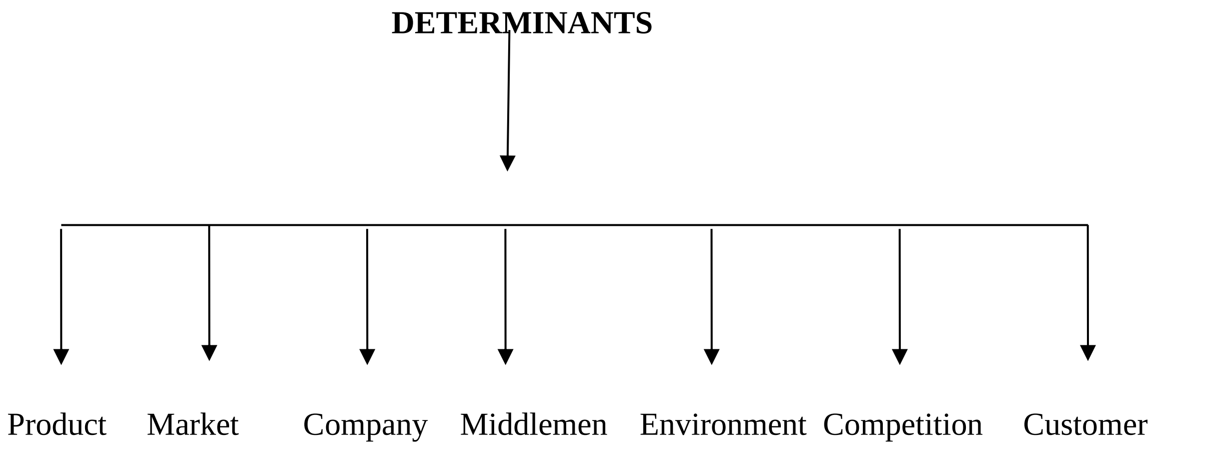
- Taking possession of goods and maintaining stock
- Transportation and distribution of desired goods and services

Facilitating another function:

- Acting as a facilitator by managing risk of the manufacturers and the customers like absorbing different risks related with business i.e. the risk of failure to sell goods, product obsolescence or change in the price of goods.
- Grading of products by proper labeling of products, giving content specifications, breaking bulk items into smaller units

15.4 DETERMINANTS OF DISTRIBUTION CHANNEL

Various determinants contribute in the selection of an appropriate and effective distribution channel .In a competitive economy the success of a organization hugely depends upon an appropriate system of distribution .Therefore determining of a well organized channel of distribution requires a careful consideration of numerous factors .There are following determinants that help in the choice of channels of distribution.



1. Product Determinants:

While choosing a channel of distribution it is desirable to take into consideration the nature of the product the length of product line, the market position of the product etc .The choice of the selected channel must be such that it should be able to cope up with the diversified nature of the products and their safer transfer.

In the case of perishable nature of the goods the choice of channel should be such that such goods be delivered with speed and with a shorter route of distribution .In case of durable and standardized goods the longer and the diversified channel may be effective but in the case of custom made products a direct distribution channel reaching the consumer may be desirable .The technical products by virtue of their technical nature require specialized selling .So the marketer needs to select the shortest channel .In case of products of high unit value it is required to sell them directly by the travelling sales team.

2. Market determinants:

The market determinants are extremely crucial in making the channel selection decisions .The main determinants that must be taken into consideration include the structure of the existing market .Availability of the distribution channel, the channels used by the competitors and the nature and the frequency of the purchase, large ,scattered and diffused market size demands many channels of distribution whereas in small or highly concentrated market direct selling is profitable .The existing channels and their availability also determine the selection of channels because sometimes the available channels in the market may not be interested to add products to their assortments. In such case the channel commander has a significant work winning the cooperation from the channel members .Similarly the frequency and the quantity of the customer’s purchase also influence the selection of the distribution channel .Some products are purchased on impulse while others important purchase are governed by rational decisions .Similarly the choice of the distribution channel also depends on the channels used by the competitors .It is generally advisable to select a channel which ,in the present market ,is giving profit to the competitor .Selecting another wise channel may result in some sort of risk.

3. Company or Institution

The institutional determinants that are the determining factors in the choice of a distribution channel include the size of the company, the company's financial resources, the product mix, company's advertising and sales promotion and the ability to provide post sale services etc. The size of the company also matters a great deal in the choice of the distribution channel .A large company can have a shorter distribution channel.

A company with a sound financial condition can manage to reduce the levels of distribution and may not depend on the middlemen while a company with weak financial resources depends on the middlemen to reach the customers. The company's product-mix also determine the pattern of the distribution channel .The broader product line will make the company choose the shorter channel .Heavy sales promotion may result in motivating the middlemen in the promotional campaign ,therefore in such cases a relatively longer chain of distribution is advantageous.

A company with a sound financial condition can manage to reduce the levels of distribution and may not depend on the middlemen while a company with weak financial resources depend on the middlemen to reach the customers. The company's product mix also determines the pattern of the distribution channel. The broader product line will make the company choose the shorter channel whereas a product mix with greater specialization will inspire the company to select an exclusive dealership. The company's post sale service ability is also one of the important factors to select a distribution channel. In the case of warranty associated with a product it is important that which member in the distribution channel is going to take care of the warranty issue also determines the channel of distribution

Heavy sales promotion may result in motivating the middlemen in the promotional campaign, therefore in such cases a relatively longer chain of distribution is advantageous.

4. Middlemen

It is very important to select the members in the distribution channel for the best services in relation to the manufactures and the consumers. Middlemen, key member in the distribution channel are extremely integral part of the distribution channel. Therefore the middlemen who are efficient in providing the desired services should be given the first priority.

Timely and effective promotional strategies are required according to the fashion trends and the consumer needs .So the middlemen who are able to provide most effective promotional services would be of a great help for selecting the distribution channel. The middlemen generating largest sales volume at lower unit cost should be given priority.

5. Environmental determinants

Environmental characteristics also determine the choice of channels of distribution which includes economic conditions, legal regulations and controls. The economic environment of a country and even the global economic scenario influence the selection of the distribution channels .Economic boom makes the company to go for direct distribution channels because there is a positive economic cooperation from the intermediaries but this is not the same during the period of economic slum .However it is desirable that during inflation the indirect relations and during deflation direct relations with the consumers are profitable. The legal regulations and restrictions imposed by the government have significant impact on the selection of the distribution channel. Fiscal policies and other legislative controls therefore are taken into account before deciding on the distribution channels.

6. **Competition**

In today's cut throat completion marketers must keep a close eye on the channels used by other competitors in the market .The choice of distribution channels is an integral part of marketing strategy of the marketers that is why many a time similar distribution channels as used by rivals are used to bring about the distribution of the company's products .Sometimes marketers deliberately avoid the channels used by their rivals.

7. Customers

The main focus of the distribution channels is to cater to the needs of the end customers. Distribution channels play crucial role in developing a bond between the manufacturer and the customer. To strengthen the bond between the producers and the customers the choice of the distribution channels should take the customer characteristics into knowledge The customer characteristics include the geographical divisions, frequency of purchase, the quantity of purchase and the number potential customers

15.5 DESIGNING DISTRIBUTION CHANNEL

Channel design process is extremely significant in the process of developing an appropriate and feasible distribution channel that can effectively perform the function of transferring a company's or a manufacturer's product to the end users. The design process involves collecting the correct information about the existing market scenario, already available existing channels of the competitors, the customer requirements and then designing a distribution channel which is able to perform the requisite function effectively .It includes:

Identify the customer's needs

Formulate the channel objectives

Identify the functions to be performed by the distribution channel

Link the channel design to customer characteristics

Link the channel design to the product nature

Evaluate the distribution environment

Develop Feasible Channel Options

DISTRIBUTION CHANNEL STRATEGY

The distribution channel is a cardinal constituent of the marketing strategy which in turn forms the part of the overall business strategy .In this way a distribution channel strategy enables the company to reach the customers and sell the products to them in those geographical areas that the company's direct sales team cannot reach easily. Therefore the company can choose from a number of distribution channels like wholesalers, retailers, distributors or the internet. So the company needs to look into various criteria across which the distribution strategy may be formed .This criteria include-

1.**Market Factors:**

The first step in distribution channel strategy is to analyze the target market for which the appropriate channel would be effective. This includes various factors starting from the end users to the different types of competitors. It may also include the following key areas to be explored.

(a) Geographical reach-If a company's strategy is to develop its business across the region or the nation it must highlight the geographical area it wishes to reach through a distribution channel and then identify the type of channel to be used.

(b) Customer choice—It refers to the distribution channel which is preferred by the customers.

(c) Organizational customers-These set of customers have different buying habits from those of other customers therefore it is another important factor that determines the type of channel to be selected.

2. Competitors

Distribution channel strategy also includes an analysis of the existing competitors and their distribution channel choice. Generally for a company a good channel choice is one that has been either overlooked or avoided by the competitors. Sometimes the marketer may try to choose his competitor's channel also.

3. Contribution, availability and nature of intermediaries:

Distribution channel strategy should also take into an account the potential contribution of every distribution channel. It is preferable to focus on working with those distributors that provide the access to an additional customer base without incurring any additional sales on marketing costs .Therefore the company needs to find those intermediaries that are capable to handle the products and provide sufficient service to the final customers. Similarly for the new entrants in the market the better strategy is to find the best existing intermediaries available in the market

4. **Product Factors**

The nature and the type of the products also determine the selection of the distribution channel. There is many products that a company needs to focus on:

(a) Product Life Cycle---The stage of a product in a product life cycle determine the selection of a channel for a relatively well established product. The customers require less support.

(b) Complex nature of a product-Highly complex nature of a product requires much support from the producers.

(c) Value of the product-The cost or the value of the product also determine the distribution channel choices .The products with low cost and high volume are usually distributed through large and well established distribution networks.

(d) Consumer perception-Since the major function is to reach its end customers therefore it has an important role to play in the choice of distribution channel.

5. Customer factor :

A company must identify the types of customers to be served directly. The company may use the channel partners to effectively deal with large no. of smaller customers in a cost effective way. In this way the company can concentrate its resources on key accounts

LEVELS OF DISTRIBUTION COVERAGE

Once the producer finally selects the type of distribution channel that is most appropriate for its products the very next step for the company is to determine the level of distribution intensity which clearly specifies the number of sales outlets necessary in a particular geographic location .The levels of intensity may differ from particular case to case depending on a company's product, objectives and the end users. The position of a product in the life cycle also makes the company modify its distribution intensity frequently. Here it is noteworthy to mention that for the most part the distribution coverage decisions are of greater concern to the consumer -product companies. At the same time there are many industrial products for which the producers also should decide as to how much coverage needs to be given to its products. Generally marketers have three levels of distribution coverage to make the choice from. These three levels are-intensive coverage (mass coverage), selective coverage, exclusive coverage

(1) **Intensive coverage**:

The other name for the intensive coverage is mass coverage distribution .As the name clearly suggests, in this pattern of distribution coverage the product is distributed in as many outlets as possible, nearly to all the locations where that particular type of product is sold. Intensive distribution coverage is suited for the products that are of low price but has a huge consumer demand. In case of such products though the distribution cost is very high but huge sales volume always keeps the marketer in the profitable situation.

(2) **Selective coverage**:

Selective coverage or selective distribution strategy limits the availability of products to a selected number of outlets in a particular a market area. Selective distribution is in the case of products with a smaller market size .Since the market size is smaller therefore the number of locations required to support the distribution of the product is also smaller

(3) **Exclusive coverage**:

This is an extreme case of distribution and is ideal for the products that target relatively smaller markets, like high end products have small customer size. When a product requires aggressive personal selling, repair service, other special efforts, the marketer usually chooses an exclusive distribution strategy

CHANNEL CONTROL

Distribution channel control is the degree of control desired over the distribution channel by a company. In this way the channel control is the method of selling a company's product either directly or with the help of distributors and in this way it is a root by which a product or a service makes its movement from a producer to its end customers. With the selection of distribution coverage strategy a producer or a company automatically make trade off with the distribution channel members over the issue of control.

The distribution channel control depends on a company's distribution strategies i.e. if a company adopts an intensive distribution strategy then it gives up some degree of control over the distribution channel. The degree of control achieved by a firm also depends upon the size of the firm, the size of the order, the products stage in the product life cycle, technical skill required for the product's success etc. In this way when the size of s firm grows larger or average order size decreases or the technical knowledge or the service required is more or the product becomes more mature in the product life cycle then the producer is found to exercise a greater degree of control over the channel. Thus to achieve a higher degree of control over the distribution channel a firms uses many indirect means such as imparting sales training, creating sales potential through advertising, sharing promotional materials and other marketing strategies.

Check Your Progress-A

1. A distribution channel is the path a product takes from the __________ to the end consumer.
2. __________ channels are used when producers sell directly to consumers without any intermediaries.
3. The __________ distribution channel involves the use of intermediaries like wholesalers and retailers to move products to consumers.
4. __________ distribution refers to the strategy of selling a product through as many outlets as possible to maximize availability.
5. __________ distribution focuses on selling products through a select number of intermediaries to maintain control over the brand.
6. __________ distribution involves selling products exclusively through a limited number of intermediaries, often to create a sense of prestige.
7. A __________ is an intermediary that buys products from manufacturers and sells them to retailers.
8. Direct distribution channels eliminate the need for __________, allowing producers to deal directly with consumers.
9. __________ distribution channels combine both direct and indirect methods, using intermediaries along with direct sales to consumers.
10. One of the main functions of a distribution channel is to reduce the number of __________ required between buyers and sellers.

15.6 MEASURES OF CONTROL

The purpose of distribution channel control is to ensure that the distribution channel intermediaries behave in the desired manner with the channel commander, other channel members and the consumers. Before exercising the control the behavior of the channel intermediaries are evaluated .To make the channel members behave in a desired manner the channel commander makes use of different power at his disposal in order to correct the behavior of the members in the distribution channel .The channel commander has the following measures or power;

(1) **Reward power:**

This refers to the channel commander's power of rewarding the channel member when the member conforms to the standard or the expected behaviour.The channel members may be benefitted by the rewards like grant of a higher margins promotional allowances and discounts

(2) **Coercive power:**

This power enables the channel commander to punish the distribution channel member that do not conform to the standard or expected behaviour.

The different forms of punishment may include withdrawal of exclusive rights stoppage , reduced margins, reduction of rewards, imposition of penalties etc.

(2) **Expert Power:**

This power works on the idea that the channel commander has the specialized knowledge that makes his selling job easy thus the company has much better knowledge about new products, inventory mix, sales personnel, store outlay and layout. This expert knowledge base is respected by the intermediaries.

(3) **Identification power:**

This power is based on the idea of association of the intermediaries with the channel commander. This association is quite helpful for the channel intermediaries to raise their sale turn over. This is the reason as to why the channel intermediaries desire to identify themselves with reputed companies even at least margins and stringent terms and conditions.

(4) **Legitimacy Power:**

This power is based on the idea that the channel intermediary relationship is a relation based on terms and conditions of a contract .Therefore the channel commander expects the members in the distribution channel to abide by the terms and conditions of a contract.

15.7 CHALLENGES

Distribution is one of the critical and crucial elements of marketing strategy. There are numerous challenges in the process of movement of products or services from a company to the consumer:

(1) **Inadequate distribution arrangement:**

Inadequate distribution arrangements leads to the poor performance of a company's brands .Some of the well known national and international brands have poor performance results due to inappropriate distribution arrangements.

(2) **Non Conformity to the desired behaviour:**

This is one of the major challenges in the distribution network. The lack of understanding of the ethos of the trade channel behaviour results in non cooperation and mutual confrontation among the members of the distribution channel.

(3) **Growing customer's expectations:**

Today because of the amount of information available before the customer, the expectations of the customer have been growing day by day. If the customers do not get the desired service then the company's reputation and its products image is terribly damaged.

(4) **Emergence of new distribution channels:**

In modern market, franchisers are gaining popularity in product categories like shopping goods, soft drinks and services. Traditional stockiest or the primary level wholesalers are asked to provide additional sales coverage; promotion and merchandising function in addition to normal inventory holding and financial functions.

(5) **Emergence of challenging marketing environment:**

In modern day market scenario a marketer has to be well informed in order to be successful trade channel behavior, the power relationship between the channel members, the vast presence of the independent intermediaries, the growing powers of retailers, the increased cost of reaching goods to distant markets etc. are important issues that need to be taken care of by a marketer

Check Your Progress- B

1. Intermediaries in a distribution channel help to perform essential tasks such as __________, storage, and transportation of goods.
2. The choice of distribution channel can affect a company's overall __________ strategy by determining how products reach the market.
3. A __________ distribution channel is often used for products that require specialized knowledge or handling.
4. Distribution channels can be classified as either short or __________, depending on the number of intermediaries involved.
5. The __________ of a distribution channel refers to the number of intermediaries between the producer and the consumer.
6. __________ distribution allows manufacturers to bypass traditional intermediaries and sell their products directly through online platforms.
7. The term __________ distribution refers to using a variety of different channels, such as online, in-store, and direct sales, to reach customers.
8. __________ management is the process of overseeing the movement of goods through the distribution channel to ensure efficiency.
9. The __________ power of intermediaries can influence pricing, product availability, and market access within a distribution channel.
10. The effectiveness of a distribution channel can be measured by its ability to deliver products to customers at the right place, right time, and __________.

15.8 SUMMARY

Distribution channel plays a very significant role in the delivery of the products manufactured from the producers to the end user. Distribution channel also called as the intermediaries helps in creating a network for the distribution of the various products to the customers even at far distant areas. Hence without the distribution channel there can be the no existence of the market and the products.

15.9 GLOSSARY

- Indirect Distribution
  A distribution method where intermediaries such as wholesalers, agents, or retailers are involved in moving the product from the manufacturer to the end consumer.
- Intensive Distribution
  A strategy aimed at distributing products through as many outlets as possible to ensure widespread availability, commonly used for convenience goods like snacks or beverages.
- Selective Distribution
  A distribution approach where products are sold through a limited number of retailers or outlets to maintain better control over the brand image and pricing, often used for higher-end or specialty products.

- Exclusive Distribution
  A strategy where a manufacturer grants exclusive rights to a single distributor or retailer in a particular geographic area, often used for luxury goods or specialized products to create a sense of exclusivity and prestige.

15.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

1. producer
2. Direct
3. indirect
4. Intensive
5. Selective
6. Exclusive
7. wholesaler
8. intermediaries
9. Hybrid
10. transactions

Check Your Progress –B

1. financing
2. marketing
3. specialized
4. long
5. length
6. Digital
7. multichannel
8. Channel
9. bargaining
10. cost

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15.12 SUGGESTED READINGS

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15.13 TERMINAL QUESTIONS

1. Explain the various types of distribution channels available to businesses. Discuss the advantages and disadvantages of direct and indirect distribution channels, providing examples of when each might be used.
2. Discuss the factors that influence the choice of distribution channel for a product. How do market characteristics, product nature, and company goals impact this decision?
3. Analyze the role of intermediaries in distribution channels. What value do they add to the process, and how do they contribute to the efficiency and effectiveness of getting products to the end consumer?
4. How has the rise of e-commerce and digital platforms transformed traditional distribution channels? Discuss the challenges and opportunities businesses face when shifting from physical to digital distribution models.
5. Evaluate the significance of multichannel and omnichannel distribution strategies in today's business environment. How do these approaches impact customer experience, brand visibility, and overall sales performance?

UNIT- 16 KINDS OF CHANNELS

16.1 INTRODUCTION

The distribution channels are sets of interdependent organizations or intermediaries involved in the process of transferring a product or service from the point of production to the user at the point of consumption. These channels are hugely responsible for the movement of goods and services to the end users in the right quantity, at a specific time and at a particular place.

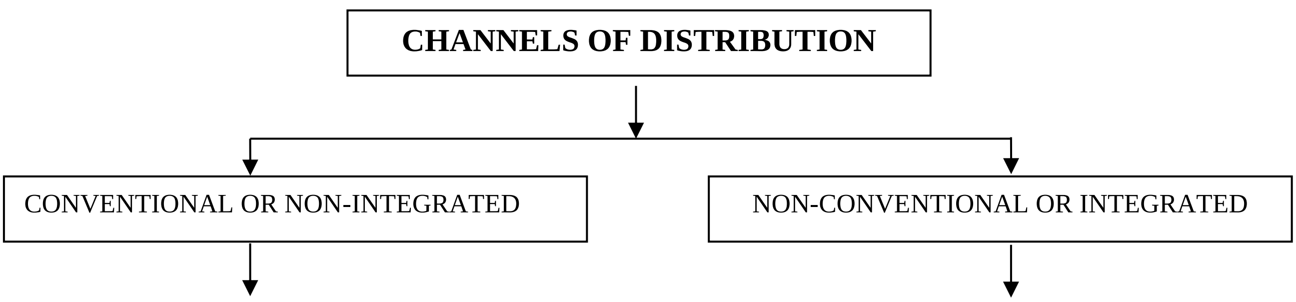
Various intermediaries operate in the market performing various marketing functions. Each member in the channel has a specialization in marketing activities and contributes in its own way for meeting the companies' objectives in taking the goods or services to its customers.

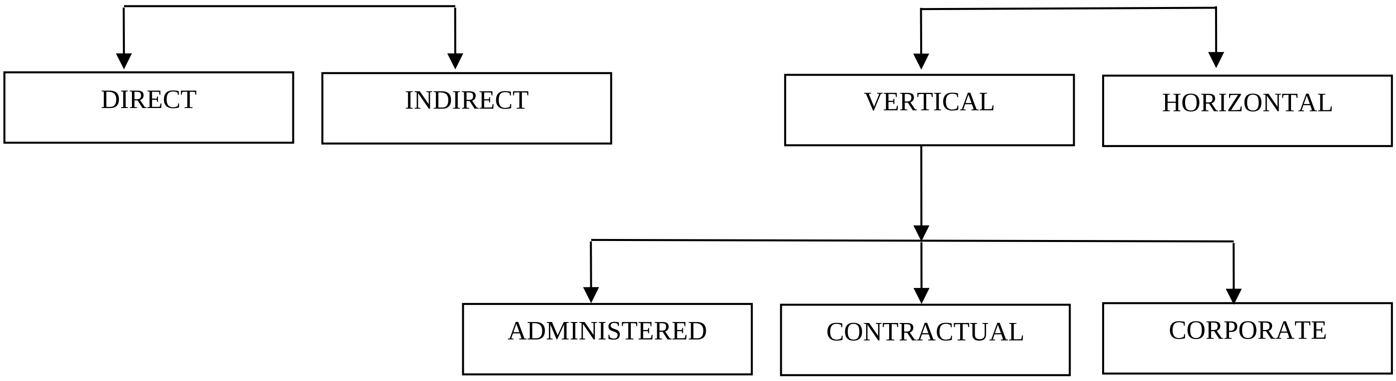
16.2 OBJECTIVES

After reading this unit you will be able:

- Classification Of Channels Of Distribution
- Types Of Intermediaries
- Designing Distribution Channel

16.3 CLASSIFICATION OF CHANNELS OF DISTRIBUTION





Conventional Channels or Non-Integrated Channels

Conventional or Non-Integrated Channels of distribution are also called individualistic channels. These are the fragmented networks in which the manufacturers and the consumers are loosely linked by intermediaries in the process of distribution or exchange. These intermediaries perform the usual conventional marketing functions.

Conventional channels take two shapes:

1. Direct Distributional Channels
2. Indirect Distributional Channels

The direct channel is the shortest channel wherein the company chooses to sell directly to the consumers without engaging any intermediary. This distribution function is seen in the case of mail-order sales, sales by travelling salesmen and multiple shops etc. The advantage of this type of distribution is that the goods and services reach the consumers quickly.

The indirect channel employs the services of intermediaries in moving the goods to the consumers. Contrary to the direct distribution channel in this type of distribution the goods get delayed in reaching to the consumers as the intermediaries go on increasing.

When a firm uses one channel for all its market segments it is said to have employed **mono-channel** or **single channel** policy. When it uses two or more channels for its products and the market segments it is called **dual** or **multi-channel** policy. Depending on the individual needs a firm may opt different conventional distribution channel alternatives for the selling of its goods or services.

The conventional distribution channel alternatives are:

1. Manufacturer to consumer
2. Manufacturer to retailer to consumer
3. Manufacturer to wholesaler to retailer to consumer
4. Manufacturer to wholesaler to consumer
5. Manufacturer to agents to wholesaler to retailer to consumer.

The conventional distribution channel alternatives would become clear in the following ways:

1. **Manufacturer to consumer:**

   This channel alternative is the shortest and the simplest because no intermediaries are involved. In this channel the goods move directly from manufacturer to the consumers. This channel is the choice of the manufacturers of industrial and consumer durable goods. The sales force of the company makes the distribution of the goods to the consumers. Products like vacuum cleaner, water cooler, oil engines, generator sets are made to reach the consumers through this distribution channel.

2. **Manufacturer to retailer to consumer:**

   In this alternative of distribution channel retailer is the only intermediary between the manufacturer and consumer. This is one of the most common channels in case of consumer durables such as textiles, shoes, ready garments etc.

3. **Manufacturer to wholesaler to retailer to consumers:**

   This channel choice has two intermediaries namely wholesaler and retailer between the manufacturer and the consumers. This channel is a popular choice of both small and the big companies alike. The producers of non-durable products employ this choice of distribution channel where the wholesalers stock the goods and from there the products are supplied to the retailers in small quantities and who in turn sell to the consumers.

4. **Manufacturer to wholesaler to consumer:**

   In this option retailers are not part of the distribution network. The products move from manufacturer to the wholesaler and from there it is sold to the consumers directly. This option is popular where the consumers are not individuals but institutions like hospital, school, colleges, government agencies, public enterprises, business houses sports clubs, other institutions etc. The scope of this channel is limited to the number of institutional buyers.

5. **Manufacturer to agent to wholesaler to retailer to consumer:**

   This is the longest indirect channel choice that a company has. In this channel the agent receives the goods from the manufacturer and from there onwards the next are wholesalers, retailers and finally the product reaches the consumers.

Non-Conventional Channels or Integrated Channels

Non-conventional or integrated channels are those networks that work with complete coordination and cohesion rather than working in a loose manner.

Integrated channels can be vertical and horizontal in nature:

- **Vertically Integrated Channels**

These channels are those which are professionally managed and centrally programmed networks that are pre-engineered to achieve operating economies and maximum market impact. In other words they are rationalized and capital intensive networks designed to achieve, technical, managerial and promotional economies thorough integration, coordination and synchronization of marketing flows from the points of manufacturing to the end users.

Vertically Integrated Channels are of three types:

- **Administrative Channels**
- **Contractual Channels**
- **Corporate Channels**

Administrative Channels are the ones in which coordination of marketing activities is achieved through the use of programmes developed by one or a limited number of firms. Such an arrangement makes use of management facilities, modular merchandising, coordinated display and automatic replacement programmes and programmed merchandising agreements. This type of channels are used by the two-wheelers, three-wheelers and four-wheelers companies who direct their dealers guarantee coordinated display and merchandising to win the dealer support.

Contractual Channels are those channels under which the independent channel components integrate their programme on contractual lines to attain the economies and enhance the market impact. In this case the outside units specializing would do the work for a price. So, the manufacturers hire the services of other units on contract terms. This is the case with those companies which are confident of doing well on distribution side due to financial and expertise laxities.

Corporate Channels are those in which the channel components are owned and operated by the same organization. Though, it involves huge investment, it has the advantage of full control. Thus, a manufacturing unit may float a selling **of** marketing unit of its own.

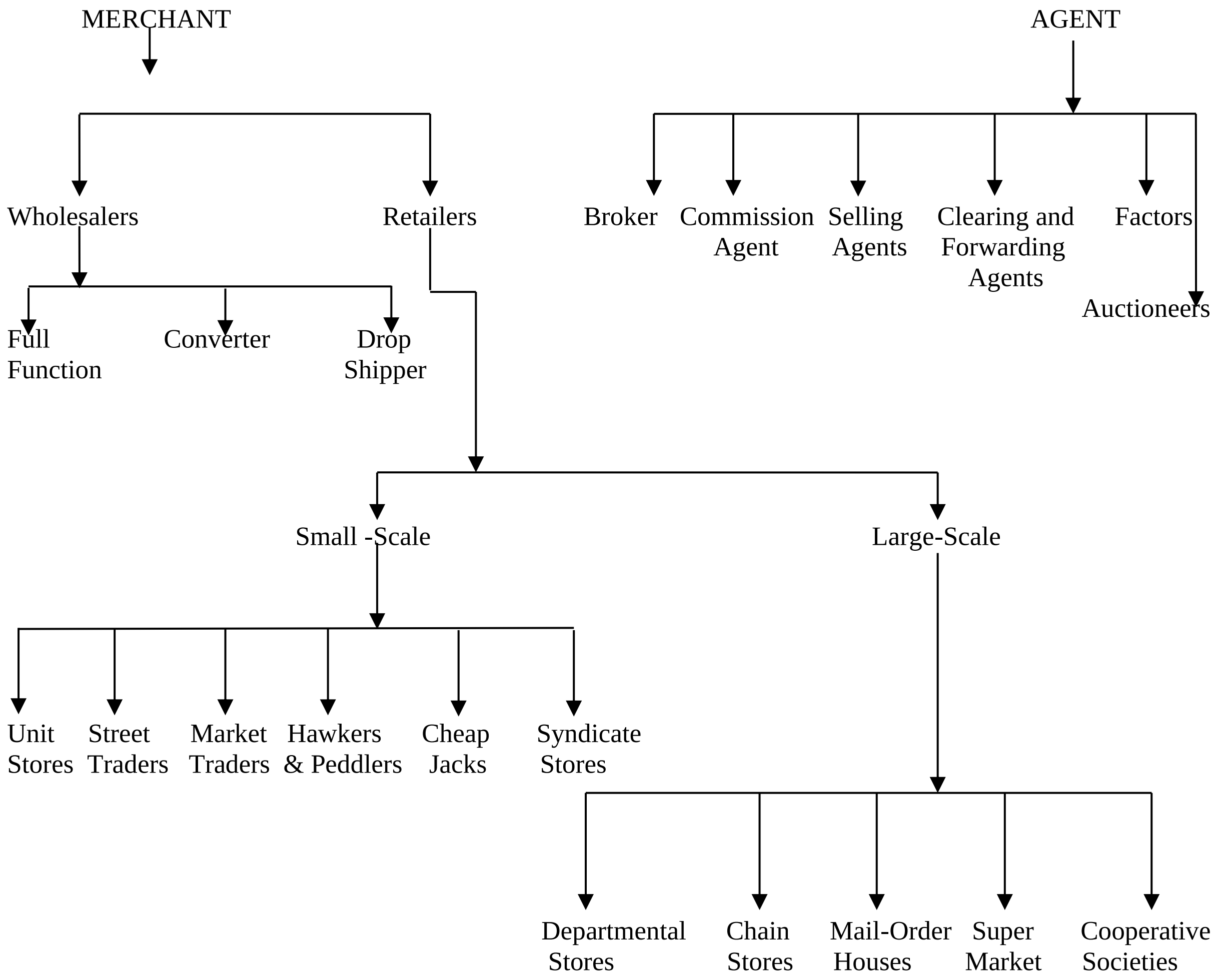
- **Horizontally Integrated Channels**

  Horizontally integrated channels are the ones in which two or more companies join their hands to exploit a marketing opportunity or opportunities, either by themselves or by creating an independent unit. The major reason for horizontal integration are the ever changing markets, cut-throat competition, changing pace of technology, cyclical and seasonal changes in consumer demand and the lack of capacity to take financial risks single handed and so on. The example of this kind is Sugar syndicate or India and Associated Cement Company.

16.4 TYPES OF INTERMEDIARIES

Intermediaries are the middlemen and signify those individuals and institutions in the distribution channel that either take title to the goods and sell at profit or do not take title to the goods but sell for a commission. In other words marketing intermediaries are the individuals and the organizations that perform various functions to connect the producers with the end-users. They perform various marketing functions of procurement, storage –packing, financing, transportation and counseling in linking the two ends. These middlemen are classified as 'merchant' and 'agent' middlemen. The following chart would make it clearer:

MIDDLEMAN



I. MERCHANT MIDDLEMEN:

These middlemen buy and sell the goods by taking the title of the goods, bear the risks and the price for their efforts is profit. These middlemen can further be divided into wholesalers and retailers.

A. Wholesalers:

Wholesalers are the ones who wholesale to other middlemen, institutions and individuals usually in fairly large quantities. They sell to retailers or other merchants and/or individuals, institutional and commercial users but they do not sell in significant amounts to ultimate consumers.

- **Functions of Wholesalers:**

i. **Assembling and buying:** This function involves bringing together stocks of different manufacturers and performing the buying activities of selection of manufacturers and placing order on them.

ii. **Warehousing:** As there is always a gap between the production and consumption so the goods need to be held and preserved. This involves capital lock-ups and risk of holding. In this way wholesaler relieves both the producers and the retailers from the problem and risk of storage.

iii. **Transporting:** In the process of assembling and warehousing and resale, wholesalers do undertake transportation of goods from producers to their warehouse and back to the retailers.

iv. **Financing: W**holesalers perform the financing function also. They grant credit on liberal terms to retailers on one hand and reduce the financial burden of the manufacturers by taking early delivery of stocks from them.

v. **Risk bearing:** Wholesalers bear the risk of loss of change in prices, of damage, deterioration in quality, pilferages, theft, fire and the like for the goods held in the storage. They also bear risk of non or under payment by the retailers.

vi. **Grading, Packing and Packaging:** Wholesalers do the grading by sorting out the stocks in terms of different sizes, qualities, shapes, moisture contents and so on. They repack for the consumers as per the order of the retailers.

vii. **Dispersing and Selling:** The goods assembled and held in stock are meant for dispersing and selling. It is the retailer who buys from the wholesalers. Similarly, wholesalers do have their own sales-army moving to retailers in collecting orders.

viii. Providing Market Information: Wholesalers are very important link between the retailers and the manufacturers. They provide necessary and relevant information to the retailers affecting their trade interests, so also they reciprocate the same to manufacturers as to whatever retailers feed them on changing market conditions useful for the wholesalers.

- **Services of wholesalers:** Wholesalers provide valuable service to both the manufacturers and retailers while providing other functions.

a. Services to the Manufacturers

(i) **Economies of Scale:** The wholesalers buy in large quantities than in small lots. In this way the bulk selling for manufacturers brings the benefits of the economies of large scale production because bulk selling supports bulk production on the part of manufacturers.

(ii) **Better use of capital: I**n the absence of the wholesalers every producer would have been forced to maintain huge stocks which mean capital lock-up, in addition to the risk of loss. Now that fund can be used in production because wholesalers have taken up the task of stock holding.

(iii) **Price Stabilization:** In the absence of wholesalers, there would have been violent price fluctuations harming the interests of both the consumers as well as the manufacturers. It is the wholesalers who match seasonal demand and supply.

(iv) **Saving Time and Trouble:** Wholesalers collect orders from large number of retailers on behalf of the manufacturers and supply them goods in small lots. This relieves the manufacturer from the waste of time.

(v) **Regularization of Production Cycle:** The wholesalers give the actual and potential demand conditions being in close contact with the retailers. In this way the manufacturer can keep production as a continuous activity because the wholesalers act as the safety valve to smoothen the seasonal demand and regular supply and vice versa.

b. Services to the Retailers

(i) **Saving Cost and Time:** Retailers have the luxury of placing order with the wholesalers than the producers. This saves their cost and time.

(ii) **Better Use of Limited Capital:** In the absence of the wholesalers retailers would have been forced to hold larger stocks of wide variety of products involving huge capital lock-up and the risk of losses in various forms.

(iii) **Stock Replenishment:** Retailer carries a wide variety of goods in small lots to meet the varied needs of the consumers. He has neither sufficient space nor fiancé to do so. It is the wholesalers that help him to have the stocks without commitment to space and finance.

(iv) **Economy in Transport and Packing:** Retailers are able to get their requirements right at their door-steps at the least cost because the wholesalers are the bulk buyers and the movers of the stocks. The cost of packing and packaging would have been much higher if done on smaller scale.

(v) **Knowledge of the Market:** The wholesalers provide the necessary information to the retailers about the new products and the expert knowledge about the changing market conditions.

- **The Types of Wholesalers:** wholesalers are mainly of three types:
  1. **Full function**
  2. **Converter**
  3. **Drop-shipper**

Full Function: This type of wholesaler performs variety of functions like he buys and sells the products on his own account, assembles products from different sources in bulk, carries stocks, sells in smaller lots, grants credit and renders valuable counsel and advice.

Converter: A converter is that full-line wholesaler who buys products and sells them to the subsequent channel members after processing them. Like in cotton textiles, he may convert gray cloth into bleached and dyed or in wheat he may convert wheat into wheat flour.

Drop-shipper: This type of wholesalers neither store the product nor deliver them to the consumers **from** their own stock but book order and direct the manufacturers and retailers to deliver. However, he has to take delivery of goods in case the retailer or the buyer fails to accept the same.

B. Retailers:

The term ‘retail’ refers to the sale for final consumption rather than for resale or further processing. A retailer is the final link between the end user and the wholesaler or the producer. In other words retailer is an intermediary who buys goods from the preceding member of the distribution channel in small assorted lots and sells them in the lot requirements of the ender users.

- **Functions of Retailers:**

Warehousing: Retailer keeps the stocks in the warehouse by properly balancing the supply from the wholesalers and the demands of the consumers. In this way there is always an adequate and uninterrupted supply of goods available in the market.

i. **Buying and Assembling**: Retailers buy the goods from the manufacturers and wholesalers. He assembles the goods in sufficient quantity and wide variety to meet the varied and small requirements of large number of customers.

ii. Selling: Retailers in fact are the buying agents of the consumers. He sells the goods bought by the manufacturers and the wholesalers and collects the sales revenue from the consumers by selling them the goods.

iii. Grading ad Packing: Retailers undertake a very important function of secondary grading and packing activities left by the manufacturers or wholesalers. At the retailers level the goods are classified into different

grades and lots. Retailers sell the loose packs and very odd lots therefore packing assumes a very important function.

iv. **Advertising:** Retailer performs the function of advertising the goods, services and ideas in collaboration with wholesalers and the producers. They perform this function by shop display, distribution of sales literature etc.

v. **Supply of Market Information:** As the retailers are in close and constant touch with the customers they collect the best information about their needs, desires, expectations, taste etc. This information is passed on to the wholesalers and finally to the manufacturers for making policy decisions.

vi. **Financing:** The retailer performs the financing function which involves credit on liberal terms to the consumers, investment made in large variety of stocks. The expenses of holding stock salaries and wages of watch and ward and other trade expenses.

vii. **Risk shouldering:** This is one of the basic functions of the retailer arising out of physical deteriorations and changes in prices. Since the retailer keeps the sufficient stocks there is always the risk of floods, fire, cyclone, earthquake, spoilage and deterioration due to change in weather conditions or fashion etc.

- **Services of Retailers: R**etailers render variety of services to the manufacturers, wholesalers and the customers. They are as following:

  a. **Services to the Manufacturers and Wholesalers:**

     1. **Information Provider:** As consumers are in constant touch with the retailers, they provide first hand information about the

consumers' expectations, behavior change in taste etc. to the manufacturers and wholesalers for making necessary decisions.

2. **Offering Opportunity:** Retailers are the vent and accessible units of goods to be sold by the wholesalers and manufacturers.
3. **Providing Relief:** The retailer provides immense relief to wholesales and manufacturers by making the goods available to the consumers in varied variety and packing.
4. **Reducing the Risk of Loss:** Close contact with consumers help the retailers suggest the producers as to what to produce? How much? In what price range? This feedback enables the risk of loss to the manufacturers.

b. Services to the Consumers:

1. **Additional Service Provider:** Retailers provide extra services to the consumers by providing extra concession, facilities of home delivery, telephonic order booking, credit sales, return or replacement of goods not found suitable.
2. **Offering Information:** Retailers are constant information provider to the consumers about the new launch of the product, the usage, terms and conditions in order to provide the customer the maximum satisfaction eventually developing a healthy bond between them.
3. **Relief from Storage:** Retailers keep the stocks on behalf of the consumers. Being at the convenient place, having suitable stock and appropriate lot size, the consumers have ready access to the

store. Their capital lock-up is reduced in addition to the material loss.

4. **Largest Choice:** Retailers assemble products of different varieties offering the consumers a greater range of products with different price, quality and types.
5. **Feedback Centres:** Since consumers constantly come in touch with retailers therefore they provide continuous feedback to the retailers about the quantity, quality, price etc. of goods which is conveyed to the wholesalers and manufacturer by the retailers.

- **The Types of Retailers:** Retailers are mainly of two types:

1. **Small Scale Retailers:** Small scale retailers can be further divided into following kinds:

   a. **Unit Stores:** Single stores are the retail outlets run on proprietary basis dealing in general stores or single-line stores such as clothes, grocery items, hard-wares, shoes, books, utensils, drugs etc. Single lines stores are mostly called as specialty shops as they may specialize in one line only.

   b. **Street Trades:** Those retail shops that display goods on the footpath or the side-walks of busy places of the cities and towns. They deal in light goods in demands.

   c. **Market Traders:** These types of retailers open their shops on fixed days or dates in specified areas. They participate in fairs and festivals to display their goods. They may deal in general or special line stores.

   d. **Hawkers and Peddlers:** These are not fixed at one place but always on a move in their hand cart selling goods door to door. They may change their business according to change in the season also i.e. ice candy sellers etc.

e. **Cheap-Jacks:** Cheap-jack is a retailer who has fixed place of business in a locality but goes on changing his place to exploit the market opportunities. They deal with cheap varieties of ready garments, plastics, shoes etc.

f. **Syndicate Stores:** This variety of retailers is known for widest varieties of goods in a product line but known brands. It is an extension of the theory of mail-order business on a small scale. These retailers buy most of the unbranded varieties and try to sell under their names. These apply to readymade garments, toys etc.

2. **Large Scale Retailers:** Large scale retailers are of the following types:

a. **Departmental Stores:** Departmental store is a large retail store dealing in a wide variety of goods under one roof. It is essentially an urban retail outlet designed for mass selling mostly catering to the needs of higher income groups. It has a central location and unified control. The retail store is known for orderly arrangement of products in separate departments and lays emphasis on consumers' service. Example of such type is Super Bazaar etc.

b. **Multiple Shops:** This is a multiple or a chain store, a system of branch shops operated under a centralized management and dealing in similar lines of goods. This type of retail outlet works on the principle of centralized buying and administration and centralized selling. The characteristics of multiple shops are cash and carry, limited lines of articles, consumer durable. The examples of this type are: Bata shoes etc.

c. **Mail Order Houses:** Under this type of retailing the seller contacts the buyer through some form of advertisement. In this type of selling the customer does not visit the seller's store or premises but the order is settled and transaction done through V.P.P. or Registered Post (earlier), or online.

d. **Consumer Cooperatives:** These retail stores are owned and run by a group of customers themselves on cooperative principles. It is an association of consumers to obtain their requirements by purchasing in bulk and selling through the stores to the member and non-member consumers. The common retail stores of such kind are 'Apna Bazar' or 'Janta Bazar' etc.

e. **Fair Price Shops:** These retail outlets are set up by the manufacturers in different cities and towns to sell at prices which are quite fair. Such outlets can be private, public or even cooperative sector unit engaged in retail business to ensure regular equitable and adequate supply of essential commodities at just and fair prices.

II. AGENT MIDDLEMEN:

Agent middlemen are very significant components in the distribution channel. They transfer goods from the hands of producers to the hands of the ultimate users without acquiring the ownership of goods. They do not have the risk involved in the marketing of goods. These middlemen operate on commission basis. The agent middlemen do not buy and sell the goods on their account but provide great service by bringing the sellers and buyers together. These middlemen can further be divided into the following types:

A. Commission Agents: Commission agent buys or sells goods for his principal in return for a commission. He may or may not buy in his name but he does not assume any risk. He possesses the expertise in all the commodities in which he trades. He keeps close contacts with the producers on one hand and the market trends on the other. He procures goods as per the instructions of his principal and makes necessary arrangements for packing, transporting and delivery of goods including granting of credit and collecting the payments and the dues. He has the right to charge his principal for the cost of the goods purchased and the expenses incurred and his share agreed commission. If he guarantees payment on goods sold on credit, he is eligible for extra commission over and above the normal commission.

B. **Brokers:** Broker is an agent who is employed to make bargains and contracts in matters of trade, commerce or navigation, between two parties for a compensation known as brokerage. He is the one who brings together the intending buyer and the seller together without taking the title of the goods. These middlemen specialize in particular branch of trade therefore they are classified as stock brokers, ship brokers, insurance brokers etc.

C. **Factors:** Factor agent is employed to sell the goods consigned or delivered to him by his principal for compensation. As selling is his sole responsibility, a factor has the power to sell the goods in his own name. He takes possession of goods or merchandise and sells in his own name for a commission. He finances his principal by making advance payment o immediate payment.

D. **Auctioneers:** Auctioneer is the legal agent of the seller till the goods are knocked down to the highest bidder. He is the intermediary between the buyers and sellers. He takes possession of goods and remits the sales proceeds to the seller after deducting his expenses and agreed commission. Auction sale is always open to the public and therefore an auctioneer makes a wide publicity of the place and time of auction through television, newspapers, posters, leaflets etc.

E. **Selling Agents:** These agents are the intermediaries who are given the exclusive franchise only for a limited market segment. He performs the functions of an independent middlemen taking over all the selling activities of a producers. He negotiates sales of merchandise produced by his principal and has full authority and control over prices and their terms and conditions of the sale.

F. **Clearing and Forwarding Agents: T**hese agents are the middlemen employed to collect, deliver and otherwise forward goods on behalf of other. Most of the manufacturing houses, with gradual expansion and growth of their business find it necessary and economical to employ these middlemen to relieve them of the tedious tasks of collection, delivery and forwarding.

Check Your Progress-A

1. A ___________ channel is one where products are sold directly from the manufacturer to the consumer without intermediaries.
2. ___________ channels involve the use of intermediaries like wholesalers and retailers to reach consumers.
3. The ___________ channel is the shortest distribution channel, as it involves direct contact between the producer and the end consumer.
4. ___________ channels allow manufacturers to reach a broader market by utilizing multiple intermediaries.
5. An agent or broker is an example of an intermediary in a ___________ distribution channel.
6. ___________ channels are often used for high-end or luxury products where producers want to maintain strict control over distribution.
7. The ___________ distribution channel involves one or more intermediaries between the manufacturer and the consumer.
8. ___________ marketing involves selling products to consumers through two or more channels, such as physical stores and online platforms.
9. In a ___________ distribution system, products are sold through a small number of intermediaries to maintain control over the brand.

10. A ___________ distribution system sells products through numerous outlets to maximize availability to consumers.
11. ___________ distribution channels are common in e-commerce, where producers sell directly to consumers through online platforms.
12. When products are sold through one exclusive retailer in a specific geographic area, it is called ___________ distribution.
13. A ___________ channel strategy is often used for products that require personalized service, such as high-end electronics or specialty goods.
14. Retailers are intermediaries in ___________ channels, buying products from wholesalers or manufacturers to sell directly to consumers.
15. ___________ channels bypass traditional physical retail stores, allowing consumers to purchase products through catalogs or e-commerce websites.
16. The combination of both direct and indirect distribution methods is called a ___________ channel.
17. ___________ wholesalers take title to goods and resell them to retailers or other intermediaries.
18. ___________ wholesalers, unlike traditional wholesalers, provide services such as packaging, shipping, and financing to their customers.
19. A ___________ channel is typically used for goods that require special handling, such as heavy machinery or perishable items.
20. The ___________ of a channel refers to the number of intermediaries between the producer and the final consumer.

16.5 SUMMARY

Not all manufacturers sell their products or output directly to the final user. Producers and the final users are linked by a network or bridge of intermediaries that make possible the movement of goods and services from producers to the customers. Selecting the distribution channels is very crucial decision on the part of the company's management. The selection of right channel marks the success and failure of the goods. Therefore effective channel management requires selecting intermediaries and training them. The aim is to build a long term relationship that will be profitable for all the channel members.

16.6 GLOSSARY

- Indirect Distribution

  A distribution method where intermediaries such as wholesalers, agents, or retailers are involved in moving the product from the manufacturer to the end consumer.
- Intensive Distribution

  A strategy aimed at distributing products through as many outlets as possible to ensure widespread availability, commonly used for convenience goods like snacks or beverages.
- Selective Distribution

A distribution approach where products are sold through a limited number of retailers or outlets to maintain better control over the brand image and pricing, often used for higher-end or specialty products.

- Exclusive Distribution
  A strategy where a manufacturer grants exclusive rights to a single distributor or retailer in a particular geographic area, often used for luxury goods or specialized products to create a sense of exclusivity and prestige.

16.7 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

1. Direct
2. Indirect
3. direct
4. Indirect
5. indirect
6. Exclusive
7. indirect
8. Multichannel
9. Selective
10. Intensive
11. Direct
12. exclusive
13. selective
14. indirect
15. Direct
16. hybrid
17. Merchant
18. Full-service
19. specialized
20. length

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16.10 TERMINAL QUESTIONS

1. Explain the different kinds of distribution channels available to businesses. How do direct and indirect channels differ in terms of cost, control, and market reach?

2. Discuss the concept of exclusive distribution channels. In what situations would a company choose exclusive distribution, and what are the potential benefits and challenges of this strategy?

3. Analyze the advantages and disadvantages of using a multichannel distribution strategy. How can businesses effectively manage multiple channels to maximize customer reach and satisfaction?

4. Describe the role of intermediaries in both direct and indirect distribution channels. How do wholesalers, retailers, agents, and brokers add value to the distribution process, and how do their functions vary across different channel types?

5. How does the choice of a distribution channel impact the overall marketing strategy of a company? Discuss the factors that influence this decision, including product type, market size, customer preferences, and cost considerations.

UNIT- 17 SELECTION OF CHANNELS AND DISTRIBUTORS

17.1 INTRODUCTION

Marketing channels and distribution are essential elements of a company's marketing strategy, as they have a significant impact on its ability to deliver products and services to end users. This module examines various aspects of channel selection and management, enabling students to understand the importance of choosing the right channels to effectively reach their customers with their products.

17.2 OBJECTIVES

After reading this unit you will be able understand:

- Marketing Channels And Distribution
- Types Of Distribution Channels
- Factors Influencing Channel Selection
- Channel Design And Management
- Trends And Future Directions

17.3 MARKETING CHANNELS AND DISTRIBUTION

Marketing channels refer to the paths or routes through which goods and services travel from producer to consumer. They play a vital role in ensuring that products are available at the right place, at the right time, and in the right quantity. Effective distribution increases customer satisfaction, reduces costs, and improves overall efficiency.

a) Definition of Marketing Channels: Marketing channels, also called distribution channels, are a set of interdependent organizations involved in the process of making a product or service available for consumption or use. These channels may be direct or indirect and may vary in length and complexity.

b) Importance of Distribution in the Marketing Mix: Distribution is one of the four Ps of the marketing mix along with product, price and promotion. It ensures that consumers have access to the product, which is essential to drive sales and build customer loyalty. An efficient distribution system can provide a competitive advantage by improving product availability and reducing costs.

c) Types of Distribution Channels: Distribution channels can be classified into direct, indirect, and hybrid channels. Direct channels include direct sales to consumers without an intermediary, but indirect channels use mediators such as wholesalers and retailers. The hybrid channel combines direct and indirect methods to attract customers.

d) The Role of Intermediaries in Distribution: Intermediaries, including wholesalers, retailers, agents, and brokers, play a critical role in the distribution process. They help bridge the gap between producers and consumers by providing various functions such as bulk breaking, assortment, transportation, storage, and financing

17.4 TYPES OF DISTRIBUTION CHANNELS

The choice of distribution channel depends on various factors such as the nature of the product, the target market, the overall marketing strategy of the company, etc. Understanding the different types of distribution channels is essential to choose the best distribution channel for a particular product or service.

a) Direct Channels: Direct channels involve selling products directly to consumers without any middlemen. This can be done through company-owned stores, e-commerce websites, direct mail, telephone marketing, and personal selling. Direct channels will further control the exchange between sales processes and customers so that companies can collect valuable opinions so that they can build more powerful relationships with customers.

  a) Company-owned stores: Many companies open their own retail stores to sell products directly to consumers. Examples include the Apple Store and Nike.
  b) E-commerce websites: With the rise of online commerce, e-commerce has become a popular direct channel. Businesses can sell products through their own websites or third-party platforms such as Amazon and eBay.

c) Direct Mail and Telemarketing: Direct mail involves sending advertising materials and catalogues to potential customers whereas telemarketing involves using telephone to contact consumers and promote sales.
d) Personal Selling: This is a personal interaction between sales representatives and customers, which allows for personalized service and customized solutions.

b) Indirect Channels: Indirect channels use intermediaries to distribute products. These intermediaries may include wholesalers, retailers, agents, and brokers. Indirect channels help businesses reach a wider audience and reduce the costs associated with direct distribution.

a) Wholesalers: Wholesalers purchase products in bulk from manufacturers and sell them to retailers and other intermediaries. They provide storage, transportation, and mass differences.
b) During pregnancy Retailers: Retailers sell products directly to end consumers and can be in a variety of formats, including supermarkets, department stores, specialty stores, and online stores.
c) Agents and Brokers: Agents and brokers facilitate transactions between buyers and sellers without taking ownership of the product. They get commissions according to the sales volume.

c) Multi-Channel Distribution: Multichannel distribution involves using multiple channels to reach customers. For example, a business might sell products through its own website, brick-and-mortar stores, and third-party retailers. This approach allows businesses to reach a wider audience and cater to different customer preferences.

d) Omni-channel Distribution: Omni-channel delivery integrates all available channels to provide a seamless customer experience. Customers can interact with your brand across multiple touch points – online, in-store, mobile – and enjoy a consistent experience across all channels. An Omni-channel strategy increases customer satisfaction and loyalty by offering convenience and flexibility

17.5 FACTORS INFLUENCING CHANNEL SELECTION

The choice of distribution channel depends on several factors such as market characteristics, product characteristics, company capabilities, competitive environment, external factors, etc. Understanding these factors helps companies make informed decisions about which channel is best suited for their products.

a) Market Factors: Market factors refer to the characteristics of the target market and the preferences of the customers. A company must consider the geographical distribution of its customers, their purchasing behavior, and the level of service they expect.

a. **Customer Characteristics**: Understanding population statistics, spiritual statistics, and purchasing habits for target customers is important for choosing an appropriate channel. For example, technical customers may like online purchases, but older customers may like physical stores.
b. **Buying Behavior**: Buyer behaviors such as purchase frequency, preferred purchasing channel, and service level sensitivity influence channel choice. For example, shoppers who value convenience and fast delivery are likely to prefer the online channel.
c. **Geographical Considerations**: The geographic distribution of customers influences the choice of distribution channel. Companies need to ensure that their products are available in the areas where their target customers reside. This may require using local agents or setting up regional distribution centers.

b) Product Factors: The nature of the product itself will heavily influence the choice of channel. Factors such as product complexity, perishability, unit cost, need for customization, etc. will influence the choice of channel.

a. Product Type: Different products require different distribution approaches. For example, rotten products and foods require a quick and efficient distribution system, but sustainable products and electronic devices may require specialized services and after -sales service.
b. Be born Perishables: Perishables, such as produce and medicines, require fast and efficient distribution channels to maintain quality and reduce spoilage. This may include the use of refrigerated vehicles and storage facilities. c. Complexity: Complex products, such as machinery and technical equipment, often require specialized distribution channels that can provide installation, maintenance and after-sales support. This may include using a distributor with technical expertise.
c. The value of the unit: high quality products, such as high quality luxury and electronics, may require exclusive distribution channels, which offer a high level of service and safety. On the other hand, low -cost products can be distributed via mass market channels.

c) Company Factors: Internal factors such as company size, financial resources, marketing objectives and brand image play a decisive role in the choice of channels.

a. **Company Size**: Larger companies with significant resources may be able to build their own distribution networks, while smaller companies may rely on intermediaries to reach their target markets.
b. **Financial Resources**: The availability of financial resources affects the selection of distribution channels. Directly established channels may be expensive, so companies with limited budgets can choose an indirect channel.
c. **Marketing Goals**: A company's marketing objectives such as market penetration, brand building, customer service etc. influence the choice of channel. For example, a company aiming for rapid market penetration may use

mass market channels, whereas a company aiming to build a premium brand image may use dedicated channels.

d. **Brand Image**: The choice of distribution channels can affect the image of the company brand. High -quality brands may prefer exclusive channels corresponding to premium positioning, but the mass market brand can reach more viewers using a wider channel.

d) Competitive Factors: Competitors' distribution strategies can influence a company's choice of distribution channels. Companies should analyze their competitors' distribution channels and determine whether they should adopt a similar approach or differentiate themselves.

a. Competitors channel strategies: Analysis of strategic channels of competitors helps companies understand the industry's standards and determine the possibility of differentiation. For example, if competitors are primarily using online channels, a company might choose to focus on offline channels to stand out.
b. Market Share: Competitors' market share can influence channel choice. Companies with low market share can use aggressive sales strategies to increase awareness and attract customers.

e) Environmental Factors: External factors such as economic conditions, regulatory environment, and technological advances also influence channel choice.

a. Economic Conditions: Economic factors such as inflation, recession, and consumer habits etc. influence distribution channel decisions. Companies need to adapt their strategies to the current economic environment.
b. Regulatory environment: Legal and regulatory requirements, such as import/export regulations, trade restrictions, and industry regulations, influence channel selection. Companies must ensure compliance with applicable regulations to avoid legal issues.
c. Technological advancements: Technological innovations such as e-commerce platforms, logistics management systems and digital marketing tools are opening up new distribution opportunities. Businesses can use technology to improve distribution efficiency and enhance the customer experience

Evaluating and Selecting Distributors

The correct distributor choice is important for effectively realizing products in the target market. Companies need to evaluate potential distributors according to various standards and establish a strong relationship to achieve distribution goals.

a) Criteria for Selection: When evaluating potential distributors, the company must take into account factors such as financial stability, market coverage, reputation and sales capacities.

a. Financial Stability: A dealership must have a strong financial position so that it can invest in inventory, marketing and infrastructure. Financially stable dealerships are more likely to provide reliable and consistent service.

b. Market reach: The distributor must have a strong presence in the target market and be able to reach the required customer segments. This may include a large network of retailers and/or direct access to end consumers. c. Reputation: A distributor's reputation in the market is very important. Companies should look for distributors who have a positive image and strong relationships with customers and other intermediaries.

c. Sales Capability: Distributors must have a competent sales force with the skills and experience to promote and sell the company's products. This includes product knowledge, sales techniques, and customer service skills.

b) Distributor Capabilities: Evaluating distributor capabilities helps ensure that the distributor is able to meet the company's distribution requirements. Key functions include sales force efficiency, logistics and inventory management, and customer service.

a. Sales Force: The quality and size of a dealership's sales force is crucial in driving sales and providing customer support. Companies need to evaluate the training, motivation, and performance of their dealership sales force.

b. Logistics and inventory management during pregnancy: Effective logistics and inventory management are important to ensure distribution and accessibility in timely times of product. Distributors must have reliable warehousing, transportation, and order fulfillment systems.

c. Customer Service: Dealers must provide good customer service, including responding to inquiries, resolving problems, and providing after-sales support. Good customer service increases customer satisfaction and loyalty.

c) Channel Member Relationships: Building strong relationships with network members is essential for successful distribution, and companies should focus on building trust, communication, and collaboration with their distributors.

a. Building Trust: Trust is the foundation of effective channel relationships. Companies must demonstrate trustworthiness, transparency, and honesty in their relationships with distributors.

b. Communication: Open and regular communication between the company and its distributors helps ensure consistency and quick resolution of issues. This includes sharing information about product updates, marketing plans, and business performance.

c. Cooperation: Cooperation between a company and its distributors can have mutually beneficial results. Companies need to involve distributors in decision-making, provide support and resources, and work together to achieve common goals

Check Your Progress-A

1. The selection of a distribution channel depends largely on the __________ of the product and the target market.
2. One important factor in selecting a channel is the __________ of intermediaries available to distribute the product.
3. Companies with high-value, specialized products often choose __________ distribution channels to maintain control over sales.
4. A company should consider the __________ structure of the channel before selecting it, to understand how many intermediaries will be involved.
5. __________ distribution is appropriate for products that need to be available in as many outlets as possible, such as convenience goods.
6. One of the most important factors in selecting a distributor is their __________ in the market and their network of contacts.
7. Companies should assess the __________ ability of potential distributors to ensure they can handle the product's demand and logistics.
8. When selecting a distribution channel, companies should consider the __________ preferences of their target customers, including where and how they prefer to shop.
9. __________ is a strategy that involves selling through multiple types of intermediaries to reach a wider customer base.
10. In selective distribution, companies choose a __________ number of intermediaries to sell their products to maintain brand control.

17.6 CHANNEL DESIGN AND MANAGEMENT

Designing an effective channel structure and managing it efficiently is essential to achieving distribution objectives. This involves selecting the right channel members, determining the appropriate level of channel intensity, and managing channel conflicts.

a) **Channel Structure**: Designing an effective channel structure involves determining the length and width of the distribution network, which includes determining the number of intermediaries at each level and the overall channel configuration.

    a. Length: The length of the distribution channel belongs to the intermediate level between the manufacturer and the consumer. Short channels have fewer intermediaries, while long channels have many intermediaries.
    b. Width: The width of a distribution channel refers to the number of intermediaries at each level. A wide channel has many intermediaries, while a narrow channel has very few intermediaries.

b) **Channel strength**: Channel strength refers to the number of intermediaries used at each level of the distribution channel. Companies can choose from three main distribution strategies: intensive, selective, and exclusive distribution.

   a. Intensive Distribution: This strategy involves placing the product in as many outlets as possible to maximize market coverage. It is usually used for convenient goods, such as snacks and drinks where widespread availability is crucial.
   b. Pregnant Selective distribution: This strategy includes the choice of a limited number of intermediaries for the distribution of products. It is used to negotiate products, such as electronics and devices, where customers are ready to compare options and seek specific results.
   c. Exclusive Distribution: This strategy involves granting an intermediary exclusive rights to distribute the product in a particular territory. It is used for special products such as luxury and high quality electronic devices, and brand image and service quality are important**.**

c) **Channel Conflicts**: Channel conflicts arise when there are disagreements or tensions between channel members. These conflicts can be vertical (between different levels of the same channel), horizontal (between participants at the same level), or multi-channel (between different channels).

   a. Vertical conflicts: Vertical conflicts arise between different levels of the same channel, for example between manufacturers and retailers. These conflicts may arise due to issues such as pricing, promotional activities and inventory management.
   b. Horizontal conflicts: Horizontal conflicts arise between participants at the same channel level, for example between competing retailers. These conflicts can arise due to territorial conflicts, price competition and differences in service quality.
   c. Multi-Channel Conflict: Multi-channel conflict occurs when a company operates multiple distribution channels in competition with each other. These conflicts can arise from channel cannibalization, inconsistent pricing, differences in customer service, and more.

d) **Channel Performance Evaluation**: Efficiency of distribution channels is important to guarantee the achievement of the company's purpose. Major performance indicators (KPIs) and major can help measure the effectiveness of the channel and determine the improvement area.
   a. Sales Performance: Monitoring volume, income and market share makes it possible to assess the efficiency of the distribution channels. Companies can monitor sales performance via channels, region and product category.
   b. Customer Satisfaction: Measuring customer satisfaction through surveys, comments and reviews helps channel members evaluate the quality of the

services provided. High customer satisfaction reflects effective distribution and strong channel relationships.

c. Inventory Management: Evaluating inventory levels, turnover and stock-outs helps evaluate the efficiency of your distribution channels. Effective inventory management ensures products are in stock and reduces carrying costs.
d. Logistics Efficiency: Tracking logistics metrics such as delivery time, order accuracy, and transportation costs helps evaluate the efficiency of your distribution channels. Effective logistics improves customer satisfaction and reduces costs

Legal and Ethical Considerations

Legal and ethical considerations are essential to ensure compliance and maintain a good reputation in the marketplace. Companies must consider a variety of legal and ethical issues when selecting and managing their distribution channels.

a) **Legal Issues**: Companies must comply with the various laws and regulations governing distributorships. Key legal issues include contracts, exclusivity agreements, and competition law.
    a. **Contracts**: Distribution agreements must clearly define the terms and conditions of the relationship between companies and distributors. This includes aspects such as prices, payment conditions, delivery calendars and disputes.
    b. Exclusive Agreement: An exclusive distribution agreement grants specific rights to a single distributor in a particular territory. Companies must ensure that these agreements comply with relevant competition laws to avoid antitrust issues.
    c. Competition Law: Companies should adhere to competition laws that prevent anti -competitive practices, such as price fixing, market distribution and monopolistic behavior. Compliance with these laws ensures fair competition and protects the interests of consumers.
b) **Ethical Issues**: Ethical considerations include the guarantee of the practice of fair trade, transparency and social responsibility in distribution activities. Companies should respect ethical standards to increase trust and maintain a positive reputation.

    a. Fair Business Practices: Companies must adhere to fair business practices, such as treating distributors fairly, providing accurate information, and complying with their obligations. Unfair behavior can damage relationships and tarnish a company's reputation.
    b. Transparency: Transparency with distributors and customers helps build trust and authority. Companies must provide clear and accurate information about products, prices, and policies.
    c. Social Responsibility: Companies must consider the social and environmental impacts of their sales activities. This includes implementing sustainable

practices such as reducing carbon emissions, minimizing waste and supporting local communities

17.7 TRENDS AND FUTURE DIRECTIONS

Staying aware of emerging trends and future directions in distribution helps companies remain competitive and pre-adaptability to changing market conditions. This part explores key trends and innovations shaping the future of distribution.

a) **E-Commerce and Digital Channels**: The growth of e-commerce and digital channels is transforming the distribution pattern. Companies need to leverage with online platforms, mobile apps, and social media to reach customers.
    a. **Online Platforms**: Companies can provide their products through own e-commerce websites or third-party platforms like Amazon, flipkart and eBay, etc. Online platforms offer convenience, wider reach, and data-driven insights with customer recommendations.
    b. **Mobile Apps**: With mobile apps provide a convenient and personalized shopping experience to the customers. Companies can use mobile apps to engage customers, offer promotions, and facilitate purchases.
    c. **Social Media**: Social media platforms, such as Facebook, Instagram, and telegram, offer opportunities for social commerce. Companies can use social media to promote products, engage with customers, and drive sales.

b) **Technology in Distribution**: Technological advancements, such as artificial intelligence (AI), big data, and the Internet of Things (IoT), are working as a light stick and enhance distribution efficiency and customer experience.
    a. Artificial Intelligence (AI)**:** Demand forecasting, individualized marketing, and inventory management can all be improved with AI. AI-powered solutions can help businesses improve customer happiness and distribution efficiency.
    b. Big Data**:** Big data analytics offer important insights into supply chain performance, industry trends, and consumer behaviour. Businesses may make well-informed distribution decisions by utilizing data-driven insights.
    c. Internet of Things (IoT)**:** Smart sensors and linked logistics systems are examples of IoT devices that enhance distribution process visibility and control. IoT technology may be used by businesses to track shipments, keep an eye on inventories, and optimize routes.

c) **Sustainability and Green Distribution**: Distribution tactics are increasingly taking sustainability into account. To meet customer expectations and lessen their influence on the environment, businesses must use green practices.

    a. Eco-Friendly Packaging: To cut waste and their carbon impact, businesses should employ sustainable packaging materials and procedures. Using packaging that is recyclable, biodegradable, and reused is part of this.

b. Green Logistics: Businesses can implement green logistics techniques, which include lowering emissions, employing energy-efficient cars, and streamlining transportation routes. Green logistics lowers operating expenses and its impact on the environment.

c. Circular Economy: The circular economy concept emphasizes resource efficiency and waste reduction. Businesses may build a sustainable distribution system by putting circular economy concepts like product recycling, refurbishing, and remanufacturing into practice.

d) **Globalization and Cross-Border Distribution**: Globalization is opening up new markets and posing new distribution-related difficulties. Businesses must handle cultural differences, complicated regulations, and cross-border logistics.

a. Cross-Border Logistics: To guarantee prompt and economical delivery, businesses must effectively handle cross-border logistics. This entails working with local distributors, customs officials, and foreign carriers.

b. Regulatory Compliance: When delivering goods abroad, businesses must abide by a number of rules, including trade agreements, import/export legislation, and product standards. Compliance prevents legal problems and guarantees efficient operations.

c. Cultural Considerations: Successful international distribution requires an understanding of cultural differences. Businesses must modify their distribution plans to conform to regional tastes, traditions, and commercial procedures

Check Your Progress- B

1. ___________ power refers to the ability of a distributor or channel member to influence the terms of trade or negotiations with producers.
2. A ___________ distributor often has exclusive rights to sell products in a specific territory or region.
3. Companies should evaluate the ___________ of a potential distributor, including their reputation and past performance.
4. The selection of distributors often depends on their ability to offer ___________ support to end customers, such as after-sales service.
5. ___________ and logistics capabilities are key factors to consider when selecting a channel or distributor, especially for large-scale operations.
6. The ___________ of a channel refers to the total number of intermediaries involved between the producer and the end consumer.
7. A company's overall marketing and pricing strategy should align with the ___________ chosen for distribution.
8. The selection of distributors often requires evaluating their ___________ structure to ensure they can meet the financial obligations of distributing the product.

9. Distributors that offer __________ services such as product assembly or packaging may provide added value to the distribution process.
10. The __________ strategy chosen for distribution should align with the company's long-term goals and brand positioning.

17.8 SUMMARY

A company's marketing plan must include the choice of distributors and channels. Businesses can create efficient distribution strategies that improve customer satisfaction, cut expenses, and push business expansion by comprehending the various kinds of distribution channels, assessing feasible distributors, maintaining channel relationships, and keeping up with emerging trends. By offering a thorough framework for evaluating, choosing, and overseeing distribution channels, this subject enables us to make wise choices and support the growth of companies.

17.9 GLOSSARY

Selective Distribution
A strategy where a company chooses a limited number of intermediaries to distribute its products, allowing greater control over the brand and customer experience.

Channel Length
Refers to the number of intermediaries involved in the distribution process, ranging from direct (no intermediaries) to long (multiple intermediaries such as wholesalers and retailers).

Distributor Expertise
The knowledge and skills a distributor possesses in selling, marketing, and handling a specific product, crucial for selecting the right distribution partner.

Bargaining Power
The ability of a distributor or intermediary to influence terms, pricing, and conditions in their relationship with manufacturers due to their market position or control over distribution channels.

Multichannel Distribution
A strategy where a company uses multiple types of distribution channels—such as direct sales, retailers, and online platforms—to reach a broader customer base and increase market penetration.

17.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

1. nature
2. availability
3. selective
4. channel
5. intensive
6. expertise
7. financial
8. buying
9. Multichannel
10. limited

Check Your Progress –B

1. bargaining
2. regional
3. credibility
4. customer
5. Transportation
6. length
7. channel
8. financial
9. value-added
10. distribution

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17.13 TERMINAL QUESTIONS

1. Discuss the key factors that influence the selection of distribution channels. How do product characteristics, target market, and company resources impact the choice of a channel?
2. Evaluate the importance of distributor selection in a company's overall distribution strategy. What criteria should be used to assess potential distributors, and how do these criteria affect long-term business success?
3. Explain the differences between intensive, selective, and exclusive distribution strategies. In what situations would a company choose each strategy, and how does the choice affect brand positioning and market reach?
4. Analyze the challenges companies face when selecting distributors in international markets. How do cultural, legal, and logistical differences impact the selection process, and what strategies can companies use to mitigate these challenges?
5. How does the rise of e-commerce and digital platforms influence the selection of distribution channels and distributors? Discuss the role of online marketplaces, digital intermediaries, and hybrid distribution models in today's business environment.

UNIT 18 WHOLESALERS: CLASSIFICATION, DISTRIBUTORS/DEALERS/STOCKIEST- TRENDS

18.1 INTRODUCTION

Distribution channels are groups of people and marketing companies that help move products and services from the manufacturer to the customer. Products and services move through a number of middlemen, such as wholesalers and retail stores, on their way from the producer to the customer. The manufacturer sells the goods to wholesalers. Products and services move through a number of middlemen, such as wholesalers and retail stores, on their way from the producer to the customer. The manufacturer sells the goods to wholesalers. Individuals or businesses who specialize in obtaining products from manufacturers and distributing them to lower -level distribution channel middlemen are known as wholesalers. Wholesalers serve as middlemen in the distribution of goods and merchandise. Wholesalers are the key player in the distribution chain, acting as a bridge between manufacturers and resellers among other intermediaries. A wholesaler assumes the responsibility of distributing the producer's products, freeing the manufacturer to focus on production and other critical elements that enhance his profitability.

18.2 OBJECTIVES

After reading this unit, the learners will be able to: -

- ✓ Understand the concepts of wholesalers and retailers.
- ✓ Analyze the functions of wholesalers.
- ✓ Identify the types and impacts of various wholesalers and intermediaries.
- ✓ Understand the future of wholesaling in India

18.3 MEANING OF WHOLESALERS

A crucial part of the distribution process is retailing. The French term "retailer," which meaning to break apart or "cut a piece off," is where the English word "retail" originates. Everything that goes into selling products or services to the final customer is referred to as retailing. The retail industry is important to the economies of developed countries since it employs a lot of people and is a significant part of the service sector. Retailers give customers the benefit of time, location, and possession convenience by delivering the appropriate goods at the appropriate moment.

In order for the final consumers to have access to the items, each middleman is crucial. After purchasing the items from the producer, a wholesaler distributes them to more middlemen further down the supply chain. The consumers can then access the commodities through the intermediaries.

A wholesaler can be identified from other middlemen by the specific customer group he serves with his merchandise. Retailers, industrial, commercial, farm, or professional business users, as well as other wholesalers, are among the customers that wholesaler’s resale their goods to. They might also use commissions to buy or sell goods. The wholesaler acts as a broker or an agent in these deals.

The most prevalent industries for wholesale trade are those in food, drink, pharmaceuticals, tobacco, home goods, etc. For instance, in India, the wholesale and retail trade of fruits and vegetables is handled by the Agricultural Produce Market Committees (APMCs) spread throughout different cities, which then make the goods available to consumers through the markets.

In a distribution channel, wholesalers streamline the information and product flows between the manufacturer and the final consumers. They carry out the parts of the distribution chain that are too profitable for the retailer or producer to handle themselves. It would be costly and challenging for manufacturers or retailers to provide the kind of support that wholesalers do. Wholesalers buy products in bulk from producers and hold them until final consumers require them. Both manufacturers and retailers find it unfeasible and impractical to keep substantial stocks of the commodities or products. A few of the manufacturers' sales and marketing duties, such as order processing, customer support, and keeping up sales relationships, are also assumed by wholesalers.

As a result, the manufacturer can now spend less time and money on tasks related to these services. Additionally, wholesalers provide resellers with discounted, large-scale access to their products. The roles of a wholesaler can be broadly divided into three categories: transactional, logistical, and facilitating. The transactional roles include buying, selling, and taking on risk. Purchasing goods or products from producers and keeping them in warehouses to make them available to consumers when needed. Selling goods to retailers allows the manufacturer to reach specific customers through retailers. Taking on risk involves obtaining the title to the goods and products produced by the manufacturer and keeping them in inventory despite the possibility of theft, spoilage, and possible product obsolescence.

18.4 TYPES OF WHOLESALERS

In order to make the items easily accessible to end customers, multiple intermediaries were introduced in tandem with the expansion of distribution channels. The variety of intermediaries expanded throughout this time to satisfy the expanding demands of both producers and consumers. The various wholesaler intermediates that have developed over time to satisfy the demands of retailers and manufacturers will be covered in this section. Three major categories can be used to classify wholesalers: merchant wholesalers, brokers and agents, and wholesalers for manufacturers.

18.4.1 Merchant Wholesalers

They are in charge of the stock they control and acquire ownership of the items from the producer. Through salesmen, they resell small quantities of the products they acquire and assemble in bulk to retail establishments, businesses, and professionals. They handle their own buying and selling in the home market, paying the producer for the products they have bought. In addition to providing delivery and goods service, merchant wholesalers also lend credit to clients and offer trade-related advice.

Types of Merchant Wholesalers.

A. Full-Service Merchant Wholesalers

The majority of wholesaler services, such as storage, delivery, loan provision, warehousing, assuming ownership of the items, etc., are offered by full-service wholesalers. Full-service merchant wholesalers are further divided into general merchandise wholesalers, limited line wholesalers, specialty line wholesalers, rack jobbers, and cooperatives based on the goods and services they provide.

1. **General Merchandise Wholesalers**- A vast variety of goods are stocked by general merchandise wholesalers and resold to retailers. They nearly always have what clients need in stock and primarily serve small merchants.
2. **Limited line Wholesalers**- Retailers are provided with a limited selection of products by limited line wholesalers. They procure products from many suppliers to generate a wide range of options that they then provide to retailers and other institutional clients.
3. **Specialty Line Wholesalers-** They typically offer a narrow selection of products, typically consisting of one or a few items from a certain product line. Hardware and tobacco wholesalers are a few examples of specialist line wholesalers.
4. **Rack jobbers-** They buy products directly from manufacturers and then stock, display, and arrange them at the retailer's location. The store only pays the rack jobber when the merchandise is sold (consignment selling). However, few shops choose rack jobbing due to the difficulties associated with this distribution method.
5. **Cooperatives**- The dairy sector offers yet another illustration of cooperatives in action. In India, some of the most well-known dairy cooperatives are Gujarat Cooperative Milk Marketing Federation (GCMMF), which is the parent company of the popular Amul brand. The dairy sector offers yet another illustration of cooperatives in action. In India, some of the most well-known dairy cooperatives are Gujarat Cooperative Milk Marketing Federation (GCMMF), which is the parent company of the popular Amul brand.
6. **Limited-Service Merchant Wholesalers**
   Not all of the responsibilities of a wholesaler are performed by limited-service merchant wholesalers. They only provide a restricted range of services to stores due of their specialty. A few examples of limited-service merchant wholesalers are drop shippers, mail-order, and manufacturer's sales branches, in addition to cash-and-carry wholesalers.

B. Cash-and-Carry -Wholesellers:

These sellers handle the warehousing and ownership of the products they buy from manufacturers, but they do not handle shipping, credit facilitation, or promotional efforts. Wholesalers that accept cash only make no transportation arrangements. Once the retailers have paid the wholesaler for the goods they have purchased, they must make transportation arrangements. Cash-and-carry wholesalers include stores that sell furniture at wholesale prices. Different tactics are used by cash-and-carry wholesalers to get their merchandise off the display shelf.

C. Drop Shippers

A drop shipper does not handle the goods in person. After receiving the customer's purchase, he finds a manufacturer who can fulfil it and makes arrangements for him to deliver the goods straight to the consumer. Drop shippers do not, therefore, carry out wholesalers' storage duties. Drop shippers are at danger from the moment they accept an order until the products are delivered to the consumer. During this time frame, the drop shipper assumes ownership of the goods. The majority of online retailers, according to Jupiter Research, incur losses when handling shipments and deliveries and intend to employ drop slippers as a cost-saving measure.

D. Mail-order wholesalers:

Rather of using a sales team for marketing, mail-order wholesalers heavily rely on catalogs. Therefore, in wholesaling, mail-order wholesalers do not carry out the personal selling role. Typically, mail orders are used to purchase jewellery, makeup, and other items. A mail-order wholesaler's clientele consists of institutional and industrial purchasers in addition to retailers.

18.4.2 Brokers and Agents

Brokers and agents help buyers and sellers by negotiating sales and facilitating purchases. They do not acquire ownership of the products; instead, they operate on a commission basis. Therefore, the fact that they do not assume ownership of the goods and do not provide all of the services associated with a wholesaler sets agents and brokers apart from merchant wholesalers. Functional intermediaries are another word for agents and brokers. While brokers (such as real estate, securities, and financial services brokers) only temporarily represent buyers or sellers, agents (such as insurance agents) represent buyers or sellers permanently. Brokers and agents alike have areas of expertise when it comes to specific products or clientele.

1. Dealers

Brokers mediate negotiations between buyers and sellers by bringing them together. The parties to the negotiations pay them a commission for their services. They don't do the risk-taking, credit-facilitating, inventory-carrying, or other wholesaler duties. All they do is link the buyer and vendor. A broker must make sure the customer gets the greatest bargain possible because they are not paid until the product is sold. The broker is also responsible for making sure the customer's order is delivered on time. He needs to stay up to date on industry changes and let his clientele know about them.

Retailers who carry the products that a broker advertises may be eligible for discounts and freebies. If the things are not sold, he also returns them. Brokers can be categorized as securities and financial services brokers, real estate brokers, tea brokers, etc., depending on their area of expertise.

By bringing together potential buyers and sellers, real estate brokers assist in the purchase and sale of real estate. Brokers of securities and financial services assist customers with the purchase and sale of securities as well as offer securities brokerage and other financial services.

2. Agents

Agents, as previously stated, act as permanent representatives for either buyers or sellers. An insurance agent who serves as a go-between for the insured and the insurer for the period of the policy is an example of an agent. Selling agents, commission merchants, and manufacturer's agents are further subcategories of agents.

3. Manufacturer agents

Manufacturer's agents are independent middlemen who operate on behalf of two or more sellers. Customers can access whole product lines because they provide coordinating products from the different merchants they represent. Commissions for manufacturer's agents vary from 5 to 25% of sales, contingent on the industry and agent performance. Manufacturers who use agents to sell have major cost advantages because the commission is only due after the sale is completed. Additionally, the manufacturers save money by not having to pay for hiring and training new salespeople. Typically, manufacturer's agents handle the sales of electrical items, furniture, and apparel.

18.4.3 Manufacturer’s Wholesalers

Merchant wholesalers and manufacturer's wholesalers carry out the same range of duties. The manufacturers themselves are the owners and operators of these middlemen. Using sales branches and offices, manufacturers frequently engage in wholesaling activities to maintain control over inventories, sales, and marketing. Manufacturer’s sales branches are captive wholesaling operations owned and controlled by the manufacturer. They market the manufacturer's goods and assist the sales team by offering support services, particularly in areas where the manufacturer's goods are in great demand. The tasks of loan approval, inventory management, product delivery, and sales are handled by a sales branch. Plumbing and electrical supply industries frequently have manufacturer's sales branches. Two instances of manufacturer-s sales branches for electrical equipment are Westinghouse Electric Supply Company and General Electric Supply Company.

Similar to an agent, a sales office is run and owned by the company. It has no merchandise on hand. In addition, a sales office may offer goods from other producers that enhance those from the main producer. Target market, product assortment, and the four Ps of marketing are some important strategic decision areas in wholesaling

17.5 STRATEGIC ISSUES IN WHOLESALING

1. Choices Regarding the Target Market

Just like in any other business, wholesalers must determine who their target customer is. The target market is a predetermined subset of consumers that the wholesaler can concentrate the majority of his business dealings with. A wholesaler can identify their target market based on various factors such as the size of their store (large, medium, or small), the type of customers they serve (urban or rural), the distance from their location (within city limits, within a radius of 100 miles, 300 miles, etc.), the income range of their clientele (high, medium, or low income), or the requirements they have for the products and services they offer. Once the target market has been determined, the wholesaler may create the right plans of action to reach that market.

2. Decisions about the Marketing Mix

The marketing mix is yet another crucial area where the wholesaler must make strategic decisions. Wholesalers have to choose what things to sell, how much to charge, how to position themselves, what kind of promotions are necessary, and how to get in front of the right customers.

3. Products to offer:

A wholesaler has to choose what kind of things to provide to his clients. One of the most important parts of wholesale is inventory management. Wholesalers should thoroughly examine the profitability of each product and only carry those that are profitable, as opposed to carrying a large inventory of goods. Thus, wholesalers ought to keep a profitable selection of goods.

4. Product pricing:

Determining a price that will break even is part of the pricing process. To do this, the wholesaler must calculate the fixed and variable expenses associated with buying goods from the manufacturer and keeping them. By dividing the total of the fixed and variable expenses by the quantity of units to be sold, the selling price can be computed. A typical markup is added by wholesalers to the cost of the goods to offset the costs associated with packaging, sorting, transportation, and other related costs. Depending on the state of the market, a markup added to the cost of the goods enables the wholesaler to make a profit of two to three percent. Wholesalers may need to be willing to make margin concessions in order to pursue new clientele and markets.

5. Product positioning:

Distributors need to figure out how to set their goods out from the competition in the market. In order to achieve this, they must inform the consumers about the advantages of the product as well as its significant and distinctive qualities. Additionally, they must be able to come up with ways to offer the goods to clients that are better than those of their rivals, if not less expensive.

6. Promotion:

The goal of promotional efforts is to make consumers more aware of the brand and convince them to purchase the goods. In the case of premium products, promotional activities also aid in a customer's development of brand loyalty. Up until recently, wholesalers used a direct sales force to target the market and paid little attention to promotional activities. This pattern has been gradually shifting, though, since distributors are now asking manufacturers for help with their marketing campaigns.

7. Place:

The products must be made accessible in areas that are handy for the consumers. When making a placement selection, wholesalers must weigh the associated transportation expenses against their customer base. The adoption of modern technologies and information technology has simplified and reduced the cost of wholesalers' operations.

Check Your Progress-A

Q1. What are the various types of wholesalers?

Q2. What are the strategic issues in wholesaling?

18.6 TRENDS SHAPING IN WHOLESALE BUSINESS

Over the past 20 years, there has been growth in the wholesale industry. Changes in home spending, which affects the orders generated in the distribution channels, and shifts in corporate investment, particularly in the case of manufacturer durable goods and equipment, have been the main drivers of wholesale development.

The expansion of the wholesale industry has also been aided by manufacturers' attitudes on wholesaling. Because it yielded a better rate of return, manufacturers previously favored to invest in R&D and production over distribution channels. A small number of manufacturers attempted to enter the distribution channel directly, but the benefits of working with wholesalers—such as proximity to customers, improved inventory control, and the ability to concentrate on marketing initiatives—outweighed the associated expenses.

Additionally, there has been a notable shift in the wholesalers' manner of operation. From being merely places to store goods, they are now used to investigate the viability of new markets. Their attention has also shifted from established markets to new ones.

1. Cross-functional Overlap

An economy's production and distribution operations can be broadly divided into four levels: manufacturing, wholesale, retail, and consuming. But because markets are dynamic, there is now a blurring of the lines separating the different levels, making it difficult to distinguish between them in the current market environment. The emergence of horizontal and vertical market integration, as well as wholesale retail franchising, joint ventures, and conglomerations, has further blurred the lines between the middlemen in the marketing channel.

2. Overlap in Function

Four basic levels can be used to classify the manufacturing and distribution activities in an economy: manufacturing, wholesale, retail, and consuming. Unfortunately, because of the dynamic nature of markets, there is no longer a clear separation between the different levels in the current market environment due to an overlap of functions. The increase of horizontal and vertical market integration, which has further blurred the lines between the middlemen in the marketing channel, is a result of wholesale retail franchising, joint ventures, and consolidation.

3. More Services

Over time, wholesalers have modified their offerings to better meet the needs of their clients. The client data of retail druggists are currently managed by a number of wholesale druggists in the United States. By doing this, the stores are tied to a single wholesaler. For example, in the supermarket industry, wholesalers are now increasingly focused on offering advanced services like inventory management counselling, marketing support, and profit analysis for retailers, rather than just basic services like credit extension. The goal of wholesalers' aggressiveness in providing more services is to obtain a competitive edge.

4. Cost and Credit

A product or service's price is an important factor since it affects the customer's choice to purchase. In keeping with this idea, the wholesalers are always trying to get a price that optimizes the value that the items provide. They are always searching for more effective pricing strategies, such system contracting, which provides clients with better service at a lesser expense. The element of service is used by many wholesalers to draw in a sizable number of direct customers.

18.7 INFORMATION TECHNOLOGY’S EFFECT ON WHOLESALING

The retail sector's optimistic expectations, direct selling, the manufacturing sector's underperformance, customer demand for added value, etc. have all had a negative impact on the wholesale industry. Additional challenges faced by wholesalers include incomplete or delayed information, poor communication during data sharing, inaccurate information, difficulty identifying unusual circumstances, process optimization, etc.

To combat the competition in the ever-changing industry, wholesalers have been attempting to reduce expenses and improve services in addition to solving these issues. They require a range of data in order to react swiftly to unanticipated market developments. In order to meet the expectations of the industrial and retail sectors and to enhance their supply chain and warehouse management operations, wholesalers must now deploy advanced and efficient IT. IT is being used by wholesalers to help them with their commercial issues. Several software providers have realized this and developed solutions to satisfy wholesalers' needs.

The operations of wholesalers have become much simpler and more economical with the use of IT and the newest technology. The quick development of information technology has given rise to novel approaches to distribution channel management. Innovative channel alliances and IT activities have expanded to encompass electronic data interchange, effective customer service, ongoing product restocking, etc. The efficiency and efficacy of business procedures have been enhanced for wholesalers by the use of bar codes, scanning, and other digital technology.

18.8 DIFFICULTIES IN WHOLESALING

Manufacturers and wholesalers share the same objectives: to increase return on investment, save distribution costs, and expand as a company through innovation and best practices. In order to accomplish these objectives, wholesalers must overcome a number of obstacles. In their daily operations, wholesalers frequently face obstacles in the areas of financial planning and management, sales and inventory management, and promotion management.

- **Inventory Control**

Given that wholesalers largely deal with inventory storage and maintenance, this is a significant issue for them. For anyone who maintains inventory, management and control represent a major issue. The majority of wholesalers struggle with what kind and how much inventory to keep on hand. This is true because there are expenses related to both excess and insufficient inventory. The problems facing wholesalers have gotten worse as a result of producers investing more in research and development (R&D), which has resulted in an abundance of new items hitting the market.

- **Sales Administration**

The focus of wholesalers on sales management has not changed significantly, despite the growth of the wholesale trade industry. There are extremely few wholesalers who tackle sales and promotion in a methodical and professional manner. While some wholesalers employ creative sales techniques, the majority of them reach their clients through human selling. For instance, certain wholesalers in the electronics, healthcare, etc. industries employ automatic reordering systems to reduce the expenses and manpower required for placing recurring orders. Salespeople can create creative selling strategies and provide superior customer service by using the time they save by using these tactics.

- **Marketing Administration**

The majority of wholesalers decline promotional support from manufacturers, which comes in the form of dealer shows, direct-mail marketing, catalog preparation, trade exhibits, and advertising. Only promotional campaigns that are tailored to their operations, boost their profitability, and are created with their handling costs and budgets in mind are accepted by them. The fact that they were designed by manufacturers they get along well with is, of course, the main factor.

Not all distributors are happy to only resell products made by the manufacturers. Additionally, they aim to establish a name for themselves by providing only superior items and engaging in a range of marketing initiatives. They want to be known as a provider of premium product lines. Large corporate wholesalers have shown how using an advanced marketing approach has improved their bottom line. Many small-scale wholesalers are also striving for improved promotional strategies; in the past, they did not conduct promotional efforts in a methodical or professional manner.

18.9 FUTURE OF WHOLESALING IN INDIA

The wholesale industry will probably see many changes in the future, just like any other company sector. Distributors have been forced to adjust to these developments in order to survive due to dynamic forces of change in the business environment, such as the availability of self-service choices to clients, direct selling by businesses, and the increased bargaining power of customers. Due to competitive factors that have made change necessary for existence, the wholesale industry is also undergoing a period of transition. Wholesalers must reinvent and restructure their businesses to secure their existence and profitability.

Consolidation is another element that will influence the wholesale market since it will drastically cut down on the number of businesses involved. The industry will be dominated by the large corporations that arise from mergers, acquisitions, and geographic expansion. Utilizing cutting-edge techniques and contemporary technologies will enable wholesalers to operate more successfully and efficiently.

Significant functional distinctions that were present in the previous structure have been diminished as a result of the wholesale industry's restructuring. Intermediaries in the distribution chain today carry out cross-functional tasks. Warehouses and hypermarts are used by many big merchants for wholesale operations. A lot of wholesalers have also begun to take on retail duties.

Retail pricing, joint advertising, marketing and management information reports, accounting services, and other services are just a few of the many services that wholesalers will offer retailers. The North American Free Trade Agreement (NAFTA) and the restricted room for expansion in home markets will enable wholesalers to conduct business internationally.

Globalization, supply chain integration, strategic alliances, and e-commerce are further important factors that will shape the wholesale industry in the future. Wholesale distribution has been transformed by the Internet, and e-commerce will undoubtedly have a significant influence on the development of the global wholesale market. Distributors will be forced by e-commerce to concentrate more on information and service delivery than on storage and shipping, as previously customary. Wholesale distribution will be significantly impacted by strategic collaborations as well. Through strategic agreements, distributors will be able to protect themselves against challenges from rivals. Additionally, the partnerships will help distributors draw products across marketing channels and result in many new practices.

Distributors and suppliers can save distribution costs by integrating their supply chains. Suppliers and distributors pay as much as possible on inventory holding expenses. The expenses involved in modern wholesale are expected to rise due to infrastructure improvements, even as the costs related to the conventional, manual type of distribution are anticipated to decrease. The time and location barriers between nations have been lowered by globalization, enabling them to compete with participants in international markets and sell their goods in offshore markets.

Wholesaler-distributors have been increasingly important in global trade and will only become more so in the years to come. Additionally, wholesaler-distributors' non-domestic business and export activity will increase. In order to help their suppliers who have begun operations overseas, wholesaler-distributors may also grow their businesses. There is good room for worldwide expansion in nations with strong distribution networks. To become globally competitive, wholesaler-distributors can leverage their superior operating methods and policies, information technology, and capital availability.

18. 10 RETAILING AND IT’S IMPORTANCE

The final phase of the distribution process is retailing. The most popular way to send goods to consumers is through retailers. In industrialized countries, retail distribution is a significant economic activity. There are two primary ways to understand this. It serves as a way to supply consumers with goods and services in the first place, and it also benefits other channel members in the distribution chain. Therefore, the value of retailing to customers and other channel participants can be used to analyze its significance.

Value to Customers

Industrial and agricultural technological advancements have raised production levels and lowered expenses. Because consumers are so dispersed, manufacturers have been able to pass on the cost benefits of technology-based production to them thanks to distribution in general and retailing in particular. The only connection between manufacturers and consumers in developing nations with low living standards is the store. They enhance the process of distribution by guaranteeing that the proper product is delivered to the customer at the right time and location.

The retailer serves as the buyer's representative by carrying out a variety of beneficial tasks. These consist of inventory control, offering products and services with additional value, and diversity, breaking bulk, and sharing knowledge.

Inventory control: Retailers facilitate the flow of goods and services from producers to customers. They pay for product storage so that consumers don't have to keep necessary items on hand and incur the associated expenses. Customers can shop whenever it's convenient for them, and retailers handle the stocking in their stores.

Product diversity: The ability to choose the best items from a number of producers is advantageous to retailers. This allows businesses to showcase a broad range of products to accommodate various clients' demands and preferences. Customers can choose from a wide variety of products at the same time.

Breaking bulk: Selling goods in small quantities facilitates purchases, which is another crucial role of retailers. Retailers buy products in bulk from producers and then break them down into smaller pieces for customers. Customers in less developed nations purchase goods in extremely little amounts due to their lower disposable incomes. By dividing large quantities into smaller ones, the retailers assist. Additionally, this makes it simpler to deliver goods to customers.

Information dissemination: Retailers spread knowledge about various products available in the market. Media advertising alone is insufficient to provide consumers with adequate product information. Retail establishments spread the word about newly released products through in-store displays and sales staff.

Relevance to Other Channel Participants

Manufacturers must create a limitless variety of items due to shifting consumer demands and needs. A constant flow of goods from producer to consumer is required to maintain this never-ending cycle. Retailers serve as a source of information for manufacturers regarding the needs of their customers in addition to providing products to geographically scattered consumers. Manufacturers ask retailers for assistance in learning about the preferences and tastes of their customers. They also gather data on the quality and consumption of the products. Manufacturers utilize this data to introduce new items and make changes to their current models. Because shops benefit from having direct touch with customers, this information is valuable.

Additionally, merchants help manufacturers specialize and streamline production so that a variety of items can be offered in response to shifting consumer preferences. Manufacturers benefit from increased profits as a result.

Along with other channel participants, retailers also bear some of the risks related to product delivery. It covers both technology risk from product obsolescence and physical risk from product damage sustained during storage or transit.

Employment Source

A lot of individuals are employed in the labour-intensive industry of retail. In wealthy countries, it represents 15–25% of the workforce. Another important industry for women to work in is retail. Women make up about 55% of the workforce in the retail industry in the EU. Employment in India has also been greatly impacted by the retail industry; organized retail in India is valued at over $3 billion and is acknowledged as one of the fastest-growing business sectors. Consumption is expected to rise to previously unheard-of levels due to rising economic growth and a higher standard of living. The retail industry will benefit greatly from these.

The Development of Retailing

Originally, the final step in the distribution process was retailing. It served as the only way to supply consumers who were spread out geographically with necessities. From its humble beginnings, retailing has developed as a specialized method of product sales over time. There are several merchandising types available today that are challenging to list, let alone understand. Malcolm P. McNair outlined the development of retailers in his groundbreaking book "The Wheel of Retailing."

18.11 FUNCTIONS OF RETAILING

In order to distribute goods and services between producers and customers, retailing is essential. Its operations fall into a number of important categories:

1. **Purchasing and Putting Together**
   Retailers buy products in bulk from producers or distributors and put them together to create a range of product assortments. Customers may now obtain a wide variety of products in one place thanks to this.
2. **Inventory Control and Storage**
   Retailers keep goods in stock so that consumers may access them when they need them. By doing this, they offer storage options that lessen the need for clients to accumulate stuff on their own.
3. **Bulk Breaking**
   Retailers purchase goods in bulk and divide them into more manageable, smaller portions to sell to customers. Individual consumers can more easily buy products in amounts that suit their needs thanks to this feature.
4. **Sorting**
   Retailers assist customers compare options and choose the best product based on their needs by providing a large assortment of goods from many vendors. A range of sizes, brands, and pricing points may be included in this array.
5. **Information Provision**
   Retailers tell customers of product details such cost, characteristics, application, and advantages. Additionally, they provide manufacturers with customer input and demand trends, which aids in product improvement.
6. **Financing:**

Some stores give customers credit so they can buy products and pay for them over time. Customers are able to make bigger or more frequent purchases thanks to this financing capability, which increases sales.

7. **Marketing and Creating Sales:**
   To draw in customers and boost sales, retailers use promotional strategies like advertising, in-store displays, discounts, and loyalty programs. Additionally, they offer tailored sales support to help customers make judgments on what to buy.
8. **Post-purchase Assistance**
   In order to improve the customer experience and promote repeat business, retailers frequently offer after-sales services such product installation, repair, returns, and warranties.
9. **Convenience for Customers**
   By placing their businesses in easily accessible locations, extending their hours, and offering services like online ordering and delivery, retailers make it easier for customers to make purchases.
10. **Taking Risks**
    With inventory, retailers assume certain risks, like the possibility of product damage, obsolescence, or changes in customer demand, which could result in unsold stock. Together, these processes guarantee that products move seamlessly from manufacturing to final consumer use while enhancing the purchasing experience.

18. 12 TYPES OF RETAILERS

18.12.1 Based on the Volume of Sales Generated:

1. **Small and Large Volume Retailers:**

When it comes to the amount of capital used and the volume of sales produced, small volume retailers are tiny merchants. A retailer may be a small volume retailer in one location while being a large volume retailer in another, according to comparative research, even if there is no precise line separating small volume retailers from large volume retailers.

18.12. 2 Based on the Product Lines Offered.

A. **Specialty stores:**
   These stores carry a small number of product lines, usually only one or two, but they provide a large selection of models, sizes, styles, colors, and other key characteristics in their assortment (e.g., women garment outlet, etc.).
B. **Limited Line Stores:**

These merchants offer a restricted selection of various features but carry only a few product lines (no more than five), such as Raymonds Limited Line Store.

C. **Departmental Stores:** A departmental shop is a sizable retail establishment that manages numerous product lines, each with a significant assortment, and is set up into distinct departments for purchasing, marketing, services, and control. Mass merchandising department stores, such as military canteens, are another name for them.

D. **Hypermarkets:** These stores mix department stores, speciality retailers, and limited line stores into one large, one-story store. Compared to department stores, hypermarkets are typically ten times larger.

18.12.3 According to Ownership:

A. Independent Stores:

An independent retailer is a person or business that owns and runs a single store. The majority of retail businesses are independent, and the majority of independent retailers are partners and sole proprietors. Compared to huge stores, independent retailers may more eagerly meet the requirements and desires of their clients because they frequently know them personally. Additionally, because they buy the merchandise in small amounts, they pay hefty costs for it.

B. Corporate Chains:

A corporate chain is a group of retail stores that are owned by a common entity and have centralized purchasing, management, and product storage. Independent retailers are typically significantly smaller than corporate chains.

C. Voluntary Chains:

These individual stores get together to compete with corporate chains; they are known as voluntary chains. Wholesalers support a few of these organizations.

(d) Franchise: This refers to a legal arrangement whereby the franchise is given the authority to promote, sell, or distribute products or services using a marketing strategy that is largely dictated by the franchisor and that makes use of the franchisor's distinctive trade name or trademark.

(e) Consumer Co-ops: These are retail establishments that are owned by their customers. They are established when customers are unhappy with the cost or caliber of the goods that the merchants are selling. The necessary capital is contributed by the customer.

18.12.4. Based on Services Provided

(a) **Full-Service Stores**: These are establishments that offer their clients full service. Customers are informed about the product's features, cost, packing, and delivery, among other things.

(b) **Semi-Service Stores:** These establishments provide their clients with little services. Customers can choose from a variety of products that are often displayed on an open shelf. When he asks, the retail staff assist him. Retailers are responsible for delivery and packaging.

(c) Self Service Stores: These are retail establishments where customers are required to perform their own self-service; they are extremely rare in India and can be found in some large department stores and fast-food restaurants, such as Nanz and Nirulas, among others.

18.12. 5. Based on the Type of Customer Contact

(a) In Store Retailing: (This type of retailing is carried out through retail stores, where customers are invited and their needs and wants are met;
(**b) Non -Store Retailing**: In this case, the retailer contacts the customer and closes the deal somewhere other than the traditional retail store; in general, non-store retailing is also known as direct marketing. Any kind of communication can be used to reach customers outside of a physical store. It is referred to as telemarketing if it is done over the phone, mail marketing if it is done by mail, and automatic vending if it is done by machines. Machines are used for retailing in automatic vending.

Check Your Progress- B

State True or False.

1. The retail industry plays a significant role in the economies of developed nations.
2. Retailers provide customers with convenience in terms of time and location.
3. Wholesalers sell products directly to the final consumers.
4. Each middleman in the supply chain is important for consumer access to products.
5. Wholesalers serve only individual customers with their goods.

18.13 SUMMARY

In India, Wholesaling and retailing are two important ways of selling goods there. Wholesalers sell large amounts of products to other businesses. They usually don't sell directly to customers. Their main job is to supply products to retailers. Retailers, on the other hand, sell products directly to the people. They have shops, stores, or even online sites where customers can buy things. Retailing is the last step of the supply chain. In India, you can see different types of retail stores. Some are small, like family-owned shops, and others are big, like supermarkets and malls. Each type of shop has its own style and business practices. In cities, malls are very popular among young people. They offer a mix of fashion, food, and entertainment. Street markets are also common. They are lively and often have fresh fruits, vegetables, and clothes for a lower price. In some areas, you can bargain with the sellers to get a better deal. Online shopping is growing quickly in India.

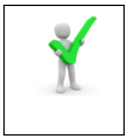
Companies like Amazon and Flipkart have changed the way people buy things. Now, people can shop from the comfort of their homes. This is especially helpful for those living in areas where big stores are far away. Both wholesaling and retailing are important for India's economy. They create many jobs and help goods move from producers to consumers. As India continues to grow, these businesses are likely to change and adapt to new trends and technologies.

17 .14 GLOSSARY

Agents: Agents, as previously stated, act as permanent representatives for either buyers or sellers. An insurance agent who serves as a go-between for the insured and the insurer for the period of the policy is an example of an agent

Drop Shippers: A drop shipper does not handle the goods in person. After receiving the customer's purchase, he finds a manufacturer who can fulfil it and makes arrangements for him to deliver the goods straight to the consumer.

Rack jobbers- They buy products directly from manufacturers and then stock, display, and arrange them at the retailer's location.



17 .15 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –B

1. **True**
2. **True**
3. **False**
4. **True**
5. **False**

17. 16 REFERENCES

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17.17 SUGGESTED READINGS

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- Rosenbloom, B. (2012). *Marketing Channels: A Management View* (8th ed.). Cengage Learning.

18. 18 TERMINAL QUESTIONS

1. Define wholesaling and explain its role in the supply chain.
2. Discuss the key functions of wholesalers in a distribution channel.
3. What are the different types of wholesalers? Provide examples of each.
4. Explain the challenges faced by wholesalers in the modern retail environment.
5. Define retailing and explain its significance in the economy.
6. What are the key characteristics of retailing that differentiate it from wholesaling?
7. Explain the concept of retail mix and its importance in retail management.

UNIT- 19 CHANNELS CONFLICTS AND RESOLUTION

19.1 INTRODUCTION

In this unit, you will study about channel conflicts, their types, sources and their resolution.

19.2 OBJECTIVES

After reading this unit you will be able understand:

- Understand the meaning of channel conflicts and their resolution
- Explain the types and sources of channel conflicts.
- causes of channel conflicts.
- process of conflict resolution techniques

19.3 MEANING OF CHANNEL CONFLICT

Conflict is a normal, natural part of human relationships. People will not agree about everything all the time. In and of itself, conflict is not necessarily a negative thing. When handled constructively it can help people to stand up for themselves and others, and work together to achieve a mutually satisfactory solution. But if conflict is handled poorly it can cause anger, hurt, divisiveness and more serious problems. This guide discusses how to deal with conflict in a constructive manner.

Conflict is endemic to all social life. It is an inevitable part of living because it is related to situations of scarce resources, division of functions, power relations and role-differentiation

Conflict is a reality of social life and exists at all levels of society. Actually conflicts are as old as the world itself. We learn from history about individuals being in conflict with each other because of various reasons. The trend has not changed even today. Individuals, villages, tribes, political parties, nations and other types of groupings engage in conflicts. Practically each of us has in one way or the other been involved in conflicts either at family level, workplace, and many other places. Generally, a conflict exists when there is an interaction between two or more individuals, groups or organizations where at least one side sees their thinking, ideas, perceptions, feelings or will contradicting with that of the other side and feels that they cannot get what they want because of the other side. The existence of a conflict shows that something in a relationship–or the whole relationship – between involved parties cannot continue as it was. It is an opportunity for adjustment and for constructive change. A relationship without conflict stagnates, a society without conflict does not make progress. In everyday life, however, we tend to experience conflict as something painful which we would rather avoid, neglect or forget about. Sometimes, for these reasons, we accuse others of "disturbing the peace" when they try to protect their interests and needs. A good example is the conflict between the civil society and the government which led to demonstrations on 20thJuly 201. In other cases we use conflicts to confront others with our ideas, our own interests or use our power to impose these ideas on them.

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

Channel conflict can stem from **differences between channel members' goals and objectives (goal conflict), from disagreements over the domain of action and responsibility in the channel (domain conflict), and from differences in perceptions of the marketplace (perceptual conflict).** These conflicts directly cause a channel member to fail to perform the flows that the optimal channel design specifies for them, and thus inhibit total channel performance. The management problem is twofold. First, the channel manager needs to be able to identify the sources of channel conflict, and in particular, to differentiate between poor channel design and poor performance due to channel conflict. Second, the channel manager must decide on the action to take (if any) to manage and reduce the channel conflicts that have been identified.

In general, channel conflict reduction is accomplished through the application of one or more sources of channel power. For example, a manufacturer may identify a conflict in its independent-distributor channel: The distributorship is exerting too little sales effort on behalf of the manufacturer's product line and therefore sales of the product are suffering. Analysis might reveal that the effort level is low because the distributorship makes more profit from selling a competitor's product than from selling this manufacturers product. There is thus a goal conflict. The manufacturer's goal is the maximization ofprofit over its own product line, but the distributorship's goal is the maximization of profit over all of the products that it sells-only some of which come from this particular manufacturer. To resolve the goal conflict, the manufacturer might use one of the following strategies: 1. It might use some of its power to reward the distributor by increasing the distributor's discount, thus increasing the profit margin it can make on the manufacturer's product line. Or 2. the manufacturer may invest in developing brand equity and thus pull the product through the channel.

Until very recently, channel conflict has been analyzed almost exclusively from the viewpoint of two interdependent but independent organizations involved in a dyadic channel relationship. For example, research has focused on the behavioral dynamics between a supplier firm and its distributors. However, motivated by the growth of multichannel distribution systems and the rapid proliferation of electronic marketing channels, channels researchers have begun to examine conflict from an entirely different perspective. Companies that go to market using complex distribution arrangements typically have distinct groups of people who are organized in subunits corresponding to the various channels used by the firm. Conflict internal to the firm can also take place among the subunits responsible for managing the various channels of distribution. Multiple channels often place conflicting demands on internal company resources such as capital, personnel, products, and technology. In addition, conflicting objectives among channels can lead to internal conflicts over customers, resulting in customer confusion and dissatisfaction. For example, a company's sales force, distributor group, telemarketing arm, and Internet channel may have conflicting interests over issues related to budget allocation, revenue goals, pricing, customer assignments, and the timing and nature of advertising and promotional support. Competition from the Internet channel can lead to a backlash from the sales force.

While the primary causes of conflict remain the same goal incompatibility, domain dispenses, and differing perceptions of reality the context in which they are investigated is different. The level of analysis is within the supplier organization, not between two firms

19.4 CAUSES AND MANIFESTATIONS OF CONFLICT

CAUSES OF CONFLICTS

The discourse about the problem of conflict is very often limited to one or very few causes. This is part of the dynamics of conflicts and it tends to limit the perspectives of those involved. It is important however to go deeper and understand the root causes of each conflict. There can be so many causes of a conflict but what we normally see is just very little.

Causes of Channel Conflict

- Goal incompatibility
- Unclear roles and rights
- Differences in perception

Some of the causes include.

• **Data/Information Conflict** This type of conflict results from strong emotions, stereotypes, miscommunication and repetitive negative behaviour. It is this type of conflict which often provides fuel for disputes and can promote destructive conflict even when the conditions to resolve the other sources of conflict can be met.

• **Value Conflict** This conflict arises from ideological differences or differing standards for evaluation of ideas or behaviour. The actual or perceived differences in values do not create conflict. It is when values are imposed on groups or groups are prevented from upholding their value system that conflict arises.

• **Structural Conflict** This is caused by unequal or unfair distribution of power or resources perpetrated or justified by established institutions or structures e.g. the informal and formal structures in an organization, party etc.

• **Interest Conflict** This involves perceived or actual competition over interests, such as resources, perceptions of trust and fairness. An analysis of the different types of conflicts the parties are dealing with helps the intervener to determine strategies to handle conflicts

Manifestations of Conflict

It is important to know that conflict is always a pointer to something deeper or hidden. There are two things that conflict points to. First, conflict can point to a fundamental disagreement concerning the means or objectives an organization or a group intends to pursue. Conflicts of this kind are said to be substantive. Second, conflicts can also point to interpersonal difficulties that arise over feelings of anger, mistrust, dislike, fear, resentment, etc. Conflicts of this nature are said to be emotional, they are to do with "clash of personalities".

Note: Whenever there is conflict, it is important to find out whether the conflict is substantive or emotional. However, substantive conflicts can eventually give rise to emotional conflicts. For example, in situations of glaring economic disparities, some people might be hated not because of their personal wrong doing, but because of belonging to a class that is seen to be exploiting others. Again, emotional conflict can take wider dimension if people involved are leaders

19.5 TYPES OF CONFLICTS

Conflicts are classified as follows:

• **INTRA-PERSONAL CONFLICTS**: Conflicts within a person, psychological conflict, decision making conflict in one person. Though these conflicts may play a part in social conflicts, they are not the subject matter of conflict transformation work but more of a concern of therapy or coun- selling

• **INTER-PERSONAL CONFLICT**: Conflicts between two or a small number of people without groups building up around one side.

• **INTRA-GROUP CONFLICTS:** Conflicts within smaller (team, organization, family) or larger groups (religious community, within elites in a country). Here group dynamics add to the normal dynamics of inter-personal conflicts.

• **INTER-GROUP CONFLICTS:** Conflicts between groups, like organizations, ethnic groups, political parties • Inter-national, inter-state conflicts: Conflicts between two or more countries, states.

OTHER TYPES OF CLASSIFICATIONS:

HORIZONTAL CONFLICTS

A horizontal conflict refers to a disagreement among two or more channel members at the same level. For example, suppose a toy manufacturer has deals with two wholesalers, each contracted to sell products to retailers in different regions. If one wholesaler decides to branch its operations into the other wholesaler's region, a conflict will result. If the toy manufacturer doesn't help solve the problem, its business dealings with both the wholesalers -- and the downstream retailers, as well -- might be in jeopardy.

VERTICAL CONFLICTS

Vertical conflicts involve a disagreement between two channel members on consecutive levels. For example, if the toy manufacturer discovers its products are arriving at retail stores later than scheduled, a conflict might develop between the manufacturer and the wholesaler responsible for shipping to retailers. At the same time, the retail stores might be in conflict with the wholesaler due to its inability to ship products on time.

MULTICHANNEL CONFLICTS

Multichannel conflicts refer to disagreements among members in separate marketing channels. While neither strictly horizontal nor vertical, these conflicts can affect all members of every channel. For instance, suppose the toy manufacturer participates in two marketing channels. In the first channel, the manufacturer sells its products directly to consumers via its official website. In the second channel, the manufacturer sells its products to wholesalers for resale to retailers. If the toy manufacturer's website sells the products for much lower prices than retail stores, sales in the second channel will plummet. The resulting conflict will require some solution that works for both channels.

ADVANTAGES ASSOCIATED WITH EXAMINING CHANNEL CONFLICT

There are **several advantages associated with examining channel conflict** from this new perspective.

First, the theories and frameworks that have been applied to the study of dyadic channel conflict were developed for the study of relationships within an organization rather than between two organizations.

Second, managers should be able to exert much more control over internal channel conflict than dyadic channel conflict because they possess more power and formal authority within their own company than they do over another firm. As a result, managers' actions are much more likely to have their intended impact.

Third, instead of reacting to conflict that has already surfaced in the marketplace, managers can be more proactive by manipulating the causes of channel conflict among their own channel groups within their firm in an effort to increase or decrease the amount of external conflict as they wish.

Similar to the discussion above pertaining to functional conflict in a dyadic setting, this internal conflict among the supplier firm's channel groups may have both positive and negative effects on channel system performance. On the positive side, competition for resources may be an efficient allocation mechanism that ensures that scarce channel assets are applied where they are needed most. On the negative side, internal squabbles between the channel groups may lead to an internal focus reducing the customer orientation of channel managers. Internal battles over who owns the customer should not be apparent to the customer. Managing internal channel conflict in such a way that maximizes the performance of the overall channel system is both a very important opportunity and challenge for B2B supplier organizations

CONFLICTS IN TRADE RELATIONS

Channel conflict arises when one channel member believes another channel member is engaged in behavior that is preventing it from achieving its goals. Conflicts arise:

1. When a channel member bypasses another member and sells or buys direct.

2. Over how profit margins are distributed among the channels.

3. When manufacturers believe wholesaler or retailers are not giving their products adequate attention.

4. When manufacturer engages in dual distribution and particularly when different retailers or dealers carry the same brands.

SOURCES OF CONFLICT

There are a number of sources out of which conflicts arise. The following are common:

- Political sources:-power struggles, differences in ideologies, etc.

- Religious sources: - power struggle, differences in doctrine, etc

. • Cultural conflict:- when two cultural traditions compete for dominance

• Economic privileges:-where some people feel marginalized

• Natural resources e.g. land, etc.

•**Personal differences** such as values, ethics, personalities, age, education, gender, social and economic status, cultural back- ground, temperament, health, religion, political beliefs, etc.

•**A clash of ideas, choices, or actions**. For instance, conflict can occur when people have incompatible goals, when they are in direct competition, or even when they have different work styles.

•Finally, **poor communication or miscommunication** is one of the biggest causes of conflict.

While it isn't possible to prevent all conflict, there are steps that can be taken to try to keep conflict to a minimum. One way to manage conflict is to prevent it from occurring in the first place. Preventing conflict is not the same as avoiding conflict. Preventing conflict means behaving and communicating in a way that averts needless conflicts.

Note: These sources can be interlinked in many cases, e.g., political power easily makes people have control over resources and economy

Check Your Progress-A

1. Channel conflict occurs when channel members are in ___________ with each other over their roles and goals.
2. ___________ conflict arises when a producer bypasses intermediaries and sells directly to consumers.
3. Horizontal conflict occurs between intermediaries at the ___________ level within the distribution channel.
4. Vertical conflict occurs between different ___________ in the same distribution channel, such as between a manufacturer and retailer.
5. ___________ conflict refers to competition among channel members across different channels aimed at the same customer base.
6. Channel conflicts can arise due to disagreements over ___________, promotional efforts, or territory assignments.
7. One strategy for managing channel conflict is establishing clear ___________ about the roles and responsibilities of each channel member.
8. Dual distribution can lead to ___________ conflict if different channels under the same brand compete for the same customers.
9. Conflict resolution in channels often requires ___________ among channel members to address grievances and realign goals.

10. __________ agreements between channel members can help prevent conflicts by clarifying rights and obligations.

19.6 APPROACH TO CONFLICT RESOLUTION

Conflicts at an individual, interpersonal, group and inter-group level are inevitable. However, the process of dealing with conflict to achieve constructive rather than destructive results is essential. This process can be pursued in a variety of ways. An important goal, nevertheless, should always be to achieve or set the stage for true conflict resolution, i.e. a situation in which the underlying reasons for a given conflict are eliminated. Two broad approaches to conflict resolution are often used:

INDIRECT CONFLICT MANAGEMENT APPROACHES.

Under this approach, common techniques include:

a) Appeal to common goal:-focusing on mutually desirable goal or conclusion

b) Hierarchical referral:-problems are referred to higher levels of the organization or group for solution

c) Organizational redesign:-ensuring relation isolation between conflicting parties.

This can be done through : decoupling, buffering, linking pins, liaison groups. Use of myths and script: -scripts are behavioural routines that become part of the organization's culture, while myths are proclamations or beliefs about a situation that deny the necessity to make trade-offs in conflict resolution.

DIRECT CONFLICT MANAGEMENT APPROACHES

Under this, we find a number of models that can be used.

a. **Lose-Lose Model**

   The Lose-Lose Model is that kind of approach where nobody really gets what he or she wants. The underlying reasons for the conflict remain unaffected. As a result, future conflicts of same or similar nature are likely to occur. This model often results from the following circumstances:

   • Avoidance: People pretend the conflict does not really exist and hope that it will gradual- ly disappear.

• Accommodation/Smoothing: People play down the differences among the conflicting parties, on one hand, and highlight similarities, on the other. e.g.

• Compromise: Each party involved in the conflict gives up something of value to the other. In this case neither party gains in full what it desires, and seeds for future conflicts are sown. Although a conflict may appear to be settled for a while through compromise, it may still occur at a later point in future. e.g.

b. **Win-Lose Model**

This is when one party archives its desires at the expense and to the exclusion of other party's desires. This is a result of the following:

• Competition: Victory is achieved through force, superior skills or domination.

• Authoritative command: a formal authority dictates a solution and specifies what is gained and what is lost and by whom. Win-Lose fail to address the root causes of the conflict. It tends to suppress the desires, views, opinions of one of the conflicting parties. As a result, future conflicts over similar issues are likely to happen.

c. **Win-Win Model**

This is a result of Collaboration between the interested parties to address real issues. It uses techniques of Problem –Solving to reconcile differences.

• Collaboration: This is a direct and positive approach to conflict management. It involves recognition by all conflicting parties that something is wrong and needs attention.

• Problem-Solving :This involves gathering and evaluating information in solving problems and making decisions.

19.7 CONFLICT RESOLUTION

Resolving conflict rationally and effectively In many cases, conflict seems to be a fact of life. We've all seen situations where different people with different goals and needs have come into conflict. And we've all seen the often-intense personal animosity that can result. The fact that conflict exists, however, is not necessarily a bad thing: As long as it is resolved effectively, it can lead to personal and professional growth. In many cases, effective conflict resolution skills can make the difference between positive and negative outcomes. The good news is that by resolving conflict successfully, you can solve many of the problems that it has brought to the surface, as well as getting benefits that you might not at first expect:

• **Increased understanding**: The discussion needed to resolve conflict expands people's awareness of the situation, giving them an insight into how they can achieve their own goals without undermining those of other people;

• **Increased group cohesion**: When conflict is resolved effectively, team members can develop stronger mutual respect, and a renewed faith in their ability to work together; and

• **Improved self-knowledge**: Conflict pushes individuals to examine their goals in close detail, helping them understand the things that are most important to them, sharpening their focus, and enhancing their effectiveness.

However, if conflict is not handled effectively, the results can be damaging. Conflicting goals can quickly turn into personal dislike. Teamwork breaks down. Talent is wasted as people disengage from their work. And it's easy to end up in a vicious downward spiral of negativity and recrimination.

It helps to understand two of the theories that lie behind effective conflict resolution techniques: Understanding the Theory: Conflict Styles In the 1970s Kenneth Thomas and Ralph Kilmann identified 5 main styles of dealing with conflict that vary in their degrees of cooperativeness and assertiveness. They argued that people typically have a preferred conflict resolution style. However they also noted that different styles were most useful in different situations.

DEALING WITH CONFLICT

The ways in which one can deal with channel conflict are enumerated below:

Competitive: People who tend towards a competitive style take a firm stand, and know what they want. They usually operate from a position of power, drawn from things like position, rank, expertise, or persuasive ability. This style can be useful when there is an emergency and a decision needs to be make fast; when the decision is unpopular; or when defending against someone who is trying to exploit the situation selfishly. However it can leave people feeling bruised, unsatisfied and resentful when used in less urgent situations.

Collaborative: People tending towards a collaborative style try to meet the needs of all people involved. These people can be highly assertive but unlike the competitor, they cooperate effectively and acknowledge that everyone is important. This style is useful when you need to bring together a variety of viewpoints to get the best solution; when there have been previous conflicts in the group; or when the situation is too important for a simple trade-off.

Compromising: People who prefer a compromising style try to find a solution that will at least partially satisfy everyone. Everyone is expected to give up something, and the compromiser him- or herself also expects to relinquish something. Compromise is useful when the cost of conflict is higher than the cost of losing ground, when equal strength opponents are at a standstill and when there is a deadline looming.

Accommodating: This style indicates a willingness to meet the needs of others at the expense of the person’s own needs. The accommodator often knows when to give in to others, but can be persuaded to surrender a position even when it is not warranted. This person is not assertive but is highly cooperative. Accommodation is appropriate when the issues matter more to the other party, when peace is more valuable than winning, or when you want to be in a position to collect on this “favor” you gave. However people may not return favors, and overall this approach is unlikely to give the best outcomes.

Avoiding: People tending towards this style seek to evade the conflict entirely. This style is typified by delegating controversial decisions, accepting default decisions, and not wanting to hurt anyone’s feelings. It can be appropriate when victory is impossible, when the controversy is trivial, or when someone else is in a better position to solve the problem. However in many situations this is a weak and ineffective approach to take.

Once the different styles have been understood, one can use them to think about the most appropriate approach (or mixture of approaches) for the situation one is e in. One can also think about his own instinctive approach, and learn how he needs to change this if necessary. Ideally one can adopt an approach that meets the situation, resolves the problem, respects people's legitimate interests, and mends damaged working relationships.

Over time, people's conflict management styles tend to mesh, and a “right” way to solve conflict emerges. It's good to recognize when this style can be used effectively, however make sure that people understand that different styles may suit different situations. Look at the circumstances, and think about the style that may be appropriate. Then use the process below to resolve the conflict:

Step One:

Set the Scene

Restate Paraphrase Summarize

Step Two:

Gather Information

Listen with empathy and see the conflict from the other person's point of view Identify issues clearly and concisely.

Use "I" statements Remain flexible Clarify feelings

Step Three:

Agree the Problem

Step Four:

Brainstorm Possible Solutions.

Step Five:

Negotiate a Solution

There are three guiding principles here: Be Calm, Be Patient, Have Respect…

BARRIERS TO CONFLICT RESOLUTION.

Defensiveness, put-downs, judgmental reactions, manipulation, discounting, aggressive attacks, and similar types of behavior are barriers to communication and play a counterproductive role in the resolution of conflicts

Check Your Progress- B

1. ___________ management refers to overseeing relationships between channel members to prevent and resolve conflicts.
2. Price ___________ can cause channel conflict when products are sold at different prices across various channels.
3. ___________ integration can reduce vertical conflicts by bringing different channel functions under the same organizational control.
4. A ___________-based conflict occurs when one channel member feels their goals are threatened by another member's actions.
5. Arbitration and ___________ are formal conflict resolution mechanisms used when informal negotiations fail.

6. Power imbalances in the distribution channel can lead to __________ conflict, where dominant members impose unfavorable terms on others.
7. __________ policies help establish a fair resolution process for conflicts arising from competition between channel partners.
8. In some cases, manufacturers can implement a __________ pricing policy to ensure uniform pricing across all channels and avoid conflict.
9. Open __________ between channel members can help identify potential issues early and prevent conflicts.
10. Conflicts may arise when channel members have different goals, such as focusing on __________ versus long-term brand building.

19.8 SUMMARY

Many conflicts arise from differences in gender, generations, cultures, values, etc. We live in an increasingly diverse world. Learn to respect and celebrate peoples' differences and their opinions.

Most people are put off by hearing negative comments about others—especially if it's about personal issue. In the workplace, this may lead to disciplinary action. Friends and acquaintances may be equally "turned off" by negative comments about someone, particularly if they feel they are being drawn into a conflict or being asked to take sides. If you need to vent about a personal issue, do so outside of the workplace, keep it to a close, trusted friend or a loved one and keep it to a minimum.

19.9 GLOSSARY

Horizontal Conflict
A type of channel conflict that occurs between members at the same level within a distribution channel, such as two retailers competing for the same customer base.

Vertical Conflict
A conflict that arises between different levels of the same distribution channel, like between a manufacturer and a retailer, often over issues such as pricing, control, or product availability.

Dual Distribution
A distribution strategy where a manufacturer uses more than one channel (e.g., direct sales and third-party retailers) to reach customers, which can lead to conflicts if channels compete against each other.

Channel Power
The ability of one channel member to influence the behavior or decisions of another member, often leading to conflict when the power balance is unequal.

Arbitration
A formal conflict resolution process where a neutral third party makes a binding decision to resolve a dispute between channel members, used when informal negotiation fails.

19.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

1. conflict
2. Vertical
3. same
4. levels
5. Multichannel
6. pricing
7. agreements
8. horizontal
9. negotiation
10. contract

Check Your Progress –B

1. Channel
2. discrepancies
3. Vertical
4. goal
5. mediation
6. coercive
7. Conflict-resolution
8. minimum
9. communication
10. sales

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19.13 TERMINAL QUESTIONS

1. What are the common causes of channel conflict in distribution channels, and how can these conflicts impact the overall effectiveness of the marketing strategy? Provide examples to illustrate your answer.
2. Explain the difference between horizontal and vertical channel conflicts. How do these types of conflicts manifest, and what strategies can businesses use to manage and resolve each type effectively?
3. Discuss the role of communication and negotiation in resolving channel conflicts. What steps can companies take to ensure open communication and prevent conflicts from escalating?
4. Analyze how multichannel distribution strategies can lead to conflicts between different channel members. What approaches can businesses use to manage these conflicts while still maintaining a competitive edge?
5. Evaluate the effectiveness of formal conflict resolution mechanisms, such as arbitration and mediation, in resolving disputes within distribution channels. In what situations are these methods preferable to informal negotiation?

UNIT- 20 MANAGEMENT OF MARKETING CHANNELS

20.1 INTRODUCTION

In the previous unit you learnt that how conflicts are caused in an organization/firm and the ways to resolve these conflicts.

In this unit, you will study about the management of marketing channels, the training, motivating and appraising the channel members.

20.2 OBJECTIVES

After reading this unit you will be able understand:

- know How to manage the channel network
- understand the trade relation mix
- know how channel members are appraised
- understand the need of channel member training

20.3 MEANING OF MARKETING CHANNELS

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

Manufactures use different channels to distribute the finished goods to customers. However, the most common methods are wholesale or retail, which are discussed further.

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

CHANNEL-MANAGEMENT DECISIONS

1. Selecting Channel Members
2. Appraisal of channel Member
3. Training Channel Members
4. Managing and motivating

Weaknesses Commonly Noticed in Networks

• The Network is inadequate size-wize

• The network is inadequate, qualitatively

• The network is not properly spread out.

• The interior markets are not covered properly

• A part of the network is inactive

• Quite a few links in the network are unviable

• The network is excessive for the task on hand

Review of the Dealer Network as a Whole

In addition to training and performance appraisal of individual dealers, the firm must also carry out periodic reviews of the dealer network as a whole. Removal of weaknesses in the network is the objective of such a review. All such weaknesses must be overcome if the channel has to function as a vital instrument of marketing

20.4 SELECTING CHANNEL MEMBERS

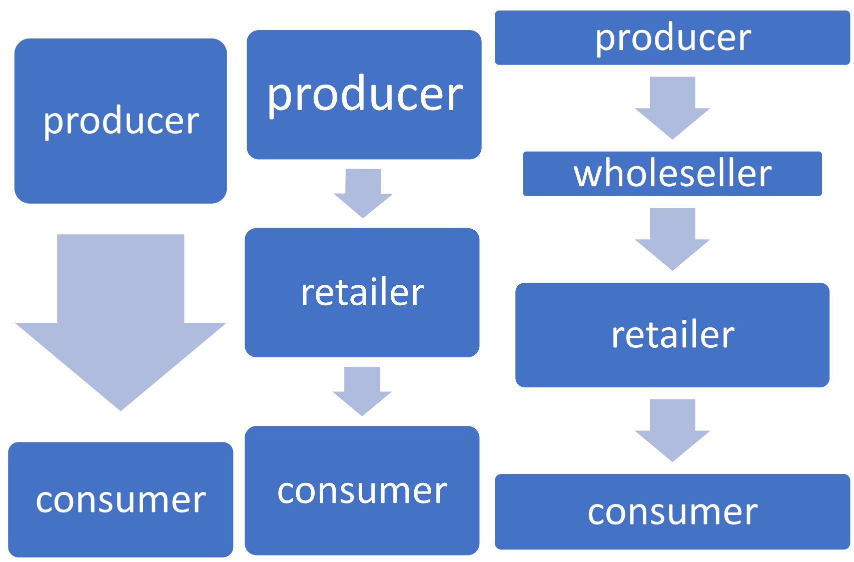
Each layer of marketing intermediaries that performs some work in bringing the product to its final buyer is a "channel level". The figure shows some examples of channel levels for consumer marketing channels:

In the figure, *Channel 1* is called a **"direct-marketing" channel**, since it has no intermediary levels. In this case the manufacturer sells directly to customers. An example of a direct marketing channel would be a factory outlet store. Many holiday companies also market direct to consumers, bypassing a traditional retail intermediary - the travel agent.

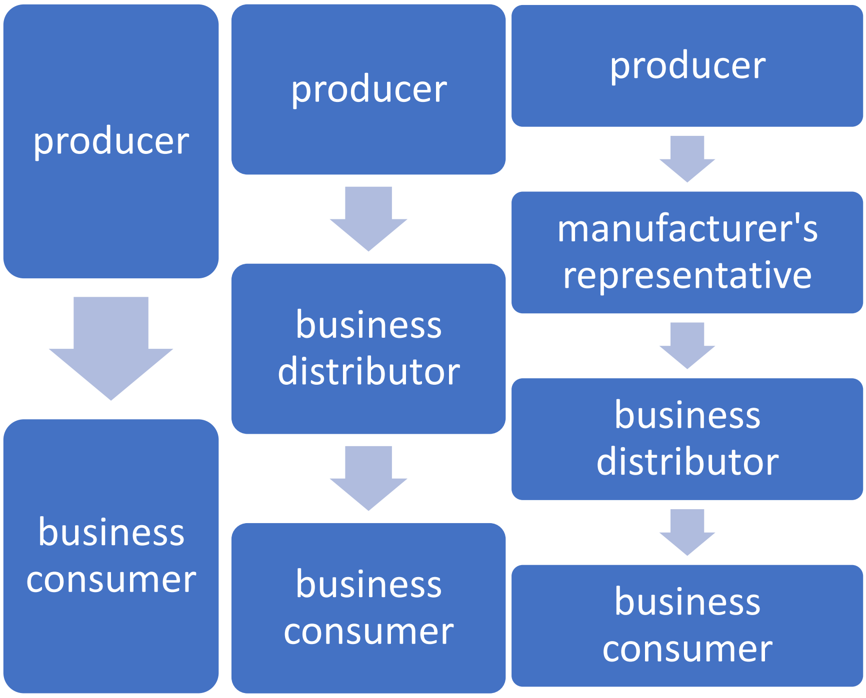
The remaining channels are "**indirect-marketing channels**".

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

Channel 3 contains two intermediary levels - a wholesaler and a retailer. A wholesaler typically buys and stores large quantities of several producers goods and then breaks into the bulk deliveries to supply retailers with smaller quantities. For small retailers with limited order quantities, the use of wholesalers makes economic sense. This arrangement tends to work best where the retail channel is fragmented - i.e. not dominated by a small number of large, powerful retailers who have an incentive to cut out the wholesaler. A good example of this channel arrangement in the UK is the distribution of drugs.



CONSUMER MARKETING CHANNEL



BUSINESS MARKETING CHANNEL

20.5 APPRAISAL OF CHANNEL MEMBERS

Performance Appraisal of Channel Member

Appraisal of the performance of individual channel member is yet another important element of channel management. Performance appraisal must bring forth the strengths and weaknesses of the channel member. If the performance is below the desired level, remedial action must be taken promptly. The appraisal should specifically identify areas where improvement is called for. The appraisal has to be based on pre-agreed standards of performance. Appraisal based solely on sales volume will be inadequate. The ranking done on this basis may not correctly reveal the contribution made by different channel member. The fact that channel member face varying environments in their sales operations should be taken into account while appraising their performance. A wider set of relevant criteria must be used in the appraisal. While the criteria may vary from company to company and product to product. Performance appraisal is intended to serve as a means of improving the performance of channel member. In extreme cases, however, the appraisal may lead to the termination of the channel member. When termination is the only alternative, the firm should not hesitate to take that course. Basically, all channel members are evaluated on the basis of whether they have met their assigned targets or not. Customer satisfaction surveys are also conducted to evaluate the quality oft service provided by the channel member.

Check Your Progress-A

1. The primary function of marketing channel management is to ensure the efficient __________ of goods from producers to consumers.
2. __________ refers to the set of institutions or intermediaries involved in the movement of a product from producer to consumer.
3. A key challenge in managing marketing channels is ensuring __________ between channel members to avoid conflict.
4. __________ channels are used when products are sold directly from manufacturers to consumers without intermediaries.
5. The selection of marketing channels depends heavily on the __________ of the product, such as perishability or complexity.
6. __________ channels involve multiple intermediaries, such as wholesalers and retailers, before the product reaches the consumer.
7. A key responsibility of channel managers is to monitor the __________ of intermediaries to ensure they meet sales and performance goals.
8. Channel managers often use __________ pricing strategies to prevent conflict among retailers in the same distribution channel.
9. Effective __________ between the producer and intermediaries is crucial for the smooth functioning of a marketing channel.
10. __________ integration occurs when a company takes control of its distribution channels by acquiring intermediaries.

20.6 TRAINING OF CHANNEL MEMBERS

Training is another important part of channel management. The primary purpose of training is to improve the performance of the channel members through a sharpening of their sales skills and product knowledge. Upon the channel members rests the responsibility of sensing, serving and satisfying the needs of the customers. The intermediary cannot fulfill this role unless they are equipped with the requisite knowledge, skills, techniques and attitudes. Any progressive firm will, therefore, make training an integral part of its channel management endeavour. The content and methodology of training should be framed so as to suit the back- ground of the channel member and the contextual requirements. The prime purpose of the training is to impart to the channel member knowledge about customers, about products, about competition, and about merchandising and sales techniques. In addition, essentials of inventory management, credit management and sales promotion can also form part of the training content. When competing companies match each other in the marketplace in every aspect, it is the training provided to the channel member that makes them different. And that's why most companies are now concentrating their energies on training. They now consider it a necessary investment. Hyundai Motors India, for example, took all its 70 dealers to Korea a before the launch of its

Accent model. Daewoo and Hyundai both conduct regular in-house training programmes for their dealers. Concorde, a TelcoJardine Matheson JV; created for setting up the dealer network for Indica, conducts in-house training for Indica dealers. And, Maruti has tied up with National Institute of Sales for training its dealers.

Resolving Channel Conflicts

Sometimes, there may be unhealthy competition and conflicts among the different channels/ channel tiers employed by a firm. There may also be conflicts among the channel members within a given channel type/channel tier. These conflicts must be handled with tact and fairness. In managing marketing channels, firms will usually encounter some ‘bottom-up pressure’. The retailers would exert pressure on the wholesalers/stockists, and the latter would pass it on to the firm. Sometimes, the wholesalers/stockists may have their own problems with the firm. Wise firms anticipate the pressures that can emerge from the different layers of the channels and formulate appropriate channel policies.

Tackling dealer conflicts-Wipro InfoTech: Wise firms follow a sound policy with regard to dealer conflicts. Wipro InfoTech Group (WIG) can be cited as an example. In the first place, it makes a conscious effort to reduce the scope for conflicts among dealers through dealer/product class/marketing segment alignment. It has reduced the scope for conflicts among dealers, by explicitly defining the territories of operation of each. Often, there is stiff competition among WIG dealers and they frequently under-cut each other. The under-cutting is compounded by the fact that different dealer categories have varying margins. For example, an A + category dealer will be able to easily under-cut a B category dealer. This demotivates the smaller dealers. So, the company strictly enforces the sales territories. The scope for cannibalisation is also removed. And when conflicts do occur, WIG tries to resolve them in a fair and firm manner. When overlapping does occur, then it negotiates with both the dealers, evaluates as to which of them is capable of satisfying the needs of the particular customer more efficiently and entrusts the customer with him. And while doing this, it takes care to protect the sentiments of the losing dealer.

20.7 MANAGING AND MOTIVATING AGENTS AND DISTRIBUTORS

Developing the channel design, recruiting intermediaries and inducting them into company are not everyday tasks in channel management. It is the administration and management of the distribution network that constitutes the everyday task here. We shall examine task in detail.

COMPONENT TASKS IN MANAGING THE INTERMEDIARIES

The task of managing a distribution network has several components as shown in the below chart

- **Determining the Trade Relations Mix**

Evidently, developing the trade relations mix is the first task in distribution management. the trade relations mix or relations between a firm (principal) and its members revolve largely around the following four factors:

• **Territory of operation**

Territory of Operation The firm must settle the issue of territory in a fair manner. Territory has significance at wholesale as well as retail levels.

• **Trade margin**

: Channel member invariably look for whole-some, juicy margin. The principals invariably try to peg it as modest as possible. The point to be noted here is that the margin must be sufficient to enable the dealer to gain a reasonable return on his investment. Present-day dealers as a rule, expect larger margin: In the earlier days, dealers managed to operate their outlets with modest trade margins. First, their investment in infrastructure was relatively low and they were able to make a profit even with a modest margin. Second, their expectation of profit was also relatively low

• **Functions which the channel member have to perform** include

- Help establish the brand in the market
- Help achieve the sales targets
- Provide adequate shelf space
- Provide merchandising support
- Provide service to consumers
- Make prompt payments
- Maintain fair trade practices

- Provide winning store image

• **Functions which the firm has to perform** include

- Supply quality products
- Build the brand and keep it a winner
- Regular, adequate and prompt supply of the product
- Effective servicing
- Advertising and sales promotion support

Different businesses have different requirements and different practices in this regard. FMCG businesses, for example, supply their products to practically all retail outlets; they do not assign any territory as such to any retailer; they assign territories only to distributors, redistribution stockists, and C&F agents. Durables marketers on the contrary, operate through a limited number of dealers in each town. Usually in these lines, territories are assigned to the dealers; even where territories are not exclusively assigned, an understanding is often worked out.

COMPONENT TASKS IN MANAGING THE NETWORK

- **Functions which the dealers have to perform**
- **Functions which the firm has to perform**
- **Fixing the trade relations mix**
- **Trade margin**

In some cases, manufacturers supply their products directly to certain specialised channels select consumers bypassing the appointed wholesale functionaries in the territory; Such buyers usually prefer, as a matter of policy, to deal with the principal rather than the wholesaler of the area. The wholesaler of the area often expects some compensation for such sales that take place in his territory: The manufacturers sometimes cover the wholesalers with an overriding commission for such sales. At other times, they do not provide any compensation whatsoever. The important point is that the firm must have settled in advance the policy in this regard with their wholesalers. The agreement between the firm and the wholesaler must specify whether and to what extent the wholesaler will be covered on such sales.. In recent years, the position has been changing rapidly; First, the new generation dealers adopt a more contemporary approach to retailing. Accordingly, their investment in the business infrastructure is much larger. They go in for attractive shops/showrooms; they periodically renovate and redecorate the premises; they also employ skilled and better trained salesmen. All this naturally pushes up their investment in infrastructure and their overheads. Running costs too have been going up. Added to this, the expectation of the new generation dealers in the matter of profit is also considerably higher compared to the earlier day dealers. Paradigm shift from 'gross margin' to 'retained earning': Thus, in the contemporary scene, in most cases, the manufacturers have to willy-nilly settle for a higher outflow towards dealer margin. It also becomes necessary for them to accept a paradigm shift in this matter-from 'gross margin' to 'retained earning'. They are required to hike the dealer margin to a level that would fetch the dealer a reasonable 'retained earning' after meeting all his normal expenses. They are also required to collaborate with their dealers and help them achieve a larger turnover and greater retailing productivity, so that at a given level of trade margin, their retained earning is higher. In the matter of margins, the way it is structured and allocated among the different tiers/levels in the channel is as important as the total quantum. There are several instances where firms have suffered in their marketing endeavour on account of defective structuring and improper allocation of the margin among the different levels of the channel.

- **Functions Which channel has to Perform**

They have to perform the following essential functions normally expected by their principals (FIRMS).

• Help establish the brand in the market

• Help achieve the sales targets

• Provide adequate shelf space

• Provide merchandising support

• Provide service to consumers

• Make prompt payments

• Maintain fair trade practices

• Provide winning store image

Building the Brand Dealers always want their principals to provide them a winning brand. Discriminating dealers give far more emphasis to the firm's performance on the brand front rather than the trade margin offered by the firm. They hesitate to take dealership of weak brands even if they offer very attractive margins. And, they are happy to deal strong brands even if the margins offered are low.

- **Functions, The Principals Have To Perform**

• **Supply quality products** :They overwhelmingly vote for products/brands that move from the shelf without any need for pushing. Likewise, they vote for products and brands that make their customers come back to their shops with enthusiasm. They also prefer products/brands that provide them volume margins rather than value margins.

• **Build the brand and keep it a winner**: Dealers have to put in a lot of their time. Effort, shelf space and money on the various products that they deal in, and they certainly do not want to get stuck with a weak brand. In particular, when a company offers a new brand the dealers want to be sure that the company would continue with the brand and build it well.

• Regular, adequate and prompt supply of the product: by the principal is another major concern of the dealer. If the firm is unable to supply the product regularly after he has pushed the brand with his customers, he not only loses face with them, but also runs the danger of losing out his other business.

• **Effective servicing** :the white goods business, has scored an edge through effective servicing of dealers. They have picked up one crucial aspect in servicing-replenishment of stocks-and have scored high. They have enabled their dealers to achieve larger sales and simultaneously reduce their inventor Now, they can draw their supplies from a ring of warehouses around the country and receive the stocks within 24 hours. This business has actually reached a point where its dealers need not carry any inventory at all; the company delivers the products directly to the consumer, once the dealer enters the order on his computer, which is connected to company’s stock points. Earlier, the dealers had to wait for two weeks or more; they had to carry heavy inventory; to avoid ‘lost sales’ due to ‘stock outs’

• **Advertising and Sales Promotion** Support Dealers also expect adequate advertising and sales promotion support from the principal, In particular, they expect good point of purchase promotion support. Such support. besides helping them to achieve higher sales, also serves as a good motivation.

- **Trade Relations Mix Must Provide Satisfaction To Both Dealer And Principal**

The name of the game is to ensure that the trade relations mix provides satisfaction to the dealer as well as the principal. The firm must offer a viable business proposition to the dealer. That is the baseline, It must also remember that dealers act more as a purchasing agent for the consumers than as a selling agent for the principal. And, it must hence enthuse the dealers by supplying products/brands. which they would be happy to purchase on behalf of their customers.

- **Servicing and Administering the Dealers**

Dealers expect effective servicing from the firm. Prompt supply of the product is one part of effective servicing. Prompt supply of the product helps the dealers not only to achieve larger sales. But also faster turnover and lower cost on inventory carrying. Technical support is the other part. Technical support must be forthcoming promptly from the firm wherever necessary. In any bazaar, one can see several cases of retailers switching their loyalty from one company to another purely on the basis of their servicing standard.

- **Effective servicing**
- **Regular visits by field force**: Largely, the field sales force of the company/its C&F agents stockists provides dealer servicing. The dealers expect regular visits by the field sales force, so that seated in their shop they can have all their problems addressed. The dealers also expect to be kept updated on all vital matters relating to the business. This is possible only if the salesman visit the dealers regularly.
- **Securing Shelf Space and Merchandising Support from Dealers** Securing shelf space and merchandising support from dealers is another important aspect of dealer management. By enlisting the willing cooperation of the dealers in the merchandising effort, the firm derives multiple benefits. Effective merchandis- ing accelerates the buying process as it serves as an on-the-spot reminder to the consumer to buy. A quick glance at the way in which the dealer aids/point of purchase promotion materials supplied by a firm are used in a retail shop, can help one judge the firm's dealer management. In the contemporary Indian context, getting shelf space and merchandising and display support from the retail outlets is of special significance as competition among brands is fast building up at the retail level. For example, in CTV's s since a number of firms compete for the limited shelf space available at the retail shops, the ones who score in this matter enjoy an overall edge in marketing.

- **Even big firms and major brands have to fight for shelf space**: With the growing competition and the explosion in branded FMCG products, the premium on shelf space has been going up steadily: The competition for grabbing shelf space usually becomes more intense during stagnant market conditions. Even big firms and well-known brands have to earn their shelf space and display the hard way; they are not in a position to demand it as a matter of right from the retailers. . Many companies are now running special communication programmes with a view to acquainting retailers with their products and brands, and convincing them of the benefit that would accrue to them if they patronised them. Companies are also now forced to meet a major part of the expenses involved in display in the shops. In fact, they are even expected to meet the expenses of general decoration of the shops.. The company now sets up at its cost special counters, which add considerable glamour to the shop and serve as point of sale advertising. Today, in most companies, merchandising accounts for more than 15 per cent of the total marketing spend. Many companies are also devising their own quality control checks on merchandising fronts. Kellogg has about 20 staffers doing the rounds of the outlets once every fortnight. And, at Pepsi, the merchandising teams stir out every two or three months and, even more frequently during the peak season, carrying with them scissors, cello tapes, dusters, nails, board pins, hammers, thread and, of course, the usual POP material. They clean the bottles, dust the racks, put up new posters and rearrange the bottles so that the brand fails the customer.
- **Ensuring Right Store Image**

  The competitive edge a firm derives from its retailers extends far beyond shelf space, merchandising and display: The store can be a total communication tool for the company. We shall be discussing the communication role of marketing channels in detail in the chapter on Marketing Communications. Suffice to point out here that the retail points are not mere outlets form where the products flow out. They serve as communication tools as well. It is a fact that consumers patronise certain stores and discard certain others. The store image does the trick. Today, more and more companies are realising the communicative significance of the stile image and are concentrating their attention on the ‘store image’ of their retail shops. It was mentioned earlier that in many businesses the marketing war is fought and won at the dealer level. Better servicing of the dealers, better communication and better motivation and training bring in superior dealer loyalty. And, with this loyalty, the firm can win markets. A firm enjoying superior dealer loyalty usually gets a bigger slice ofthe market. It is aptly said that a wise firm gets a good band of dealers and good dealers settle down with a wise firm. And a wise firm is one that provides right motivation to its dealers

- **Trade margin**

  Channel member invariably look for whole-some, juicy margin. The principals invariably try to peg it as modest as possible. The point to be noted here is that the margin must be sufficient to enable the dealer to gain a reasonable return on his investment. Present-day dealers as a rule, expect larger margin: In the earlier days, dealers managed to operate their outlets with modest trade margins. First, their investment in infrastructure was relatively low and they were able to make a profit even with a modest margin. Second, their expectation of profit was also relatively low

Check Your Progress- B

1. A ___________ channel structure is typically used for convenience products that need to be widely available.
2. Manufacturers often provide training and ___________ programs to distributors to improve their performance and customer service skills.
3. One of the main goals of channel management is to minimize ___________ in the distribution process to reduce costs.
4. ___________ is a key metric used to evaluate the efficiency of a marketing channel by assessing how well products move from producer to consumer.
5. A ___________ marketing system (VMS) unifies the members of a distribution channel under a single system to reduce conflict and improve coordination.
6. The choice of a marketing channel should align with the company’s overall ___________ strategy to maintain brand consistency.
7. One challenge in managing multiple marketing channels is avoiding ___________, where the same product is sold through different channels at different prices.
8. Channel leaders or ___________ often have the most influence in a distribution system and can enforce rules or policies among intermediaries.
9. ___________ management is critical in ensuring that inventory levels are maintained throughout the distribution channel to meet customer demand.
10. Effective channel management requires regularly assessing and ___________ the performance of distributors and retailers in the channel.

20.8 SUMMARY

In practice, the job of channel management is quite exacting. Firms usually have a large number of channel member spread over a large territory: Administering them, communicating with them and keeping them happy and well-motivated, involves a great deal of effort on the part of the firm, in fact, in a sense, channel management is more difficult than employee management, While, employees of a firm are under its direct control, the channel members are not. Accordingly, administration, and motivation becomes far more difficult in the case of intermediary as compared to employees. It should finally be mentioned that channel management, which includes intermediary selection, channel motivation and channel development, is a continuous job. The efforts cannot be slackened any point of time. Even in the best of networks, there will be some dropouts, every year; a few may become inactive. New channel members must be added in place of those who drop out. And, the inactive ones must be either activated or weeded out. Even when the dealer outfit is in a fairly trim condition, there has to be a continuous infusion of fresh blood into the system. Similarly, training and development of the channel member has also to be a continuous effort.

20.9 GLOSSARY

Marketing channel: The procedure of activities that need to be performed to distribute the finished goods at the point of production to the customer at the point of consumption.

Performance appraisal: Brings forth the strengths and weaknesses of the channel member. If the performance is below the desired level, remedial actions are taken promptly.

20.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

1. flow
2. Marketing channel
3. coordination
4. Direct
5. nature
6. Indirect
7. performance
8. uniform
9. communication
10. Vertical

Check Your Progress –B

1. intensive
2. support
3. inefficiencies
4. channel effectiveness

5. vertical
6. marketing
7. cannibalization
8. channel captains
9. Inventory
10. evaluating

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4. Johnston and Marshall, Sales Force Management, Tata McGraw Hill, 2007
5. 5. Tapan Panda and Sunil Sahadev, Sales and Distribution Management, Oxford Higher Education, 20020.

20.13 TERMINAL QUESTIONS

1. Discuss the key factors that influence the selection and management of marketing channels. How do product characteristics, market conditions, and company resources affect channel decisions?
2. Examine the challenges associated with managing multiple marketing channels. What strategies can companies implement to prevent channel conflict and ensure consistency across different channels?
3. Describe the importance of channel performance evaluation in the management of marketing channels. What metrics should be used to assess the effectiveness of distributors and intermediaries?
4. Analyze the role of vertical marketing systems (VMS) in managing marketing channels. How do VMS models help reduce conflict and improve coordination between channel members?

5. How does channel integration (both vertical and horizontal) affect the overall efficiency of the distribution system? Discuss the advantages and potential drawbacks of integrating channel functions.

Block IV

Management of Channels

UNIT-21 WAREHOUSING

21.1. INTRODUCTION

" A warehouse should be viewed as a temporary place to store inventory and as a buffer in supply chains.
It serves, as a static unit – in the main – matching product availability to consumers demand and as such has a primary aim which is to facilitate the movement of goods from suppliers to customers meeting demand in a timely and cost-effective manner." Adapted from Van Den Berg (2013)
We all need different types of products in our homes in our day to day life. Sometimes we may buy these goods in bulk depending on the storing capacity in our homes .There are certain things like flour,rice ,lentils etc that we buy in bulk and store in our kitchens. In the same way a business also requires raw material, work in progress and finished goods to ensure that the operation is run smoothly throughout the year. However there may be times when these goods are not available due to certain factors like scarcity or The production being limited in a particular time period and their incomes the role of warehousing.

Let us take the example of a textile mill. It requires cotton bolls or raw cotton for the production of clothes. As the production of textiles takes place through out the year there is a need for the continuous supply of raw cotton. Here, there is need for storage of raw cotton and subsequently to ensure smooth production without having any stock out and break down.

Warehousing does not end just with the storage of raw material that is cotton because after the production of textiles it requires sales and distribution, and, thus, It needs storage of produced items for a certain period of time. A warehouse is any place, premises or a building where items, materials or products are stored.

Warehousing and inventory storage are not a new and modern concept . Warehouses had have been existing since the early days of Indus Valley civilisation and the Harappan Civilisation.For example a warehouse that served Naval trade was found in Lothal now in Gujarat in around 2600 BC. Later on in the 18th and the 19th centuries during the industrial revolution in Europe , warehouses started evolving and took a more specialised role in the industry. During this period, warehouses became more popular ,more efficient ,more approachable in terms of product movement.

According to Robert Hughes, “ WAREHOUSING is a set of activities that are involved in receiving and storing goods and preparing them for the shipment.”

In this unit you will study the concept of warehousing/warehouse management. The unit also describes the functions of warehousing, the importance of warehousing , the various kinds of warehouses and their operations ,the layout of the warehouse. This unit will shed light on the storage and handling devices in the warehouse, warehousing expenses ,security and physical wellness and warehouse and the environmental conditions.

21.2. OBJECTIVES

After studying this UNIT you will be able to :-

a) Discuss the concept and nature of a warehouse.
b). Explain the meaning of warehousing.
c) Describe the importance of warehouse.
d). Understand the complete warehousing process.
e) Comprehend warehouse management system
f) Elaborate on the warehousing expenses and
g) Understand how physical wellness and security are maintained.
h) describe the system of public warehousing in India
I) explain the unique warehousing activities of CENTRAL WAREHOUSING CORPORATION.

21.3. CONCEPT OF A WAREHOUSE

The words WAREHOUSE and GODOWN as synonymous. Certain terms like warehouse, depositor, warehouseman etc have been truly defined in the relevant STATE WAREHOUSING

ACT under which public warehouses in India are licensed and regulated for operation of specific commodities.

It is understood that warehousing not only serves as a storage facility, but as a hub for various other activities such as receiving, identifying,holding and assembling inventory and ensuring its availability to meet the demand. Thus a warehouse, acts as an integral part of logistics that stores products between the point of origin and the point of consumption.

Warehousing involves getting products ready for shipment with an ultimate objective to maintain the uninterrupted flow of goods. Ready and quick availability of goods will ensure a higher degree of customer service and will further lead to customer satisfaction.

Procuring raw materials is an important part of any manufacturing organisation. Raw materials are required to ensure a smooth level of production. However before raw materials are used for producing finished goods they require safety and good care so that there is no theft or damage. Thus, it is important, for an organisation to have an effective warehouse in place and sound materials management practises.

A warehouse plays an important role in the supply chain of an organisation by holding or storing goods .There is a need to store a product before it is shipped to customers As all products produced cannot be quickly delivered to customers; for example in the case of motor cycle manufacturing, it is not possible to deliver the final product to the concerned customers immediately after production as customers are spread across different states or regions.

Warehousing provides time and place utility for raw materials,work in progress and finished goods. These days, organisations manage their warehouses in such a way that they facilitate improved leadtimes, reduced logistics cost and increased competitive advantage. A well managed Warehouse facilitates an organisation to use customer service as a competitive tool.

Warehousing plays a crucial role in Supply Chain Management by providing a centralised location for inventory storage, which helps businesses to optimise their logistics processes and also ensure timely delivery of products.

Warehousing plays an all important role in the e-commerce sector. Its chief function is to see that the products are properly stockpiled and warehoused supervised and dispatched perfectly to the customers /buyers. Warehousing is extremely important for the e-commerce businesses to function and run seamlessly and effortlessly and stay highly competitive in this quick paced online commercial business world..

21.4. CONSTITUENTS OF WAREHOUSING

21.4.1 MAJOR ELEMENTS

The major constituents of warehousing are:-

a) SPACE
b) EQUIPMENT
c) PEOPLE

SPACE: The warehouse space is a commodity, and like any other commodity its price also can show great volatility with changes in time.At times this commodity can be easily available but there are certain times that with this commodity can become so scarce that the acquisition of additional space seems almost impossible and difficult. Scarcity or high cost of space can be reduced through changes in use or specifications of the other two warehousing components - people and equipment .However where space is relatively cheap people and equipment are used in a totally different fashion.

PEOPLE: The most critical component in warehousing is People . The personal performance of warehouse workers often makes a difference between high and low quality warehousing.
By comparison the variations in quality of building and equipment are typically small . It is the way the people who are working in the warehouse that go on to make a lot of difference between a high-grade warehousing and a low grade warehousing.

EQUIPMENT: Equipment consists of material handling devices, racks, forklifts, conveyors, back stackers and all of the hardware and software which is used for making warehousing functional.
While some equipment is especially designed to save space , some equipment is used for preservation treatments like sprays fumigation covers etc in case of perishable commodities.

The useful life of most warehousing equipment is substantially shorter than the useful life of the warehousing building. While warehousing equipment will depreciate in value with the passage of time ,the value of the warehousing building may appreciate with the passage of time .

21.4.2 SUBSIDIARY CONSTITUENTS

Shelving and rack systems:
Shelves and racks are there in the warehouse for maximum storage capacity and easy product access.

Climate control system:
If the product is temperature sensitive ,the warehouse should be capable of storing such items. This may include frozen products and those requiring refrigeration, certain laboratory or pharmaceutical products and products that may degrade if exposed to too much heat .

Inventory control hardware and software
A number of warehouse. units have this particular software, which informs the product owner about the location of specific units in the system, all the times.

Easy access to cost effective transportation:
This is to bring in or move the goods out as and when orders are fulfilled. This requires easy access to all the interstate railway lines or airports or roadways .

21.5. FUNCTIONS OF WAREHOUSING

Warehouse is a very important part of supply chain management which keeps goods before they are shipped and finally delivered to the customers. Basically production and consumption do not take place simultaneously .There is a large gap between the two. Warehousing bridges that gap by storing those goods between these two processes ,that is production and consumption and further creates time utility.
Warehousing aids in the storage of raw material, finished goods, semifinished goods, goods in transit, seasonal goods et cetera
Warehouse brings out the efficient distribution of goods; for example storage of crops after harvesting till distribution in the areas where there are there are acute shortages of the grains.
Warehouse also ensures stable prices, as the stored output can be used at the time when the production is low and there is shortage.
Warehousing plays a vital role in the grading ,picking and the branding of the goods. Warehousing also provides perfect space for the preservation of those commodities
that can perish ; for example storage of meat vegetables and fruits in the cold storage for a long time.
Warehouses are also used to improve the quality of the products as they mature for example wine storage.
Warehouses enable proper supply of goods during the breakdown in production or when the there is a sudden unexpected increase in Demand.
Warehousing reduces the risk of theft and the damage of the products that are kept or stored.

21.5.1. SOME MAJOR FUNCTIONS

A). STOCKPILING
The term refers to the use of warehouse as a source to handle production overflows.
Such sources are necessary and two situations:-

Seasonal production and Level demand
Level production and seasonal demand.

For example the producer of potato products builds a warehouse inventory at the harvest time while the demand for potatoes is fairly level and equal throughout the year.
As opposed to this is the case of kids' toys manufacturer .The highest demand comes at particular occasion but the manufacturer may need to stockpile in order to accommodate unforeseen demand also.
In either case the warehouse Is like a bridge that balances supply and demand.

B.) PRODUCT MIXING

PRODUCT MIXING in a warehouse Actually implies the merger or amalgamation of the conveyance and transference of the products coming from different areas into one single cargo consignment.
Product mixing is advantageous to all the retailers because it lessens the costs of shipping and transportation and leads to the improvement in efficient handling.
It is extremely beneficial to all the retailers who have to manage large stocks of different kinds of goods on the one hand and maintain optimal inventory standards on the other hand.Multiple

production facilities produce part of the final product. These facilities ship the goods to the product mixing warehouse where the product is combined before distribution to the customer.
This method ensures that customers receive a variety of products in one shipment which can be more cost-effective and efficient.

C.) CONSOLIDATION FOR OUTWARD DISTRIBUTION

It involves combining products from several warehouses/manufacturing facilities into a single shipment for a final customer at a central warehouse. It refers to the use of warehousing for gathering goods that are to be shipped for final destination. Warehousing costs are justified by savings in outbound shipping costs achieved through volume of loads. In one case a fast food company uses consolidation warehouses to serve clusters of retail stores thereby reducing costs and frequency of small shipments to the stores. It implies that the fast food company would ensure the consolidation of its products and how it is going to be despatched to the respective stores in a single shipment.

D.) BREAK BULK WAREHOUSING

Break bulk warehousing is the process of storing individual items or small quantities of cargo as opposed to consolidated cargo. This involves several orders being consolidated at a manufacturing plant or at the central warehouse and then sent to a break bulk warehouse where they are broken down into individual orders and distribute it.
Break bulk in warehousing refers to the process of handling and storing individual items or small quantities of cargo, rather than consolidating them in large shipments. This method is particularly useful for items that are huge, big, oversized, heavy or require special handling.
Break bulk warehousing allows for the storage and transportation of goods that cannot fit into standard containers, such as large machinery, construction equipment, or raw materials.
Break bulk warehousing is particularly more cost-effective and affordable for certain types of cargo, as it reduces the need for expenses expensive storage facilities and minimises the risk of damage. Goods can be transported to and from smaller ports that may not accommodate larger container ships.

E.) REVERSE LOGISTICS

Reverse logistics in a warehouse involves managing the return of goods from the customers back to the sellers or manufacturer. This process is crucial for handling returns, refurbishment, recycling, and disposal of products. In it there is efficient handling of the return of the products , to ensure customer satisfaction and to minimise losses. There is proper reclaiming of value from returned items by repairing or refurbishing them for resale
There is proper disposing of or recycling of products that cannot be reused or is sold.
Unsold goods are managed and it is ensured that they are processed correctly to avoid excess inventory.

F.) HIGH VALUE BENEFITS SERVICES IN WAREHOUSING

- Warehouses also have the provision of high-value benefits. These benefits include cross stocking, marking and tagging for the satisfaction of the customers who have a particular kind of demand and request and finally the assembling of the end products .
- The high-value benefits of warehousing helps the businesses to run smoothly efficiently and in a well organised manner.The supply chain processes Can be easily streamlined and the customer needs can be catered to very easily.

CROSS STOCKING :-

- Cross stocking is a simple method employed by the warehouse operators to merge and amalgamate the products from various different sources into single transportation for dispatch and delivery.
- This method assists in the reduction of the costs of transportation, manages the handling of time and leads to the improvement of efficiency and perfection in the supply chain system.
- To take an example, a warehouse distributor gets different products from different manufacturers at the warehouse facility. These different products are sorted and then packed. They are then loaded onto trucks for the final dispatch.
- Another example is that a warehouse distributor gets same products from different manufacturers at the warehouse facility. These Products which are same but manufactured at different units are then sorted , packed and loaded onto trucks for the final dispatch.

The cross-stocking technique is a very sorted and time saving and cost-effective technique.

MARKING AND TAGGING

- For a warehouse to run efficiently, it is essential to keep an eye on the catalogue or the record register of all the items and goods that come to the supply chain. All the goods/ products have to be marked and tagged properly, either keeping in mind the standards laid down by the warehouse industry or else as per the requirement of the customers or both.
- An out and out perfect marking and tagging give the assurance of a perfect management of the inventory. It also reduces the mistakes that can occur due to the shipment of wrong items or the wrong quantities of the items.
- The warehouses have the onus and the responsibility of satisfying all the customers. In this fast paced world of e-commerce business it would be extremely profitable to the warehouse to see that the items are shipped to the customers well in time and the packaging or the packing of the items that takes place at the warehouse must be done in a personalised, tailored, customised manner well wrapped in boxes so that there is no complaint from the customers.
- The warehouses have to go in for a regular inspection of quality control. When quality control inspection services are provided to the suppliers, only excellent graded products will reach the final customer. There are then no claims for the return of the faulty defective goods and this helps to keep the brand reputation up.
- WMS or warehouse management systems can be perfectly used by the warehouse managers to keep an eye on the total turnover of the inventory, the fulfilment of the order and the orders that have been placed.

- During the warehousing process, BARCODE LABELS ,RIFD TAGS or specialized customised tagging can be done depending on the specific demands of the customers.
- In case of the return of goods due to any reason possible, the warehouse can easily apply reverse logistics and manage the returns along with the improvement of the warehouse safety.
- High value benefit benefits in warehouses and all the warehousing processes are extremely important for the storage and distribution of goods to the optimum maximum. This would enable businesses to increase their efficiency and also see to reduction in the costs.

The role of a warehouse in the complete supply management can be understood by theorganisations and companies and this would enable them to improve their all- inclusive logistics operations !

21.6. THE BASIC LAYOUT OF A WAREHOUSE

A warehouse is a place to store inventory. Warehousing means maintaining the stock of raw materials, components, spare parts, fuels, work in progress, finished goods, et cetera in a convenient storage location and from there retrieving the stock as and when required. Warehousing is a part of development of facility structures a facility structure is a part of logical infrastructure which supports one or more logical functions. The warehouse layout or design depends on the nature of inbound and outbound traffic,volume and movement of materials inside the warehouse and material handling system to be installed in the warehouse.

The basic design or the layout of a warehouse involves several key elements to ensure efficient storage, handling, and movement of goods there are some fundamental components of the basic design of a warehouse they are as follows: –

i) LAYOUT PLAN

Schematic Creation
This is actually a detailed 2 D visualisation of the warehouse layout. This is done using physical schematics or design software.
Space Optimisation
The total warehouse size is calculated and this Is done to get potential storage area for maximum space utilisation..

ii) ESSENTIAL AREAS

Storage and inventory areas:
These areas are very crucial for managing traffic flow and employee workflow

Inbound receiving dock:
An area is designated for receiving products and pallets from the delivery trucks.

Outbound shipping area:
Space for packing and shipping orders is allocated.

Workstations:
These are the areas where employees can perform tasks such as sorting packing and labelling.

iii) EQUIPMENT AND WORK FLOW
Equipment Selection
An ideal work house always chooses the right and the best equipment for storage handling and transportation of goods.

Workflow strategies:
Strategies which would streamline all the processes and improve productivity were implemented in a warehouse.

iv) TRAFFIC FLOW TESTING
Traffic flow testing in warehouse design is basically simulating and analysing the movement of goods and personnel within the warehouse to identify potential congestion points and wage drawbacks if any in the traffic movement in the warehouse .

v). THE CRITERIA FOR WAREHOUSE
When any warehouse is designed or any kind of a distribution facility is designed 4 factors are always kept in mind that is, flow, accessibility, space and throughput. These factors are applicable to all types of warehouses respective of the type of material that they store.
Be it a store having spare parts or having raw materials for manufacturing process or a big distribution centre these factors apply to all of them. There is no definite order or given priority. Each factor is very important and the basic aim is to get the best compromise if there is any problem. If any of the factors changes, other factors have to be re-considered for analysing the impact of the change on the entire process.

THE FOUR FACTORS:

FLOW: -
Flow implies a definite sequence of all the operations in the warehouse when all the activities are placed close to each other .Flow Basically stands for an interrupted and carefully managed movement of traffic ,people and materials. A very important concern is to be aware of the location and the status of the materials in the whole system and the handling of medium and equipment. One of the chief objectives is to position and conduct warehouse activities for contributing a smooth operational flow that needs least interruption and easy movement.

ACCESSIBILITY: -
Accessibility is not just getting the product it also implies getting the right level of packs .
In the case of all FMC"S (FORWARD MARKET COMMISSION) distribution centre accessibility will imply getting and issuing the product by the pallet load, generally by using the truckloading option. So one needs to access all the pallets. Since the product generally has a long shelf life and is very fast moving so it is required to apply the FIRST IN FIRST OUT rule by

road to individual palate level. However accessibility will differ from one product to another depending on the shelf life of the product and the particular batch, and the lock number.

SPACE :-

It is very clear that majority of the space has to be provided for stock processing and operational storage. Less space can be provided for other complimentary functions such as the working area, battery charging, office and empty pallets. Hence the warehouse building can be of economical and the simplest possible design. Also, it must allow the building operational flexibility by choosing the storage media for meeting the existing stock profile and then changing as its operations keep evolving for meeting all the future needs.

THROUGHPUT:-

Throughput in a warehouse design actually refers to the number of products that are processed and moved through various warehouse processes within a given period this includes activities such as receiving, put away, storage, picking, packing, and shipping. In a sense THROUGHPUT measures the efficiency and capacity of a warehouse to handle and fulfil orders. If a warehouse has higher throughput it means there is more efficient warehouse operation, capable of processing a larger volume of products in less time and vice versa.

Efficient warehouse design is a critical factor that can significantly impact workflow, operational efficiency, and overall supply chain performance. Well optimised warehouse layout not only streamlines daily operations but also contributes a faster shipping times, enhancing the business is overall productivity. Where the setting up a new warehouse are considering designing redesigning an existing one, the importance of thoughtful warehouse design cannot be overstated. By meticulously mapping out the warehouse, optimising space, choosing the right equipment, testing the plan ,businesses can establish a foundation for success. As businesses strive for operational excellence the importance of warehouse layout design cannot be overstated .It directly impacts order fulfilment speed, accuracy, overall customer satisfaction Finally, a thoughtfully designed warehouse layout aligns with the unique characteristics of a business, providing a strategic advantage in the competitive landscape.
All these components contribute to a well coordinated and streamlined warehouse environment.

21.7. WAREHOUSE MANAGEMENT SYSTEM

Warehouse management processes or warehouse management is the control of the day to day operations such as receiving goods, tracking stock, ensuring efficiency in the storage in a warehouse. Warehouse management is most commonly associated with 6 basic things: accuracy, cost control, efficiency, cleanliness, safety and security .

However all the underlying processes are quite complicated and dynamic and sometimes pose major problems for all the warehouse managers across industries. Hence for very efficient and effective functioning of the warehouse it is important to have a PERFECT WAREHOUSE MANAGEMENT !

21.7.1. The Warehouse Management Processes

A.) INBOUND PROCESS IN WAREHOUSE MANAGEMENT

The inbound process encompasses all activities from the arrival of goods at the warehouse to their placement in storage locations this process ensures that all the goods are accurately received, inspected, and stored, maintaining efficient warehouse operations.
There are eight operations involved in the complete inbound process in a warehouse management system. They are as follows: –

RECEIVING GOODS

Verification : When goods arrive, they are verified against the Purchase Order (PO)or Advance Shipping Notice (ASN) to ensure accuracy.
Data capture: Barcode scanning or RFID technology is often used to capture data and isolated automated receiving.

INSPECTION AND QUALITY CONTROL

Inspection: Goods are inspected for damage, discrepancies, or quality issues.
Quality control: tools within the WMS capture inspection results and record any deviations from the expected conditions.

CROSS DOCKING (If applicable)

Direct Transfer: In some cases, goods are transferred directly from the receiving dock to outbound shipping without being put into storage. This process requires careful coordination.

PUT AWAY

Storage Allocation: Goods are moved to the designated storage locations within the house with warehouse.
Optimisation: The WMS generates optimal storage locations based on item characteristics, storage capacity, and picking efficiency.

INVENTORY UPDATES

Real Time Updates : Inventory records are updated in real time to reflect the latest stock levels and locations, ensuring accurate inventory visibility.

DOCUMENTATION AND COMPLIANCE

Record Keeping: Documentation such as serial numbers, Lot numbers column, expiry dates and regulatory information is captured and maintained electronically.

VENDOR MANAGEMENT

Coordination: managing relationships with Vendors and suppliers to ensure timely deliveries and resolve discrepancies.

NOTIFICATION AND PROOF OF DELIVERY

Communication: Notifying the supplier of goods receipt and providing proof of delivery.

B.) QUALITY CONTROL IN WAREHOUSE MANAGEMENT

The most essential core component of any good warehouse efficiency strategy begins and ends with QUALITY CONTROL (Q C). Focusing on the quality of each order, monitoring and adjusting protocols and processes based on key metrics for the proper packing and shipping of each order can improve the efficiency of the operations. The Quality Control (QC) helps address the quality control procedures that may be achieved at the receiving warehouse. This also ensures quality and accuracy of the product shipped down.
Quality control in a warehouse is crucial for ensuring that products meet predetermined standards and customer expectations.
Here are some key aspects of warehouse quality control:

INSPECTION OF INCOMING GOODS

This involves checking the condition of products as they arrive at the warehouse to identify any damage or defects early on.

Proper storage:
Ensuring that products are stored correctly to prevent damage and maintain quality.This includes managing temperature humidity and other environmental factors.

Inventory management:
regularly monitoring inventory to ensure that products are in good condition and that stock tables are accurate.

Inspection of outgoing goods
Before products are shipped out they are inspected to ensure they meet quality standards and are free from defects.

Documentation And reporting
keeping detailed records of inspections defects and corrective action is taken to maintain transparency and continuous improvement.

Employee training:
Ensuring that all warehouse staff are trained in quality control procedures and understand the importance of maintaining high standards. Implementing these practises helps to reduce errors, improve efficiency, and maintain customer satisfaction.

C) OUTBOUND PROCESS IN WAREHOUSE MANAGEMENT

Inbound logistics bring supplies of materials into a business while outbound logistics deals with moving goods and products out to the customers. Both focus primarily on the transportation of goods. But in both inbound process is all about receiving while outbound focuses on delivery.
Processing of customer orders, order picking, checking, packing and shipping for the outbound process is outbound processes or more labour-intensive than the inbound process.
There are various phases in outbound processes which are discussed here with :-

ORDER PROCESSING

This is the initial step .The customer orders are received and processed. The warehouse management system WMS helps in tracking and managing these orders.

Picking:
Once an order is processed, items are picked from their storage locations. This can be done manually or with the help of automated systems like pick to light or voice speaking.

Packing:
After picking, the items are packed securely to prevent damage during transit. This step includes labelling and preparing the packages for shipment.

Loading:
Packed orders are then loaded onto trucks or other transportation vehicles. Efficient loading practises helps in maximising space and ensuring safe transport.

Shipping :
The loaded vehicles are dispatched to the respective destinations. This step involves coordinating with carriers and managing shipping schedule.

Delivery:
Finally the products are delivered to customers. This includes tracking shipment and ensuring timely delivery.

Returns management:
Handling returns efficiently is also part of the outbound process. This involves inspecting returned items, re-stalking them, or re-processing refunds. Implementing best practises in each of these steps can help improve efficiency, reduce errors, and enhance customer satisfaction.

D.) Documents and Records Maintenance in Warehouse Management

Record-keeping is the act of keeping track of the history of an organisations activities, generally by creating and storing consistent formal records. Documents and records management in a warehouse management system WMS is essential for maintaining accurate and organise records of all warehouse activities.
Here are some key aspects:

Document storage and retrieval:
A WMS allows for the electronic storage of documents such as invoices ,shipping labels and packing list. This makes it easy to retrieve documents whenever needed.

Inventory records:
The system keeps detailed records of inventory levels, movements and locations. This helps in tracking stock accurately and in managing replenishments .

Transaction records:
Every transaction, including receiving , picking, packing and shipping, is recorded in the WMS. This ensures a complete audit Trail and helps in identifying any discrepancies.

Compliance and reporting:
A WMS can generate reports for compliance with regulatory in requirements. This includes records of inspections, quality control checks, and other compliance related activities.

Integration with other systems:
The WMS can integrate with other systems like ERP and TMS ensuring that records are consistent across all platforms.

Security and access control:
Access to documents and records is controlled to ensure that only authorised personnel can view or modify them. This helps in maintaining data integrity and security.

Retention and disposal:
This system can manage the retention and disposal of records according to company policies and regulatory requirements. This includes setting retention periods and automating the disposal of records that I no longer in lead it. Implementing these practises within a WMS can improve efficiency, ensure compliance and maintain accurate records.

E) Refund or Return Process in Warehouse Management
Returns management is the supply chain management process by which activities associated with returns, reverse logistics, gatekeeping and avoidance are managed within the firm and across key members of the supply chain. The returns area of a warehouse is commonly full of a mix of open cartons from many different units that need to be identified and sorted according to disposition. Through this sorting process credits must also be issued and return to vendor tracking created.
The refund or return process in a warehouse management system WMS involves several key steps to ensure efficiency and accuracy. Here is a general overview:

Return authorisation:
Customers initiate return request, often online. The WMS generates a return merchandise authorisation RMA number to track the returns.

Receiving returns:
when the returned items arrive at the warehouse they, are inspected for damage and categorised based on their condition (resaleable, repairable, or disposable) .

Inventory update:
The WMS updates inventory levels in real-time, reflecting the status of the returned items.

Quality control:
Items are inspected to determine if they can be re-stocked, need repair or should be discarded totally.

Re-integration into inventory:
Re-saleable items are integrated into the inventory, assigned to appropriate storage locations.

Repair and refurbishment:
Items needing repair are tracked through repair process until they are ready to be returned to the inventory.

Disposal and recycling:
Items that cannot be resold or repaired are managed for disposal or recycling, ensuring compliance with the environmental regulations. This process helps to maintain accurate stock levels, optimise supply chain operations and enhance customer satisfaction.

F .) Disposal of Non-moving/obsolete goods in warehouse

Management
Obsolete or dead inventory is the stock that can do longer be sold because the product has reached the end of its life-cycle.
Obsolete inventory can be disposed of in various ways. Every effort should be made to sell the item set an amount equal to the cost recorded in the inventory records. Some painters may buy it back or trade for parts that can be used or newer equipment.
Disposing of non-moving or obsolete goods in warehouse management system WMS involves several steps to ensure efficiency and compliance with regulations.
Here is the general overview:

Identification:
Warehouse Management System has to identify non-moving or obsolete items based on criteria such as last sale date, demand forecasts, and inventory turnover rates.

Segregation:
Once identified, these items are segregated from active inventory to avoid confusion and it is ensured that they are not mistakenly picked for orders.

Assessment
The condition of these items is evaluated to determine if they can be sold at a discount , or donated or recycled or need to be disposed of totally.

Decision making:
Decide on the best course of action for each item:
Discount sales: offer items at a reduced price to clear out stock
Donations: donate usable items to charities or nonprofits.
Recycling: recycle materials that can be repurposed.
Disposal: safely dispose of items that cannot be reused or recycled, following environmental regulations.

Documentation:

Keeping detailed records of the disposal process, including reasons for disposal methods used and any cost incurred.

Inventory update:
Update the WMS to reflect the removal of these items from the inventory, ensuring accurate stock levels.

Review and optimise:
Regularly review inventory management practises to minimise future occurrences of obsolete stock. This process helps maintain a lean inventory, optimise warehouse space, and reduce holding cost.

CONCLUSION ABOUT W.M.S
Managing the disposal of non-moving or obsolete goods within a warehouse management system (WMS)is crucial for maintaining operational efficiency and sustainability. By systematically identifying and segregating these items, assessing their condition, and making informed decisions on their disposal, where houses can optimize space and reduce holding costs. Documenting the process and updating inventory records ensures transparency and accuracy. Regular reviews and optimisations of inventory practises helps prevent future occurrences of obsolete stock ,contribute to a leaner, more efficient house warehouse operation.

21.8. TYPES OF WAREHOUSES

Warehouses are necessary components of the supply chain and logistics industry. On the one hand,Warehouses make the provision for a company's challenging, crucial supply chain inventory and on the other hand they make provisions for storage in a company's effortless manageable supply chain situation.In both the situations the warehouses see to it that the goods reach the final destination.

It is because of the warehouses that there is a regular and continuous flow of goods and product via the supply chain easily from the manufacturer/producer to the customer/buyer.

The point to be understood is that all warehouses and not the same different kinds of warehouses have different kinds of functions, purposes in the logistics and supply chain. Warehouses possess their own characteristic qualities and their merits and demerits.

Discussed below are the various kinds of warehouses and the crucial role that they play in the logistics and supply chain management: -

The storage facilities ensure the smooth flow of goods through the supply chain from the manufacturer to the customer. But it is seen that different kinds of warehouses are made differently. These warehouses have specific purpose in the marketing and logistics chain. Each warehouse has its own characteristic features, merits and demerits. Listed below are some of the different kinds of warehouses and their specific role in the complete supply chain management

A.) PUBLIC WAREHOUSE

These warehouses provide storage facilities to the general public on a rental basis. These warehouses may be owned by an. individual,a partnership firm or by an organisation.

These warehouses are to be used by manufacturersWholesalers, exporters, importers, government agencies et cetera after paying a certain amount of fee.

An organisation that owns a public warehouse needs to obtain a license from competent authorities.

In general, public warehouses are used for low quantity storage and are preferred by organisations or individuals entering new markets or by organisations dealing in seasonal

products.

The owner of goods acts as an agent under public warehousing. But there are certain limitations too ,as the business houses and organisations do not have much control over the warehousing storage condition.In a public warehouse a single space is shared among several customers and business houses. As a result of this there is not much communication between the parties that manage the warehouse and the business houses. This leads to certain drawbacks in the warehousing facilities

B.) SMART/AUTOMATED WAREHOUSE

A smart or an automated warehouse is actually a computer controlled storage system or in modern technology a digital warehouse system. A fully automated warehouse system makes use of the finest technologies in the warehouse as it can improve if you can see, accuracy, security and sustainability of the goods and products stored in the warehouse.

A computer controlled Warehouse makes use of IOT (INTERNET OF THINGS) Gadgets and tools like sensors, RFID (RADIO FREQUENCY IDENTIFICATION) Tags and some POINTERS That have the job of collecting data which is authentic on the inventory. Once the data has been collected and assembled it is then scrutinised properly so that all the warehouse operations can be done in a flawless manner. This also helps to reduce waste and enable the taking of proper and correct decisions in warehouse techniques. An intelligent or an automated warehouse needs to be perfectly safe and secure.

Hence several advanced safety technologies are applied that help to conduct the complete warehousing processes most securely and efficiently. These advanced technologies include machine vision and proximity or nearness sensors.

A fully automated and computerised warehouse is far more sustainable and ecologically friendly. Several smart warehouses use renewable energy such as the energy harnessed from the wind or the tides . (WIND / TIDAL ENERGY) .

C.) EXCLUSIVELY OWNED WAREHOUSES

These kind of warehouses are owned completely and run by an individual or a manufacturer or a single organisation for their own use. Big organisations that have a large inventory in terms of volume and need exclusive space for the storing of their products or goods use these exclusively owned warehouses. An interesting feature of these warehouses is that they are private, personal warehouses that are owned by the company owners, producers, businessmen for stocking and storing their own goods and products.

Most of these exclusively owned warehouses operate in a slick ,smooth manner because they are situated near the manufacturing units and are completely managed by the manufacturers themselves. Hence the conditions for stockpiling, storing and transporting the goods are flawless because they are monitored by the owners themselves. There is far better safety and security in these warehouses and complete confidentiality is maintained because it is a single user warehouse. It is on account of the warehouse being owned by a single person/organisation/company/business that the quality of goods is maintained and there is not much damage or loss risk.

In a personally owned warehouse, business houses have the advantage to customize their own warehouse according to their specific requirements.But the building required for a single owner warehouse and the maintenance of the warehouse can be an expensive deal for the warehouse owner.

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D) GOVERNMENT OWNED WAREHOUSES

These warehouses are possessed ,maintained and owned completely by the local, state or national government agencies. The government owned warehouses stockpile a large variety of products, goods and articles that are owned by the government institutions. They also include some of the goods that have been confiscated as illegal products by the government agencies. These include the banned drugs, military ammunition or weapons or fake merchandise. All these products are kept in government owned warehouses till they are used as evidence in the court while the case is going on or or conveniently disposed of.

These warehouses prove to be a blessing in times of natural calamities, wars, battles, accidents when the government promises and provides a regular supply of these goods which are basically stored in these warehouses. Food, clothing, water, medical aid equipment and supplies are provided in times of emergency.

E) COLD STORE WAREHOUSES

Cold Store warehouses make use of technical system of cooling, freezing and chilling in order to preserve the perishable goods and products.The temperature in the cold store warehouses have a regulated temperature in the refrigeration system that conditions the air to such a temperature that all the fresh products like vegetables, fruits, frozen foods , medicines , chemicals etc remain fresh and are not contaminated. The quality, the freshness of all the products are Unspoiled and a uncontaminated dur to Such low temperatures maintained in the cold warehouse.

All cold store houses have special rooms and cabinets with temperature and humidity control systems. These very rooms and cabinets Have the capacity to adjust a large range of products and goods that have different temperature ranges. However regulating temperature for different kinds of products is a big task in cold storage houses.

In all cold store houses there are exclusive equipment and packing materials so that all the products can be safe during transportation. The packaging material is such that the required temperature of the products is maintained and there is no overexposure to either excessive heat or excessive moisture or any other kind of contaminant which can decompose or spoil the product.

F.) SHARED WAREHOUSES

These warehouses are also termed as ON DEMAND WAREHOUSES and FLEXIBLE WAREHOUSES. They are called shared warehouses because different small companies or e-commerce retailers can make use of these warehouses during peak season when their products are in demand. They also make use of these warehouses When their inventory products are in demand. They also make use of these warehouses When their inventory levels are not consistent or keep fluctuating.

3PL or THIRD PARTY LOGISTICS Providers run these shared warehouses. Shared warehouses are also called flexible warehouses because business houses/ companies/organisations can either add or Ask for a reduction in the warehouse space as per the demand of their products.However it is understood that these warehouses have less space when there is a boom in the business and all business houses wish to store and stockpile their goods in the shared warehouses. It is at this time that the business houses have very little control over the management of the shared warehouses.

G) BONDED WAREHOUSE

A BONDED WAREHOUSE is the place where the shipment companies can stockpile and store goods brought from abroad before they are actually processed by the customs offices.All the goods that are stored in these warehouses do not come under the purview of customs duties. It's

Only when the goods are delivered to their Next destination that there is Customs duties levied on them.

The bonded warehouse is totally run and managed by government agencies like the customs department or the tax department of the state or the country. Since these warehouses do not levy any customs duty or tax on the goods that are stored in the warehouse there are times when there is a sale of these goods which brings revenue to the government.It is clear that the business houses or the retailers do not have to pay the customs duties all the taxes till their goods are transported to the next destination for either sale or for export.

Bonded warehouses have the provision to give safe storage facilities for extremely valuable and sensitive products/goods so that the customs clearance process is easily conducted. They also aid in making any vital adjustments to transportation before the products are packed off and transported either for sale or for export to the new destination.

H.) CONSOLIDATED WAREHOUSES

These warehouses provide the resources and services of receiving smaller cargoes from different suppliers and retailers and then amalgamating them into bigger cargoes or shipments that have to be sent to the same destination.This kind of warehousing system makes logistics operations very simple and complicated, leads to the reduction in the cost of transportation and makes the whole operational system more efficient.

These warehouses are a boon to several suppliers and retailers who can transport their goods and products into a single shipment.This actually proved to be highly cost-effective to the suppliers retailers and the business houses.

I.) CROSS DOCKING WAREHOUSES

These are specialised warehouses that have the job of unloading the goods and cargoes from the inbound vehicles and then putting them directly onto the outbound means of transportation. Cross Docking is basically a technique of logistics and chain supply that targets to enhance the delivery of goods and to increase the efficiency of the whole supply chain system. Cross docking warehouses are extremely beneficial for businesses that are involved with those goods that can be perishable or seasonal or meant for particularly short period of time. Cross docking reduces the time that is generally spent in warehouses hence perishable goods remain fresh and do not decompose while still in the transit.

In a cross-docking procedure goods and products are received from various business houses/retailers/suppliers and then Sort it out, amalgamated and mixed depending on the place they have to reach final. These goods are then loaded onto the tracks that transport them to their final destination directly without having to take these goods to another storage destination. This increases the overall efficiency of cargo movement.

J.) DISTRIBUTION HUBS

The most important point of this particular kind of warehouses is that they are situated near major transportation focal points so that there is efficient and quick movement of goods and products.

These kinds of warehouses have the job of receiving, storing and shipping the goods to different destinations. These warehouses are actually hubs that can store extremely extensive, complex and massive volumes of goods.

Distribution Hubs use inventory management systems (IMS)and also real data Time management (RDTM) So that the inventory levels can be optimised and there is no waste at all these distribution hubs provide Much preferred services such as Sorting, grading, packing, barking, labelling and assembly. These hubs are an asset to the supply chain and logistics as they reduce the costs for the retailers as well as the manufacturers.

21.9. WAREHOUSING AS A TOOL OF ECONOMIC GROWTH AND DEVELOPMENT

Warehousing is a critical component of the logistics and supply chain industry, playing a pivotal role in the economic growth and development of a region. As a hub for storing goods, warehousing ensures a smooth flow of products from manufacturers to consumers thereby supporting various sectors of the economy.

In the modern economy, warehousing has evolved beyond mere storage spaces to become dynamic centres of economic activities. These facilities are integral to the efficient functioning of supply chains, enabling businesses to manage inventory, reduce costs and meet customer demands promptly.By providing essential services such as storage, handling, and distribution warehouses facilitate trade and commerce, support manufacturing processes and contribute to job creation. Moreover the advent of advanced technologies in warehousing such as automation and real-time tracking has significantly enhanced operational efficiency making it possible to lodge handle large volumes of goods with greater accuracy and speed .This technological advancement not only boosts productivity but also attracts investment furthering economic growth.

Here are some key ways in which warehousing contributes to economic growth: –

Facilitating trade and commerce:
Warehouses provide storage for goods, ensuring that products are available when needed. This helps in maintaining a steady supply of goods, which is essential for both domestic and international trade.

Supporting manufacturing and production:
Warehouses store raw materials and finished products enabling manufacturers to manage their inventory efficiently. The support is vital for continuous production and timely delivery of goods

Creating jobs:
The wearing warehousing sector generates employment opportunities in various roles, from warehouse management to logistics and transportation. This job creation contributes to local and national economies.

Enhancing supply chain efficiency:
Modern warehouses use Advanced technologies like automation, real-time tracking, data analytics to optimise storage and distribution processes. This efficiency reduces costs and improve the overall performance of supply chains

Boosting small and medium enterprises SMEs:
Flexible warehousing models allow SMEs to access high-quality storage facilities without significant upfront investments. This a bill accessibility helps SM is to grow and compete in the market.

Supporting e-commerce growth:
With the rise of E – commerce, the demand for warehousing has surged. Warehouses enable E – commerce companies to store and distribute products quickly ,meeting the High expectations of online shoppers. In brief warehousing is a fundamental component of economic infrastructure that supports trade, manufacturing, job creation and supply chain efficiency and ultimately driving economic growth and development. Warehousing serves as a backbone for economic development by ensuring the availability of goods, supporting various industries, creating employment opportunities, and fostering technological innovation. Its role in the supply chain makes it a vital element in the economic infrastructure, contributing to the overall prosperity and development of any country.

21.10. KEY ROLES OF WAREHOUSING IN E-COMMERCE

E-commerce is a blessing of the modern-day technology. E-commerce has permeated invthe lives of every person on a daily basis. Warehousing plays a very important role in the E - commerce industry. E-commerce warehousing is a boon for all the online retailers who need to store, stockpile and manage the goods and the products in a seamless manner.
E-commerce warehousing assures that e-commerce business runs in the most flawless manner, with quick order fulfilment, slick operations and total customer satisfaction.
E-commerce warehousing makes it possible to keep the inventory safe, maintaining it efficiently, getting a quick access to it, retrieving it at the required time, organising it properly and saying that every thing gets delivered immediately when orders are placed. This helps greatly in reducing the processing time and the buyer receives the goods that we had ordered for within a well stipulated time period. All online retailers and sales channels prefer opting for warehousing as it leads to lesser wastage of money and time.
E-commerce warehouses are storage facilities where products available from online stores are kept . When a customer places an order, an item from the e-commerce warehouse is picked, packed and shipped to their address. These warehouses store a large variety of products, from perishable foods requiring specific storage temperatures to delicate items that require careful

handling during picking and packing. Small businesses often utilise these warehouses or third-party fulfilment providers when their inventory levels and number of orders exceed the capacity of the current location.

Thus warehouses play a crucial role in E COMMERCE ECOSYSTEM

Here are some key functions that warehouses serve:-

Storage and inventory management:

Warehouses store products and manage inventory, ensuring that items are organised and easily accessible. This helps in maintaining stock levels and preventing over stock or stock outs.

Order fulfilment:

Once an order is placed online the warehouse is responsible for picking, packing and shipping the product to the customer. Efficient order fulfilment is essential for timely deliveries and customer satisfaction.

Returns management:

Warehouses handle returns by inspecting, restocking, or disposing of returned items. This process is vital for maintaining inventory access accuracy and customer trust.

Value -Added Services (VAS)

Some warehouses offer additional services like product customisation, kitting and assembly, which can enhance the customer experience and add value to the products.

Strategic location:

Warehouses are often strategically located to minimise transportation costs and delivery times. This is especially important for meeting the growing demand for fast shopping options.

Technology used in modern E-Commerce Warehouses

ASRS SYSTEM :

ASRS system is actually automated storage and retrieval system. It is a computer controlled storage system and is a complete transformation for modern warehousing .It is actually an intelligent depository with a highly advanced storage unit so that all the limitations of a general warehouse can be overcome. An ASRS warehousing system amalgamates varied ,digital ,robotic and Other elements to give the provision of such a computerised software that can control an enormous volume of goods and products through intelligent depository and advanced storage unit.

ROBOT AUTOMATED:

Computerised self operating mobile robots called AMR (autonomous mobile robots)And RPA (robotic picket arms) are used to transport goods within the warehouse and assist in picking and packing orders. These robots can navigate the warehouse autonomously, reducing the need for manual labour and increasing efficiency.

Internet of things IOT:

IOT devices provide real-time data on inventory levels, equipment status, and environmental conditions. This helps in maintaining optimal storage conditions and improving inventory management.

Automatic Identification and data collection technology/radio frequency identification technology
(BAR CODE / RFID)
In the IOT internet of things or if ID is very essential. RFID reader is connected to the high point of the internet and then it is easy to scan, identify, track and monitor the goods and the products that are already having tags. This can be done in the real time, globally automatically, wherever needed.
The barcode system which is composed of BARS by using black and white stripes is anAIDC – (automatic identification and data collection) technology. In the warehouses the barcode system is used to identify and make an entry in the data record immediately. This helps to reduce human error and wastage of time.
Warehouse management systems WMS :
WMS software helps in managing day today operations, including inventory tracking, orders fulfilment and shipping it integrates with other systems to provide a comprehensive view of warehouse operations.
Drones:
Drones are used for inventory audit and monitoring large warehouse spaces. They can quickly scan barcodes and our IFB tags, providing real-time inventory data.
Artificial intelligence AI and machine learning ML:
AI and ML algorithms are used to optimise warehouse operation such as predicting demand, optimising storage layouts, and improving order picking routes. These technologies collectively enhance the efficiency, accuracy and speed of warehouse operations making them essential for modern e-commerce businesses.hereby Improving supply chain performance and reducing delivery times.

21.11 WAREHOUSING OVERHEAD COSTS AND EXPENDITURES

The running of a warehouse calls for a large amount of money which will be used for the paying of the rent, engaging labour, giving insurance facilities, seeing to the maintenance of the warehouse and miscellaneous other taxes and levies . there are sundry other expenses that also come under warehousing and expenditures these include the controlling of the cost inventory and the fulfilment of the orders and other related services.
The size and the location of the warehouse, the numerous kinds of services that are offered, the number of shipments and the quality of shipments that the warehouse handles and the kinds of goods that are stored in the warehouse all make up for the cost of the warehouse.

The warehousing expenses depend on :-

The situation of the warehouse will have a very important influence on the cost of the warehousing services. All warehouses that are situated close to the customers/suppliers/ agents will have less of transportation expenses, while in warehouses that are located thickly populated areas will get the advantage of Doing things more efficiently due to increase in the size of population.

A large warehouse will require more staff ,more equipment hence the size of the warehouse also will need to be large. This will call for more expenses to run the warehouse.
On the other hand a small warehouse will not require a lot of staff and too much of equipment . Hence the cost of the warehouse will not be as much. The more high-tech and automated storage facility is offered by a warehouse, the more will be the expenditure. Undoubtedly an automated warehousing facility is better, more secure and safe than or non-automated one but it calls for more expenses also.
A large warehouse will require a lot staff and that will call for more expenses. A mediumsized or a small size warehouse will require lesser staff and therefore it will not require too much costs to be incurred.
Most of the warehouses are insured . This is important so that the goods can be protected from damage or any kind of theft. The fees of the insurance depends on the kind of goods that are stored in the warehouse so the more valuable the goods the higher will be the insurance rate.
All warehouses have to maintain security and for this they will be CC TVs, alarms and other security measures. These also calling for a lot of expenditure.

Kinds of costs: –

Maintenance costs
This includes the cost incurred in the maintenance of the warehouse. Regular maintenance, repairs, innovations, improvements done on a time to time basis in the warehouse calls for expenditure.
Cost of the gadgetry
This includes the maintenance of all the warehouse gadgets/implements and other necessary tools for the smooth running of the warehouse
Salary / Wages
The workers in the warehouse have to do a variety of jobs. They Are paid on a monthly or daily wages basis. The number of labour/worker employed In a warehouse depends on the size of the warehouse.
Delivering and freight charges
This includes the cost of transporting the inbound goods as well as the outbound goods. It also includes the cost of freight and fuel.
Warehousing expenditures are inevitable part of maintaining and skilfully running and managing the warehousing business.A systematically planned and carefully executed business can enable the warehouse business not only to succeed but to go higher up the ladder.

21.12. WAREHOUSING ALTERNATIVES

When considering alternatives to traditional warehouses there are so several options depending on one’s specific needs. Here are some common alternatives:-

Distribution centres:
Distribution centres are specialised facilities designed to receive, store, distribute products efficiently. They offer handle high volumes of goods and are equipped with advanced logistic systems to streamline operations

Fulfilment centres:
Fulfilment centres focus on processing and shipping orders directly to customers. They are commonly used by e-commerce businesses to manage inventory, pick and pack orders and to handle returns.

Cross docking facilities :
Cross docking involves unloading goods from inbound trucks and loading them directly onto outbound trucks with minimal storage time. This method reduces storage cost and speeds up the delivery process.

Third-party logistics 3PL providers:
3PL providers of offer outsourced logistics services, including warehousing, transportation, and distribution they can be a cost-effective solution for businesses looking to scale their operations without investing in their own facilities.

Public warehouses:
Public warehouses are shared facilities where multiple businesses can store their goods. They offer flexible storage options and can be a good choice for businesses with fluctuating storage needs.

Cold storage facilities:
For perishable goods, cold storage facilities provide temperature controlled environment to preserve the quality and safety of products like food pharmaceuticals and chemicals.

Automated warehouses:
Automated warehouses use robotics and advanced software to manage inventory and streamline operations. They can significantly increase efficiency and reduce labour cost.

On demand warehousing:
On demand technology platforms connect businesses with the available storage space in various locations. This model offers flexibility and scalability allowing Businesses to adjust the storage needs based on demand.

Self storage units:
For smaller scale storage needs, self storage units provide a convenient and cost-effective solution. They are typically used by individuals or small businesses for temporary storage.

Pop-up warehouses :
Pop up warehouses or temporary storage solution is set up to meet short-term need such as seasonal inventory spikes or special events . Each of these alternatives has its own advantages and can be tailored to fit different business models and requirements.

21.13. ADVANTAGES OF A PUBLIC WAREHOUSE

A public warehouse refers to a large enclosed area for storage and inventory purposes rented or leased to multiple small and medium sized businesses.

The set up ensures businesses can benefit from the low cost of a storage and distribution. In addition, the warehouses ensure optimum space utilization and income for their owners.
Public warehouse can be defined as those storage facilities owned and operated by government bodies or third parties. Third-party logistics providers own and operate public warehouses, rented or leased to multiple businesses based on the space needs. They offer more than storage including picking packing labelling and distribution.

They are essential in international trade, providing secure an efficient storage for goods in transit.

Public warehouses are adapting to customer needs and implementing new technologies and sustainability initiatives.

ADVANTAGES :-

- These warehouses are a great benefit for small and medium businesses that cannot afford to undertake such large-scale investments. Thus they can select the warehouse and rent space based on the distribution area and quantity. This helps in easier market expansion.

- Often warehouses have specialised storage structures – reefer containers for cold storage ,silos for bulk material conveyor belts for movement etc. These are major investments apart from constructing an open structure. Therefore businesses can take advantage of this too

- Since the fee is based on space occupied they only need to pay for that portion in square footage. But in private warehouses there might be some extra unutilised space hence the cost and the risk factor fall in using public ones. Also, these warehouses provide other services such as picking for distribution, packaging, labelling, loading – unloading etc.

- These warehouses can be a great benefit during peak seasons. Public warehouse companies can earn a source of income if they invest in setting up a storage structure in an industrial strategically important location.

21.14. PHYSICAL WELLNESS AND SECURITY IN A WAREHOUSE

Ensuring physical wellness in a warehouse is very essential for maintaining a safe and productive work environment. Here is a detailed analysis of the key aspects to be considered: –

Ergonomics

Workstation design:
Adjustable workstations:
Provide adjustable workstations to accommodate different body sizes and reduce strain

Ergonomic tools:
Use tools designed to minimise repetitive strain energy such as ergonomic Keyboards and Anti-fatigue mats, Lifting techniques

Training:
Regularly train employees on proper lifting techniques to prevent back injuries.
Mechanical aids: Utilise forklifts, palate jacks, another mechanical aids to reduce the physical burden on workers.

Environmental Conditions
Temperature control:

Climate control systems:
Install heating ventilation and air-conditioning HVAC systems to maintain a comfortable temperature.

Heat stress prevention:
Provide cooling vests and hydration stations in hot environments.

Ventilation:
Ensure proper ventilation to reduce exposure to dust, fumes and other airborne contaminants.

Air purifiers:
Use pure air purifiers to improve indoor air quality.

Personal protective equipment (PPE)

Mandatory PPE
Safety gear:
Provide and force the use of PPE such as gloves, helmets, safety glasses, high visibility clothing.

Specialised PPE:
Ensure availability of specialised PPE for specific tasks like respiratory protection for handling hazardous materials.

Safety training
Regular training sessions:

Safety protocols:
Conduct regular training sessions on safety protocols and emergency procedures.

First aid training:

Equip employees with basic first-aid skills and ensure first-aid kids are readily available.

Emergency drills:
Fire drills: Conduct regular fire drills to ensure employees how to evacuate safely

Emergency response:
Train employees on how to respond to various emergency such as chemical spills or natural disasters.

Mental Health Support

Counselling services:
Employee assistance programmes (EAP): Offer EAP is that provide counselling and support from mental health issues

Stress management workshops: Conduct workshops and stress much stress management techniques.

Break areas:

Comfortable break rooms: Create comfortable break rooms where employees can relax and recharge.
Quiet zones: Provide quiet zones for employees to take short breaks away from the noise and bustle of the warehouse.

Monitoring and Feedback

Regular assessments:
Health and safety audits: Conduct regular audits to assess the effectiveness of wellness programs and identify areas for improvement.

Employee feedback: Encourage employees to provide feedback on wellness initiatives and suggest improvements.

"EFFECTIVE PHYSICAL SECURITY MEASURES CANNOT BE OVERLOOKED IN A WAREHOUSE OPERATION. SECURING THE CONTENTS- AND PEOPLE WITHIN A WAREHOUSE IS CRITICAL FOR BOTH THE WAREHOUSE AND THE COMPANIES THEY SERVE"

Rick Nelson CEO ,
(The Fulfilment Lab)

8 Types of Warehouse Security Measures

Warehouse security cameras:
Security camera warehouse setups can both be a great deterrent to thieves and a simple way

to gather strong evidence to pursue a case against them if they steal something. Next line modern security camera systems can collect high-definition footage and upload it on to an offsite server to make identification of thieves easier and preserve the evidence if they try to tamper with the cameras or on-site recording stations.

Warehouse lighting

Yes, lighting can be considered a vital part of the warehouse security. Poorly lit warehouses not only provide protection for thieves making them harder to identify, they can be a safety hazard for warehouse employees and security staff.

Alarm systems:

Alarm systems can be a crucial tool for deterring theft attempts, minimising the amount of goods stolen by thieves, summoning security of police in time to stop thieves from getting away. Knowing that there is an alarm keeps thieves on a tight time limit so they don't steal as much or maybe prevent them from the attempt.

Security patrols

Having manual security patrols to police the premises can be a massive deterrent to casual thieves and trespassers who can indulge in large-scale theft.

Access control systems and security cages.

Security cages and access control systems makes it very hard for the thieves to get at valuable inventory, thereby creating high security warehouse environment that minimizes theft risks.

Inventory tracking:

Inventory tracking solutions are vital for ensuring that inventory shrinkage can be identified quickly. Inventory security is a loss prevention.

Entry waysecurity doors:

Robust doorways delay thieves, increasing the likelihood of them getting caught by police/ security and of them giving up before making an entry access control systems that electronically Monitor exactly who is in a facility Add is another essential layer of security

Window security:

Strong security means making windows as difficult to break into as possible using impact resistant glass block windows, window locking mechanisms or even steel bar/window covers to deter entry attempts.

By prioritising all these aspects, organisations can foster a safe, healthy, efficient warehouse operation, ultimately enhancing employee satisfaction and retention.

21.15. WAREHOUSING CORPORATIONS IN INDIA

From godowns and cold storage to sophisticated automated warehouses, Indian warehousing system has come a long way.Traditionally the warehouses for the godowns were basically brick and mortar buildings where there was not much of an organisation and efficiency . The godowns and the cold storages did not have proper security systems, Not much of gadgets and tools, number of labour was generally less and inventory maintenance was not up to the mark.
Today's India has got commendable warehousing facilities. There is an increase in ecommerce activities, the supply chain management has go really ahead in the commercial world and all this has fostered the need for excellent warehousing facilities. The initiatives taken by the Indian government which include the expansion of the transportation network, establishment of freight corridors, increased connectivity reducing transportation time and costs have all contributed to making warehousing in India an roaring success.

CENTRAL WAREHOUSING CORPORATION (CWC)

The Central warehousing Corporation CWC was established in 1957 by the government of India under the WAREHOUSING ACT 1962. It was created to provide logistic support to the agricultural sector. CWC operates over 400 warehouses in India., Offering services like foodgrain storage,industrial warehousing, custom bonded warehouses, container freight stations, and Inland clearance depots.

Some key milestones in CWC:

- Establishment of CWC to support agricultural logistics.
- Enactment of the WAREHOUSING CORPORATIONS ACT
- Shift from unorganised godowns to organised warehousing
- Introduction of modern warehousing facilities with technological innovations.

The Central warehousing Corporation CWC plays a crucial role in India's foodgrain storage and distribution system. It operates a vast network of warehouses across India, with a significant portion dedicated to foodgrain storage. These warehouses are strategically located to ensure efficient storage and distribution of foodgrains, minimizing post-harvest losses.

CWC ensures that the food grains stored in its warehouses meet high-quality standards. They implement rigourous quality control measures including regular inspections, fumigation, pest control to maintain the integrity of the stored grains. By providing reliable storage facilities, CWC helps farmers by reducing the pressure to sell their produce immediately after harvest often at lower prices. This allows farmers to store the green safely and sell them when market conditions are more favourable.
CWC has been incorporating modern technology into its warehousing operations .This includes the use of automated systems for inventory management, temperature and humidity control and real-time monitoring of storage conditions. In times of natural disasters and emergencies CWC's extensive network of warehouses is crucial for storing and distributing relief materials, including foodgrains CWC's efforts in foodgrain storage significantly contributes to India's food security and agricultural stability

Top Seven (7) Warehousing Companies in India .

Warehousing express logistic Private Limited WELPL.

WELPL is a leading name in the list of warehousing companies in India redefining the very a sense of supply chain management. It offers a lot of services such as warehousing, distribution and transportation, third-party logistics, order fulfilment and value added services. The company follows a customer – centric approach, providing customized solutions to meet the unique needs of each client.

GATI Ltd.

Established in 1989, GATI has been a pioneer in providing reliable logistic and supply chain solutions to businesses across Industries. It is continuously adapting to evolving market needs, incorporating new technologies to enhance customer satisfaction and efficiency.

WAREHOUZEZ -THE DIGITAL SUPPLY CHAIN

WAREHOUZEZ one of the most renowned warehouse service providers in India is revolutionising the warehousing industry with its innovative solutions. It is a new-age warehouse company that leverages the latest technologies enabling businesses to optimise inventory levels, logistics operations, and order statuses.

SK LOGISTICS

SK logistics is a leading provider of logistics and warehousing services, specifically for the healthcare and pharmaceutical industries. With its extensive next network of transportation and warehouses, it helps businesses optimise supply chain efficiency and reduce costs.

SHIPROCKET FULFILMENT

Founded in 2017, Shiprocket is a trusted provider of fulfilment and warehousing services to e-commerce businesses. Their services include the perfect management of the inventory, the processing grading marking shipping of the products and the goods. They are much in demand because they make changes as per the demands of the commerce industry.

TVS SUPPLY CHAIN SOLUTIONS

TVS supply chain solutions, part of the TVS group has been operating for several years. TVS has established itself as a leader in providing end to end supply chain solutions including warehousing distribution and value-added services. They specialise in providing customer supply chain solutions tailored to meet the unique requirements of various industries.

OM TRANS LOGISTICS LTD.

Established in 2008, OM TRANS LOGUSTICD operates as a multimodal logistics service provider offering comprehensive logistics solutions that encompass several modes of transportation, like road, rail, air and sea. They focus on delivering cost-effective logistics and warehouse solutions to clients across diverse industries. In conclusion, warehousing corporations in India such as CWC play a pivotal role in the country's logistics and supply chain management. Over the years the sector has evolved from traditional storage methods to modern technologically advanced facilities. Overall the warehousing sector in India is a cornerstone of the nation's economy, ensuring a smooth flow of goods, reducing post-harvest losses and supporting farmers and businesses alike . As the industry continues to grow and modernise, it will remain integral to India's economic development and food security.

21.16. WAREHOUSING IN THE AGE OF GLOBALISATION

Globalisation has significantly reshaped the landscape of warehousing, making it a critical element in the efficient movement of goods across borders. As international trade expands, the demand for sophisticated warehousing solutions has surged. Modern warehouses are no longer just storage spaces; they are dynamic hubs that facilitate the seamless flow of products from manufacturers to consumers worldwide. In the age of globalisation, warehousing has become a pivotal component of the global supply chain. Warehousing has undergone significant transformation.In this age of globalisation. There are certain key factors for this transformation.

They are as follows:-

Technological integration:
The adoption of advanced technologies such as automation, robotics and artificial intelligence has revolutionised warehouse operations these innovations enhance efficiency, accuracy, speed, enabling warehouses to handle larger volumes of goods with greater precision.

Strategic location:
Warehouses are strategically positioned near major transportation hubs like ports, airports and railways. The strategic placement ensures quick and efficient distribution, reducing transit times and costs.

Global supply chain management.:
Efficacious warehousing is integral to global market management. A perfect warehousing involves a perfect handling of the storage facilities. It also involves the proper distribution of all the products/goods stored in the warehouse in the big market.To do this and extremely efficient inventory management system is needed.

Sustainability practises:
With a growing emphasis on sustainability in modern warehouses are adopting eco-friendly practises. This includes reducing renewable sources of energy, optimising energy consumption, and implementing green building standards.

Flexibility and adaptability:
Global markets are dynamic and warehouses must be flexible to adapt to changing demands. This includes managing diverse product types, wearing storage requirements and fluctuating order volumes. In short globalisation has transform warehousing into a sophisticated, technology driven and strategically important sector. As global trade continues to grow the role of warehousing in ensuring efficient and sustainable supply chains will only become more crucial.

Check Your Progress- A

1. Warehousing is the process of storing goods in a ___________ location before they are distributed to consumers or retailers.
2. ___________ is a key function of warehousing, ensuring that goods are protected from damage, theft, and spoilage.
3. A ___________ warehouse is owned and operated by a company for its exclusive use.
4. ___________ warehouses are facilities where multiple companies store their products for a fee.
5. Warehousing helps companies maintain a steady ___________ of products, even when there are fluctuations in production or demand.
6. ___________ is the process of receiving, handling, storing, and shipping goods from a warehouse.
7. In warehousing, ___________ refers to the system of organizing and keeping track of inventory within the facility.
8. A ___________ warehouse specializes in storing goods that require specific conditions, such as refrigeration or humidity control.
9. Warehouses located near ___________ centers help reduce transportation costs and improve delivery speed.
10. ___________ involves the movement of goods in and out of the warehouse, including activities such as loading, unloading, and stacking.
11. Many warehouses use ___________ systems to track inventory and ensure accurate stock levels.
12. ___________ storage is used to keep seasonal or excess stock until it is needed.
13. ___________ warehouses provide facilities for companies to store products temporarily while they wait for further transportation or processing.
14. Warehouses that handle perishable goods often use ___________ storage systems to preserve the quality of the products.
15. One of the key benefits of warehousing is the ability to take advantage of ___________ buying, where companies buy in large quantities and store excess inventory.
16. Warehouses that are strategically located across different regions help ensure faster ___________ to customers.
17. A ___________ system in warehousing helps identify the optimal placement and retrieval of products within the warehouse.
18. Public warehouses offer storage services to multiple clients and usually charge fees based on ___________ and duration.
19. ___________ is a modern warehousing approach that minimizes the amount of inventory stored by relying on efficient logistics and frequent deliveries.
20. Effective warehousing management helps companies reduce ___________ by ensuring that goods are efficiently stored and quickly delivered to customers.

21.17. SUMMARY

Warehousing is a critical component of supply chain management, involving the storage of goods until they are needed for distribution to retailers, distributors or customers. It encompasses various functions such as inventory management, order fulfilment and repackaging. Efficient warehousing ensures that products are stored safely and can be accessed quickly which is vital for maintaining the flow of goods and meeting customer demands. Modern warehouses often utilise advance technologies like warehouse management systems WMS and RFID tags to track inventory in real-time, optimise space and streamline operations additionally strategic placement of warehouses can significantly reduce delivery times and cost enhancing overall supply chain efficiency. Warehousing is crucial for businesses as it ensures the efficient storage and management of inventory, which is essential for meeting customer demands promptly. By providing a centralised location for goods, warehouses facilitate better inventory control, reducing the risk of stockouts and overstock situations. They also streamline the order fulfilment process, enabling faster and more accurate deliveries, which enhances customer satisfaction.

Additionally, warehousing helps supplies prices by line businesses to store products during periods of low demand and release them when demand rises.

21.18. GLOSSARY

LTL (Less than Truckload)

It implies that the quantity of the goods to be transported is less than what is required for the full application of the truckload costs.

Cross docking

The collection of the goods directly from shipment and then transferring it for dispatch is cross docking.

3PL – third-party logistics

It is the management of the warehouse or warehouses by a third party and not by the owner himself.

PO (Purchase Order)

A business document given by a buyer to a seller telling about the types in the quantities and the agreed prices for the goods and services.

FIFO

It is an inventory management system where the products/goods that are received first or also dispatched

SKU – stock keeping unit

SKU easily identifies the size, type, colour, packaging and the manufacturer of each good/ product that is kept in the warehouse.

21.19. ANSWERS TO CHECK YOUR PROGRESS

1. central
2. Security
3. private
4. Public
5. supply
6. Warehousing
7. inventory management
8. specialized
9. distribution
10. Material handling
11. automated
12. temporary
13. Transit
14. cold
15. bulk
16. delivery
17. warehouse management
18. space
19. Just-in-time (JIT)
20. costs

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By Gwynn Richards.

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By Raymond Louis Rizzo

Warehouse and distribution signs
By John Bartholdi and Stephen Hackman

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By supply chain Dive

Optimising warehouse operations: best practises and start strategies
By logistics management

Lean warehousing: principles and practises
By industry week.

20.22 TERMINAL QUESTIONS

SHORT ANSWER QUESTIONS

1. What is the primary purpose of a warehouse?
2. Name four types of warehouses commonly used in logistics.
3. What is cross docking in warehousing?
4. What is inventory management system?
5. State one difference between the storage houses of the past and the modern warehouses in India.
6. How is warehousing crucial for businesses?
7. What is warehouse management system?
8. What is the role of technology in minimising warehousing expenses?
9. What are the benefits of using a bonded warehouse?
10. How can improving warehouse design and organisation reduce operational costs?
11. How can optimising warehouse space utilisation reduce costs?

DETAILED ANSWER QUESTIONS

1. Discuss the various functions of warehousing in the supply chain.
2. Describe the various kinds of warehouses. Explain their specific purposes.
3. What are the different kinds of expenditures for a warehouse?
4. Explain cross docking in warehousing and its advantages.
5. What role does technology and automation play in warehousing in the morning times?

21.23. CASE STUDY

BAYCREW'S LOGISTICS TRANSFORMATION

Background :
Bay crew , a leading select shop company in Japan faced challenges with its logistics operations. They operated from four warehouses each managed by different third party logistics 3PL Vendors.This setup led to inefficiencies and difficulties in scaling up their ecommerce operations

Challenges:

Inefficient logistics operations across four distribution centres. Inability to scale up e-commerce deliveries to meet growing demand Lack of stock transparency and easy movement of goods between warehouses.

Solution:
Baycrew's decided to consolidate their operations into a single site at the Kashivasi – shonan logistic centre in Chiba .They partnered with DHL supply chain to implement a warehouse management system WMS that integrated retail and e-commerce inventories.

Results:
Inbound and outbound capacity almost doubled to 2,20,000 units daily.
Online sales more than doubled since the warehouse consolidation.
Enhanced and faster shipping process for online orders
Improved service level visibility through key performance indicators(KPI) .

QUESTIONS AND ANSWERS
Q1) What were the main challenges BAYCREW'S faced with their logistics operation?
Ans1) The main challenges included in efficient logistics operations across four distribution centres, inability to scale up e-commerce deliveries and lack of stock transparency and easy movement of goods between warehouses.

Q2) What solution did BAYCREW'S implement to address these challenges?
And 2) BAYCREW'S consolidated their operation into a single site at the Kashiwa – Shonan logistics Centre in Chiba and partnered with DHL supply chain to supplement warehouse management system WMS that integrated retail and e-commerce inventories.

Q3) What were the results of the logistics transformation for BAYCREW'S?
Ans 3) Results included doubling the inbound and outbound capacity to 2,20,000 units daily, more than doubling online sales, enhancing and speeding up the shipping process for online orders, and improving service level visibility through KPIs.

UNIT-22 CHANNEL PROFITABILITY ANALYSIS

22.1 INTRODUCTION

In today's dynamic business landscape, companies face an ever-expanding array of routes via which they can communicate with their clients. From conventional physical establishments to online shopping portals, and from direct sales teams to third-party distributors, the choices are vast. However, not all channels contribute equally to a company's bottom line. Understanding For businesses looking to maximize returns, stay competitive, and make the most use of their resources, each channel's profitability is critical.

Profitability of a channel is the financial analysis of the revenue generated and costs incurred by each channel within a company's marketing and distribution network. This assessment provides crucial insights into which channels are driving growth and which may be draining resources. By dissecting the financial performance of each channel, companies can make informed decisions about where to invest, where to cut back, and how to tailor their strategies to enhance overall efficiency. In this chapter, we will explore the fundamentals of channel profitability, its significance in strategic planning, and how it influences a company's ability to thrive in a competitive market.

22.2 OBJECTIVES

After reading this unit you will be able to:

-Understand the concept of channel profitability

-Explore the components of channel profitability

-Analyze the methods of measuring channel profitability

-Examine the challenges and future trends in channel profitability

22.3 INTRODUCTION TO CHANNEL PROFITABILITY

Within the intricate realm of sales and distribution, channel profitability is a crucial indicator. for businesses aiming to optimize their supply chains and maximize financial returns. At its core, channel profitability is about evaluating the financial performance of each distribution channel, helping companies to understand where their investment yields the highest returns.

According to **Smith and Johnson (2015)**, channel profitability can be defined as "the financial assessment of the effectiveness of a distribution channel, calculated by comparing the revenue it generates to the costs it incurs." This definition highlights the fundamental balance between income and expense, a concept central to understanding the value of any distribution channel.

Miller (2017) expands on this by describing channel profitability as "the measure of how profitable a specific distribution channel is by analyzing the income it produces in relation to the expenses associated with maintaining and operating the channel." Miller focuses on the thorough examination of revenues and expenses, which is necessary to determine the most cost-effective channels.

Brown and Davis (2019) offer a broader perspective, stating that "channel profitability is the evaluation of a distribution channel's financial performance, focusing on the balance between the revenue it brings in and the operational costs required to sustain it." This definition emphasizes the strategic importance of assessing each channel's contribution to the overall business performance.

As these definitions suggest, channel profitability is not merely a static calculation but a dynamic process that requires continuous monitoring and analysis. It is a vital tool for businesses seeking to optimize their distribution strategies and ensure that each channel contributes positively to their bottom line.

In essence, channel profitability helps businesses understand which channels are most effective and efficient in delivering products or services to customers. By analyzing channel profitability, companies can make informed decisions about where to invest resources, which channels to expand, and which may need restructuring or even discontinuation. The ultimate goal is to optimize the channel mix to maximize overall profitability while ensuring sustainable growth.

This analysis is crucial because not all channels perform equally; some might generate high sales but at a high cost, while others might deliver steady profits with minimal investment. Understanding the profitability of each channel allows companies to fine-tune their strategies, allocate resources more effectively, and align their distribution efforts with their broader business objectives.

22.4 COMPONENTS OF CHANNEL PROFITABILITY

Channel profitability is a complex concept, influenced by a wide array of factors that interact to determine the financial success of a distribution channel. To fully comprehend and analyse the profitability of a channel, it is critical to examine its fundamental elements: contribution margin, return on investment (ROI), cost structure, revenue generation, and channel-specific elements. Every one of these elements is essential in determining how profitable a channel is overall.

1. Revenue Generation

Revenue generation is the cornerstone of channel profitability, encompassing all the income derived from sales through a particular channel. This component includes not only the direct revenue from product or service sales but also additional revenue streams such as fees for premium services, cross-selling opportunities, and incentives from suppliers or partners.

- **Direct Sales Revenue**: This is the most straightforward form of revenue, generated from the sale of products or services through the channel. The effectiveness of the channel in driving sales is often a direct reflection of its ability to attract and retain customers, which is influenced by factors such as product availability, pricing strategies, and marketing efforts.

- **Additional Revenue Streams**: Channels may also generate revenue through means other than direct sales. For example, partnerships with complementary businesses might offer opportunities for cross-promotions, where each party earns a commission on the other's sales. Moreover, channels might earn fees from customers for expedited shipping, customization services, or extended warranties. These additional revenue streams can significantly enhance channel profitability, particularly when they align with customer needs and preferences.
- **Promotional Income**: In some cases, suppliers may offer financial incentives to channels in the form of promotional allowances or rebates, encouraging them to prioritize certain products or meet specific sales targets. These incentives can boost a channel's revenue, making it more attractive for the channel to push those particular products.

2. Cost Structure

Understanding the cost structure is vital for analyzing channel profitability. The cost structure refers to the total costs incurred in operating a channel, which can be categorized into fixed costs, variable costs, and semi-variable costs.

- **Fixed Costs**: Fixed costs remain constant regardless of the volume of sales. These costs include expenses such as rent for retail space, salaries for permanent staff, insurance premiums, and depreciation on capital equipment. Fixed costs must be covered before a channel can become profitable. High fixed costs may require higher sales volumes to achieve profitability, but once those costs are covered, additional sales contribute more significantly to profit.

- **Variable Costs**: Variable costs change directly with the level of sales. They include the cost of goods sold (COGS), shipping and logistics expenses, commissions paid to sales staff, and transaction fees. Managing variable costs effectively is crucial for maintaining healthy profit margins. For instance, negotiating better terms with suppliers or optimizing logistics can reduce variable costs and enhance profitability.

- **Semi-Variable Costs**: Some costs are semi-variable, meaning they include both fixed and variable components. For example, a sales agent might receive a set base income plus a variable commission on sales. In a similar way, utility costs may base charge plus usage-based fees. Understanding these costs helps in forecasting expenses and planning for various sales scenarios.

3. Channel-Specific Factors

In addition to revenue and cost considerations, channel profitability is influenced by several channel-specific factors that vary depending on the type of channel and the market environment.

- **Channel Reach and Accessibility**: The extent to which a channel can reach its target audience is a critical determinant of its profitability. A channel with extensive reach, such as a nationwide retail chain or an e-commerce platform with global shipping capabilities, has the potential to generate higher sales. However, broader reach often comes with increased operational costs, such as higher shipping expenses or the need for more inventory locations. Balancing reach with cost efficiency is key to optimizing profitability.

- **Customer Engagement and Loyalty**: Channels that build strong relationships with customers are more likely to enjoy sustained profitability. High levels of customer engagement lead to repeat purchases, increased average order values, and reduced marketing costs due to word-of-mouth referrals and brand loyalty. Metrics such as customer lifetime value (CLV), repeat purchase rate, and net promoter score (NPS) are useful indicators of the strength of customer relationships within a channel.

- **Channel Efficiency and Effectiveness**: The operational efficiency of a channel is another crucial factor affecting profitability. Efficiency can be measured by how well the channel manages its inventory, minimizes waste, reduces lead times, and fulfills orders accurately and promptly. Channels that are effective in these areas can reduce costs and improve customer satisfaction, leading to higher profitability.

- **Competitive Dynamics**: The competitive landscape in which a channel operates also influences its profitability. In highly competitive markets, channels may be forced to lower prices to maintain market share, which can erode profit margins. Conversely, channels with a unique value proposition or limited competition can command higher prices and enjoy greater profitability. Understanding the competitive dynamics and positioning the channel effectively is essential for sustaining profitability.

4. Contribution Margin

The contribution margin is a key financial metric in channel profitability analysis, representing the portion of revenue that exceeds variable costs. It is calculated by subtracting total variable costs from total revenue, providing insight into how much money is able to make a profit and pay fixed expenses.

Contribution Margin Ratio: That ratio, expressed as a percentage, indicates the proportion of each dollar of sales that contributes to covering fixed costs and profit. A higher contribution margin ratio suggests that the channel is more efficient in converting sales into profit. This metric is particularly useful for comparing the profitability of different channels or products within a channel.

- **Break-Even Analysis**: Comprehending the contribution margin facilitates the computation of the break-even point, which is the sales volume at which total expenses and total revenue are equal and there is no profit or loss. In order to break even, channels with larger contribution margins need to generate more sales. making them potentially more profitable.

5. Return on Investment (ROI)

Return on Investment (ROI) is a critical measure of channel profitability, assessing the efficiency of the channel in generating profit relative to the resources invested. ROI is calculated by dividing the net profit generated by the channel by the total investment in that channel.

- **ROI Calculation**: The formula for ROI is as follows:

$$ROI = \frac{Net\ Profit}{Total\ Investment} \times 100$$

A higher ROI indicates that the channel is effectively utilizing its resources to generate profit, making it a valuable component of the company's overall distribution strategy. ROI is particularly useful for comparing the profitability of different channels, enabling businesses to allocate resources more effectively.

- **Factors Influencing ROI**: Several factors can impact the ROI of a channel, including the initial capital investment, ongoing operational costs, and the revenue-generating potential of the channel. For example, channels that require significant upfront investment, such as brick-and-mortar stores, may have a lower ROI compared to online channels with lower fixed costs. However, the ROI of these channels can improve over time as they achieve economies of scale and increase their customer base.

Check Your Progress-A

Q1. What is the meaning of the term channel profitability?

Q2. Differentiate between fixed and variable cost.

Q3. Write the formula for calculating ROI.

Q4. State whether the following statements are true or false.

(i) Channel profitability only considers the revenue generated by the channel.

(ii) The contribution margin is the portion of revenue that remains after all fixed costs are deducted.

(iii) A channel with a high contribution margin ratio is generally more efficient at converting sales into profit.

(iv) Revenue from cross-selling opportunities is considered part of the revenue generation component in channel profitability.

(v) Semi-variable costs have both fixed and variable components.

22.5 METHODS OF MEASURING CHANNEL PROFITABILITY

Understanding the profitability of distribution channels is essential for organizations aiming to optimize their sales strategies and maximize returns on investment. Measuring channel profitability involves a variety of methods, each offering unique insights into how well a channel is performing. These methods can be broadly categorized into financial metrics, customer-related metrics, and operational metrics. By employing these methods, companies can identify which channels are most effective, determine areas for enhancement and make well-informed choices regarding the distribution of resources.

1. Financial Metrics

Financial metrics are the most direct methods for assessing channel profitability. They focus on the monetary outcomes generated by a channel, considering both revenues and costs.

a. Contribution Margin Analysis

Contribution margin is a fundamental metric in channel profitability analysis. It is the amount of money left over after deducting variable expenditures, helping to pay for fixed expenses and generating profit. To calculate the contribution margin, the following formula is used:

$$\text{Contribution Margin} = \text{Sales Revenue} - \text{Variable Costs}$$

A higher contribution margin indicates that a channel is more efficient in converting sales into profits. Analyzing contribution margins across different channels can help companies identify which channels are more cost-effective and supply the highest rate of return on investment.

b. ROI, or return on investment

ROI is a popular metric that assesses a channel's profitability in relation to the amount invested. It gives a percentage that represents how profitable the investment was made. The ROI calculation is as follows:

$$ROI = \frac{Net\ Profit}{Total\ Investment} \times 100$$

ROI helps companies evaluate the overall profitability of each channel and make comparisons between them. A higher ROI suggests that the channel is generating significant profits relative to the costs incurred.

c. Break-Even Analysis

A technique for figuring out the amount of revenue needed for a channel to pay for all of its expenses is break-even analysis. This is the moment where there is no profit—also referred to as the break-even point—when total revenue and total costs are equal. To get the break-even point, use the following formula:

$$Break - Even\ Point\ (Units) = \frac{Fixed\ Costs}{Contribution\ Margin\ per\ Unit}$$

Businesses may determine whether a channel has the potential to be lucrative and establish reasonable sales targets by knowing the break-even point. Channels that are continuously performing better than break-even are considered profitable, while those below it may need to be re-evaluated.

2. Customer-Related Metrics

Customer-related metrics provide insights into the profitability of channels by evaluating customer behavior, satisfaction, and lifetime value. These metrics help companies understand how customer interactions with a channel contribute to long-term profitability.

a. Customer Lifetime Value (CLV) A predictive measure called customer lifetime value calculates the entire amount of money a business might anticipate earning from a client over the term of that relationship. The average purchase value is multiplied by the quantity of recurring transactions and the anticipated length of the customer relationship to determine the CLV. The formula is:

$$\text{CLV} = (\text{Average Purchase Value} \times \text{Purchase Frequency}) \times \text{Customer Lifespan}$$

Channels that generate high CLV are often more profitable, as they indicate strong customer loyalty and a consistent revenue stream. CLV helps companies prioritize channels that foster long-term customer relationships.

b. Customer Acquisition Cost (CAC)

Obtaining Clients Cost is the price incurred when a new consumer is brought in via a certain route. The number of new customers obtained divided by the total cost of sales and marketing yields the CAC. The formula is:

$$CAC = \frac{Total\ Sales\ and\ Marketing\ Costs}{Number\ of\ New\ Customers\ Acquired}$$

Lower CAC indicates that a channel is more efficient in acquiring customers at a lower cost, which can significantly impact overall profitability. When compared to CLV, CAC provides insights into the return on investment for customer acquisition efforts within each channel.

c. Customer Satisfaction and Retention Rates

Customer satisfaction and retention rates are qualitative metrics that assess how well a channel meets customer expectations and retains customers over time. High satisfaction and retention rates often correlate with higher profitability, as satisfied customers are more likely to make repeat purchases and refer others.

3. Operational Metrics

Operational metrics focus on the efficiency and effectiveness of a channel's operations. These metrics evaluate how well a channel manages resources, processes, and logistics to drive profitability.

a. Inventory Turnover Ratio

Inventory turnover ratio measures how quickly a channel's inventory is sold and replaced over a period. It is calculated by dividing the cost of goods sold (COGS) by the average inventory. The formula is:

$$Inventory\ Turnover\ Ratio = \frac{COGS}{Average\ Inventory}$$

A high inventory turnover ratio indicates that a channel is efficiently managing its inventory, minimizing holding costs, and quickly converting products into sales. This efficiency can lead to higher profitability.

b. Order Fulfillment Cycle Time

Order fulfillment cycle time is the average time taken from when an order is placed to when it is delivered to the customer. Shorter cycle times generally indicate more efficient operations, leading to higher customer satisfaction and profitability. This metric is crucial for channels where speed of delivery is a key competitive advantage.

c. Cost-to-Serve Analysis

Cost-to-serve analysis involves calculating all the costs associated with serving a particular channel, including logistics, customer service, and inventory management costs. This analysis helps companies identify which channels are more cost-intensive and assess whether these costs are justified by the revenue generated.

d. Channel Productivity

Channel productivity is a measure of how efficiently a channel converts inputs (such as labour, materials, and capital) into outputs (such as sales and customer satisfaction). High productivity indicates that a channel is making optimal use of its resources to generate profit.

22.6 CHALLENGES IN CHANNEL PROFITABILITY

Achieving and maintaining channel profitability is a complex endeavour that requires careful management and continuous optimization. While the rewards of effective channel management are significant, businesses often face numerous challenges that can undermine their efforts to generate sustainable profits. These challenges stem from a variety of factors, including market dynamics, cost structures, and the inherent complexities of managing multiple distribution channels. In this chapter, we will explore the key challenges that organizations encounter when striving to optimize channel profitability.

1. Cost Management and Allocation

Among the biggest obstacles to channel profitability is the precise management and allocation of costs. Channels often incur a range of direct and indirect costs, including production, logistics, marketing, and customer service expenses. Accurately assigning these costs to specific channels is essential for understanding their true profitability. However, this is easier said than done, as some costs are shared across multiple channels or are difficult to quantify precisely.

a. Indirect Cost Allocation

Indirect costs, such as shared marketing campaigns or general administrative expenses, can be challenging to allocate accurately to individual channels. The use of arbitrary allocation methods can lead to distorted profitability figures, making it difficult to identify which channels are genuinely profitable. Businesses must develop sophisticated cost allocation models that fairly distribute these costs based on channel-specific activities.

b. Rising Operational Costs

Operational costs, particularly in logistics and supply chain management, can fluctuate due to external factors like fuel prices, labor costs, and regulatory changes. As these costs rise, they can erode the margins of even the most profitable channels. Companies must continuously monitor and control these costs to maintain profitability, often requiring investments in technology and process improvements to enhance efficiency.

2. Channel Conflict

Channel conflict occurs when different distribution channels compete with one another, leading to friction that can harm overall profitability. This conflict can take various forms, including pricing disputes, competition for the same customer base, or disagreements over the allocation of resources.

a. Horizontal Channel Conflict

When two channels competing for the same resource at the same level of the distribution hierarchy (for example, two online platforms or two stores), this is known as a horizontal channel conflict. market. This competition can lead to price wars, which erode profit margins and damage brand equity. Managing horizontal conflict requires careful channel segmentation and the establishment of clear pricing and promotional guidelines.

b. Vertical Channel Conflict

There is vertical channel conflict between the distribution's various levels such as between a manufacturer and a retailer. This type of conflict often arises when one party perceives that the other is encroaching on its territory or undermining its efforts. For example, a manufacturer may begin selling directly to consumers, bypassing traditional retailers, which can lead to tensions. Effective communication and collaboration are essential to mitigate vertical conflicts and ensure that all channel partners are aligned in their objectives.

3. Market Dynamics and Consumer Behavior

Market dynamics and shifts in consumer behavior present ongoing challenges to channel profitability. As markets evolve and customer preferences change, companies must adapt their channel strategies to remain competitive and profitable.

a. Rapid Technological Change

The rapid pace of technological change has transformed how consumers shop and interact with brands. The rise of e-commerce, mobile shopping, and social media has created new channels that require different strategies and investments. Traditional brick-and-mortar channels may struggle to compete with online platforms, leading to shifts in profitability. Companies must continuously innovate and invest in new technologies to stay ahead of the curve and ensure that their channels remain relevant and profitable.

b. Changing Consumer Expectations

Today's consumers expect seamless, personalized experiences across all channels. Meeting these expectations requires significant investments in technology, data analytics, and customer service. Failing to deliver a consistent and high-quality experience can result in lost sales and diminished profitability. Companies must invest in understanding their customers and developing omnichannel strategies that cater to their evolving needs.

c. Economic and Competitive Pressures

Economic downturns, shifts in exchange rates, and increased competition can all exert pressure on channel profitability. In tough economic times, consumers may reduce spending, forcing companies to lower prices and accept thinner margins. Additionally, increased competition, both from traditional competitors and disruptive new entrants, can make it harder to maintain profitability. Businesses must be agile and responsive to these external pressures, adjusting their strategies as needed to protect their margins.

4. Channel Performance Measurement

Accurately measuring channel performance is crucial for identifying profitable channels and making informed decisions. However, the complexity of managing multiple channels and the diverse metrics involved can make this task challenging.

a. Data Silos and Integration Issues

Many organizations struggle with data silos, where information is stored in separate systems that do not communicate effectively with one another. This lack of integration makes it difficult to obtain a holistic view of channel performance, leading to incomplete or inaccurate profitability analyses. Companies must invest in integrated systems and data analytics capabilities to overcome this challenge and gain the insights needed for effective channel management.

b. Short-Term vs. Long-Term Performance

Channel profitability can vary significantly depending on whether it is measured in the short term or the long term. Some channels may appear profitable in the short term but fail to deliver sustainable profits over time. Conversely, channels that require significant upfront investment may not show immediate returns but can become highly profitable in the long run. Balancing short-term and long-term performance is a critical challenge that requires careful planning and strategic foresight.

c. Attribution Challenges

Attribution involves determining which channels are responsible for driving sales and profits. In today's complex, multi-channel environment, accurately attributing sales to specific channels can be difficult. For example, a customer might first encounter a brand through social media, research products on the company's website, and finally make a purchase in-store. Understanding the contribution of each channel in this journey is crucial for accurate profitability measurement but is often challenging due to the interplay of multiple touchpoints.

5. Managing Channel Partnerships

Successful channel profitability often depends on the strength of relationships with channel partners, such as distributors, retailers, and resellers. Managing these partnerships effectively is essential but can be fraught with challenges.

a. Aligning Goals and Incentives

Channel partners may not necessarily share the same objectives and motivations as the parent company. For example, a retailer may prioritize maximizing sales volume, while the manufacturer may focus on maintaining premium pricing. Misaligned goals can lead to conflicts and reduced profitability. Companies must work closely with their partners to ensure that goals and incentives are aligned and that both parties are motivated to achieve mutual success.

b. Dependency on Key Partners

Relying heavily on a few key partners can create risks if those partners underperform or decide to change their strategy. A sudden shift in a partner's business model or a decision to promote a competitor's products can have a significant impact on profitability. Diversifying channel partnerships and reducing dependency on any single partner is crucial for mitigating this risk.

c. Maintaining Consistent Standards

Ensuring that all channel partners adhere to consistent standards of quality, service, and brand representation can be challenging, especially when dealing with a diverse network of partners across different regions. Inconsistent standards can damage the brand's reputation and lead to customer dissatisfaction, ultimately affecting profitability. Companies must implement robust training, monitoring, and enforcement mechanisms to maintain high standards across all channels.

22.7 FUTURE TRENDS

As the landscape of business and commerce continues to evolve, so too does the realm of channel profitability. The trends shaping the future of channel profitability are driven by technological advancements, changing consumer behaviours, and the dynamic nature of global markets. This chapter delves into the emerging trends that are poised to redefine how businesses measure, manage, and enhance channel profitability in the coming years.

1. Technological Integration and Digital Transformation

The integration of advanced technologies into channel management is set to revolutionize how businesses approach profitability. Digital transformation is not just a buzzword but a fundamental shift that impacts every aspect of channel operations.

a. Artificial Intelligence and Machine Learning

Analysis of channel profitability is becoming to rely heavily on machine learning (ML) and artificial intelligence (AI). Businesses can now process enormous volumes of data thanks to these technologies. and uncover insights that were previously inaccessible. AI-driven analytics can optimize pricing strategies, forecast demand more accurately, and identify the most profitable channels with greater precision. Machine learning algorithms can also predict customer behavior, enabling more targeted marketing and sales efforts.

b. Blockchain Technology

Blockchain technology offers potential benefits for channel management by enhancing transparency and traceability. Through blockchain, businesses can create immutable records of transactions, which can help in tracking inventory, verifying the authenticity of goods, and ensuring compliance with agreements. This increased transparency can reduce fraud, minimize disputes, and ultimately contribute to improved profitability.

c. Internet of Things (IoT)

The Internet of Things (IoT) connects devices and systems, providing real-time data that can be used to optimize channel operations. IoT sensors in warehouses and supply chains offer detailed insights into inventory levels, shipping conditions, and equipment performance. This data can be leveraged to streamline logistics, reduce costs, and enhance the efficiency of channel operations, thereby improving profitability.

2. Omnichannel Strategies and Customer Experience

The shift towards omnichannel strategies reflects the changing expectations of consumers who now interact with brands across multiple touchpoints. Creating a seamless and integrated customer experience is becoming crucial for channel profitability.

a. Enhanced Customer Journey Mapping

Businesses are increasingly focusing on mapping and understanding the entire customer journey across various channels. By analyzing customer interactions and preferences, companies can tailor their channel strategies to deliver a cohesive and personalized experience. This approach not only enhances customer satisfaction but also drives higher conversion rates and loyalty, contributing to improved channel profitability.

b. Integration of Online and Offline Channels

The integration of online and offline channels is critical for delivering a consistent customer experience. Companies are investing in technologies that bridge the gap between digital and physical channels, such as click-and-collect services, virtual try-ons, and real-time inventory updates. This integration helps in capturing sales opportunities across multiple channels and optimizing profitability by providing customers with a unified shopping experience.

c. Personalization and Targeted Marketing

Personalization is becoming a key differentiator in channel strategies. Advances in data analytics and AI enable businesses to create highly targeted marketing campaigns and personalized offers based on individual customer preferences and behavior. By delivering relevant and customized experiences, companies can drive higher engagement, increase sales, and enhance profitability.

3. Sustainability and Ethical Practices

As sustainability and ethical considerations gain prominence, they are influencing channel strategies and profitability. Consumers are increasingly seeking brands that align with their values and demonstrate a commitment to environmental and social responsibility.

a. Sustainable Supply Chain Practices

Businesses are adopting sustainable practices across their supply chains to reduce their environmental impact. This includes sourcing materials responsibly, minimizing waste, and optimizing logistics to lower carbon footprints. Sustainable supply chain practices not only appeal to eco-conscious consumers but can also lead to cost savings and improved efficiency, contributing to long-term profitability.

b. Ethical Sourcing and Fair Trade

Ethical sourcing and fair-trade practices are becoming important factors in channel profitability. Consumers are willing to pay a premium for products that are sourced ethically and produced under fair labour conditions. By aligning their channels with ethical standards, businesses can enhance their brand reputation, attract socially-conscious customers, and drive profitability through premium pricing.

c. Transparency and Accountability

Transparency in business practices is increasingly demanded by consumers and stakeholders. Companies that are open about their sourcing, production processes, and environmental impact can build trust and loyalty. Implementing transparent practices and demonstrating accountability can differentiate a brand in the marketplace and positively impact profitability.

4. Globalization and Market Expansion

The global market presents both opportunities and challenges for channel profitability. Expanding into new regions and adapting to diverse market conditions require strategic planning and flexibility.

a. Emerging Markets and Localization

Emerging markets offer significant growth opportunities for businesses seeking to expand their channel reach. However, success in these markets often requires localized strategies that account for regional preferences, cultural differences, and economic conditions. Companies must invest in market research and adapt their channel strategies to effectively cater to local consumers and maximize profitability.

b. Cross-Border E-Commerce

Cross-border e-commerce is growing rapidly as consumers increasingly shop online from international retailers. Businesses are focusing on optimizing their cross-border channels to reach global customers efficiently. This includes addressing challenges related to international shipping, customs regulations, and payment processing. Effective management of cross-border e-commerce can open new revenue streams and enhance overall profitability.

c. Geopolitical Risks and Resilience

Geopolitical risks, such as trade tensions and regulatory changes, can impact channel profitability. Businesses must develop strategies to mitigate these risks, such as diversifying supply chains, establishing alternative sourcing options, and staying informed about global trade policies. Building resilience in the face of geopolitical uncertainties is essential for sustaining profitability in a globalized market.

5. Data-Driven Decision Making

The increasing availability of data is transforming how businesses make decisions regarding channel profitability. Leveraging data effectively can lead to more informed and strategic choices.

a. Advanced Analytics and Predictive Modeling
Advanced analytics and predictive modeling enable businesses to forecast future trends and identify potential opportunities and risks. By analyzing historical data and applying predictive techniques, companies can make proactive decisions that enhance channel profitability. These insights can guide inventory management, pricing strategies, and promotional efforts.

b. Real-Time Data and Agile Responses
Access to real-time data allows businesses to respond quickly to shifting consumer needs and market situations. With the help of real-time information and agile decision-making, businesses can take advantage of new possibilities, optimize operations, and make dynamic adjustments to their channel strategies. In a firm that is changing quickly, this adaptability is essential to sustaining and increasing profitability.

c. Data Privacy and Security
As data becomes increasingly valuable, ensuring data privacy and security is paramount. Businesses must implement robust measures to protect customer data and comply with

privacy regulations. Maintaining data integrity and safeguarding against breaches is essential for preserving customer trust and avoiding potential financial and reputational damage.

Check Your Progress- B

Q1. What is the primary objective of using a profit-and-loss statement in measuring channel profitability?

Q2. How does the Contribution Margin Analysis method help in understanding channel profitability?

Q3. How can the complexity of multi-channel distribution impact channel profitability analysis?

Q4. What does the Contribution Margin Analysis primarily focus on?

A) Total sales revenue

B) Fixed costs only

C) The difference between sales revenue and variable costs

D) Overall channel expenses

Q5. Which of the following is a common challenge in accurately measuring channel profitability?

A) Standardized metrics

B) Adequate data quality

C) Difficulty in allocating indirect costs

D) Consistent pricing strategies

Q6. How can multi-channel distribution complexity affect channel profitability analysis?

A) It simplifies tracking and attribution

B) It reduces the number of touchpoints

C) It makes it difficult to accurately track and attribute revenues and costs

D) It streamlines cost allocation

22.8 SUMMARY

Channel profitability is a multifaceted concept that requires careful management of revenue, costs, and strategic factors. By understanding the components of channel profitability, businesses can make informed decisions about their distribution strategies and optimize their channels to achieve sustainable financial success. The challenges associated with channel profitability, such as cost management, channel conflict, and market dynamics, require continuous attention and proactive strategies to overcome. Ultimately, by adopting best practices in channel optimization, cost management, customer experience, partner collaboration, and performance monitoring, companies can enhance the profitability of their distribution networks and secure a competitive advantage in the market.

22.9 GLOSSARY

1. **Channel Profitability:** The financial performance measurement of individual distribution channels within a company, evaluating how profitable each channel is relative to the cost of operating it.
2. **Distribution Channel:** The pathway or route through which goods and services travel from the producer or manufacturer to the final consumer. This includes wholesalers, retailers, distributors, and online platforms.
3. **Contribution Margin:** The discrepancy between a product's sales revenue and its variable production and selling costs. It aids in figuring out how profitable a specific product or channel.
4. **Fixed Costs:** Costs that do 1. Not be affected by the volume of sales or the degree of production; examples include insurance, salary, and rent. For a business to be profitable, channel income must meet these expenses.
5. **Variable Expenses:** Expenses that are directly correlated with sales or production volume, such as materials, labour, and shipping. These costs are a crucial part of channel profitability analysis.
6. **Cost-to-Serve:** The total cost involved in providing a product or service to a customer through a specific channel, including logistics, sales, marketing, and customer service costs.
7. **Return on Investment (ROI):** A measure of the profitability of an investment, calculated as the net profit from an investment divided by the initial cost of the investment. In channel profitability, it helps assess the effectiveness of each channel.

8. **Break-Even Analysis:** A calculation to determine the sales volume at which a company neither makes a profit nor incurs a loss. It is used to understand how many units need to be sold through a channel to cover all associated costs.
9. **Channel Conflict:** A situation where different distribution channels compete against each other for the same customer base, leading to a potential loss of profitability for the company.
10. **Channel Efficiency:** The measure of how effectively a distribution channel converts inputs into outputs, including how well it uses resources like time, money, and effort to generate sales and profits.
11. **Gross Margin**: The proportion of sales revenue that represents the difference between the cost of goods sold (COGS) and sales revenue. It displays the financial health of a channel in terms of its ability to cover operating expenses.
12. **Net Profit Margin:** The percentage of revenue remaining after all operating expenses, taxes, and interest have been deducted. It reflects the overall profitability of a channel after accounting for all costs.
13. **Channel Strategy:** A plan that outlines how a company will distribute its products or services to reach its target customers effectively. It includes decisions about channel selection, pricing, and channel management.
14. **Direct Channel:** A method of distribution in which a producer or manufacturer sells goods to a final customer directly, cutting away middlemen.
15. **Indirect Channel:** A distribution channel that involves intermediaries, such as wholesalers, distributors, or retailers, between the producer and the final consumer.

16. **Channel Partner:** An intermediary that a company works with to distribute its products or services, including wholesalers, distributors, retailers, or online platforms.
17. **Customer Lifetime Value (CLV):** The total amount of money that a company can realistically anticipate earning over the course of a single customer account. CLV helps assess the long-term profitability of customers acquired through different channels.
18. **Sales Volume:** The number of units sold through a particular channel over a specific period. It is a critical metric for analyzing the profitability and performance of a channel.
19. **Channel Management:** The process of designing, monitoring, and controlling the flow of goods and services through various distribution channels to ensure optimal profitability and customer satisfaction.
20. **Omnichannel Strategy:** A multichannel sales approach that provides customers with a seamless experience, whether they are shopping online, by phone, or in a physical store. It focuses on integrating all channels to maximize profitability.

22.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

1. According to **Smith and Johnson (2015)**, channel profitability can be defined as "the financial assessment of the effectiveness of a distribution channel, calculated by comparing the revenue it generates to the costs it incurs." This definition highlights the fundamental balance between income and expense, a concept central to understanding the value of any distribution channel.

2. Here's a comparison of fixed and variable costs in a T-chart format:

Fixed Costs	Variable Costs
Definition: Expenses that don't change based on volume of sales or production level.	**Definition:** Expenses that directly alter in response to variations in output or sales volume.
Characteristics:	**Characteristics:**
- Do not change with production levels.	- Vary with the level of production or sales volume.
- Consistent and predictable over time.	- Proportional to output; increase with more production and decrease with less.
- Typically incurred on a periodic basis.	- Less predictable as they depend on production or sales levels.
Examples:	**Examples:**
- Rent or lease payments for facilities.	- Cost of raw materials and components.
- Salaries of permanent employees.	- Direct labour costs (e.g., wages of hourly workers).
- Depreciation of machinery and equipment.	- Utility costs tied to production levels (e.g., electricity).
- Insurance premiums.	- Packaging costs.
- Fixed administrative expenses.	- Commissions and sales incentives.

3. The formula for calculating ROI is:

$$ROI = \frac{Net\ Profit}{Total\ Investment} \times 100$$

4. (i) False

(ii) False

(iii) True

(iv) True

(v) True

Check Your Progress –B

1. The primary objective of using a profit-and-loss statement is to evaluate the financial performance of a specific channel by detailing its revenues, costs, and expenses. This statement helps in evaluating the channel's success by figuring out the net profit or loss connected to it, which helps companies allocate resources and channel strategy.

2. Contribution Margin Analysis helps in understanding channel profitability by calculating the difference between a channel's sales revenue and its variable costs. This analysis provides insight into how much revenue is available to cover fixed costs and generate profit. By examining the contribution margin, businesses can identify the most profitable channels and make strategic decisions to enhance overall profitability.

3. The complexity of multi-channel distribution can impact channel profitability analysis by making it difficult to accurately track and attribute revenues and costs across different channels. Multiple touchpoints, varying channel costs, and customer interactions can complicate the process of measuring profitability, leading to potential inaccuracies in the analysis and making it harder to identify the most profitable channels.

4. C) The difference between sales revenue and variable costs
5. C) Difficulty in allocating indirect costs
6. C) It makes it difficult to accurately track and attribute revenues and costs

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22.13 TERMINAL QUESTIONS

1. Explain the concept of channel profitability and discuss its importance in modern marketing strategy.

2. Discuss the components of channel profitability. How do each of these components contribute to the overall profitability of a channel?
3. Analyze the methods used to measure channel profitability. Which method do you consider the most effective, and why?
4. What are the major challenges in channel profitability analysis? How can organizations overcome these challenges?
5. Evaluate the future trends in channel profitability analysis. What shifts can be expected, and how should businesses prepare for them?
6. How does channel profitability vary across different industries? Provide examples to illustrate your points.
7. Develop a case study where a company successfully improved its channel profitability. What strategies were employed, and what were the outcomes?

22.14 CASE LETS/CASES

Caselet 1: Revamping a Distribution Network

Background: ACME Electronics is a mid-sized company specializing in consumer electronics. They have traditionally relied on a network of brick-and-mortar retailers to distribute their products. However, recent market trends indicate a shift toward online shopping, leading to declining sales in physical stores. ACME Electronics has been considering adding an online distribution channel but is concerned about the potential impact on its relationships with existing retail partners.

Scenario: The CEO of ACME Electronics is keen on improving the company's profitability and has asked the marketing team to analyze the profitability of their current distribution channels, compare it with the potential profitability of an online channel, and make a recommendation.

Questions:

1. Identify the key factors that ACME Electronics should consider when analyzing the profitability of its current distribution channels.
2. What are the potential risks and benefits of adding an online distribution channel for ACME Electronics? How might these affect channel profitability?
3. How can ACME Electronics balance the profitability of its traditional and online channels? What strategies could be implemented to avoid channel conflict?

Caselet 2: Channel Partner Evaluation

Background: GreenGrow, a company that produces organic farming equipment, distributes its products through a mix of direct sales, third-party distributors, and online platforms. Over the past year, sales through third-party distributors have declined, while online sales have seen a significant increase. The company suspects that some of its third-party distributors are not performing optimally.

Scenario: GreenGrow's management has decided to evaluate the profitability of each distribution channel and is particularly interested in understanding the performance of its third-party distributors. The goal is to determine whether to continue working with these distributors or to shift resources to more profitable channels.

Questions:

1. What methods should GreenGrow use to measure the profitability of its third-party distributors?
2. If GreenGrow finds that some distributors are underperforming, what actions could the company take to improve the situation?
3. How can GreenGrow ensure that its online platform remains profitable while evaluating its distribution partners? What considerations should be made to avoid channel conflict?

Caselet 3: International Expansion Dilemma

Background: FreshSpice, a company specializing in gourmet spices, has been successful in the domestic market and is considering expanding internationally. The company currently distributes its products through specialty stores and online platforms. For international expansion, FreshSpice is considering partnering with local distributors in target countries. However, they are concerned about the profitability of these international channels compared to their existing domestic channels.

Scenario: The management team of FreshSpice needs to conduct a channel profitability analysis to determine whether to pursue international expansion through local distributors, invest more in their online platform for international sales, or maintain their focus on the domestic market.

Questions:

1. What factors should FreshSpice consider when analyzing the profitability of potential international distribution channels?
2. Compare the potential profitability of international distribution through local partners versus direct online sales. Which approach is likely to be more profitable for FreshSpice?
3. What challenges might FreshSpice face in maintaining profitability if they choose to expand internationally? How can these challenges be mitigated?

UNIT-23 RURAL DISTRIBUTION

23.1 INTRODUCTION

Generating awareness about products yields dividend only when steps are taken to ensure constant availability - particularly in rural India, where availability determines volume and market share because the consumer, influenced largely by retailers, purchases what is available at the conduct.

The rural market now offers a big attraction to marketers. However, it is not possible to transplant urban strategies to rural markets because the urban strategy of deep intensive retailing and continuous customer-pull generations through advertising and promotion can not work in rural markets. The main problems in rural distribution are:

1. Large number of small markets
2. Dispersed population and trade
3. Poor road connectivity to smaller villages

4. Multiple tiers (A large number of intermediaries) leading to higher distribution costs.
5. Poor availability of suitable dealers
6. Low density of shops per village and high variation in their concentration
7. Inadequate bank and credit facilities to rural retailers, leading to poor viability of retail outlets.
8. Poor storage system, leading to inadequate stocking of products
9. Highly credit driven market and low investment capacity of retailers
10. Poor visibility of products on rural shelves
11. Poor communication of offers and schemes due to the poor reach of the media
12. Inadequate power supply (for example, a lack of refrigeration leading to spoilage)

Most organizations have leveraged traditional wholesale models to get their products across rural shelves. However, with the increasing consumer pull in rural markets with exposure to media, more and more retailers want a full assortment of products, not a limited range, regular frequency of service and convenience of door delivery; credit to find their cash flow needs; promotions, fair prices, merchandising and activation support for their shopper. In many ways, they want an urban model of servicing and not compromised servicing just because they are in rural areas.

The challenge for supplier is the small size of each village with low throughput per outlet, coupled with high cost of distribution since these villages are some distance away from the distributors. These make high quality distribution unviable.

To address the availability challenges, some major players like HUL, ITC, Colgate, Coca-Cola and Bharati Telecom have ventured into rural markets with innovative distribution approaches, which have yielded reasonable success.

22 .2 THE EVOLUTION OF RURAL DISTRIBUTION CHANNELS

The evolution of rural distribution channels in India is a fascinating journey that mirrors the country’s socio-economic development and technological advancements. Here's an overview of the historical progression:

1. Early Period (Pre-Independence to 1950s)

- Traditional Channels: Before independence, rural distribution in India was largely informal and based on traditional trade practices. Local markets, fairs, and local traders played key roles. Goods were typically distributed through a network of middlemen and local shopkeepers who had close ties with their communities.

- Limited Infrastructure: Rural infrastructure was underdeveloped, and distribution was hampered by poor road networks and limited transportation options. Goods moved slowly and were often expensive due to the inefficiencies in the supply chain.

2. Post-Independence Era (1950s-1980s)

- Government Initiatives: The government played a significant role in rural distribution through the establishment of cooperatives and public sector enterprises. The launch of the Public Distribution System (PDS) in the 1960s aimed to ensure food security and stabilize prices for essential goods.
- Expansion of Infrastructure: Efforts were made to improve rural infrastructure, such as roads and transportation networks, though progress was slow. This period also saw the growth of rural credit and agricultural input distribution systems, including fertilizers and seeds.
- Cooperative Movement: The cooperative movement gained momentum, with the establishment of rural cooperatives that provided essential goods and services directly to the rural population. This model helped in improving access to agricultural inputs and consumer goods.

3. Liberalization and Technological Advancements (1990s-2000s)

- Economic Reforms: The liberalization of the Indian economy in the 1990s led to significant changes in distribution channels. Private companies began to enter the rural market, and there was a shift towards more organized retail.
- Supply Chain Innovations: The growth of logistics and supply chain management technologies improved the efficiency of rural distribution. Companies began to explore direct-to-consumer models and innovative supply chain solutions to reach remote areas.
- Emergence of Rural Retail: The late 1990s and early 2000s saw the emergence of rural retail formats, such as Kirana stores (small, independent grocery stores) and rural hypermarkets. Companies like ITC and Hindustan Unilever began to invest in rural distribution networks.

4. Digital Revolution and Modern Era (2010s-Present)

- E-commerce and Digital Payments: The advent of digital technologies and the expansion of mobile networks transformed rural distribution channels. E-commerce platforms like Amazon and Flipkart started targeting rural consumers, and digital payment systems made transactions easier.
- Improved Infrastructure: Continued investments in rural infrastructure, including better roads and connectivity, have further facilitated the growth of modern

distribution channels. Government initiatives like the Pradhan Mantri Gram Sadak Yojana (PMGSY) have played a crucial role.
- Direct-to-Consumer Models: Many companies have adopted direct-to-consumer models, utilizing a combination of physical retail outlets and digital platforms to reach rural customers. The growth of fintech and digital lending has also supported rural entrepreneurs and businesses.
- Focus on Sustainability: Recent trends include a focus on sustainability and rural empowerment. Companies are increasingly investing in sustainable practices and engaging with local communities to develop more inclusive distribution models.

Key Trends and Challenges

- Technology Integration: The integration of technology in logistics, inventory management, and sales has been a game-changer. However, challenges such as digital literacy and network connectivity persist in some rural areas.
- Consumer Preferences: Rural consumers have diverse preferences and needs, which require tailored approaches in product offerings and marketing strategies.
- Logistics and Supply Chain: Efficient logistics remain a challenge due to geographical and infrastructural constraints, but advancements in technology and logistics networks are helping to address these issues.
  The evolution of rural distribution channels in India reflects broader economic and technological trends, with significant strides made in improving access and efficiency. The ongoing developments suggest a dynamic future for rural distribution, driven by innovation and continued investment in infrastructure and technology.

23.3 CONCEPT AND NATURE OF DISTRIBUTION CHANNLES

Distribution Channels refer to the network of intermediaries through which products or services pass from manufacturers to end consumers. In rural India, these channels are designed to bridge the gap between urban centers and remote villages.

The primary purpose is to ensure that goods and services are accessible to rural consumers, who may not have direct access to producers or large retail outlets.

Most companies view the rural markets as a great opportunity for increasing sales but when it comes to distribution, they often face a lot of problems. Strategies which work for urban markets can not just be transplanted in rural markets as they are. It is due to extensive retailing network and sustained pull generated by incessant mass media advertising in urban areas. Rural areas mainly lag on account of those reasons. Major problems confronted by rural marketers in distribution are:

1. Larger distance involved
2. Lack of proper transportation
3. Lack of well-connected all-weather roads in a sizeable number of villages
4. Lack of retail outlets
5. Inadequate mass exposure

Considering the development taking place in the countryside, rural markets in India have now over come these distribution problems. A major problem now, however, is the misconceived notion that there is no scope for distribution strategies in rural markets. Now that notion is changing, and potential of the markets has been realized.

The link between the manufacturer and customers is thus the channels of distribution. It consists of producers, consumers, intermediary organizations. Intermediary organizations include Stuckists or inventory management. They aim to provide a means of transferring ownership or possession of a product from producer to consumer.

Structure:

1. **Direct Distribution**: Companies or producers sell directly to consumers through local representatives, direct sales teams, or e-commerce platforms.
2. **Indirect Distribution**: Products pass through multiple intermediaries, including wholesalers, distributors, and retailers before reaching the end consumer.

23.4 FEATURES OF RURAL DISTRBUTION

Rural distribution channels in India have distinct features that reflect the unique characteristics of rural markets and the challenges of reaching these areas. Here are the key features:

1. Local Connectivity
   - Kirana Stores: Small, family-run grocery stores that serve as primary retail outlets in rural areas. They are often the main point of sale for essential goods.
   - Local Agents: Sales representatives or agents who facilitate the distribution of products in remote villages, often working on a commission basis.
2. Geographical and Logistical Challenges
   - Remote Locations: Many rural areas are difficult to access due to poor infrastructure, which can complicate transportation and increase distribution costs.
   - Limited Infrastructure: Inadequate road networks and transportation facilities can hinder the efficient movement of goods.
3. Distribution Models
   - Direct Distribution: Companies may establish direct distribution models where they sell products through local representatives or set up their own retail outlets in rural areas.

- Indirect Distribution: Involves intermediaries like wholesalers and distributors who manage the supply chain between producers and rural retailers.

4. Role of Middlemen
   - Wholesalers and Distributors: They act as intermediaries between manufacturers and local retailers. They often handle bulk buying and distribution to multiple small retailers.
   - Local Traders: Often involved in the informal distribution network, handling a range of products and providing credit to customers.
5. Government Involvement
   - Public Distribution System (PDS): Government-run program to distribute essential goods like grains, sugar, and kerosene to low-income families at subsidized rates through local fair-price shops.
   - Rural Development Schemes: Various government schemes and initiatives to improve rural infrastructure and facilitate better distribution.
6. Retail Formats
   - Cooperative Stores: Managed by local cooperatives, these stores distribute agricultural inputs and consumer goods, often benefiting from economies of scale.
   - Rural Hypermarkets: Larger retail outlets that offer a wide range of products in a single location. They are becoming more common in semi-urban areas.
7. Technological Integration
   - Mobile and Digital Platforms: The rise of mobile technology and digital payments has introduced new ways to reach rural consumers, including e-commerce and mobile-based ordering.
   - Data Analytics: Companies use data analytics to understand consumer behavior and optimize their distribution strategies.
8. Economic and Social Factors
   - Price Sensitivity: Rural consumers are often more price-sensitive due to lower income levels. Distribution strategies need to consider affordability and value.
   - Cultural Preferences: Local preferences and traditions can influence product offerings and marketing strategies.

9. Community-Based Approaches
   - Local Partnerships: Collaborations with local entrepreneurs, NGOs, and community organizations to enhance distribution and market reach.
   - Micro-entrepreneurship: Support for local micro-entrepreneurs who distribute products within their communities, often acting as local agents or franchisees.
10. Seasonal Variability
    - Demand Fluctuations: Rural demand can be highly seasonal, influenced by agricultural cycles and festivals. Distribution channels need to adapt to these fluctuations.
11. Focus on Inclusivity

- Accessibility: Efforts to improve access to essential goods and services for underserved rural populations.
- Sustainability: Increasing emphasis on sustainable practices in distribution, including reducing environmental impact and supporting local economies.

In summary, rural distribution channels in India are marked by their reliance on local connections, adaptation to geographical and infrastructural challenges, and a mix of traditional and modern practices. The success of these channels often depends on understanding and addressing the unique needs and conditions of rural markets.

23.5 FUNCTIONS OF DISTRIBUTTION CHANNELS

Distribution channels provide various tasks necessary to promote sales of products and services to the ultimate customers. They may include some or all of the following:

1. Buying: Every middleman must purchase products for resale or contracts as an agent to receive a supply of product.
2. Selling: Every middleman must contact potential customers to promote the product and solicit orders.
3. Assorting: A typical middleman brings together an assortment of merchandise, usually a related item, from several sources to better serve his potential customers.
4. Financing: By investing an inventory and by extending credit to customers, the middleman helps to finance the exchange process.
5. Storage: Products must be assembled in a convenient location to assure availability and must be protected to prevent deterioration and loss
6. Sorting: In some situations, the middleman provides an important function of buying in large quantities and breaking the bulk purchase into smaller quantities for resale.
7. Grading: it may be necessary for the middleman to inspect; test or judge the products he receives for quality and to assign distinct quality grades to them.
8. Market Information: The middleman typically has some responsibility for providing market information both to his customers and to his suppliers, including information about availability, product quality, competitive conditions, customer needs and so one.
9. Risk taking: Risk is inherent in the ownership of an inventory of a product that can deteriorate or become obsolete.

23.6 VARIABLES OF PHYSICAL DISTRIBUTION

Physical movement of goods and services entails its dependence on different independent variables. These variables are mentioned below:

1. The first and foremost variable of physical distribution is the level of customer service. The effectiveness of customer service can be gauged by effectiveness. It has a direct impact on the cost, market share and profitability.
2. Order processing is another variable which has a deeper bearing on the level of customer service. Order Processing begins with moment the company receives an order. Immediately after the receipt of the order, the logistical process leads to a flurry of activities needed to deliver the product to the customer; speedily and accurately. An order processed promptly will cause early delivery and hence early payment or realization of revenues. On the other hand, an order processed with delay will cause delay in realization of the revenues also.
3. Logistical Communication: Activities involved in the process of distribution should be guided in such a way that a link is established between the logistic system and the customer of the firm. This line can be established by an information exchange between the stakeholders.
4. Transportation: Physical movement of products from the source of supply and production to the customers is an area which is cost intensive and logistical needs demand selection of proper mode of transportation and choosing a particular carrier. The route to be followed in the physical transfer of goods also must be decided beforehand. The route should be so chosen that it is shortest and safest. The choice of Rail, Road, Inland water way or sea route must be decided depending on the destination.
5. Warehousing: warehousing is provisioning of storage space for the goods in such a way that enough buffer is created between production and use. Warehousing helps in avoiding situations of shortage etc. It enables enhanced service and helps in lowering transportation costs.
6. Inventory Control: Inventory is careful in making easy and effective availability of products to the customers. It ensures correct mix of products at proper location at the right time.
7. Packaging: Packaging helps in protection of the products and enables maintenance of definite identity throughout the logistical process and as a result creates an effective density.
8. Material handling: Efficient material increases the speed of and reduces the cost of picking orders in the warehouse and of moving products between storage and transportation carriers. It is a cost generating activity and that must be controlled.
9. Production Planning: It ensures that products are made available for inventory in the correct assortment and quantity, all the time. Production is planned in conjunction with logistic management.
10. Location of Warehouse: Strategic placement of the warehouse definitely, reduces cost of transportation. It lowers the product cost and helps in making the product available at low prices. All these variables work in combination and do not work in isolation of one another, But efficiency of an individual variable could be different from the effectiveness of the same function considered as part of the total physical distribution process. Therefore, in order to get better cost

efficiency balance of the system as a whole, It is imperative that compromises are made among functions.

23.7 CHANNEL TYPES FOR RURAL INDIA

In rural markets in India, the distribution and communication channels often differ significantly from those in urban areas due to variations in infrastructure, technology, and consumer behavior. Here are some effective channel types for reaching rural markets in India:

1. **Direct Selling**: Direct selling involves sales representatives or agents visiting rural areas to sell products directly to consumers. This method allows for personal interaction and relationship-building, which can be crucial in rural markets.
2. **Local Retailers and Kirana Stores**: Local shops or Kirana stores are a primary channel for rural consumers. Partnering with these stores can help in reaching a wide audience. These stores are often more trusted and accessible to rural consumers.
3. **Wholesale Distributors**: Wholesalers or distributors can help to reach a larger number of local retailers efficiently. They can also help in managing inventory and supply chains in rural areas.
4. **Mobile Vans and Demonstration Units**: Mobile vans can travel to various villages, providing products and demonstrations directly to rural consumers. This method is particularly useful for products that benefit from visual demonstrations or samples.
5. **Community-Based Organizations**: Collaborating with local NGOs, self-help groups (SHGs), and cooperatives can help in reaching rural populations effectively. These organizations often have established trust and networks within the community.
6. **E-commerce Platforms**: With increasing digital penetration, e-commerce platforms are becoming more relevant in rural areas. Mobile apps and websites that cater to rural consumers can help in reaching these markets, although challenges related to internet access and payment methods still exist.
7. **Traditional Media**: Utilizing local language newspapers, radio, and community TV channels can be effective in reaching rural consumers. These media channels are often more accessible and influential in rural areas.
8. **Agricultural Input Dealers**: For products related to agriculture, partnering with dealers who sell seeds, fertilizers, and other agricultural inputs can be an effective channel. These dealers are well-integrated into the farming community and can influence purchasing decisions.
9. **Village Events and Fairs**: Participating in local fairs and village events provides an opportunity to interact directly with the community. These events are often central to rural life and can be an effective platform for product promotion and engagement.

10. **Government Programs and Schemes**: Leveraging government schemes and programs that target rural development can help in reaching rural markets. Collaborating with government initiatives can also lend credibility to the products.

Each of these channels has its own strengths and limitations, so a combination of these methods, tailored to the specific characteristics of the target rural market, is often the most eff

23.8 CHANNELS BEHAVIOUR IN RURAL AREAS

The retailer is a crucial link in reaching consumers and hence it is necessary to examine the rural retailers' behavior and impact on marketing strategies. The dimensions of channel behaviour here include:

1. **Sourcing of Stocks and Purchase Cycles:** For the retailer, the wholesaler is the most important source of information as well as stocks. The wholesaler is also the most important influence on the retailer. Retailers in interior areas are not serviced by agents of distributors, they go to nearby town/ large feeder villages once or twice a month to buy their stock. Retailers in feeder villages purchase items like cosmetics, toiletries, detergent and packaged foodstuffs from agents of distributors, who visit their shops at regular intervals and deliver items.

   What is the retailer's purchasing cycle? In high turnover feeder villages, rural shopkeepers visit the neighboring urban wholesale, they may buy once a week or a fortnight. In other areas where rural shopkeepers depend only on counter sales and on wholesale sales, they may buy once week or a fortnight. In case of brands which they buy from the company's salesman, they may buy once a month or even only when the company salesman visits. In such cases, when the stocks run out of one brand, they may substitute it with another brand or product. Rural retailers prefer to make their purchase on their terms or better margins. In other cases, they like to go from the wholesaler and buy from the one who gives them the best terms. For grains and other produce, they often depend on the regular mandis held for these items. Marketer would do well to motivate the wholesaler to get the retailer in the rural market to stock his company's products, particularly the newer products. This is the approach followed by Nirma.

2. **Stocking Behaviour and Seasonality:**
   - **Stocking Behavior**
     a. **Inventory Levels:**
        i. **Local Demand:** Rural retailers often stock products based on local demand and consumption patterns. Understanding the specific needs of the community helps in setting appropriate inventory levels.
        ii. **Product Rotation:** Retailers may rotate stock frequently to manage shelf space and prevent spoilage, especially for perishable goods. Implementing a first-in, first-out system can help minimize waste.

     b. **Ordering Practices:**

i. **Bulk Orders:** Retailers might place bulk orders to benefit from lower prices, but this requires careful inventory management to avoid overstocking. Bulk purchasing is common for staple items with consistent demand.

ii. **Just-in-Time (JIT):** Some retailers may prefer a JIT approach, ordering smaller quantities more frequently to reduce storage needs and manage cash flow better.

c. Local Sourcing:

i. **Regional Suppliers:** Many rural retailers source products locally to ensure freshness and support community businesses. This also reduces transportation costs and improves reliability.

- **Seasonality**

a. Agricultural Seasons:

i. **Crop Cycles:** In rural areas dependent on agriculture, stocking behavior often aligns with crop cycles. For instance, agricultural inputs like seeds and fertilizers are in higher demand before planting seasons.

ii. **Harvest Seasons:** Post-harvest periods may see increased demand for certain products, while others might experience a dip as farmers focus on selling their produce.

b. Festivals and Events:

i. **Local Festivals:** Festivals and local events can drive demand for specific products, such as festive foods or clothing. Stocking up ahead of these periods can help capture increased sales.

ii. **Regional Celebrations:** Different regions may have unique celebrations, requiring tailored stocking strategies to align with local customs and purchasing behavior.

c. Weather Conditions:

i. **Monsoon and Winter:** Seasonal weather patterns impact stocking behavior. For example, during the monsoon season, there may be a higher demand for waterproof products or winter clothing during colder months.

d. Economic Factors:

i. **Income Fluctuations:** Economic factors, including crop yields and seasonal employment, can affect purchasing power and stocking behavior. Retailers may adjust their inventory based on expected changes in consumer spending.

e. Planning for Seasonality:

i. **Demand Forecasting:** Accurate forecasting is crucial for managing seasonality. Utilize historical sales data and local insights to predict demand shifts and plan stock levels accordingly.

ii. **Flexibility:** Maintain flexibility in your inventory and supply chain to adapt to unexpected changes in demand or supply disruptions due to seasonal factors.

Understanding these behaviors and seasonality patterns is essential for effective rural distribution, ensuring that products are available when needed and aligned with local consumption trends.

3. **Credit Pattern:** The credit offered by retailers to consumers differs from area to area. In some villages and districts, credit sales account for as much as 60 percent to 70 percent of the total business. While in others it is only 15 to 20 percent . The reason for this variation are as yet unclear. Consumers normally have a running credit with part of the outstanding amount being paid off every month and settled only at the time of harvest. In other cases, the bulk of outstanding amount is settled only at the time of harvest. Credit is extended mostly on essential commodities such as rice, wheat and cooking oil, but not on packaged goods, In some cases it was observed that retailers offers national brands to cash customers, but push local/ regional brands to credit customers because retailers buy national brands on a cash and carry basis.
4. **Transfer of Capital:** This pattern conveniently follows the retailer's own needs to transfer capital from the store to their own cultivation, since most retailers themselves have landholdings; when the harvest is over and cash from crops is realized, they invest in building inventories in the retail shop. After the harvest, fresh investments shift from the store to the farm. Marketers in rural areas could use this pattern to time their promotions. Although daily needs products are in constant demand, their consumption seems to increase during selling season. Hence, new introductions and promotions could be timed to catch consumers when they are most amenable to buying.
5. **Pricing by Channel:** Sometimes retailers in interior villages sell at a price higher than the maximum retail price. They justify this on the grounds that they spend time and money to fetch the products from town wholesalers. This in turn suggests that channel members in rural markets may seek higher margins. Festive discounts announced by companies and routed through wholesalers and retailers often result in higher stocking up by them; most of the time, these concessions are not passed on to consumers, however with the increasing media exposure and consumer education the retailers malpractices are diminishing.
6. **Channel Promotion:** Retailers in interior village prefer to limit the quantity purchased and therefore do not qualify for discount schemes, whereas retailers in feeder market buy in bulk and get the benefits of such schemes. Discount schemes should be targeted at retailers in feeder markets, as they can buy additional stocks to sell not only to consumers, but also retailers from interior villages.
7. **Retailers-Consumer Dynamics:** In rural markets, the dynamics between retailers and consumers are shaped by a strong reliance on personal relationships and local trust. Rural consumers are highly price-sensitive, often favoring local retailers for their essential goods due to limited access to a wide range of products. Retailers must adeptly manage inventory based on local demand, seasonal variations, and regional events, adapting their product offerings to align with local preferences and economic conditions. Effective communication through traditional media and community engagement plays a crucial role in influencing consumer behavior. Infrastructure challenges necessitate innovative solutions like mobile retail units, while loyalty

programs and personalized services can enhance consumer retention. Retailers also need to navigate logistical issues and ensure flexible stocking strategies to address variations in demand, influenced by factors such as festivals, economic fluctuations, and local competition. Overall, successful retailer-consumer dynamics in rural areas require a blend of local adaptation, efficient supply chain management, and community involvement.

23.9 DISTRIBUTION MODELS IN RURAL MARKETS

Distribution models in rural markets vary to address the unique challenges of these areas. Key models include:

1. **Direct Distribution**: Involves delivering products directly to consumers or local retailers using company-owned vehicles or personnel. This model ensures better control over the supply chain but requires significant investment in logistics.
2. **Distributor Network**: Utilizes regional distributors who manage bulk inventory and supply local retailers. This model helps streamline distribution but relies on effective coordination between distributors and retailers.
3. **Local Kirana Stores**: Partners with local kirana (general) stores to act as intermediaries. Retailers stock products based on local demand, leveraging their community trust and accessibility.
4. **Mobile Vans**: Deploys mobile retail units or vans that travel to remote areas, providing products and services directly to consumers. This approach addresses accessibility issues but requires careful route planning and logistics management.
5. **Community-Based Distribution**: Collaborates with local NGOs, self-help groups, or cooperatives to distribute products. These organizations have established trust and networks within the community, enhancing reach and effectiveness.
6. **E-commerce Platforms**: Leverages online platforms to reach rural consumers, often using cash-on-delivery options and local pickup points. This model is growing with increasing digital access but faces challenges with internet connectivity and delivery logistics.
7. **Wholesale Aggregators**: Involves bulk purchasing and distribution through wholesale aggregators who supply smaller local retailers. This model helps manage inventory and reduce costs but depends on efficient wholesale operations.

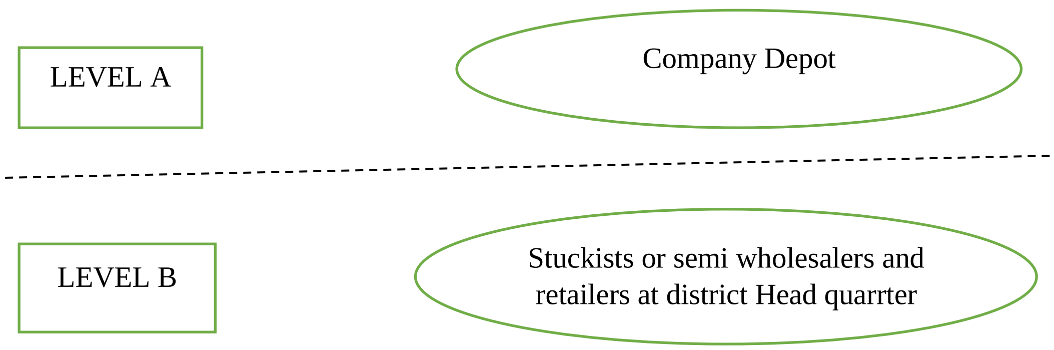
Each model has its strengths and challenges, and successful rural distribution often involves a combination of these approaches tailored to local needs and conditions.

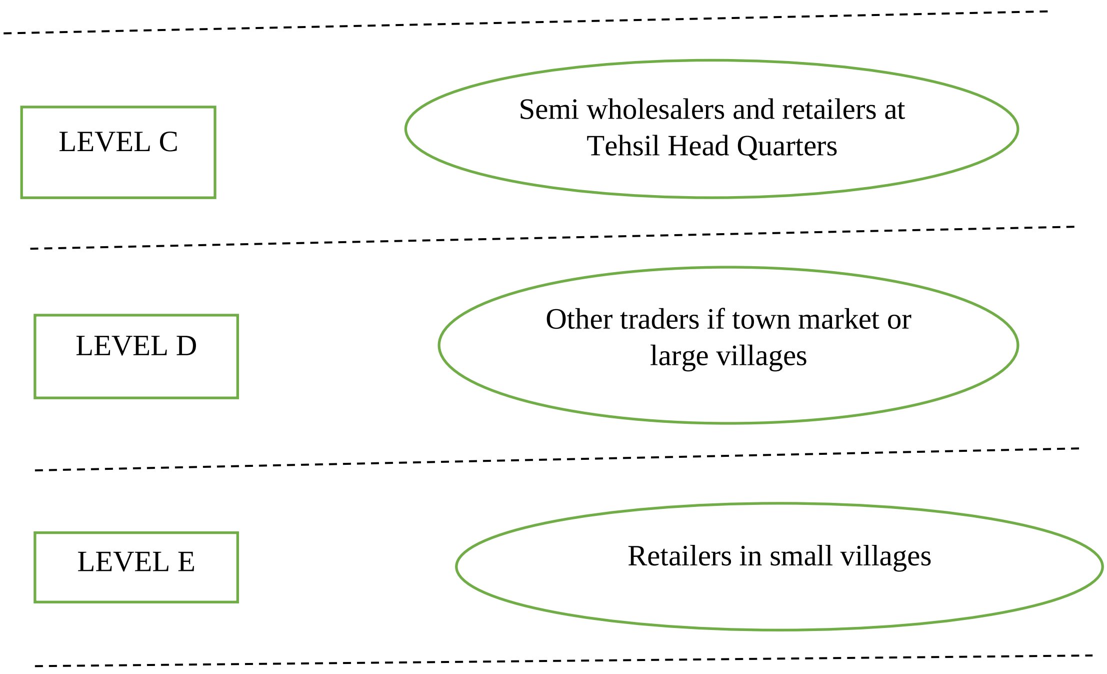
23.10 CHANNEL STRUCTURE

Channel structure evolves depending upon the type of company product, target market segment and competition. There are mainly three types of channel structure systems. These are:

1. Vertical Marketing System: It comprises of producer, wholesalers and retailers which set as a unified system, such types of distribution marketing system aim to achieve economies by their sheer size, bargaining power and elimination of duplicate services and channel conflicts.
2. Horizontal Marketing System: In a horizontal marketing structure, two or sometimes more nonrelated companies willingly join and express their readiness in pooling or putting together their resources with an aim to exploit emerging market opportunities. There is an economy of effort which makes the channel viable and attractive position.
3. Multi-Channel Marketing System: There is a simultaneous deployment of various channels of distribution including telemarketing, internet commerce or indirect marketing means. As a result of multiple channel deployment, the reach of channel becomes wider and channel also becomes efficient.

Levels involves in the distribution network oversee the movements of the product from one level to the final level. The first faraway national or state level locations.





23.11 CHANNEL SET UP OR COMPONENTS

People and places who are involved with the channels of distribution include the Wholesalers, Retailers, Mobile Vans, Weekly Markets or Janta Bazaars, Fairs or Exhibitions, Cooperative Societies, Petrol Pumps, Public Distribution System, Door to Door Sales-people, Syndicates involved in distribution and certain NGOs. All these components which comprise distribution strategy system are explained below:

1. **Wholesaler:** In rural India, wholesalers play a pivotal role in bridging the gap between manufacturers and local retailers, ensuring the efficient flow of goods into remote and underserved areas. These wholesalers purchase products in bulk from manufacturers or large suppliers, benefiting from cost efficiencies that allow them to offer competitive pricing. Their primary function is to distribute these goods to a network of local Kirana stores and other retail outlets, which may lack the capacity to handle large-scale purchases directly. This distribution model is crucial in rural areas, where infrastructure challenges and logistical constraints can complicate supply chains. Wholesalers often leverage their extensive networks and local knowledge to manage inventory effectively, adapting to the seasonal and regional variations in demand typical of rural markets. They also play a critical role in ensuring product availability and consistency, which helps stabilize local retail operations. Despite their importance, wholesalers in rural India face challenges such as inadequate transportation infrastructure, fluctuating demand, and the need to maintain relationships with both suppliers and retailers. Addressing these challenges requires robust logistics planning and an understanding of local market dynamics to ensure that products reach rural consumers efficiently and effectively.
2. **Retailers:** Retailers in rural India serve as the crucial link between consumers and the broader supply chain, playing a fundamental role in meeting the everyday needs of rural

communities. These local retail outlets, often small kirana (general) stores, are deeply embedded in their communities and operate with a profound understanding of local preferences and purchasing behaviors. They provide access to essential goods, ranging from food staples to household items, and are usually the primary point of sale for rural consumers who may have limited access to larger retail chains.

One of the defining features of rural retailers is their adaptability to local needs and conditions. They often tailor their product offerings to match regional tastes, seasonal demands, and economic constraints. For instance, during harvest seasons, retailers may stock up on agricultural tools and inputs, while during festivals, they might increase inventory of seasonal items. This localized approach helps them cater effectively to their customer base and fosters strong community relationships.

Retailers in rural India also face significant challenges, including limited access to capital, which affects their ability to stock a diverse range of products. Infrastructure issues, such as poor transportation and storage facilities, can impact their ability to maintain consistent inventory levels and manage supply chain disruptions. Additionally, price sensitivity is high among rural consumers, compelling retailers to balance affordability with profitability.

Despite these challenges, rural retailers play an essential role in economic activity by providing employment and contributing to the local economy. They are often seen as trusted community figures, and their success is closely tied to their ability to maintain strong customer relationships and adapt to changing market conditions. The continued evolution of rural retailing, supported by improving infrastructure and digital innovations, holds the potential to further enhance their role and impact in rural Indian markets.

3. **Mobile Vans:** Vans play a crucial role in rural distribution by providing a flexible and direct means of reaching remote and underserved areas. They enhance accessibility to essential goods in regions where traditional retail infrastructure is limited or nonexistent. These mobile units are particularly valuable in rural settings due to their ability to navigate challenging terrain and bring products directly to consumers, bypassing the need for extensive warehousing and complex supply chains. Vans enable businesses to adjust their distribution schedules to match seasonal fluctuations and local demand patterns, offering a tailored approach to inventory management. They also foster direct engagement with consumers, allowing for personalized service, product demonstrations, and immediate feedback. While the use of vans involves costs such as maintenance, fuel, and logistics, their benefits in overcoming infrastructure barriers and improving market reach make them an essential component of rural distribution strategies.
4. **Weekly Markets**: Weekly markets, commonly known as "haats," are a significant feature of rural India’s economic and social landscape. These temporary markets, held once a week in various villages, provide a vital platform for local trade and commerce. Typically set up in a designated area within the village or at its outskirts, weekly markets cater to the needs of rural consumers and offer a wide range of products, including fresh produce, grains, livestock, household goods, and textiles. They play a

crucial role in the rural economy by enabling farmers and small-scale producers to sell their goods directly to consumers, often at competitive prices, and without the need for intermediaries.

The weekly market serves as more than just a place for purchasing goods; it is also a hub for social interaction and community engagement. Villagers from surrounding areas converge at these markets, which often become vibrant social events where people exchange news, socialize, and engage in community activities. This gathering aspect makes haats an integral part of rural life, reinforcing local bonds and cultural practices.

For retailers and vendors, weekly markets offer a low-cost, accessible venue to reach a broad customer base. Many small-scale entrepreneurs and local artisans use these markets to showcase and sell their products, benefiting from the high footfall and community-centric nature of the market. However, vendors must navigate challenges such as weather conditions, market space limitations, and the need for efficient logistics to transport and display their goods.

Overall, weekly markets in rural India are essential for economic sustainability, providing access to goods and services, fostering community connections, and supporting local entrepreneurship. They embody the resilience and resourcefulness of rural communities, reflecting the dynamic interplay between commerce and culture in India's rural heartland.

5. **Fairs in Rural India:** Often referred to as "Melas," are vibrant and culturally rich events that play a crucial role in the social and economic life of rural communities. Held at regular intervals, typically annually or biannually, these fairs draw large crowds from surrounding villages and towns, creating a bustling atmosphere of celebration and commerce. They offer a unique blend of traditional festivities, including religious ceremonies, cultural performances, and local games, making them important cultural and social gatherings.

   Economically, rural fairs serve as significant marketplaces where local vendors, artisans, and traders showcase a wide range of products, from agricultural produce and handicrafts to textiles and household goods. These fairs provide a crucial platform for small-scale producers and entrepreneurs to reach a broader audience, often at a scale that would be difficult through regular retail channels. The influx of visitors creates a high-volume selling opportunity for vendors, while consumers benefit from the diverse range of products and the chance to purchase goods at competitive prices.

   In addition to commerce, fairs are an integral part of rural life, offering a space for community engagement and cultural expression. They often feature traditional music, dance performances, and religious rituals that reflect the local heritage and customs. This cultural aspect strengthens community ties and provides a sense of identity and continuity.

   Despite their significance, organizing and attending fairs involves logistical challenges, including managing large crowds, ensuring adequate facilities, and addressing infrastructure limitations. Vendors must also navigate the complexities of setting up stalls and managing inventory in a temporary environment.

   Overall, rural fairs in India are more than just market events; they are lively celebrations of local culture and commerce, reinforcing community bonds and supporting local economies. They capture the essence of rural life, blending tradition with trade in a way that is both economically beneficial and culturally enriching.

6. **Cooperative Societies:** Cooperative societies in rural India are crucial organizations that empower local communities through collective action and shared resources. These societies are formed by groups of individuals who come together to pool their resources, skills, and efforts to achieve common economic and social goals. They play a vital role in sectors such as agriculture, finance, and consumer goods, offering services like credit facilities, input supply, and marketing support. By fostering collaboration and mutual assistance, cooperative societies help rural communities access resources, improve livelihoods, and enhance economic stability. They also promote democratic decision-making and equitable distribution of benefits, contributing to social cohesion and sustainable development in rural areas.
7. **Public Distribution System:** The Public Distribution System (PDS) in rural India is a government initiative designed to provide subsidized food and essential goods to low-income households. Through a network of Fair Price Shops (FPS) or ration shops, the PDS ensures that staple items like rice, wheat, sugar, and cooking oil are available at affordable prices to people living below the poverty line. This system aims to alleviate hunger and malnutrition, particularly in underserved and economically disadvantaged regions.

   Under the PDS, eligible beneficiaries receive ration cards that entitle them to a fixed quota of subsidized goods each month. The distribution is managed through a combination of state and central government agencies, with local Fair Price Shops serving as the primary distribution points in rural areas. These shops are responsible for distributing the allotted goods to cardholders and maintaining records of transactions.

   While the PDS has significantly contributed to food security in rural India, it faces challenges such as inefficiencies in distribution, issues with quality and availability of goods, and problems related to corruption and leakages. Efforts to reform the system, including digitization and improved supply chain management, aim to enhance its effectiveness and ensure that benefits reach the intended recipients more reliably.

23.12 RECENT TRENDS IN RURAL DISTRIBUTION

Recent trends in rural distribution in India reflect the evolving landscape of supply chains, consumer behavior, and technological advancements. These trends are shaping how goods are delivered to rural areas and are enhancing efficiency, reach, and accessibility.

1. **Digital Transformation**: The adoption of digital platforms and e-commerce is revolutionizing rural distribution. Online marketplaces and mobile apps enable rural consumers to access a wider range of products and services directly from their homes, bridging the gap between urban suppliers and rural buyers.

2. **Logistics Innovations**: The development of efficient logistics solutions, such as last-mile delivery networks and mobile vans, is improving the reach of products in remote areas. These innovations help overcome infrastructure challenges and ensure timely delivery of goods.
3. **Warehouse Automation**: The use of automated warehouses and smart inventory management systems is streamlining distribution processes. These technologies enhance efficiency in stocking, tracking, and managing inventory, reducing lead times and operational costs.
4. **Cold Chain Development**: The expansion of cold chain infrastructure is critical for distributing perishable goods like dairy, fruits, and vegetables. Improved refrigeration and storage facilities are reducing spoilage and extending the shelf life of perishable products.
5. **Local Partnerships**: Collaborations with local entrepreneurs and cooperatives are enhancing distribution networks. Local partners bring valuable insights into regional needs and preferences, facilitating better inventory management and market reach.
6. **Multi-Channel Distribution**: Companies are increasingly using a multi-channel approach, combining traditional retail, direct-to-consumer sales, and online platforms. This strategy allows for a more flexible and comprehensive distribution network.
7. **Data-Driven Insights**: Leveraging data analytics for demand forecasting and supply chain optimization is becoming common. Analyzing consumer data helps in predicting trends, managing inventory levels, and improving distribution efficiency.
8. **Sustainability Practices**: There is a growing focus on sustainability in rural distribution. Companies are adopting eco-friendly packaging, optimizing transportation routes to reduce carbon footprints, and engaging in fair trade practices.
9. **Mobile and Temporary Retail**: The use of mobile retail units and temporary stalls is increasing, especially in areas with limited permanent retail infrastructure. These solutions help bring goods directly to consumers and adapt to varying demand.
10. **Financial Inclusion**: Integration of digital payment systems and financial services in rural distribution is improving transaction convenience and expanding access to financial tools for rural consumers and businesses.

These trends are transforming rural distribution by making it more efficient, accessible, and responsive to the needs of rural consumers. They reflect a shift towards greater integration of technology and innovation in addressing the challenges of reaching remote and underserved areas.

Check Your Progress- A

1. Rural distribution refers to the process of delivering goods and services to __________ areas where infrastructure may be less developed.
2. One of the key challenges in rural distribution is the lack of __________ infrastructure, which affects transportation and logistics.
3. Companies often use __________ channels to reach rural consumers, involving local intermediaries and distributors.
4. The rural market is vast but __________ distributed, making it challenging to cover efficiently with traditional distribution methods.
5. To overcome distribution challenges in rural areas, many companies form partnerships with local __________, such as village retailers or cooperatives.
6. In rural distribution, __________ plays a critical role in bridging the gap between producers and remote consumers.
7. __________ vehicles are often used for transporting goods in rural areas where road networks are underdeveloped.
8. Rural distribution requires a unique __________ strategy to cater to the specific needs and buying behaviors of rural consumers.
9. Many companies adopt __________ distribution networks in rural areas to reach the maximum number of villages.
10. One of the major hurdles in rural distribution is the lack of proper __________ facilities for storing goods.
11. Local __________ play an essential role in rural distribution by connecting companies with small, dispersed village markets.
12. Effective rural distribution often requires __________ efforts, where companies work with NGOs, local governments, or community organizations.
13. Rural consumers often prefer products in __________ packaging sizes due to lower disposable income and purchasing power.
14. __________ retail formats, such as mobile vans, are often used to serve rural markets where traditional retail infrastructure is lacking.
15. One advantage of rural distribution is the lower level of __________ compared to urban markets, allowing companies to tap into a less saturated market.
16. Rural distribution can be improved through better use of __________ technology, such as mobile payment systems and digital marketing.
17. Companies sometimes face __________ issues in rural distribution, as rural consumers may have different payment cycles or limited access to banking.
18. Rural distribution networks often rely on __________-level marketing, where local distributors and retailers promote products within their communities.
19. __________ markets are held periodically in rural areas and can provide a platform for companies to reach a large number of rural consumers at once.
20. To build trust with rural consumers, companies often engage in __________ marketing strategies, focusing on education and community engagement.

22 .13 SUMMARY

Rural distribution in India is a complex and evolving landscape characterized by efforts to bridge the gap between urban suppliers and rural consumers. It involves a network of various channels, including traditional retail outlets, wholesalers, mobile vans, and e-commerce platforms, to deliver goods and services to remote and underserved areas.

Key aspects of rural distribution include:

1. **Traditional Channels**: Local Kirana stores and weekly markets, known as haats, are central to rural distribution, offering a range of essential goods and serving as important community hubs.
2. **Modern Innovations**: The integration of digital platforms and e-commerce is transforming rural distribution by providing access to a broader range of products and facilitating direct transactions from suppliers to consumers.
3. **Logistics Solutions**: Innovations in logistics, such as mobile retail units, improved cold chain infrastructure, and optimized supply routes, are addressing the challenges posed by inadequate rural infrastructure and enhancing delivery efficiency.
4. **Local Partnerships**: Collaborations with local distributors, cooperatives, and entrepreneurs are improving market reach and tailoring distribution strategies to meet regional needs and preferences.
5. **Technology Integration**: Data-driven insights, digital payment systems, and automated inventory management are increasingly being used to streamline distribution processes and improve supply chain efficiency.
6. **Government Initiatives**: Public Distribution Systems (PDS) and other government schemes are aimed at providing subsidized essential goods to low-income households, supporting rural economies, and improving access to necessary resources.

Overall, rural distribution in India is evolving through a combination of traditional methods and modern innovations, driven by technology, improved logistics, and strategic partnerships. These advancements are enhancing the efficiency and reach of distribution networks, better serving the needs of rural consumers and contributing to economic development in rural areas.

23.14 GLOSSARY

1. **Agribusiness**: The business sector encompassing farming, agriculture, and all related services and products involved in the production and distribution of food and goods.

2. **Cooperative**: An organization or business owned and operated by its members, who share in the profits and decision-making processes, often found in rural areas for distributing goods and services.
3. **Distribution Hub**: A central location where goods are collected, sorted, and redistributed to various rural destinations, ensuring efficient supply chain management.
4. **E-commerce**: The buying and selling of goods and services over the internet, which can be a crucial method for reaching rural areas that may lack physical retail stores.
5. **Farmers' Market**: A marketplace where local farmers sell their produce directly to consumers, often found in rural areas to provide fresh food and support local agriculture.
6. **Logistics**: The detailed coordination of complex operations involving people, facilities, and supplies, crucial for efficiently distributing products to rural locations.
7. **Outreach Program**: Initiatives designed to extend services, products, or information to underserved or remote rural communities.
8. **Rural Retailer**: A business that sells goods directly to consumers in rural areas, often tailored to the specific needs and preferences of the local population.
9. **Supply Chain**: The entire system of production, handling, and distribution of goods from the point of origin to the end consumer, crucial for rural distribution efficiency.
10. **Transportation Network**: The infrastructure and systems used to move goods and people, including roads, railways, and logistics services, are essential for reaching rural areas effectively.

23.15 ANSWERS TO CHECK YOUR PROGRESS

1. rural
2. transportation
3. indirect
4. sparsely
5. intermediaries
6. distribution
7. small
8. marketing

9. decentralized
10. warehousing
11. agents
12. collaborative
13. smaller
14. Alternative
15. competition
16. digital
17. financial
18. grassroots
19. Weekly
20. relationship

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23.18 TERMINAL QUESTIONS

1) What are major challenges faced by rural marketers in the are of distribution? How can it be overcome.
2) Explain the role played by retailers in rural markets.
3) Explain the different variables of physical distribution in context to rural distribution.
4) Explain the concept and nature of distribution. What are the various functions performed by a distribution channel?

23.19 HINTS FOR TERMINAL QUESTIONS

1) Refer 23.1 and 23.3
2) Refer 23.5 and 23.11
3) Refer 23.6
4) Refer 23.3 and 23.5

23.20 CASE STUDY

INDIAN OIL CORPORATION’S KISAN SEVA KENDRA

Kisan Seva Kendra IOC’s rural retail initiative are retail outlets catering to the requirements of rural customers. Besides fuel, these outlets sell a variety of consumer goods, agricultural and banking products. These outlets, typically 150-175 sq. ft in size-are set up on the dealer’s land with the dealer retaining the entire revenue from non-fuel sales, in addition to the standard margin they earn on the sale of petrol and diesel. Each outlet witnesses a daily footfall of 20-25 customers and earns an average daily sale of INR 4,000 -5,000. Since their introduction in 2008, the number of these Kendra’s has increased to 2,800. IOC now plans to add 1,000 more outlets. It has also entered alliances with companies like Dabur, Airtel, Tata Chemicals, Godavari Fertilizers, Gokulam Fertilizers, Hindustan Unilever and Godrej Agrovet to market their products.

UNIT-24 RETAILING

24.1. INTRODUCTION

Retailing is a multifaceted and dynamic sector that serves as find the link in the marketing chain, which will connect the producers, manufacturers with the buyers. Retailing implies the selling of products directly to the end-users, buyers and the customers. The whole retail industry plays a crucial role in the economy of any nation and contributes largely to the economic development of the nation, generates employment and leads to the satisfaction of the end users.
Retailing is the procedure of selling products and services to the buyers and end users for whatever purpose possible. It encompasses a wide range of activities and functions that facilitate the movement of products from manufacturers to the end – users. Retailing plays a crucial role in the economy by providing consumers with access to a variety of products and services, creating jobs, and driving economic growth.

According to Kotler, " RETAILING includes all the activities involved in selling goods or services to the final consumers for personal, non-business use "Close.
Retailing is concerned with getting goods in the finished state into the hands of customers who are prepared to pay for the pleasure of eating ,wearing or experiencing particular product items .

It is about distribution of goods and services because retailers play a key role in the route that products take after originating from a manufacturer, grower or service provider to reach the person who consumes. Retailing is one of the key elements of marketing marketing strategy facilitating the targeting process, making sure that a product which is particular groups of consumers. It is important in the marketing strategy to match the arena in which a product is purchased to the benefits and characteristics of the product itself and its price.
Retailing is the process of promoting greater sales and customer satisfaction ,by gaining a better understanding of the consumers of goods and services ,produced by a company.

A salesperson, a manufacturer, or a business person has to be involved in several activities related to the market such as purchasing, selling, marking, preparing information that would suit the customers. The retailer or the seller is like the mediator or a negotiator for business activities between the one who wants to sell and the one who wants to purchase. It is a retailer who has to maintain contact with the end user and the manufacturer.
In the market situation there are wholesalers and retailers. The job of the wholesalers is to sell goods and products to the retailers who will then sell the goods and the products to the individuals. Sometimes the wholesaler also sells the finished goods to the individual buyers directly.It is a wholesaler that buys big amounts of products from the businessmen and then divides the same in small quantities to sell to different retailers. It is the job of the retailers then to carry out the business procedure by selling those goods to the end user or the final buyer.

24.2. OBJECTIVES

After studying this Unit you will be able to :-

1. Gain a comprehensive understanding of fundamental concepts and principles of retailing, including the various types of retail formats and channels.
2. Learn to analyse consumers behaviour and preferences to better meet customer needs and enhance the shopping experience.
3. Develop essential detailed management skills, such as inventory control, merchandising, store operations, to effectively run a retail business.
4. Understand and apply effective retail marketing strategies to attract and retain customers, including advertising, promotions, loyalty programs.
5. Explore the role of technology in retail, including e-commerce, point -of -sale systems and data analytics, to improve efficiency and customer service.
6. Learn about supply chain management and logistics to ensure the smooth flow of goods from manufacturers to consumers.
7. Gain financial skills necessary for budgeting, pricing, financial analysis to ensure the profitability of retail operations.
8. Study sustainable retailing practises and the importance of corporate social responsibility in the retail industry.
9. Stay informed about emerging trends and innovations in retailing, such as omnichannel strategies, artificial intelligence and to remain competitive in a rapidly involved in evolving market.

10. Understand the importance of providing excellent customer service and develop strategies to enhance customer satisfaction and loyalty.

24.3. HISTORY AND EVOLUTION OF RETAILING

Retailing has a rich and varied history that spans thousands of years, evolving from simple butter systems to the complex, technology – driven industry we see today. Here's a detailed look at the key stages in the history and evolution of retailing: –

Ancient and Medieval retailing:

Barter system: The earliest form of retailing in world but away goods were exchanged directly without the use of money. The system dates back to around 9000 BC.

Ancient markets: By 3000 BC ancient greek civilisations like Mesopotamia began using currency, facilitating the development of markets. Ancient Greece and Rome had bustling market places, such as Agora and the Forum where merchants sold a variety of goods.

Medieval Europe During the medieval period, retailing was dominated by markets and fairs,. Permanent shops were rare, and most trade occurred through itinerant merchants and street vendors.

Early Modern Retailing
Rise of permanent shops: By the 13th century, permanent shops began to appear in Europe. These shops for small and specialised, often run run by craftsmen who sold their own products.

General stores: In the 18th and the 19th centuries, general stores became common, specially in the rural areas. These stores sold a wide range of goods from groceries to hardware.

Industrial revolution and department stores:
Industrial revolution: The Industrial Revolution in the 19 century brought significant changes to retailing. Mass production lead to the availability of a variety of goods, and the rise of the urban centres created a demand for large scale retail establishments.

Department stores :
The first department stores, such as BON MARCHE' in Paris, emerged in the mid 19th century. These stores offered a wide range of products under one roof along with fix prices and a focus on customer service.

20th Century Retailing :
Supermarkets and shopping malls: The 20th century saw the rise of supermarkets and shopping malls. Supermarkets revolutionised grocery retailing with yourself – service model, while shopping malls became popular destinations for a variety of retail stores.

Discount stores: Discount stores like Walmart emerged in the mid 20th century offering lower prices by reducing the overhead costs and buying in bulk.

The Digital Revolution :
E- Commerce : The advent of the Internet in the late 20th century brought about the rise of e-commerce. Online retailers like Amazon transform the retail landscape by offering a vast selection of products and the convenience of shopping from home.

Omni-channel retailing: In the 20th century, the integration of online and off-line channels became crucial. Retailers adopted OMNI -CHANNEL strategies to provide a seamless shopping experience across various platforms.

Future Trends :
Technology and innovation: The future of retailing is being shaped by technologies such as artificial intelligence AI, virtual reality VR, and the internet of things IOT. These innovations are enhancing personalisation, improving supply chain efficiency, and creating immersive shopping experiences.
Retailing has come a long way from its humble beginnings in Indian markets to the specific sophisticated, technology driven industry it is today understanding this evolution helps us to appreciate the complexities and innovations that continue to drive the retail sector forward.

24.4. THEORIES OF RETAILING

THE WHEEL OF RETAILING THEORY proposed by Malcolm.P.McNair in 1931, describes the evolutionary journey of retail businesses. It suggests that retailers typically start with low-cost, lose service operations and gradually evolved into higher cost, higher service for maths. The theory is divided into four main stages: –

Entry phase:
Retailers enter the market with low prices, minimal services, and basic product offerings to attract price sensitive customers. The focus is on building a customer base and gaining market entry.

Growth phase:
As the retailer gains popularity, it starts to expand its product range, improve services and slightly increased prices. This phase is characterised by growth in market share and profitability.

Maturity phase:
The retailer has established itself in the market, offering a wide range of products and high quality services. The focus shifts to maintaining customer loyalty and enhancing customer satisfaction.

Decline Phase :

New competitors enter the market with lower prices and innovative offerings, challenging established retailer. The Retailer may struggle to maintain his market position and might need to innovate or restructure to stay competitive. This theory highlights the cyclical nature of retailing, where businesses must continuously adapt to changing market conditions to survive and thrive.

The RETAIL ACCORDION THEORY proposed by Stanley.C.Holland in 1966 explains the psychological pattern in retailing, where the number of merchandise categories expands and contracts over time, much like an accordion. Here's a breakdown of the theory:

Expansion phase:
Retailers start by offering a wide range of product categories to attract a broad customer base. This phase is characterised by general merchandise stores that sell a variety of goods.

Contraction Phase :
Over time, retailers may narrow their focus to specialise in specific product categories. The specialisation allows them to cater to niche markets and differentiate themselves from competitors.

Re -expansion Phase :
Eventually some specialised retailers may expand their product range again to include more categories, aiming to attract a wider audience and increase market share.
This theory highlights the dynamic nature of retailing, where businesses continuously adapt their product offerings to meet changing consumers preferences and market conditions. It Highlights the importance of strategic flexibility in online retailing, where businesses must balance between broadening and narrowing their product ranges to meet evolving market demands.

THE MELTING POT THEORY OF RETAILING Proposed by Thomas, J.Marnik and Bruce.J.Walker in the 1970s, describes how retail environments evolved through blending of different retail strategies and formats. Here's a detailed explanation:

Emergence of new retailers: When a new retail value proposition is introduced it often leads to emergence of new retailers with similar propositions. These new entrants adopt innovative strategies to attract customers.

Adaptation and competition: Existing retailers adapt to the new competition by incorporating aspects of the new value propositions into their own strategies. This creates a dynamic and competitive retail environment where business is continuously evolve .

Blending of strategies: Over time, the retail market becomes a " MELTING POT " where different retail strategies and formats blend together. Retailers adopt successful elements from their competitors leading to a homogenised yet innovative market.

Continuous evolution: The process is ongoing, with retailers constantly adapting to new trends, technologies and consumers preferences. This ensures that the retail landscape remains vibrant and competitive.

This theory highlights the importance of flexibility and innovation in retailing as businesses must continuously adapt to stay relevant in a competitive market.

THE POLARISATION THEORY OF RETAILING , Proposed by Malcolm.P.Mcnair in 1958, suggests that over time, the retail industry tends to polarise into two main groups: very large retailers and very small retailers, with medium-size retailers becoming less viable. Here’s a detailed explanation:

Large retailers: These retailers offer a wide range of products and services,all under one roof, providing convenience and competitive pricing. Examples include big box stores like Walmart , Reliance , V-Mart and other hypermarkets.

Small retailers: These retailers focus on niche markets or specialised products offering personalized services and unique items that large retailers may not provide. Examples include boutique stores and speciality store shops.

Decline of medium-size retailers: Medium-size retailers struggle to compete with economies of scale of large retailers and the specialised focus on small retailers. As a result they find it very challenging to maintain profitability and market share. This theory highlights importance of strategic positioning in the retail market where businesses must either scale up to bro offer a broad range of products are specialised to cater to a specific customer needs.

24.5. TYPES OF RETAIL BUSINESS ESTABLISHMENTS

24.5.1 RETAIL STORES V/S WHOLESALE STORES

WHOLESALE STORES

- Wholesale stores focus on selling in large quantities to retail businesses and other organisations.
- Often operate in warehouses or other large facilities that can accommodate large quantities of inventory.
- Offer products at lower prices per unit than retail stores.
- Do not typically provide personalised customer service to and consumers.
- May require customers to have a business license or reseller permit to shop.

RETAIL STORES

- Retail stores focus on direct selling to end consumers.
- Often operate in high traffic locations such as shopping malls or busy streets.
- Offer products in small quantities at higher prices.
- Provide personalised customer service.
- Allow customers to browse and physically interact with product before purchasing.

- Examples include department stores, supermarkets, speciality stores and convenience stores.

24.5.2 DIFFERENT CLASSIFICATIONS OF RETAIL MARKET

A) SUPERMARKET
B) DEPARTMENTAL STORE
C) CONVENIENCE STORE
D) SPECIALITY STORE
E) DISCOUNT STORE
F) FASHION RETAIL STORE
G) MALLS AND SHOPPING CENTRES
H) ONLINE STORE

A) SUPER MARKET

The supermarket is generally located in the main centralised area of the city, specially where where there is a shopping centre and there is ample of parking area. Most of the supermarkets operate on cash and carry basis and do not provide credit. Supermarkets offer a wide range of food and non-food items, and other household items. Supermarkets have large displays of merchandise, offer goods at low prices and the model is a self-service one.

For the customers a supermarket is a boon because they can get all goods and products under one roof. This saves a lot of time. Instead of going to different kinds of markets to buy different kinds of products they come to the supermarket and get all the products under one roof. Moreover there is a lot of variety available in the supermarket supermarket also gives a lot of promotional schemes from time to time and these include cashback cashback, and discounts and other rewards. Since supermarkets are located in prime areas. Therefore more customers can easily have access to the supermarkets.

B) DEPARTMENTAL STORE

A departmental store is a big retail establishment that offers a large range of products under one roof, generally organised into various sections or departments. Because it is organized into different departments there for it is known as a departmental store. Each department specialises in a specific kind of products, for example clothing, food items, home furnishings, groceries, electronic goods, electricalGadgets. The concept of a departmental store is basically to provide the customers the comfort of finding and locating different kinds of products at a single location which helps to save time and effort.

Departmental stores generally occupy a huge physical space and asked is spread over multiple floors. These stores also provide additional services like product demonstrations. For a buyer interested in buying a colour television ,he needs to go to the electronics goods department where the sales persons will demonstrate the various available electronic goods particularly the different kinds of coloured televisions. Thus it becomes very simple for the customer to pick, choose and buy in a department in store.

C) CONVENIENCE STORE

A convenience store is actually a small retail outlet that sells basic fundamental things like food items and drinks and other groceries. It is called a convenience store or a corner store because it can be located easily in any corner of a street. A convenience store is easy to get to, and generally stays open for a long time during the day and late at night. Convenience stores help customers get what they need immediately making it important for quick and easy shopping when the customer is in a hurry and has not much time. Convenience stores focus on offering a small variety of items like snacks, drinks, daily utilities and basic groceries. They are straightforward in the approach and therefore shopping is quick and trouble-free. Convenience stores stay open for long hours and operate almost around the clock. Convenience stores are also small in size, very compact and thus it is easy for the customers/buyers to find whatever they need without having to navigate through a huge space. Convenience stores/corner stores are generally close to the residential areas hence the end user/buyer can easily rush to the store and buy the good that he or she needs to buy. Such stores have a quick checkout process and for accessible and tailored to fulfil the immediate requirements of the consumers.

D) SPECIALITY STORE

A speciality store is a retail store that sells a particular line of goods, related to a specific category of the products. Speciality stores offer a great mix within their chosen area thus giving an enriching shopping experience to the customers who come to these stores for specific needs.

These stores specialise in one product and they try to keep all the brands of that particular product. The speciality retail store is a retail store that focuses primarily on specific product categories not like the retailers who sell a huge number of consumers goods categories. One of the prime advantages of a speciality store is its focus on a single class of products. This gives the buyer and the seller the chance to explore and decide what to buy. Speciality stores generally have knowledgeable staff who have perfect knowledge about the type of merchandise that is being sold by the retail store. Speciality stores are also known as niche stores.

E) DISCOUNT STORES

Various types of retailers use different methods to attract customers and prospective buyers. Discount stores are a category of retail stores where the retailers sell the goods and the products at very discounted prices. Most of the discount stores are like departmental stores because the seller sells a variety of products under one roof. The difference between departmental stores and discount stores is that in discount stores all the merchandise that is available is sold at good discounts given either in percentage or cashback. Discount store retailers buy goods in huge quantities for manufacturers so that they can avail a big discount. Products that are non-perishable and do not have expiry limitations are generally bought in the off-season. A discount store is a retail store that sells products at lower prices than most of the other retail stores. It offers a large variety of products at a very low price. In most of the discount stores zero or little customer service is provided to the customers all the products are arranged on the shelves and the customers have to go and select and then take it to the billing counter or the packing counter.

The retailer in a discount store gets to make a huge sum of profit because he is able to attract a large number of customers due to the massive sales that organized. All the products are sold under one roof hence the customers find it easy to go through the products and the discounts available. Shopping is most comfortable in the discount stores. The customer can buy products that he needs to at lower prices in a very well airconditioned store.

F) FASHION RETAIL STORES

A fashion retail store, one that sells clothing, apparel, footwear and other accessories can be an EBO exclusive brand outlet, or, MBO multibrand outlet, or, LFS large format stores. Some of the retail stores in Fashion have product category specific Where a single type of product will be on display, while some other fashion store will offer a wide range of products that fall under different categories in the same retail store. Significantly it is easy to search the desired clothing/ footwear/ accessory in an Apparel Store where everything is put on display in shelves. There are trial rooms and measurement gadgets so that the prospective buyer can easily try out the merchandise that he/she proposes to purchase. The fashion apparel retail stores are economical easy to locate and are generally centrally located. They offer a large variety of clothing range based on the latest fashion. Retail fashion outlets are a part of the bigger market also which is the hypermarket or the supermarket. Be it particular branded clothes or multi brands a single retail store can be there in a large hypermarket.

G) MALLS AND SHOPPING CENTRES

Nowadays shopping malls are the new way of having the fun of purchasing and buying. A shopping mall has everything under one roof and that includes shopping retail stores, food quotes, entertainment centres, cosmetics, apparel and garments, decor designing et cetera.

Best of the shopping malls or a place of great fun entertainment and relaxation for everyone as it provides a lot of good activities for the whole family. Shopping malls are located at a public centre were public and private transport or reachable. Best of the shopping malls are in a central area where the traffic convergence and this is a plus point for good business. A high-end shopping mall has an exquisite and well-planned building structure, very well-planned executed shops, entertainment areas big lobbies astonishing roof work and an overall impressive ambience. Satisfactory food courts are a must have facility at all the shopping malls without this bold cannot make a beneficial business. Shopping malls also have a high level of security features with well-trained staff and an efficient surveillance system. The best shopping malls have diverse retail outlets and the customers never get bored.

H) ONLINE RETAIL STORES

Online retail business is a business where the customers and the buyers have the benefit of searching, selecting and purchasing goods/services exclusively online. However, this concept should not be confused with e-commerce. There are some similarities between online retail and e-commerce but there is still a big difference. Unlike online retail, e-commerce includes services that are not directly related to sales, such as logistics, payment gateways, Digital marketing and database management. A retailer, in turn is a company that sells online for example: –

- Supermarkets that place online orders on their respective websites
- Online stores
- Composite platforms where a person can sell his / her goods and services online for a particular field

The advantages of online retail are several and these include unlimited market where one can attract customers from any city or country where delivery is possible. It is easy to start and organize a business online all that is needed is to create a website and fill in with products or service cards with relevant content. Online retail saves a lot of money that generally goes into renting in office, store, warehouse, purchasing equipment et cetera online retail business uses online marketing techniques for personalized sales for online commerce, online retail is a much-preferred option.

24.6. CUSTOMER BEHAVIOUR IN RETAIL STORES

Customer buying behaviour in any retail store actually refers to how the customers choose, purchase, use or throw away products or services to satisfy their needs and wants in the retail setting. There are several factors that influence the customer buying behaviour. Some such factors or personal choices, cultural norms, social impact and psychological drivers that actually influence this very complicated system of decision making.

24.6.1 Behaviour Observation

In a retail store people of different age groups will rush to buy things of their choice and that which suits their age. For example children will run to get toys, sweets, confection and some electronic goods. Adults will go for buying groceries ,essentials and day to day use full things. Hence there is an amalgamation of individual preferences and external market influences. Retailers have to understand this through a proper analysis of the customer behaviour and then pick out strategies to meet the needs and the wants of the customers. Retailers can strategically design their stores in such a way that their overall retail experience gets enhanced. This can be done by understanding customer behaviour and this will influence the buying decisions and the purchasing capacity of the buyers. Retailers can attract customers towards certain goods and products by placing those items at a particular eyelevel, creating some visual effects, or offering promotional sales. The whole layout of the store, the ambience also will go on to attract the customerThe customers or the shop as you come to the retail store or in a mood and willingness them to buy and this significantly increases overall marketing in effectiveness.

It is for the retailers to understand customer behaviour so that they can create personalised marketing messages advertisements to engage the customers attention, to increase sales and also to strengthen the loyalty towards a particular brand. After getting proper customer behaviour inputs the retailers can create a very compelling and interesting retail experience for all the purchasers and the buyers.

In brief consumer behaviour in retail is actually a whole shopping process from the need that arises, to buy a particular product, choosing the product, to buying that product and finally evaluating that product. This can also include possible return visits if the customer is satisfied with the products.

24.6.2) CUSTOMER'S BUYING BEHAVIOURAL PATTERNS

There are different behaviour patterns that the customers embody in themselves. These behaviour patterns or exhibited when the customer comes to buy any good or product in the retail store. These patterns or as follows: –

Monetary worth seeker

Such type of customers always tried to get the best deal for themselves these customers come to the store house and keep looking on all the shelves and every thing on display and then try to get the best for themselves in terms of cost and quality. They are the ones who actually will buy according to the money that they will be spending. A monetary worth seeker will try to make purchases of season or when there is discount or when there are some cashback offers so that they get the goods and the products as well as they get the thrill and excitement of not having to spend too much money.

True blue customer

A trueblue customer is the one who expresses the desire to visit a particular kind of brand store due to the extremely positive experience that he/she she had in the past. Such customers are extremely satisfied with the product quality and almost have an emotional connect with the retail store. They keep going to the store again and again and keep making purchases . They Art such regular customers, old reliable buyers that they do not mind the cost of the goods and the products. But troops a trueblue customer will buy the same product despite the price fluctuations and the purchasing power mode where will not be affected by it.

Spontaneous and passionate buyers

These types of customers go and make spontaneous purchases without any planning beforehand. They may not have done any research work as well but it is their immediate appeal of a particular product that makes them go and buy the product. A spontaneous and passionate buyer can buy any good which has more of a visual appeal and also promises to be highly satisfying experience.

The Analyst buyers

Such kind of buyers will not go for the ultimate shop shopping experience before spending a lot of time in getting it proper information reading the different kinds of reviews and then making all kinds of comparisons before the final purchase. For them decision making comes finally. Much before that there is a thorough analysis, comparisons made reading is done comparison videos watched, ultimately deciding on the kind of product that is to be bought. The analyst buyer is not likely to be influenced by the advertisements or does digital marketing but it is a part of his analysis where the buyer will make a scrutiny of everything before finally deciding the product that is to be purchased.

Virtuous and straightforward buyer.

Such kind of customers are the ones who have their own personal values such as durability, just trade and proper upright and decent manufacturing acts . These buyers will pay a hefty sum of money if all these criteria are fulfilled and define that the goods are environmentally viable and socially friendly.An upright buyer will insist on buying fair and open and aboveboard goods even if they are expensive rather than buying cheap goods that may not be environmentally feasible.

24.6.3) USING CONSUMER BEHAVIOUR PATTERNS TO ENHANCE RETAIL BUSINESS

Customer behaviour is the study of single and persons in groups to understand in a better way the whole process they follow before finally making a purchase of buying a good. This process that leads to the ultimate purchase actually consists of a series of actions that a prospective customer takes based on their choice, logic, their values and the other social pressures. All retail businesses can make a date an in-depth study of the customers behaviour to make an exact assessment of the kind of products ,advertisements ,promotions messages would most perfectly cater to their the audience and the prospective buyers and increase their chances of a very good sale. All retail companies wish to understand how their customers/buyers interact with the purchases that they make, the services that they avail and the marketing strategies. After all it is the identification of the what of consumers behaviour that are the basic give away to selling consistently, rapidly and also in large numbers.

An understanding of the consumers is extremely crucial because it helps the retailers and the businesses to comprehend what are the factors that influence the customers. Once this is understood then the marketing, sales and service and product development teams can determine what is the wish of the buyers and make tailored offerings to the segment of the customer goods.

After having a clear understanding of the consumers behaviour is imperative to create products, support processes and market campaigns that will enhance the sales strategy.

Interactions to be personalised

Based on the interactions and review of the customer preferences it would be the best to personalise customer interactions. This would lead to the creation of such connections that would enhance sales and bring about profit viability in retail business.

Customer retention to be improved

For a retailer it is very important to know what kind of behaviour is suggested by someone who is going to come and buy the goods again. This is with reference to the buyers/ customers who make frequent visits to the same retail store. The retailer has to understand that it’s more cost-effective to retail customers than to go and look for first-time buyers. Hence the retention on the part of the retailer is very important and do acknowledgement must be given to the customer who Frequent their retail store time and again.

Target prospects to be made better

It becomes important for the retailers to create several buyer personas and then to effectively design campaigns that directly target each customer segment. This would greatly enhance the chances of making a big sale. Adapting to the changing customer behaviour is a big challenge for the retail management. The customer preferences and marketing habits evolved, and the retail businesses have to stay very alert responsive and also innovative so that they remain highly competitive in this market.

Retail management has to attacked itself to the changing consumer behaviour by utilizing data analytics to gain insight into cons customer behaviour and using analytics to predict the trends and adjust the inventory and the costs and all the marking strategies accordingly.

Retailing has to go in for multichannel retailing by offering products through the various channels which may include physical stores, e-commerce websites, social media platforms and online digital marketing. It is most important to see that the retailer invests in user friendly e-commerce platforms and offers personalised shopping experiences to all young and old online shoppers.

It is not just the online shopping experience but even the rentals retail stores need to be revamped. The store needs to become more attractive and must of experiential retail concepts. These will include all the in-store events the demonstrations of the products that concepts. These

will include all the in-store events the demonstrations of the products that displays of the goods. Self checkout kiosks and other processes that keep the customer is highly engaged.
In a nut shell retailers have to see that there are loyalty programs which go on to make better relationships with the customers. The customers need to be informed time in again about the promotions and the new arrivals on an online basis. The retailers must also be constantly in touch with the customers through the social media or directly. Retailers need to implement personalise strategies by tailoring the recommendations of the products as per the Choices, past behaviours, the recommendations of the buyers and the customers.

24.7. RETAILING STRATEGY FOR SETTING UP RETAIL ORGANIZATION AND PLANNING

Retail start strategy is actually a process that all retailers use to make and to sell goods and services to the prospective buyers and consumers. To put it even more simply it is how the business houses sell their products and goods to the consumers. In order to be successful in today's highly competitive market all the retailers have to plan out every thing beforehand. This includes the planning of marketing, sales and operations so that maximum profit can be incurred. developing a retail strategy from start till the end is a very very vital part of doing retail business in this particular sector. In order to get to understand and effective retail strategy one must understand the main elements of an effective marketing plan. These main elements are :-

Setting up of the objectives
Identifying the customers
Planning it out strategically
Implementing the marketing plan properly

SETTING UP THE OBJECTIVES

In order to have a perfect marketing strategy it is very essential to set the objectives. This actually determines what the retailer wants to achieve and therefore he sets a definite deadline for the completion of the strategy for the execution of the marketing plan. The objectives should be such that they are most specific and easy to attain. When the objectives are specific there is a fair chance of success and if they are well attainable then they can be are specific there is a fair chance of success and if they are well attainable then they can be easily accomplished in the set time frame.

IDENTIFYING THE CUSTOMER

The next step would be to identify the prospective buyers and customers to whom the retailer would like to market the goods. This would mean collecting and scrutinising the market data to find out who is most likely to buy the products offered by the retainer. Much of this data can be collected and inferred through the internal research, the data which is already existing and from the government websites. You can also use the information to understand who the customers are and this would help to better understand how to sell to those very customers.

PLANNING IT OUT STRATEGICALLY

Once the objectives have been said and the customer/buyer has been identified then the strategic planning can begin this can begin by assessing the resources that the retailer has. These will include the time, gadgets the budget that the retailer has at his disposal. This step is very important in the formation of the company plant because it determines the start with its strategies are going to be most realistic and worthy of implementation. Once the resources have been assessed and examined then there can be a laying out of the Complete time bound plan of action. This will ensure all the necessary steps that have to be taken before hand so that the whole strategy is a big success.

IMPLEMENTING THE MARKET PLAN PROPERLY

The last step would be to implement the strategic marketing plan which has been worked out. Even during the implementation of the plan it will be essential to keep troubleshooting the problems as they arise and keep making adjustments/alterations/innovations in the plan as per the requirement.The retailer will also need to assemble data also monitor data to see if the carefully thought of plan is actually working the way it has been anticipated. In case the plan is not going according to the way it should, the retailer needs to identify her straight in the beginning of the process so that necessary changes can be made in order to achieve themuch desired goals and objectives.

24.8. KEY COMPONENTS OF RETAIL ORGANIZATIONS

Retail is a complex business that requires significant strategic planning to succeed.
Operating a retail store chain of stores can be challenging as it requires frequent evaluation and improvement. So it’s more important than ever for retailers to ensure retail storeoperations are optimised which means adopting best practices and technologies designed to achieve operational excellence.
RETAIL OPERATIONS are the set of activities, processes and resources involved in the planning, management, delivery of a retail business. They include workforce management, physical inventory, supply chain, store layout, check out, master data management, promotions, pricing et cetera which ensure store profitability and good customer experience.
The key components of retail operations include inventory management, supply chain management, visual merchandising, customer service, store management.

24.8.1) Here are some components of retail operations:

Centralised data management – The data must be centralised, from customer relationship management to vendor and product management. The retailer will manage the retail operations more efficiently by managing data from a central location. This way the expenses can be reduced while increasing profitability.

Key performance indicators KPI – Every retail business has key performance indicators KPI but The KPIs of one organization will differ from the KPI of the other. Even chains in the same industry may have different KPIs to track. Once the retailer has identified his/her KPIs he /she needs to track them daily.

Inventory optimisation – From tracking the products in the supply chain to allocation and replenishment, optimizing the inventory is the heart and soul of any retailer's profit centre. If a retailer pays too much for the inventory, he will lose revenue. If he holds the inventory too long, it will cost carrying costs. By optimising the inventory the retailer can take a critical step towards maximising the profits.

Productivity efficiency – Not only do the warehouses need to run efficiently but the retailer also needs to monitor the productivity level as of the employees. This is critical if the retailer pays bonuses to the employees and also commissions based on their performance.

Sales and expense control – Sales and expense analysis are also critical to any retail operation. Some expenses such as rent arefixed. Others will fluctuate from season to season or even from month to month. Understanding the sales cycle will help the retailer to control expenses and maximise sales.

Promoting and pricing – This system makes it easy to create targeted marketing or promotional campaigns based on customer relation management (CRM)and performance data readily available in the systems database. Retailers can control access to all price changes and can monitor and track price changes and performance.

Order fulfilment – Web order fulfilment (WOF)from any combination of warehouses and/or stores allows the retailers to track all fulfilment requests, their current status, their location including in transit. It provides the retailers business with efficient supply chain solutions, omni channel mitigation alerts for continuous order processing.

24.8.2) FUNCTIONS OF RETAIL OPERATIONS:

A retail operations management team needs several key areas to cover all the responsibilities that the job requires. The team needs to have accountable staff members and see that adequate opportunities are provided to the team members to see that the job is well done. Staffing is a big undertaking and a key part of retail's management.

The management of the inventory also is very important because inventory goes much beyond just making sure of the right quantity of product arrival. It actually meet means tracking all the sales formants to understand exactly how quick the products are moving and what are the areas from where they are driving revenue. In today's world customer service is of paramount importance the customers need to be constantly in touch with the team members so that in case there is any problem it can be sorted out easily.

Another very important aspect of retail operations management is to make sure that all the in-store displays and rats look and feel exactly as had been planned earlier. The condition of the store plays a tremendous roleIn enhancing the sales. If the store is clean it will have a positive impact on the buyers and if it is not clean if the shelves or not properly arranged it will negatively impact the buyers.

24.8.3) CHALLENGES FOR RETAIL OPERATIONS

Retailers must evolve with their consumers.
Here are some of the challenges retailers face in their retail operations:

Inventory management – keeping track of inventory levels, ensuring that products are in stock and preventing stockouts can be challenging for retailers.

Seasonal Fluctuations- retailers need to be able to predict and manage changes in demand throughout the year, such as during peak holiday shopping season.

Consumers preferences – Keeping up with changing consumer preferences and trends can take time and effort for retailers.

Online competition – The rise of e-commerce has made it more challenging for brick – and – mortar retailers to compete with online retailers.

Supply chain disruptions – Global events such as natural disasters, trade disputes, pandemics can disrupt the supply chain and create challenges for retailers.

Omni – challenge integration –
Integrating and managing different sales channels ,example (online, in-store, mobile)working omni channel customer journeys and building customer loyalty can be challenging.

Personalisation – Creating unique, personalised customer experiences can be difficult and time consuming.

Cost management – In retail price inflation, keeping operational cost down while delivering a high-quality customer experience can be a balancing act.

Employee management – Hiring and training employees, managing internal communication, scheduling, ensuring customer service standards can be challenging.

Compliance – Retailers must comply with various laws, regulations and standards such as data protection, consumer rights and labour laws which can be complex and time consuming.
For enhanced retail operations, businesses can use data analytics to make informed decisions about inventory levels and product assortment, implement effective supply chain management systems and provide employee training to improve customer service. In addition, implementing technology solutions suchas point – of – sales systems, inventory management software, and customer relationship management CRM tools can also help streamline operations and improve overall efficiency.

24.9. STORE MANAGEMENT

24.9.1) MEANING OF STORE MANAGEMENT

Retailing is basically the selling of goods/products and services to the final customer for personal, family or any other use. Retailing is actually an amalgamation of the activities involved in selling or renting out consumers goods and services directly to the final consumers/buyers.
According to AFFORD & BEATTY " Store management is that aspect of material control concerned with the physical storage of goods. "
Store management is to ensure an interrupted supply of materials without any delay to the buyers and the consumers. It also sees that there is neither overstocking nor understocking of the goods. It has to ensure the secure handling of materials and see that they don't get damaged. It has to protect the materials from theft fire and other risks. Store management also has to minimise the cost of storage and see that there is most optimal use and utilization of the space that is available for storing.

24.9.2) MAIN OBJECTIVES OF STORE MANAGEMENT

A store has a few processes to follow and offers space for storing goods and products. The main processes of the stores are – receiving, that is to receive the materials goods and services. Next is to keep the goods, materials, products as long as they are required for use. This is keeping in store. The third process is to move them out of the store for use which is actually issuing.

The main objectives of store management are: –

- To see that there is a non-stop supply of materials and goods without any delay.
- To see that there is most effective use of the storage space that is available in the store.
- To make optimum use of the efficiency of the staff/personnel that is employed in the store.
- To see that the goods remain protected from theft fire and any other calamity.
- To ensure that the goods are handled carefully and do not break.
- To see that neither is there overstock nor under stock of goods and materials.

24.9.3. FUNCTIONS OF MANAGEMENT OF THE STORE

The management of the store is actually a well programmed method of handling the goods/ products which are maintained in the general stores of any business. The prime primary objectives are to see the availability of the goods at nominal price, the calculation of the restocking time period, and to see that there is no damage to the goods and the materials kept in the store. Therefore the management of any store requires a very detailed attention to every thing and is of paramount importance to the normal functioning of any business organisation.

The main functions of the management of the store are listed as below: –

EXAMINATION : It is for the management of the store to see that the goods and the products that are stored or authentic, genuine and not fake. They also have to constantly check their expiry period. This has to be done so that they do not keep any goods or materials much beyond the expiry date. They also have to make frequent examinations to see that there is no theft or damage or any other kind of fraudulent activities going on in the store.

SURVEY OF GOODS ON HAND: As a part of the store management it is important for the store personnel to be constantly in touch with the suppliers and to arrange for the arrival of the stock of goods and products. It also implies the survey of all the goods that are stored in the store and to see if it meets the regular standard norms.The store management also has to constantly check whether the amount of stock that had to be delivered has been delivered or not.

MAINTAINING SAFETY LEVELS OF STOCKS: It is for the store management to see that the safety stock of goods and products is maintained. It is for them to see that the danger stock levels have to be avoided. Constant accounting makes them calculate the number of purchases that they need to make in order to restock the inventory.

MAINTENANCE OF ACCOUNTS : for the store management personnel it is important to keep track of the inventory cycle. It is in the inventory cycle that they have to maintain the number and the names of the goods that were there from the previous cycle and the closing stock or they are from the new cycle and the freshly arrived stock. This is very important so that the old stock can be sold off on discounts.Some of the stocks that I knew would be taken into account and stored for later selling. It is for the store management to maintain proper records of all these particulars of old stock and new stock and their total amount, quantitative detailing.

INSTRUCTIONS AND SUPERVISION : It is for the store manager to give proper instructions, And train the store personnel. This is done so that all the employees become well aware of the goals and objectives that they have to achieve and the system of inventory management that the store follows and that all the store personnel needs to follow.Training is an important part friends so that there is perfection in the carrying out of duties by the store personnel.

GROUNDWORK TO BE ASSESSED: The store management has to make a perfect assessment of the whole system of buying, supplying and restocking. This is very important because this ensures that the stock is available at the right time and also at the right cost. This would prevent unnecessary delays and wastage of time and also prove to be economical for the buyer.

CUSTOMER CONTACT: It is for the store management to see that the old contacts are retained And this can be done by monitoring them time and again. It is not just the old customers but it is also the duty of the store personnel to see that new customers are attracted and for prospective buyers this can be done easily by setting some sales targets that our to be reached an accomplished by the respective store managers.

24.9.4 IMPORTANCE OF STORE MANAGEMENT

The management of the inventory is a key force of any business. It is extremely essential to manage the stock levels, the stock outs and under or over stocking . Under or over stocking can actually lessen the credibility and authenticity of the product/good in the economic world.

A store management system actually streamlines the management of the inventory. Whenever the product is below the threshold level then the notification is sent by the store personnel. This allows the store personnel to restock the store with the goods.. It also monitors the movement of the products and see is that the costs are reduced and the profit is more.

The store management system joins hands with the CRM customer relationship management to see that the valuable customer data and complete purchase histories or stored in the system. This will help them to understand the trends of the projects and manage the inventory according to it. It also helps in the management of the taxes and the complete accounting process. It helps them to track The product which is in demand and the one that is not in demand so the one that is in demand is restored and the one that is not in demand will not be kept in the store.

The store management system easily integrates the existing business business strategies and systems with the latest computerised and automated systems. Whether it is any e-commerce platform or marketing tool or an accounting software the store management easily integrates with any of these or all of these.

Security of the data is very important for the running of any business. Retail store is one of them. It is very essential to see that the data is safe and secure in a retail store. Now there is not much of a problem because there is always a software that works with a centralised cloud-based network. As the owner of any business one can have an access to the data from anywhere at any given point of time. In case of CCTV it can be doubly checked by the mobile even if the business owner is not there in the store. Hence it becomes very easy to trackOr identify in case of any theft or fraud.

The management of the store does involves the complete operation and examination of all the aspects of a retail store. It implies working hand-in-hand with the employees, the suppliers and the customers/buyers. The perfect management of a store will enhance sales and also go on to increase customer experience.

24.10. MERCHANDISE MANAGEMENT

The merchandise management is one of the most important retail operations performed in retail management.
AMA – American marketing Association has defined merchandise management as
“ Planning involved in marketing ,right merchandise ,at the right place at the right
time ,in the right quantities, at the right price.”
The management of the merchandise is done by the merchandise manager, category manager as well as the other assisting staff. Operational procedures need to be defined and established for receiving, recording, inspecting, marking and maintaining merchandise for the sales floor.
Cost, accuracy and time efficiency other vital goals for the entrepreneur or when addressing receiving and ticketing of merchandise
For example:; If a T-shirt style that sells out is ticketed with an incorrect style number, the manager may re-order the wrong T-shirt; if it takes five days to receive, ticket and send a shipment of dresses for the sales floor, there is a lost week of five days on this order.
The merchandise management operation involves the following tasks :

Preparing a Merchandise

Plan :
Merchandise plan is based on demand and speciality of the store. Micro details such as type of products, brands, cost et cetera should be planned. The basis of such plan is passed sales records, consumption habits and change in fashion. While making such plan the manager must also consider the financial implication of investment and merchandise to meet the profit targets.

Selection of the vendor:
Merchandiser has to select vendors or suppliers who meet his requirements in terms of price quality delivery and reliability. He has to search the list of suppliers available locally or at regional or international level depending on his need and select this applies to meet such demands.

Receiving products from the vendor:
The purchase order is a document that depicts when the merchandise was shipped. The completion date is the last date authorised by the buyer to the vendor to ship the merchandise. On receipt of goods the purchase order is checked and it is the buyers decision whether to accept or return the merchandise ship to pass the cancellation date. Sometimes in case of late shipment instead of returning the merchandise, that buyer negotiates for a reduced price with the vendor. If the completion date is acceptable the invoice is checked against

The purchase order and the goods are examined for colour, style, size, price and number of units. Any discrepancies, such as shortages over ages or noted on the purchase order of adjustments by the employer responsible for accounting.

Marking goods:
After the merchandise is checked in, tickets with the necessary information of prepared and attached to the products.

Ticketing can be done by ticket making machines computer software or by hand.

Merchandise Display:
After ticketing, the merchandise is folded or hung , Steamed or pressed and transported to the sales floor. Product placement is a key to sales and security. The best merchant may lie unsold if it is not displayed in a manner that is appealing and accessible to the customer. At the same time, the placement of products and fixtures may encourage or discourage shoplifting.

In general the following guidelines are followed for effective merchandise display in the fashion retail store:

- New merchandise is usually displayed at the front of the store to gain customers attention.
- In any fashion retail outlet the cut sizes (those garments for which the entire set of sizes/colours have been sold out) are kept at the lower level.
- In case the fashion retail store is running any theme promotion, sale or campaign the products on offer need to be displayed correctly and replenished once sold.
- On – the – fly – purchase products such as socks, handkerchiefs,waist belts, etc Are placed near payment counters.

- To ensure the safety of the products, the inventory and displays should be designed in a manner that employees are able to monitor all sections of the sales on floor.

24.11. RETAILING AND FINANCIAL STRATEGY

For any business to thrive it is very important to see that the cash flow remains under control. What is basically implied by the controlling of the cash flow is that the business houses have to see that they making more money than they are actually spending. When the situation is there then the chances of profit or always there. That is why most of the business houses spend more time and energy and forethought in basically controlling the cash flow so that if once the cash flow is controlled then the finances are also under control.

In retail management it is very important to comprehend the management of the cash flow. It should not be taken as profit because there are there are a few differences between profit and the management of the Cash flow . So in retail management it is very important to have proper control over the cash flow to be able to manage it and also to be able to improve it.

Retailing involves mostly working with cash because it is the easiest and the most practical way to get money. However with the advancement of technology and go cashless system there are many other new and alternative methods of making payments. Retailing must be ready to accept these alternative methods of payment so that the retail business can reach the full potential and be a roaring success.

In retailing or retail business it is very important to remember to pay the taxes to the government. Tax evasion is a very serious crime and by paying the taxes yearly the retailing business can maintain a transparent outlook and total accountability.

For the retail business to thrive ,it is very important to take care of the financial budget this is so because once the money and the cash bill starts coming then all financial problems are forgotten and there is more expenditure than the money that is coming in .This could lead to a poor budget and therefore all kinds of problems financial can-come up . So it is very important to prepare a sustainable budget beforehand so that there is proper tracking of the money that is coming in and expenditure that is being made this would help the retail company to excel to grow and to progress in the years to come. Strong financial management is the answer to the resounding success of any retail business. It is important for the retail financial management to make sure that they have to have the resources enough to meet the operating costs and sales and overall growth. Over the period of time the financial team is responsible for providing financial stability and security, proper financial health and also profitable growth . This should be not just to the business houses but also to those who have invested their money in retail market.

24.12. USE OF INFORMATION SYSTEM IN RETAILING

Information system is a part of the computer system that uses various kinds of tools, hardware and software . When the information system is suitably applied in the retailing system there will be success and progress. The IT systems help a lot in the planning of the retail management, the control of the inventory, the management of the budget , setting up of the sales goals and also supply chain management.

Following are some of the most used information systems in retail management: –

IMS inventory management software – – This is a particular software system which helps a lot in keeping track of the levels of inventory, the orders that are received, The sales that are made and the deliveries that are kept up to the mark. The IMS helps a lot in tracking the over stock as well as the understock. It is a computerised tool for skilfully organising the inventory data.
A prominent feature of the IMS is the tracking of the assets that is all the products or over the goods which are in the warehouse or the store. These can be easily tracked via the barcode or any other tracking method such as serial number or the allotment number. As of now IMS also uses RFID radio-frequency identification and even the wireless tracking system.

RFID : Radio frequency identification helps the retailers a lot to improve overall efficiency. This is possible because the stock can be monitored very easily and quite frequently. The monitoring happens to be very efficient due to RFID . RFID cards are now being put into use even more than ever before the whole retail industry is using the RFID tags to better the performance. The best part of RFID is that the store personnel can easily come to check the inventory levels even when the buyer/customer is right there in front. This cross check actually instills the buyers/customers with a lot of confidence and faith in the retail store management.

CRM. Customer Relationship Management : The CRM is actually an automated data that maintains records of the present buyer/customer and also the future buyer/customers. This helps the retail company to have a clear understanding of the customer so that they can easily hold back the customers they have and build up new customer relationships. CR in automated systems keep track of the contact details of the customers. it also maintains the family information the sales history, the communication with the customer if there has been any in the past and most importantly the feedback from the customers/buyers. CRM is extremely crucial for maintaining good relationships with the customers/buyers but a lot of security has to be maintained so that the personal details of the customer/buyer or not divulged to anybody.

AIS (Accounting Information Systems): Accounting information systems is basically the process of disseminating storing and finally processing the financial and accounting data. It is generally an automated computer-based technique for keeping track of the accounts activity in keeping with the IT resources. AIS generates financial reports. These reports will be used by the management either in an internal way or in an external way. AIS helps in financial auditing, financial accounting and reporting as well as managerial accounting and tax calculation. All auditing and financial reporting modules or prepared by the AIS.

24.12.1 Method of applying IT SYSTEM in RETAILING

AI (ARTIFICIAL INTELLIGENCE)

Artificial intelligence is actually providing a great help to the retailers since it helps the retailers to know the different kinds of behaviour patterns of the consumers. AI also helps to optimise the market price by analysing the market trends. It is because of the AI that the market supply chain is made more effective and there is optimisation of the levels of the stock.

AR(AUGMENTED REALITY)

Augmented reality technology is a great benefit to all the customers who do online shopping. Please customers can virtually try on the apparels, the accessories virtually on their mobiles or laptops. The buyers that's become engaged. The retailers also can comfortably overcome the vent .

MOBILE PAYMENT SOLUTIONS

With the IT sector dominating the retail market altogether it is very simple now to make the payment to the business owner. The customers or the buyers can comfortably make payments using their mobile phones. The mobile payment is an effortless and clean and reliable and safe process for the customers as it improves the customer satisfaction a lot. It is clear that because of mobile payment solutions purchasing is now enhanced greatly it is comfortable to sit at home and purchase and make the payment via the mobile phones.
Hence the retailers make full use of mobile payment solutions.

24.12.2) COMMON CONSTITUENTS OF INFORMATION SYSTEMS IN RETAILING

1. BARCODING SYSTEMS
2. INVENTORY MANAGEMENT SYSTEMS
3. POS (POINT OF SALE) SYSTEMS
4. CRM (CUSTOMER RELATIONSHIP MANAGEMENT) SYSTEMS
5. FINANCIAL AND ACCOUNTING SYSTEMS
6. FORECASTING OF PRICE SYSTEMS
7. SUPPLY CHAIN AND LOGISTICS SYSTEMS

24.13. E-COMMERCE / RETAILING

Retailing and e-commerce appear to be quite the same but actually they are both very different. They may be similar in the sense that retailing happens when any product or goods is sold to any consumers to buy. E-commerce on the other hand basically stands for all the kinds of purchasing and commercial transactions that are made electronically through the internet. There is also something which is called “retail e-commerce sales”. Which the buying and selling of goods and services takes place through any electronic data interchange or online systems.
Apart from all this there is something new that is coming out in the future that is called OMNICHANNEL RETAIL.
Only channel retail is actually kind of a multichannel way of making sales. Only channel retail would provide the customers with effortless purchasing experience and one in which the customers/buyers can buy anything online either from the tablet or the mobile phone or the laptop etc .
One very interesting part of the only channel design is that the representatives will help the customer in choosing whatever they wish to. They will make the customer feel good by suggesting products or otherwise services that actually sympathised with their particular wants and needs .

Key differences:

Sales environment:
E-COMMERCE – broad term covering all online transactions.
ONLINE RETAILING – focuses on selling physical goods to consumers.

Customer interaction
E- COMMERCE – can include services digital products and physical goods
ONLINE RETAILING – primarily involves physical goods, with an emphasis on customer experience similar to in-store shopping.

Business models
E-COMMERCE – includes various models like Dropshipping, directTo consumers and marketplace platforms
ONLINE RETAILING– typically involves direct sales from the retailer to the consumers, often with a focus on brand experience.
E-commerce and online retailing at transforming the way we shop, offering convenience and a wide range of options. As technology continues to evolve, the line between online and off-line shopping will blur, creating a more integrated and personalised shopping experience for consumers.

24.14. RETAIL MARKET AND BRANDING

Retail branding is a very important company of any retail market. An extremely strong retail brand will help the retail company to stand apart from all the other competitors. It will also help to bring the customers to the retail store and establish such unique impression in the minds of the consumers and the buyers that they will keep coming to the retail store time in again. It would all be the magic of the retail.
A brand identity is a kind of an identification mark for any retail business. It speaks volumes in terms of the quality of the goods, the price range of goods and how that particular brand will be different and far better than all the other brands in the market. Retail branding helps to achieve and win over the trust of the customer and also make the customer/buyer still loyal to the retail store.
By making a strong and sustainable retail branding a retail store will help to make the purchasing experience for all its customers truly memorable and unforgettable. This will also go on to enhance the brands image and market value. This would help the customers who would know exactly what to expect from the company.
Branding is important because it helps to develop long-term buyer loyalty. It also helps to know the preferences, the likes of the dislikes of the customers. The brand also helps the customers feel good, relaxed when they go to the retail store with the perfect brand name. Good retail branding also helps to establish a very strong positive emotional connect of the buyers/purchasers with the products that they go out to buy in the retail market

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24.15. FUTURE TRENDS IN RETAILING

The retail industry is evolving rapidly, and several key trends are shaping its future:

Omni channel shopping:
Consumers are increasingly moving seamlessly between digital, physical, virtual and social platforms. This trend is making shopping an ambient experience, where discovery and purchasing happen across various channels.

Enhanced loyalty programs:
With customer acquisition costs rising, retailers are focusing on strengthening loyalty programmes. Trust and personalised experiences are becoming central to retaining customers.

Artificial intelligence (AI)and personalisation
Artificial intelligence is playing a significant role in personalising shopping experiences. Retailers are using AI to analyse customer data and provide tailored recommendations, improving customer engagement.

Sustainability and ethical practises:
Consumers are becoming more conscious of sustainability. Retailers are adopting circular business models and emphasising ethical practises to meet these demands.

Augmented reality AR and virtual reality VR:
These technologies are enhancing the shopping experience by allowing customers to try products virtually before purchasing. This trend is particularly popular among young shoppers.

Partnerships and collaborations:
As brand loyalty diminishes,retailers are forming partnerships to offer more value to customers. This includes collaborations with super apps, financial providers, and lost – mild
fulfilment services.
These trends indicate a shift towards a more integrated, personalised and sustainable retail environment.Retailers who adapt to all these changes are likely to thrive in the evolving market landscape in the decades to come.

24.16. SUMMARY

Retailing involves selling goods and services directly to the consumers for personal use. It includes both store based markets and speciality stores and non-store-based like online shopping and direct selling methods. Key functions of retailing are breaking bulk, offering a variety of products, maintaining inventory, and providing customer service current trends include the growth of e-commerce, omni channel retailing and a focus on sustainability. Retailing is all about meeting consumers needs and adapting to market changes.

24.17. GLOSSARY

ATV average transaction value: it is the average amount spent by customers per transaction. It is calculated by dividing the total revenue by the number of transactions.

Assortment planning : It is a process of selecting the collection of products that will be available for sale ensuring the right mix to meet customer demand while maximising profits.

Basket value: It is the total value of a single customer shopping basket or card, representing the total amount a customer is willing to spend in a single transaction.

Cross selling: It is a sales technique used to get a customer to spend more by purchasing a product that's related to what is being bought.

Dropshipping: It is a retail fulfilment method where a store doesn't keep the products it sells in stock. Instead when a product is sold it purchases the item from third-party and has it shipped directly to the customer.

E – Tailing : E –Tailing is the selling of retail goods on the Internet a short form of electronic retailing.

Inventory turnover: It is the ratio showing how many times are companies inventory sold and replaced over a certain period.

Integrated marketing: It is a marketing strategy featuring a mix of online and off-line communication, promotional, sales activities designed to work together and reinforce each other.

Loyalty program: It is a rewards program offered by company to customers who make frequent purchases, incentivising customer loyalty.

Multichannel retail retailing: It involves selling merchandise or services through more than one channel such as physical stores, catalogues and online platforms.

Return on investment ROI It is a performance measure to evaluate the efficiency or profitability of an investment, calculated by dividing the net profit by the initial cost of the investment.

Visual merchandising: It is a practice of displaying products to highlight their features and benefits with the aim of attracting, engaging and motivating the customer what is making a purchase.

Vendor management: It involves controlling costs, driving service excellence and mitigating risks to gain increase value from vendors throughout the deal life-cycle.

Check Your Progress- A

1. Retailing refers to the process of selling goods and services directly to __________ for personal use.
2. __________ stores are physical retail locations where consumers can browse and purchase products.
3. __________ is a type of retailing where businesses sell products directly to consumers through the internet.
4. In retailing, __________ refers to the location and layout of a store, which affects customer foot traffic and shopping experience.
5. __________ retailers offer a wide variety of goods in different categories, such as clothing, electronics, and groceries.
6. The __________ mix in retailing includes product, price, place, promotion, people, process, and physical evidence.
7. A __________ store is a small, independently owned retail business that typically focuses on a niche market.
8. __________ is the practice of offering goods and services at different price points to target different segments of the market.
9. Retailers often use __________ strategies to encourage impulse purchases and attract more customers to their stores.
10. __________ refers to the activities involved in acquiring, storing, and displaying goods for sale in a retail store.
11. Retailers must manage their __________ levels to ensure they have enough stock to meet customer demand without overstocking.
12. A __________ retail format is one where customers can shop without visiting a physical store, such as online shopping or catalog sales.
13. Retailers often use __________ programs to build customer loyalty by offering rewards or discounts for repeat purchases.
14. The __________ environment in retail stores, including lighting, music, and store design, can influence the shopping behavior of customers.
15. __________ is a retail strategy that involves selling products at lower prices by reducing the overhead costs of operating a store.
16. __________ retailing refers to a strategy where retailers offer customers a seamless shopping experience across multiple channels, such as online, in-store, and mobile.

17. Retailers often engage in ___________ to promote new products, sales, and special offers to attract customers to their stores.
18. ___________ costs in retailing include expenses such as rent, utilities, salaries, and inventory costs.
19. The ___________ process in retailing involves ensuring that the customer has a positive shopping experience, from browsing to purchasing the product.
20. Retailers can use ___________ data to analyze customer preferences, buying habits, and trends to make informed business decisions.

24.18. ANSWERS TO CHECK YOUR PROGRESS

1. consumers
2. Brick-and-mortar
3. E-commerce
4. Store design
5. Department
6. marketing
7. specialty
8. Price differentiation
9. promotional
10. Merchandising
11. inventory
12. non-store
13. loyalty
14. atmosphere
15. Discount
16. Omnichannel
17. advertising
18. Operating
19. customer service
20. sales

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24.20. SUGGESTED READINGS

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- Trends in retail practices and their impact on consumers behaviour By Lokhande PS
- Review of research in organised retail sector in India By Srivastava RK
- India retail: evolving to a new dawn By Sharma Rohan, Kakar Shweta and Vora Abhishek
- Retail industry in India: trends and insights By Sharma Sandeep

*(These are Articles/ Research Papers)

20.21 TERMINAL QUESTIONS

ANSWER IN BRIEF :-

- What is retailing?
- What are the types of retail stores?
- What is inventory management?
- What are some common retail strategies?
- What is omnichannel retailing?
- What is " Breaking Bulk"?
- What is RFID?
- What is meant by Retail Branding?
- Who is a true blue customer?
- What do you understand by AIS SYSTEMS?

ANSWER IN DETAIL:-

- Discuss any 2 theories of retailing .
- What role does technology play in modern retailing?
- How can retailers improve the – in -store customer experience?
- What are the best practises practises for managing retail supply chain?
- How do retailers use customer relationship management CRM systems?
- What are the benefits of using point – of – sale POS systems in retail?

24.22. CASE STUDIES

(FRESHMART)
Background:
FRESHMART s a chain of mid-sized supermarkets based in Mumbai, India. Over the past few years, the chain has expanded to 20 locations across the city. Despite the growth, FRESHMART has faced challenges, including a 10% decline in sales over the past year. The management team is concerned about increased competition from larger retail chains and changing consumers preferences
Issues identified:

Rising competition:
Large retail chains and online grocery stores are capturing market share with lower prices and convenience

Inventory challenges:
In efficient inventory practises led to frequent stockouts and over stock situations .

Changing consumers consumers preferences:
Customers are shifting towards organic food options, but FRESHMART product range hasn't kept pace.
In – store experience:
Customer feedback indicates issues with store cleanliness and staff service.
strategies devised and results for FRESHMART supermarket chain –

Update product range:
Strategy:
Fresh mart mart introduced a wide section of organic and health focused products to meet the changing consumers preferences. They partnered with local organic farms and suppliers to ensure a steady supply of fresh, high-quality items.

Results:
Sales of organic products increased by 25% within six months customer satisfaction improved, and FRESHMART attracted health-conscious consumers, leading to a 12% overall increase in food traffic.
Enhanced store cleanliness and staff service.

Strategy
The chain implemented Regular cleaning schedules and conducted staff training programmes focused on customer service skills. Mystery shoppers were used to evaluate and provide feedback on staff performance.
Results :

customer complaints related to cleanliness and service decreased by 30%. Positive feedback on store conditions and staff interactions lead to improved customer loyalty and a 10% increase in repeat visits.
Improved inventory management

Strategy:
Fresh mart adopted and launched inventory management system to track stock levels and demand more accurate accurately. They also conducted regular stock audits to minimise discrepancies.
Results:
Instances of stockouts reduced by 40% and over stock situations decreased by 35%. This optimisation led to better availability of popular items and reduced waste, contributing to a 15% increase in sales.

OVERALL RESULTS
Sales growth:
FRESHMART achieved a 12% overall increase in sales within a year.
Customer satisfaction:
Enhanced store conditions and service contributed to higher customer satisfaction ratings and reduce complaints.
Market position:
The improvements helped FRESHMART better compete with larger chains and online retailers, stabilising and gradually improving their market position.

UNIT- 25 INVENTORY MANAGEMENT IN SALES AND DISTRIBUTION

25.1 INTRODUCTION

Inventory management is a critical component of sales and distribution, directly influencing a company's profitability and operational efficiency. Effective inventory management ensures that the right products are available at the right time, in the right quantities, and at the right cost, thereby optimizing the entire supply chain. This chapter delves into the fundamental concepts, systems, and techniques of inventory management and its significance in the sales and distribution sector.

25.2 OBJECTIVES

After reading this unit you will be able understand:

- To understand the basics of inventory management and its role in sales and distribution.
- To explore the concept and definition of inventory and its associated functions.
- To examine various inventory management systems and techniques.
- To highlight the importance of inventory management in the efficiency and effectiveness of sales and distribution operations.

25.3 INTRODUCTION TO INVENTORY MANAGEMENT

Inventory management refers to the process of ordering, storing, and using a company's inventory. This includes the management of raw materials, components, and finished products, as well as warehousing and processing such items. In the context of sales and distribution, inventory management ensures that products move smoothly from manufacturers to warehouses and, ultimately, to customers. Effective inventory management minimizes costs and ensures that the right amount of inventory is available to meet customer demand.

In other words, Inventory management is a critical aspect of business operations, particularly in the context of sales and distribution. It involves the systematic oversight and control of the flow of goods, from the procurement of raw materials to the delivery of finished products to the customer. The effectiveness of inventory management directly impacts a company's ability to meet customer demand, control costs, and maintain operational efficiency.

At its core, inventory management seeks to strike a delicate balance between having enough stock on hand to fulfil customer orders and avoiding excess inventory that can lead to increased holding costs and potential obsolescence. This balance is crucial for optimizing the supply chain, ensuring that products are available when needed while minimizing the financial burden of overstocking.

In the realm of sales and distribution, inventory management is not just about keeping track of stock levels; it also encompasses a range of activities, including demand forecasting, order management, storage, and distribution. These activities are interrelated and collectively ensure that products move efficiently through the supply chain, from suppliers to warehouses and ultimately to customers.

As businesses operate in increasingly competitive and dynamic environments, the role of inventory management has become more complex and strategic. Companies must adapt to fluctuations in demand, supply chain disruptions, and changing market conditions. Therefore, effective inventory management requires a combination of robust systems, accurate data, and strategic decision-making.

Inventory refers to the goods and materials a business holds for the purpose of resale, production, or utilization in operations. It includes raw materials, work-in-progress items, and finished goods. The concept of inventory management encompasses the monitoring and controlling of this inventory to meet customer demand while minimizing costs. It balances the need to keep enough stock on hand to meet demand without overstocking, which can tie up capital and increase storage costs.

Inventory management is the strategic process of overseeing and controlling the ordering, storage, and use of components that a company will use in the production of the items it sells, as well as the management of finished products that are ready for sale. The primary goal of inventory management is to ensure that a business has the right products in the right quantities at the right time, minimizing costs while meeting customer demand. This process involves a careful balancing act between inventory costs and the need to meet customer expectations.

Inventory management is crucial for the smooth operation of a supply chain, as it ensures that products are available when needed without overstocking, which can tie up capital and lead to additional storage costs. It also involves tracking and managing inventory turnover rates, understanding the lead times for reordering, and coordinating with suppliers and manufacturers to maintain optimal stock levels.

Rushton, Croucher, and Baker (2017) further define inventory management as "a critical function that supports the planning and control of goods and materials to ensure their availability at the point of need, contributing to the efficiency and effectiveness of the supply chain." This definition underscores the importance of inventory management in the broader context of supply chain management, emphasizing its role in ensuring that goods are available where and when they are needed.

According to Stevenson (2018), inventory management is "the process of overseeing and controlling the ordering, storage, and use of components and finished products to ensure that inventory is maintained at optimal levels to meet customer demand while minimizing costs associated with excess inventory and stock outs." This definition highlights the dual focus of inventory management: maintaining sufficient stock to meet demand and minimizing the costs associated with holding and managing inventory.

Thus inventory management is a multifaceted discipline, integral to both the operational efficiency and financial health of an organization. It involves not only the physical management of goods but also the strategic planning required to optimize inventory levels and align them with business goals.

25.4 FUNCTIONS OF INVENTORY

Inventory serves several critical functions within a business, particularly in the context of sales and distribution. These functions are essential for maintaining the continuity of operations, optimizing costs, and ensuring customer satisfaction. Below are the key functions of inventory:

25.5.1 Buffer against Uncertainty

One of the primary functions of inventory is to act as a buffer against the uncertainties in supply and demand. Market conditions, supplier delays, and sudden spikes in customer demand can create fluctuations that are difficult to predict. By maintaining adequate inventory levels, a business can protect itself against these uncertainties, ensuring that it can meet customer demand even when unexpected events occur.

25.5.2 Decoupling of Production Processes

Inventory also plays a vital role in decoupling different stages of the production process. In many production environments, various processes are interdependent; delays or disruptions in one stage can affect the entire production line. By holding inventory at strategic points in the production process, businesses can ensure that downstream processes continue to operate smoothly, even if upstream processes are delayed. This decoupling enhances flexibility and reduces the risk of production bottlenecks.

25.5.3 Economies of Scale

Holding inventory allows businesses to take advantage of economies of scale. Purchasing raw materials or products in larger quantities often leads to cost savings due to bulk discounts, reduced shipping costs, and more efficient use of resources. These savings can significantly impact a company's profitability. Additionally, producing goods in larger batches can reduce the per-unit cost of production, further enhancing cost efficiency.

25.5.4 Support for Production and Operations

Inventory ensures that the necessary materials are available for production and operational activities without interruption. For manufacturing businesses, having a steady supply of raw materials and components is crucial to maintaining continuous production. Similarly, for retail and distribution businesses, having a ready stock of finished goods ensures that customer orders can be fulfilled promptly. This support is vital for maintaining operational efficiency and meeting customer expectations.

25.5.5 Meeting Customer Demand

One of the most important functions of inventory is to meet customer demand in a timely and efficient manner. In today's competitive market, customers expect quick and reliable delivery of products. By maintaining the right level of inventory, businesses can ensure that products are available when customers need them, thereby enhancing customer satisfaction and loyalty. This function is particularly critical in industries where lead times are short, and customer expectations are high.

25.5.6 Price Stabilization

Inventory can also help stabilize prices by allowing businesses to purchase and store goods when prices are low and sell them when prices rise. This strategy is particularly useful in industries where raw material prices are volatile. By purchasing in bulk during periods of low prices, a business can reduce its exposure to price fluctuations and maintain more stable pricing for its customers. This price stabilization can be a competitive advantage in markets with significant price variability.

25.5.7 Seasonal Demand Management

Many businesses experience seasonal fluctuations in demand, with certain products being more popular at specific times of the year. Inventory management helps businesses prepare for these fluctuations by allowing them to stockpile products in anticipation of increased demand. For example, retailers might build up inventory in the months leading up to the holiday season to ensure they can meet the surge in customer orders. This proactive approach helps avoid stock outs and lost sales during peak seasons.

25.5.8 Efficient Resource Utilization

Inventory also contributes to the efficient utilization of resources, including labor, machinery, and warehouse space. By maintaining appropriate inventory levels, businesses can ensure that resources are used effectively, avoiding the inefficiencies that come with frequent production changes or idle equipment. This efficient resource utilization can lead to cost savings and higher productivity, ultimately benefiting the company's bottom line.

Thus inventory performs multiple essential functions that contribute to the smooth operation of a business. By buffering against uncertainty, decoupling production processes, enabling economies of scale, supporting production and operations, meeting customer demand, stabilizing prices, managing seasonal demand, and ensuring efficient resource utilization, inventory management plays a vital role in maintaining a company's operational efficiency and profitability

25.5 INVENTORY MANAGEMENT SYSTEMS

Inventory management systems are vital tools that help businesses efficiently oversee their inventory, ensuring that products are available when needed while minimizing costs. These systems integrate technology, processes, and practices to manage inventory levels, track stock movements, and optimize the supply chain. They are essential for maintaining the balance between supply and demand, which is crucial for customer satisfaction and overall business success. Below, we explore various inventory management systems commonly used in different industries.

25.6.1 Just-in-Time (JIT) Inventory System

The Just-in-Time (JIT) inventory system is designed to minimize inventory levels by scheduling material orders to arrive just as they are needed for production or sales. This system aims to reduce the costs associated with holding large amounts of inventory and to eliminate waste. JIT relies on precise demand forecasting and strong supplier relationships to ensure that materials are delivered exactly when they are required.

25.6.1.1 Advantages

- Reduces inventory carrying costs.
- Minimizes waste due to obsolescence.
- Enhances cash flow by reducing the amount of capital tied up in inventory.

25.6.1.2 Challenges

- Requires accurate demand forecasting.
- Highly dependent on supplier reliability.
- Vulnerable to supply chain disruptions.

Example

A car manufacturing company uses the JIT system to order components such as engines, tires, and seats only when they are required for assembly. This approach minimizes the cost of storing large quantities of parts and reduces the risk of components becoming obsolete due to model updates. By maintaining close relationships with suppliers, the company can ensure that components are delivered just in time for production, reducing waste and improving efficiency.

Application

The car manufacturer needs to ensure a reliable and responsive supply chain. In case of a supplier delay, production could be halted, leading to significant costs. Therefore, the company might invest in supply chain analytics to predict and mitigate potential disruptions.

25.6.2 Economic Order Quantity (EOQ) System

The Economic Order Quantity (EOQ) system is a mathematical model that determines the optimal order quantity to minimize total inventory costs, including ordering and holding costs. The EOQ model calculates the most cost-effective amount to order by balancing the costs of ordering against the costs of holding inventory.

25.6.2.1 Advantages

- Optimizes order size to minimize total costs.
- Reduces unnecessary inventory expenses.
- Straightforward to implement for businesses with predictable demand.

25.6.2.2 Challenges

- Assumes constant demand and lead times, which may not always be realistic.
- May not be suitable for businesses with fluctuating demand patterns.

Example

A small electronics retailer uses the EOQ system to manage its inventory of smartphones. By analyzing the demand for different models, the retailer calculates the EOQ to determine how many units to order at a time. For instance, if the EOQ calculation suggests ordering 100 units of a popular smart phone model every two months, the retailer can minimize the costs of frequent ordering and excessive stockholding.

Application

In this scenario, the retailer might adjust the EOQ during peak seasons, such as the holiday shopping period, where demand for electronics surges. By recalculating the EOQ based on seasonal demand, the retailer ensures they have enough stock without over committing resources to excess inventory.

25.6.3 Material Requirements Planning (MRP) System

Material Requirements Planning (MRP) is an inventory management system that calculates the materials and components needed for production based on the production schedule. MRP systems help businesses ensure that they have the right materials at the right time to meet production needs, thereby reducing excess inventory and avoiding stockouts.

25.6.3.1 Advantages

- Aligns inventory with production schedules.
- Reduces excess inventory and waste.
- Improves production efficiency and customer satisfaction.

25.6.3.2 Challenges

- Requires accurate data on production schedules and inventory levels.
- Can be complex to set up and maintain.
- Dependent on reliable demand forecasts.

Example

A furniture manufacturer uses an MRP system to manage the inventory of raw materials like wood, screws, and varnish. The MRP system calculates the exact quantities of these materials needed based on upcoming orders for different furniture items. By aligning material orders with production schedules, the manufacturer can avoid stockouts and ensure timely delivery of finished products to customers.

Application

The manufacturer might face a situation where an unexpected surge in orders for a specific furniture model requires a quick adjustment in the MRP system. By updating the production schedule and material requirements in the MRP system, the company can swiftly order additional materials and meet the increased demand without delays.

25.6.4 Perpetual Inventory System

The Perpetual Inventory System continuously updates inventory records in real time with each transaction. This system provides businesses with up-to-date information on inventory levels, which helps in making informed decisions about reordering and stock management. Perpetual inventory systems often integrate with other systems, such as point-of-sale (POS) or enterprise resource planning (ERP) systems.

25.6.4.1 Advantages

- Provides real-time inventory data for better decision-making.
- Improves accuracy in inventory tracking.
- Helps prevent stock outs and overstocking.

25.6.4.2 Challenges

- Requires reliable and accurate data entry.
- Can be expensive to implement, especially for smaller businesses.
- May require integration with other systems, which can be complex.

Example

A large grocery store chain uses a perpetual inventory system to manage its inventory across multiple locations. As customers purchase items, the system automatically updates inventory levels, allowing store managers to reorder products before they run out. For instance, when the stock of a popular cereal brand drops below a certain threshold, the system triggers an automatic reorder to replenish the shelves.

Application

In practice, the grocery store might face a situation where a new product line is launched, and the perpetual inventory system helps monitor its performance. If the product sells faster than anticipated, the systems real-time data allows the store to increase orders and avoid stock outs, ensuring continuous availability for customers.

25.6.5 ABC Analysis Inventory System

ABC analysis is an inventory categorization technique that divides items into three categories based on their value and importance. Category A includes high-value items with low sales frequency, Category B consists of items of moderate value and sales frequency, and Category C comprises low-value items with high sales frequency. This system helps businesses prioritize their inventory management efforts by focusing on the most valuable items.

25.6.5.1 Advantages

- Helps prioritize inventory management based on value.
- Reduces the risk of overstocking high-value items.
- Improves overall inventory control.

25.6.5.2 Challenges

- Requires accurate inventory valuation.
- Regular updates are necessary to maintain accuracy.
- May overlook the importance of lower-value items.

Example

A pharmaceutical company uses ABC analysis to manage its inventory of drugs. Category A includes high-value, critical medications that are expensive and have strict storage requirements. Category B consists of moderately priced drugs with regular demand, and Category C includes low-value, over-the-counter medications. By focusing on the management of Category A items, the company ensures that critical medications are always available and properly stored.

Application

To maintain high service levels, the pharmaceutical company might implement stricter controls for Category A items, such as more frequent stock reviews and tighter reorder points. For Category C items, the company might allow for higher stock levels due to their lower cost and slower movement, ensuring a balanced approach to inventory management.

25.6.6 Vendor-Managed Inventory (VMI) System

Vendor-Managed Inventory (VMI) is a system in which the supplier assumes responsibility for managing and replenishing inventory at the customer’s location. The supplier monitors the customer's inventory levels and generates orders as needed, ensuring that the customer always has the right amount of stock on hand.

25.6.6.1 Advantages

- Reduces the burden of inventory management for the customer.

- Improves stock availability and reduces stock outs.
- Enhances collaboration between suppliers and customers.

25.6.6.2 Challenges

- Requires a high level of trust and communication between supplier and customer.
- The customer may lose some control over inventory decisions.
- Success is dependent on the supplier's ability to accurately forecast demand.

Example

A large retailer partners with a beverage supplier under a VMI arrangement. The supplier monitors the retailer's inventory levels and automatically replenishes stock as needed, ensuring that popular beverages are always available in stores. This arrangement reduces the retailer's burden of managing inventory and improves stock availability.

Application

The retailer might use VMI for fast-moving items like sodas and juices. If the supplier notices a sudden spike in sales, perhaps due to a hot weather forecast, they can proactively increase deliveries to prevent stock outs. This responsiveness helps the retailer maintain high customer satisfaction levels without the need for constant manual inventory checks.

25.6.7 Warehouse Management System (WMS)

A Warehouse Management System (WMS) is software designed to optimize warehouse operations, including inventory tracking, picking, packing, and shipping. WMS provides real-time visibility into inventory levels and helps manage the movement of goods within the warehouse, which is crucial for large or complex warehouse operations.

25.6.7.1 Advantages

- Increases warehouse efficiency and accuracy.
- Enhances inventory visibility and control.
- Supports better decision-making through real-time data.

25.6.7.2 Challenges

- Can be costly and complex to implement.
- Requires training and ongoing maintenance.
- May need integration with other business systems.

Example

An e-commerce company with a large distribution centre uses a WMS to manage its warehouse operations. The WMS helps the company track the location of every product within the warehouse, streamlining the picking and packing process. When an order is placed, the WMS directs warehouse staff to the exact location of the items, reducing the time spent on order fulfilment.

Application

The Company might face challenges during peak shopping periods, such as Black Friday, where order volumes spike. The WMS can prioritize orders, allocate resources efficiently, and ensure that high-priority shipments are processed first. This capability helps the company meet tight delivery deadlines and maintain customer satisfaction during busy periods.

25.6.8 First-In, First-Out (FIFO) and Last-In, First-Out (LIFO) Systems

FIFO and LIFO are inventory valuation methods that determine the order in which inventory is sold or used. FIFO assumes that the oldest inventory items are sold first, while LIFO assumes that the most recently acquired items are sold first. These methods affect how inventory is accounted for on financial statements and can influence tax liabilities.

25.6.8.1 Advantages

- **FIFO:** Reduces the risk of obsolescence, especially for perishable goods.
- **LIFO:** Can offer tax advantages in times of rising prices by matching recent costs with current revenues.

25.6.8.2 Challenges

- **FIFO:** May not be as beneficial during inflationary periods as older, cheaper inventory is sold first.
- **LIFO:** Can lead to outdated inventory being held, especially in industries with fast-moving products.

Example

A bakery uses the FIFO method to manage its inventory of perishable goods like bread and pastries. By selling the oldest items first, the bakery reduces the risk of spoilage and waste. In contrast, an oil company might use the LIFO method during periods of rising prices, as this allows them to match the most recent (and higher) costs with current sales, potentially offering tax advantages.

Application

For the bakery, FIFO ensures that products are fresh and minimizes waste, which is crucial for maintaining quality and customer satisfaction. The bakery might implement FIFO by organizing shelves so that older products are at the front, making it easier for staff to follow the system.

Thus, inventory management systems are indispensable for businesses aiming to optimize their operations, reduce costs, and ensure customer satisfaction. The choice of system depends on the specific needs, industry, and scale of the business. By leveraging the appropriate inventory management system, companies can streamline their operations, minimize waste, and maintain a competitive edge in the market

Check Your Progress-A

1. Inventory management refers to the process of overseeing the ___________, storage, and flow of goods in a business.
2. The main goal of inventory management is to maintain an optimal ___________ level that meets customer demand without overstocking.
3. ___________ inventory refers to goods that are ready for sale and are held by a company until they are sold.
4. ___________ is a key technique used in inventory management to prevent stockouts and overstocking by forecasting demand.
5. In sales and distribution, a ___________ inventory system tracks goods in real-time and updates stock levels automatically.
6. A company that practices ___________ ordering ensures that new stock is ordered only when existing inventory reaches a predetermined level.
7. ___________ inventory is the buffer stock kept on hand to prevent shortages in case of unexpected demand or delays in supply.
8. One of the biggest challenges in inventory management is minimizing ___________, which refers to unsold goods that are taking up warehouse space.
9. ___________ analysis is a technique used to classify inventory based on its importance, focusing on high-value items.
10. Inventory ___________ refers to the process of counting physical stock in a warehouse or store to ensure records are accurate.

25.6 INVENTORY MANAGEMENT TECHNIQUES

Effective inventory management is crucial for businesses aiming to balance inventory costs with service levels. Inventory management techniques are methodologies and strategies used to control inventory levels, minimize costs, and optimize stock handling. This section explores various inventory management techniques, discussing their features, benefits, and practical applications.

25.7.1 ABC Analysis

ABC Analysis categorizes inventory into three groups—A, B, and C—based on their value and importance. This technique prioritizes items based on their contribution to overall sales or profit, allowing businesses to focus their efforts on managing the most significant items.

ABC Analysis is also known as the 80/20 rule. This principle states that roughly 80% of the effects come from 20% of the causes. In the context of inventory management, it implies that a small percentage of items (typically around 20%) account for a large portion (about 80%) of the total inventory value.

Category A: This category includes the most valuable items, which account for a significant portion of the inventory value, typically around 70-80%. These items require close monitoring and management due to their high impact on the overall inventory cost.

Category B: Items in this category are of moderate value, accounting for about 15-25% of the inventory value. These items are less critical than Category A but still require regular attention.

Category C: This category consists of low-value items that contribute to a small portion of the inventory value, usually around 5-10%. While these items are numerous, their impact on the overall cost is minimal, and they require less stringent control.

Benefits

- Prioritizes inventory management efforts based on value.
- Improves resource allocation and management efficiency.
- Reduces carrying costs for less critical items.

Example

Consider a company that manages 100 different inventory items. After calculating the annual consumption value for each item, the company sorts them in descending order and classifies them into A, B, and C categories.

Category A: 20 items account for 75% of the total inventory value.

Category B: 30 items account for 20% of the total inventory value.

Category C: 50 items account for 5% of the total inventory value.

The company then focuses its resources on closely managing Category A items, regularly reviewing Category B items, and minimizing efforts on Category C items.

25.7.2 Safety Stock

Safety stock is a critical component of inventory management designed to prevent stock outs and ensure that there is always enough inventory on hand to meet customer demand, even in the face of unforeseen fluctuations. It acts as a buffer, safeguarding against the uncertainties that can disrupt the supply chain, such as demand variability, lead time fluctuations, or delays in replenishment. Safety stock is the extra inventory maintained beyond the expected demand during a lead time. It is a form of risk management that helps businesses avoids stock outs, which can lead to lost sales, customer dissatisfaction, and production delays.

25.7.2.1 Factors Affecting Safety Stock Levels

25.7.2.1.1 Demand Variability

The more unpredictable the demand, the higher the safety stock required. If demand fluctuates significantly, a business needs a larger buffer to cover potential spikes.

25.7.2.1.2 Lead Time Variability

If there are variations in the time it takes to receive inventory from suppliers, safety stock levels must be adjusted accordingly. Longer or more variable lead times typically require higher safety stock.

25.7.2.1.3 Desired Service Level

The service level is the probability of not facing a stock out during the lead time. A higher desired service level (e.g., 95% or 99%) means maintaining higher safety stock to reduce the risk of stock outs.

25.7.2.1.4 Forecast Accuracy

The accuracy of demand forecasts directly impacts the need for safety stock. Inaccurate forecasts may lead to overstocking or under stocking, both of which can be mitigated by maintaining an appropriate level of safety stock.

25.7.2.1.5 Supply Chain Reliability

The reliability of suppliers and the consistency of their deliveries influence safety stock levels. Reliable suppliers with consistent delivery times may allow for lower safety stock.

25.7.2.2 Calculation of Safety Stock

Safety stock can be calculated using various methods, depending on the complexity and the data available. The most common formula considers demand variability, lead time variability, and the desired service level:

Safety Stock=

$Z \times \sqrt{}\ (L \times \sigma 2D) + (\sigma 2L \times D)$

Where:

- Z = Z-score corresponding to the desired service level
- L = Average lead time
- σD = Standard deviation of demand
- σL = Standard deviation of lead time
- D = Average demand

25.7.2.3 Benefits

- Mitigates the risk of stock outs and service level disruptions.

- Provides a buffer against demand variability and supply delays.
- Enhances customer satisfaction by ensuring product availability.

25.7.3 Reorder Point (ROP) Formula

The Reorder Point (ROP) formula determines the inventory level at which a new order should be placed to avoid stock outs. It takes into account factors such as lead time, demand rate, and safety stock to calculate the optimal reorder point.

Formula

Reorder Point (ROP) = (Lead Time Demand) + (Safety Stock)

Where:

- Lead Time Demand: The total demand for the product during the lead time.
- Safety Stock: The additional inventory kept as a buffer to account for demand variability and lead time fluctuations.

25.7.3.1 Components of the Formula

25.7.3.1.1 Lead Time Demand

This is the quantity of a product that is expected to be sold or used during the lead time, which is the time between placing an order and receiving the inventory. It is calculated as:

Lead Time Demand = Average Demand per Day × Lead Time in Days

Average Demand per Day = the average number of units sold or used per day.

Lead Time in Days = the time it takes to receive the inventory after placing an order.

25.7.3.1.2 Safety Stock

Safety stock is the extra inventory kept to prevent stock outs due to variations in demand or lead time. It is added to the lead time demand to provide a buffer against uncertainties.

Example

Consider a company that sells a product with the following characteristics:

- Average Demand per Day: 100 units
- Lead Time: 5 days
- Safety Stock: 200 units

To calculate the reorder point:

Calculate Lead Time Demand:

Lead Time Demand=100×5=500 units

Add Safety Stock:

Reorder Point (ROP) = 500+200=700 units

Therefore, the reorder point is 700 units. When the inventory level drops to 700 units, the company should place a new order to replenish the stock.

25.7.3.2 Benefits

- Helps prevent stock outs by triggering timely reorders.
- Balances inventory levels with demand and lead times.
- Ensures continuous product availability and service levels.

25.7.4 Drop Shipping

Drop shipping is a retail fulfilment method where a business does not keep products in stock but instead transfers customer orders and shipment details directly to a third-party supplier or manufacturer. The supplier then ships the products directly to the customer.

Benefits

- Reduces the need for inventory storage and handling.
- Allows businesses to offer a wide range of products without holding stock.
- Minimizes upfront inventory investment and associated risks.

Thus, inventory management techniques are essential for businesses to effectively manage their inventory, reduce costs, and meet customer demands. Each technique offers unique advantages and is suited to different types of inventory and business models. By understanding and applying these techniques, businesses can optimize their inventory management processes, improve operational efficiency, and enhance overall performance

25.7 IMPORTANCE OF INVENTORY MANAGEMENT IN SALES AND DISTRIBUTION

Inventory management is a critical component of sales and distribution, playing a vital role in ensuring that products are available when and where they are needed. Efficient inventory management balances the supply and demand for products, optimizing stock levels to meet customer requirements while minimizing costs associated with holding and handling inventory. In the context of sales and distribution, inventory management directly impacts customer satisfaction, operational efficiency, and overall business profitability. Effective inventory management is vital in sales and distribution for several reasons:

25.8.1 Demand Forecasting

Accurate demand forecasting is crucial for effective inventory management. By analyzing historical sales data and market trends, businesses can predict future demand and adjust inventory levels accordingly. This ensures that products are available when needed, reducing the risk of stock outs and lost sales.

25.8.2 Inventory Turnover

Inventory turnover is a key metric in inventory management, indicating how often inventory is sold and replaced within a specific period. A high inventory turnover rate suggests efficient inventory management and strong sales performance, while a low turnover rate may indicate excess stock or slow-moving inventory. Balancing inventory turnover with customer demand is essential for maintaining profitability in sales and distribution.

25.8.3 Stock Replenishment

Effective inventory management involves setting appropriate reorder points and implementing efficient stock replenishment processes. By automating the replenishment process based on real-time inventory data, businesses can ensure that products are restocked promptly, reducing the risk of stock outs and maintaining continuous product availability.

25.8.4 Supplier Relationship Management

Strong relationships with suppliers are essential for effective inventory management. By collaborating closely with suppliers, businesses can negotiate better terms, secure timely deliveries, and manage lead times more effectively. This helps ensure that inventory levels are aligned with demand and that the supply chain operates smoothly.

25.8.5 Inventory Accuracy

Accurate inventory records are critical for effective inventory management. Implementing regular cycle counting and utilizing inventory management software can help businesses maintain accurate records, reducing the risk of discrepancies and ensuring that inventory levels are correctly reflected in the system.

25.8.6 Cost Control

Inventory management plays a key role in controlling costs associated with purchasing, storing, and handling inventory. By optimizing inventory levels and reducing excess stock, businesses can lower their carrying costs and improve their overall cost efficiency.

25.8.7 Adaptability to Market Changes

In the fast-paced world of sales and distribution, market conditions can change rapidly. Effective inventory management allows businesses to adapt quickly to these changes by adjusting inventory levels, sourcing alternative suppliers, or introducing new products to meet evolving customer needs.

25.8.8 Compliance and Reporting

Inventory management is also important for compliance with regulatory requirements and financial reporting. Accurate inventory records are necessary for tax purposes, audits, and financial reporting, ensuring that businesses remain compliant and transparent in their operations

Check Your Progress- B

1. ___________ stock refers to inventory that is in transit between the manufacturer, warehouse, or retailer.
2. ___________ is the process of ensuring that the right products are available at the right time to meet customer demand.
3. An efficient inventory management system helps to improve ___________, which refers to how quickly inventory is sold and replaced.
4. ___________ is the point at which the reorder process is triggered, ensuring that stock levels do not fall below a critical level.
5. ___________ refers to the total costs associated with ordering and holding inventory, including storage, insurance, and handling costs.
6. In a ___________ inventory system, stock levels are checked and updated at regular intervals rather than in real-time.
7. ___________ is a strategy where companies try to minimize the amount of inventory held by relying on frequent deliveries and just-in-time supply.
8. Inventory ___________ involves determining how much stock is needed to meet future sales and prevent overstocking or stockouts.
9. ___________ distribution centers are used by companies to store and distribute products efficiently to multiple locations or customers.
10. The ___________ of inventory affects the entire sales and distribution process, influencing customer satisfaction, costs, and supply chain efficiency.

25.8 SUMMARY

Inventory management is a crucial function in sales and distribution, ensuring that the right products are available at the right time while minimizing costs. Understanding the various concepts, systems, and techniques of inventory management helps businesses optimize their operations, enhance customer satisfaction, and maintain a competitive edge in the market.

25.9 GLOSSARY

- **Inventory:** The goods and materials a business holds for resale, production, or operational use.
- **Just-in-Time (JIT):** An inventory management system that minimizes waste by receiving goods only as they are needed.
- **Economic Order Quantity (EOQ):** A formula used to determine the optimal order quantity that minimizes total inventory costs.
- **Material Requirements Planning (MRP):** A system for calculating the materials needed for production.
- **Safety Stock:** Extra inventory held to prevent stock outs due to demand variability.

25.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

1. tracking
2. stock
3. Finished goods
4. Demand forecasting
5. perpetual
6. just-in-time (JIT)
7. Safety
8. dead stock
9. ABC
10. auditing

Check Your Progress –B

1. Pipeline
2. Inventory planning
3. inventory turnover
4. Reorder point
5. Inventory carrying cost
6. periodic
7. Lean inventory management
8. forecasting
9. Regional
10. management

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25.13 TERMINAL QUESTIONS

1. Discuss the role of inventory management in the overall supply chain.
2. What are the advantages and disadvantages of different inventory management systems?
3. How can businesses use inventory management to gain a competitive advantage?
4. Explain the significance of ABC analysis in inventory management.
5. What are the primary functions of inventory management in the context of sales and distribution

UNIT-26 MARKET LOGISTICS

26.1 INTRODUCTION

In this unit we will discuss about the channels of distribution which helps in the flowing of goods and Services from production to use, which describes the entire process of setting up and running an organization responsible for achieving a company's distribution goals. But nothing really happens in a market unless the goods physically move from their point of origin to their point of consumption. This is where the role of market logistics comes into play. In this block, we will explore various aspects related to logistics for distributors of goods. We will discuss the meaning, importance, role, goals, objectives and approaches of market logistics.

26.2 OBJECTIVES

After reading this unit you will be able to:

-Understand the concept of market logistics and its role

-Differentiate between supply chain management and market logistics

-Explore the major purpose of market logistics

-Examine the major elements of market logistics

-Describe the approaches to market logistics

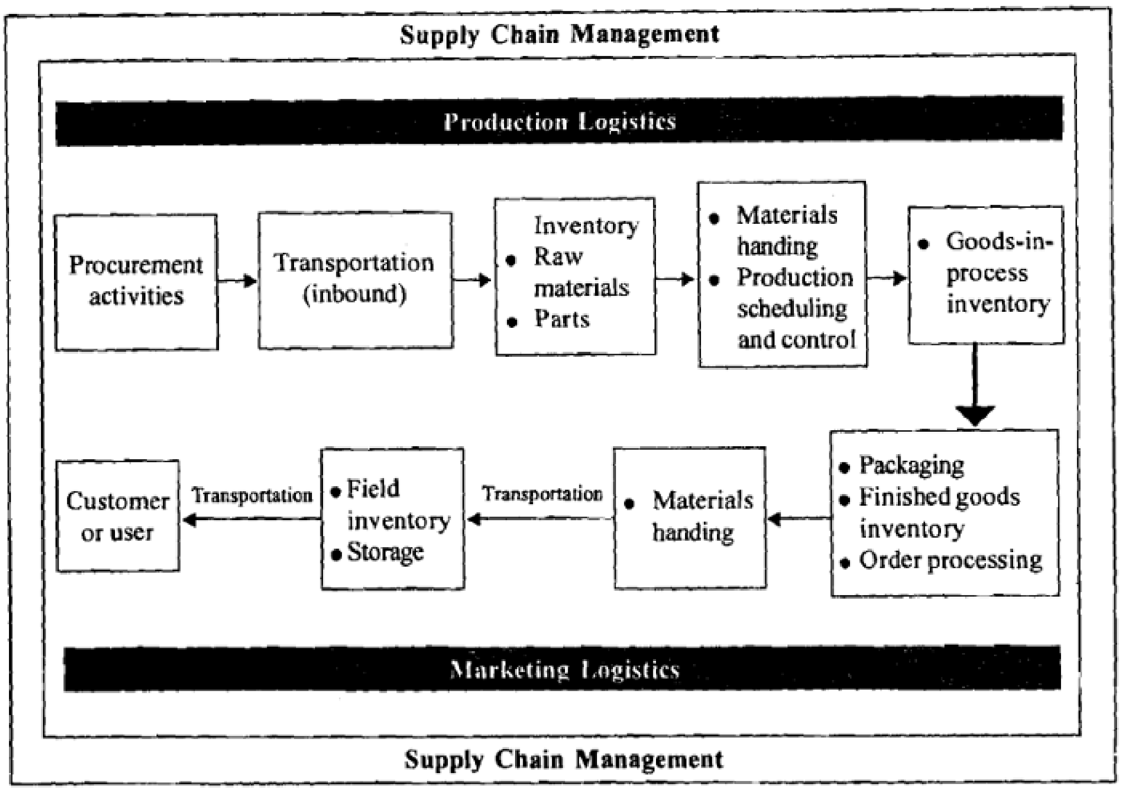
26.3 MEANING AND IMPORTANCE OF MARKET LOGISTICS

According to **Donald J. Bowersox and David J. Closs**: "Logistics is the process of strategically managing the procurement, movement, and storage of materials, parts, and finished inventory (and the related information flows) through the organization and its market channels in such a way that current and future profitability is maximized through the cost-effective fulfillment of orders."

According to **Christopher Martin**: "Logistics is the process of strategically managing the movement and storage of goods, services, and related information within a supply chain. It encompasses the management of inbound and outbound transportation, warehousing, inventory control, order fulfillment, and the planning of supply and demand."

Market logistics, also referred to as distribution, is the process of coordinating, executing, and overseeing the efficient and cost-effective movement and storage of goods, services, and information. This process spans from production to the final consumer, ensuring that customer needs are fulfilled. It is an important component of a company's overall market strategy, ensuring that the products are delivered to the right place, at the right time and in the right conditions. The role of market logistics has become increasingly important in today's competitive business environment, where customer satisfaction and timely delivery are key differentiators.

Supply chain management (SCM) and market logistics are interconnected concepts, but they serve different purposes and have unique scopes within a business. SCM is a comprehensive and strategic approach that encompasses the entire journey of creating and delivering a product or service, starting from sourcing raw materials to the final delivery to the end customer. It involves coordinating and integrating all activities across the supply chain, including procurement, production, transportation, warehousing, and inventory management. SCM aims to optimize the entire supply chain to enhance efficiency, lower costs, and ensure a smooth flow of goods, information, and finances across all stages, ultimately meeting customer demands effectively. In contrast, market logistics is a more focused aspect of supply chain management, concentrating on the physical distribution of goods and services. It prioritizes the efficient transportation and storage of products from production to final consumption to satisfy customer requirements. Market logistics includes activities such as order processing, transportation, warehousing, and managing inventory levels, all aimed at delivering products to customers in the right place, at the right time, and in the right condition. While SCM takes a holistic view of the entire supply chain, market logistics is primarily concerned with the downstream activities that directly impact customer satisfaction and the execution of the market strategy.

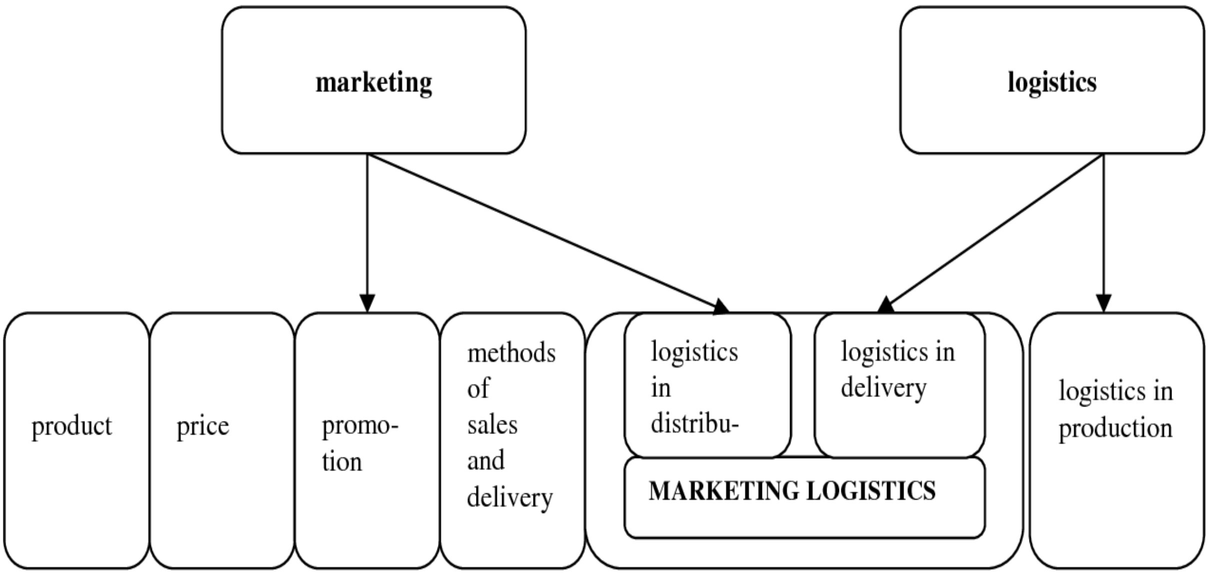


The core functions of market logistics include:

- order processing,
- warehousing,
- inventory management,
- transportation, and
- customer service.

Order processing involves the handling of orders from customers, including order entry, order fulfillment, and order tracking. Warehousing refers to the storage of goods until they are needed by the market, ensuring that products are available when customers demand them. Inventory management is concerned with keeping the right amount of stock to meet customer demand, avoiding both overstocking and understocking, which can result in higher costs or missed sales opportunities. Transportation plays a key role in market logistics, involving the movement of products from the manufacturing facility to warehouses and ultimately to customers. The selection of transportation methods—such as trucks, trains, ships, or airplanes—depends on factors like cost, speed, reliability, and the characteristics of the goods being transported. Effective transportation management helps reduce costs, improve delivery times and increase customer satisfaction.

Customer service, as a part of market logistics, ensures that the customer's needs are met promptly and efficiently. This includes providing accurate delivery information, handling returns and exchanges, and addressing any issues that may arise during the delivery process. High levels of customer service can lead to increased customer loyalty, repeat business, and a stronger brand reputation.



In summary, market logistics plays a vital role in the overall success of a business by ensuring that products reach customers in a timely, efficient, and cost-effective manner. It involves a series of interconnected activities that require careful planning, coordination, and execution. As markets become more global and customer expectations continue to rise, the importance of effective market logistics will only continue to grow.

Importance of Market Logistics

Market logistics, also referred to as distribution, is crucial to a business's success by ensuring products are delivered to customers efficiently and effectively. It involves the complete process of planning, executing, and managing the movement and storage of goods, services, and related information from the production stage to the point of consumption. In today's competitive market environment, the importance of market logistics cannot be overstated, as it directly impacts customer satisfaction, cost management, and overall business performance.

1. Ensuring Customer Satisfaction

Customer satisfaction is a key determinant of a company's success, and market logistics is central to achieving it. Efficient logistics systems ensure that products are delivered to customers on time, in the right condition, and at the right place. This reliability builds customer trust and loyalty, leading to repeat business and positive word-of-mouth. Furthermore, by providing accurate delivery information and handling returns and exchanges smoothly, market logistics enhances the overall customer experience.

2. Cost Efficiency and Profitability

Effective market logistics contributes significantly to cost management and profitability. By optimizing transportation routes, managing inventory levels, and reducing warehousing costs, companies can lower their overall operational expenses. Efficient logistics systems help minimize waste, reduce delays, and avoid stockouts or overstocking, all of which can lead to cost savings. These savings can then be passed on to customers in the form of competitive pricing, or reinvested in other areas of the business, ultimately boosting profitability.

3. Competitive Advantage

In a market where multiple businesses offer similar products, market logistics can provide a competitive edge. Companies that excel in logistics can differentiate themselves by offering faster delivery times, more flexible delivery options, and better service levels. This advantage can be particularly important in e-commerce and retail industries, where customers often base their purchasing decisions on the availability and speed of delivery. Effective logistics also enable companies to respond quickly to market changes and customer demands, further strengthening their competitive position.

4. Supporting Market Strategies

Market logistics is integral to the execution of broader market strategies. For instance, promotional campaigns that promise fast or free shipping rely heavily on the efficiency of the logistics system. Additionally, the ability to distribute products widely and effectively supports market penetration strategies, enabling companies to reach new customers in different regions. By aligning logistics capabilities with market goals, companies can ensure Their market efforts are supported by a robust distribution network.

5. Improved Supply Chain Efficiency

Market logistics plays an important role in improving the overall efficiency of supply chains. Logistics help rationalize the supply chain by guaranteeing that products move from suppliers to manufacturers and customers. An effective logistics system shortens lead times, improves inventory turns, and fosters better communication and coordination between supply chain partners. This integration results in a more responsive and flexible supply chain, able to adapt to changes in demand and minimize disruptions.

26.4 OBJECTIVES OF MARKET LOGISTICS

Market logistics is a critical component of business operations, encompassing the planning, execution, and management of the movement and storage of goods, services, and associated information from production to consumption. The primary goal of market logistics is to ensure that products are delivered to customers in a timely, efficient, and cost-effective manner. To achieve this, companies must focus on a few key objectives that guide their logistics operations and contribute to the overall success of the company.

1. Ensuring On-Time Delivery

One of the main goals of business logistics is to ensure that products are delivered to customers within the promised time frame. On-time delivery is essential to maintaining customer satisfaction and loyalty, as delays can lead to dissatisfaction, negative reviews, and loss of business. Companies must design logistics systems that minimize lead times, optimize transportation routes, and efficiently manage order processing to meet delivery deadlines consistently.

2. Optimizing Costs

Cost optimization is another critical market logistics objectives. Companies must balance the need for on-time delivery with the need to control costs. This includes minimizing costs associated with transportation, warehousing, inventory management, and order fulfilment. By optimizing these costs, businesses can improve their profit margins while remaining competitive in the market. Strategies such as consolidating shipments, selecting cost-effective transportation modes, and implementing efficient warehouse management practices are essential for achieving this objective.

3. Maintaining Product Quality

Maintaining the quality and integrity of products throughout the logistics process is a key objective of market logistics. Products must be handled, stored, and transported in ways that preserve their condition, ensuring they reach the customer without damage or deterioration. This is particularly important for perishable goods, fragile items, and products with strict quality standards. Effective packaging, proper handling procedures, and the use of climate-controlled transportation and storage are critical to achieving this objective.

4. Enhancing Customer Satisfaction

Customer satisfaction is the ultimate goal of market logistics. To achieve this, companies must not only ensure timely delivery and product quality but also provide reliable service. This includes offering accurate tracking information, flexible delivery options, and efficient handling of returns and exchanges. By aligning logistics operations with customer expectations, businesses can enhance the overall customer experience, leading to increased loyalty and repeat business.

5. Enhancing Inventory Management

Effective inventory management is a key objective of market logistics. Companies must ensure they have the appropriate products available at the right time and in the correct quantities to meet customer demand efficiently. This requires careful planning and forecasting to avoid both stockouts, which can lead to lost sales, and overstocking, which can tie up capital and increase storage costs. By optimizing inventory levels and improving inventory turnover, companies can maintain a lean and responsive supply chain that supports business objectives.

6. Supporting Sustainable Practices

In today's business environment, sustainability is becoming an increasingly important objective of market logistics. Companies are under pressure to reduce their environmental footprint by minimizing waste, reducing carbon emissions, and adopting eco-friendly practices throughout the logistics process. This includes using energy-efficient transportation, optimizing route planning to reduce fuel consumption, and adopting sustainable packaging solutions. By integrating sustainability into logistics operations, companies can not only reduce their environmental impact but also enhance their brand reputation and meet regulatory requirements.

Check Your Progress-A

Q1. What is the meaning of the term market logistics?

Q2. Distinguish between supply chain management and market logistics.

Q3. Elaborate the various objectives of market logistics in a business.

Q4. State whether the following statements are true or false.

(i) Supply chain includes market logistics.

(ii) One of the key objectives of market logistics is to optimize costs while ensuring on-time delivery.

(iii) In market logistics, maintaining product quality throughout the entire logistics process is not an issue.

(iv) Sustainability is becoming an increasingly important goal in market logistics.

(v) The importance of market logistics is limited to large companies with extensive supply chains.

26.5 SCOPE OF MARKET LOGISTICS

Market logistics, also known as physical distribution, is a crucial component of the overall market strategy. It involves various tasks aimed at ensuring that the right products are delivered to the right customers at the right time and place, in the right quantity and condition, and at the right cost. The following sections describe the main tasks of market logistics:

1. Order Management

Order processing is an early and important task in market logistics. Includes several steps to guarantee the order of reception, processing, processing, and executed clients. The process begins when an order is placed by the customer, either through an online platform, over the phone, or in person. Once received, the order goes through verification, where the details such as product specifications, quantities, and delivery instructions are checked for accuracy. Then, stock levels are reviewed to confirm that the required quantities products are in stock. If everything is in order, the order is then scheduled for fulfillment, and necessary documentation, such as invoices and shipping labels, is prepared. Efficient order processing minimizes errors, reduces delays, and enhances customer satisfaction by ensuring that orders are fulfilled correctly and on time.

2. Inventory Management

Inventory management is a crucial process that involves keeping the right amount of stock to satisfy customer demand while minimizing the costs tied to holding inventory. This task requires careful balancing—having too much inventory can lead to high storage expenses and the risk of items becoming outdated, while too little inventory can cause stockouts and missed sales opportunities. Effective inventory management includes accurately predicting demand, monitoring stock levels in real-time, and utilizing just-in-time (JIT) practices when appropriate. It also involves regular audits and analyzing inventory turnover to identify and address slow-moving items. By optimizing inventory levels, companies can lower carrying costs, improve cash flow, and Give customers easy access to your products.

3. Storage

Warehousing refers to the storage of goods before delivery to customers. This job involves planning, designing, and managing warehouse facilities to store products safely and efficiently, and in a manner that it allows for easy retrieval. Warehousing tasks include organizing products in a way that maximizes space utilization, categorizing items for faster picking and packing, and implementing systems like warehouse management systems (WMS) to track the movement and location of goods within the warehouse. Additionally, warehousing involves preparing products for shipment, which may include packaging, labelling, and assembling orders. Efficient warehousing minimizes the time and cost associated with handling and storing products, reduces the risk of damage or loss, and speeds up the order fulfillment process.

4. Transportation

Transportation involves moving goods from their point of origin, like a warehouse, to their final destination, typically the customer. It is a vital element of market logistics, impacting the delivery time, cost, and condition in which products are received. The transportation process includes choosing the most appropriate mode of transport—whether by road, rail, air, or sea—depending on factors like distance, cost, and the nature of the goods. It also encompasses route planning, scheduling, and coordinating the loading and unloading of products. Effective transportation requires balancing cost efficiency with speed to ensure timely delivery while managing expenses. Well-organized transportation systems can lead to reduced distribution costs, enhanced customer satisfaction, and better overall supply chain performance.

Modes of Transportation

The selection of an appropriate mode of transportation depends on various factors, including the type of product, delivery timelines, cost considerations, and the geographical distance between the origin and destination. The main modes of transportation used in market logistics are:

Road Transportation: Road transport involves the use of trucks, vans, and other vehicles to move goods over land. It is one of the most flexible and widely used modes of transportation due to its ability to reach virtually any location with an accessible road.

- **Advantages:**
  - Flexibility in routing and scheduling.
  - Ideal for short to medium distances.
  - Suitable for door-to-door delivery.
  - Ability to handle a wide variety of goods, including perishable items.
- **Disadvantages:**
  - Prone to traffic delays and road conditions.
  - Higher fuel costs and environmental impact compared to other modes.

Rail Transportation: Rail transport uses trains to move goods over long distances on land. It is particularly effective for heavy and bulk goods, such as raw materials, minerals, and agricultural products.

- **Advantages:**
  - Cost-effective for long-distance and bulk transportation.
  - Lower environmental impact per ton-mile compared to road transport.
  - High capacity and reliable schedules.
- **Disadvantages:**
  - Limited to locations with rail infrastructure.
  - Requires additional handling for first and last-mile delivery.

Air Transportation: Air transport involves the use of cargo planes to move goods quickly over long distances. It is the fastest mode of transportation and is commonly used for high-value, time-sensitive, or perishable goods.

- **Advantages:**
    - Fastest mode of transport, ideal for urgent deliveries.
    - Global reach, connecting distant locations quickly.
    - Minimal handling, reducing the risk of damage.
- **Disadvantages:**
    - Expensive, particularly for heavy or bulky items.
    - Limited by airport locations and weather conditions.
    - Higher environmental impact.

Sea Transportation: Sea transport utilizes ships to carry large volumes of goods across oceans and seas. It is the most common mode for international trade, especially for non-perishable goods.

- **Advantages:**
    - Cost-effective for large volumes and heavy goods.
    - Ideal for international trade and long-distance shipments.
    - Can handle a wide range of cargo types, including containers, bulk goods, and liquids.
- **Disadvantages:**

- Slower compared to other modes of transport.
- Subject to delays due to weather conditions and port congestion.
- Requires additional logistics for inland transport.

Intermodal Transportation: Intermodal transportation combines two or more modes of transport, such as rail and road, to move goods from origin to destination. This approach leverages the strengths of each mode to optimize efficiency and cost.

- **Advantages:**
    - Flexibility in using the most efficient mode for each segment of the journey.
    - Cost savings through the use of bulk transport modes for long distances.
    - Reduced environmental impact by optimizing transport modes.
- **Disadvantages:**
    - Requires careful coordination and handling at transfer points.
    - Potential for delays due to mode transitions.

5. Information Management

Information management in market logistics involves the systematic collection, processing, and analysis of data related to the movement and storage of goods. This task is essential for decision-making and optimizing logistics operations. It includes tracking orders, monitoring inventory levels, managing transportation schedules, and analyzing customer demand patterns. Modern logistics systems often rely on advanced technologies like RFID, GPS, and integrated software platforms to collect real-time data. This information is then used to make informed decisions, such as when to reorder stock, how to route deliveries, and how to allocate resources efficiently. Effective information management helps companies reduce errors, improve response times, and enhance overall logistics efficiency by ensuring that accurate and up-to-date information is always available to decision-makers.

26.6 APPROACHES OF MARKET LOGISTICS

Market logistics, also known as physical distribution, involves the processes required to deliver products from the manufacturer to the end consumer. Efficient market logistics is crucial for meeting customer demands, reducing costs, and enhancing overall business performance. Various approaches can be adopted to optimize market logistics, each focusing on different aspects of the supply chain. This section explores these approaches in detail.

1. Systems Approach

The systems approach to market logistics views the supply chain as an interconnected network where each component influences the others. The goal is optimizing the entire system, rather than individual elements, to achieve overall efficiency. Key components include:

- **Integration of Activities:** This requires the coordination of various logistics activities, including transportation, warehousing, inventory management, and order processing, to ensure seamless integration and operation.

- **Information Flow:** Efficient information sharing across the supply chain is crucial for synchronizing activities and making informed decisions . Advanced IT systems and real-time data exchange play a key role in enabling this flow.
- **Cross Functional Collaboration:** Efficient Market Logistics requires cooperation between various departments, such as market, supply, production, and finance. By cooperating, these functions can be used to guarantee that logistics strategies support general companies.

Advantages:

- Overall optimization of the entire supply chain.
- Improvement of decisions using the best information flow.
- Great flattening between logistics and business objectives.

Problems:

- Difficulty in managing and integration of various types of activities.
- You need a lot of investment in IT infrastructure.

2. Customer-Centric Approach

This approach aims to align logistics operations with customer needs and preferences. This approach aims to increase customer satisfaction and loyalty by delivering products in a way that meets or exceeds customer expectations. The important factors are as follows:

- **A Supply Chain controlled by Demand**: This includes the actual demand, production and distribution adjustments, not forecasts. To minimize the inventory level and reduce the control time, methods such as Just Time (JIT) and Lean Logistics are used.

- **Customization and Flexibility:** We offer customizable delivery options as same-day delivery, multiple delivery windows, or order tracking, enhances the customer experience. Flexibility in logistics operations allows companies to respond quickly to changing customer needs.
- **Service Quality:** Ensuring high levels of service quality, such as timely deliveries, accurate order fulfillment, and responsive customer service, is critical in this approach. Metrics like On-Time-In-Full (OTIF) deliveries are often used to measure performance.

Advantages:

- Higher customer satisfaction and loyalty.
- Increased competitiveness by differentiating service offerings.
- Ability to respond quickly to market changes.

Problems:

- Balancing cost with service quality can be difficult.
- Requires investment in flexible logistics infrastructure.

3. Lean Logistics Approach

Lean logistics aims to eliminate waste and inefficiencies in the logistics process, thereby reducing costs and improving service levels. This approach is heavily influenced by lean manufacturing principles and focuses on continuous improvement. Key strategies include:

- **Waste Reduction:** Identifying and eliminating non-value-added activities, such as excess inventory, unnecessary handling, and long waiting times, is central to lean logistics. Techniques like Value Stream Mapping (VSM) are often used to identify waste.
- **Continuous Improvement:** Lean logistics encourages a culture of continuous improvement, where employees at all levels are empowered to suggest and implement changes that enhance efficiency. This is often facilitated through Kaizen events and other continuous improvement initiatives.
- **Standardization:** Standardizing processes and procedures helps reduce variability and ensures consistency in logistics operations. This can include standardized packaging, handling procedures, and transportation routes.

Advantages:

- Reduced operational costs through waste elimination.
- Improved process efficiency and reliability.
- Enhanced flexibility and responsiveness to changes in demand.

Problems:

- Requires a cultural shift towards continuous improvement.
- May involve significant changes to existing processes and practices.

4. Technology-Driven Approach

The technology-driven approach leverages advanced technologies to enhance the efficiency and effectiveness of market logistics. This approach focuses on using digital tools and innovations to streamline operations, improve accuracy, and increase visibility across the supply chain. Key technologies include:

- **Automation:** Automation technologies, such as automated guided vehicles (AGVs), robotics, and automated sorting systems, can significantly reduce manual labour and increase the speed and accuracy of logistics operations.
- **Data Analytics and AI:** Data analytics and artificial intelligence (AI) are used to analyze vast amounts of data, enabling predictive modeling, demand forecasting, and route optimization. AI-powered systems can also automate decision-making processes, such as inventory replenishment and order processing.
- **IoT and Real-Time Tracking:** The Internet of Things (IoT) allows for real-time tracking of goods, vehicles, and • equipment throughout the supply chain. This increases transparency and enables proactive management of potential failures. •
- **Blockchain:** blockchain technology provides a safe and transparent way to record transactions and follow the transfer of products via a supply chain. This is especially useful for ensuring the completeness of the supply chain and reducing the risk of fraud.

Advantages:

- Improved logistics operation efficiency and accuracy.
- Improvement of visibility and control in the supply chain. • Ability to make data-driven decisions and predictions.

Problems:

- High initial investment in technology infrastructure.

- Requires technical expertise and ongoing maintenance.

5. Sustainable Logistics Approach

Sustainable logistics aims to minimize the environmental impact of logistics operations while meeting customer needs and business objectives. This approach is becoming increasingly important as companies face increasing pressure to adopt environmentally friendly practices. Key strategies include:

- **Green Transportation:** Adopting green transportation options such as electric vehicles, biofuels, and optimized routes to reduce fuel consumption and emissions. Companies can also explore intermodal transportation to combine different modes for greater efficiency.
- **Sustainable Packaging:** Reduction of packaging waste by using repeatedly biodegradable or reused materials. It can also include optimization of package designs to reduce the volume of transmission and weight.
- **Energy Efficiency:** Improving the energy efficiency of warehouses and distribution centers by installing energy-saving technologies such as LED lighting, solar panels, energy management systems, etc.
- **Reverse Logistics:** Developing reverse logistics processes to handle product returns, recycling and disposal in an environmentally friendly manner. This includes the management of the product test, returning to the end of the life and exclusion. **Advantages:**
    - Reduced environmental impact and compliance with regulations.
    - Enhanced brand reputation and customer loyalty.

- Potential cost savings through energy efficiency and waste reduction.

Problems:

- Balancing sustainability with cost-effectiveness.
- Requires investment in sustainable technologies and practices.

heck Your Progress- B

Q1. List the major tasks of market logistics.

Q2. Why is information management necessary in market logistics?

Q3. Name the various modes of transportation.

Q4. Which of the following is NOT a key component of the scope of market logistics?

A) Transportation

B) Warehousing

C) Product Development

D) Inventory Management

Q5. The systems approach in market logistics emphasizes:

A) Maximizing the efficiency of individual components

B) Optimizing the entire supply chain as a unified system

C) Reducing costs by focusing on one logistics activity

D) Enhancing product features to meet customer demand

Q6. Which of the following technologies is commonly used in the technology-driven approach to enhance visibility in the supply chain?

A) Lean Manufacturing

B) Blockchain

C) Traditional ERP Systems

D) Manual Inventory Control

Q7. Market logistics aims to reduce _______ times to improve customer satisfaction and streamline operations.

26.7 SUMMARY

Market logistics is a critical component of a company's overall strategy, directly impacting customer satisfaction, cost efficiency, and competitive advantage. By optimizing the various elements of market logistics—such as order processing, inventory management, warehousing, transportation, and information management—businesses can ensure that their products reach customers in a timely, cost-effective, and efficient manner. The approaches to market logistics, including systems, customer-centric, lean logistics, technology-driven, and sustainable logistics, each offer unique advantages and challenges. Adopting the right approach depends on a company's specific goals, resources, and market conditions.

26.8 GLOSSARY

1. **Market Logistics**: The process of organizing, carrying out, and managing the economical and efficient movement and storage of products, services, and related data from the point of origin to the site of consumption in order to satisfy consumer demands.
2. **Supply Chain Management (SCM)**: A broad and strategic approach that includes all steps involved in creating and providing a good or service, from obtaining raw materials to delivering the finished product to the client, including procurement, production, transportation, warehousing, and inventory management.
3. **Order Processing**: The series of steps involved in handling customer orders, including order entry, order fulfillment, and order tracking, ensuring accurate and timely delivery.
4. **Warehousing**: The storage of goods before they are distributed to customers, involving the organization, management, and retrieval of products in a way that maximizes space utilization and efficiency.
5. **Inventory Management**: The process of maintaining the optimal level of stock to meet customer demand while minimizing the costs associated with holding inventory.
6. **Transportation**: The movement of goods from a manufacturing plant or warehouse to the consumer. This includes selecting transportation modes and planning routes to ensure timely and cost-effective delivery.
7. **Customer Service**: Assistance provided to customers before, during and after the purchase process, including shipping information, returns processing and resolving shipping issues.
8. **Systems Approach**: A method of market logistics management that views the supply chain as an interconnected network and optimizes the entire system rather than individual components to achieve overall efficiency.

9. **Lean Logistics**: An approach to logistics that aims to eliminate waste and inefficiencies from the logistics process based on lean manufacturing principles in order to reduce costs and improve service levels.
10. **Technology-Driven Approach**: Use advanced technologies such as automation, artificial intelligence, Internet of Things and blockchain to improve the efficiency and effectiveness of market logistics operations.
11. **Sustainable Logistics**: Logistics practices aimed at minimizing the environmental impact of business operations, such as eco-conscious transportation, sustainable packaging and environmentally friendly warehousing practices.
12. **Intermodal Transportation**: A transportation method that combines two or more modes (e.g., rail and road) to optimize efficiency and cost for moving goods from origin to destination.
13. **Just-in-Time Inventory (JIT):** A strategy to reduce inventory carrying costs by maintaining inventory at the minimum necessary levels and replenishing it only as needed to meet customer demand.
14. **On-Time-In-Full (OTIF):** A performance metric used to measure the percentage of deliveries completed on time, without any missing or delayed items.

26.9 ANSWERS TO CHECK YOUR PROGRESS

<u>Check Your Progress –A</u>

1. Market logistics refers to the systematic planning, execution, and control of the physical flow of goods, services, and related information from the source of production to the end consumer. The aim of this process is to ensure that products are delivered to customers in a timely, efficient, and cost-effective

manner. It encompasses key activities such as transportation, warehousing, inventory control, order processing, and distribution.

2. **Scope**: While Supply Chain Management (SCM) addresses the complete process of managing the movement of goods, information, and financial resources from raw materials to the final product's delivery to the customer, market logistics specifically concentrates on the distribution and physical movement of finished goods to consumers.

   Objective: The primary objective of SCM is to optimize the entire supply chain to improve operational efficiency, reduce costs, and enhance customer satisfaction. Market logistics, as part of this broader strategy, focuses on ensuring that the distribution network operates effectively to meet customer demand.

   Activities: SCM includes a broader range of activities like sourcing, production, inventory management, and supplier relationships. Market logistics is more narrowly focused on transportation, warehousing, and distribution.

3. The various objectives of market logistics in a company are:

- **Timely Delivery**: Making certain that goods are supplied to clients on schedule in order to keep their loyalty and contentment.
- **Cost Efficiency:** Reducing distribution, warehousing, and transportation expenses while preserving high service standards.

- **Inventory management:** Keeping the correct products available when they're needed by balancing inventory levels to prevent stockouts or overstock scenarios.
- **Customer Satisfaction**: Meeting customer expectations by delivering products in good condition, on time, and at a competitive price.
- **Flexibility**: Adapting to changes in demand, supply, and market conditions to maintain efficient and responsive logistics operations.
- **Information Flow**: Ensuring smooth communication and information exchange between different stakeholders in the supply chain to enhance coordination and decision-making.

4. (i) True

(ii) True

(iii) False

(iv) True

(v) False

Check Your Progress –B

1. The major tasks of market logistics are:

- **Transportation Management**: Ensuring efficient movement of goods from one location to another.
- **Inventory Management**: Balancing inventory levels to meet customer demand without overstocking.

- **Order Processing**: Managing customer orders and ensuring timely delivery.
- **Warehousing and Storage**: Storing goods efficiently to ensure quick retrieval and dispatch.
- **Information Management**: Collecting, processing, and disseminating information to improve decision-making and operations.

2. The information is necessary in market logistics because of the following reasons:

- **Optimizes Decision-Making**: Information management provides real-time data and insights that enable better decision-making across the logistics network.
- **Enhances Visibility:** Movement of goods from the manufacturer or warehouse to the consumer. This includes selecting transportation modes and planning routes to ensure timely and cost-effective delivery.
- **Customer Service:** Support provided to customers before, during, and after the purchasing process, such as providing shipping information, processing returns, resolving shipping issues, etc.

3. The various modes of transportation are:
    - Air Transportation
    - Road Transportation
    - Rail Transportation
    - Water Transportation

4. C) Product Development
5. B) Optimizing the entire supply chain as a unified system
6. B) Blockchain

7. Lead

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26.12 TERMINAL QUESTIONS

1. Describe the key components of market logistics and explain how they contribute to the overall efficiency of the supply chain. Provide examples from different industries to support your answer.
2. Analyze the role of technology in modern market logistics. How have advancements such as automation, AI, and blockchain transformed logistics operations, and what are the potential future trends?
3. Evaluate the impact of transportation decisions on the cost and service quality of market logistics. How do companies optimize transportation to balance efficiency and customer satisfaction?
4. Discuss the challenges and strategies involved in inventory management within the context of market logistics. How do different inventory management approaches, such as Just-In-Time (JIT) and Economic Order Quantity (EOQ), affect the supply chain?

5. How do warehousing and storage decisions influence the effectiveness of market logistics? Compare and contrast centralized and decentralized warehousing strategies in terms of cost, speed, and flexibility.
6. Examine the importance of customer service in market logistics. How do logistics decisions impact customer satisfaction, and what measures can companies take to ensure high levels of service quality?
7. Critically assess the concept of lean logistics. How can organizations implement lean principles in their logistics operations to reduce waste and improve efficiency, and what challenges might they encounter?
8. Discuss the environmental considerations in market logistics. How can companies implement sustainable logistics practices, and what are the potential benefits and trade-offs of these practices?
9. Explain the significance of the systems approach in market logistics. How does this approach help in optimizing the entire supply chain, and what are the key challenges in its implementation?
10. Compare and contrast intermodal and multimodal transportation in market logistics. Discuss the advantages and disadvantages of each, and provide examples of situations where one might be preferred over the other.
11. How do global supply chains influence market logistics strategies? Discuss the additional complexities involved in managing logistics for international markets and how companies can overcome these challenges.
12. Analyze the role of order processing in market logistics. How does efficient order processing contribute to the overall effectiveness of the supply chain, and what technologies are used to enhance this process?

26.13 CASE LETS/CASES

Caselet 1: Efficient Distribution at Amazon

Amazon has built its reputation on fast, reliable delivery, which is central to its logistics strategy. The company uses a combination of centralized and decentralized warehousing, advanced order processing systems, and partnerships with various carriers to achieve quick delivery times. Recently, Amazon has been experimenting with drones and autonomous delivery vehicles to further reduce delivery times and costs.

Questions:

1. What are the key logistics strategies that Amazon uses to ensure fast and reliable delivery?
2. How does Amazon balance the cost of logistics with the need for speed in delivery?
3. What are the potential advantages and challenges of using drones and autonomous vehicles in Amazon's logistics operations?

Caselet 2: Zara's Just-In-Time Inventory System

Zara, a prominent fast-fashion retailer, is recognized for its highly efficient logistics and inventory management system, enabling it to rapidly adapt to evolving fashion trends. The company utilizes a Just-In-Time (JIT) inventory model, where small batches of clothing are produced and replenished based on real-time sales data. This strategy reduces excess inventory while relying on a highly efficient logistics system to prevent stockouts.

Questions:

1. How does Zara's JIT inventory system contribute to its overall market strategy?
2. What are the logistics challenges associated with maintaining a JIT inventory system in the fast-fashion industry?
3. Discuss how Zara's logistics strategy helps it maintain a competitive edge in the retail market.

Caselet 3: Coca-Cola's Global Supply Chain

Coca-Cola manages one of the largest and most intricate supply chains globally. The company's logistics network covers almost every country, prioritizing local production to reduce transportation costs and maintain product freshness. Coca-Cola's supply chain involves coordinating with numerous suppliers, bottlers, and distributors to ensure that its products are available wherever and whenever consumers want them.

Questions:

1. What are the logistics challenges that Coca-Cola faces in managing its global supply chain?
2. How does Coca-Cola's local production strategy benefit its logistics operations?
3. Discuss the role of technology in Coca-Cola's logistics management. How does the company use data and analytics to improve its supply chain efficiency?

Caselet 4: Walmart's Supply Chain Efficiency

Walmart has consistently been able to offer low prices due to its highly efficient supply chain. The company utilizes a hub-and-spoke distribution system, with large regional distribution centers that replenish store inventory regularly. Walmart also leverages advanced technology to optimize its inventory management and transportation operations, ensuring that products are always available to customers.

Questions:

1. How does Walmart's logistics strategy contribute to its ability to offer low prices?
2. What are the benefits and potential risks of Walmart's hub-and-spoke distribution system?
3. Analyze the role of technology in Walmart's logistics operations. How does it help in maintaining supply chain efficiency?

Caselet 5: The Impact of COVID-19 on Supply Chains

The COVID-19 pandemic disrupted global supply chains, leading to delays, shortages, and increased costs. Companies were forced to reassess their logistics strategies, with many opting for nearshoring, increasing inventory levels, or diversifying their supplier base to reduce risks. Some companies also accelerated their adoption of digital technologies to improve visibility and resilience in their supply chains.

Questions:

1. How did the COVID-19 pandemic reveal weaknesses in global supply chains?

2. What logistical strategies did businesses implement to address the challenges brought about by the pandemic?
3. Discuss the long-term effects of the pandemic on global supply chain management. How might businesses adjust their logistics strategies moving forward?

Caselet 6: The Rise of E-Commerce and Its Impact on Logistics

The surge in e-commerce has dramatically altered logistics operations for many companies. The need for fast and reliable delivery has become a key competitive factor, leading companies to invest in new logistics technologies and infrastructure. Companies like Alibaba and JD.com have developed sophisticated logistics networks that include automation, smart warehouses, and extensive partnerships with delivery firms.

Questions:

1. How has the growth of e-commerce transformed the logistics and supply chain management landscape?
2. What are the logistical challenges of meeting the demands of e-commerce customers?
3. Analyze how companies like Alibaba and JD.com are leveraging technology to optimize their logistics operations for e-commerce.

Caselet 7: Green Logistics at IKEA

IKEA has committed to sustainability in its supply chain by adopting green logistics practices. The company has invested in renewable energy, optimized its transportation routes to reduce emissions, and designed its packaging to minimize waste and maximize space efficiency. IKEA is also working with suppliers to ensure that materials are sourced sustainably.

Questions:

1. What are the key components of IKEA's green logistics strategy?
2. How does IKEA balance its sustainability goals with the need for efficient logistics operations?
3. Discuss the potential trade-offs involved in implementing green logistics practices. How can IKEA ensure that its sustainability initiatives do not negatively impact its supply chain efficiency?

Sales and Distribution Management
MS 508

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