UNIT 7 SALES TERRITORIES, QUOTAS AND MANAGING ACCOUNTS
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7.0 INTRODUCTION

The concept of sales territories, quotas and managing accounts are significant and demand attention. This unit attempts to make the reader aware of the various types of quotas that are set by organizations based on their need. It attempts to examine the role of territory management in quota setting, planning, implementing and controlling the tools of sales people. It identifies the main approaches used by organizations to build territories and the various accounts held by salespeople in various territories. It finally examines the
significance of customer relationships in the context of sales and how this plays a role in sales forecasting.

### 7.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Identify the importance of quotas and their role in an organization and in a salesperson’s job
- Know the various types of quotas that organizations set according to their needs
- Understand the role of territory management in quota setting, planning, implementing and controlling the tools of salespersons’ activities
- Identify the main approaches used by organizations to build territories.
- Understand the various accounts handled by salespersons in different territories
- Identify key accounts by salespersons and formulation of a sales programme
- Identify the importance of developing a relationship with the customers
- Understand how to forecast sales

### 7.2 POLICIES FOR ACCOUNT MANAGEMENT

Simply budgeting the money necessary to fund a large sales force is no guarantee that it will effectively perform its role. Selling success depends on how the members of the sales force do their jobs— the kinds of selling activities in which they engage and the manner in which those activities are carried out. Salespeople should learn the basics of salesmanship—gained through training, experience, or both—before they can make an effective sales call.

However, such knowledge alone is not sufficient for outstanding performance. The salesperson must have guidelines to help decide such things as which specific activities are the key to selling success…what selling strategy to use with various customers…and how to divide his or her time between servicing existing accounts and prospecting for new ones’. Therefore, as a first step to designing a strategic sales programme, the sales manager should develop clearly defined account management policies to guide the efforts of the sales representatives.

Account management policies specify which individuals within each type of customer organization the salesperson should attempt to contact, what kinds of selling and service activities s/he should be engaged in, and how those activities should be conducted.

Organizations have different criteria with respect to account management policies:

1. whether sales people should work through customers’ purchasing departments or attempt to call directly on higher-level decision makers,
2. the amount of effort and detail to be included in preparing proposals for different customers.

### 7.3 THE ACCOUNT MANAGEMENT PLANNING PROCESS

The major steps in formulating sales programmes and account management policies are as follows (diagrammatically represented in Figure 7.1):
The process begins with a careful consideration of the objectives and target markets specified in the marketing plan and analysis of the sales potential represented by various customers and potential customers within the targeted segments.

Next, the sales manager must plan a basic sales programme—determining the number of salespeople needed, how they are to be organized, and the design of sales territories—as a first step toward directing appropriate amounts of effort toward target customers.

In some firms, sales planning stops here. Once sales people are assigned to territories, it is up to them to decide how frequently to call on customers. While this gives the salesperson maximum flexibility to adjust efforts to situations in a specific territory and minimises the time and expense involved in formal planning, individual sales people do not always match their selling efforts to the sales or profit potential of the accounts in their territory.

Some sales people are ‘cherry pickers’ who spend an inordinate amount of time with current customers where there is a high probability of getting an order, rather than working to develop new customers—even though they may offer greater long-run potential. Other sales people are simply reluctant to call on certain companies or types of accounts because of negative past experiences, personality conflicts, or a dislike of the procedures involved. The point is that sales people often concentrate on those accounts where there is a high probability of attaining some sales volume with reasonable effort, without regard to long-run potential or profitability.

While many sales people pursue ‘easy’ sales from established customers, they do not always spend enough time and effort strengthening their relationship with or increasing their share of the purchase made by such customers. But the maturing of many industries, and the increased concentration of those industries due to mergers and acquisitions, is prompting many firms to focus more of their marketing and sales efforts on satisfying, retaining, and winning increased sales from establishing accounts. Recent research indicates that such efforts can be crucial for improving a firm’s sales productivity.

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**Figure 7.1 The Sales Programme and Account Management Planning Process**
To overcome problems like those just discussed, some firms classify the accounts in each territory — or the various products handled by their sales force — into several categories according to their relative sales potential, profitability, or importance in accomplishing the objectives specified in the marketing plan. Policies can then be formulated concerning the amount of effort each salesperson should devote to each class of customers or products. For example, sales people might be instructed to call on all high-potential type A accounts at least once a month, with less important B accounts are visited only once every two months.

Such policies are often further formulated through developing separate volume or activity quotas for each category of customers or products and region.

Sales to established customers are usually less costly to obtain, and therefore more profitable, than sales to new accounts. Respondents in a recent survey reported that it took an average of seven sales calls to make a sale to a new customer compared to only three calls per sale to established accounts.

As many industries mature and as more global competitors enter regional markets, competition for available sales dollars is intensifying. The most successful firms in many industries are those that can take customers away from the competition while keeping their own. Firms that do any excellent job of servicing and can capture an increasing share of those customers’ purchases, usually enjoy greater growth and profitability than firms that take their customers for granted.

One account management policy which is becoming increasingly critical to effective sales management is the firm’s posture with respect to winning and keeping major accounts — those very large customers that represent a disproportionate share of the firm’s total sales volume. Environmental changes are forcing both industrial goods’ producers and consumer goods’ firms in many industries to place greater emphasis on such accounts.

The major account is becoming more important to many firms for several reasons. For one thing, industrial concentration, globalization, and growth have produced some extremely large organizations with equally large purchasing requirements. As the well-known ‘80-20’ rule implies, it is common for as much as 80 per cent of a firm’s sales volume to come from only 20 per cent and sometimes less of its customers.

### 7.3.1 Maintaining Relationship with Major Accounts

In response to the growing importance of major accounts, some firms are adopting a major account management selling philosophy. This philosophy stresses the dual goals of making sales and developing long-term relationships with large customers. Selling is part of major account management, but this approach also stresses that sales people can perform other functions for the customer that make them a valuable adjunct to the customer’s organization. The sales person can provide expert advice and counsel to the customer, including advice on the engineering, design, and installation of complete product systems.

### 7.3.2 Systems Selling

Purchasing total systems originated with the government’s practices in buying major weapons and communications systems, instead of making all of the individual decisions involved in purchasing and putting together the various components of such systems, the government solicits bids from prime contractors, who are responsible for assembling the entire package or system - either by making the components or buying them from
subcontractors... Consequently, sellers are engaging in systems selling more frequently as one way to provide better service and satisfaction to major customers.

Figure 7.2 Sources of Increased Profit from Loyal Customers

Systems selling involves two components: (i) the design of interrelated groups of products (which is likely to involve negotiations with other subcontractors or original equipment manufacturers), and (ii) the implementation of a system of production, inventory control, distribution, and other services to meet a major customer’s needs for a smooth-running operation.

7.3.3 Electronic Ordering and Customer Alliances

To further strengthen relationships with major customers after an initial sale has been made, firms form logistical alliances with these customers involving the development of joint information and reorder systems. For instance, Procter & Gamble has formed alliances with major supermarket chains to develop a restocking system called Continuous Product Replenishment. Sales information from the departmental store is sent directly to P&G’s computers, which figure out automatically when to replenish each product and schedule deliveries direct to each store. This paperless exchange minimises mistakes.

7.3.4 Improving Post-sale Customer Service and Loyalty

Maintaining the loyalty of major current customers can be crucial for improving a business’s profitability as its markets mature. Loyal customers become more profitable over time. The firm not only avoids the high costs associated with acquiring a new customer, it typically benefits because loyal customers: (a) tend to concentrate their purchases, thus leading to larger volumes and lower selling and distribution costs, (b) provide positive word-of-mouth and customer referrals, and (c) may be willing to pay premium prices for the value they receive.

Regular measurement of customer satisfaction is important, because a dissatisfied customer is unlikely to remain loyal to a company over time. Unfortunately, however, the corollary is not always true: customers who describe themselves as satisfied are not necessarily loyal.

Indeed, one author estimates that 60 to 80 per cent of customer defectors in most businesses said they were ‘satisfied’ or ‘very satisfied’ in the last customer survey before their defection. Satisfaction measures need to be supplemented with examinations...
NOTES

of customer behaviour, such as measures of the annual retention rate, frequency of
purchases, and the percentage of a customer’s total purchases captured by the firm.

Thus, major account management policies often emphasize activities to be
performed by the salesperson after a sale is made. The can also include more extensive
service where the salesperson acts as the customer’s representative to the selling
company and attempts to ensure that the company is adequately meeting the needs of
the buyer.

7.3.5 Major Account Teams

Some national accounts are so large and important that a firm may assign a team of
representatives (consisting of people from various functional departments of the company)
to a single customer. The sales team may include representatives from different levels in
the company’s management hierarchy, too. Each deals with purchase influencers and
decision makers at corresponding levels in the customer’s organization. In other words,
implementing a major account management programme can have important implications
for the way a firm organizes its sales force.

7.3.6 Quotas

A sales quota is a quantitative goal assigned to a sales unit relating to a particular period
of time. Sales quotas plan, direct, control and evaluate the activities of a company and
their effectiveness depends upon the kind. Quantity and accuracy of marketing
information used in setting them depends upon the management’s skill in administering
the quota system.

Sales quotas provide a source of motivation, a basis for incentive, compensation
and increasing standards of performance of salespersons. The sales quotas are set by
the sales manager for individual salesmen or a sales district. The executives who set
sales quotas must have experience and should be familiar with territories.

Purpose of sales quotas

- Controlling salesperson’ activities
- Quotas provide opportunities
- To direct and control the selling activities of salespersons
- To control the calls per day
- To gain new accounts
- To plan demonstrations
- To realize money from account holders
- To take corrective actions if salespersons fail to achieve their targets
- To evaluate the performance of salespersons

Measurement of performance against quotas also helps in identifying the strengths
and weaknesses of the salesperson and their performance in qualitative and quantitative
activities. Performance can be judged for various products in various territories.

Types of sales quotas

There are basically four types of sales quotas which can be used separately, or in
combination, depending upon their need.
The following are most commonly used and are based on sales volumes. Sales volume can be measured by:

- The sales made by an individual
- The sales made in a geographical area
- The sales made in a product line
- The sales made in a distribution outlet

Sales volume quotas are also used to balance the sales of slow- and fast-moving products. They may be set in terms of unit sales or value sales and either product-wise or overall for all product categories.

**Methods of setting sales volume quotas**

Sales volume quotas can be set on the following bases:

**Past Sales:** Sales quotas are set based solely on past sales experience. If the sales quotas are to be set for this year then we find out the sales of last year and taking the expected percentage increases in market share, we add this percentage to last year’s sales.

\[
e.g., \text{Last year’s sales} – 100\% \\
\text{Percentage increase in market share expected} – 10\% \\
\text{The sales for this year’s sales quota will be} – 110\%
\]

This method assumes that the preceding year was the typical year. We can also take the average of the past three years and add the rate of growth.

**Total Market estimates:** In this method of setting sales quotas, total market estimates are made by the company for that year and sales quotas are derived from this. Two approaches are generally used.

1. Market size estimates can be had from the data available and the judgment of the executive at the head office.
2. Sales quotas can also be made for the projections made by field staff at each territory office.
3. Territorial sales potential: Many managers derive sales volume quotas from sales potential. Sales potential represents the maximum sales opportunities open to the selling territory.

**7.3.7 Financial Quotas**

These are determined to attain desired net profits by controlling increased sales expenses. The intention in setting financial quotas is to make it clear to sales personnel that their job consists of something more than obtaining sales volume. Financial quotas make personnel more conscious that the company is in business to make profits.

**7.3.8 Net Profit Quotas**

This type of quota is used in multi-product companies where different products contribute to varying levels of profits. Salespersons optimally balance their time between high-profit and low-profit-yielding products.
Table 7.1 shows how net profit can be affected by sales of various products.

### Table 7.1 Effect of Sales on Net Profit

<table>
<thead>
<tr>
<th>Product</th>
<th>Sales Price per unit (Rs)</th>
<th>Profit Margin per unit%</th>
<th>Profit in Rs A in units</th>
<th>Profit by A (Rs lakh)</th>
<th>Sales by B in units</th>
<th>Profit by B (Rs lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>300</td>
<td>60%</td>
<td>180</td>
<td>20,000</td>
<td>36</td>
<td>40,000</td>
</tr>
<tr>
<td>Y</td>
<td>200</td>
<td>40%</td>
<td>80</td>
<td>30,000</td>
<td>24</td>
<td>30,000</td>
</tr>
<tr>
<td>Z</td>
<td>100</td>
<td>20%</td>
<td>20</td>
<td>50,000</td>
<td>10</td>
<td>20,000</td>
</tr>
</tbody>
</table>

Table 7.1 shows that although the unit sales made by salesman A are more, yet the profit given by B is more as A concentrated more on low-profit-yielding products and B concentrated more on high-profit products.

This proves that more time should not be spent on less profitable products. One should ensure that salespersons should spend their maximum time on more profitable customers. The objective can be achieved by setting a quota or net profit for its sales force, thus encouraging them to sell more of high-margin products and loss of low-margin products.

### 7.3.9 Expense Quotas

This is the amount of expense that can be incurred by a salesman in carrying out his duties in a particular region over a period of time. To keep the selling cost within reasonable limits, quotas are linked with different levels of sales attained by the sales force and to ensure its conformity, they link compensation incentives to keep expenses within prescribed limits.

Very strict adherence to the expense quota leads to de-motivation of the sales force. It is used as a supplementary tool along with other types of quotas.

### 7.3.10 Activity Quotas

These refer to the number of selling activities that a salesman is expected to perform in his area over a period of time. Some to these activities are:

1. The number of prospects called upon or contracted
2. The number of new accounts opened
3. The number of dealers called upon
4. The number of calls made for realization of company’s money due on dealers
5. The number of service calls made
6. The number of demonstrations made of the new product

### 7.3.11 Combination Quotas

Quotas can be set in combination of the two or three types of quotas discussed above, i.e., rupee sales volume quota, net profit quota or unit sales volume quota and activity quota. Combination quotas control performance of both selling and non-selling activities. This method is common in a large number of consumer and industrial product companies.
Table 7.2 illustrates how performances or points score, are determined under a system incorporating both sales volume and activity goals. In this system, each of four different aspects of the sales job is weighted according to management’s evaluation of its relative importance.

**Table 7.2 Determination of Performances or Point Scores**

<table>
<thead>
<tr>
<th>Sales-person: A</th>
<th>(1) Quota</th>
<th>(2) Actual Quota</th>
<th>(3) Per cent</th>
<th>(4) Weight</th>
<th>(5) Quota x Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales volume</td>
<td>Rs. 1,10,000</td>
<td>Rs. 90,000</td>
<td>90</td>
<td>4</td>
<td>360</td>
</tr>
<tr>
<td>New accounts obtained</td>
<td>50</td>
<td>40</td>
<td>80</td>
<td>3</td>
<td>240</td>
</tr>
<tr>
<td>Calls on prospects</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>2</td>
<td>200</td>
</tr>
<tr>
<td>Displays erected</td>
<td>300</td>
<td>200</td>
<td>80</td>
<td>1</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>880/10 = 80.0 (A's point score) 10</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sales-person: B</th>
<th>(1) Quota</th>
<th>(2) Actual Quota</th>
<th>(3) Per cent</th>
<th>(4) Weight</th>
<th>(5) Quota x Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales volume</td>
<td>Rs. 1,10,000</td>
<td>Rs. 82,500</td>
<td>75</td>
<td>4</td>
<td>300</td>
</tr>
<tr>
<td>New accounts obtained</td>
<td>60</td>
<td>48</td>
<td>80</td>
<td>3</td>
<td>240</td>
</tr>
<tr>
<td>Calls on prospects</td>
<td>120</td>
<td>120</td>
<td>105</td>
<td>2</td>
<td>210</td>
</tr>
<tr>
<td>Displays erected</td>
<td>400</td>
<td>400</td>
<td>100</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>880/10 = 80.0 (A's point score) 10</td>
</tr>
</tbody>
</table>

Column 1 shows the four quotas making up the combination and column 2 records actual performance data. Column 3, indicating the percentage of quota attained, is multiplied by the weighting factor in column 4 to yield the weighted performance in column 5. Finally, the total of column 5 is divided by the total of column 4 determine each salesperson’s overall performance rating.

Thus, A’s rating is 88.0 percentage points (that is 88.0 per cent of the combination quota) and B’s is 85.0. Combination quotas may also be designed without attaching different weights to the various, but in most cases, different weights are justified because all the components are rarely of equal importance. In the example, had different weights not been used, management would have appraised B’s performance as better than A’s. The reversal emphasizes the importance of selecting weights with care.

### 7.3.12 Usage of the Quota System

Quotas should be accurate, fair and attainable. Obtaining accurate quotas is a function of the quota-setting procedure. Accurate quotas result from skillful blending of planning and operating information with sound judgement. Setting a fair quota involves determining the proper blend of sales potential and previous experience.

If sales personnel participate in quota setting, the task of explaining quotas and how they are determining is simplified. It is not advisable to turn the whole quota-setting job over to the sales personnel but some sales force participation can obtain more accurate and realistic quotas.

### 7.4 TERRITORY MANAGEMENT

The idea behind the creation of sales territories is to give a group of similar customers and prospects for servicing to the salesperson for the purpose of efficient management.
7.4.1 Designing Sales Territories

A company has to establish a geographic control unit. For a multinational company, this could be a country. Then, for a national company, it could be a region or zone consisting of one or several states. There can be further units in terms of cities or districts.

The next step is to determine the sales potentials of each control unit. The units are then combined into tentative sales territories.

There are two basic approaches to dividing territories among salespersons:

1. Market Build-up Approach

7.4.2 Market Build-up Approach

Consider a company selling computers. One would then estimate the present users and potential users of the product. We shall also estimate their consumption capacity. Aggregating, we get the total market potential. We shall then decide how much share of this total market our company desires to have. That gives us sales potential.

Sales potential of the whole market is then broken down territory wise. It is then given the necessary marketing back-up.

To understand this, the following example illustrates the market build-up approach. The total market for computers is 5,000 units, out of which Maharashtra accounts for 1,000 units, that is 20 per cent. This organization finds it desirable to dedicate its 20 per cent of its selling efforts to Maharashtra. Area-wise, total sales calls are then calculated. Each representative completes a certain number of calls, and the total calls required leads to the number of representatives required in that area.

7.4.3 W.J. Talley’s Workload Approach

Territories are created in terms of the workload of salespersons. Customers are grouped into different categories.

1. Call frequency for each territory is calculated.
2. Present and potential customers are then located geographically and arranged category wise.
3. Number of customers in each category is multiplied by the desired call frequency to get a total number of calls.

A geographical control unit is then established. It gives adequate workload to each sales-person

Shape of Territory

Territorial shape affects both its coverage and the selling expenses. It facilitates time management and stimulates sales force morale. There are three widely prevalent shapes - the wedge, the circle and the clover leaf.

Wedge-shaped territories are suitable for urban as well as non-urban areas. They start from a thickly-populated urban centre. Many sizes of the wedges are possible. Two neighbouring wedges can help equalize the travel plan by balancing urban and non-urban types of calls.
Scattered customers call for a circle-shaped territory. The salesman remains at the centre of the circle or near to it. It makes possible optimization in frequency of calls. He is far more in the vicinity of customers than a salesman in a wedge-shaped territory.

Randomly located accounts call for clover-leaf type of arrangement. Each clover leaf represents a week’s work. A salesman is home every weekend. Such arrangement is common in industrial marketing. It is also suitable for extensive marketing.

![Shapes of Territory](image)

**Figure 7.3** Shapes of Territory

### 7.4.4 Territorial Adjustments

Different territories have different problems of overage and so require different selling efforts and expenses. We cannot assume that all territories are uniform. Some territories are difficult to cover, almost bordering on hardship area. Some metros have greater sales potential than the entire region. In territory optimization, we tend to seek equalization of additional sales per rupee of sales expenses amongst all territories. Therefore, we consider both the difficulties and the sales potential. Variations in coverage difficulty lead to variations in workloads. It is necessary to estimate the largest possible workload that does not cross the limit of the desirable work-land. This is a constraint on territory’s geographic limit. Workloads amongst sales people differ, keeping in mind their individual abilities.

A sales territory represents a group of customers, markets or geographical areas.

Territories can be formed on the basis of geographical locations, industry, product use, method of buying and channel of distribution. By dividing into territories, organizations can achieve better coverage of potential markets because it permits better planning, proper coverage of potential markets, efficient call patterns and better customer service. Some services like insurance and mutual funds are sold on personal contacts rather than by developing territories.

Territory management is the planning, implementation and control of a salesperson’s activities with the goal of realizing the sales and profit potential of their assigned territory.

### 7.4.5 Developing Territories

Designing of a sales organization is incomplete until territories have been formally defined. Territories can be formed according to:

1. Geographical location
2. Industry
3. Product use
4. Method of buying
5. Channels of distribution
6. Sales of potential
7. Workload in territories
8. Arbitrarily
9. Rational basis

By dividing into territories, better coverage can be achieved because it facilitates:
(a) Better planning
(b) Proper coverage of potential markets
(c) Efficient call patterns
(d) Better customer service
(e) Choosing appropriate salesmen for specific accounts.

Factors that affect the size of the territory are:
1. The number of customers and prospects in an area
2. Call frequency on existing customers
3. The number of calls that the salesperson makes in a day

A company’s sales territory represents basic accountability units at the lowest level of aggregation. Several territories are combined into a district, several districts are combined into a region, several regions into zones and several zones into a national market.

Sales people are not only responsible for individual accounts but for a group of accounts (Territory Management). This is the first step in moving from selling to managing. It requires planning and control of the sales effort.

Procedure for developing territories:

While developing territories, a procedure has to be followed and objectives are considered such as workload and opportunity equalization.

Objectives and criteria for territory formation

Proper territory formation is important because:
(a) It affects the sales forces’ morale and performance. Results may be measured by sales volume, market share, or profits. The job of a sales manager is to form optimum number of territories and their configuration. In case of insufficient territories, sales will suffer for lack of coverage.
(b) Another objective is the equalization of territory potential. This is to provide equal opportunities for the salesperson since territories differ in many aspects including the potential and they become big or small accordingly. Travelling requirement and coverage is another problem.

7.4.6 Routing the Sales Force

Routing is a formal pattern of travel that has to be followed by salesmen, as they go through their respective territories. This is reflected on a map or list that shows the order in which each segment of the territory is to be covered. Often firms ask their salesmen to prepare their own route of schedule as a part of their job.

Routing is the sequence of locations a sales person will visit. The purpose of routing is more adequate market coverage, better coordination with the regional office and its requirements. It is also helpful in more vigorous market cultivation.

This is a hub-and-spoke rather than a circular pattern. In this, several spokes radiate from the hub (residence of the salesperson) Each calling pattern starts with the
other outer end of the spoke rather than a circular travelling route and the salesperson works backward in the hub in a zigzag manner.

**Redesigning and relocation of territories**

In different situations, redesigning and relocation may have implications for profit contribution.

**Situation-I**

Where the sales potential of territories is equal but the salesmen differ in their abilities.

<table>
<thead>
<tr>
<th>Table 7.3 Situation I</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Territory</strong></td>
</tr>
<tr>
<td>------------------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 7.4 Situation II</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Territory</strong></td>
</tr>
<tr>
<td>------------------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Profit is increased in Situation II where we have made an assumption that the ability index of the salesperson remains the same irrespective of the territory, which may not be true; salespersons have different effectiveness in different territories. It this is also taken into consideration then the relocation task will become more complex.

Market changes are taking place very frequently, so the territories once formed do not hold good forever. The dynamics of the marketplace necessitates the changes in territories as well.

This approach estimates the potential product/service demand by looking at how the market is built up, i.e., who the present or potential users are, how much they consume and at what frequency. This is not as easy as appears.

This method finds its use in industrial goods companies where available publications such as annual surveys of industries, trade directories, State, district and region-wise lists of manufacturing establishment, etc., are very handy.

Here we design territories that are equal in workload. This method was given by W.J. Talley. The steps involved are:

1. Customers are grouped into class sizes A, B and C according to the sales volume that the company has with them.
**Table 7.5 Reasons for and Benefit of Sales Territories**

<table>
<thead>
<tr>
<th>Reasons</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Related</strong></td>
<td></td>
</tr>
<tr>
<td>Provides intensive market coverage</td>
<td>Produces higher sales</td>
</tr>
<tr>
<td>Provides excellent customer service</td>
<td>Provides greater satisfaction</td>
</tr>
<tr>
<td><strong>SalesPerson related</strong></td>
<td></td>
</tr>
<tr>
<td>More enthusiasm</td>
<td>Leads to less turnover</td>
</tr>
<tr>
<td>Facilitates performance evaluation</td>
<td>Offers rewards related to efforts</td>
</tr>
<tr>
<td><strong>Managerial</strong></td>
<td></td>
</tr>
<tr>
<td>Enhances control</td>
<td>Reduces expenses</td>
</tr>
<tr>
<td>Coordinates promotion</td>
<td>Gives more ‘bang’ for the ‘buck’</td>
</tr>
</tbody>
</table>

Territories act as morale builders, motivate sales people to give their best and make it easy to evaluate performance as salespersons can shape their own destinies. Sales supervision can also control expenses in territories in a better manner.

### 7.5 SALES FORECASTING

Sales potentials, as defined earlier, are quantitative estimates of the *maximum* possible sales opportunities present in particular market segments open to a specified company selling a good or service during a stated future period. They are derived from market potentials after analyses of historical market share relationships and adjustments for changes in companies’ and competitors’ selling strategies and practices.

A firm’s sales potential and its sales forecast are not usually identical—in most instances, the sales potential is larger than the sales forecast. There are several reasons for this: some companies do not have sufficient production capacity to capitalize on the full sales potential; other firms have not yet developed distributive networks capable of reaching every potential customer; others do not attempt to realize their total sales potentials because of limited financial resources; and still others, being more profit oriented than sales oriented, seek to maximize profitable sales and not possible sales.

A sales forecasting method is a procedure for estimating how much of a given product (or product line) can be sold if a given marketing programme is implemented. No sales forecasting method is foolproof—each is subject to some error.

Well-managed companies do not rely upon a single sales forecasting method but use several. If different methods produce roughly the same sales forecasts, then more confidence is placed in the results. But if different methods produce greatly different sales forecasts, then the sales situation merits further study.

The various sales forecasting methods used by organizations are:

#### 7.5.1 Jury of Executive Opinion

The executives are well informed about the industry outlook and the company’s market position, capabilities, and marketing programme. All should support their estimates with factual material and explain their rationales. The opinion of the executives is considered, taking other factors into considerations.
7.5.2 The Delphi Technique

One of the techniques for predicting the future is called the Delphi technique. This is a version of the jury of executive opinion method in which those giving opinions are selected for their ‘expertise’. The panel of experts responds to a sequence of questionnaires in which the responses to one questionnaire are used to produce the next questionnaire.

7.5.3 Poll of Sales Force Opinion

In the poll of sales force opinion method, often tagged the ‘grass-roots approach’, individual sales personnel forecast sales for their territories; then individual forecasts are combined and modified, as management thinks necessary, to form the company sales forecast. This approach appeals to practical sales managers because forecasting responsibility is assigned to those who produce the results. This method utilizes the specialized knowledge of those in closest touch with market conditions. Because the sales people help to develop the forecast, they should have greater confidence in quotas based upon it. Another attractive feature is that forecasts developed by this method are easy to break down according to products, territories, customers, middlemen, and sales force.

7.5.4 Projection of Past Sales

The projection of past sales method of sales forecasting takes a variety of forms. The simplest is to set the sales forecast for the coming year at the same figure as the current year’s actual sales, or the forecast may be made by adding a set percentage to last year’s sales, or to a moving average of the sales figures for several past years.

7.5.5 Time-series Analysis

Not greatly different in principle from the simple projection of past sales is time-series analysis, a statistical procedure for studying historical sales data. This procedure involves isolating and measuring four chief types of sales variations: long-term trends, cyclical changes, seasonal variations, and irregular fluctuations.

7.5.6 Evaluation of Past Sales Projection Methods

The key limitation of all past sales projection methods lies in the assumption that past sales history is the sole factor influencing future sales. No allowance is made for significant changes made by the company in its marketing programme or by its competitors in theirs. Nor is allowance made for sharp and rapid upswings or downturns in business activity, nor is it usual to correct for poor sales performance extending over previous periods.

7.5.7 Regression Analysis

Regression analysis is a statistical process and, as used in sales forecasting, determines and measures the association between company sales and other variables. In regression analysis one is an independent variable while another is a dependent variable. Usually sales is taken as a dependent variable.

Check Your Progress

4. What are the approaches to dividing territories among sales persons?
5. List the different categories into which customers are grouped.
7.5.8 Econometric Model Building and Simulation

Econometric model building and simulation is attractive as a sales forecasting method for companies’ marketing durable goods. This approach uses an equation or system of equations to represent a set of relationships among sales and different demand-determining independent variables.

7.5.9 Forecasting Systems

Before submitting forecasts to higher management, sales executives evaluate them carefully, regardless of the extent of their personal involvement in the preparation. Every forecast contains elements of uncertainty. All are based on assumptions. So a first step in evaluating a sales forecast is to examine the assumptions (including any hidden ones) on which it is based.

The sales forecast estimate does not automatically become the company’s sales volume objective. Adjustments are made for changes in marketing plans or in competition. The sales volume objective must be attainable at costs low enough to permit reaching the net profit objective, and it must be in line with the company’s marketing capabilities.

7.6 SUMMARY

Setting up sales territories facilitates the planning and control of sales operations. Well-designed territories help to improve market coverage and customer service, reduce selling expense ratio, secure coordination of personal selling and advertising efforts and improve the evaluation of personnel performance.

Good territorial design is based on thorough knowledge of sales potentials and difference in coverage. The steps in setting up or revising sales territories are: (i) selecting a basic geographical control unit, (ii) determining the sales potential, (iii) combining control units into tentative territories and (iv) adjusting for converge/coverage difficulty and redistributing tentative territories. In assigning sales personnel to territories, management seeks the best alignment of selling efforts with sale opportunities and systematic plans for routing and scheduling. Sales personnel then help in accomplishing this. Since sales
personnel vary in individual effectiveness with the territories to which they are assigned, management develops ability indexes for each possible assignment pattern.

### 7.7 KEY TERMS

- **Territory**: It refers to a group of customers or markets or geographical area.
- **Territory potential**: It refers to sales volume that can be achieved in a territory with 100 per cent market share.
- **Quota**: It refers to a quantitative goal a salesperson has to achieve.
- **Net Profit quota**: It refers to a quantitative goal set to achieve net profit by controlling expenses.
- **Expense quota**: It refers to quota goals set to keep expenses within limit.
- **Combination quota**: It refers to quantitative goals set as a combination of two or three types of quotas.
- **Account management**: It is the management of accounts of customers by a salesman.
- **Cherry pickers**: They are the salespersons who spend more time with current customers rather than in developing new customers.

### 7.8 ANSWERS TO ‘CHECK YOUR PROGRESS’

1. Account management policies specify which individuals within each type of customer organization the salesperson should attempt to contact, what kinds of selling and service activities s/he should be engaged in, and how those activities should be conducted.

2. Systems selling involves two components: (i) the design of interrelated groups of products (which is likely to involve negotiations with other subcontractors or original equipment manufacturers), and (ii) the implementation of a system of production, inventory control, distribution, and other services to meet a major customer’s needs for a smooth-running operation.

3. A sales quota is a quantitative goal assigned to a sales unit relating to a particular period of time.

4. There are two basic approaches to dividing territories among salespersons:
   - (i) Market Build-up Approach

5. Customers are grouped into different categories:
   - Call frequency for each territory is calculated.
   - Present and potential customers are then located geographically and arranged category wise.
   - Number of customers in each category is multiplied by the desired call frequency to get a total number of calls.

6. A sales forecasting method is a procedure for estimating how much of a given product (or product line) can be sold if a given marketing programme is implemented.
7. Regression analysis is a statistical process and, as used in sales forecasting, determines and measures the association between company sales and other variables.

### 7.9 QUESTIONS AND EXERCISES

**Short-Answer Questions**

1. What are the various types of quotas which organizations set according to their needs?
2. What is the role of territory management in quota setting?
3. What is the key accounts which need to be identified by the salesperson?

**Long-Answer Questions**

1. Identify the importance of quotas and the important role they play in the organization and salespersons’ job.
2. Explain the role of territory management as a planning, implementing and controlling tool of salespersons’ activities.
3. What is the importance of developing territories for better performance? Identify the main approaches used by organizations to build territories.
4. Explain the importance of developing a relationship with customers.