

# Lesson 8

## Sales Budget

---

Sales Budget: Meaning, Nature, Types, Objectives, Factors influencing sales budget, Importance of sales budget, Process of sales budgeting

### Sales Budget

- Meaning and Definitions of Sales Budget
- Nature of Sales Budget
- Objectives of Sales Budget
- Factors Influencing Sales Budget
- Importance of Sales Budget
- Sales Budgeting Process

### OBJECTIVES

After studying this lesson, you would be able to understand-

- Meaning, Nature and Objectives of Sales Budget
- Factors, Importance and Process of Sales Budget

### SALES BUDGET

Originally a budget was considered a financial statement detailing the estimate of revenue and expenditure of the organisation for a given period. Now this it considered an overall plan of the organization.

**Prof. Fischer:** “The budget of any institution is its overall plan for the future.”

This overall plan view of the budget has now changed considerably in business houses. Now the overall budget present simple outlines of each functional area or unit of every firm. Each unit or function in the firm / organisation prepare its own estimates of revenue and expenditure and therefore, now separate budget are prepared for each autonomous and semi-autonomous unit (or function) like & viz – manufacturing budget,

administrative budget, sales budget, purchase budget, division or unit budget and so on.

Sales budget is an important part of the overall budget of the business enterprise. Sales budget gives details of the sale estimates of the business enterprise during a given period. The information given in the sales budget is usually based on test sales, forecast of market trends, salesman's estimates and other business conditions during a given period.

**According to Candiff and Still** – "A sales budget consists of estimates of the probable dollar (in monetary terms) and unit sales and the expenses of obtaining them".

Sales budget is a basic budget which influences the budget of other departments also such as production budget, expenditure budget, cash budget and personnel budget etc. sales budget shows the estimates of sales during given period normally a year. sales budget indicate both quantities to be sold as well as the receipts anticipated from such sales.

From this sales budget, the management can not only know the sales receipts both in quantity as well on in monetary terms, but with the help of other budgets, it can even know its own earnings. Sales performance can be judged by fixing district-wise quota for each salesman. This sales budget therefore acts as a powerful means of controlling the sales force.

### **Nature of sales Budget**

Sales budget generally has two parts – (i) Revenue part (ii) Expense part

Thus it is a statement of projected sales revenue and selling expenses. Sales revenue part is prepared with the help of sales forecast figures. For expense part there are two types of practices:-

#### **(i) Operating Budget (ii) Specific Budget**

**The operating expenditure budget** contains all expenditure including selling expenses where as **the specific expenditure** budget considered only the selling expenses.

Sales budget is closely related to sales plan and the planning process but it is not a sales plan. Budget constitutes the package for future action which is closely linked plans and supplementary documents.

Sales budget may be termed as operating budget. In case it is expense budget the field sales manager would be concerned with cost control and a more efficient sales operations. Actually budget sets the standard for actual performance and actual performance is measured against these standards at the end of given specific period.

### **Main Objectives of sales Budget**

The objects of sales budget are many and this varies from one business enterprise to another business enterprise. However, the main objectives are as follows which are common to all types of business enterprise.

#### **(1) Future Planning**

The first and the foremost objective of sales budget is to do planning so as to collect the resources of the business enterprise on the basis of sales forecast in order to achieve sales targets. Thus it is an instrument of sales planning.

#### **(2) Control on Selling Expenses**

Another major objective of sales budget is to control the selling expenses so that the desired net profit can be achieved and unnecessary expenses may be discouraged.

#### **(3) Control on Sales Operations**

Sales budget is an effective control device in the hands of sales managers. Thus it is third major objectives is to facilitate full control over sales operations. It controls the activities of sales force, sales volumes, selling expenses and net profit etc.

#### **(4) Measurement of Performance**

The fourth and the last major objectives of sales budget is to measure and evaluate the performance of sales personnel, sales units, sales regions, products and marketing channels etc. in the measurement and evaluation process, certain weak points can be identified and necessary remedial measures can be initiated to overcome such weaknesses.

## **Factors Influencing Sales Budget**

There are number of factors which influence the preparing of sales budget. For the convenience, the factors affecting the preparation of sales budget may be studied under the following two heads:

(i) Internal factors    (ii) External factors

### **(i) Internal Factors**

As the name itself indicates internal factors are those factors which relates to the internal situation of the business enterprise and are usually within the control of the sales management they may be summarized as under:

- (1) Past sales trend including total sales done during the last year.
- (2) Sales promotion measures including advertising.
- (3) Efficiency of the sales force.
- (4) Selling and distribution system including channel of distribution.
- (5) Marketing research including sales research.
- (6) Price policy of the business enterprise.
- (7) Production capacity including future expansion plans if any of the business enterprise.
- (8) Types of customers i.e. Manufactures, Middlemen or the direct Consumer.
- (9) Total marketing area i.e. regional, national and even international.
- (10) Plant development programme.

### **(ii) External Factors**

External factors are just opposite the internal factors. As such, external factors are those which relates to the external situation of the business enterprise and are to a great extent uncontrollable. The important external factors are as follow:

- (1) Government (Both Central and the State) policy towards the industry, such industry policy, taxation policy, import and export policy, subsidies and other concessions etc.
- (2) Extent of regional, national and international competitions.
- (3) Standard of living of the masses – way of living, habits, fashion etc.
- (4) General trend of the industrial activities in the country.

- (5) Present population and growth rate.
- (6) Economic condition of the country, developed, developing or undeveloped.
- (7) General fluctuations in the prices, demand and supply of the product or products.
- (8) Role of channels of distributions
- (9) Purchasing power of the general public.

### **Importance of Sales Budget**

A sales budget is a basic subject which influences the budget of all other departments. It is the basic on which the sales objectives are established. It guides the sales department in determining the ways and means of widening the sales objectives during a given period of time. It is the effective implementation of sales budget which enables the management to compute the budgetary profits. Sales budget is the barometer that measures probable profits during given period of time. On the basis of sales budget sales force management is controlled. The main advantages of sales budget may be summarized as under:-

#### **(1) Instrument of Planning**

Sales budget is the main instrument of planning particularly in the field of production & distribution. It involves sales forecasting; the sales forecast indicates the prospects of business and the way and means of achieving the objectives shown by the sales budget. It is on the basis of sales forecast, that the production and distribution is planned.

#### **(2) Control on Sales Force**

Sales budget facilitates control over sales force. It lays down the standard of performance against which the performance of each individual salesman can be measured and if any weakness is discovered, necessary remedial/corrective measures can be taken immediately. The sales forces can be remunerated on the basis of performance.

### **(3) Control on Sales Expenses**

Sales budget serves as an effective instrument for controlling sales expenses. Unnecessary selling expenses can be controlled and the spirit of economy can be developed through sales budget. In this way, predetermined profits can be achieved by minimizing selling expenses.

### **(4) Achievement of Targets**

Sales budget facilitates in achieving the desired targets of the business enterprise during a given period of time.

### **(5) Modification in sales Policies**

Sales policies can be modified in accordance to the sales budget. If any deviation occurs. The sales policy can be re-evaluated and necessary revision as well as corrective steps may be taken in time.

### **(6) Miscellaneous Advantages**

1. Sales budget helps in maintaining and also increasing profits of the business enterprise.
2. It is a yardstick/instrument for the measurement of performance of sales unit, sales personnel, sales regions, products, distribution channels etc.
3. Sales budget plays an important role in maintaining and developing the market.
4. Sales budget is the basic budget which influence the budget of others departments also such as production budget, personnel budget, cash budget expenditure budget etc.

### **Sales Budgeting Process**

Sales budget is the most important budget and hence it is prepared mostly by the top management. In case if it is prepared by the sales manager then it is sent to the top management. For necessary approval before finalizing the sales budget, top management also takes into account the budget of other departments. After approval of the sales budget the budgets of other departments are finalized and approved by the

top management. Thus there is close link between the sales budget and other budgets of the business enterprise.

The sales manager prepares the sales budget in close consultation with the sales executives of the sales department. The following steps are involved in the process of sales budget.

### **(1) Preliminary Conference for Analyzing the Situation**

The very first step for the preparation of sales budget is the calling of preliminary conference by the sales manager. Representatives from different sales regions, territories etc. Channels of distribution and major customers should be invited to attend the conference. The conference should discuss the present situation in the light of the past experience along with current sales problems facing the sales management. In this conference both positive & negative points should be discussed in friendly atmosphere.

### **(2) Development of Sales Forecast**

On the basis of discussions held in the preliminary conference, the sales manager should take up the task of sales forecasting for the next budgeted period. There are different methods of sale forecasting. Hence any of the methods may be employed/used for sales forecasting. Sales forecasting is the very core of sales budgeting procedure because it determines not only the sales revenue but also the appropriate level of effort made.

### **(3) Sales Objectives & Sales Targets**

After sales forecasting, the sales manager should take necessary steps as to formulation of sales objectives and sales targets. This should be formulated after consulting all the senior sales executives. Sales objectives & Sales targets should be based on practical approach rather than the theoretical approach.

### **(4) Division and Sub-Division of Sales Targets**

The next step taken by the sales manager in connection with budget processing is to divide and sub-divide the sales targets product-wise. In his connection demand and supply side of each product should be given due weightage.

#### **(5) Fixing Priorities**

Fixing Priorities is an important step in the sales budgeting process. It requires a deep/exhaustive study of the market.

#### **(6) Determination of sales Activity**

Under this step, sales objectives and sales targets are to be translated into various activities which are to be carried by the sales management and sales force so as to achieve the sales objectives and sales targets during stipulated period. Various options available should be duly examined and their impact on sales and profit should be projected.

#### **(7) Resource Requirement**

The next step in sales budgeting process is to spell out the resource necessary to carry out the various activities in implementing the sales plan and there by to achieve the desired sales objectives and sales targets.

#### **(8) Finalization of the Projection**

Afterwards, the sales manager should finalize the projection in the light of the available resource and the sales objectives and targets so fixed. It requires a close coordination between those three i.e. resources, objectives and targets.

#### **(9) Presentation & Review**

As soon as the sales budget is finalized by the sales department, it should be presented before the top management for necessary review and approval. The top management should examine the budget proposals in the light of the available financial resources, personnel resources, production capacity, cash resources and the expected results. If essential, the top management may put forward its suggestions to revise the sales budget.

#### **(10) Revision of Sales Budget**

If asked by top management, the sales manager should revise the sales budget in the light of suggestions made by the top management. The selling expense budget should also be revised accordingly.



#### **(11) Approval of the Sales Budget**

The sales manager should now submit the duly revised sales budget before the top management for final approval. After giving the consideration to each and major item of the sales budget, top management will accord his approval by signing the same and one copy of the same will be returned back to the sales manager for implementation. In this way, the sales budget will now take the final shape.

#### **Self Check Questions**

1. What do you understand by the term “Sales Budget”? What are the objectives of Sales Budget?
2. Discuss the nature and importance of Sales Budget.
3. Explain the Sales Budgeting Process and Factors influencing sales budget