

Everyone lives by selling something.

ROBERT LOUIS STEVENSON

Personal selling and direct marketing

CHAPTER

nineteen

Chapter objectives

After reading this chapter, you should be able to:

- Discuss the role of a company's salespeople in creating value for customers and building customer relationships.
- Identify and explain the major sales force management steps.
- Discuss the personal selling process, distinguishing between transaction-oriented marketing and relationship marketing.
- Define direct marketing and discuss its benefits to customers and companies.
- Identify and discuss the major forms of direct marketing.

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Prelude case MD Foods AMBA: rethinking its sales force strategy and structure

MD Foods AMBA, owned by over 8,000 Danish farmers, is Denmark's largest dairy cooperative. Production facilities are spread across the country. Through MD Foods International (MDI), MD operates its production and distribution facilities in England. Cooperative arrangements with counterparts such as Arla in Sweden and Arla's sales force in Finland enabled MD to establish a strong presence in the Scandinavian markets. In milk tonnage terms, MD is now the fourth largest dairy in Europe. MD also has sales subsidiaries in England, France, Germany, Greece, Italy, Poland, Norway, Sweden and the Middle East.

A number of important changes have occurred in the European market environment in the past decade.

Europe's dairy industry is dominated by national producers. Generic products are typically marketed by product type, such as brie, feta, camembert and so forth, which are internationally known. MD faces increasing competition not only from national and local producers but also from international companies with a track record in product development and branding.

A number of important changes have occurred in the European market environment in the past decade. These include the withdrawal of EU subsidies to the export of dairy products to non-EU countries in 1996, the increasing concentration of food retailers in Europe and the increasing centralisation in retailers' buying decision making as well as product mix planning. MD accounts for a third of total EU exports of feta cheese. The end of subsidies to exports to markets such as the Middle East has had a big impact on MD's profits, putting heavy pressure on the company to shift milk used for feta production to other products (such as milk powders and yellow cheeses) for EU customers.

Apart from deciding which product group(s) to emphasise, another major problem confronting MD is how to develop a more effective sales and marketing structure to compete cost-effectively in these market situations.

In the past, MD has based its sales organisation on geographical and national considerations. Moreover, the focus of the sales force was on individual stores rather than retail chains or key accounts. With the emerging retail concentration and centralisation of buying and planning functions in customers' organisations, MD recognises the need to respond to these pressures and to consider the options for managing the sales function, from analysing sales to managing key accounts. The time was right for dramatic action.

A key opportunity arose when one customer – a large international retailer – introduced the idea of key account management to MD. This one customer's European turnover from MD exceeded the turnover of many of MD's subsidiaries, making it more important than some of MD's geographic markets. MD decided to introduce key account management in its sales and

marketing organisations, starting in Denmark, where retail concentration is high and MD has a dominant market position. Essentially, three key account managers were appointed to serve specific key accounts, divided into FDB, the Danish cooperative; DS, a private retail group together with Aldi, part of a German retail group; and other retailers. The key account managers worked as a team with three trade managers (who have in-store marketing and space management expertise) in relation to the specific key accounts. The Sales Director coordinated the key account managers, while the trade managers reported to the national trade marketing manager. In this way, MD could achieve optimisation of the sales force, while also ensuring that know-how is shared through coordination of trade marketing.

The organisational change piloted in Denmark was later introduced in Sweden, but reactions from both MD's subsidiary and major Swedish retailers were less positive. At headquarters, MD is contemplating what steps to take next. What should MD's sales force strategy and organisational structure for sales be? Should the key account management format be applied in other markets? Should the key account managers be responsible for the sales force assigned to their key account? Existing sales forces also vary in size, from 15 to four people. Large sales forces dealing with stores with more autonomous management see to tasks such as sales, merchandising, displays, placing signs and posters and new campaigns. Smaller sales forces serve the highly centralised retailers and handle merchandising and displays. New developments must also take into account different workloads, skills and career developments for sales forces and key account managers serving different retailers and geographic markets. What will satisfy customer and employee requirements? Finally, can the new structure that is evolved be successfully applied to MD's operations across Europe?¹

Questions

1. Why does MD Foods rely on a sales force to sell its products?
2. What are the key considerations that MD Foods needs to take into account in setting its sales force's objectives, strategy, structure and compensation? Identify the trade-offs involved in each of these decisions.
3. What are the key challenges facing MD Foods in developing and implementing an organisational structure that will satisfy both customers and employees (sales force, marketing and key account managers)? Recommend and justify a strategy for MD Foods.

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Introduction

The questions in the prelude case reflect some of the critical issues that management must address when determining sales force strategy and structure. Indeed, the decisions called for are relevant not only for MD Foods, as in the prelude case, but also for any firm that uses a sales force to help it market its goods and services.

In the previous two chapters, you learned about integrated marketing communication (IMC) and three specific elements of the marketing communications mix – advertising, sales promotion and publicity. This chapter is about the final two IMC elements – *personal selling* and *direct marketing*. Both involve direct connections with customers aimed towards building customer-unique value and lasting relationships.

Personal selling is the interpersonal arm of marketing communications in which the sales force interacts with customers and prospects to make sales and build relationships. Direct marketing consists of direct connections with carefully targeted consumers to both obtain an immediate response and cultivate lasting customer relationships. Actually, direct marketing can be viewed as more than just a communications tool. In many ways, it constitutes an overall marketing *approach* – a blend of communications and distribution channels all rolled into one. As you read on, remember that although this chapter examines personal selling and direct marketing as separate tools, they must be carefully integrated with other elements of the marketing communication mix.

Personal selling

Robert Louis Stevenson once noted that ‘everyone lives by selling something’. We are all familiar with the sales forces used by business organisations to sell products and services to customers around the world. Sales forces are found in non-profit as well as profit organisations. Churches use membership committees to attract new members. Hospitals and museums use fund-raisers to contact donors and raise money. In the first part of this chapter, we examine the role of personal selling in the organisation, sales force management decisions and the personal selling process.

The nature of personal selling

Selling is one of the oldest professions in the world. The people who do the selling go by many names: *salespeople*, *sales representatives*, *account executives*, *sales consultants*, *sales engineers*, *field representatives*, *agents*, *district managers*, *marketing representatives* and *account development reps*, to name a few.

When someone says ‘salesperson’, what image comes to mind? Perhaps it’s the stereotypical ‘travelling salesman’ – the fast-talking, ever-smiling peddler who travels his territory foisting his wares on reluctant customers. Such stereotypes, however, are sadly out of date. Today, most professional salespeople are well-educated, well-trained men and women who work to build long-term, value-producing relationships with their customers. They succeed not by taking customers in but by helping them out – by assessing customer needs and solving customer problems.

Consider Airbus, the aerospace company that markets commercial aircraft. It takes more than a friendly smile and a firm handshake to sell expensive computer systems. Selling high-tech aircraft that each cost tens of millions of euros is complex and challenging. A single big sale can run into billions of euros. Airbus salespeople head up an extensive team of company sales specialists – sales and service technicians, financial analysts, planners, engineers – all dedicated to finding ways to satisfy airline customer needs. The salespeople begin by becoming experts on the airlines. They find out where each airline wants to grow, when it wants to replace planes and details of its financial situation. The team runs Airbus and rival planes through computer systems, simulating the airline’s routes, cost per seat and other factors to show that their planes are most efficient. Then the high-level negotiations begin. The selling process is nerve-rackingly slow – it can take two to three years from the first sales presentation to the day the sale is announced. Sometimes top executives from both the airline and the company are brought in to close the deal. After getting the order, salespeople must stay in almost constant touch to keep track of the account’s equipment needs and to make certain the customer stays satisfied. Success depends on building solid, long-term relationships with customers, based on performance and trust. ”

Salesperson—An individual acting for a company by performing one or more of the following activities: prospecting, communicating, servicing and information gathering.

The term **salesperson** covers a wide range of positions. At one extreme, a salesperson might be largely an *order taker*, such as a department store salesperson standing behind the counter. At the other extreme are the *order getters*, salespeople whose job demands the *creative selling* of products and services ranging from appliances, industrial equipment or aeroplanes to insurance, advertising or consulting services. Other salespeople engage in *missionary selling*, whereby they are not expected or permitted to take an order, but only build goodwill or educate buyers. An example is a salesperson for a pharmaceutical company who calls on doctors to educate them about the company’s drug products and to urge them to prescribe these products to their patients. In this chapter, we focus on the more creative types of selling and on the process of building and managing an effective sales force.²

The role of the sales force

Personal selling is the interpersonal arm of the promotion mix. Advertising consists of one-way, non-personal communication with target consumer groups. In contrast, personal selling involves two-way personal communication between salespeople and individual customers – whether face to face, by telephone, through videoconferences or by other means. As such, personal selling can be more effective than advertising in more complex selling situations. Salespeople can probe customers to learn more about their problems. They can adjust the marketing offer to fit the special needs of each customer and can negotiate terms of sale. They can build long-term personal relationships with key decision makers.

The role of personal selling varies from company to company. Some firms have no salespeople at all – for example, organisations that sell only through mail-order catalogues or through manufacturers’ representatives, sales agents or brokers. In most firms, however, the sales force plays a major role. In companies that sell business products, such as ABB or DuPont, the salespeople may be the only contact. To these customers, the sales force *is* the

At the same time, salespeople *represent customers to the company*, acting inside the firm as a ‘champions’ of customers’ interests and managing buyer–seller relationships. Thus, the salesperson often acts as an ‘*account manager*’ who manages the relationship between the seller and buyer. Salespeople relay customer concerns about company products and actions back to those who can handle them. They learn about customer needs and work with others in the company to develop greater customer value. The old view was that salespeople should worry about sales and the company should worry about profit. However, the current view holds that salespeople should be concerned with more than just producing sales – they should work with others in the company to produce *customer satisfaction* and *company profit*.

As companies move towards a stronger market orientation, their sales forces are becoming more market focused and customer oriented. Today, organisations expect salespeople to look at sales data, measure market potential, gather market intelligence and develop marketing strategies and plans. They should know how to orchestrate the firm’s efforts towards delivering customer value and satisfaction. A market-oriented rather than a sales-oriented sales force will be more effective in the long run. Beyond winning new customers and making sales, it will help the company to create long-term, profitable relationships with customers. As such, the company’s sales team can be a central force in an organisation’s relationship marketing programme. Relationship marketing is discussed in greater detail in Chapter 11.

Managing the sales force

Sales force management—

The analysis, planning, implementation and control of sales force activities. It includes setting sales force objectives; designing sales force strategy; and recruiting, selecting, training, supervising and evaluating the firm’s salespeople.

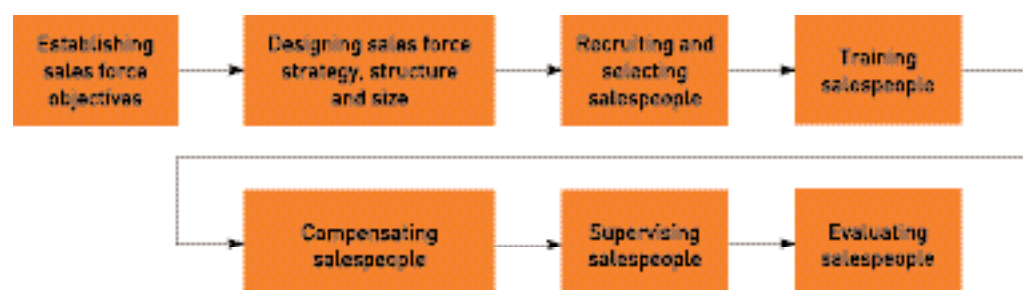
We define **sales force management** as the analysis, planning, implementation and control of sales force activities. It includes setting sales force objectives, designing sales force strategy and structure, recruiting, selecting, training, compensating, supervising and evaluating the firm’s salespeople. The primary sales force management decisions are shown in Figure 19.1. Let us take a look at each of these decisions next.

Setting sales force objectives

Companies set different objectives for their sales forces. Salespeople usually perform one or more of the following tasks:

- *Prospecting*. Finding and developing new customers.
- *Communicating*. Communicating information about the company’s products and services.
- *Selling*. Selling products by approaching customers, presenting their products, answering objections and closing sales.
- *Servicing*. Providing services to customers (e.g. consulting on problems, providing technical assistance, arranging finance).
- *Information gathering*. Carrying out market research and intelligence work, and filling out sales call reports.

Figure 19.1 Major steps in sales force management



Chapter 19 Personal selling and direct marketing

Some companies are very specific about their sales force objectives and activities. For example, a company may advise its salespeople to spend 80 per cent of their time with current customers and 20 per cent with prospects, and 85 per cent of their time on current products and 15 per cent on new products. The company believes that if such norms are not set, salespeople tend to spend almost all of their time selling current products to current accounts and neglect new products and new prospects.

Designing sales force strategy and structure

Marketing managers face several sales force strategy and design questions. How should salespeople and their tasks be structured? How big should the sales force be? Should salespeople sell alone or work in teams with other people in the company? Should they sell in the field or by telephone? How should salespeople be compensated? And how should performance be rewarded where selling tasks are shared across members within the sales team? We address these issues below.

Sales force strategy

Every company competes with other firms to get orders from customers. Thus it must base its strategy on an understanding of the customer buying process. A company can use one or more of several sales approaches to contact customers. An individual salesperson can talk to a prospect or customer in person or over the phone, or make a sales presentation to a buying group. Similarly, a sales *team* (such as a company executive, a salesperson and a sales engineer) can make a sales presentation to a buying group. In *conference selling*, a salesperson brings resource people from the company to meet with one or more buyers to discuss problems and opportunities. In *seminar selling*, a company team conducts an educational seminar about state-of-the-art developments for a customer's technical people.

Often, the salesperson has to act as an account manager who arranges contacts between people in the buying and selling companies. Because salespeople need help from others in the company, selling calls for teamwork. Others who might assist salespeople include top management, especially when big sales are at stake; technical people who provide technical information to customers; customer service representatives who provide installation, maintenance and other services to customers; and office staff, such as sales analysts, order processors and secretaries.

Once the company decides on a desirable selling approach, it can use either a direct or a contractual sales force. A *direct* (or *company*) *sales force* consists of full- or part-time employees who work exclusively for the company. This sales force includes *inside salespeople*, who conduct business from their offices via telephone or visits from prospective buyers, and *field salespeople*, who travel to call on customers. A *contractual sales force* consists of manufacturers' reps, sales agents or brokers who are paid a commission based on their sales.

Sales force structure

Sales force strategy influences the structure of the sales force. A company can divide up sales responsibilities along any of several lines. The decision is simple if the company sells only one product line to one industry with customers in many locations. In that case the company would use a *territorial sales force structure*. If the company sells many products to many types of customer, it might need either a *product sales force structure*, a *customer sales force structure*, or a combination of the two.

Territorial sales force structure

In the **territorial sales force structure**, each salesperson is assigned to an exclusive geographic area and sells the company's full line of products or services to all customers in that territory.

Territorial sales force structure—A sales force organisation that assigns each salesperson to an exclusive geographic territory in which that salesperson carries the company's full line.

This organisation clearly defines the salesperson's job and fixes accountability. It also increases the salesperson desire to build local business relationships that, in turn, improve selling effectiveness. Finally, because each salesperson travels within a small geographic area, travel expenses are relatively small.

Product sales force structure

Salespeople must know their products, a task that is not easy if the company's products are numerous, unrelated and technically complex. This, together with the growth of product management, has led many companies to adopt a **product sales force structure**, in which the sales force sells along product lines. For example, Kodak uses different sales forces for its film products and its industrial products. The film products sales force deals with simple products that are distributed intensively, whereas the industrial products sales force deals with complex products that require technical understanding.

The product structure can lead to problems, however, if a given customer buys many of the company's products. For example, a hospital supply company may have several product divisions, each with a separate sales force. Several salespeople might end up calling on the same hospital on the same day. This means that they travel over the same routes and wait to see the same customer's purchasing agents. These extra costs must be measured against the benefits of better product knowledge and attention to individual products.

Customer sales force structure

More and more companies are using a **customer sales force structure**, whereby they organise the sales force along customer or industry lines. Separate sales forces may be set up for different industries, for serving current customers versus finding new ones, and for large accounts versus regular accounts.

Organising its sales force around customers can help a company to become more customer focused. For example, giant ABB, the Swiss-based industrial equipment maker, changed from a product-based to a customer-based sales force. The new structure resulted in a stronger customer orientation and improved service to clients:

David Donaldson sold boilers for ABB. After 30 years, Donaldson sure knew boilers, but he didn't know much about the broad range of other products offered by ABB's Power Plant division. Customers were frustrated because as many as a dozen ABB salespeople called on them at different times to peddle their products. Sometimes representatives even passed each other in customers' lobbies without realising that they were working for the same company. ABB's bosses decided that this was a poor way to run a sales force. So, David Donaldson and 27 other power plant salespeople began new jobs. [Donaldson] now also sells turbines, generators, and three other product lines. He handles six major accounts . . . instead of a [mixed batch] of 35. His charge is to know the customer intimately and sell him the products that help him operate productively. Says Donaldson: 'My job is to make it easy for my customer to do business with us . . . I show him where to go in ABB whenever he has a problem.' The president of ABB's power plant businesses [adds]: 'If you want to be a customer-driven company, you have to design the sales organisation around individual buyers rather than around your products.'³

Product sales force

structure—A sales force organisation under which salespeople specialise in selling only a portion of the company's products or lines.

Customer sales force

structure—A sales force organisation under which salespeople specialise in selling only to certain customers or industries.

Complex sales force structures

When a company sells a wide variety of products to many types of customer over a broad geographical area, it often combines several types of sales force structure. Salespeople can be specialised by customer and territory, by product and territory, by product and customer, or by territory, product and customer. A salesperson might then report to one or more line and staff managers. No single structure is best for all companies and situations. Each organisation should select a structure that best serves the needs of its customers and fits its overall marketing strategy.

Sales force size

Once the company has set its strategy and structure, it is ready to consider *sales force size*. Salespeople constitute one of the company's most productive – and most expensive – assets. Therefore, increasing their number will increase both sales and costs.

The past few years have seen a reduction in sales force size. Advances in selling technology, such as selling on the Internet or the use of account management software, make salespeople more efficient in handling customers and can even replace salespeople altogether.⁴

Many companies use some form of **workload approach** to set sales force size. The company groups accounts according to size, account status or other factors related to the amount of effort required to maintain them. It then determines the number of salespeople needed to call on them the desired number of times. The logic is as follows. Suppose we have 1,000 Type-A accounts each requiring 36 calls per year, and 2,000 Type-B accounts each requiring 12 calls per year. In this case, the sales force's *workload*, as defined by the number of calls it must make per year, is 60,000 calls (36,000 + 24,000). Suppose our average salesperson can make 1,000 calls a year. The company thus needs 60 salespeople (60,000/1,000).

Other sales force strategy and structure issues

Sales management also have to decide who will be involved in the selling effort and how various sales and sales support people will work together.

Outside and inside sales forces

The company may have an **outside sales force** (or field sales force), an **inside sales force** or both. Outside salespeople travel to call on customers, whereas inside salespeople conduct business from their offices via telephone or visits from prospective buyers.

To reduce time demands on their outside sales forces, many firms have increased the size of their inside sales team, which includes technical support people, sales assistants and telemarketers. Technical support people provide technical information and answers to customers' questions. Sales assistants provide clerical back-up for outside salespeople. They call ahead and confirm appointments, conduct credit checks, follow up on deliveries and answer customers' queries when salespeople cannot be reached. Telemarketers use the phone to find new leads and qualify prospects for the field sales force or to sell and service accounts directly.

The inside sales force frees salespeople to spend more time selling to major accounts and finding major new prospects. Depending on the complexity of the product and customer, a telemarketer can make 20–30 decision-maker contacts a day, compared to the average of four that an outside salesperson can make. For many types of product and selling situation, **telemarketing** can be as effective as a personal sales call, but much less expensive. For example, whereas a typical personal sales call can cost well over £200, a routine industrial telemarketing call costs between £5 and £20 depending on the complexity of the call.

Just as telemarketing is changing the way that many companies go to market, the Internet offers explosive potential for restructuring sales forces and conducting sales operations. More

Workload approach—An approach to setting sales force size, whereby the company groups accounts into different size classes and then determines how many salespeople are needed to call on them the desired number of times.

Outside sales force—Outside salespeople (or field sales force) who travel to call on customers.

Inside sales force—Salespeople who service the company's customers and prospect from their offices via telephone or visits from prospective customers.

Telemarketing—Using the telephone to sell directly to consumers.

and more companies are now using the Internet to support their personal selling efforts, ranging from selling and training salespeople to conducting sales meetings and servicing accounts. Electronic negotiations are also taking root, with more and more organisations using the Web to conduct sales negotiations.

Take an extreme example which is found in the soccer world. Managers of some of the world's biggest football clubs – including Manchester United, Eindhoven, Olympique Marseille, Inter Milan and the entire Brazilian first division – have negotiated transfers of players using a private (members-only) business-to-business (B2B) site, run by InterClub (developed by the German consultancy realTech and communications systems company InterClubNet). Similar marketplaces are being developed with other big-money sports such as ice hockey and basketball. ”

E-negotiation has its merits. For a start, the emails last for ever. The *durability* of emails enables negotiators to keep track of negotiations with each of the half-dozen or more companies involved at the same time. A second advantage is the *instant record-keeping* that e-negotiations entail. Although the telephone is cheaper and faster and can convey more information than a quick email, there are distinct advantages for negotiators using email or electronic sites. The negotiations can be done at lower cost and at a time that is convenient for the parties involved.

Sceptics, not surprisingly, argue that negotiations are more likely to go well if conducted face to face. There is only so much that one can accomplish in an exchange through keyboards and screens. Proponents, however, note that e-negotiations can be facilitated by the brief getting-to-know-you telephone call. And there is nothing to stop the negotiators from breaking the ice by swapping photographs and personal details before negotiations commence. Moreover, not all electronic negotiations take place between strangers, and e-negotiations can go well when the parties involved already know each other.

However, the durability and immediacy of emails mean that each piece of correspondence must be re-read and double-checked to minimise confusion, misunderstanding and embarrassment. It is much more difficult for the negotiator to retract information or 'emotions' once he or she has 'hit the send button'. Experts urge e-negotiators to heed the lessons learnt by every Victorian letter-writer – the best policy is: 'when in doubt, leave it overnight'. There is no better filter to apply to an angry note than a good night's sleep.⁵

Team selling

As products become more complex, and as customers grow larger and more demanding, a single salesperson simply can't handle all of a large customer's needs. Instead, most companies are now using **team selling** to service large, complex accounts. Companies are finding that sales teams can unearth problems, solutions and sales opportunities that no individual salesperson could. Such teams might include people from any area or level of the selling firm – sales, marketing, technical and support services, R&D, engineering, operations, finance and others. In team selling situations, the salesperson shifts from 'soloist' to 'orchestrator' who helps coordinate a whole-company effort to build profitable relationships with key customers.⁶

Team selling does have its pitfalls. Selling teams can confuse and overwhelm customers who are used to working with only one salesperson. Salespeople who are used to having customers all to themselves may have trouble learning to work with and trust others on a team. Finally, difficulties in evaluating individual contributions to the team selling effort can create some sticky compensation issues.

Team selling—Using teams of people from sales, marketing, production, finance, technical support, and even upper management to service large, complex accounts.

Key account management

Continuing relationships with large customers dominate the activities of many sales organisations. For makers of fast-moving consumer goods such as Procter & Gamble, Unilever and Danone, the relationship is with major retailers such as Tengelmann, Carrefour, Tesco or Ahold. The importance of these retailers has changed the way marketing as a whole is being organised. *Account managers* often orchestrate the relationship with a single retailer, although some will manage several smaller retailers or a group of independent outlets. Any major retailer will probably always be carrying major manufacturers' brands, so the account manager's role is one of increasing the profitability of sales through the channel. In this arrangement a great deal of sales promotions effort and advertising is customised for retailers that want exclusive lines or restrict the sort of promotions that they accept.

The situation is very similar in industrial sales organisations when a supplier has to sell components, raw materials, supplier or capital equipment in the concentrated markets described in Chapter 7. Even when a prospect is not a client, there are regular contacts at all levels between the organisations. When the client or prospect is particularly important, key account managers are responsible. These aim for a mutually beneficial relationship between the seller and buyer. The buyer benefits from traceability of supplies, smart purchasing, and lean supply and facilities management, while the seller gains market knowledge and profitable sales.

In most companies, account managers are like brand managers in not having formal or informal teams working for them. This means the key account managers compete for the resources to serve their client. Their role is to maintain smooth but creative relationships between the buying and selling teams.⁷

Recruiting and selecting salespeople

At the heart of any successful sales force operation is the recruitment and selection of good salespeople. The performance difference between an average salesperson and a top salesperson can be substantial. In a typical sales force, the top 30 per cent of the salespeople might bring 60 per cent of the sales. Thus careful salesperson selection can greatly increase overall sales force performance.

Beyond the differences in sales performance, poor selection results in costly turnover. When a salesperson quits, the costs of finding and training a new salesperson, plus the costs of lost sales, can be very high. Also, a sales force with many new people is less productive than one with a stable membership.⁸

What are the traits of a good salesperson?

Selecting salespeople would not be a problem if the company knew what traits spell surefire sales success. If it knew that good salespeople were outgoing, aggressive and energetic, for example, it could simply check applicants for these characteristics. Many successful salespeople, however, are also bashful, soft-spoken and laid back.

One survey suggests that good salespeople have a lot of enthusiasm, persistence, initiative, self-confidence and job commitment. They are committed to sales as a way of life and have a strong customer orientation. Another study suggests that good salespeople are independent and self-motivated and are excellent listeners. Still another study advises that salespeople should be a friend to the customer as well as persistent, enthusiastic, attentive and, above all, honest. They must be internally motivated, disciplined, hard working and able to build strong relationships with customers. Still other studies suggest that good salespeople are team players, not loners.⁹

When recruiting, companies should analyse the sales job itself and the characteristics of the most successful salespeople to identify the traits needed by a successful salesperson in their

industry. Does the job require a lot of planning and paperwork? Does it call for much travel? Will the salesperson face a lot of rejections? Will the salesperson be working with high-level buyers? The successful sales candidate should be suited to these duties.

Recruiting procedures and selection

After management has decided on needed traits, it must *recruit* the desired candidate. The human resources department looks for applicants by getting names from current salespeople, using employment agencies and placing classified ads. Another source is to attract top salespeople from other companies. Proven salespeople need less training and can be immediately productive.

Recruiting will attract many applicants, from which the company must select the best. The selection procedure can vary from a single informal interview to lengthy testing and interviewing. Many companies give formal tests to sales applicants. Tests typically measure sales aptitude, analytical and organisational skills, personality traits and other characteristics.¹⁰ Test results count heavily in companies such as IBM, Prudential, Procter & Gamble and Gillette. Gillette, for example, claims that tests have reduced turnover by 42 per cent and that test scores have correlated well with the later performance of new salespeople. But test scores provide only one piece of information in a set that includes personal characteristics, references, past employment history and interviewer reactions.¹¹

Training salespeople

New salespeople may spend anything from a few weeks or months to a year or more in training. The average initial training period is four months. Then, most companies provide continuous sales training via seminars, sales meetings and the Web throughout the salesperson's career. Training programmes have several goals. Salespeople need to know and identify with the company, so most companies spend the first part of the training programme describing the company's history and objectives, its organisations, its financial structure and facilities, and its chief products and markets. Because salespeople also need to know the company's products, sales trainees are shown how products are produced and how they work. They also need to know the characteristics of competitors and customers, including distributors, so the training programme teaches them about competitors' strategies and about different types of customer and their needs, buying motives and buying habits. Because salespeople must know how to make effective presentations, they are trained in the principles of selling. Finally, salespeople need to understand field procedures and responsibilities. They learn how to divide time between active and potential accounts and how to use an expense account, prepare reports and route communications effectively.

Compensating salespeople

To attract salespeople, a company must have an attractive compensation plan. These plans vary greatly both by industry and by companies within the same industry. Compensation is made up of several elements – a fixed amount, a variable amount, expenses and fringe benefits. The fixed amount, usually a salary, gives the salesperson some stable income. The variable amount, which might be commissions or bonuses based on sales performance, rewards the salesperson for greater effort. Expense allowances, which repay salespeople for job-related expenses, let salespeople undertake needed and desirable selling efforts. Fringe benefits, such as paid vacations, sickness or accident benefits, pensions and life insurance, provide job security and satisfaction.

Management must decide what *mix* of these compensation elements makes the most sense for each sales job. Different combinations of fixed and variable compensation give rise to four



Companies spend hundreds of millions of euros to train their salespeople in the art of selling. SOURCE: Digital Vision Limited.

basic types of compensation plans – straight salary, straight commission, salary plus bonus and salary plus commission.

The sales force compensation plan can both motivate salespeople and direct their activities. If sales management wants salespeople to emphasise new account development, it might pay a bonus for opening new accounts. Thus, the compensation plan should direct the sales force towards activities that are consistent with overall marketing objectives.

Table 19.1 shows how a company's compensation plan should reflect its overall marketing strategy. If the overall marketing strategy is to grow rapidly and gain market share, the compensation plan should be to reward high sales performance and new-account development. In contrast, if the marketing goal is to maximise profitability of current accounts, the compensation plan might contain a larger base salary component, with additional incentives based on current account sales and customer satisfaction. In fact, more and more companies are moving away from high-commission plans that may drive salespeople to make short-term grabs for business. They may even ruin a customer relationship because they were pushing too hard to close a deal. Instead, companies are designing compensation plans that reward salespeople for building customer relationships and growing the long-run value of each customer.¹²

Supervising salespeople

New salespeople need more than a territory, compensation and training – they need *supervision*. Through supervision, the company *directs* and *motivates* the sales force to do a better job.

Table 19.1 The relationship between overall marketing strategy and sales force compensation

	STRATEGIC GOAL		
	To gain market share rapidly	To solidify market leadership	To maximise profitability
Ideal salesperson	<ul style="list-style-type: none"> ■ An independent self-starter 	<ul style="list-style-type: none"> ■ A competitive problem solver 	<ul style="list-style-type: none"> ■ A team player ■ A relationship manager
Sales focus	<ul style="list-style-type: none"> ■ Deal making ■ Sustained high effort 	<ul style="list-style-type: none"> ■ Consultative selling 	<ul style="list-style-type: none"> ■ Account penetration
Compensation role	<ul style="list-style-type: none"> ■ To capture accounts ■ To reward high performance 	<ul style="list-style-type: none"> ■ To reward new and existing account sales 	<ul style="list-style-type: none"> ■ To manage the product mix ■ To encourage team selling ■ To reward account management

SOURCE: Adapted from Sam T. Johnson, 'Sales compensation: In search of a better solution', *Compensation & Benefits Review* (November–December 1993), pp. 53–60. Copyright © 1998 American Management Association, New York, <http://www.amanet.org>.

Directing salespeople

How much should sales management be involved in helping salespeople manage their territories? It depends on everything from the company's size to the experience of its sales force.

Developing customer targets and call norms

Companies vary in how closely they supervise their salespeople. Many help their salespeople in identifying customer targets and setting call norms. Companies often specify how much time their sales force should spend prospecting for new accounts and set other time management priorities. If left alone, many salespeople will spend most of their time with current customers, which are better-known quantities. Moreover, whereas a prospect may never deliver any business, salespeople can depend on current accounts for some business. Therefore, unless salespeople are rewarded for opening new accounts, they may avoid new-account development.

Using sales time efficiently

Companies also direct salespeople in how to use their time efficiently. One tool is the *annual call schedule* which shows which customers and prospects to call on in which months and which activities to carry out. Activities include taking part in trade shows, attending sales meetings and carrying out marketing research. Another tool is *time-and-duty analysis*. In addition to time spent selling, the salesperson spends time travelling, waiting, eating, taking breaks and doing administrative chores. Figure 19.2 shows how salespeople spend their time. Because of the tiny portion of the day most sales staff actually spend selling or negotiating and talking face to face with potential customers, companies must look for ways to save time. This can be done by getting salespeople to use phones instead of travelling, simplifying record-keeping forms, finding better call and routing plans, and supplying more and better customer information.

Many firms have adopted sales force automation systems, computerised sales force operations for more efficient order-entry transactions, improved customer service and better

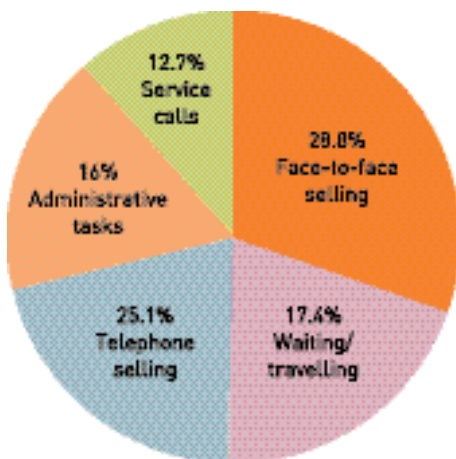


Figure 19.2 How salespeople spend their time

SOURCE: Reprinted with permission from Dartnell Corporation, 30th Sales Force Compensation Survey, copyright © 1998 by Dartnell Corporation, 360 Hiatt Drive, Palm Beach Gardens, FL 33418. All rights reserved. For more information on our customer service products please call 1-800-621-5463 or visit our website at www.dartnellcorp.com.

salesperson decision-making support. Salespeople use computers to profile customers and prospects, analyse and forecast sales, manage accounts, schedule sales calls, enter orders, check inventories and order status, prepare sales and expense reports, process correspondence and carry out many other activities. Sales force automation not only lowers sales force calls and improves productivity; it also improves the quality of sales management decisions.

Perhaps the fastest-growing sales force technology tool is the Internet. As more and more organisations and individuals embrace Internet technology, salespeople are using the Internet regularly in their daily selling activities. The most common uses include gathering competitive information, monitoring customer websites and researching industries and specific customers. As more and more companies provide their salespeople with Web access, experts expect continued growth in sales force Internet usage.¹³

Motivating salespeople

Beyond directing salespeople, sales managers must also motivate them. Some salespeople will do their best without any special urging from management. To them, selling may be the most fascinating job in the world. But selling can also be frustrating. Salespeople usually work alone, and they must sometimes travel away from home. They may face aggressive, competing salespeople and difficult customers. They sometimes lack the authority to do what is needed to win a sale and may thus lose large orders that they have worked hard to obtain. Therefore, salespeople often need special encouragement to do their best.

Management can boost sales force morale and performance through its organisational climate, sales quota and positive incentives.

Organisational climate

Organisational climate reflects the feeling that salespeople have about their opportunities, value and rewards for good performance. Some companies treat salespeople as if they are not very important, and performance suffers accordingly. Other companies treat their salespeople as valued contributors and allow virtually unlimited opportunity for income and promotion. Not surprisingly, these companies enjoy higher sales force performance and less turnover.

Sales quotas

Many companies motivate their salespeople by setting sales quotas – standards stating the amount they should sell and how sales should be divided among the company's products. Compensation is often related to how well salespeople meet their quotas.

Sales quotas—Standards set for salespeople, stating the amount they should sell and how sales should be divided among the company's products.

Here, American Express suggests that companies reward outstanding sales performers with high-tech Persona Select cards – electronically pre-paid reward cards that allow recipients to purchase whatever they want most.

SOURCE: American Express Incentive services.



Positive incentives

Companies also use various positive incentives to increase sales force effort. *Sales meetings* provide social occasions, breaks from routine, chances to meet and talk with ‘company brass’, and opportunities to air feelings and to identify with a larger group. Companies also sponsor *sales contests* to spur the sales force to make a selling effort above what would normally be expected. Other incentives include honours, merchandise and cash awards, trips and profit-sharing plans.

Evaluating salespeople

So far we have described how management communicates what salespeople should be doing and how it motivates them to do it. This process requires good feedback, which means getting regular information from salespeople to evaluate their performance.

Sources of information

Management gets information about its salespeople in several ways. The most important source is the *sales report*, including weekly or monthly work plans and longer-term territory marketing plans. The *work plan* describes intended calls and routing, which provide management with information on the salespeople’s whereabouts, and provides a basis for comparing plans and performance. The *annual territory marketing plan* outlines how new accounts will be built and sales from existing accounts increased.

Chapter 19 Personal selling and direct marketing

Salespeople also write up their completed activities on *call reports* and turn in *expense reports* for which they are partly or wholly repaid. Additional information comes from personal observation, customers' letters and complaints, customer surveys and talks with other salespeople.

Formal evaluation of performance

Using sales force reports and other information, sales management *formally evaluates* members of the sales force. Formal evaluation forces management to develop and communicate clear standards for judging performance. Management must also obtain well-rounded information about each salesperson. Formal evaluation provides salespeople with constructive feedback which helps them to improve future performance and to motivate them to perform well.

We have looked at the key issues surrounding sales force management – designing and managing the sales force. Next we turn to the actual personal selling process.

The personal selling process

Personal selling is an ancient art that has spawned a large literature and many principles. Effective salespeople operate on more than just instinct – they are highly trained in methods of territory analysis and customer management. Effective companies take a *customer-oriented approach* to personal selling. They train salespeople to identify customer needs and to find solutions. This approach assumes that customer needs provide sales opportunities, that customers appreciate good suggestions and that customers will be loyal to salespeople who have their long-term interests at heart. By contrast, those companies that use a *sales-oriented approach* rely on high-pressure selling techniques. They assume that the customers will not buy except under pressure, that they are influenced by a slick presentation and that they will not be sorry after signing the order (and that, even if they are, it no longer matters).

Steps in the selling process

Most training programmes view the **selling process** as consisting of several steps that the salesperson must master (see Figure 19.3). These steps focus on the goal of getting new customers and obtaining orders from them. However, many salespeople spend much of their time maintaining existing accounts and building long-term customer relationships. We will address the relationship aspect of the personal selling process in a later section.

Selling process—The steps that the salesperson follows when selling, which include prospecting and qualifying, pre-approach, approach, presentation and demonstration, handling objections, closing and follow-up.

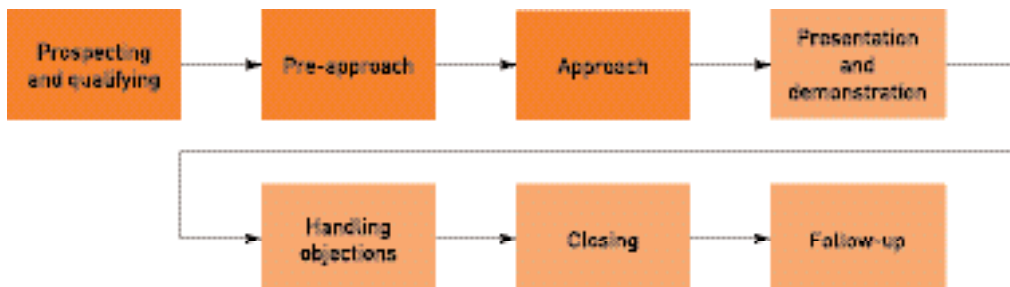


Figure 19.3 Major steps in effective selling

Prospecting—The step in the selling process in which the salesperson identifies qualified potential customers.

Prospecting and qualifying

The first step in the selling process is **prospecting** – identifying qualified potential customers. The salesperson must approach many prospects to get just a few sales. Although the company supplies some leads, salespeople need skill in finding their own. They can ask current customers for referrals. They can build referral sources, such as suppliers, dealers, non-competing salespeople and bankers. They can join organisations to which prospects belong, or can engage in speaking and writing activities that will draw attention. They can search for names in newsletters or directories and use the telephone and post to track down leads. Or they can drop in unannounced on various offices (a practice known as ‘cold calling’).

Salespeople need to know how to *qualify* leads: that is, how to identify the good ones and screen out the poor ones. Prospects can be qualified by looking at their financial ability, volume of business, special needs, location and possibilities for sales growth.

Pre-approach—The step in the selling process in which the salesperson learns as much as possible about a prospective customer before making a sales call.

Pre-approach

Before calling on a prospect, the salesperson should learn as much as possible about the organisation (what it needs, who is involved in the buying) and its buyers (their characteristics and buying styles). This step is known as the **pre-approach**. The salesperson can consult standard industry and online sources, acquaintances and others to learn about the company. The salesperson should set *call objectives*, which may be to qualify the prospect, to gather information or to make an immediate sale. Another task is to decide on the best approach, which might be a personal visit, a phone call or a letter. The best timing should be considered carefully because many prospects are busiest at certain times. Finally, the salesperson should give thought to an overall sales strategy for the account.

Approach—The step in the selling process in which the salesperson meets and greets the buyer to get the relationship off to a good start.

Approach

During the **approach** step, the salesperson should know how to meet and greet the buyer, and get the relationship off to a good start. This step involves the salesperson’s appearance, his or her opening lines and the follow-up remarks. The opening lines should be positive to build goodwill from the beginning of the relationship. This opening might be followed by some key questions to learn more about the customer’s needs, or by showing a display or sample to attract the buyer’s attention and curiosity. As in all stages of the selling process, listening to the customer is crucial.

Presentation—The step in the selling process in which the salesperson tells the product ‘story’ to the buyer, showing how the product will make or save money for the buyer.

Presentation and demonstration

The **presentation** is that step in the selling process where the salesperson tells the product ‘story’ to the buyer, presenting customer benefits and showing how the product solves the customer’s problems. The problem-solver salesperson fits better with today’s marketing concept than does a hard-sell salesperson or the glad-handing extrovert. Buyers today want solutions, not smiles; results, not razzle-dazzle. They want salespeople who listen to their concerns, understand their needs and respond with the right products and services.

Using this *need-satisfaction approach* calls for good listening and problem-solving skills.¹⁴ The qualities that buyers dislike most in salespeople include being pushy, late, deceitful, and unprepared or disorganised. The qualities they value most include empathy, good listening, honesty, dependability, thoroughness and follow-through. Great salespeople know how to sell, but more importantly, they know how to listen and to build strong customer relationships.¹⁵

Today, advanced presentation technologies allow for full multimedia presentations to only one or a few people. Audio and video discs (CDs and DVDs), laptop computers with presentation software and online presentation technologies have replaced the flipchart.

Handling objections

Customers almost always have objections during the presentation or when asked to place an order. The problem can be either logical or psychological, and objections are often unspoken. In **handling objections**, the salesperson should use a positive approach, seek out hidden objections, ask the buyer to clarify any objections, take objections as opportunities to provide more information, and turn the objections into reasons for buying. Every salesperson should be trained in the skills of handling objections.

Closing

After handling the prospect's objections, the salesperson now tries to close the sale. Some salespeople do not get around to closing or do not handle it well. They may lack confidence, feel guilty about asking for the order or fail to recognise the right moment to close the sale. Salespeople should know how to spot closing signals from the buyer, including physical actions, comments and questions. For example, the customer might sit forward and nod approvingly or ask about prices and credit terms. Salespeople can use one of several closing techniques. They can ask for the order, review points of agreement, offer to help write up the order, ask whether the buyer wants this model or that one, or note that the buyer will lose out if the order is not placed now. The salesperson may offer the buyer special reasons to close, such as a lower price or an extra quantity at no charge.

Follow-up

The last step in the selling process – **follow-up** – is necessary if the salesperson wants to ensure customer satisfaction and repeat business. Right after closing, the salesperson should complete any details on delivery time, purchase terms and other matters. The salesperson should then schedule a follow-up call when the initial order is received to make sure there is proper installation, instruction and servicing. This visit would reveal any problems, assure the buyer of the salesperson's interest and reduce any buyer concerns that might have arisen since the sale.

International selling

The typical sales process can be applied in international selling. However, intercultural trade always requires special efforts in tailoring sales and negotiation approaches (see Marketing Insights 19.1).

Personal selling and customer relationship management

The principles of personal selling as described are *transaction oriented*, in that their aim is to help salespeople close a specific sale with a customer. But in many cases, the company is not seeking simply a sale: it has targeted a major customer that it would like to win and keep. The company would like to show the customer that it has the capabilities to serve the customer over the long haul, in a mutually profitable relationship. The sales force usually plays an important role in building and managing long-term customer relationships.

More companies today are moving away from transaction marketing, with its emphasis on making a sale. Instead, they are practising **relationship marketing**, which emphasises maintaining profitable long-term relationships with customers by creating superior customer value and satisfaction. They realise that, when operating in maturing markets and facing stiffer competition, it costs a lot more to wrest new customers from competitors than to keep current ones.

Today's large customers favour suppliers who can sell and deliver a coordinated set of products and services to many locations, and who can work closely with customer teams to



In the sales presentation, the salesperson tells the product story to the buyers.

SOURCE: Walter Hodges and Tony Stone Images. Reproduced courtesy of GettyOne.

Handling objections—The step in the selling process in which the salesperson seeks out, clarifies and overcomes customer objections to buying.

Closing—The step in the selling process in which the salesperson asks the customer for an order.

Follow-up—The last step in the selling process, in which the salesperson follows up after the sale to ensure customer satisfaction and repeat business.

Relationship marketing—The process of creating, maintaining and enhancing strong, value-laden relationships with customers and other stakeholders.

19.1 Cross-cultural selling: in search of universal values

Face-to-face selling is the least easily controlled part of international marketing. Academics and consultants have drawn up numerous lists of 'do's and don'ts' based on examining negotiations within particular cultures. Increasingly, international marketers are turning to both culture-specific negotiation studies and general cultural research in an attempt to understand the cultural values that influence negotiation behaviour and how best to adapt their selling styles.

One popular tool is the Geert Hofstede 'five universal values' framework for defining national culture. These five aspects are as follows.

- *Time orientation.* This is a culture's sense of immediacy. Generally, Asians have longer time orientations than western cultures and tend to spend a longer time establishing a personal relationship at the start of the negotiation process. It is one reason why western business people found *karaoke* sessions rewarding when negotiating with Japanese and Korean executives! Because the relationship is the *content* of the negotiation, and the basis of the longer-term benefits derived from the deal, as opposed to the short-term aspects of the deal in progress, the 'relationship approach' will better fit Asian cultures than it would western cultures. The lesson: when selling to someone with a long-term orientation culture, expect to spend more time on forming the client relationship, rather than merely focusing on the contract.
- *Aversion to uncertainty.* The level of risk that negotiators will bear is partly a function of the level of uncertainty that they are used to in their culture. For countries where people reflect a higher tolerance of ambiguity, such as the UK and Denmark, the salesperson may spend less time probing the buyer's needs before closing the deal. In countries such as France, where people have lower tolerance of uncertainty, the French salesperson may take longer to clarify exactly what it is that the customer needs.
- *Acceptance of unequal power.* The level of inequality that people expect and accept in their jobs and lives – also called 'power distance' by Hofstede – also affects negotiation style. In high power distance cultures, subordinates would only approach high-level superiors with a problem of great importance. By contrast, in low power distance cultures, staff at a lower level in the corporate hierarchy are more accustomed to being treated like equals by their superiors, with whom they feel they can discuss matters directly. So, when negotiating with a buyer used to weighting status heavily, the seller organisation should ensure that salesperson seniority matches that of the buyer.

...19.1

- *Individualism or collectivism.* This reflects the person's level of independence and degree of freedom. The US and UK are generally regarded as individualistic societies which value freedom and independence. In collectivistic cultures, such as Japan and China, people's sense of value is derived from belonging to a group. Consequently, negotiators influenced by the latter culture may take more time and effort to reach consensus and closure.
- *Masculinity and femininity.* Achievement and possessions reflect masculine values, while the social environment and helping others tap femininity. People tend to lie along the masculinity–femininity continuum. In masculine cultures, exemplified by Austria in Hofstede's study, salespeople use an assertive style, which can be off-putting if applied in feminine cultures, such as Denmark. The latter would place more emphasis on partnership to achieve both parties' desired outcomes. Those in the middle of this continuum would value the establishment of good relationships with clients as much as hard facts and contractual details.

The five universal values offer a base for addressing cross-cultural settings in international selling and the need for adaptation of the selling approach. However, neither Hofstede nor advocates of his model suggest that successful international negotiation comes from following the old adage 'when in Rome, do as the Romans do'. Rather, the experts argue that negotiators do not negotiate with someone from their own culture in the same way that they negotiate with someone from another culture. So, knowing how Swedish people negotiate with each other seldom gives much help in predicting how they will negotiate with their Japanese counterpart. Moreover, as an increasing proportion of international executives are educated abroad or have broad overseas experience, they may adapt their cultural styles to show familiarity with their foreign negotiators' cultural values. Imagine a German salesperson adopting the French 'win-win' approach when negotiating with her French client and the French client using 'win-lose' techniques typically associated with German negotiation style. The key, therefore, lies not so much in *mimicking* the foreign client's cultural values, but in subtle *adaptation* to fit the other negotiator's style.

SOURCES: Geert Hofstede, *Culture's Consequences: Comparing values, behaviors, institutions and organizations across nations*, 2nd edn (London: Sage Publications, 2003); Anne Macquin and Dominique Rouziés, 'Selling across the culture gap', *Financial Times*, FT Mastering Global Business, Part Seven (1997), pp. 10–11; Geert Hofstede, *Cultures and Organisations: Software of the mind* (London: McGraw-Hill, 1991); Sergey Frank, 'Global negotiating', *Sales and Marketing Management* (May 1992), pp. 64–9; J.C. Morgan and J.J. Morgan, *Cracking the Japanese Market* (New York: Free Press, 1991).

improve products and processes. For these customers, the first sale is only the beginning of the relationship.

Unfortunately, many companies are not set up for these developments. They often sell their products through separate sales forces, each working independently to close sales. Their technical people may not be willing to lend time to educate a customer. Their engineering, design and manufacturing people may have the attitude that 'it's our job to make good products and the salesperson's to sell them to customers'. However, the more successful companies recognise that winning and keeping accounts requires more than making good products and directing the sales force to close lots of sales. It requires a carefully coordinated, whole-company effort to create value-laden, satisfying relationships with important customers.

Relationship marketing is based on the premise that important accounts need focused and ongoing attention. Studies have shown that the best salespeople are those who are highly motivated and good closers, but more than this, they are customer-problem solvers and relationship builders. Salespeople working with key customers must do more than call when they think a customer might be ready to place an order. They also study the account and understand its problems. They call or visit frequently, work with the customer to help solve the customer's problems and improve its business, and take an interest in customers as people.

Companies may take care of customers by offering them gifts, free entertainment or corporate hospitality. Freebies, such as a calendar or a fountain pen carrying the supplier's logo, are usually accepted by clients without a second thought. A nice dinner merely to build client relations or to keep in touch with a valued customer rarely raises an eyebrow. Corporate entertaining or hospitality is an expected part of business life. Some managers argue that corporate entertaining serves a purpose. The idea is to get the client out for a good time and to make them feel good about the company in the hope that the client will receive the company's sales representatives ahead of the competition. Furthermore, a night at the theatre or opera, with a ticket for an accompanying partner, is useful when overseas visitors need to be entertained in the evening. Weekend outings for clients and potential customers allow the company to buy a little of a contact's private time to talk about business. In some business cultures (e.g. Japan, Malaysia, Thailand and most countries in the Far East), offering and accepting hospitality is part of work and often seen as a way of establishing relationships.

However, corporate hospitality can be costly. At top sporting events – such as the football Cup Final at Wembley, or a day at Epsom for the horse racing – the cost could be astronomical. It costs something upwards of £1,500 per head to entertain at the Wimbledon men's tennis finals. And don't ask what a meal for four in a Tokyo geisha club would amount to. Nevertheless, businesses will spend that amount of money if they have big international customers coming into the city to talk over deals that are worth millions of euros. So, when does an all-expenses-paid golfing trip, a free weekend in Paris or a case of finest Moët & Chandon stop being part of corporate life and begin to look like sleaze? What should businesspeople do when faced with freeloading opportunities? In the absence of clear corporate or standard guidelines, how would managers decide whether a gift, meal or trip is acceptable or sleazy?

Some experts offer the following simple guidelines:

1. The first test is the '*means test*'. It draws the line at entertainment 'way beyond the level the person would normally be able to afford themselves'. It also depends on the level of superiority or importance of the individual. A steak in a wine bar at lunchtime is not beyond the means of most ordinary managers. However, if you want to talk business with the CEO of a big company, you may have to meet him in more expensive surroundings.

2. The second test is the 'wow test'. When you open an envelope containing an invitation, you may say 'how nice' (or you may groan and say 'I suppose I had better be there!'). However, if you find yourself saying 'Wow!', then you had better think twice.
3. The third test is the *reciprocity test*. It is worthwhile occasionally to check that entertaining is reciprocal – suppliers buy you lunch, but you also buy them lunch back sometimes. That way, the relationship does not become too oppressive.

Some companies have no qualms about offering or receiving freebies, whereas some actively discourage all employees from accepting hospitality. Companies must therefore set guidelines for their managers and employees on where to draw the line. However, if you're in doubt about the morality or ethics of an offer, follow the experts' advice on where to draw the line: look at whether a mention of the hospitality arrangement – meal, trip or gift – in the press would cause embarrassment; try the 'means' test; do the *wow test*.¹⁶



The importance of relationship marketing is now widely recognised. Companies find that they earn a higher return from resources invested in retaining customers than from money spent to attract new ones. Increasingly, companies also recognise the importance of establishing strategic partnerships with valued customers, making skilled relationship marketing essential.

Direct marketing

Many of the marketing and promotion tools that we've examined in previous chapters were developed in the context of *mass marketing*: targeting broad markets with standardised messages and offers distributed through intermediaries. Today, however, with the trend towards more narrowly targeted or one-to-one marketing, many companies are adopting *direct marketing*, either as a primary marketing approach or as a supplement to other approaches. Increasingly, companies are using direct marketing to reach carefully targeted customers more efficiently and to build stronger, more personal, one-to-one relationships with them. In this section, we explore the exploding world of direct marketing.

Direct marketing consists of direct communications with carefully targeted individual customers to obtain an immediate response and cultivate lasting customer relationships. Direct marketers communicate directly with customers, often on a one-to-one, interactive basis. Using detailed databases, they tailor their marketing offers and communications to the needs of narrowly defined segments or even individual buyers. Beyond brand and image building, they usually seek a direct, immediate and measurable consumer response. For example, Dell Computer interacts directly with customers, by telephone or through its website, to design built-to-order systems that meet customers' individual needs. Buyers order directly from Dell, who quickly and efficiently delivers the new computers to their homes or offices.

Direct marketing—Direct communications with carefully targeted individual customers to obtain an immediate response.

The new direct-marketing model

Early direct marketers – catalogue companies, direct mailers and telemarketers – gathered customer names and sold their goods mainly through the post and by telephone. Today, fired by rapid advances in database technologies and new marketing media – especially the Internet and other electronic channels – direct marketing has undergone a dramatic transformation.

Direct marketing can take the form of direct distribution – as marketing channels that contain no intermediaries. In previous chapters, we have also included direct marketing as one element of the marketing communications mix – as an approach for communicating directly with customers. In fact, direct marketing is both these things. Most companies still use direct marketing as a supplementary channel or medium for marketing their goods. Thus, companies such as Nokia and Lexus market mostly through mass-media advertising and their dealer networks but also supplement these channels with direct marketing. Their direct marketing includes promotional materials mailed directly to prospective buyers and their Web pages which provide customers with information about various models, financing (in the case of Lexus) and dealer locations. Similarly, many department stores and banks sell the majority of their merchandise or services off their ‘bricks and mortar’ outlets as well as directly through telemarketing and their websites.

However, for many companies today, direct marketing is more than just a supplementary channel or medium. For these companies, direct marketing – especially Internet marketing and e-commerce – constitutes a new and complete model for doing business. More than just another marketing channel or advertising medium, this new *direct model* is rapidly changing the way companies think about building relationships with customers.

Whereas most companies use direct marketing and the Internet as supplemental approaches, firms employing the direct model use it as the *only* approach. Examples include Dell, online bookseller Amazon.com, CoShopper.com, a Norwegian Internet shopping company, Framfab, the Swedish Internet consultancy, and Direct Line, the UK-based insurance company. This direct model has proved highly successful, not just for these companies, but for the fast-growing number of other companies that employ it. Many strategists have hailed direct marketing as the new marketing model of the new millennium.

For companies like Nokia, direct marketing and the Web supplement other marketing efforts.

SOURCE: Nokia (www.nokia.com).



Benefits and growth of direct marketing

Whether used as a complete business model or as a supplement to a broader integrated marketing mix, direct marketing brings many benefits to both buyers and sellers. As a result, direct marketing has grown very rapidly.

The benefits of direct marketing

Direct marketing benefits buyers in many ways. First, it is *convenient*. From the comfort of their homes or offices, customers can browse mail catalogues or sellers' websites at any time of the day or night. Buying is *easy* and *private*. Customers confront fewer buying hassles and do not have to face salespeople or open themselves up to persuasion and emotional pitches. Business customers can learn about available products and services without waiting for and tying up time with salespeople.

Direct marketing often gives shoppers greater product *access* and *selection*. For example, the world's the limit for the Web. Cyberstores such as Amazon, CDNow and others can offer an almost unlimited selection compared to the more meagre assortments of counterparts in the bricks-and-mortar world. Beyond a broader selection of sellers and products, online and Internet channels also give buyers access to a wealth of comparative *information*, information about companies, products and competitors, at home and around the globe. Good websites often provide more information in more useful forms than even the most solicitious salesclerk can. Amazon.com and CDNow, for example, offer best-seller lists and reviews.

Finally, direct marketing – especially online buying – is *interactive* and *immediate*. Customers can often interact with the sellers by phone or on the seller's website to create exactly the configuration of information, products or services they desire, then order them on the spot. Furthermore, the Internet and other forms of direct marketing give customers a greater measure and sense of control. For example, a rising proportion of car buyers 'shop online', arming themselves with information about car models and dealer costs before showing up at a dealership.

Direct marketing also yields many benefits to sellers. First, direct marketing is a powerful tool for *customer relationship building*. Using database marketing, today's marketers can target small groups or individual consumers, tailor offers to individual needs and promote these offers through personalised communications. Direct marketing can also be timed to reach prospects at just the right moment. For example, Nestlé's baby food division maintains a database of new parents and mails them six personalised packages of gifts and advice at key stages in the baby's life. And, because they reach more interested consumers at the best times, direct marketing materials receive higher readership and response. Direct marketing also permits easy testing of alternative media and messages.

Because of its one-to-one, interactive nature, the Internet is an especially potent direct-marketing tool. Direct marketing also gives sellers access to buyers that they could not reach through other channels. For example, the Internet provides access to *global* markets that might otherwise be out of reach.

Finally, direct marketing can offer sellers a *low-cost*, *fast* and *efficient* alternative for reaching their markets. For example, direct marketing has grown rapidly in B2B marketing, partly in response to the ever-increasing costs of marketing through the sales force. When personal sales calls cost several hundred euros per contact, they should be made only when necessary and to high-potential customers and prospects. Lower cost-per-contact media – such as telemarketing, direct mail and company websites – often prove more cost-effective in reaching and selling to more prospects and customers.¹⁷

The growth of direct marketing

As a result of these advantages to both buyers and sellers, direct marketing has become the fastest growing form of marketing. Sales through traditional direct-marketing channels (telephone marketing, direct mail, catalogues, direct-response television, and others) have been growing rapidly. During 1997–2002, the annual rate of growth in spending on conventional direct marketing channels (e.g. direct mail) outstripped that for mass-marketing channels such as advertising. Total direct marketing expenditure in Europe as a whole grew from €31,725 million (at current prices) in 1997 to €46,330 million by 2002.¹⁸

Customer databases and direct marketing

Customer database—An organised collection of comprehensive data about individual customers or prospects, including geographic, demographic, psychographic and buying behaviour data.

Effective direct marketing begins with a good customer database. A **customer database** is an organised collection of comprehensive data about individual customers or prospects, including geographic, demographic, psychographic and buying behaviour data. The database can be used to locate good potential customers, tailor products and services to the special needs of targeted consumers, and maintain long-term customer relationships. *Database marketing* is the process of building, maintaining and using customer databases and other databases (products, suppliers, resellers) for the purpose of contacting and transacting with customers.

Although many companies are now building and using customer databases for targeting marketing communications and selling efforts at the individual customer, data protection regulations in some countries may slow down growth in database marketing practices. For example, usage in the United States and the United Kingdom is far more widespread, with data laws being much more open compared to the rest of Europe. But the international race is on to exploit database marketing and few businesses can afford to ignore this important vehicle for competitive success. As Tom Peters comments in *Thriving on Chaos*, ‘A market has never bought things. Customers buy things. That’s why database marketing’s ability to target the individual customer in the crowded marketplace is so valuable.’¹⁹

Many companies confuse a customer mailing list with a customer database. The former is simply a set of names, addresses and telephone numbers. A customer database contains much more information. In business-to-business marketing, the salesperson’s customer profile might contain information such as the products and services that the customer has bought, past volumes and prices, key contacts (and their ages, birthdays, hobbies and favourite foods), competitive suppliers, status of current contracts, estimated customer expenditures for the next few years, and assessments of competitive strengths and weaknesses in selling and servicing the account.

In consumer marketing, the customer database might contain a customer’s demographics (age, income, family members, birthdays), psychographics (activities, interests and opinions), buying behaviour (past purchases, buying preferences) and other relevant information. Companies must distinguish between *transaction-based* and *custom-built* marketing databases. Transactional databases are put in by an accounts department for the purpose of sending invoices/bills out and getting money back. By contrast, custom-built databases focus on what the firm’s marketing people need to know to serve and satisfy customers profitably and better than the competition can – for example, the most cost-effective way to reach target customers, the net worth of a transaction, customers’ requirements and lifetime values, lapsed customers and why they departed, why competitors are making inroads and where. Armed with the

Chapter 19 Personal selling and direct marketing

information in their databases, these companies can identify small groups of customers to receive fine-tuned marketing offers and communications.

Companies use their databases in many ways. They can use a database to identify prospects and generate sales leads by advertising products or offers. Or they can use the database to profile customers based on previous purchasing and to decide which customers should receive particular offers. Databases can help the company to deepen customer loyalty – companies can build customers' interest and enthusiasm by remembering buyer preferences and by sending appropriate information, gifts, or other materials. The database can help a company make attractive offers of product replacements, upgrades, or complementary products, just when customers might be ready to act.

For example, Mars, a market leader in pet food as well as confectionery, maintains an exhaustive pet database. In Germany, the company has compiled the names of virtually every German family that owns a cat. It obtained these names by contacting veterinarians, via its Katzen-Online.de website, and by offering the public a free booklet titled 'How to Take Care of Your Cat'. People who request the booklet fill out a questionnaire, providing their cat's name, age, birthday, and other information. Mars then sends a birthday card to each cat in Germany each year, along with a new cat food sample and money-saving coupons for Mars brands. The result is a lasting relationship with the cat's owner. ”

The Halifax Bank in the UK offers another example of how the effective deployment of customer databases and implementation of database management systems might lead to more intelligent selling. Halifax uses a sophisticated customer relationship management software system called 'interaction advisor' to enable front-line staff in the bank's contact centres and branches, as well as its interactive voice response systems and banking kiosks, to analyse key customer information and present optimal product offers to individual customers. The database system enables Halifax to use real-time cross-sell offers to 750 of its branch banks, meaning that sales representative can manage their customers in a more personal and profitable way. As customers interacted with Halifax through the contact centre or bank branch, the interaction advisor updates customer information and 'learns' to continuously adjust product offers and services to fit customer needs and behaviour. Halifax acknowledges that, in the past, cross-selling resulted in sales agents suggesting product offers that customers already possessed or did not need. Using the 'interaction advisor', sales agents are now able to make offers that are timely and relevant, improving customer satisfaction and increasing revenue opportunities. Moreover, by following sales prompts generated by its sophisticated database management system, the bank had achieved an increase of between 10 and 15 per cent in sales leads, with nearly half of these leads resulting in a sale.²⁰ ”

Hence, a rich customer database allows the company to build profitable new business by locating good prospects, anticipating customer needs, cross-selling products and services and rewarding loyal customers. But many companies are sceptical about the returns on investment in databases. The recent growth in companies' customer databases has led to nothing more than information overload, making it increasingly difficult to grab customers' attention (see Marketing Insights 19.2).

Like many other marketing tools, database marketing requires a special investment. Companies must invest in computer hardware, database software, analytical programme,

Loyal customers are made, not born. More and more companies are seeking to create and maintain better relationships with customers. This ad draws companies' attention to CRM software tools for communicating and managing relationships with customers.

SOURCE: SAP Global Marketing.
Agency: OgilvyOne Worldwide.



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Database growth: a wealth of information, but a poverty of customer attention

19.2

Massachusetts-based consultant Richard Winter knows better than anyone that companies are accumulating data at a rapid rate, but he found hoarding on a massive scale. '[Database growth] is accelerating beyond previous expectations. Not only in size but also in workload [and] complexity of data and usage', he says. In a 2001 survey conducted by his firm, Winter Corporation, three-quarters of the databases covered held less than one terabyte (1,000 gigabytes). Three years later, his survey showed more than 90 per cent exceeded this. At the top of the pile was France Télécom with 29.2 terabytes – equivalent to over six times the printed collection of the Library of Congress!

While companies that sell the software (Oracle, International Business Machines, Teradata, Sybase, Microsoft) and hardware (Hewlett-Packard, IBM, Sun Microsystems, Hitachi, EMC), on which very large databases are built, welcome this acceleration of database growth, it isn't always good news for the companies that purchase the software. At sixth place on the Winter Corporation list, for example, comes Kmart, the retailer that filed for Chapter 11 protection from its creditors in 2003. A whopping 12.6 terabytes of data – covering stocks, sales, customers and suppliers – was not enough to save Kmart from bankruptcy.

Any fool can build a big database. But data have little value on their own; they are useful only when they are turned into information. Modern, relational databases are designed to facilitate this through their sheer capacity to analyse and query rows and columns of data – 496bn rows in the case of AT&T, the US telecommunications group. The trick is building a database robust and flexible enough for its intended purpose. Even so, more information does not mean more and better actions! The human capacity to absorb information remains unchanged. Kmart had lots of data and may even have been successful at turning them into information. But it failed to grab customers' attention. The reason? Information overload. As Herbert Simon, the late economist, psychologist and Nobel laureate, wrote: 'What information consumes is rather obvious: it consumes the attention of its recipients. . . . Hence a wealth of information creates a poverty of attention.'

The unprecedented competition for customer attention is one of the most pressing issues. Take email. Cheap, immediate and easy to customise, it was the ideal channel for one-to-one marketing – the use of customer data to build enduring relationships. Yet over 2003, the sheer volume of email – solicited and unsolicited – has led many consumers to install 'spam' filters. Not surprisingly, as uncovered by a 2003 survey conducted by Jupiter Research, the technology research company, 59 per cent of marketers were experiencing lower response rates to their email marketing

...19.2

campaigns as a result of filters. Even messages that get through are increasingly viewed with suspicion. The latest wave of online fraud, or 'phishing', involving faked emails appearing to come from financial institutions, has put everyone on their guard. Add to this the millions of consumers who have signed up to a 'do not call' phone register, putting them off-limits to telemarketers. In addition, thanks to the rise of personal video recorders, TV viewers can now skip over advertisements and watch a programme uninterrupted. In each case – email, telemarketing, TV advertising – consumers are responding to information overload by rationing their attention. Herbert Simon would not have been surprised.

All this leaves marketers with a dilemma. Their substantial investments in database and related technologies are designed to facilitate direct, personalised communication and sales. Yet an increasingly small proportion of these messages is being heard. Marketing gurus offer two varieties of solution.

'Viral marketing' proponents argue that companies can get their message across by securing the attention of trendsetters and opinion leaders whose voices are always heard: do not build relationships, build a buzz. The other wing says that relationship between companies and customers need to be taken to the next level. Customers need to be co-opted so they take a direct role in creating a product. Only then can a company be sure of getting their attention. An advocate of this way of thinking is Shawn Fanning, creator of Napster, the music file-sharing site that attracted a community of 40 m users before it was shut down by the record industry.

There is no single 'right way', however, to capture the valuable attention of customers. One-to-one marketing, viral marketing, Napster-style co-creation of value – each has its place. Arguably, the most successful companies are those that find an attention-grabbing formula and keep it to themselves. On the Winter's list is Wal-Mart, the world's largest retailer. Wal-Mart uses data not to engender one-to-one relationships with customers but to offer prices so crushingly low that customers pay attention. But just how Wal-Mart does this is one piece of information that remains a secret.

SOURCES: Adapted from Simon London, 'Choked by a data surfeit', *Financial Times* (29 January 2004), p. 17; see also Tom Davenport and John Beck, *The Attention Economy* (Maidenhead: McGraw-Hill, 2003) and C.K. Prahalad and Venkat Ramaswamy, *The Future of Competition: Co-creating unique value with customers* (Boston: Harvard Business School Publishing, 2004).

communication links and skilled personnel. The database system must be user-friendly, fit for its intended purpose and available to various marketing groups, including those in product and brand management, new-product development, advertising and promotion, direct mail, telemarketing, Web marketing, field sales, order fulfilment and customer service. A well-managed database should lead to sales gains that will more than cover its costs.²¹

Forms of direct marketing

The major forms of direct marketing include personal selling, telephone marketing, direct-mail marketing, catalogue marketing, direct-response television (DRTV) marketing and online shopping. Many of these techniques were first developed in the United States, but have become increasingly popular in Europe. In the EU, some forms of direct marketing – notably direct mail and telemarketing – are forecast to grow. In practice, however, the impact of a unified Europe has been limited by the labyrinth of legislation across the Union, which means that certain direct marketing techniques are feasible in some countries but not others.

For example, telemarketing is more widely practised in the UK and the Netherlands than in Germany and is virtually non-existent in countries such as Belgium, Sweden and Finland. Differences in postal systems, standards and rates across countries pose problems for pan-European direct-mailing programmes. Direct mail is strong in countries with efficient and inexpensive postal systems (e.g. the UK, Sweden) and weak where the post is slow and delivery unreliable (e.g. Spain, Italy). Even etiquette is a problem. The bright, brash American-style direct-mail methods used in the UK would be considered anything but courteous in France. On the other hand, the flowery phrases of a formal letter in France would definitely be *de trop* in the UK. ”

We have already examined personal selling in depth earlier in this chapter and looked closely at online marketing in Chapter 4. Here, we will examine the other direct marketing forms.

Telephone marketing

Telephone marketing or **telemarketing** uses the telephone to sell directly to consumers. It has become a major direct marketing tool. Marketers use *outbound* telephone marketing to generate and qualify sales leads, and sell directly to consumers and businesses. Calls may also be for research, testing, database building or appointment making, as a follow-up to a previous contact, or as part of a motivation or customer-care programme.

Marketers use *inbound* freephone numbers to receive orders from television and print ads, direct mail or catalogues. Marketers also use inbound telephone calls to receive customer enquiries and complaints.

In Europe, telemarketing is more established in the UK and Netherlands than in Germany, which has the toughest telemarketing laws. For example, in Germany the consent of the prospects or consumers is required before they can be contacted. If someone buys a shovel from a garden centre in winter, even if they gave their name and telephone number, the centre cannot telephone them in the spring with a special offer on bulbs because that would be illegal. Contrast the situation in Holland, where, for example, before an election, political parties are permitted to ring voters to gain their support.²²

When properly designed and targeted, telemarketing provides many benefits, including purchasing convenience and increased product and service information.²³ However, the recent explosion in unsolicited telephone marketing has annoyed many consumers who object to

Telemarketing—Using the telephone to sell directly to consumers.

'junk phone calls' that pull them away from the dinner table or clog up their answering machines. Laws or self-regulatory measures have been introduced in different countries in response to complaints from customers. At the same time, some consumers may appreciate the genuine and well-presented offers they receive by telephone.

Direct-mail marketing

Direct-mail marketing—
Direct marketing through single mailings that include letters, ads, samples, fold-outs and other 'salespeople on wings' sent to prospects on mailing lists.

Direct-mail marketing involves sending an offer, announcement, reminder or other item to a person at a particular address. Using highly selected mailing lists, direct marketers send out millions of mail pieces each year – letters, ads, brochures, samples, video- and audio-tapes, CDs, and other 'salespeople with wings'. Direct mail expenditure per capita varies across the major EU countries, but in general, direct-mail spend per head is disproportionately higher than that spent on telemarketing and, in a majority of cases, represents well over half of the total direct marketing expenditure per capita. The only exception is the UK where telemarketing expenditure per capita (€79.9) exceeded that for direct mail (€61.0) in 2001.²⁴

Direct mail is well suited to direct, one-on-one communication. It permits high target-market selectivity, can be personalised, is flexible and allows easy measurement of results. Whereas the cost per 1,000 people reached is higher than with mass media such as television or magazines, the people who are reached are much better prospects – direct-mail marketers target individuals according to their personal suitability to receive particular offerings and promotions. Direct mail has proved very successful in promoting all kinds of products, from books, magazine subscriptions and insurance to gift items, clothing, gourmet foods, consumer packaged goods and industrial products. Direct mail is also used heavily by charities, such as Oxfam and Action Aid, which rely on correspondence selling to persuade individuals to donate to their charity.²⁵

The direct-mail industry constantly seeks new methods and approaches. For example, videotapes and CDs are now among the fastest-growing direct-mail media. Used in conjunction with the Internet, CDs offer an affordable way to drive traffic to Web pages personalised for a specific market segment or a specific promotion. They can also be used to demonstrate computer-related products. For example, Sony sent out a CD that allowed PC users to demo its VAIO portable notebook on their own computers.²⁶

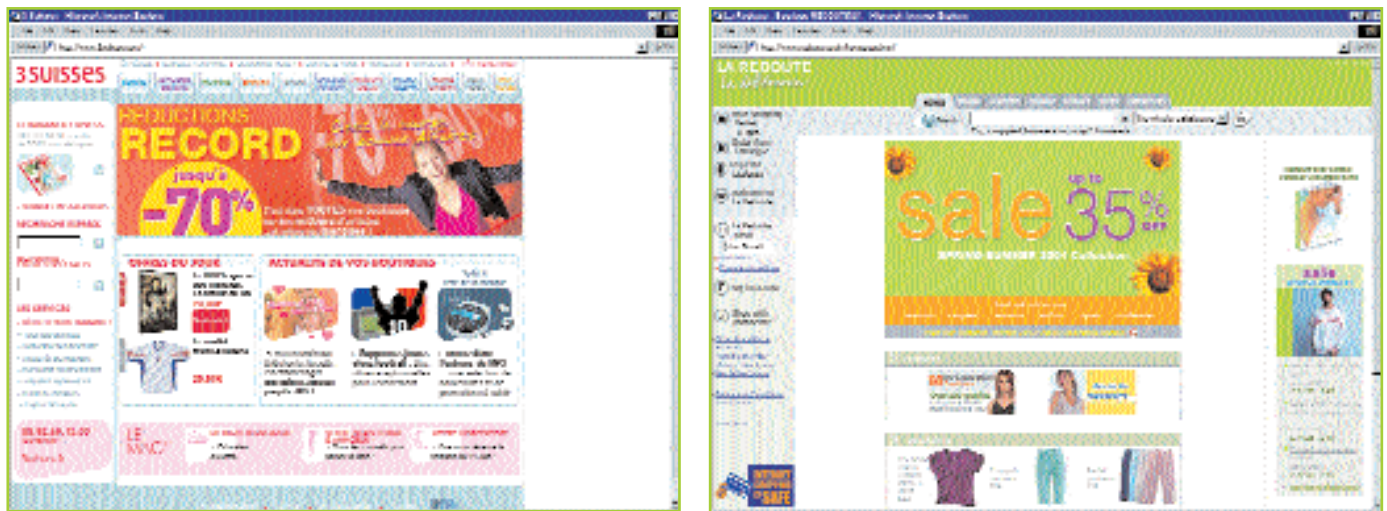
Until recently, all direct mail was paper-based and handled by postal and telegraphic services and other mail carriers. Recently, however, fax mail, email and voice mail have become popular. These new forms deliver direct mail at incredible speeds, compared to the post office's 'snail mail' pace. Yet, much like mail delivered through traditional channels, they may be resented as 'junk mail' if sent to people who have no interest in them. For this reason, direct marketers must carefully identify their targets to avoid wasting huge sums of money or the recipient's time.

Catalogue marketing

Catalogue marketing—
Direct marketing through print, video or electronic catalogues that are mailed to select customers, made available in stores or presented online.

Catalogue shopping once started almost as explosively as the Internet, though few of us might remember this. Cataloguers' sales pitch was remarkably similar too – no need to struggle to the store, vast choice, lower prices. Today, the growth in catalogue shopping has slowed but catalogues are increasingly used by store retailers, which see them as an additional medium for cultivating sales. Most consumers enjoy receiving catalogues and will sometimes even pay to get them. Many catalogue marketers are now even selling their catalogues at bookstores and magazine stands. Many business-to-business marketers also rely heavily on catalogues.

Rapid advances in technology, however, along with the move to personalised one-to-one marketing, have resulted in dramatic changes in **catalogue marketing**. With the stamped



Web-based catalogues: most catalogue companies now present merchandise and take orders over the Internet.

SOURCES: (left) 3 Suisses France (www.3suissex.fr); (right) La Redoute (www.redoute.co.uk).

to the Internet, more and more catalogues are going electronic. Many traditional print or mail-order catalogue firms have added Web-based catalogues to their marketing mixes and a variety of new, Web-only cataloguers have emerged. For example, Web-based sales account for 10 per cent of the turnover at Quelle, the German mail-order company. Quelle expects half of the group's sales to come via the Net within the next five years. Other mail-order companies such as 3 Suisses and La Redoute in France, and Lands' End anticipate at least 15 per cent of sales to be generated online by 2005.²⁷

However, the Internet has not yet killed off printed catalogues – far from it. Web catalogues currently generate only about 13 per cent of all catalogue sales. Printed catalogues remain the primary medium and many former Web-only companies have created printed catalogues to expand their business.²⁸

Along with the benefits, however, Web-based catalogues also present challenges. Whereas a print catalogue is intrusive and creates its own attention, Web catalogues are passive and must be marketed. It is much more difficult to attract new customers with a Web catalogue. And the online cataloguers have to use advertising, linkage and other means to drive traffic to their sites. Thus, even cataloguers who are sold on the Web are not likely to abandon their print catalogues completely.

Direct-response television marketing

Direct-response television marketing (DRTV) takes one of two main forms. The first is *direct-response advertising*. Direct marketers air television spots, 60 or 120 seconds long, that persuasively describe a product or service and give customers a freephone number for ordering. Direct-response television advertising can also be used to build brand awareness, convey brand/product information, generate sales leads and build a customer database.

Television viewers may encounter longer, 30-minute advertising programmes, or 'infomercials', for a single product, during which the features or virtues of a product are discussed by 'experts' before an audience. These are selling programmes which are presented in an entertaining manner to attract the target audience. Direct response TV commercials are usually cheaper to make and the media purchase is less costly. Moreover, results are easily measured as, unlike branding campaigns, direct-response ads always include a toll-free

Direct-response television marketing (DRTV)

—The marketing of products or services via television commercials and programmes which involve a responsive element, typically the use of a freephone number that allows consumers to phone for more information or to place an order for the goods advertised.

number or a Web address, making it easier for marketers to gauge whether consumers are paying attention to their messages.

For years, infomercials have been associated with somewhat questionable pitches for juicers and other kitchen gadgets, get-rich-quick schemes, and nifty ways to stay in shape without working very hard at it. In recent years, however, a number of large companies have begun using infomercials to sell their wares over the phone, refer customers to retailers, send out coupons and product information, or attract buyers to their websites. Organisations ranging from mail order (e.g. Sounds Direct), leisure (e.g. Scandinavian Seaways) and financial services (e.g. Direct Line, AA Insurance Services) to cars (e.g. Daewoo, Fiat), fast-moving consumer goods (e.g. Britvic, Martini, McVitie's) and government departments (e.g. the British army, US navy) have been using DRTV marketing. DRTV marketing has also been used by charities and fund-raising campaigners to persuade viewers to offer donations or volunteer services. Examples include the 'Live Aid' campaign that captured the imagination of millions of people across the globe, 'Children in Need' and many other international fund-raising events.²⁹

In recent years, direct-response TV advertising is giving way to interactive TV (iTV). Advertisers, from a range of sectors, including cars, travel, telecommunications and financial services, are actively using iTV to deliver more complex messages and information to target viewers. Audiences are encouraged to interact with the company's ads through an impulse response format which invites them to press the 'red button' on the remote control device for more information.

For example, Vodafone has used iTV to explain the services on offer via what feels like a Vodafone live service. Viewers appear to pay more attention during interactive TV commercial breaks. MTV ran a classic arcade game – Pong – during the ad breaks on its channels in 2002 and invited viewers to play. Players accumulated points but those who switched channels lost their scores. Nickelodeon ran the Sabina Magic Spell game which offered a prize for viewers who could recall the sequence in which icons appeared in order to keep viewers tuned in during the peak viewing time and to reduce channel-hopping. The channel reported a drop in the proportion of viewers 'zapping' from 33 per cent to 20 per cent over a four-week period. Advertisers who use iTV state that interactivity follows similar rules to direct-response TV. While ads aired during daytime and peak times generate more response, those shown during lower-rating programmes were also consistently successful. Some advertisers argue that pressing the red button is more effective than a telephone call to action. Yet others have found that the rate of response via interactive TV was nine times higher than via a phone number.³⁰ ”

Home-shopping channels, another form of direct-response television marketing, are TV programmes or entire channels dedicated to selling goods and services. The programmes offer bargain prices on products ranging from jewellery, lamps, collectible dolls and clothing, to power tools and consumer electronics – usually obtained by the home-shopping channel at close-out prices. The presentation of products is upbeat and a theatrical atmosphere is created, often with the help of celebrity guests, and up-to-date information can be given on product availability, creating further buying excitement. QVC and other TV shopping

channels are now operating in Europe. These compete with large European electronic home-shopping businesses such as TV Shop. TV Shop operates across Europe, of which Germany is the biggest market. While infomercials account for some 60 per cent of the firm's turnover, its activities are wide ranging. It produces commercial videos and TV programmes, operates a Swedish shopping channel, and runs electronic shopping malls as well as other Internet-based sales operations in Europe.

Access to TV shopping channels has been restricted to homes with satellite or cable TV. In Europe, the Netherlands, Belgium, Luxembourg and Germany lead in terms of household penetration of cable systems. However, over the next few years, the reach of TV shopping channels will increase as the cable and satellite market grows. TV shopping channel operators believe that countries such as the United Kingdom, France, Spain and Italy, with a lower level of satellite and cable penetration, offer great potential for growth.³¹

Integrated direct marketing

Too often, a company's individual direct marketing efforts are not well integrated with one another or with other elements of its marketing and promotion mixes. For example, a firm's media advertising may be handled by the advertising department working with a traditional advertising agency. Meanwhile, its direct mail and catalogue business activities may be handled by direct marketing specialists while its website is developed and operated by an outside Internet firm. Even within a given direct marketing campaign, too many companies use a 'one-shot' approach to reach and sell a prospect or a single vehicle in multiple stages to trigger purchases.

A more powerful approach is **integrated direct marketing**, which involves using multiple-vehicle, multiple-stage campaigns to improve response. Whereas a direct-mail piece alone might generate a 2 per cent response, adding a website and freephone number can raise the response rate by 50 per cent to a 3 per cent response. A well-designed outbound telemarketing effort might multiply the response rate by 500 per cent. Suddenly a 2 per cent response has grown to 15 per cent or more by adding interactive marketing channels to a regular mailing.

More elaborate integrated direct-marketing campaigns can be used. Consider the following multimedia, multistage marketing campaign:

Paid ad with a response channel → Direct mail → Outbound telemarketing → Face-to-face sales call

Here, the paid ad to target customers creates product awareness and stimulates enquiries. The company immediately sends direct mail to those who enquire. Within a few days, the company follows up with a phone call seeking an order. Some prospects will order by phone or via the firm's website; others might request a face-to-face sales call. In such a campaign, the marketer seeks to improve response rates and profits by adding media and stages that contribute more to additional sales than to additional costs.

Public policy and ethical issues in direct marketing

Direct marketers and their customers usually enjoy mutually rewarding relationships. Occasionally, however, a darker side emerges. The aggressive and sometimes shady tactics of a few direct marketers can bother or harm consumers, giving the entire industry a black eye. Abuses range from simple excesses that irritate consumers to instances of unfair practices or even outright deception and fraud. The direct marketing industry has also faced growing concerns about invasion-of-privacy issues.³²

Integrated direct marketing—Direct marketing campaigns that use multiple vehicles and multiple stages to improve response rates and profits.

Irritation, unfairness, deception and fraud

Direct marketing excesses sometimes annoy or offend consumers. Most of us dislike direct-response TV commercials that are too loud, too long and too insistent. Especially bothersome are dinner-time or late-night phone calls. Beyond irritating consumers, some direct marketers have been accused of taking unfair advantage of impulsive or less sophisticated buyers. TV shopping shows and programme-long 'infomercials' seem to be the worst culprits. They feature smooth-talking hosts, elaborately staged demonstrations, claims of drastic price reductions, 'while they last' time limitations, and unequalled ease of purchase to inflame buyers who have low sales resistance.

Worse yet, so-called 'heat merchants' design mailings and write copy intended to mislead buyers. Other direct marketers pretend to be conducting research surveys when they are actually asking leading questions to screen or persuade consumers. Fraudulent schemes, such as investment scams or phoney collections for charity, have also multiplied in recent years. Crooked direct marketers can be hard to catch: direct marketing customers often respond quickly, do not interact personally with the seller, and usually expect to wait for delivery. By the time buyers realise that they have been duped, the thieves are usually somewhere else, plotting new schemes.

Invasion of privacy

Invasion of privacy is perhaps the toughest public policy issue now confronting the direct marketing industry. These days, it seems that almost every time consumers order products by mail or telephone, enter a sweepstake, apply for a credit card or take out a magazine subscription, or order products by mail, telephone or the Internet, their names are entered into some company's already bulging database. Using sophisticated computer technologies, direct marketers can use these databases to 'microtarget' their selling efforts.

Consumers benefit from such database marketing if they receive more offers that are closely matched to their interests. However, many critics worry that marketers may know *too* much about consumers' lives, and that they may use this knowledge to take unfair advantage of consumers. At some point, they claim, the extensive use of databases intrudes on consumer privacy.

For example, they ask, should telecom network operators be allowed to sell marketers the names of customers who frequently call the freephone numbers of, say, catalogue companies? Should a credit card company such as Mastercard, Visa or American Express be allowed to make data on its millions of cardholders available to merchants who accept its card? Is it right for credit bureaux to compile and sell lists of people who have recently applied for credit cards – people who are considered prime direct-marketing targets because of their spending behaviour?

In their drives to build databases, companies sometimes get carried away. For example, Microsoft caused substantial privacy concerns when it introduced its Windows 95 software. It used a 'Registration Wizard' which allowed users to register their new software online. However, when users went online to register, without their knowledge Microsoft 'read' the configurations of their PCs to learn about the major software products running on each customer's system. When users learned of this invasion, they protested loudly and Microsoft abandoned the practice.³³ Such access to and use of information has caused much concern and debate among companies, consumers and public policy makers.

The direct marketing industry in a number of countries is addressing issues of ethics and public policy. For example, in the United Kingdom, faced with the threat of legislation, including wider EU directives, the industry has adopted tougher self-regulation measures to restrain unsavoury practices and to bring the 'cowboys' into line. In many countries, consumer privacy has become a major regulatory issue. To build consumer confidence in

Chapter 19 Personal selling and direct marketing

shopping direct, associations for businesses practising interactive and database marketing have launched consumer privacy rules. These rules generally require that their members adhere to a carefully developed set of consumer privacy rules: members must notify customers when any personal information is rented, sold or exchanged with others; they must also honour consumer requests to 'opt out' of information exchanges with other marketers or not to receive mail, telephone or other solicitations again; and to honour consumer requests to remove their names from the company's database, when they do not wish to receive mail or telephone offers at home. Similarly, new regulations based on the new European Union Directive on Privacy and Electronic Communications, which came into force in October 2003, seek to outlaw spam. Companies will be required to ask customers to 'opt-in' to receiving emails, failing which they can be penalised for breaking the rules.³⁴

Direct marketers know that, left untended, unethical conduct will lead to increasingly negative consumer attitudes, lower response rates, and calls for more restrictive legislation. More importantly, most direct marketers want the same things that consumers want: honest and well-designed marketing offers targeted only towards consumers who will appreciate and respond to them. Direct marketing is just too expensive to waste on consumers who don't want it.

Mass marketers have typically tried to reach millions of buyers with a single product and a standard message communicated via the mass media. Consequently, most mass-marketing communications were one-way communications directed *at* consumers rather than two-way communications *with* consumers. Today, many companies are turning to direct marketing in an effort to reach carefully targeted customers more efficiently and to build stronger, more personal, one-to-one relationships with them.

Summary

Personal selling and direct marketing are both direct tools for communicating with and persuading current and prospective customers. Selling is the interpersonal arm of the communications mix. To be successful in personal selling, a company must first build and then manage an effective sales force. Firms must also be good at direct marketing, the process of forming one-to-one connections with customers. Today, many companies are turning to direct marketing in an effort to reach carefully targeted customers more efficiently and to build stronger, more personal, one-to-one relationships with them.

People who do the selling are called by a variety of names, including salespeople, sales representatives, account executives, sales consultants, sales engineers, agents, district managers and marketing representatives. Regardless of their titles, members of the sales force play a key role in modern marketing organisations.

Most companies use salespeople, and many companies assign them the key role in the marketing mix. For companies selling business products, the firm's salespeople work directly with customers. Often, the sales force is the customer's only direct contact with the company and, therefore, may be viewed by customers as representing the company itself. In contrast, for consumer product companies that sell through intermediaries, consumers usually do not meet salespeople or even know about them. But the sales force works behind the scenes, dealing with wholesalers and retailers to obtain their support and helping them become effective in selling the firm's products.

As an element of the marketing mix, the sales force is very effective in achieving certain marketing objectives and carrying out such activities as prospecting, communicating, selling and servicing, and information gathering. But with companies becoming more market oriented, a market-focused sales force also works to produce *customer satisfaction* and *company profit*. To accomplish these goals, the sales force needs skills in marketing analysis and planning in addition to the traditional selling skills.

The high cost of the sales force calls for an effective *sales management process* consisting of six steps: setting sales force objectives; designing sales force strategy, structure, size and compensation; recruiting and selecting; training; supervising; and evaluating.

In designing a sales force, sales management must address issues such as what type of sales force structure will work best (territorial, product, customer or complex structured); how large the sales force should be; who should be involved in the selling effort; and how its various sales and sales-support people will work together (inside or outside and team selling). Sales management must also decide how the sales force should be compensated in terms of salary, commissions, bonuses, expenses and fringe benefits.

To hold down the high costs of hiring the wrong people, salespeople must be *recruited* and *selected* carefully. In recruiting salespeople, a company may look to job duties and the characteristics of its most successful salespeople to suggest the traits it wants in its sales force. *Training* programmes familiarise new salespeople not only with the art of selling, but with the company's history, its products and policies, and the characteristics of its market and competitors. All salespeople need *supervision*, and many need continuous encouragement in view of the many decisions they have to make and the many frustrations they invariably face. Periodically, the company must *evaluate* their performance to help them do a better job. Salespeople evaluation relies on information regularly gathered through sales reports, personal observations, customers' letters and complaints, customer surveys and conversations with other salespeople.

The art of selling involves a seven-step *selling process*: *prospecting and qualifying*, *pre-approach*, *approach*, *presentation and demonstration*, *handling objections*, *closing* and *follow-up*. These steps help marketers close a specific sale and, as such, tend to be *transaction-oriented*. However, a seller's dealings with customers should be guided by the larger concept of *relationship marketing*. The company's sales force should help to orchestrate a whole-company effort to develop profitable long-term relationships with key customers based on superior customer value and satisfaction.

Next, we address direct marketing which consists of direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships. Using detailed databases, direct marketers tailor their offers and communications to the needs of narrowly defined segments or even individual buyers.

For buyers, direct marketing is convenient, easy to use and private. It gives them ready access to a wealth of products and information, at home and around the globe. Direct marketing is also immediate and interactive, allowing buyers to create exactly the configuration of information, products or services they desire, then order them on the spot. For sellers, direct marketing is a powerful tool for building customer relationships. Using database marketing, today's marketers can target small groups or individual consumers, tailor offers to individual needs, and promote these offers through personalised communications. It also offers them a low-cost, efficient alternative for reaching their markets. As a result of these advantages to both buyers and sellers, direct marketing has become a fast-growing form of marketing.

We identified the main forms of direct marketing – *personal selling*, *telephone marketing*, *direct-mail marketing*, *catalogue marketing*, *direct-response television marketing* and *online marketing*. We discuss personal selling in the first part of this chapter and examined online marketing in detail in Chapter 4. *Telephone marketing* consists of using the telephone to sell directly to consumers. *Direct-mail marketing* consists of the company sending an offer, announcement, reminder or other item to a person at a specific address. Recently, three new forms of mail delivery have become popular – *fax mail*, *email* and *voice mail*. Some marketers rely on *catalogue marketing*, or selling through catalogues mailed to a select list of customers or made available in stores. *Direct-response television marketing* has two forms: *direct-response advertising* or *infomercials*, and *home shopping channels*. *Online marketing*, discussed in Chapter 4, involves online channels and e-commerce, which electronically link consumers with sellers.

Finally, direct marketers have to address a variety of public policy and ethical issues. Direct marketers and their customers have typically forged mutually rewarding relationships. However, there remains a potential for customer abuse, ranging from irritation and unfair practices to deception and fraud. There also have been growing concerns about invasion of privacy, perhaps the most difficult public policy issue currently facing the direct marketing industry.

Discussing the issues

1. One of the most pressing issues that sales managers face is how to structure salespeople and their tasks. Evaluate the methods described in the text. For each method, provide (a) a brief description of its chief characteristics, (b) an example of how it is used, and (c) a critique of its effectiveness.
2. Telemarketing and Web-based selling provide marketers with opportunities to reach customers at work and in their homes. Critique each of these approaches, discussing the

advantages and disadvantages of each. Provide an example of product or service marketing that uses each approach and discuss how the selling process works in these examples.

3. List and briefly describe the steps involved in the personal selling process. Which step do you think is most difficult for the average salesperson? Which step is the most critical to successful selling? Which step do you think is usually done most correctly? Explain each of your choices.
4. Make a list of products or services that you have purchased via direct marketing channels. What were the factors that influenced your decision to buy direct? If these products or services could also be purchased from a reseller or retail outlet, would the buying experience be different? How?
5. Companies that know about individual customer needs and characteristics can customise their offers, messages, delivery modes and payment methods to maximise customer value and satisfaction. Select an organisation that operates within each of the following sectors: (a) home insurance, (b) computers, (c) charity, (d) automotive, and (e) personal finance. What information should these organisations keep in their customer databases? Where would they get this information? How might they use the databases? How much would it cost to build such databases?

Applying the concepts

1. Helen Adolph was excited about her new job as a personal communication consultant for Nokia (www.nokia.com), the giant phone producer that captures a quarter of the global market and half the profits. Rivals such as Ericsson (www.ericsson.com), Siemens (www.siemens.com), Samsung (www.samsung.com) and Motorola (www.motorola.com) have vowed to make things tougher for Nokia in the years ahead. For more information about these manufacturers, please visit their websites. They've developed new designs, communications applications and strategic alliances between hardware and software makers in an effort to lure fickle consumers away from Nokia.
 - (a) Adolph is attempting to sell Nokia's latest model of personal communication device to Shell Oil in the UK (several thousand phones). What sales strategy and plan should Adolph recommend? In your answer, consider the advantages and disadvantages of Nokia's product.
 - (b) Would you recommend that Nokia employ individual selling or team selling? Explain.
 - (c) Which step of the sales process do you think will be most critical to Adolph's success?
 - (d) What could Adolph do to establish a strong relationship with local Shell representatives?
2. Watch a satellite or cable television shopping channel or tune into a television shopping show. Where feasible, you might surf the Internet and 'tour' a specialist retailer's site. Or you might sample Virgin's radio station by clicking on icons, accessing features such as playlists and DJ biographies.
 - (a) How are the TV shows attempting to reach target buyers? Do they mix product lines (e.g. fine china with sports equipment) or do they target more carefully?
 - (b) How do online communications attempt to reach target buyers?
 - (c) What are the main differences in the way the TV shopping channels and Internet retailers attempt to evoke a response from target consumers?

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Concluding concepts 19

Britcraft Jetprop: whose sale is it anyhow?*



On 14 April 1997, Bob Lomas, sales administration manager at Britcraft Civil Aviation (BCA), received a telephone call from Wing Commander Weir, the air attaché for the United Kingdom in a European nation. The wing commander had found out that the national air force (NAF) of the European nation (hereafter Country) was looking for a lighter, utility/transport aircraft to replace its ageing freight/transport aircraft for intra-European operations. The air attaché thought the Britcraft Jetprop, BCA's top-selling aircraft, was a suitable candidate.

Britcraft Aviation

Britcraft Aviation is owned by Britcraft Group Ltd, a British company with global engineering interests. Before being bought by Britcraft, BCA was a differently named independent company, known for designing and producing many famous military aircraft in the past. Military and executive aircraft were sold by Britcraft Military Aviation (BMA) and Britcraft Executive Aviation (BEA), located at a different site from that of the civil division.

The Jetprop's major rival was a similar aircraft made by Fokker, a Dutch company that was Britcraft's main competitor. The Jetprop was designed as a regional airliner, particularly for developing countries. Unlike the Fokker, the Jetprop was a low-winged aircraft, with an unobstructed passenger area, which gave it aerodynamic, structural and maintenance advantages. All components used on auxiliary services were selected for proven reliability, long overhaul life and ease of provisioning, enabling the aircraft to achieve the primary design objective of low maintenance costs and high operator utilisation. The aircraft was fully fail-safe, whereby any failure due to fatigue developed sufficiently slowly for it to be detected during routine inspection before it became dangerous. The Jetprop also gave short take-off and landing (STOL) performance from semi-prepared runways. The primary design objectives remained the main selling features of the aircraft.

Sales organisation

BCA's sales organisation, which covered civil and military sales, was responsible for selling the Jetprop. A number of these sales became VIP transports for heads of state. Each year, markets were analysed and a list was made of the most likely sales prospects for the coming 12 months. Area sales managers received 'designated

areas' comprising several prospective customers grouped geographically. There were exceptions due to special relationships that a salesperson had developed in the past. With time, new prospects were added to the designated areas.

Doug Watts, whose designated area included the air forces of Malaysia, Thailand, Zaïre (now the Democratic Republic of Congo) and Germany, was the area sales manager eventually responsible for the NAF prospect. Like several other area sales managers, he had joined Britcraft after a distinguished career in the UK's Royal Air Force (RAF). A few area sales managers without RAF experience had previously worked in the company's technical departments. The Sales Department had a very high status in the company, occupying a series of ground-floor offices at the front of the Jetprop factory.

The sales engineers were all technically qualified, a number having postgraduate degrees. They were responsible for providing technical support to the Sales Department and did considerable routine work associated with the sales effort. Although they were not working directly for the area sales managers, their work usually related to one part of the world, requiring frequent contact with one or two people in the Sales Department, which was located close to the Sales Engineering Department.

Ian Crawford, the marketing director of Britcraft, worked at Britcraft's HQ in London. He was responsible for marketing for the whole of Britcraft Aviation in the United Kingdom and overseas. He also managed Britcraft Aviation's regional executives – senior executives strategically based to cover all the world's markets.

The opening phase

After receiving the telephone call from Wing Commander Weir, Bob Lomas circulated news of the prospect. Doug Watts took overall responsibility for it. Although BCA had agents in the Country, these had either not heard of the NAF requirement or failed to tell the company about it. BCA therefore made direct contact with the national

The aircraft was fully fail-safe, and gave short take-off and landing performance.

*This case is based on in-company records and documents. For this reason the identity of the buyer and the seller and the names of the people in the case are disguised.

authorities in the Country. Following a visit to Herr Hans Schijlter, the defence secretary, Bob Lomas sent copies of the standard Jetprop military brochure directly to the Ministry of Defence. Lieutenant Colonel Schemann, junior defence secretary, acknowledged its receipt. The next contact made was with Lieutenant General Baron von Forster, defence attaché to the Country's embassy in London, whom Bob Lomas had met at the Hanover Air Show. The general confirmed the NAF's interest in new equipment and asked for details of the Jetprop to pass on to the authorities.

On 6 July, Air Commodore Netherton informed John Upton of Britcraft that the NAF probably had a requirement for a state VIP aircraft. The retired RAF air commodore had lived in the capital of the Country for eight years, where he had been responsible for the Queen's Flight. He founded Eilluft AG, a group that dominated civil aircraft maintenance and light aircraft operations in the Country. He was an *ad hoc* agent for the prospective sale of Britcraft's fighter aircraft. As an accredited agent for BMA, he became an agent in the Country for BCA. The sales organisations of BEA, which produced the Britcraft executive jet for VIPs, and BCA were told of the sales opportunity.

In response, Geoff Lancaster, deputy sales manager of BCA, sent copies of the Jetprop brochure to Air Commodore Netherton to pass on to the prospective customer. As the air commodore was not familiar with the Jetprop, a letter enclosed with the brochures outlined some of the selling points (e.g. the size of the accommodation, low price, full galley and toilet facilities, uses short airfields, available credit terms) that he could use. The letter also mentioned that the Country's minister of defence had recently flown in a Jetprop of the Queen's Flight and was favourably impressed.

On 10 July, Air Commodore Netherton met the officer in charge of the Operations Requirements Branch of the NAF, who confirmed plans to replace several types of transport aircraft. Simultaneously, Wing Commander Weir contacted Ron Hill, the executive director of marketing for BCA, requesting the company to contact the Long Term Planning Department of the NAF directly about its requirement. Major Graff or, alternatively, Colonel Beauers and Lieutenant Colonel Horten, were suitable contacts there.

Work in Iran prevented Ron Hill from attending a meeting arranged on behalf of Doug Watts by Brian Cowley, the Jetprop sales manager. Instead, Steve Williams, his executive assistant, took his place. The discussions – between Steve Williams, Air Commodore Netherton, Major Graff (the officer in command of re-equipment evaluations) and Lieutenant Colonel Horten (the second in command of the Planning Department) – went well. They noted that the Jetprop was among the

replacements considered. Fokker had, however, already demonstrated its aircraft, which many in the NAF favoured. The final requirement would be for two or three general transport aircraft plus possibly one for the paratroop training school at NAF-Graz. A Short Skyvan had already given a demonstration as a paradrop aircraft and the Canadians wanted to demonstrate their aircraft.

The Jetprop's demonstration to the NAF would be on 20 October. Major Graff asked for further evidence to support the Jetprop. The advantages of the Jetprop over the Fokker aircraft were highlighted, which were lack of bonding and spot welding, no pneumatics, fail-safe design, progressive maintenance and rough-airfield performance. During the visit they met briefly with Colonel Beauers, the officer commanding the Long Term Planning Department, whom Air Commander Netherton had known well for a number of years, but who was soon to move to NATO HQ. After the meeting the air commodore expressed the hope that, provided the presentation in October went well and the NAF wanted the aircraft, the political people would agree to the purchase. He added that the sale of the paradrop aircraft seemed likely to depend upon support from Colonel Smit, the commanding officer of NAF-Graz, while the main issue, he thought, would be the aircraft's ability to operate safely, fully loaded for a parachute-training mission, from the NAF-Graz airstrip, which was grass and only 650 metres long.

Following the visit, Ernie Wentworth, a senior sales engineer, managed the technical selling effort. Through the Sales Department customer specifications engineer, the Production Planning Department was asked for a delivery schedule and the Estimating Department was requested to cost the aircraft. Other technical departments also became involved in supplying cost and performance evaluations. The Contracts Department would finally negotiate a price for the package of aircraft, spares, guarantees, and after-sales services required.

Major Graff later requested details of the take-off and landing performance of the Jetprop at NAF-Graz. Since it was marginal, Air Commodore Netherton concluded that the only course was to convince the airfield's commanding officer to extend the runway.

Before the scheduled demonstration took place, a number of the NAF personnel – Lt Col Horten (chief of Plans and Studies), Lt Col Wabber (chief of Pilot Training), Major Bayer and Major Graff (Plans and Studies) – were invited to attend the UK's biennial Farnborough Air Show where they were entertained by Britcraft. The meeting progressed well. Nine NAF officers visited BCA for the demonstration of the Jetprop in October, including officers from NAF Planning, Plans and Studies, Avionics, Technical Section, Supply/Spares and HQ Transport.

During the visit, technical specialists looked after most of the NAF officers, while the Long Term Planning Department people discussed contractual details. Prices for the basic version and additional options – strengthened floor for cargo operations, and large freight door – were also presented. The cost of avionics, spares and other equipment that allowed the aircraft to perform a wide variety of roles would be additional.

On the whole, the demonstration and presentation went very well, although Major von Betterei, 'from whom it was difficult even to wring a smile', was evidently 'Fokker oriented'. Air Commodore Netherton and he had been able to talk separately with the senior officer present, with whom they had a 'long and useful discussion about compensation'.

The second phase

Compensation or offset is an increasingly common part of large international sales. It usually involves a provision being made for the vendor or the vendor's country to buy goods from the customer's country. The discussion with Colonel Zvinek, of NAF Planning, Plans and Studies, during the demonstration marked the first occasion when offset appeared accompanying the NAF's procurement of transport aircraft.

The BEA advised the BCA that the offset was critical. In the past, the BEA had lost to the French, who offered very high offset, in the sale of two executive jet aircraft to the NAF. Meanwhile, BMA warned BCA not to use any of the compensation it had already earmarked for a possible sale of military trainer aircraft.

Air Commodore Netherton sought clarification from Herr Maximilian, an under-secretary in the Ministry of Economic Affairs, who was responsible for advising the Country's ministerial committee on offset. Herr Maximilian said offset had recently been between 60 and 70 per cent of the value of a contract and had been completed by the delivery date of the last aircraft. He felt that ideally the work should relate directly to the major project being considered, but should not involve the manufacture of main subassemblies such as wings, airframes or engines. He concluded by saying that negotiations were the responsibility of the vendor alone, who should not increase prices as a result of the required activities.

Soon after his visit to Herr Maximilian, the NAF gave the replacement top priority with a schedule for finalising the requirement in March 1998, signing of letter of intent by mid-1998, contract and deposit payment in late 1998 and delivery and full payment in 1999.

Colonel Zvinek, who originally doubted the Jetprop, was converted since the demonstration, together with

all the other important NAF officers concerned. All that was necessary was to assemble an acceptable offset.

Some time passed with little further progress being made with the sale. It became evident that Fokker was offering a very substantial offset, aided by its shareholding in Baden GmbH, which owned Nationale Flugzeugwerke AG (NFW), the Country's largest airframe manufacturer, and which already manufactured Fokker parts.

Early in 1998, Kevin Murphy, the contracts manager for BCA, sent a firm proposal to Colonel Zvinek, with the Sales Engineering Department offering new performance and weight information that showed Jetprop in a better light.

Some days later an urgent email came from Roger Woods of Britcraft, who had met Colonel Horten at a cocktail party in the capital, noting that Fokker's exceptional offset looked like losing Britcraft the deal. Air Commodore Netherton talked to Colonel Horten and then confirmed that the offset was 'not big business'. Further, Messrs Jones and Bedwell of BMA, who were in the Country at that time negotiating a large offset deal with the Ministry of Economic Affairs, found that 'offset would not really be involved on such a small order'.

In a subsequent meeting in April 1998, Major Graff informed Air Commodore Netherton that there was a feeling that the Jetprop was inferior to the Fokker on several technical grounds and the price of €13,930,000 compared unfavourably with the Fokker offer. The total cost, including the price of spares, was more than the amount budgeted. A new formal offer of €13,230,000, entailing a reduction in the number of roles the aircraft had to perform, went to the Country before the end of April.

At the Paris Air Show on 13 June, Doug Watts met Major Graff who emphasised that the offset was important, and that the NAF wanted to change the aircraft specifications and a new quotation would be necessary. Steve Williams had left Britcraft, so Geoff Lancaster took over negotiations. Wing Commander Weir was contacted who said he would probably be able to help in arranging some offset deal, but added that diplomatic circles generally felt that it was 'Britain's turn' to obtain a contract.

On 16 July Geoff Lancaster, Major Graff and Air Commodore Netherton visited Herr Maximilian at the Ministry of Economic Affairs. Four alternative offset arrangements were discussed:

1. Bought-out equipment for the Jetprop could be purchased from the Country's firms.
2. Basic aircraft could be flown to the Country to be finished and new avionics fitted by a NAF contractor.
3. Britcraft's vendors could subcontract work into the Country.

4. The Country's industry could build a future batch of Jetprops.

Herr Maximilian's response to the suggestion was not enthusiastic. He underlined his government's concern about offset being related directly to the contract or involving the NAF or the government. He quoted that, in the recent sale of two Boeing aircraft to the Country's national airline, Boeing had agreed to place €30,000,000 of work with the Country's industry in the first year and €150,000,000 over the next 10 years. The figures suggested that the offset was far more than the price of the two aircraft.

After leaving the ministry, Geoff Lancaster told Major Graff the consequence of further delay in placing a firm order. Delays would reduce the likelihood of Britcraft being able to supply at the original price. Several customers were also on the verge of signing contracts for Jetprops. Major Graff worried about the delay, but said there was little he could do. His recommendations for purchase would go on to General Petsch, which would constitute the official NAF requirements. They would then go through a sequence of decision-makers: the air force adviser, the defence secretary, Hans Schijlter, who would examine the report closely but not consider offset, and the minister of defence, the Prime Minister and the minister for economic affairs, would make the final decision. Before Geoff Lancaster left the Country it was agreed to arrange for a group of NAF officers to visit Schiller Aviation, an independent airline which had recently bought some Jetprops. Air Commodore Netherton escorted the group on the visit and later reported that the airline was 'very complimentary' about the aircraft and Britcraft support.

The offset

In an attempt to arrange the necessary offset, several channels were investigated. A team of Britcraft design and production engineers investigated what work could be 'put out' to subcontractors in the Country. Negotiations with a number of companies did not come to fruition. Eventually, a company, Coles & Turf, offered to buy €45,000,000 worth of the Country's goods for a commission of 10 per cent. Britcraft felt that the commission rate requested left no room for them to make a profit on the contract, and eventually got Coles & Turf to agree to €15,000,000 of offset.

On 16 October there came a blow to the NAF deal. A Brazilian operator signed a contract with BCA for six aircraft. This meant that the NAF aircraft would be from the more expensive batch 15 rather than the original

batch 14 and would cost more – €14,700,000. The NAF reluctantly accepted the price increase and signed a letter of intent in November. Roden AG agreed to accept €4,500,000 worth of specified subcontract work.

As April approached, a team at Britcraft was preparing to make a trip to the Country for final negotiations and contract signing. A day before they were due to leave, Dick Drake, the commercial director, received an email from the Country's authorities. It read:

Department of Economic Affairs urgently expect more precision about your commitment and also a sensible increase of work for national industry. It is quite obvious that the 10 per cent offset is absolutely unsatisfactory. A reply is expected by 29 April.

A copy of the message went to Air Commodore Netherton, to which Dick Drake added:

It is virtually certain that it will be necessary for me to reply on Friday that we regret we are unable to increase our commitment and the only other offset is that which they already know about from the aero-engine supplier. However, before replying, I would like to know whether Weir still believes it is Britain's turn.

Questions

- Trace the stages in the buying process and how the Country's interests changed from one stage to the next. Why were the Country's interests changing and was Britcraft keeping pace with the changes?
- How well did the strengths of the Jetprop match the needs of the NAF?
- Identify the players in the buying centre and gauge their role and influence. How well did Britcraft manage the complexity of the buying centre and their diverse needs?
- Discriminate between the sales roles of the people in Britcraft.
- Did Britcraft's structure help or hinder its sales campaign? How could it be changed for the better?
- What were Britcraft's main failings and strengths? Do you think it will win the sale or is it too out of touch with the needs of the NAF and the Country's government? What could it do at this late stage? Is it still 'Britain's turn'?