

Lesson 9

Sales Territory & Sales Quota

- a) Sales Territories: Meaning, Advantages, Objectives of establishing sales territory, Methods of establishing sales territory and Procedure for designing of sales territory
b) Sales Quotas: Meaning, Advantages and Disadvantages, Objectives, Types of Sales Quotas

Sales Territory

- Meaning and Definition
- Advantages / Benefits of Sales Territories
- Reasons or Objectives of Establishing Sales Territory or Revising sales Territories
- Methods of Establishing Sales territories
- Procedure for Designing Sales Territories

Sales Quota

- Meaning and Definition
- Advantages and Disadvantages of Setting Sales Quota
- Objectives of Sales Quota
- Types of sales Quotas

OBJECTIVES

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

- Meaning and Definition of Sales Territory and Sales Quota
- Advantages and Disadvantages of setting Sales Territory and Sales Quota
- Methods and Procedure of designing Sales Territories
- Objectives and Types of Sales Quota

SALES TERRITORIES

A sales territory is the economic unit which is used in the planning and controlling of sales efforts. It is the division of the market of an enterprise into small segment which is assigned to an individual sales man for performing sales activities.

Many sales executives' reforms to sales territory as a geographical area which is assigned to an individual sales person for serving the customers and prospects residing in that area.

According to still & Candiff: "Operationally a sales territory is a particular grouping of customers and prospects assigned to an individual sales person".

According to Maynard and Davis: "Sales territory is a basic unit of sales planning and sales control".

In short a sales territory may be defined as "A sales territory is a grouping of customers and prospects assigned to an individual salesman:.

Advantages/Benefits of Sales Territory

(A) Advantages to the Enterprise:

1. Activities of each salesman can be more effectively planned controlled and evaluated.
2. It provides incentive to salesman to increase sales in his territory.
3. Salesman can be held responsible individually for their activities and necessary action can also be taken accordingly.
4. Information about change in the taste and fashion etc. from each sales territory may be gathered promptly.
5. It facilitates comparison of the performance of different salesmen in different territories.
6. Due to establishment of sales territories the work of marketing research becomes easy.
7. The sales are increased on account of the establishment of sales territories.
8. The effect of advertisement and sales promotion can be easily measured.

(B) Advantages to the Customer

1. Complaints of customers can be promptly attended by the salesman of the concerned sales territory.
2. Personal attention can be given to the individual customer.
3. Regular and more efficient service to the customers can be offered within the sales territory.
4. Production can be adjusted according to taste, fashion and suggestion of the customers.

(C) Advantages to the Salesman

1. Honest, sincere and hard working salesman has bright chances of making progress and getting easily promotions etc.
2. Equal workload is assigned to salesmen; hence they are free from the problem of excessive workload.
3. The salesmen remain in close contact with their customers which play's a positive role in increasing sales.
4. Separate sales territories provide an opportunity to the salesmen of showing their ability, competence and efficiency to the sales manager.

Reasons or Objectives of Establishing Sales Territory or Revising sales Territories

The main objectives or reason of establishing or revising a sales territory is to plan and control sales as to maximize sales and profits by improving customer services and reducing selling expenses ratio.

(1) To Improve Market Coverage

One of the main reasons of establishing sales territories is to improve market coverage. In the absence of proper market coverage the enterprise may loss its business.

If sales territories are designed intelligently and assigned to sales personnel carefully, it is possible to have wide and better market coverage. Thus in establishing sales territories the following considerations should be kept in mind.

1. The market is being expanded.
2. The maximum area is represented by the sales force.
3. It should permit the sales force to cover the assigned sales territories conveniently, efficiently and economically.
4. The allocation of sales territories amongst the sales force is done according to the capacity and capability of the individual salesman.

(2) Reducing Selling Expense Ratio

The establishment of sales territories should assist in reducing selling expenses ratios. For example – To visits of sales force should be minimized by proper routing & scheduling.

The concern of the sales management should not be only to reduce total selling expenses but to maintain proper relationship between selling expenses and sales

volume. For instance, in some cases it might be possible even to increase selling expenses so as to get larger sales volume.

(3) To Improve the Customer Services

The object of establishing sales territory is to improve the customer services. The sales territories should be designed in such a way that the salesman is in a position to provide efficient customer services and thereby providing maximum satisfaction to the customers within his assigned sales territories.

It can be done by salesman through regular contact & through establish good relation with customers.

(4) To improve sales Force Interest and Morale:

The object of establishing sales territories is also to improve sales force interest and morale. Good sales territorial design helps in stimulating the interest of the sales force in their respective jobs and increasing their morale.

Hence while designing sales territories the following factors should be kept in mind:-

- (i) The salesmen is in position to achieve the desired target conveniently
- (ii) The workload assigned to a salesman should be reasonable in view of his capacity and capability.
- (iii) The respective salesman should be aware of their responsibilities of achieving what management expects from them within their own territories.

(5) To Coordinate Personal Selling and Advertising Efforts

A coordination between personal selling efforts advertising efforts is necessary for performing the selling task more efficiently, conveniently and economically. It also increase the reputation of the enterprise prior to launching an advertising campaign for a new customer product the salesman may call upon to outline the marketing plans, objectives and provide them display and other promotional material. There after he should organize his personal sales efforts in close coordination with advertising efforts.

(6) To Improve Sales Force Performance Evaluation

The objective of establishing sales territories is also to improve sales force performance evaluation. It is possible to have correct information about sales force through organized sales territories. The problems of territory to territory differ and thereby the efforts of solving these problems to differ accordingly.

In view of this factor evaluation of sales personnel is essential and which is possible through establishing effective and convenient sales territories in accordance with the capacity and capability of individual salesman.

(7) Meeting the Competition

By establishing sales territories the enterprise can face the competition from competitors more effectively when the total market is divided into different territories, a deep study of the market may be carried out on the basis of this deep study of market, management may adjust and revise the selling strategies and marketing plans accordingly to meet the competition in different territories.

(8) To Improve Control on Sales Force

By establishing sales territories the control on sales force can be improved considerably. When the market is divided in different sales territories, the performance of each salesman can be measure and judged both by the salesman himself and the management. On this basis the management is in a position to have better control on sales force.

Methods of Establishing Sales territories

There are different methods of establishing sales territories. For instance, sales territories may be established on the basis of the size of the business unit, nature of the product, the number of consumers to be reached, extent of competition, service rendered towards the customers and their purchasing capacity and the structure of the organization etc.

The main methods of establishing sales territories are as follows:

(1) On The Basis of Country Unit

When the sale of a product is done on international level (such on petrol, tea etc.) then the whole country is treated as one unit and thus only one sales territory is established for the whole country.

For Example: Indian Tea Board had established one sales territory on country basis in foreign countries.

(2) On The Basis of State Unit

Under this method sales territories are established on state basis once sales territory is established for the entire state. The same sales territory is responsible for selling the product of an enterprise in that particular state. Several Indian Industries have established sales territories on state basis.

(3) On the basis of District Unit

Under this method sales territories are established on the basis of district. Under this method one sales territory is established for one district. For instance, Usha Sewing Machine, Asian Paints, Tata Soap etc. have established sales territory on the basis of the district. This method is adopted when there is a wide market for the product and the numbers of customers are quite large.

(4) Other method

Besides the above methods, sales territories can also be established on regional basis, size of production unit basis, government policy basis and on the political basis.

Procedure for Designing Sales Territories

The ideal goal in territorial design is to have all districts equal in both sales potential and the sales representative's workload. When sales potentials are equal it is easier to evaluate and compare sales representative's performances. Equal opportunities also reduce disputes between management and the sales force and generally tend to improve worker's morale.

Changing market conditions put continuing pressure on companies to adjust their territories. Different procedure may be used to design the districts. However a company's territorial structure is influenced by the potential business in the firms market and by the workload required or sales expected of its sales force. One plan for establishing or redesigning territories includes the following six steps:

1. Select a control unit for territorial boundaries.
2. Determine location and potential of customers.
3. Determine basic territories.
4. Assign sales people to territories.
5. Set up territorial coverage plan's for the sales force.
6. Evaluate the effectiveness of the design on a continuing basis.

1. Select a Control Unit for Territorial Boundaries

The first step involved in the procedures for setting up new sales territories or revising the existing sales territories is the selecting a basic geographical control unit. The most commonly used control units are cities, districts, zones or states or trading areas. Sales territories are put together as consolidations of basic geographical control units. The control unit should be a small one the choice of the control units i.e. cities, districts, zones or states or trading areas depends on the statistical data available in government records in this case the enterprise has nothing to spend on collection of information for the sales territory.

2. Determine Location and Potentials of Customers

Management should determine the location and potentials of both present and prospective customers within each selected control unit. Sales records should indicate the location of present customers in each control unit. Prospective customers can be identified with the aid of company's sales people plus outside services such as trade directories, publishers of mailing lists, subscription lists from trade journals, trade associations, telephone directories etc.

Once the customers are identified, management should assess the potential business it expects from each account. Management then can classify these accounts into several categories based on their potential profitability to the seller.

3. Determine Basic Territory

The third general step in designing sales districts is to establish a fundamental territory based on statistical measures. This can be accomplished by using either the build up or the breakdown method.

Under the **build up method** territories are framed by combining small geographical areas based on the number of calls a salesman is expected to make. This method equalizes the workload of sales people.

The **breakdown method**: Involves division of the whole market into approximately equal segments based on sales potential. Thus this method equalizes sales potentials. The Buildup method is particularly suited for manufacturer of consumer products or for companies that want intensive distribution. The breakdown method is more popular among manufacturer of industrial products or organizations that want selective distribution.

4. Assigning Sales People to Territories

Once the sales territories have been established, management can assign individual sales people to each district. Up to this point we have assumed that the sales people have equal selling abilities, and that each person would perform equally well in any territory. Obviously this is not a realistic assumption.

In any given sales force, the representatives may differ in selling effectiveness. They also vary in experience, age, physical condition, initiative and creativity as well as in selling skills. A sales representative may succeed in one territory and fail in another even though the sales potential and workload are the same in both districts.

For Example: In a territory where a large number of the customers are engineers, a salesperson with a technical background may be highly effective. Sales performance also may be influenced by differences in local customs, religion and ethnic background

many companies intentionally design some sales territories. So that they are unequal in size, as measured by the representatives workload or the territorial sales potentials.

5. Set up Territorial Coverage Plan's For the Sales Forces

(Managing Sales Representatives Time)

After designing territories and assigning sales people to their separate district management then should plan how each representative will cover his or her territory. In fact managing territorial coverage is an exercise in managing the sales representative's time. Time management is becoming increasingly important as companies continue looking for ways to control their field selling costs.

The management of territorial coverage involves two main tasks routing and scheduling their time.

(a) Routing the Sales Force

Routing is the managerial activity that establishes a formal pattern for sales to follow as they go through their territories. This pattern usually indicates a map or list that shows the order in which each segment of the territory is covered.

Although routing is referred to as a managerial activity often a firm asks its sales people to prepare their own schedules as part of their job.

Scheduling

Assigning an appropriate number of workers to the job during each day of work.

A sequence of programmes over any period of time such as a single shift, a full day etc

(6) Evaluate the Effectiveness of the Design on a Continuing Basis

Performance Evaluation involves both looking backward and looking ahead. In looking backward, management analyzes its operating results in relation to its objectives and strategic plans.

These findings can then be used in forward planning for the next operating period.

For Example- We can say that upon looking back management finds that too much sales volume is in low margin products. This evaluation result can then influence managements. Future plans for sales force training, supervision, compensation & Sales territories.

Evaluation of sales force performance is a broad term that covers:

- (i) The analysis of sales volume of different territories.
- (ii) Marketing cost analysis and profitability.
- (iii) Various analytical measures used to evaluate an individual sales person's performance.

SALES QUOTAS

In addition to allocating sales territories to obtain adequate control, it is essential for the sales manager to fix adequate sales quotas. For the individual salesman to be achieved during a given period. Sales quota may be defined as "Sales goal assigned to a marketing unit to be used for managing the sales efforts".

According to Paul H. Nystrom

"A sales quota is a part of a company's total estimated sales assigned to a salesman, a territory a branch, a distributor or dealer or to some selling unit, as a goal to be attained in a designated future period of time".

According to Still & Candiff

"Quotas are quantitative objectives to sales personnel and other units of the selling organisation".

Sales quota can be expressed in terms of rupees or in physical units. The Marketing unit for which the sales quota is set may be an individual salesman, a territory, a branch, a district, a region, state, and a dealer. Most often, sales quotas are fixed for each marketing unit for a fixed period.

A sales quota is very useful for the checking of the efficiency of an individual salesman or group of salesman. Setting up of adequate sales quotas makes it easier to evaluate the performance of the salesman concerned against such specific standards. Such comparison provides the management to control the sales force performance.

ADVANTAGES AND DISADVANTAGES OF SETTING

SALES QUOTA

Sales quota is an important tool in the hands of the executives or sales manager so as to have an effective control over the sales personnel and the selling costs.

Advantages

The main advantages of determining sales quotas are as follow:

- (1) It is a useful device for evaluating the performance, effectiveness and productivity of the sales persons.
- (2) It becomes easier to locate weak and under developed market areas in terms of sales quota for such territories.
- (3) It is a control device which may be used for controlling the activities of a salesman.
- (4) A more effective compensation plan may be devised on the basis of sales quota system.
- (5) It may be used for controlling selling costs.
- (6) Sales quotas are the source of motivation to right type of salesman.

Disadvantages

- (1) Most of the sales quotas are based on arbitrary estimates and past experience and thus they prove misleading on several occasions.
- (2) If the sales quotas for salesmen have been fixed without the consideration of salesman's problems the motivation aspect of sales quota would be lost.
- (3) Selling sales quota requires a statistical technique, which is not easy to explain to the sales force or to be understood by them.
- (4) Unattainable or high sales quotas encourage high pressure selling which is harmful, it causes frustration to salesman.
- (5) The interest and the incentives of the salesman is lost if the sales quota is too low.

Objectives of Sales Quota**1. To Provide Quantitative Performance Standard**

Sales quotas are used as a yardstick to measure quantitative performance of each marketing unit. Sales quotas are fixed for each individual marketing unit. The actual performance of each sales unit is compared with the standards (Quotas) so fixed by the

sales manager. On the basis of this comparison it can be ascertained as to which unit is near to standard & which is not.

(2) To Motivate Desired Performance

Fixing sales quotas inspire salesman and other persons engaged in selling activities only when quotas are attainable goals. The salesman should feel that the sales quota is attainable. If so he will positively make efforts so as to achieve his goals.

(3) To Increase Sales & Control Sales Expenses

An enterprise can control the expenses and increase the profitability of sales through use of quotas. Some enterprise reimburses selling expenses in proportion to sales. Some enterprise link selling expenses with the volume of profits.

(4) To Use in connection with Sales Contests

Enterprise organizes sales contests on the basis of sales quotas. Sales contests are treated as good incentives. Prizes are awarded on the basis of fulfillment of sales quotas. The object of organizing sales contests is to achieve specific sales targets through extra special efforts.

(5) Other Objectives

1. To estimate the future requirements of the enterprise
2. To establish territorial objectives
3. To obtain more effective budgetary control
4. To maximize sales in physical units.
5. To ensure a systematic and rational physical distribution of product.

Types of sales Quotas

1. **Sales Volume Quota:** - This can be classified as
 - (i) Sales volume quotas derived mainly from territorial sales potential estimates.
 - (ii) Sales volume quota derived mainly from total market estimate
 - (iii) Sales volume quota based on past sales experience alone.

- (iv) Sales volume quota based on executives or sales manager judgment alone.
- (v) Sales volume quota related to salesman compensation plan
- (vi) Sales volume quota set by sales personnel themselves.

2. Budget Quotas – This can be classified as

- (i) Sales Expense Quotas
- (ii) Gross margin or net profit quotas

3. Activity Quotas

4. Combination and other point system quotas

1. Sales Volume Quotas

This is the oldest, easier and most common type of setting sales quotas system. Under this system the sales manager makes aware to the salesmen about their performance which he wants to be achieved during a given period.

The following basis are used for setting sales volume quotas-

(i) Sales Volume Quotas Derived Mainly from Territorial Sales Estimates

It seems logical that a sales volume quota should be derived from sales potential of a given territory. The sales potential in a territory mean's the maximum sales opportunities available to the same selling unit. Thus the sales potential for a product or product line in a given sales territory is taken into consideration for setting the sales volume quotas.

(ii) Sales Volume Quotas Derived from Total Market Estimates

In most of the cases sales territories are equal except minor differences. While determining Sales quotas on regional basis; information about (i) purchasing power index and (ii) actual sales utilized. The actual sales done during a given period are compared with the sales quota assigned for that particular period and the difference if any is calculated. Afterwards causes of difference and analyzed and on this basis the new year sales quota is assigned or fixed.

(iii) Sales Volume Quotas based on Past sales Experiences alone

In this category one method of setting sales volume quota for each territory is to increase the last year sales quota with an arbitrary percentage or with an arbitrary amount.

Another method may be to make use of the average sales of past several years as the base and then to increase them with an arbitrary percentage or arbitrary amount of sales and thus set sales volume quotas.

(iv) Sales Volume Quotas based on Executives or Sales Manager's Judgment Alone

In this system, executives or sales manager's judgment is used in setting sales volume quotas. This system is justified only when there is little or no information with the executives or sales manager to use in setting sales quotas for e.g. new product, new market, and new territory.

(v) Sales Volume Quotas Based on Compensation Plan

Under this system sales volume quotas are based totally on compensation plan. Other factors like territorial sales potential, total market potentials past sales experiences etc. are not considered at all in fixing the compensation of sales force.

(vi) Sales Volume Quotas set by sales Personnel Themselves

Many enterprises turn the problem of setting sales volume quotas over the sales personnel themselves who are supposed to have better knowledge of their own performance as they are in close touch with the respective sales territories and customers etc. Under this system each salesman is entrusted the work of fixing his own sales quotas. The sales volume quotas set by the individual salesman will be more realistic, fair and attainable.

(2) Budget Quotas

Budget quotas are set for various units in the sales organisation for controlling selling expenses and gross margin or net profit. The intention behind setting budget quotas is to make the sales personnel know that their job is not only to increase the volume of sales but also to increase the gross margin or net profit. Budget quotas can be classified as under:

(i) Sales Expense Quotas

Under this system sales expenses are determined for each sales territory by the sales manager. Such determination is done either by allocating sales expenses in lump sum or in proportionate of sales volume or in proportionate of gross margin or net profit. The idea behind this system is to make the individual salesman more cost conscious and aware of his responsibility to control selling expenses.

(ii) Gross Margin or Net Profit Quotas

Gross margin or net profit quotas are set when product line consists of high and low margin items. Low margin items can be easily sold and hence salesmen may concentrate on low margin items only. On the contrary since it is difficult to sell more profitable items and hence salesman might give inadequate attention on the sale of more profitable items. Hence in order to face this vital problems, gross margin & net profit quota system is adopted. In this case sales volume quotas for different product for each salesman are set, adjusting each quota to obtain the desired margin of profits.

(3) Activity Quotas

Some sales manager set sales quotas for the activities of their sales personnel in order to control and allocation of time of the sales personnel. A sales manager using such quota system defines the various activities. Which are commonly performed by the sales personnel and also sets targets performance frequencies. The activities for which sales quota are fixed are total sales calls, product demonstrations placement of displays number of new accounts, missionary calls, efforts to make collections etc. The sales manager takes the assistance of time and duty studies before setting activity quotas. However activity quotas are appropriate only when the sales personnel also perform non selling activities.

(4) Combination and other Point System Quotas

When determination of sales quota is based on several points, it is called, combination and other point system quotas, combination quota system is prepared after giving due weightage to the volume of sales, having obtained new customers, contact or call to

prospects and product demonstration etc. By this method it is possible to have combined percentage evaluation of all the efforts of the salesman. Performance against combination quotas are computed as percentages. Such quotas are also known as point system (Percentage points).

Self Check Questions

1. Define the term 'Sales Territory'? Discuss the different methods of establishing sales territories.
2. What are the reasons for establishing sales territories? Explain the procedure for establishing sales territories.
3. Define Sales Quota? Discuss various types of sales quota as used by Indian sales managers.
4. Discuss the Advantages and Disadvantages of Setting Sales Quota
5. Discuss the Objectives of Sales Quota