

Chapter 4

Management of Sales Territories and Quotas

Learning Objectives

- To understand the concept of and reasons for sales territories
- To learn designing sales territories and assigning salespeople
- To know territory coverage, including routing, scheduling, and time management
- To understand objectives and types of sales quotas
- To learn the methods of setting sales quotas
- To get insight into setting and administration of sales quotas

Sales Territories

- A sales territory consists of existing and potential **customers**, assigned to a salesperson
- Most companies allot salespeople to **geographic territories**, consisting of current & prospective customers

Major Reasons / Benefits of Sales Territories

- Increase market / customer coverage
- Control selling expenses and time
- Enable better evaluation of salesforce performance
- Improve customer relationships
- Increase salesforce effectiveness
- Improve sales and profit performance

Procedure for Designing Sales Territories

- Select a control unit*
- Find location and potential of present and prospective customers within control units**
- Decide basic territories by using
 - Build-up method,
 - Or
 - Break-down method

*A control unit is a geographical territorial base

**Unnecessary & expensive for consumer products

Procedure in Build-up Method

- Decide customer call frequencies
- Calculate total customer calls in each control unit
- Estimate workload capacity of a salesperson
- Make tentative territories
- Develop final territories

Objective is to equalise the workload of salespeople

Procedure in Breakdown Method

- Estimate company sales potential for total market
- Forecast sales potential for each control unit
- Estimate sales volume expected from each salesperson
- Make tentative territories
- Develop final territories

Objective is to equalise sales potential of territories

Assigning Salespeople to Territories

Sales Manager should consider **two criteria**:

(A) Relative ability of salespeople

- Based on **key evaluation factors**:

(1) Product knowledge, (2) market knowledge, (3) past sales performance, (4) communication, (5) selling skills

(B) Salesperson's Effectiveness in a Territory

- Decided by comparing social, cultural, and physical characteristics of the salesperson with those of the territory
- Objective is to **match salesperson to the territory**

Management of Territorial Coverage

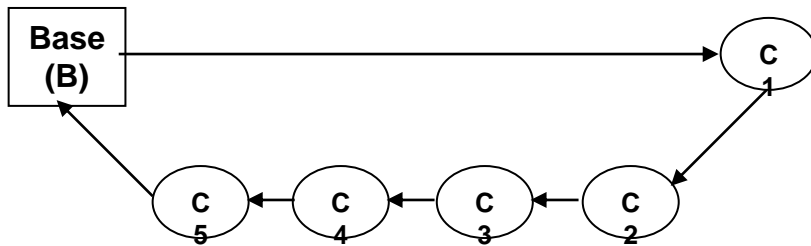
- **It means:** How salesperson should cover the assigned sales territory
- It includes **three tasks** for a sales manager:
 - Planning efficient **routes** for salespeople
 - **Scheduling** salespeople's time
 - Using **time-management tools**

Routing

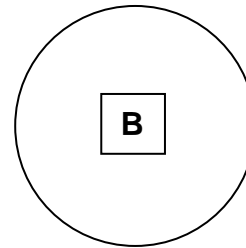
- Routing is a **travel plan** used by a salesperson for making customer calls in a territory
- **Benefits of or Reasons** for routing:
 - Reduction in travel time and cost
 - Improvement in territory coverage
- **Importance** of routing **depends** on the application:
 - Nature of the product – Important for FMCG
 - Type of jobs of salespeople – Important for driver-cum-salesperson job, but creative selling job needs a flexible route plan

Procedure for Setting up a Routing Plan

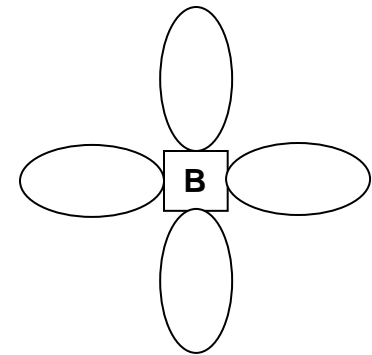
- Identify current and prospective customers on a territory map
- Classify each customer into high, medium, or low sales potential
- Decide call frequency for each class of customers
- Build route plan around locations of high potential customers
- Computerised mathematical models are developed
- Commonly used routing patterns are:



Straight line / Hopscotch



Circular



Clover Leaf

Scheduling

- Scheduling is planning a salesperson's visit time to customers. It deals with **time allocation issue**
- How to **allocate salesperson's time**?
 - Sales manager communicates to salesperson major activities and time allocation for each activity
 - Salesperson records actual time spent on various activities for 2 weeks
 - Sales manager and salesperson discuss and decide how to increase time spent on major activities
- Companies **specify call norms** for current customers, based on sales and profit potentials, and also for prospective customers

Time Management Tools

To help outside salespeople* to manage their time efficiently and productively, the tools available are:

- High-tech equipment like laptop computers and cellular phones
- Inside salespeople to provide clerical support, technical support, and for prospecting, and qualifying, as they remain within the company
- Outside salespeople can then spend more time getting more orders & building relationships with major customers

*Outside salespeople travel outside the organisation

Sales Quotas

- What are Sales Quotas?
 - Sales quotas are **sales goals or targets** set by a company for its marketing / sales units for a time period
 - **Marketing / sales units** are regions, branches, territories, salespeople, and intermediaries
 - Generally, company **sales budget** is broken down to sales quotas for various marketing units
- Objectives of Sales Quotas
 - To use quotas as **performance standards** or performance goals
 - To **control performance**
 - To **motivate people** by linking quotas to compensation plans
 - To identify **strengths and weaknesses** of the company

Types of Quotas

- Organisations set **many types** of sales quotas: (1) sales volume, (2) financial, (3) activity, (4) combination
- **Sales volume quotas**
 - For effective control, sales volume quota should be set for the smallest marketing units, such as salesperson, districts / branches, product items / brands
 - Sales volume quotas can be stated in (a) rupees / dollars, (b) units, or (c) points
 - **Rupees / dollars sales volume quotas** are appropriate when salespeople are required to sell many products

Sales Volume Quotas (Continued)

- **Unit sales volume quotas** are suitable when
 - Salespeople are selling a few products
 - Prices of the product fluctuate rapidly
 - Price of each product / service is high
- **Point sales volume quotas** are appropriate when the company wants salespeople to sell products that contribute more to profits

Financial Quotas

- Financial quotas control (a) gross margin or net profits, and (b) expenses of marketing units
- **Gross-margin / Net-profit quotas**
 - Calculate gross margin by subtracting 'cost of goods sold' (i.e. cost of manufacturing) from sales volume. Sales managers are not responsible for cost of manufacturing
 - Net profit quotas are **generally accepted** by sales managers as it is calculated by subtracting direct selling expenses from the gross margin
- **Expense quotas**
 - In many companies, expense quotas are stated as a percentage of sales
 - Expense quotas to be administered with **flexibility**, to make salespeople cost conscious, allowing reasonable expenses

Activity Quotas

- These are set when salespeople perform both selling and non-selling activities
- **Objective** is to direct salespeople to carry out **important activities**
- For **effective implementation**, activity quotas are combined with sales volume and financial quotas
- **E.G.** Calling on high potential customers, payment collection from defaulting customers

Combination Quotas

- Used when companies want to control salesforce performance on key selling and non-selling activities
- **Focus** on a few types of quotas, to avoid confusing salespeople. **An example:**

Type of Quota	Quota	Actual	Percent Quota	Weight (Importance)	Percent Quota x Weight
Sales Volume (Rs)	5,00,000	4,50,000	90	3	270
Receivables (days)	45	50	89	2	178
New Customers (Nos)	04	05	125	1	125
			Total	6	573

- Total point score= $573/6=95.5$ for a salesperson
- Typically **use 'points'** as a common measure to resolve the problem of different measures used by various types of quotas

Methods for Setting Sales Quotas

- Several methods are used for establishing sales quotas
- **In practice**, companies **use more than one** of the following methods to increase their confidence in sales quotas
 - Total market estimates
 - Territory potential
 - Past sales experience
 - Executive judgement
 - Salespeople's estimates
 - Compensation plan

We shall briefly discuss each of the above methods

Total Market Estimates Method

- The **Process** followed by established companies is as under:
 - 1) Estimate next year's **total market demand**, or industry sales forecast, using sales forecasting methods
 - 2) Decide the company's **estimated market share** for next year
 - 3) Company's next year **sales forecast** = (1) x (2)
 - 4) Find each **territory's percentage share** out of the total company sales in the **previous year**
 - 5) Territory sales quota = (3) x (4)

Territory Potential Method

- The **procedure** followed by new companies is as under:
 - 1) Estimate next year's **industry sales forecast** or market potential, using sales forecasting methods
 - 2) Estimate **multiple factor index (MFI)** for each territory, based on factors that influence sales of the product. These factors are given weights corresponding to the degree of sales opportunity.
 - 3) **Industry sales forecast** in a territory (or territory market potential) = (1) x (2)
 - 4) Territory sales quota = (3) x estimated **market share** of the company in the territory

Past Sales Experience Method

- The **process** consists of taking past one year's sales (or an average of previous 3 to 5 year's sales), adding an arbitrary percentage (or a percentage by which the market is expected to grow), and thus setting each **territory sales quota**
- The **assumption** that future sales are related to past sales may not be always correct
- This method should **not be the only method** used
- Past sales should be **one of the factors** used for deciding sales quotas

Executive Judgement Method

- Senior executives use their judgement when the product, territories, and the company are new or very little market information is available
- Executives predict company sales budgets and also territory sales quotas
- This method should generally be used along with other methods

Salespeople's Estimate Method

- Some firms ask their salespeople to set their own quotas
- Many salespersons either set very high or too low sales quotas

Salespeople's Estimate Method (Continued)

- For setting proper quotas, many sales managers use 2 or 3 of above methods, discuss with salespersons to get their inputs, and decide sales quotas

Compensation Plan Method

- Some organizations set quotas to fit with their sales compensation plan
- E.G. A company wants to pay a monthly salary of Rs 5000, and a commission of 3% on monthly sales above Rs 1,00,000. The quota of Rs 1,00,000 is set in such a way that salesperson would find it very difficult to cross total compensation of Rs 8000 per month (5000+3000)
- Sales quotas should not be based only on this method, because it would “put the cart before the horse”

Insight into Setting & Administration of Sales Quotas

- Set **realistic quotas**
- Understand problems in setting quotas
- Ensure **salespeople understand quotas**
 - By allowing salespeople to participate in the process
 - By continuous feedback to salespeople on their performance compared to quotas
- Have **flexibility in administering quotas**
 - Change quotas in cases of major changes in market demand or company strategies
- Use monthly or quarterly **quotas for incentives** and annual quotas **for performance evaluation**
- **Select a few quotas** that have relationships with marketing environment and sales situations

Key Learnings

- A **sales territory** consists of existing and prospective customers, assigned to a salesperson
- While **assigning salespeople to territories**, sales manager should consider relative ability of salespeople and salesperson's effectiveness in the territory
- **Management of territorial coverage** includes routing, scheduling, and time-management tools.
- **Routing** is a travel plan used by a salesperson for making customer calls in a territory
- **Scheduling** is planning a salesperson's visit time to customers, based on sales and profit potentials of customers

Key Learnings (Continued)

- **Time management tools** available to outside salespeople are high-tech equipment and inside salespeople
- **Sales quotas** are sales goals or targets set by a company for its marketing units like regions, territories, salespeople
- Firms set many **types of quotas** like sales volume, financial, activity, and combination of above
- Companies use more than one of the several **methods used for setting sales quotas**. These are: total market estimates, territory potential, past sales experience, executive judgement, salespeople's estimates, and compensation plan
- Companies should **select a few quotas**, which should be **realistic** and should be administered with **flexibility**