

15

Organisation and compensation

OBJECTIVES

After studying this chapter, you should be able to:

1. Appreciate the advantages and disadvantages of different salesforce organisation structures
2. Compute the numbers of salespeople needed for different selling situations
3. Understand the factors to be considered when developing sales territories
4. Strike a balance between various sales compensation plans
5. Establish priorities in relation to customers, travelling time and evolving call patterns

KEY CONCEPTS

- compensation plans
- key account selling
- key or major account salesforce
- organising a salesforce
- team selling
- workload approach

15.1 ORGANISATIONAL STRUCTURE

Perhaps the classic form of **organising a salesforce** is along geographical lines, but the changing needs of customers and technological advances have led many companies to reconsider their salesforce organisation. The strengths and weaknesses of each type of organisational structure, as illustrated in Figure 15.1, will now be examined.

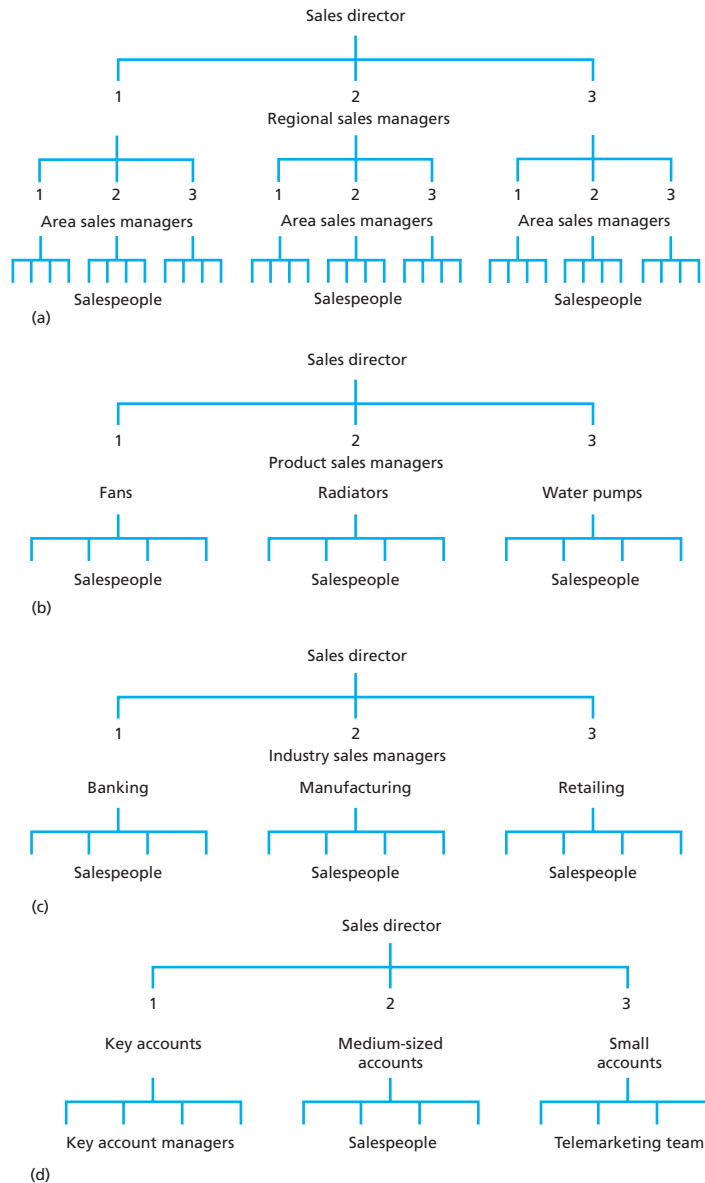


Figure 15.1 Organisation structures: (a) geographical structure – the area sales manager level is optional: where the number of salespeople (span of control) under each regional manager exceeds eight, serious consideration may be given to appointing area managers; (b) product specialisation structure; (c) industry-based structure; (d) account-size structure

Geographical structure

An advantage of this form of organisation is its simplicity. Each salesperson is assigned a territory over which to have sole responsibility for sales achievement. Their close geographical proximity to customers encourages the development of personal friendships which aids sales effectiveness. Also, compared with other organisational forms, e.g. product or market specialisation, travelling expenses are likely to be lower.

A potential weakness of the geographical structure is that the salesperson is required to sell the full range of the company's products. They may be very different technically and sell into a number of diverse markets. In such a situation it may be unreasonable to expect the salesperson to have the required depth of technical knowledge for each product and be conversant with the full range of potential applications within each market. This expertise can only be developed if the salesperson is given a more specialised role. A further related disadvantage of this method is that, according to Moss, salespeople in discrete geographical territories, covering all types of customer, are relatively weak in interpreting buyer behaviour patterns and reporting changes in the operational circumstances of customers compared with salespeople organised along more specialised lines.¹

Product specialisation structure

One method of specialisation is along product lines. Conditions that are conducive to this form of organisation are where the company sells a wide range of technically complex and diverse products and key members of the decision-making unit of the buying organisations are different for each product group. However, if the company's products sell essentially to the same customers, problems of route duplication (and hence higher travel costs) and customer annoyance can arise. Inappropriate use of this method can lead to a customer being called upon by different salespeople representing the same company on the same day. When a company contemplates a move from a geographically-based to a product-based structure, some customer overlap is inevitable, but if only of a limited extent the problem should be manageable. A move from geographic to a product-based structure raises costs as keeping the same number of salespeople means increased territory size.

A variant on the more common product line specialisation is to divide the salesforce according to new and existing products (sometimes called functional specialisation).

In industrial selling, companies sometimes separate their salesforces into development and maintenance sales teams. The development salespeople are highly trained in handling very technical new products. They will spend considerable time overcoming commercial, technical and installation problems for new customers.

A major reason why companies have moved to a development/maintenance structure is that belief that one of the causes of new product failure is the inadequacy of the salesforce to introduce the product. Perhaps the cause of this failure is the psychological block each salesperson faces in terms of possible future problems with the

Table 15.1 Strengths and weaknesses of geographic and product specialisation in organisational structures

Type of structure	Strengths	Weaknesses
Geographic	<ul style="list-style-type: none"> • Simplicity • Relatively low cost 	<ul style="list-style-type: none"> • Difficulty in selling a wide product range • Lower understanding of the complexities of buyer behaviour • Poorer at reporting changes in the marketplace
Product specialisation		
(i) By product line	<ul style="list-style-type: none"> • Good knowledge of products and applications 	<ul style="list-style-type: none"> • Potential for route duplication (raising travel costs) • Potential to cause customer annoyance if a buyer is called upon by different representatives of the same seller • For a given salesforce size, territories are bigger than for a geographic structure raising costs
(ii) by new/existing products	<ul style="list-style-type: none"> • Specialisation of selling skills • Greater attention given to new products • Eliminates competition between the selling of new and existing products (clarity of purpose) 	<ul style="list-style-type: none"> • Relatively high cost

buyer–seller relationship if the product does not meet expectations. Because of this, the salesperson is likely to doubt the wisdom of giving an unproven product their unqualified support. Employment of a development sales team can reduce this problem, although it is often only large companies that can afford such a team. This approach allows salespeople to specialise in the skills needed to sell new products, ensures that new products receive the attention needed to sell them, and eliminates competition for a salesperson’s time between the selling of new and existing products providing clarity of purpose. Some pharmaceutical companies use this form of salesforce organisation.

Table 15.1 provides a summary of the key strengths and weaknesses of geographic and product specialisation structures.

Customer-based structures

The problem of the same customer being served by product divisions of the same supplier, the complexity of buyer behaviour, which requires not only input from the sales function but from other functional groups (such as engineering, finance, logistics and marketing), centralisation of purchasing, and the immense value of some customers have led many suppliers to rethink how they organise their salesforce. Companies are increasingly organising around customers and shifting resources from product or regional divisions to customer-focused business units.²

Market-centred structure

Another method of specialisation is by the type of market served. Often in industrial selling the market is defined by industry type. Thus, although the range of products sold is essentially the same, it might be sensible for a computer firm to allocate its salespeople on the basis of the industry served, e.g. banking, manufacturing companies and retailers, given that different industry groups have widely varying needs, problems and potential applications. Specialisation by market served allows salespeople to gain greater insights into these factors for their particular industry, as well as to monitor changes and trends within the industry that might affect demand for their products. The cost of increased customer knowledge is increased travel expenses compared with geographically determined territories.

Magrath looked at the way industrial sales specialists levered up sales by virtue of applications expertise.³ Because they knew so much about the industry, they were welcomed as 'fraternity brothers' by customers.

Account-size structure

Some companies structure their salesforce by account size. The importance of a few large customers in many trade and industrial markets has given rise to the establishment of a **key or major account salesforce**. The team comprises senior salespeople who specialise in dealing with large customers that may have different buying habits and demand more sophisticated sales arguments than smaller companies. The team will be conversant with negotiation skills since they are likely to be given a certain amount of discretion in terms of discounts, credit terms, etc., in order to secure large orders. The range of selling skills required is therefore wider than for the rest of the salesforce, who deal with the smaller accounts. Some organisations adopt a three-tier system, with senior salespeople negotiating with key accounts, ordinary salespeople selling to medium-sized accounts, and a telemarketing team dealing with small accounts. A number of advantages are claimed for a key account salesforce structure:

1. *Close working relationships with the customer.* The salesperson knows who makes what decisions and who influences the various players involved in the decision. Technical specialists from the selling organisation can call on technical people (e.g. engineers) in the buying organisation and salespeople can call upon administrators, buyers and financial people armed with the commercial arguments for buying.
2. *Improved communication and co-ordination.* The customers know that a dedicated salesperson or sales team exists so that they know who to contact when a problem arises.
3. *Better follow-up on sales and service.* The extra resources devoted to the key account mean there is more time to follow up and provide service after a major sale has been made.
4. *More in-depth penetration of the DMU.* There is more time to cultivate relationships within the key account. Salespeople can 'pull' the buying decision through the organisation from the users, deciders and influencers to the buyer, rather than the more difficult task of 'pushing' it through the buyer into the organisation, as is done with more traditional sales approaches.
5. *Higher sales.* Most companies who have adopted **key account selling** claim that sales have risen as a result.

6. *The provision of an opportunity for advancement for career salespeople.* A tiered sales-force system with key (or national) account selling at the top provides promotional opportunities for salespeople who wish to advance within the salesforce rather than enter a traditional sales management position.

The term *national account* is generally considered to refer to large and important customers who may have centralised purchasing departments that buy or co-ordinate buying for decentralised, geographically dispersed branches that transcend sales territory boundaries. Selling to such firms often involves the following:

1. Obtaining acceptance of the company's products at the buyer's headquarters.
2. Negotiating long-term supply contracts.
3. Maintaining favourable buyer-seller relationships at various levels in the buying organisation.
4. Establishing first-class customer service.

The customer or small group of customers is given special attention by one key person (often known as a national account manager) or team headed by this person. This allows greater co-ordination than a geographically based system where each branch would be called upon by a different salesperson as part of the job of covering their territory.

This depth of selling activity frequently calls for the expertise of a range of personnel in the supplying company in addition to the salesperson. It is for this reason that many companies serving national accounts employ **team selling**.

Team selling involves the combined efforts of such people as product specialists, engineers, sales managers and even directors if the buyer's decision-making unit includes personnel of equivalent rank. Team selling provides a method of responding to the various commercial, technical and psychological requirements of large buying organisations.

Companies are increasingly structuring both external and internal sales staff on the basis of specific responsibility for accounts. Examples of such companies are those in the electronics industry, where internal desk staff are teamed up with outside staff around 'key' customers. These company salesforces are able, with reasonable accuracy, to forecast future sales levels at these key locations. Further, an in-depth understanding of the buyer's decision-making unit is developed by the salesperson being able to form relationships with a large number of individual decision-makers. In this way, marketing staff can be kept informed of customer requirements, enabling them to improve products and plan effective communications.

New/Existing account structure

A further method of sales organisation is to create two teams of salespeople. The first team services existing accounts, while the second concentrates on seeking new accounts. This structure recognises the following:

1. Gaining new customers is a specialised activity demanding prospecting skills, patience, ability to accept higher rejection rates than when calling upon existing customers, and the time to cultivate new relationships.
2. Placing this function in the hands of the regular salesforce may result in its neglect since the salespeople may view it as time which could be better spent with existing customers.

3. Salespeople may prefer to call upon long-established customers whom they know, rather than prospects where they might face rejection and unpleasantness.

Pioneer salespeople were used successfully by trading stamp companies to prospect new customers. Once an account was obtained it was handed over to a maintenance salesperson who serviced the account. This form of salesforce organisation is used in the CCTV, freight and copier industries.

New account salespeople have been found to spend more time exploring the prospect's needs and provide more information to management regarding buyer behaviour and attitudes than salespeople working under a conventional system.⁴ The deployment of new account salesforces is feasible for large companies with many customers and where there is a continual turnover of key accounts that have to be replaced. The new account structure allows better planning of this vital function and eliminates competition between prospecting and servicing.

Table 15.2 provides a summary of the key strengths and weaknesses of customer-based structures.

Table 15.2 Strengths and weaknesses of customer-based organisational structures

Type of structure	Strengths	Weaknesses
Customer-based		
(i) Market-centred	<ul style="list-style-type: none"> • Good customer knowledge • Good for monitoring changes and trends within markets/industries 	<ul style="list-style-type: none"> • Relatively high cost
(ii) Account-size	<ul style="list-style-type: none"> • Allocation of salesforce resources linked to customer value • A high level of resources being targeted at key accounts means: <ul style="list-style-type: none"> • close working relationships • improved communication and co-ordination • better service • deeper DMU penetration • higher sales • provides career opportunities for salespeople • reduces costs of servicing small accounts • specialisation of selling skills 	<ul style="list-style-type: none"> • Very high cost of servicing key accounts
(iii) New/existing accounts	<ul style="list-style-type: none"> • Ensures sufficient attention is paid to new accounts • Specialisation of selling skills • Eliminates competition between prospecting and the servicing of existing accounts (clarity of purpose) 	<ul style="list-style-type: none"> • Relatively high cost • Potential discontinuity when new account is passed on to existing account team once account is established

Mixed organisation

This section has discussed the merits and weaknesses of the major sales organisational structures. In practice a combination may be used. For example, in order to minimise travelling expenses, a company using a two-product group structure may divide the country into geographically based territories with two salespeople operating within each one.

Like many selling decisions, the choice of sales organisation is not a black and white affair, which is why many salesforces are a blend of general territory representatives and specialists. Many companies use all forms of selling simultaneously: for very big accounts they use key account specialists; for the balance of small and medium accounts they use general territory representatives, perhaps supplemented by product application specialists who help generalists across several territories.

The challenge to any sales manager is to know how to assess the options. Financial, customer coverage and organisational flexibility trade-offs need to be made. The company must balance hard numbers with what the customer wants, which often means some form of specialisation, and what the competition are providing. Increasingly, the customer wants to buy total solutions and demands value-added services rather than one-off transactions.

As companies internationalise, consideration of salesforce organisation on a global scale needs to be made. The following case discussion covers a number of relevant issues.

Organisation for international sales

A common method of organising international salesforces is to adopt the same approach as that taken in the domestic market. Many multinational corporations use the simple geographical method within a given country or region. However, international companies that have wide product lines, large sales volumes and/or operate in large developed markets prefer more specialised organisational forms such as customer- or product-based structures. For smaller markets, as found in developing economies, such specialisation may not be economically viable, leading to geographical organisation.

Language also affects international salesforce organisation. For example, territories in Belgium are often divided by language – French to the south and Flemish in the north – or countries are combined as with Austria and Germany because both use the German language. Similarly, Switzerland is often organised into different regions based on usage of the French, German and Italian languages, while some companies combine Central America into a single sales region.

Some considerations when deciding upon international salesforce organisation are as follows:

- geographical size;
- sales potential;

Organisation for international sales (*continued*)

- customer expectations;
- product line width;
- current selling practices;
- language spoken.

Geographical structures tend to be used in less developed markets, when a single product line is sold and for small sales volumes. Product- or customer-based organisation is more likely in large developed markets, for broad product lines, and where the large sales volume justifies specialisation.

Sources: Based on Hill, J.S. and Still, R.R. (1990) 'Organising the overseas sales force: how multinationals do it', *Journal of Personal Selling and Sales Management*, 10 (2), pp. 57–66; Honeycutt, Jr, E.D. and Ford, J.B. (1995) 'Guidelines for managing an international sales force', *Industrial Marketing Management*, 24, pp. 135–44; Samli, A.C., Still, R.R. and Hill, J.S. (1993) *International Marketing*, Macmillan, New York.

15.2 DETERMINING THE NUMBER OF SALESPEOPLE

The workload approach

The **workload approach** allows the number of salespeople needed to be calculated, given that the company knows the number of calls per year it wishes its salespeople to make on different classes of customer. Talley showed how the number of salespeople could be calculated by following a series of steps:⁵

1. Customers are grouped into categories according to the value of goods bought and potential for the future.
2. The call frequency (number of calls on an account per year) is assessed for each category of customer.
3. The total required workload per year is calculated by multiplying the call frequency and number of customers in each category and then summing for all categories.
4. The average number of calls per week per salesperson is estimated.
5. The number of working weeks per year is calculated.
6. The average number of calls a salesperson can make per year is calculated by multiplying (4) and (5).
7. The number of salespeople required is determined by dividing the total annual calls required by the average number of calls one salesperson can make per year.

Here is an example of such a calculation. The formula is:

Number of salespeople =

$$\frac{\text{Number of customers} \times \text{Call frequency}}{\text{Average weekly call rate} \times \text{Number of working weeks per year}}$$

Steps (1), (2) and (3) can be summarised as in Table 15.1.

Step (4) gives:		
Average number of calls per week per salesperson		= 30
Step (5) gives:		
Number of weeks		= 52
Less:		
Holidays		4
Illness		1
Conferences/meetings		3
Training		1 <u>9</u>
Number of working weeks		= 43
Step (6) gives:		
Average number of calls per salesperson per year		= 43 × 30
		= 1,290

Step (7) gives:

$$\text{Salesforce size} = \frac{47,000}{1,290} = 37 \text{ salespeople}$$

When prospecting forms an important part of the salesperson's job, potential customers can be included in the customer categories according to potential. Alternatively, separate categories can be formed, with their own call rates, to give an estimation of the workload required to cover prospecting. This is then added to the workload estimate derived from actual customers to produce a total workload figure.

The applicability of this method is largely dependent on the ability of management to assess confidently the number of calls to be made on each category of customer. Where optimum call rates on customers within a particular category vary considerably, management may be reluctant to generalise. However, in a company quoted by Wilson,⁶ although call rates varied between one and ten calls per day, for 80 per cent of the days seven or eight calls were made.

The method is of particular relevance to companies who are expanding into new geographical territories. For example, a company expanding its sphere of operation from England to Scotland could use a blend of past experience and judgement to assess feasible call frequencies in Scotland. Market research could be used to identify potential customers. The workload approach could then be used to estimate the number of salespeople needed.

15.3 ESTABLISHING SALES TERRITORIES

Territory design is an important organisational issue since it is a major determinant of salespeople's opportunity to perform well and their ability to earn incentive pay where incentives are linked directly to territory-level individual performance. Faulty

Table 15.3 Workload method

Customer groups	No. of firms	Call frequencies per year	Total
A (Over £1,000,000 per year)	200	× 12	2,400
B (£500,000–£1m per year)	1,000	× 9	9,000
C (£150,000–£499,000 per year)	3,000	× 6	18,000
D (Less than £150,000)	6,000	× 3	18,000
Total annual workload			47,400

territory design decisions prevent the best use of expensive selling activities and can harm salespeople's attitudes, behaviour and effectiveness when they believe they have been treated unfairly in territory allocation. Indeed, research has shown that the more satisfied sales managers are with territory design, the greater the level of salesperson and sales unit effectiveness.⁷ It is therefore important for sales managers to pay much attention to the establishment of effective territories. Their task can be aided by developments in information technology, which are discussed in Chapter 12.

There are two basic considerations used to allocate salespeople to territories. First, management may wish to balance workload between territories. Workload can be defined as follows:

$$W = n_i t_i + n t_k$$

where W = workload; n_i = number of calls to be made to customers in category i ; t_i = average time required at call for each category i ; n = total number of calls to be made; t_k = average time required to travel to each call.

This equation is useful because it highlights the important factors which a sales manager must take into account when assessing workload. The number of calls to be made will be weighted by a time factor for each call. Major account calls are likely to be weighted higher than medium and small active accounts since, other things being equal, it makes sense to spend longer with customers who have greater potential. Also, calls on prospects may have a high weighting since salespeople need extra time to develop a new relationship and to sell themselves, their company and its products. In addition, the time required to travel to each customer must be taken into account. Territories vary in their customer density so travel time must be allowed for in the calculation of workload.

The data will be determined partly by executive judgement, e.g. how long to spend with each customer type on average, and, where a salesforce already exists, by observation, e.g. how long it takes to travel between customers in different existing territories. These data can be obtained during field visits with salespeople and estimates of current workloads calculated. For new sales teams the input into the formula will of necessity be more judgemental, but the equation does provide a conceptual framework for assessing territory workload.

The second consideration management may wish to use in working out territories is sales potential. Equalising workload may result in territories of widely differing potential. This may be accepted as a fact of life by some companies and dealt with by assigning their best salespeople to the territories of higher potential. Indeed, moving

salespeople from lower to higher potential territories could be used as a form of promotion. If company policy dictates that all salespeople should be treated equally, then a commission scheme based on the attainment of sales quotas, which vary according to territory potential, should establish a sense of fairness. However, if, after preliminary determination of territories by workload, sales potentials are widely disparate, it may be necessary to carry out some adjustment. It may be possible to modify adjacent territory boundaries so that a high potential territory surrenders a number of large accounts in return for gaining some smaller accounts from a neighbouring lower potential territory. In this way differences in sales potentials are reduced without altering workload dramatically. If this is not easily done it may be necessary to trade off workload for potential, making territories less similar in terms of workload but more balanced in terms of sales potential.

Designing territories calls for a blend of sound analysis and plain common sense. For example, it would be illogical to design territories purely on the basis of equalising sales potential if the result produced strips of territory which failed to recognise the road system (especially motorways) as it exists in the country today.

Territory revision

A sales territory should not be considered a permanent unit. The following factors may suggest the need for territory revision:

- change in consumer preference;
- competitive activity;
- diminution in the usefulness of chosen distribution channels;
- complete closure of an outlet or group of stores;
- increases in the cost of covering territories;
- salesforce complacency.

Before deciding that changes are necessary, a number of aspects of the sales effort should be investigated. The most common indicators that something might be wrong with the territorial structure is falling sales volume. However, great care must be taken before accepting this as a reason for territory revision. Sales may be falling because the selling and promotion effort within the territory is not as effective as it should be. If this is the case, then it is not the boundaries of the sales area that need revision.

Salespeople may be calling only on the prospects which offer the greatest potential. If there is no systematic plan for the territory, salespeople may make a poor job of planning their calls and this may result in an increase in non-selling time (e.g. travelling time). Furthermore, the supervision may be at fault. If sales personnel are not supervised properly, they may lose their enthusiasm for the job or even for the product.

Before changes are implemented, a reappraisal of market potential should take place. It may be that the original distributors of the products are in need of replacement or motivation because they have become disenchanted with the company, its products or policies. Consumer acceptance of the product may need to be investigated before territories are revised. This may require a limited market survey. The current activities of competitors should also be investigated.

If territories are to be revised, the salesforce must be fully informed about the extent of the changes and the reasons behind them. The extent to which the boundaries are changed will be governed by the need to increase coverage, reduce costs or increase sales. The sales manager should enlist the aid of supervisors and salespeople when the task of altering territories begins.

While the overall design of territories, size, number of customers, etc., are the responsibility of the sales manager, once allocated, the salesperson too (sometimes in conjunction with the sales manager) can play an important role in managing this territory in order to achieve maximum sales effectiveness. In fact, much of this aspect of territory management comes down to effective self-management on the part of the salesperson. Information technology can aid territory management and revision as discussed in Chapter 12.

15.4 COMPENSATION

Compensation objectives

Sales managers should consider carefully the type of **compensation plan** they wish to use. This is because there are a number of objectives which can be achieved through a compensation scheme. First, compensation can be used to motivate a salesforce by linking achievement to monetary reward. Second, it can be used to attract and hold successful salespeople by providing a good standard of living for them, by rewarding outstanding performance and providing regularity of income. Third, it is possible to design compensation schemes, which allow selling costs to fluctuate in line with changes in sales revenue. Thus, in poor years lower sales are offset to some extent by lower commission payments, and in good years increased sales costs are financed by higher sales revenue. Fourth, compensation plans can be formulated to direct the attention of sales personnel to specific company sales objectives. Higher commission can be paid on product lines the company particularly wants to move. Special commission can be paid to salespeople who generate new active accounts if this is believed to be important to the company. Thus, compensation plans can be used to control activities.

Types of compensation plan

When designing compensation plans, sales management need to recognise that not all of the sales team may be motivated by the thought of higher earnings. Darmon identified five types of salespeople:⁸

1. *Creatures of habit.* These salespeople try to maintain their standard of living by earning a predetermined amount of money.
2. *Satisfiers.* These people perform at a level just sufficient to keep their jobs.
3. *Trade-off-ers.* These people allocate their time based upon a personally determined ratio between work and leisure that is not influenced by the prospect of higher earnings.

4. *Goal orientated.* These salespeople prefer recognition as achievers by their peers and superiors and tend to be sales quota orientated with money mainly serving as recognition of achievement.
5. *Money orientated.* These people aim to maximise their earnings. Family relationships, leisure and even health may be sacrificed in the pursuit of money.

The implication is that sales management need to understand and categorise their salespeople in terms of their motives. Compensation plans can only be effectively designed with this understanding. For example, developing a new plan based upon greater opportunities to earn commission is unlikely to work if the sales team consists only of the first three categories of salesperson. Conversely, when a sales team is judged to be composed mainly of goal and money orientated salespeople, a move from a fixed salary to a salary and commission system is likely to prove effective.

There are, basically, three types of compensation plan:

- fixed salary;
- commission only; and
- salary plus commission.

Each type of compensation plan is evaluated below in terms of its benefits and drawbacks to management and salespeople, while Figure 15.2 shows how a sales target can be associated with a fixed salary, commission only, or salary plus commission system. If the target is achieved, sales costs are equal no matter which system is used.

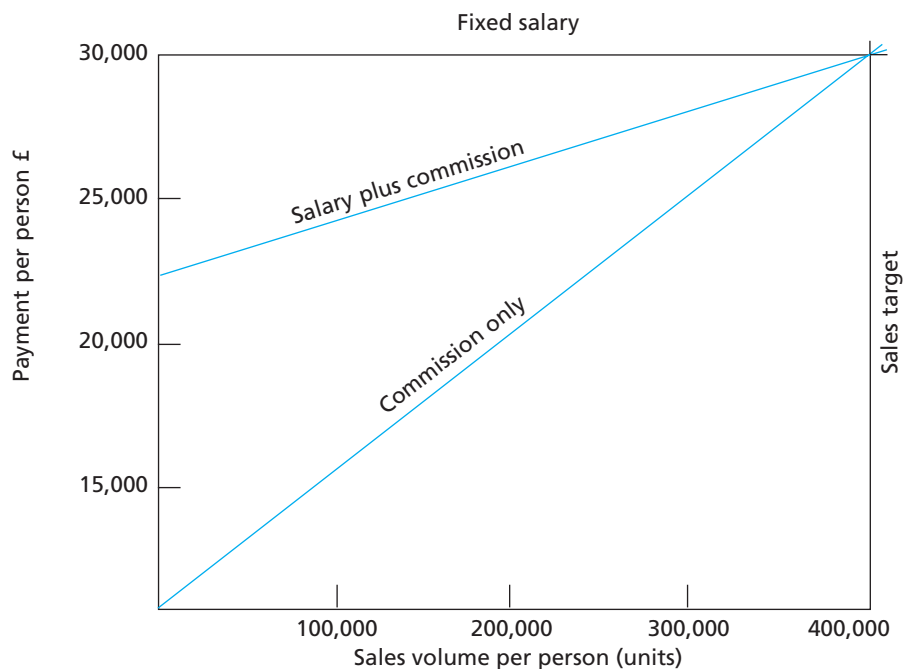


Figure 15.2 Compensation and sales volume

Fixed salary

This method of payment encourages salespeople to consider all aspects of the selling function rather than just those which lead to a quick sales return. Salespeople who are paid on fixed salary are likely to be more willing to provide technical service, complete information feedback reports and carry out prospecting than if they were paid solely by commission. The system provides security to the salesperson who knows how much income they will receive each month and is relatively cheap to administer since calculation of commissions and bonuses is not required.

The system also overcomes the problem of deciding how much commission to give to each salesperson when a complex buying decision is made by a number of DMU members who have been influenced by different salespeople, perhaps in different parts of the country. Wilson cites the case of a sale of building materials to a local authority in Lancashire being the result of one salesperson influencing an architect in London, another calling on the contractor in Norwich and a third persuading the local authority itself.⁹

However, the method does have a number of drawbacks. First, no direct financial incentive is provided for increasing sales (or profits). Second, high-performing salespeople may not be attracted, and holding on to them may be difficult using fixed salary since they may perceive the system as being unfair and be tempted to apply for jobs where financial rewards are high for outstanding performers. Third, selling costs remain static in the short term when sales decrease; thus the system does not provide the inbuilt flexibility of the other compensation systems.

Because of its inherent characteristics it is used primarily in industrial selling where technical service is an important element in the selling task and the time necessary to conclude a sale may be long. It is particularly appropriate when the salesperson sells very high value products at very low volumes. Under these conditions a commission-based compensation scheme would lead to widely varying monthly income levels depending on when orders were placed. A Chartered Institute of Marketing study found that roughly one-third of salespeople are paid by this method in Britain.¹⁰

Commission only

The commission-only system of payment provides an obvious incentive to sell. However, since income is dependent on sales results, salespeople will be reluctant to spend time on tasks, which they do not perceive as being directly related to sales. The result is that sales personnel may pursue short-term goals, to the detriment of activities, which may have an effect in the longer term. They may be reluctant to write reports providing market information to management and to spend time out of the field to attend sales training courses, for example.

The system provides little security for those whose earnings may suffer through no fault of their own and the pressure to sell may damage customer–salesperson relationships. This is particularly relevant in industrial selling, where the decision-making process may be long and pressure applied by the salesperson to close the sale prematurely may be detrimental.

From management's perspective the system not only has the advantage of directly financing costs automatically, but also allows some control over sales activities

Table 15.4 The use of compensation methods in the United Kingdom

	Manufacturing firms (%)	Industrial distributors (%)
Salary only	34	15
Salary plus commission/bonus	66	81
Commission only	—	4

Sources: Manufacturing firms – Avlonitis, G., Manolis, C. and Boyle, K. (1985) 'Sales management practices in the UK manufacturing industry', *Journal of Sales Management*, 2 (2), pp. 6–16. Industrial distributors – Shipley, D. and Jobber, D. (1991) 'Sales force motivation, compensation and evaluation', *Service Industries Journal*, 11 (2), pp. 154–70.

through the use of higher commission rates on products and accounts in which management is particularly interested.

It is most often used in situations where there are a large number of potential customers, the buying process is relatively short and technical assistance and service is not required. Insurance selling is an example where commission-only payments are often used.

Salary plus commission

This system attempts to combine the benefits of both the previous methods in order to provide financial incentives with a level of security. Since income is not solely dependent upon commission, management gains a greater degree of control over the salesperson's time than under the commission-only system, and sales costs are to some extent related to revenue generated. The method is attractive to ambitious salespeople who wish to combine security with the capability of earning more by greater effort and ability.

For these reasons it is the most commonly used method of compensating salespeople, although the method of calculating commission may vary. Extra payment may be linked to profits or sales generated, at a constant rate for all sales or only after a certain level of sales has been generated. Payment may be based upon a fixed percentage for all products and customers or at a variable rate. Alternatively, a bonus (a given monetary sum) may be paid on the accomplishment of a particular task (e.g. achieving a sales target, opening a certain number of new accounts). The results of two surveys¹¹ that have examined the use of salary, salary plus commission/bonus and commission only are shown in Table 15.4.

15.5 CONCLUSIONS

Two management functions – organisation and compensation – have been discussed in this chapter. There are three methods of organising a salesforce:

- geographical;
- product;
- customer.

The customer orientated approach has four variants:

- market-centred;
- account size;
- new/existing accounts;
- functional.

Determining the number of salespeople needed may be accomplished by the workload approach.

Establishing sales territories will be determined by attempting to balance workload and sales potential.

Finally, the three major categories of compensation plan were examined. These are the fixed salary, commission only and salary plus commission.

The next part of the text looks at the final area of sales management – sales control.

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PRACTICAL EXERCISE

Rovertronics

Going where others might fear to tread . . . but still needing direction

Rovertronics was established in 1965 by Arthur Sullivant, an Oxford-educated cybernetics scientist who invented one of the first artificial intelligence chips, which was subsequently developed into the world's first autonomous robot. The robot was known affectionately as 'Fearless Freddie' – Fearless because it could manoeuvre itself into places that would be dangerous for humans to reach. Applications included bomb disposal and minesweeping for the armed forces, reactor troubleshooting in the nuclear energy industry and maintenance of sewerage networks. However, despite the technical expertise of the management the company was very product myopic and product development ideas were generated through technical inspiration rather than user needs – a typical entrepreneurial company driven by the ideas of its eccentric owner.

After a slow start the company were producing up to five per year of a single model each one selling for approximately £50,000, which covered costs and gave a small margin of profit plus a small amount for research and development. Sullivant does not have commercial savvy, but has sensibly secured full intellectual property rights and world patents for the product. One of the weaknesses of the founder's lack of commercial acumen is that he paid virtually no attention to the sales function. Most customers sought out the company themselves and business was developed purely by chance.

Nevertheless, the company did attract the interest of a consortium of City banks that realised the product's potential and wished to invest heavily in the organisation in order to make it more commercially driven. The bankers also had no selling experience and decided to use the services of a specialist sales and marketing consultancy to put together a cohesive sales and marketing plan to exploit the company's potential and the product opportunities. The investors were particularly interested in innovative ideas for the following areas:

- salesforce organisation – structure, territories;
- compensation;
- number of salespeople required initially;
- any other ideas to help the organisation realise its full potential (e.g. sales strategy, new market opportunities).

TASK

The class will be split into four groups, two groups representing consultancies competing to advise the company on its business development strategy, a team of bankers, and a fourth group of observers. The consultancies are given 30 minutes to develop a five-minute presentation that meets the bank's requirements. The bankers will award the contract to the consultancy with the most innovative bid, or may

decide to put it out to tender again if neither consultancy group is deemed satisfactory. Each group will give a presentation to the bank's representative summarising their credentials and overall strategic approach to redeveloping the firm. Then the bank's representative will give some feedback on each presentation and announce the winning consultancy (or announce that none of the consultancies has won the task).

The consultancies' proposals will be evaluated on the basis of their responses to the three key areas outlined above and any exceptional considerations that might crop up.

Source: Written by Andrew Pressey, Lecturer in Marketing, University of East Anglia. Neville Hunt, Lecturer in Marketing, University of Luton.

PRACTICAL EXERCISE

Silverton Confectionery Company

Silverton Confectionery is a growing Berkshire-based company specialising in selling quality chocolates and sweets at higher than average prices through newsagents and confectioners.

At present their span of operation is limited to England and Wales, which is covered by a salesforce organised along geographical lines. Each salesperson is responsible for sales of the entire product line in their territory and for seeking out new outlets in which to develop new business. The system works well with Silverton's salespeople, who are well known by their customers and, in most cases, well liked. The salesperson's responsibilities include both the selling and merchandising functions. They are paid on a salary plus commission system.

The success of this company, which has exploited a market niche neglected by the larger confectionery companies, has led Silverton management to expand into Scotland. You, as national sales manager, have been asked to recommend the appropriate number of salespeople required.

The coverage objective is to call upon all outlets with a turnover of over £200,000 three times a year, those between £100,000 and £200,000 twice a year and those below £100,000 once a year. As a first step, you have commissioned a market research report to identify the number of outlets within each size category. The results are given below.

A salesperson can be expected to call upon an average of 60 outlets a week and a working year, after holidays, sales meetings, training, etc., can be assumed to be 43 weeks.

Category	No. of outlets
Under £100,000	2,950
£100,000–000	1,700
Over £200,000	380

Discussion question

How many salespeople are required?

Examination questions

- 1** The only sensible way to organise a salesforce is by geographical region. All other methods are not cost efficient. Discuss.
- 2** How practical is the workload approach to salesforce size determination?