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# Sales Force Management

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# Sales Force Management

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# Contents

<b>Preface</b>	<b>xi</b>
<b>Acknowledgements</b>	<b>xiii</b>
<b>PART I</b>	<b>SALES PERSPECTIVE</b>
<b>Module 1</b>	<b>Development and Role of Selling in Marketing 1/1</b>
1.1	Background 1/2
1.2	The Nature and Role of Selling 1/2
1.3	Types of Selling 1/3
1.4	Image of Selling 1/5
1.5	The Nature and Role of Sales Management 1/7
1.6	The Marketing Concept 1/8
1.7	Implementing the Marketing Concept 1/10
1.8	The Relationship between Sales and Marketing 1/20
1.9	Conclusion 1/24
	Review Questions 1/25
	Case Study 1.1: Mephisto Products 1/29
<b>Module 2</b>	<b>Sales Strategies 2/1</b>
2.1	Sales and Marketing Planning 2/1
2.2	The Planning Process 2/2
2.3	Establishing Marketing Plans 2/2
2.4	The Place of Selling in the Marketing Plan 2/11
2.5	Conclusion 2/20
	Review Questions 2/20
	Case Study 2.1: Auckland Engineering 2/24
<b>Module 3</b>	<b>Consumer and Organisational Buyer Behaviour 3/1</b>
3.1	Differences between Consumer and Organisational Buying 3/2
3.2	Consumer Buyer Behaviour 3/3
3.3	Factors Affecting the Consumer Decision-Making Process 3/8
3.4	Organisational Buyer Behaviour 3/14
3.5	Factors Affecting Organisational Buyer Behaviour 3/20
3.6	Developments in Purchasing Practice 3/23
3.7	Relationship Management 3/26
3.8	Conclusion 3/27

Review Questions	3/27
Case Study 3.1: The Lost Computer Sale	3/33

## **PART 2**      **SALES TECHNIQUE**

### **Module 4**      **Sales Responsibilities and Preparation**      **4/1**

4.1      Sales Responsibilities	4/1
4.2      Preparation	4/8
4.3      Conclusion	4/13
Review Questions	4/14
Case Study 4.1: The O'Brien Company	4/16

### **Module 5**      **Personal Selling Skills**      **5/1**

5.1      The Opening	5/3
5.2      Need and Problem Identification	5/4
5.3      The Presentation and Demonstration	5/6
5.4      Dealing with Objections	5/10
5.5      Negotiation	5/14
5.6      Closing the Sale	5/15
5.7      Follow-Up	5/19
5.8      Conclusion	5/20
Review Questions	5/20
Case Study 5.1: The Mordex Photocopier Company	5/23

### **Module 6**      **Key Account Management**      **6/1**

6.1      What Is Key Account Management?	6/2
6.2      Advantages and Dangers of Key Account Management	6/3
6.3      Deciding Whether to Use Key Account Management	6/4
6.4      The Tasks and Skills of Key Account Management	6/4
6.5      Key Account Management Relational Development Model	6/5
6.6      Global Account Management	6/8
6.7      Building Relationships with Key Accounts	6/9
6.8      Key Account Information and Planning System	6/11
6.9      Conclusion	6/14
Review Questions	6/15
Case Study 6.1: Cloverleaf	6/17

<b>Module 7</b>	<b>Relationship Selling</b>	<b>7/1</b>
	7.1 From Total Quality Management to Customer Care	7/2
	7.2 From JIT to Relationship Marketing	7/5
	7.3 Reverse Marketing	7/7
	7.4 From Relationship Marketing to Relationship Selling	7/8
	7.5 Tactics of Relationship Selling	7/10
	7.6 Conclusion	7/14
	Review Questions	7/14
	Case Study 7.1: Midlands Switchgear	7/17
<b>Module 8</b>	<b>Direct Marketing</b>	<b>8/1</b>
	8.1 What Is Direct Marketing?	8/2
	8.2 Database Marketing	8/4
	8.3 Managing a Direct Marketing Campaign	8/6
	8.4 Conclusion	8/14
	Review Questions	8/14
	Case Study 8.1: RU Receiving Me?	8/16
<b>Module 9</b>	<b>Internet and IT Applications in Selling and Sales Management</b>	<b>9/1</b>
	9.1 Overview of IT Applications in Selling and Sales Management	9/2
	9.2 The Internet	9/5
	9.3 Customer Relationship Management	9/11
	9.4 Sales Management Applications of IT	9/19
	9.5 Applications of IT in Retail Sales and Marketing	9/21
	9.6 Conclusion	9/24
	Review Questions	9/25
	Case Study 9.1: Understanding Customer Value Creation	9/27
<b>PART 3</b>	<b>SALES ENVIRONMENT</b>	
<b>Module 10</b>	<b>Sales Settings</b>	<b>10/1</b>
	10.1 Environmental and Managerial Forces Impacting Sales	10/2
	10.2 Sales Channels	10/5
	10.3 Industrial, Commercial or Public Authority Selling	10/9
	10.4 Selling for Resale	10/12
	10.5 Selling Services	10/16
	10.6 Sales Promotions	10/18
	10.7 Exhibitions	10/23
	10.8 Public Relations	10/26

	10.9 Conclusion	10/32
	Review Questions	10/32
	Case Study 10.1: Yee Wo Plastic Piping Components	10/34
<b>Module 11</b>	<b>International Selling</b>	<b>11/1</b>
	11.1 Introduction	11/2
	11.2 Economic Aspects	11/2
	11.3 International Selling at Company Level	11/10
	11.4 Cultural Factors in International Selling	11/11
	11.5 Organisation for International Selling	11/17
	11.6 Pricing	11/24
	11.7 Japan: A Study in International Selling	11/26
	11.8 Conclusion	11/31
	Review Questions	11/31
	Case Study 11.1: Wardley Investment Services	11/35
<b>Module 12</b>	<b>Law and Ethical Issues</b>	<b>12/1</b>
	12.1 The Contract	12/2
	12.2 Terms and Conditions	12/3
	12.3 Terms of Trade	12/4
	12.4 Business Practices and Legal Controls	12/6
	12.5 Ethical Issues	12/10
	12.6 Conclusion	12/11
	Review Questions	12/11
	Case Study 12.1: Kwiksell Cars	12/13
<b>PART 4</b>	<b>SALES MANAGEMENT</b>	
<b>Module 13</b>	<b>Recruitment and Selection</b>	<b>13/1</b>
	13.1 The Importance of Selection	13/1
	13.2 Preparation of the Job Description and Specification	13/4
	13.3 Recruitment and Communication	13/7
	13.4 Designing an Effective Application Form and Preparing a Shortlist	13/9
	13.5 The Interview	13/10
	13.6 Supplementary Selection Aids	13/14
	13.7 Conclusion	13/16
	Review Questions	13/16
	Case Study 13.1: Plastic Products Ltd	13/19

<b>Module 14</b>	<b>Motivation and Training</b>	<b>14/1</b>
	14.1 Motivation	14/1
	14.2 Leadership	14/13
	14.3 Training	14/15
	14.4 Conclusion	14/22
	Review Questions	14/23
	Case Study 14.1: Selling Fountain Pens	14/26
<b>Module 15</b>	<b>Organisation and Compensation</b>	<b>15/1</b>
	15.1 Organisational Structure	15/1
	15.2 Determining the Number of Salespeople	15/7
	15.3 Establishing Sales Territories	15/9
	15.4 Compensation	15/10
	15.5 Conclusion	15/14
	Review Questions	15/14
	Case Study 15.1: Silverton Confectionery	15/18
<b>PART 5</b>	<b>SALES CONTROL</b>	
<b>Module 16</b>	<b>Sales Forecasting and Budgeting</b>	<b>16/1</b>
	16.1 Purpose	16/2
	16.2 Planning	16/2
	16.3 Levels of Forecasting	16/5
	16.4 Qualitative Techniques	16/6
	16.5 Quantitative Techniques	16/9
	16.6 Budgeting Purposes	16/19
	16.7 Budget Determination	16/19
	16.8 The Sales Budget	16/20
	16.9 Budget Allocation	16/21
	16.10 Conclusion	16/22
	Review Questions	16/23
	Case Study 16.1: Pizza Ristorante Thaws the Frozen Pizza Market	16/28
<b>Module 17</b>	<b>Salesforce Evaluation</b>	<b>17/1</b>
	17.1 The Salesforce Evaluation Process	17/1
	17.2 The Purpose of Evaluation	17/2
	17.3 Setting Standards of Performance	17/3
	17.4 Gathering Information	17/4
	17.5 Measures of Performance	17/4

	17.6 Appraisal Interviewing	17/12
	17.7 Conclusion	17/13
	Review Questions	17/13
	Case Study 17.1: MacLaren Tyres	17/16
<b>Appendix 1</b>	<b>Practice Final Examinations</b>	<b>A1/1</b>
	Practice Final Examination 1	1/2
	Practice Final Examination 2	1/4
<b>Appendix 2</b>	<b>Answers to Review Questions</b>	<b>A2/1</b>
	Module 1	2/1
	Module 2	2/4
	Module 3	2/6
	Module 4	2/9
	Module 5	2/11
	Module 6	2/13
	Module 7	2/16
	Module 8	2/17
	Module 9	2/18
	Module 10	2/21
	Module 11	2/22
	Module 12	2/23
	Module 13	2/24
	Module 14	2/26
	Module 15	2/27
	Module 16	2/28
	Module 17	2/30
<b>Index</b>		<b>I/1</b>

# Preface

The text covers what must still be the most important element of the marketing mix for most students and practitioners. With a move away from the selling function towards more esoteric areas of marketing over the past few years, this vital aspect of marketing has been somewhat neglected. However, in the end it has to be face-to-face contact that eventually wins the order, and this text therefore explains and documents the selling and sales management process from both the theoretical and practical viewpoints.

More precisely, the text is split into five logical parts: Sales Perspective, Sales Technique, Sales Environment, Sales Management and Sales Control. Sales Perspective examines selling in its historical role and then views its place within marketing and a marketing organisation. Different types of buyers are also analysed in order to help us achieve an understanding of their thinking and organise our selling effort accordingly. Sales Technique is essentially practical and covers preparation for selling, the personal selling process and sales responsibilities. Sales Environment looks at the institutions through which sales are made; this covers channels, including industrial, commercial and public authority selling followed by selling for resale. International selling is an increasingly important area in view of the ever increasing 'internationalisation' of business and this merits a separate chapter. Sales Management covers recruitment, selection, motivation and training, in addition to how we must organise and compensate salesmen from a managerial standpoint. Finally, Sales Control covers sales budgets and explains how this is the starting point for business planning. Sales forecasting is also covered in this final section, and a guide is given to the techniques of forecasting and why it is strictly a responsibility of sales management and not finance. Each module concludes with review questions and a mini-case study, together with formal practice questions typical of those the student will encounter in the examination room.

This edition includes a new module 'Internet and Information Technology Applications in Sales'. This reflects the advances made in technological tools to improve salesforce productivity and modes of doing business. This module includes a section on customer relationship management which is of growing importance to many companies. A full module is also devoted to direct marketing in recognition of the impact methods such as direct mail, telemarketing and database marketing are having on selling to customers. This new edition also contains many new and updated cases to support the effective teaching of selling and sales management.

The use of 'Selling and Sales Management in Action' case histories has been expanded to show how principles can be applied in practice. Also the section on ethics in sales has been expanded. A new section covering leadership has been added to the module entitled 'Motivation and Training'. Finally the new edition includes coverage of selling as a career in the first module. As always this edition continues to place emphasis on international aspects of selling and sales management to reflect the importance of international markets to companies.

Finally, the authors would like to thank Gordon Lucas for information upon which 'the diversion' and 'winning and losing orders' are based. We should like to make it clear that in all cases in the text the words 'he' and 'she' or 'him' and 'her' are interchangeable and no discrimination is intended.

We should also like to thank Richard Cork, Belinda Dew snap, Martin Evans, Jason Greenaway, Diana Luck, Paul Miller, Lynn Parkinson and Michael Starkey for providing excellent material on the applications of IT in sales. We also wish to thank all of the case contributors for supplying excellent case studies to enhance the practical aspects of the book.

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# **PART I**

## **Sales Perspective**

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**Module 1 Development and Role of Selling in Marketing**

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**Module 2 Sales Strategies**

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**Module 3 Consumer and Organisational Buyer Behaviour**

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# Module I

## Development and Role of Selling in Marketing

### Contents

1.1	Background.....	1/2
1.2	The Nature and Role of Selling.....	1/2
1.3	Types of Selling .....	1/3
1.4	Image of Selling.....	1/5
1.5	The Nature and Role of Sales Management.....	1/7
1.6	The Marketing Concept .....	1/8
1.7	Implementing the Marketing Concept .....	1/10
1.8	The Relationship between Sales and Marketing .....	1/20
1.9	Conclusion .....	1/24
	Review Questions.....	1/25
	Case Study 1.1: Mephisto Products.....	1/29

### Learning Objectives

After studying this module, you should be able to:

- understand the implications of production, sales, and marketing orientation;
- appreciate why selling generally has a negative image;
- know where selling fits into the marketing mix;
- identify the responsibilities of sales management;
- recognise the role of selling as a career.

### Key Concepts

- break-even analysis
- exclusive distribution
- intensive distribution
- market penetration
- market segmentation
- market skimming
- business to business (B2B)
- marketing concept
- marketing mix
- product life cycle
- sales management
- selling
- targeting
- business to consumer (B2C)

## I.1 Background

Perhaps no other area of business activity gives rise to as much discussion among and between those directly involved and those who are not involved as the activity known as selling. This is not surprising when one considers that so many people derive their livelihood, either directly or indirectly, from selling. Even those who have no direct involvement in selling come into contact with it in their roles as consumers. Perhaps, because of this familiarity, many people have strong, and often misplaced, views about selling and salespeople. Surprisingly, many of these misconceptions are held by people who have spent their working lives in selling, so it might well be a case of 'familiarity breeds contempt'.

It is important to recognise that **selling** and sales management, although closely related, are not the same and we shall start in this module by examining the nature and role of selling and sales management in the contemporary organisation and exploring some of the more common myths and misconceptions.

We shall also look at the developing role of selling because, like other business functions, it is required to adapt and change. Perhaps one of the most important and far-reaching of these business changes has been the adoption of the concept and practice of marketing, due to changes in the business environment. Because of the importance of this development to the sales function, we shall examine the place of marketing within the firm and the place of selling within marketing.

The importance of the sales function is reflected in professional practice as there are now two bodies in the UK that represent the profession: the Institute of Sales and Marketing Management and the Institute of Professional Sales.

## I.2 The Nature and Role of Selling

The simplest way to think of the nature and role of selling (traditionally called salesmanship) is that its function is to make a sale. This seemingly obvious statement disguises what is often a very complex process, involving the use of a whole set of principles, techniques and substantial personal skills, and covering a wide range of different types of selling task. Later we will establish a more precise meaning for the term 'selling' but first we will examine the reasons for the intense interest in this area of business activity.

The literature of selling abounds with texts, ranging from the more conceptual approaches to the simplistic 'how it is done' approach. Companies spend large sums of money training their sales personnel in the art of selling. The reason for this attention to personal selling is simple: in most companies the sales personnel are the single most important link with the customer. The best-designed and best-planned marketing efforts may fail because the salesforce is ineffective. This front-line role of the salesperson means that for many customers the salesperson *is* the company. Allied with the often substantial costs associated with recruiting, training and maintaining the salesforce, there are powerful reasons for stressing the importance of the selling task and for justifying attempts to improve effectiveness in this area. Part Two addresses the important area of sales techniques.

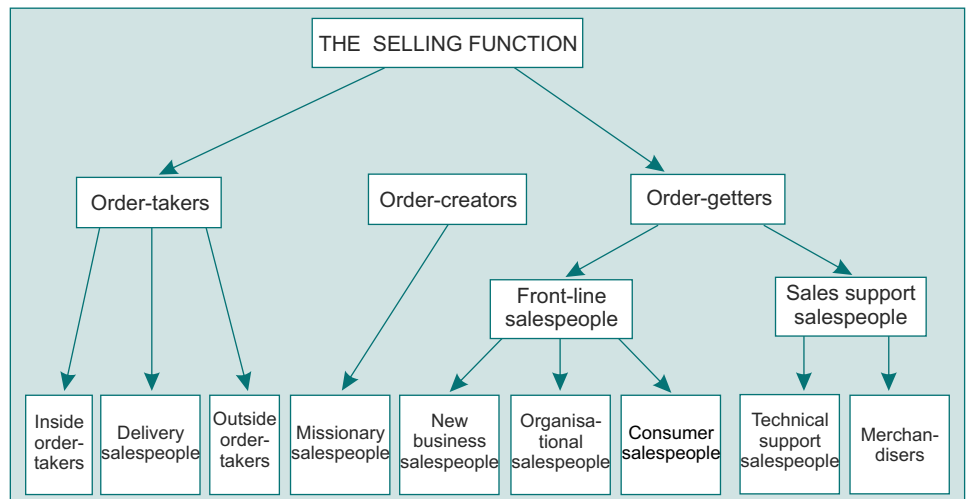
The term 'selling' encompasses a variety of sales situations and activities. For example, there are those sales positions where the sales representative is required primarily to deliver the product to the customer on a regular or periodic basis. The emphasis in this type of sales activity is very different to the sales position where the sales representative is dealing with

sales of capital equipment to industrial purchasers. In addition, some sales representatives deal only in export markets whereas others sell direct to customers in their homes. One of the most striking aspects of selling is the wide diversity of selling roles.

Irrespective of this diversity, one trend common to all selling tasks is the increasing emphasis on professionalism in selling. This trend, together with its implications for the nature and role of selling, can best be explained if we examine some of the myths and realities that surround the image of selling.

## 1.3 Types of Selling

The diverse nature of the buying situation means there are many types of selling job: selling varies according to the nature of the selling task. Figure 1.1 shows that there is a fundamental distinction between order-takers, order-creators and order-getters. Order-takers respond to already committed customers; order-creators do not directly receive orders since they talk to specifiers rather than buyers; order-getters attempt to persuade customers to place an order directly.



**Figure 1.1** Types of selling

There are three types of order-takers: inside order-takers, delivery salespeople and outside order-takers. Order-creators are termed missionary salespeople. Finally, order-getters are either front-line salespeople consisting of new business, organisational or consumer salespeople, or sales support salespeople who can be either technical support salespeople or merchandisers. Both types of order-getters operate in situations where a direct sale can be made. Each type of selling job will now be discussed in more detail.

### 1.3.1 Order-Takers

- **Inside order-takers.** Here the customer has full freedom to choose products without the presence of a salesperson. The sales assistant's task is purely transactional – receiving payment and passing over the goods. Another form of inside order-taker is the telemarketing sales team who support field sales by taking customer orders over the telephone.

- **Delivery salespeople.** The salesperson's task is primarily concerned with delivering the product. In the UK, milk, newspapers and magazines are delivered to the door. There is little attempt to persuade the household to increase the milk order or number of newspapers taken; changes in order size are customer driven. Winning and losing orders will depend on reliability of delivery and the personality of the salesperson.
- **Outside order-takers.** Outside order-takers visit customers, but their primary function is to respond to customer requests rather than actively seeking persuade. Outside order-takers do not deliver and to a certain extent they are being replaced by more cost-efficient telemarketing teams.

### 1.3.2 Order-Creators

- **Missionary salespeople.** In some industries, notably the pharmaceutical industry, the sales task is not to close the sale but to persuade the customer to specify the seller's products. For example, medical representatives calling on doctors cannot make a direct sale since the doctor does not buy drugs personally but prescribes (specifies) them for patients. Similarly, in the building industry, architects act as specifiers rather than buyers, so the objective of a sales call cannot be to close the sale. In these situations the selling task is to educate and build goodwill.

### 1.3.3 Order-Getters

Order-getters are those in selling jobs where a major objective is to persuade customers to make a direct purchase. These are the front-line salespeople.

- **New business salespeople.** The task is to win new business by identifying and selling to prospects (people or organisations who have not previously bought from the salesperson's company).
- **Organisational salespeople.** These salespeople have the job of maintaining close long-term relationships with organisational customers (i.e. industrial buyers, buying for resale, and institutional buyers, perhaps buying for educational establishments, the police service and local authorities). The selling job may involve team selling where mainstream salespeople are supported by product and financial specialists.
- **Consumer salespeople.** Consumer selling involves selling physical products and services such as double glazing, security equipment, cars, insurance and personal pension plans to individuals. Much selling in this category tends to be one-off and salespeople are generally rewarded through commission. Therefore the impetus to attain an order is paramount and it is this category that has attracted much criticism in terms of high pressure being put on customers to make a purchase.
- **Technical support salespeople.** Technical support salespeople provide sales support to front-line salespeople. Where a product is highly technical and negotiations are complex, a salesperson may be supported by product and financial specialists who can provide the detailed technical information required by customers. This may be ongoing as part of a key account team or on a temporary basis with the specialists being called into the selling situation as and when required.
- **Merchandisers.** Merchandisers provide sales support in retail and wholesale selling situations. Orders may be negotiated nationally at head office, but sales to individual outlets are supported by merchandisers who give advice on display, implement sales promotions, check stock levels and maintain contact with store managers.

### I.3.4 Selling As a Career

The subdivisions of the sales roles just outlined give an idea of the range of sales positions that are available. Generally, there is much less personal pressure involved in being an order-taker than an order-maker and a prime attribute for an order-taker is a pleasant, non-combative personality. However, the opportunity for higher rewards belongs to order-makers as their remuneration normally rests on some kind of commission or bonus where payment is linked to the amount of orders they make. It is an acknowledged fact that in many business situations the opportunity to earn really high incomes at a relatively young age is present in this kind of situation.

With so many types of selling situation and positions in sales, it is too much of a generalisation to be specific about the qualities required for a successful sales career. There is no definitive test or selection procedure that can be used to distinguish between successful and less successful salespeople and apart from trying it out there is no way of knowing if a person is suited to a career in sales. However, there are a number of key qualities that are generally recognised as being important:

- **Empathy and an interest in people.** This skill will help in more accurately identifying customers' real needs and problems in terms of thinking oneself into the other person's mind and understanding why the customer feels as he or she does.
- **Ability to communicate.** This means an ability to get a message across to a customer and, more importantly, an ability to listen and understand. The skill of knowing when to stop talking and when to listen is essential.
- **Determination.** Although the salesperson must be able to take no for an answer, this should not come easily to someone who wants to succeed in selling. It is a fact that customers might say no when they really mean maybe, which can ultimately lead to yes. Determined salespeople have a need and a will to succeed and success can mean closing a sale.
- **Self-discipline and resilience.** Most salespeople spend much of their time unsupervised and, apart from seeing customers, they are alone. As part of their job they can expect setback, rejections and failures. A salesperson thus needs to be both self-disciplined and resilient to cope with these facets of the sales task.

## I.4 Image of Selling

Mention of the word 'selling' will prompt a variety of responses. It will evoke a high proportion of negative, even hostile, responses, including 'immoral', 'dishonest', 'unsavoury', 'degrading' and 'wasteful'. Is such an unfavourable view justified? We suggest not. In fact, the underlying attitudes to selling derive from widely held misconceptions about selling, some of which are outlined below:

- **Selling is not a worthwhile career.** This notion is held by many, the common attitude being that if one has talent then it will be wasted in sales. Unfortunately, this attitude is often held by those in a position to advise and influence young people in their choice of careers. In some circles it is fashionable to denigrate careers in selling, and the consequence is that many of our brighter graduates are not attracted to a career in selling.
- **Good products will sell themselves and thus the selling process adds unnecessarily to costs.** This view assumes that if you produce a superior product then there will always be buyers. This may be all right if a firm can produce a technologically superior

product, but then it is likely that additional costs will accrue in terms of research and development, and there will be continued research and development costs involved in keeping ahead. In addition, as explained later on, the role of selling is not solely to sell; it can be used to feed back information from customers to the firm – particularly product performance information – and this is of direct use to research and development.

- **There is something immoral about selling, and one should be suspicious about those who earn their living from it.** The origins and reasons for this most pervasive and damaging of the misconceptions about selling stems from the 'foot in the door' image that has been perpetuated. Such attitudes can make life difficult for the salesperson, who has first to overcome the barriers which such mistrust erects in the customer–salesperson relationship.

There are a number of elements in the sales task that act as demotivators:

- Because of their perceived low status, salespersons are constantly exposed to the possibility of rejection and often have to suffer ego punishment, such as being kept waiting, appointments cancelled at short notice and put-downs from customers to which they cannot adequately respond, as buyers have the power in such circumstances. Thus, in business to business (B2B) and business to consumer (B2C) selling in particular, a certain amount of psychological risk is involved.
- In B2B situations, in particular, salespersons visit buyers in their offices, so they are effectively working in foreign territory and might sometimes feel uneasy when entering the premises. The customer might keep the salesperson waiting, thus heightening discomfort.
- The salesperson tends to work alone, often staying away from home for periods. An attraction is independence, but it can be a lonely existence. Thus there is a certain amount of psychological risk attached to such situations.

Selling is therefore not an easy task, and those who are concerned to improve its image must be more vociferous, yet objective, in presenting its case and they must recognise that misconceptions invariably have some basis in fact. There are always unscrupulous individuals and companies ready to trade on the ignorance and gullibility of unsuspecting customers. These individuals are not salespeople; at best they are misguided traders and at worst criminals. At some times in our lives we inevitably feel that we have purchased something we did not really want or on terms we could not really afford, because we were subjected to high-pressure selling.

Selling, then, is not entirely blameless, but salespeople are becoming more professional in their approach to customers. Some of the worst excesses in selling have been curbed; some legally, but increasingly voluntarily. To overcome some of these misconceptions, selling needs to sell itself and the following facts about selling should be more universally aired:

- **There is nothing immoral or unscrupulous about selling or about those involved in it.** Selling provides a mechanism for exchange and through this process customers' needs and wants are satisfied. Furthermore, most people, at some stage, are involved in selling, even if only selling their skills and personalities in an attempt to obtain a job.
- **Selling is a worthwhile career.** Many of those who have spent a lifetime in selling have found it to be a challenging, responsible and rewarding occupation. Inevitably a career in selling means meeting people and working with them, and a selling job often offers substantial discretion in being able to plan one's own work schedule.

- **Good products do not sell themselves.** An excellent product may pass unnoticed unless its benefits and features are explained to customers. What appears to be a superior product may be totally unsuited to a particular customer. Selling is unique in that it deals with the special needs of each individual customer and the salesperson, with specialist product knowledge, is in a position to assess these circumstances and advise each customer accordingly.

### Box 1.1: Why Sales Skills Are the Key to a Firm's Success

Successful entrepreneurs all have one thing in common – the ability to sell. Patrick Dunne, a director with 3i, the venture capitalist, says: 'It's not just selling products to new customers. You also need sales skills to get the first people to work for you. And the cleverest ones are very good at getting suppliers and others to give them credit.'

But entrepreneurs often stumble in their enthusiasm to get started warns Patrick Joiner, Chief Executive of the Institute of Sales & Marketing Management: 'The most essential skill of selling,' he says, 'is to put yourself in your client's shoes. This is where entrepreneurs fall down. They are often people with a special knowledge about their industries or a technology that helped them to come up with their business ideas. But being totally fired up by their own products, they're locked into seeing it from their own perspectives. Entrepreneurs also tend to be very driven and enthusiastic, which means they can come across as overbearing.' He goes on to say: 'You should always be trying to build a relationship with your customer. You need more than just something different or low cost or even effectiveness in selling – the market changes quickly and you will keep these advantages for only so long. What you need most of all is a good relationship with your customers.'

Source: *Sunday Times*, 5 May 2002, p. 13.

## 1.5 The Nature and Role of Sales Management

In the same way that selling has become more professional, so too has the nature and role of **sales management**. The emphasis is on the word 'management'. Increasingly, those involved in management are being called upon to exercise in a professional way the key duties of all managers, namely, planning, organising and controlling. The emphasis has changed from the idea that to be a good sales manager you had to have the right personality and that the main feature of the job was ensuring that the salesforce were out selling sufficient volume. Although such qualities may be admirable, the duties of the sales manager in the modern company have both broadened and changed in emphasis.

Nowadays the sales manager is expected to play a much more strategic role in the company and is required to make a key input into the formulation of company plans. This theme is developed in Modules Module 2 and Module 15. There is thus a need to be familiar with the techniques associated with planning, including sales forecasting and budgeting (dealt with in Module 17). The sales manager also needs to be familiar with the concept of marketing to ensure that sales and marketing activities are integrated – a theme expanded in this module. In many companies the emphasis is less on sales volume and more on profits. The sales manager needs to be able to analyse and direct the activities of the salesforce towards more

profitable business. In dealing with a salesforce, the sales manager must be aware of modern developments in human resource management.

Looked at in the manner just outlined, the role of the sales manager may seem formidable, that person must be an accountant, a planner, a personnel manager and a marketer. However, the prime responsibility is to ensure that the sales function makes the most effective contribution to the achievement of company objectives and goals. In order to fulfil this role, sales managers will undertake specific duties and responsibilities:

- the determination of salesforce objectives and goals;
- forecasting and budgeting;
- salesforce organisation, salesforce size, territory design and planning;
- salesforce selection, recruitment and training;
- motivating the salesforce;
- salesforce evaluation and control.

Because these areas encompass the key duties of the sales manager, they are discussed in detail in Parts Four and Five.

Perhaps one of the most significant developments affecting selling and sales management in recent years has been the evolution of the marketing concept. Because of its importance to selling, we will now turn our attention to the nature of this evolution and its effect upon sales activities.

## I.6 The Marketing Concept

In tracing the development of the **marketing concept**, it is customary to chart three successive stages in the evolution of modern business practice: production orientation, sales orientation and marketing orientation.

### I.6.1 Production Orientation

The era of production orientation was characterised by focusing company efforts on producing goods or services. More specifically, management efforts were aimed at achieving high production efficiency, often through the large-scale production of standardised items. In this situation other functions such as sales, finance and personnel were secondary to the main function of the business, which was to produce. More importantly, the underlying philosophy was that customers would purchase products, provided they were of reasonable quality, available in sufficiently large quantities and at a suitably low price.

Such a philosophy was initiated by Henry Ford when he mass-produced the Model T Ford in Detroit in 1913. His idea was that if he could produce a standard model vehicle in large quantities using mass production techniques, then he could supply a potential demand for relatively cheap private transport. At the time, Ford was correct; there was such a demand and his products proved successful. A production orientation to business was thus suited to an economic climate where potential demand outstripped supply, as was the case in the USA at that time. However, times change, and this philosophy is not conducive to doing business in today's economic climate, where potential supply usually outstrips demand.

### 1.6.2 Sales Orientation

With the large-scale introduction of mass production techniques in the 1920s and 1930s, particularly in the USA and Western Europe, and the rapid worldwide increase in competition which accompanied this, many firms adopted a sales orientation.

The sales-oriented company is one where the focus of company effort switches to the sales function. The main issue here is not how to produce but, having products, how to ensure this production is sold. The underlying philosophy towards customers in a sales-oriented business is that, if left to their own devices, customers will be slow or reluctant to buy. In any case, even those customers who are seeking to purchase the type of product or service the company produces will have a wide range of potential suppliers. This situation is exacerbated when, in addition to sufficient capacity on the supply side, demand is depressed. Such was the case in many of the developed economies in the 1930s, and it was in this period that many 'hard sell' techniques developed. Many of these were dubious, even dishonest, and much of the tainted image accompanying selling derives from their use.

Many companies still adopt a sales-oriented approach to doing business, even though customers are better protected against its worst excesses, as discussed in Module 13.

### 1.6.3 Marketing Orientation

It is unclear exactly when the idea of marketing or customer orientation began to emerge; in some ways the central importance of the customer has perhaps always been recognised in the long history of trading. Not until the 1950s, however, did the ideas associated with the marketing concept begin to emerge and take shape. The marketing concept – initially an American phenomenon – arose partly as a result of a dissatisfaction with the production and sales orientations, partly as a result of a changing environment and partly as a result of fundamental business sense.

The marketing concept holds that the key to successful and profitable business rests with identifying the needs and wants of customers and providing products and services to satisfy them. On the surface this concept does not appear to be a far-reaching and fundamentally different philosophy of business, but in fact the marketing concept requires a revolution in how a company thinks about and practises its business activities as compared with production or sales orientation. Central to this revolution in business thinking is the emphasis given to the needs and wants of the customer. The contrast between this approach and, for example, that of a sales-oriented company is shown in Figure 1.2.

Increasingly, companies have come to recognise that this different approach to doing business is essential in today's environment. Consumers are now better educated and more sophisticated. Real incomes have increased steadily over the years and consumers now have considerable discretionary spending power to allocate between an increasingly diverse range of products and services. Too many companies have learned the hard way that having what they feel to be a superior product, efficient production and extensive promotion – laudable though these may be – are not sufficient to confer automatic success. To have any chance of success, customer needs must be placed at the very centre of business planning. In part, this stress on understanding the consumer explains the development of those concepts and techniques aimed at understanding buyer behaviour. In Module 3 we develop a framework within which consumer and organisational buying behaviour may be analysed.

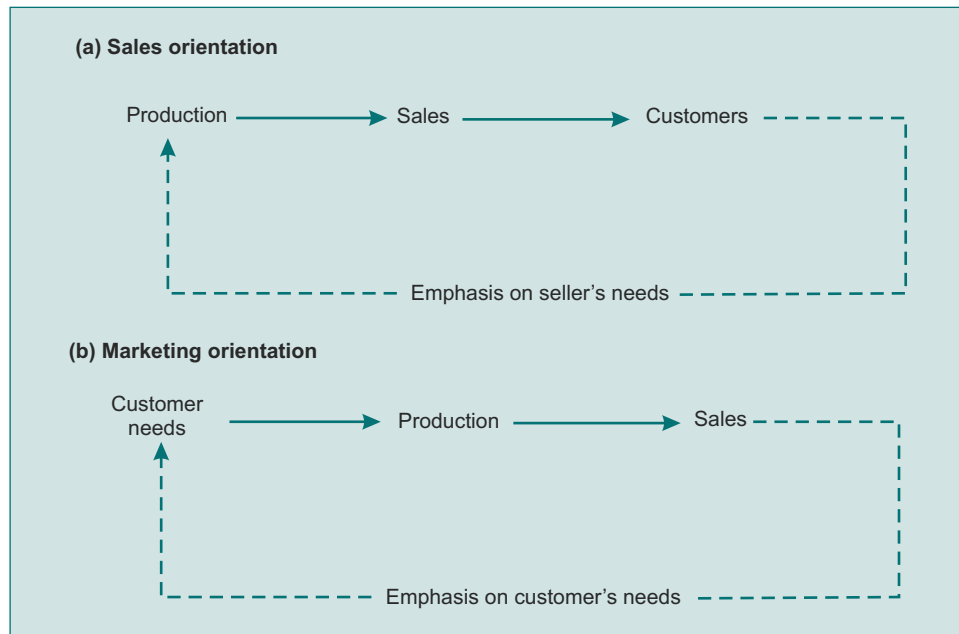


Figure 1.2 Sales versus market orientation

## 1.7 Implementing the Marketing Concept

For a company to be marketing oriented requires that a number of organisational changes take place in practices and in attitudes. To become of value, it requires that the discipline of marketing contributes what might be termed a technology of marketing. By this we mean that management requires the development of a set of tools (techniques and concepts) to implement the marketing concept. We have already mentioned that the behavioural sciences can lead to an understanding of buyer behaviour; another example is the development of quantitative and qualitative techniques of marketing research for analysing and appraising markets. Some of the more important and useful concepts in marketing are now discussed.

### 1.7.1 Market Segmentation and Targeting

Because marketing focuses on customer needs and wants, this requires that companies identify these needs and wants and then develop marketing programmes to satisfy them as a route to achieving company objectives. The diversity of customer needs and wants, and the multiplicity of ways in which these may be satisfied, mean that few if any companies are in a position effectively to serve all customers in a market in a standardised manner. **Market segmentation** is the process of identifying those clusters or segments of customers in a market which share similar needs and wants and will respond in a unique way to a given marketing effort. Having identified the various segments in a market, a company can then decide which of them are most attractive and to which segments it can market most effectively. Company marketing efforts can then be tailored specifically to the needs of these segments on which the company has decided to target its marketing.

Market segmentation and **targeting** are two of the most useful concepts in marketing, and a set of techniques has been developed to aid companies in their application. Some of the more important benefits of effective segmentation and targeting are as follows:

- a clearer identification of market opportunities and particularly the analysis of gaps (where there are no competitive products) in a market;
- the design of product and market appeals that are more finely tuned to the needs of the market;
- focusing of marketing and sales efforts on those segments with the greatest potential.

There are several bases for segmenting markets, which may be used singly or in combination. For example, a manufacturer of toothpaste may decide that the market segments best on the basis of age, i.e. the seller discovers that the different age groups in the market for the product have different wants and needs and vary in what they require from the product. The seller will find that the various segments will respond more favourably, in terms of sales, if the products and marketing programmes are more closely tailored to the needs of each segment. Alternatively, the seller may find that the market for toothpaste segments on the basis of income – the different income groups in the market vary in their product requirements. Finally, the seller may find that the market segments on the basis of a combination of both income and age characteristics. Here are some of the more frequently used bases for segmentation:

- **Consumer products and markets:** age, sex, income, social class, geographical location type of residence using ACORN (A Classification of Residential Neighbourhoods), personality, benefits sought, usage rate, e.g. heavy users versus light users.
- **Industrial products and markets:** end-use market, type of industry, product application, benefits sought, company size, geographical location, usage rate.

Whatever the chosen bases, the application of segmentation and targeting is a major step towards becoming marketing oriented.

## 1.7.2 The Marketing Mix

In discussing the notion of market segmentation, we have frequently alluded to the company marketing programme. By far the most important decisions within this marketing programme, and indeed the essence of the marketing manager's task within a company, are decisions on the controllable marketing variables: decisions on what E. Jerome McCarthy<sup>1</sup> termed the 'four Ps' of price, product, promotion and place (or distribution). Taken together, these four variables, plus the chosen market segments, comprise what Neil Borden termed the **marketing mix**, a concept which is central to modern marketing practice.<sup>2</sup>

Generally speaking, company management has a number of variables or ingredients that it can control. For example, the management of a company has discretion over the range of products to be produced, their features, quality levels, etc. The task of marketing management is to blend these ingredients together into a successful recipe. The term 'marketing mix' is appropriate, for there are many marketing mix ingredients and even more ways of combining them. Each element of the four Ps requires that decisions are taken:

- **Price:** price levels, credit terms, price changes, discounts.
- **Product:** features, packaging, quality, range.
- **Promotion:** advertising, publicity, sales promotion, personal selling.
- **Place:** inventory, channels of distribution, number of intermediaries.

It will be seen that personal selling is considered to be one component of the promotional decision area of the marketing mix. Later in this module we shall return to selling's place within the marketing mix. Module 2 goes into detail on the promotional mix. But here we will consider the other elements.

### **1.7.2.1 Product**

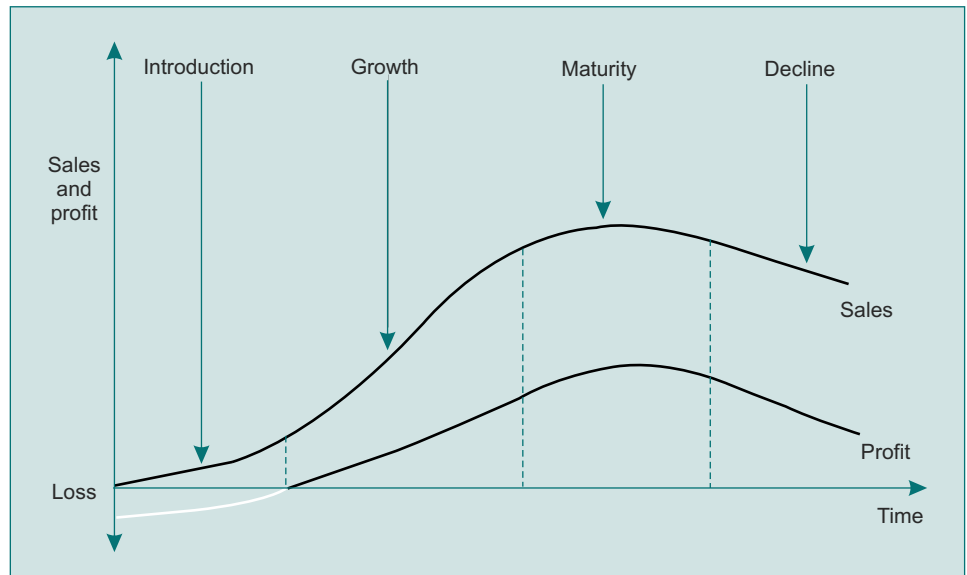
Many believe that product decisions represent the most important ingredient of the marketing mix. Decisions in this area, they argue, have the most direct and long-lasting influence on the degree of success that a company enjoys. At first glance this may seem to constitute evidence of a production-oriented stance as opposed to a marketing-oriented stance. However, it does not. There is no doubt that product decisions are the most important of the marketing decisions which a company makes. It is true that unless there is a potential demand (a true market need) for a product, then no matter how good it is, it will not succeed. This is not to say that decisions about products should be made in isolation. It is also true that there are many examples of products which had considerable market potential, but failed because of poor promotional, pricing and distribution decisions. In effect, product decisions determine the upper limit to a company's sales potential. The effectiveness of decisions on other elements of the mix determine the extent to which this potential is realised.

The term 'product' covers anything a company offers to customers to satisfy their needs. In addition to physical, tangible products offered for sale, there are also services and skills. Non-profit organisations also market their services to potential customers. Increasingly, charities, educational establishments, libraries, museums and political candidates make use of the techniques of marketing. There are a number of ways of classifying products, depending upon the basis chosen for classification. For example, a broad distinction can be made between consumer and industrial products; here the classification is based on the end-user or buyer.

Regardless of the classification basis, an important factor to bear in mind is that the customer is purchasing a package of benefits, not product features. This concept of a product is yet another example of a market-oriented approach to doing business. It looks at the product from the viewpoint of what the customer is actually purchasing, i.e. needs and wants. For example, when people purchase cosmetics they are purchasing attractiveness. Theodore Levitt<sup>3</sup> provides us with a graphic example of this concept of a product when he states: 'Purchasing agents do not buy quarter inch drills; they buy quarter inch holes.' Viewing the product in this way can provide insights that can be used in marketing a product. In the sales area it can be used to develop the sales presentation by emphasising ways in which the product or service provides a solution to the customer's problems.

### 1.7.2.2 The Product Life Cycle

One of the most useful concepts in marketing derives from the idea that most products tend to follow a particular pattern over time in terms of sales and profits. This pattern is shown in Figure 1.3 and is known as the product life cycle curve.



**Figure 1.3 The product life cycle curve**

The product life cycle is analogous to the life cycle of humans and has four distinct stages: introduction (birth), growth, maturity and decline. Its shape can best be explained by giving a brief description of the four stages:

- **Introduction.** In this stage, sales growth is relatively slow. Dealers must be persuaded to stock and promote the product. Consumers must be made aware of its existence, persuaded to be interested and convinced that it is a worthwhile purchase. They may have to be educated in how to use the product and their existing purchasing and lifestyle habits might change (e.g. microwave ovens and their associated convenience). There are few profits at this stage and heavy launch costs often mean a financial deficit.
- **Growth.** After initial slow acceptance, sales begin to escalate at a relatively rapid pace. There is a snowball effect as word-of-mouth communication and advertising begin to take effect. Dealers may request to stock the product. Profits begin to be made, especially if a newly introduced product can command high initial prices (known as market skimming).
- **Maturity.** The growth of sales begins to slow as the market becomes saturated. Few new buyers are attracted to the product and there is a high proportion of repeat sales. Attracted by the high profit and sales figures, competitors have now entered the market. Partly because of this increased competition, profits, having peaked, then begin to decline.
- **Decline.** Sales begin to fall and already slim profit margins are depressed even further. Customers might have become bored with the product and are attracted by newer, improved products. Dealers begin to destock the product in anticipation of reduced sales.

### **I.7.2.3 Implications of the Product Life Cycle**

Not all products exhibit such a typical cycle of sales and profits. Some products have hardly any life cycle at all (many new products are unsuccessful in the marketplace). Similarly, sales may be reduced abruptly even in a period of rapid sales growth as a result of, perhaps, the introduction of a new and better competitive product. Products vary too in the length of time they take to pass through the life cycle. Unlike the human lifespan, there is no average life expectation for products. Nevertheless, the fact that a great number of products do tend to follow the generalised life cycle pattern has a number of implications for marketing and sales strategies. Some of these are considered in more detail in Module 2. Two of the more important implications of the product life cycle concept are considered now.

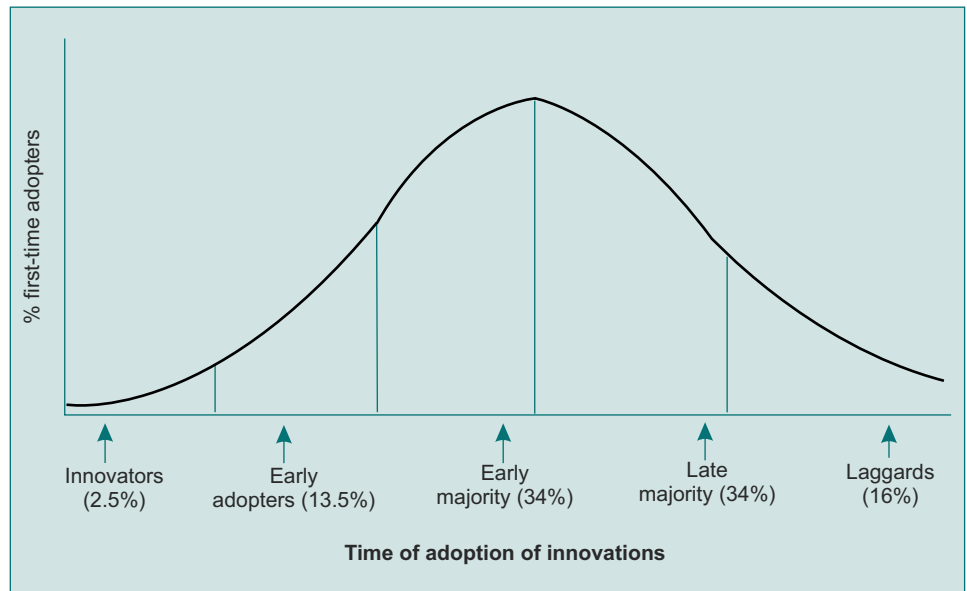
The first obvious implication of the concept is that even the most successful products have a finite life. Further, there is some evidence which suggests that intensifying competition and rapid technological change are leading to a shortening of product life cycles. This explains the importance and emphasis now attached to the continued development of new products. The salesforce has an important role to play in this process. Because of their often daily contact with customers, they are usually the first to detect signs that products are about to embark upon the period of decline. Such detailed knowledge of customers, competitors and market requirements makes them potentially a valuable source of new product ideas.

A second implication of the life cycle concept is that different marketing and sales strategies may be appropriate to each stage. For example, in the introductory stage the emphasis may be on locating potential prospects. In the growth stage, the salesforce may find themselves having to deal with the delicate issue of rationing their customers as demand increases more rapidly than capacity. In the maturity and decline stages, the salesforce will increasingly have to rely on competitive pricing and special offers in order to combat increasing competition and falling sales. Again, this is covered in more detail in Module 2.

### **I.7.3 Product Adoption and Diffusion**

The theory of product adoption and diffusion was first put forward by Everett Rogers in 1962 and is closely related to the product life cycle.<sup>4</sup> It describes innovative behaviour and holds that the characteristics of a new product can affect its rate of adoption. Figure 1.4 describes its characteristics.

Consumers are placed into one of five adopter categories, each with different behavioural characteristics. These adopter categories contain percentages of first-time buyers (i.e. not repeat buyers) that fall into each category. What will attract first-time buyers to a product or service, and the length of time it will take for the diffusion process to be completed, will depend on the nature of the product or service.



**Figure 1.4 The adoption of innovations**

If we consider a new range of female fashions, then the time taken for the diffusion process to be completed might be less than one year. Here the innovators (i.e. the first 2.5 per cent) are likely to be fashion-conscious rich people. However, if we consider a new type of computer software then innovators are more likely to be technically minded computer experts and the time for diffusion will be over a longer period. Similarly, although microwave ovens were developed almost 30 years ago, they have not yet totally diffused through the marketplace as they are now in the laggard stage. Having said this, many potential consumers will never adopt for a variety of reasons (e.g. some people refuse to have a television because it destroys the art of conversation). A number of factors can determine the rate at which the innovation is taken up:

- its *relative advantage* over other products or services in the marketplace;
- the extent to which it is *compatible* with the potential needs of customers;
- its *complexity* in terms of how it can be used and understood;
- its *divisibility* in terms of how it can be tried beforehand on some kind of test basis before a commitment is made to purchase;
- its *communicability*, which is the degree to which the innovation can be described or demonstrated prior to purchase (see Box 1.2).

### Box 1.2: How to Protect Your Dark Clothes

Is it annoying when after just a few washes your favourite dark clothes fade to a dull grey colour and have to be consigned to the back of your wardrobe? Now you can keep your dark clothes from fading for longer with Dreft Dark. It is a specially formulated liquid detergent with ingredients that will enable your darks to stay dark for longer whilst removing stains effectively. It is gentle enough to be used on your whole family's clothes and is the leader in its field. It is suitable for both machine and hand washing and is now available from Sainsbury's and many other leading supermarkets.

Source: Adapted from a promotional article in *Best*, 2 July 2002.

### 1.7.3.1 Pricing

As with the product element of the mix, pricing decisions encompass a variety of decision areas. Pricing objectives must be determined, price levels set, decisions made as to credit and discount policies and a procedure established for making price changes. Here we consider some of the more important inputs to pricing decisions, in particular from the viewpoint of how they affect selling and sales management. All of these sub-elements are covered throughout the text in a variety of contexts and their relationships with selling are fully examined.

### 1.7.3.2 Inputs to Pricing Decisions

In the determination of price levels, a number of factors must be considered. Here are some of the main ones.

#### Company Objectives

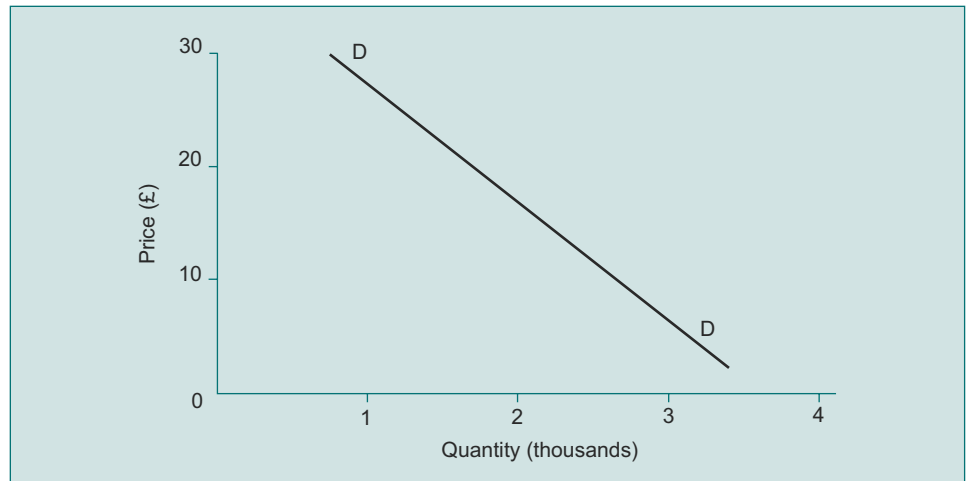
In making pricing decisions, a company must first determine what objectives it wishes its pricing to achieve within the context of overall company financial and marketing objectives. For example, company objectives may specify a target rate of return on capital employed. Pricing levels for individual products should reflect this objective. Alternatively, or additionally, a company may couch its financial objectives in terms of early cash recovery or a specified payback period for the investment.

#### Marketing Objectives

Marketing objectives may shape the pricing decision. For example, a company may determine that the most appropriate marketing strategy for a new product which it has developed is to aim for a substantial market share as quickly as possible. This is called a **market penetration** strategy. It is based on stimulating and capturing demand backed by low prices and heavy promotion. At the other extreme, the company might determine that a **market skimming** strategy is appropriate. Here high initial prices are set – again often backed by high levels of promotional spending – and the cream of the profits is taken before eventually lowering the price. When the price is lowered, an additional, more price-sensitive band of purchasers then enters the market. Whatever the financial and marketing objective set, they determine the framework within which pricing decisions are made. These objectives should be communicated to sales management and to individual members of the sales team.

#### Demand Considerations

In most markets the upper limit to the prices a company can charge is determined by demand. Put simply, one is able to charge only what the market will bear. This tends to oversimplify the complexities of demand analysis and its relationship to pricing decisions. These complexities should not, however, deter pricing decision-makers from considering demand in their deliberations. One of the most straightforward notions about the relationship between demand and price is the concept of a demand curve for a product, as shown in Figure 1.5.



**Figure 1.5 The demand curve**

Although it is a simple concept, the demand curve contains much useful information for the decision-maker. It shows that at lower prices, higher quantities are normally demanded. It is also possible to read off the curve the quantity demanded at any given price. Finally, it is possible to assess how sensitive demand is to changes in price. In other words, we can calculate the percentage change in quantity demanded for any given percentage price increase or decrease.

This information is useful for making pricing decisions, but obtaining information about the relationship between the price and demand is not easy. Factors other than price have an important effect on demand. Despite this, pricing decisions must reflect demand considerations and some estimate should be made of the likely relationship between demand levels and price. Here again, the salesforce can play a key role in the provision of such information and many companies make full use of this resource when pricing their products.

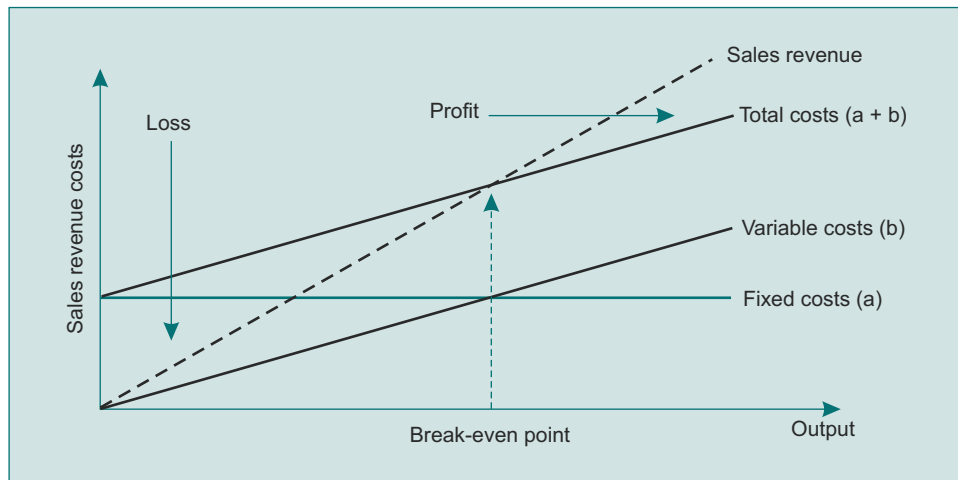
A final point to be considered is the slope of the demand curve. Figure 1.5 is a conventional curve, in that it slopes downwards to the right, which means that at lower prices higher quantities are demanded. However, it is dangerous to assume that this is always the case. In some circumstances it is possible to charge too low a price for a product or service; far from increasing demand, such low prices actually reduce it. This can be the case for products that are bought because they *are* highly priced, i.e. where there is some prestige attached to having purchased what everyone knows is an expensive product. Similarly, low prices may cause the customer to suspect the quality of a product.

## Cost Considerations

If demand determines the upper threshold for price, then costs determine the lower threshold. In a profit-making organisation, in the long run, prices charged need to cover the total costs of production and marketing, with some satisfactory residue for profit. In fact, companies often begin the process of making decisions on price by considering their costs. Some techniques of pricing go further, with prices being determined solely on the basis of costs; for example, total costs per unit are calculated, a percentage added for profit and a final price computed. Such cost-plus approaches to pricing, although straightforward, have a tendency to neglect some of the more subtle and important aspects of the cost input.

As with demand, cost considerations can be quite complex. One of the important distinctions that a cost-plus approach often neglects is the distinction between the fixed and variable costs of producing a product. Fixed costs are those which do not vary – up to the limit of plant capacity – regardless of the level of output, e.g. rent and rates. Variable costs do differ with the level of output – as it increases, so too do total variable costs, and vice versa as production is decreased, e.g. direct labour costs and raw materials. This apparently simple distinction is very useful for making pricing decisions and gives rise to the technique of **break-even analysis**.

Figure 1.6 illustrates this concept. Fixed, variable and total costs are plotted on the chart, together with a sales revenue curve. Where the revenue curve cuts the total cost curve is the break-even point. At this point the company is making neither profit nor loss. From the break-even chart it is possible to calculate the effect on the break-even point of charging different prices and, when this is combined with information on demand, break-even analysis is quite a powerful aid to decision-making. Sales managers should understand the different costing concepts and procedures and, although they do not need detailed accounting knowledge, they should be familiar with the procedures that go into the costing of products they are responsible for selling.



**Figure 1.6** A simple break-even chart

### Competitor Considerations

Few companies are in the position of being able to make pricing decisions without considering the possible actions of competitors. Pricing decisions, particularly short-term tactical price changes, are often made as a direct response to the actions of competitors. Care should be taken in using this tactic, particularly when the movement of price is downwards. Once lowered, prices can be very difficult to raise and, where possible, a company should consider responses other than price reduction to combat competition.

### I.7.3.3 Distribution

The distribution (or place) element of the marketing mix, particularly the management of physical distribution, has long been considered one of the areas in business where substantial improvements and cost savings can be made. Representing, as it often does, a substantial portion of total costs in a company, the distribution area has in recent years attracted considerable attention in terms of new concepts and techniques designed to manage this important function more effectively. The management of distribution is now recognised as a key part of the strategic management of a company and in larger organisations it is often the responsibility of a specialist. Because of this we can do no more here than give a non-specialist overview of some of the more important aspects of this element of the mix.

In its broadest sense distribution is concerned with all those activities required to move goods and materials into the factory, through the factory and to the final consumer. Here are some examples of the decision areas encompassed in the distribution element of the marketing mix.

#### The Selection of Distribution Channels

The selection of distribution channels involves determining in what manner, and through which distribution outlets, goods and services are to be made available to the final consumer. Marketing channels may be very short, e.g. where goods and services are sold direct to the customer such as via mail order. Alternatively, the channel may include a whole set of intermediaries, including brokers, wholesalers and retailers. In addition to selecting the route through which products will reach consumers, decisions must also be made about the extent of distribution coverage. For example, some companies have a policy of **exclusive distribution** where only a small number of selected intermediaries are used to distribute company products. In other cases, a company may decide that it requires as wide a distribution cover as possible – **intensive distribution** – and will seek a large number of distribution outlets.

#### Determining the Level of Customer Service

In addition to selecting channels of distribution, decisions must also be made about factors such as delivery periods and methods of transportation. Reduced delivery times can provide a significant advantage to a company in marketing its products. On the other hand, such a policy is often accompanied by a need to increase inventory levels, thereby increasing costs. A policy decision must therefore be made about the requisite level of customer service, after considering the benefits and costs involved.

#### Terms and Conditions of Distribution

Terms and conditions of distribution include conditions of sale on the part of distributors, minimum order or stocking quantities and the determination of credit, payment and discount terms for distributors.

## Other Areas

There are other areas to be considered in the distribution element of the marketing mix, and in Module 10 we explore channel management in greater detail. At this point we should note that distribution decisions have a significant impact on sales activities, e.g. the extent of distribution directly influences territory design and route planning (dealt with in detail in Module 16). Terms and conditions of distribution influence the framework within which sales are negotiated. The management of physical distribution influences the all-important delivery terms which the salesforce are able to offer their customers. Probably no other area of the marketing mix has such a wide-ranging influence on the sales process.

### 1.7.3.4 Promotion

This final element of the marketing mix has the most direct influence on sales because personal selling itself is considered as one element of the total promotional mix of a company. Other elements of this promotional submix include advertising, sales promotion and publicity.

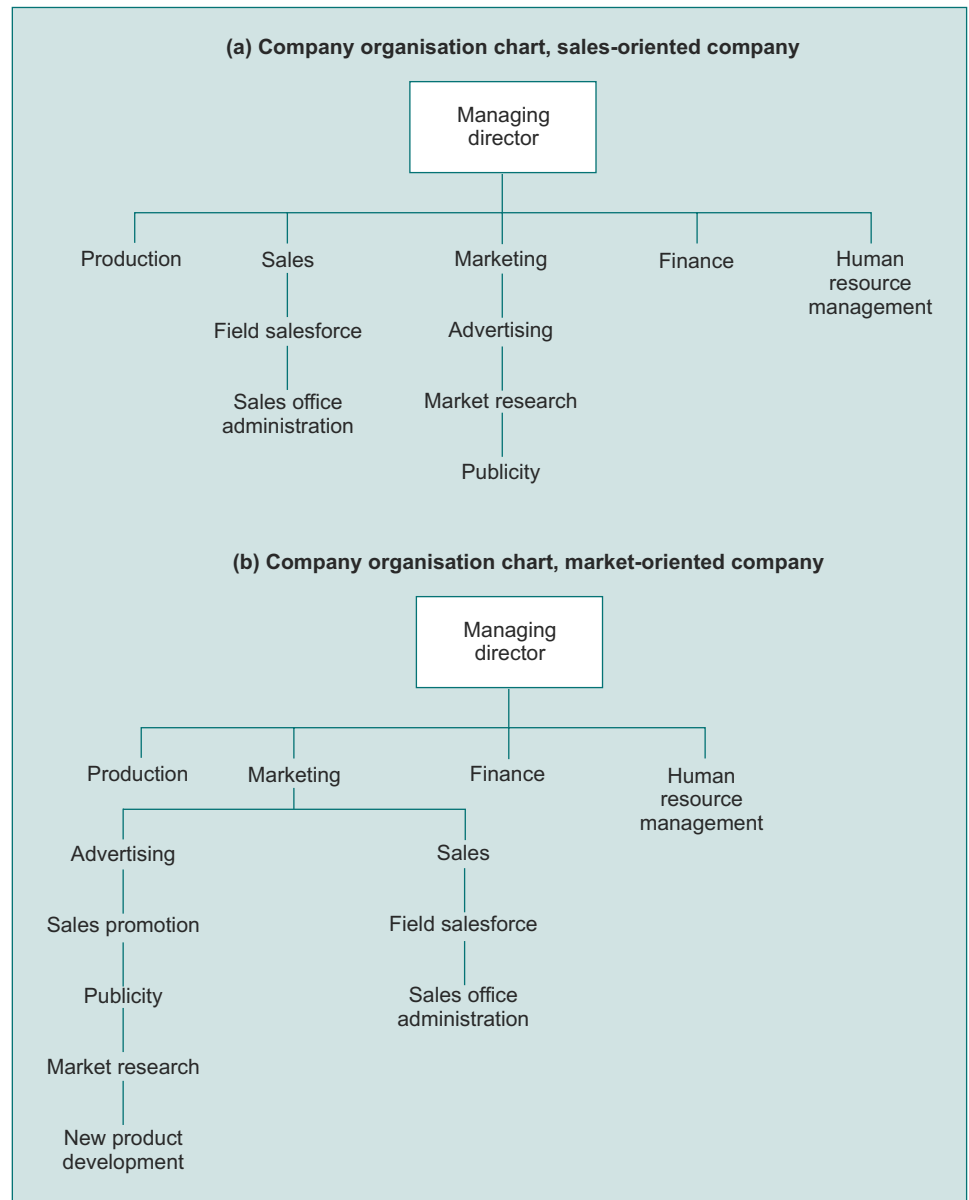
## 1.8 The Relationship between Sales and Marketing

Throughout this module we have examined the nature and roles of selling and sales management and have discussed a general move towards marketing orientation. In addition, we have seen that sales efforts influence and are influenced by decisions taken on the ingredients of a company's marketing mix, which in turn affect its overall marketing efforts. It is essential, therefore, that sales and marketing be fully integrated. The adoption of the marketing concept has in many companies been accompanied by changes in organisational structure, together with changes in the view of what constitutes the nature of selling.

Examples of the possible organisational implications of adopting the marketing concept are shown in Figure 1.7, which shows the organisation charts of a sales-oriented company and a marketing-oriented company.

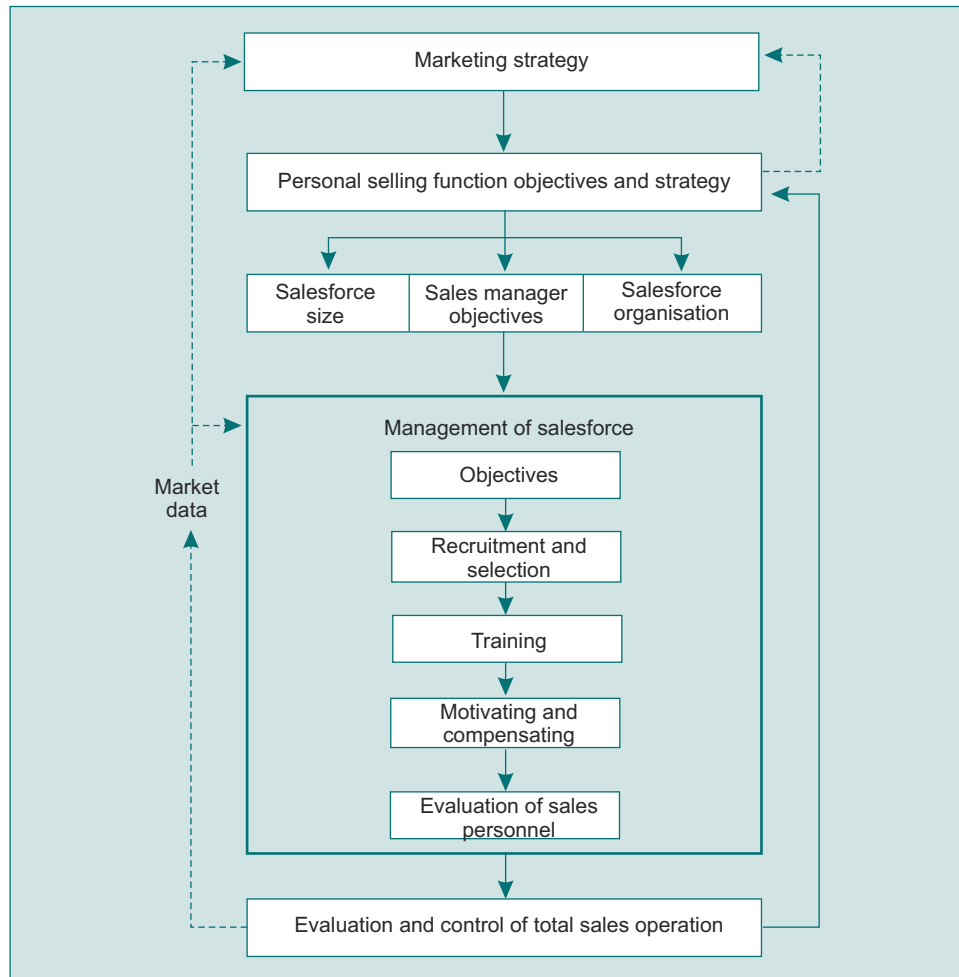
Perhaps the most notable difference between the pre and post marketing-oriented company is the fact that sales are later seen to be a part of the activity of the marketing function. In the marketing-oriented company, the marketing function takes on a much wider controlling and coordinating role across the range of company activities. This facet of marketing orientation is often misunderstood by those in sales, and a great deal of resentment is often engendered between sales and marketing. Such resentment is often due to insensitive and undiplomatic management when making the changes necessary to reorient a company. Selling is only a part of the total marketing programme of a company and this total effort should be coordinated by the marketing function. The marketing concept, however, does not imply that sales activities are any less important, or that marketing executives should hold the most senior positions in a company.

In addition to changes in organisational structure, the influence of the marketing function and the increased professional approach taken to sales has meant that the nature and role of this activity has changed. Selling and sales management are now concerned with the analysis of customers' needs and wants and, through the company's total marketing efforts, with the provision of benefits to satisfy these needs and wants. Figure 1.8 gives an overview of the relationship between marketing and personal selling and outlines the key areas of sales management.



**Figure 1.7 Organisational implications of adopting the marketing concept**

(a) company organisation chart for a sales-oriented company; and (b) company organisation chart for a market-oriented company.



**Figure 1.8 Marketing strategy and management of personal selling**

As with all parts of the marketing mix, the personal selling function is not a stand-alone element, but one that must be considered in the light of overall marketing strategy. At the product level, two major marketing considerations are the choice of target market and the creation of a differential advantage. Both of these decisions impact on personal selling.

### 1.8.1 Target Market Choice

The definition of a target market has clear implications for sales management because of its relationship with **target accounts**. Once the target market has been defined (e.g. organisations in a particular industry over a certain size), sales management can translate that specification into individual accounts to target. Salesforce resources can then be deployed to maximum effect.

## 1.8.2 Differential Advantage

The creation of a differential advantage is the starting point of successful marketing strategy, but this needs to be communicated to the salesforce and embedded in a sales plan that ensures they can articulate it convincingly to customers. There are two common dangers:

- The salesforce undermine differential advantage by repeatedly giving in to customer demands for price concessions.
- The features that underlie the differential advantage are communicated, but customer benefits are neglected. Customer benefits need to be communicated in terms that are meaningful to customers. This means, for example, that advantages such as higher productivity may require translation into cash savings or higher revenue for financially minded customers.

The second way in which marketing strategy affects the personal selling function is through strategic objectives. Each objective – build, hold, harvest and divest – has implications for sales objectives and strategy, outlined in Table 1.1. Linking business or product area strategic objectives with functional area strategies is essential for the efficient allocation of resources and effective implementation in the marketplace.

**Table 1.1 Marketing strategy and sales management**

Strategic marketing objective	Sales objective	Sales strategy
<b>Build</b>	Build sales volume	High call rates on existing accounts
	Increase distribution	High focus during call
	Provide high service levels	Call on new accounts (prospecting)
<b>Hold</b>	Maintain sales volume	Continue present call rates on current accounts
	Maintain distribution	Medium focus during call
	Maintain service levels	Call on new outlets when they appear
<b>Harvest</b>	Reduce selling costs	Call only on profitable accounts
	Target profitable accounts	Consider telemarketing or dropping the rest
	Reduce service costs and inventories	No prospecting
<b>Divest</b>	Clear inventory quickly	Quantity discounts to targeted accounts

Source: Strakle, W. and Spiro, R. L. (1986) 'Linking Market Share Strategies to Salesforce Objectives, Activities and Compensation Policies', *Journal of Personal Selling and Sales Management*, August, pp. 11–18.

As we have seen, selling objectives and strategies are derived from marketing strategy decisions and should be consistent with other elements of the marketing mix. Indeed marketing strategy will determine if there is a need for a salesforce at all, or whether the selling role can be better accomplished using some other medium such as direct mail.

Objectives define what the selling function is expected to achieve. Objectives are typically defined in the following terms:

- sales volume, e.g. 5 per cent growth in sales volume;
- market share, e.g. 1 per cent increase in market share;
- profitability, e.g. maintenance of gross profit margin;
- service levels, e.g. 20 per cent increase in number of customers regarding salesperson assistance as 'good or better' in annual customer survey;
- salesforce costs, e.g. 5 per cent reduction in expenses.

Salesforce strategy defines how those objectives will be achieved and the following may be considered:

- call rates;
- percentage of calls on existing versus potential accounts;
- discount policy (the extent to which reductions from list prices is allowed);
- percentage of resources targeted at new versus existing products;
- percentage of resources targeted at selling versus providing after-sales service;
- percentage of resources targeted at field selling versus telemarketing;
- percentage of resources targeted at different types of customer (e.g. high versus low potential);
- improving customer and market feedback from the salesforce;
- improving customer relationships.

## 1.9 Conclusion

The nature and role of selling and sales management have been outlined and discussed and some of the more widely held misconceptions about these activities explored. It was suggested that selling and sales management are becoming more professional, and those individuals involved in these activities must now be trained and skilled in a range of managerial techniques.

One of the most significant developments in modern business thinking and practice has been the development of the marketing concept. Companies have moved from being production oriented, through being sales oriented to marketing orientation.

Some of the key concepts in marketing were outlined, including market segmentation and targeting, the product life cycle and the marketing mix. The implications of marketing orientation for sales activities and the role of selling in the marketing programme have been demonstrated.

Because of the emphasis given in marketing to the needs and wants of the customer, Module 3 is concerned with exploring further the nature of consumer and organisational buying behaviour.

## Review Questions

### Content Questions

- I.1 Why do companies spend large sums of money training their sales personnel in the art of selling?
- I.2 What are the main differences between order-takers, order-creators and order-getters?
- I.3 What are the three main types of order-taker and how do their roles differ?
- I.4 What is the role of a missionary salesperson?
- I.5 What is the role of a merchandiser?
- I.6 What is the role of the sales manager and what specific duties and responsibilities do they have?
- I.7 Describe the three stages in the evolution of modern business practice.
- I.8 Define market segmentation.
- I.9 What are the benefits of market segmentation?
- I.10 What bases may be used to segment industrial markets?
- I.11 What are the elements of the marketing mix?
- I.12 Explain the product life cycle concept?
- I.13 Describe the adoption process.
- I.14 What factors should be considered when making pricing decisions?

### Multiple-Choice Questions

- I.15 Is selling characterised by a wide diversity of roles or a limited diversity of roles? Is selling characterised by increasing professionalism or decreasing professionalism?
  - A. Limited diversity, increasing professionalism.
  - B. Wide diversity, increasing professionalism
  - C. Limited diversity, decreasing professionalism
  - D. Wide diversity, decreasing professionalism
- I.16 Which type of selling job requires a salesperson to actively seek out potential buyers and use persuasive selling techniques?
  - A. Order-taker.
  - B. Order-getter.
  - C. Order-creator.
  - D. Missionary selling.

- 1.17 Gardenware, a manufacturer of earthenware garden plant pots, plans to extend its range of products to include garden furniture. To sell the new range, the company decides to employ new salespeople to act as order-creators. What will be their main selling task?
- A. To create goodwill.
  - B. To persuade the customer to make a direct purchase.
  - C. To provide sales support in retail and wholesale selling.
  - D. To persuade the customer to specify the seller's products.
- 1.18 It is also proposed that Gardenware should appoint merchandisers. What will be their main selling task?
- A. To create goodwill.
  - B. To persuade the customer to make a direct purchase.
  - C. To provide sales support in retail and wholesale selling.
  - D. To persuade the customer to specify the seller's products.
- 1.19 Who handles the bulk of all sales transactions?
- A. Order-takers.
  - B. Order-getters.
  - C. Order-creators.
  - D. Missionary salespeople.
- 1.20 Something holds that the key to successful and profitable business rests with identifying the needs and wants of customers and providing products and services to satisfy these needs and wants. What is that something?
- A. Production orientation.
  - B. Sales orientation.
  - C. The marketing concept.
  - D. The marketing mix.
- 1.21 Have a look at these two statements:
- I. A benefit of effective market segmentation and targeting is the design of product and market appeals which are more finely tuned to the needs of the market.
  - II. A benefit of effective market segmentation and targeting is the focusing of marketing and sales efforts on those segments with the greatest potential.
- Now choose the correct option.
- A. Only statement I is true.
  - B. Only statement II is true.
  - C. Statements I and II are true.
  - D. Neither statement is true.
- 1.22 Toyota notices that a large number of sport utility vehicles are sold in the south of England. Which segmentation descriptor is it considering?
- A. Income.
  - B. Age.
  - C. Geography.
  - D. Occupation.

- I.23 Inventory, channels of distribution and number of intermediaries relate to which element of the marketing mix?
- A. Place.
  - B. Product.
  - C. Price.
  - D. Promotion.
- I.24 There is a stage in the normal product life cycle when product purchases are limited because consumers in the target market are unaware of the product's existence or because of its lack of availability. What is that stage?
- A. Growth.
  - B. Maturity.
  - C. Decline.
  - D. Introduction.
- I.25 If a new product aims to capture a substantial market share, what is likely to be the most appropriate pricing strategy?
- A. Market penetration.
  - B. Market skimming.
  - C. Market segmentation.
  - D. Exclusive distribution.
- I.26 What is the name for the first 2.5 per cent of first-time adopters?
- A. Innovators.
  - B. Laggards.
  - C. Early adopters.
  - D. Late majority.
- I.27 What is the name for the last group to adopt a new product?
- A. Innovators.
  - B. Laggards.
  - C. Early adopters.
  - D. Late majority.
- I.28 As production output increases up to the limit of plant capacity, what will happen to total variable costs?
- A. They will increase.
  - B. They will stay the same.
  - C. They will decrease.
  - D. They will change in ways that cannot be predicted.
- I.29 As production output increases up to the limit of plant capacity, what will happen to total fixed costs?
- A. They will increase.
  - B. They will stay the same.
  - C. They will decrease.
  - D. They will change in ways that cannot be predicted.

- I.30 Which of these products is likely to diffuse quickly in the market?
- A. Pokemon.
  - B. Microwave ovens.
  - C. Video telephones.
  - D. Digital cameras.
- I.31 Have a look at these two statements:
- I. A product is likely to diffuse slowly in the market if it is complex.
  - II. A product is likely to diffuse slowly in the market if it is easy to communicate or describe.
- Now choose the correct option.
- A. Only statement I is true.
  - B. Only statement II is true.
  - C. Statements I and II are true.
  - D. Neither statement is true.
- I.32 Have a look at these two statements:
- I. Distribution is moving goods and materials into the factory.
  - II. Distribution is moving goods and materials through the factory and on to the final consumer.
- Now choose the correct option.
- A. Only statement I is true.
  - B. Only statement II is true.
  - C. Statements I and II are true.
  - D. Neither statement is true.
- I.33 Exclusive distribution would probably be used to distribute what?
- A. Coca-Cola beverages.
  - B. Timex watches.
  - C. Rolls-Royce cars.
  - D. Sony video recorders.
- I.34 Personal selling is part of which element of the marketing mix?
- A. Place.
  - B. Product.
  - C. Price.
  - D. Promotion.
- I.35 Which of the following cannot be used to define objectives of the selling function?
- A. Sales volume.
  - B. Market share.
  - C. Salesforce costs.
  - D. Discount policy.
- I.36 Which of the following is not a stage in the normal product life cycle?
- A. Growth.
  - B. Maturity.
  - C. Introduction.
  - D. Monopoly.

- I.37 Avalon manufactures and markets a range of cosmetics. The sales manager recently announced at a sales strategy meeting that this year the salesforce should continue present call rates on existing accounts, with limited prospecting activities. The strategic marketing objective is likely to be what?
- A. Harvest.
  - B. Build.
  - C. Hold.
  - D. Divest.
- I.38 The sales manager of Avalon added that changes in the marketing environment may mean that next year the salesforce will call only on profitable accounts and no prospecting activity will take place at all. This means that next year the strategic marketing objective may change to what?
- A. Harvest.
  - B. Build.
  - C. Hold.
  - D. Divest.

## Case Study 1.1: Mephisto Products

'Yet another poor year,' reflected the senior executive of Mephisto Products Ltd. 'Profits down by 15 per cent, sales and turnover static in a market that was reckoned to be growing at a rate of some 20 per cent per annum. It cannot go on.' These were the thoughts of Jim Bullins, and he contended that the company would be out of business if the next year turned out to be as bad.

Jim Bullins had been senior executive at Mephisto for the past three years. In each of these years he had witnessed a decline in sales and profits. The company produced a range of technically sophisticated electromechanical control devices for industry. The major customers of Mephisto were in the chemical processing industry. The products were fitted to the customer's processing plant in order to provide safety and cut-out mechanisms, should anything untoward happen in the manufacturing process.

The products were sold through a UK salesforce of some 12 people. Each represented a different area of the country and all were technically qualified mechanical or electrical engineers. Although some 95 per cent of Mephisto's sales were to the chemical industry, there were many more applications for electromechanical control devices in a wide variety of industries.

The reason that sales were concentrated in just the one industry was historical, in that the firm's founder, James Watkinson, had some 30 years earlier married the daughter of the owner of a major detergent manufacturer. As an engineer, Watkinson had seen the potential for such devices in this type of manufacture and, with the aid of a small loan from his father-in-law, had commenced manufacture of such devices, initially for his father-in-law's company and later for wider application in the chemical industry. Watkinson had long since resigned from active participation in Mephisto Products, although he still held a financial interest. However, the philosophy Watkinson had brought to the business was one that still pervaded business thinking at Mephisto.

The essence of this philosophy was centred on product and production excellence, backed by strong technical sales support. Watkinson had believed that if the product was right, i.e. well designed and manufactured to the highest level of quality, there would be a market. Needless to say, such a product then needed selling (because customers were not necessarily aware that they had a need for such safety mechanisms) and salespeople were encouraged to use what may be described as high-pressure salesmanship, pointing out the consequences of not having such mechanisms in a manufacturing plant. They therefore tended to emphasise the negative aspects (of not having such devices) rather than the positive aspects (of how good they were, how time-saving during a plant breakdown, etc.).

Needless to say, in Watkinson's day, such products then needed selling and, even though sales were to industrial purchasers, it was felt that such selling techniques were justified. This philosophy still pertained, and new salespeople were urged to remember that, unless they were pressed, most customers would not consider updating their control equipment.

Little advertising and sales promotion was carried out by the company, although from time to time, when there was a little spare cash, the company did purchase advertising space in *The Chemical Processors' Quarterly*. Pricing was done on a cost-plus basis, with total costs being calculated and a fixed percentage added to account for profits. Prices were thus fixed by the accounts department, and sales had no say in how they were established. This led to much dissent among the salespeople, who constantly argued that prices were not competitive and that if they were cut, sales could be increased substantially.

Delivery times were slow compared with the industry average, there were few discounts for large order quantities, and all discounts had to be cleared with accounts before the salesperson could agree them with the customer. Again, Watkinson's old philosophy still prevailed: If they want the product badly enough, they will wait for it. And why offer discounts for large quantities? If they did not want that many, they would not order them.

During the previous five years, from being a relatively successful company, market share for Mephisto Products dropped substantially. The market became much more competitive with many new entrants, particularly from EU countries coming into the UK market, which had traditionally been supplied by UK manufacturers. Many of these new entrants had introduced new and updated products to the market, exploiting recent advances in electronics. These new products were seen by the market as being technically innovative, but the view taken by Mephisto management was that they were faddish and once the novelty had worn off, customers would come back to their superior products.

Unlike many of his colleagues, Jim Bullins was worried by developments over the past five years and felt there was a need for many changes. He was aware that the more successful new entrants to the industry had introduced a marketing philosophy into their operations. Compared with ten years ago in this type of business, it was now common practice for companies to appoint marketing managers. Furthermore, he knew from talking to other people in the industry that such companies considered sales to be an integral part of marketing. At a recent meeting with his senior staff, he mentioned to the sales manager the possibility of appointing a marketing director. The sales manager, who was shortly expecting to be made sales director, was scathing about the idea. His view was that marketing was suitable for a baked bean manufacturer but not for a company engaged in the manufacture and sale of sophisticated control devices for the chemicals industry. He argued that Mephisto's customers would not be swayed by superficial advertising and marketing ploys.

Although Jim Bullins always took heed of advice from his senior managers, recent sales figures had convinced him that the time had now come to make some changes. He would start, he decided, by appointing a marketing manager in the first instance. This person would have marketing experience and would come, most probably, from the chemical industry. The person appointed would have equal status to the sales manager, and ultimately either the new appointee or the existing sales manager would be promoted to the board of directors.

### Questions

- 1 Criticise Mephisto Products' approach to sales and marketing.
- 2 Comment on the following as they exist now at Mephisto Products: (a) marketing orientation, (b) the marketing mix, (c) the product life cycle.
- 3 What problems can you anticipate if Jim Bullins appoints a marketing manager?
- 4 If appointed, what problems can you foresee for the new marketing manager?
- 5 What general advice can you give to the company to make it more marketing oriented?

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