SALES MANAGEMENT

NOTES UNIT-2

**VAISHNAVI VERMA**

**ASSISTANT PROFESSOR**

**VISION INSTITUTE OF MANAGEMENT**

**KANPUR**

**UNIT-2**

**Sales Organisation and Relationship**

Sales organisation consists of human beings or persons working together for the effective marketing of products manufactured by the firm or the products purchased for resale. Sales organisation co-ordinates the efforts of members of a group to bring about a desirable result. It provides an efficient, economic and flexible administrative set up to ensure timely movement of products from the warehouse to the ultimate consumer. Thus it provides satisfactory job to buyers and sellers.

A sales organisation has a number of departments. It has a planned and well co-ordinated structure. It performs the functions of planning, organizing and controlling marketing and distribution of products. Sales organisation is a foundation for effective sales planning and sales policies. Systematic execution of plans and policies and programmes of a sales organisation control all the sales activities. As such it ensures maximum efficiency and profitability without losing consumer service and satisfaction.

According to Boiling, “A good sales organisation is one wherein the functions or departments have each been carefully planned and co-ordinated towards the objective of putting the product in the hands of the consumers—the whole effort being efficiently supervised and managed, so that each function is carried out in the desired manner.”

**Need for a Sales Organisation:**

“A sales organisation is like a power station sending out energy, which is devoted to the advertising and selling of particular lines; and there is a tremendous waste of energy between the power station and the points where it reaches the consumers. Therefore, there arises the necessity of organizing the sales department.”

So long as the firm is a small one, there is no need for sales organisation, as the proprietor himself can sell all the output or in certain cases, he is assisted by one or two salesmen, under his direct control. But when the firm or the business itself expands, because of extension of markets, production in large-scale, competitive market etc., the need for a sales organisation is felt.

**The need arises because of the following factors:**

1. Production in anticipation of demand, which must be sold.
2. To create demand for the products through efficient salesmen.
3. Execution of orders without delay.
4. Satisfactory action against complaints from customers.
5. Collection of credit sales.
6. Keeping enough stock by looking at the future demand.
7. Maximum contribution to profit.
8. To enforce proper supervision of sales-force.
9. To divide and fix authority among the subordinates.
10. To locate responsibility.

**Importance of Sales Organisation:**

A sales organisation is the mechanism through which a sales manager’s philosophy is translated into action. The sales organisation provides the vehicle for making decisions on planning, organisation, selection and training of salesmen, their motivation, directing and controlling them. It also provides vehicle through which these decisions are implemented.

“A business organisation is like a home. It has characteristic atmosphere. In some homes the head of the household and all its members are vitally concerned about religion, politics or some other interest—the occupations of the individual members being only of minor interest. In other homes where the personality of the head of the household dominates the activities and spirit of the members the opposite occurs. Like any group a business organisation has its own culture, traditions, and to some extent its own language and climate.” —Hepner

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“Sales are the life blood of business,” Sales organisation is part and parcel of a business firm. All the departments are carefully plaited in a good sales organisation.

**The importance of the sales organisation, in brief, is:**

1. Blood circulation of a human body keeps a man alive and in sound health. Similarly the sales strengthen the organisation. The more is the sales, the more is the profit.
2. Increasing sales means progress of the firm. If the sales fall down, it is fatal, because sales are the life blood of the business, as the blood is to a human body.
3. Consumers are the kings. Manufacturers produce goods for consumers. They must be satisfied in the market which is full of competitors with products for similar use. So suitable products are necessary, and for this an organisation is necessary.
4. To move the products from the factory to the consumers, the sales organisation is necessary— demand creation.
5. To handle the orders promptly i.e., from the stages of enquiry to order at full satisfaction to consumers.
6. Collection of dues is also important. Several drops make an ocean; at the same time milking cows should not be neglected.
7. To keep good public relations by redressing the complaints if any, and to create a good image of the firm.

**Functions of a Sales Organisation:**

Modem sales organisation is not only profit-oriented but also customer-oriented.

**The following are the important functions of a sales organisation:**

1. Analysis of markets thoroughly, including product and market research.
2. Adoption of a selfishly sound but defensible sales policy.
3. Accurate market or sales forecasting and planning the sales campaign, based on relevant data.
4. Deciding about prices and terms of sales and pricing policies.
5. Packaging for the consumer wants a container which will satisfy his desire for attractive appearance, keeping qualities, utility, and correct price and many other factors.
6. Branding the product.
7. Deciding the channels of distribution.
8. Selection, training and control of salesmen and fixing their remuneration.
9. Allocation of Territory and quota-setting.
10. Sales programmers and sales promotion activities.
11. Arranging for advertising and publicity.
12. Order preparation and office recording.
13. Preparation of customer’s record cards.
14. Scrutiny and recording of reports.
15. Study of statistical records and returns.
16. Maintenance of salesmen’s records.

**Structure of the Sales Organisation:**

**The following factors are to be taken into consideration while designing the structure of a sales organisation:**

1. Nature of the market
2. Sales policies of the enterprise
3. Nature of the product
4. Number of products
5. Availability of financial resources
6. Level of distribution system
7. Size of the company
8. Price of the product
9. Ability of the professionals
10. Position of competitors’ Products.

**Sales Management:**

Sales management is concerned with mainly with the management of selling function. The sales function in a business is a basic function. The sales management represents one of the most important functional areas of business management, and all the principles of general management such as planning, organizing, directing, motivating, and controlling are applied to sales management too for securing better business performance, viz., reasonable profits through sales. Modem business is consumer centred.

The American Marketing Association has defined sales management as “the planning, direction, and control of the personal selling activities of a business unit, including recruiting, selecting, training, equipping, assigning, rating, supervising, paying and motivating as these tasks apply to the personal sales force.”

**Functions of Sales Management:**

**The general functions of sales management or marketing management are as follows:**

1. Sales planning and policies
2. Pricing policies and price fixing
3. Advertising and promotions
4. Control of sales force
5. Marketing research
6. Planning and control of sales
7. Management of distribution channels
8. Branding, packing and labelling
9. After sale service
10. Integration and co-ordination of all functions.

**The Field of Sales Management:**

**The field of sales management includes the following tasks:**

1. Setting sales force objectives
2. Human resource planning
3. Recruitment and selection of salesmen
4. Training of sales personnel
5. Motivation
6. Compensation
7. Controlling the sales force
8. Organizing and supporting the work of salesman
9. Designing sales force objectives
10. Supervising and evaluating the sales force.

# Purpose of Sales Organization

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# Types of Sales Organizations and their Structure

The grouping of activities into positions and the charting of relationships of positions causes the organization to take on structural form. When sales department is set up in an organization it follows one of these general structures – Line, Line and Staff, Functional and Committee.

### ****The line sales organization****

* This is the oldest type used in smaller firms and in firms where there is a small selling force. This limitation restricts them to narrow product line in limited geographical area.
* All executives have line authority and each subordinate is responsible only to one higher-up.
* They have fixed responsibilities and sales personnel reports directly to the chief sales executive
* Lines of authority and responsibility are clear and logical, and it is difficult for individuals to shift or evade responsibilities
* Not appropriate when there is a large sales staff

### ****The line and staff sales organization****

* Found in large and medium sized firms selling diversified product lines over a wide geographical area
* Provides the top sales executive with a group of specialists and experts in dealer and distributors relations, sales analysis , sales organization, sales personnel, sales planning, sales promotion, sales training, service, traffic and warehousing
* Staff sales executives do not have authority to issue orders or directives.
* Staff recommendations are submitted to the top sales executives and after approval, transmit necessary instructions to the line organization
* Gives time to the staff executives time to study problems before recommendations.

### ****Functional sales organization****

* Based upon the concept that each individual in an organization, executive and employee, should have as few distinct duties as possible
* Salespeople receive instructions from several executives but on different aspects of their work
* All specialists have line authority and they have a function authority
* There is a great improved performance
* Not feasible for small and medium sized firms

### ****Committee sales organization****

* The executive group plans policy formulation while implementation of plans and policies is done by individual executives
* Many firms have a sales training committee
* Before policies are made and action is taken, important problems are deliberated by committee members and are measured against varied viewpoints.

### Structure of sales organizations

1. **Geographical Structure**

An advantage of this form of organization 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 organizational forms,  e.g. product or market specialization, 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 specialized role.

1. **Product Specialization Structure**

One method of specialization is along product lines.

Conditions that are conducive to this form of organization 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 organizations are different for each product group.



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.

1. **Customer-based Structures (Industry-Based Structure)**

The problem of the same customer being served by product divisions of the same supplier, the complexity of buyer behavior, which requires not only input from the sales function but from other functional groups (such as engineering, finance, logistics and marketing), centralization of purchasing, and the immense value of some customers have led many suppliers to rethink how they organize their sales-force.

Companies are increasingly organizing around customers and shifting resources from product or regional divisions to customer-focused business units.

Another method of specialization 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.

Specialization 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.

1. **Customer-based Structures (Account-size Structure)**

Some companies structure their sales-force 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 sales-force.

The team comprises senior salespeople who specialize 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.



# Sales Department External Relations

An organization is concerned with maintaining a healthy relationship with suppliers and customer, with whom they interact daily. However, for an organization to be successful, it has to maintain healthy and fruitful relation with all the stakeholders. These stakeholders may or may not be directly involved in the market. But they impact how business will function in the market.

The external stakeholders are a large and diverse group. They include

* Government and other legal bodies
* Financial Institutions and Creditors
* Consumers Rights Organization and Environmentalist
* Media
* Industry Associations

A simple understanding of stakeholder is anyone or anybody who gets affected and or affect the actions undertaken by the organization.

### ****Government Relationships****

All organizations are affected in some way or the other by the government and legal bodies in for legislation, act or tax policy. These bodies could be operating at national level (e.g. Central Board of Taxes) or at local level (e.g. Municipality) or at international level (e.g. World Trade Organization).

The amount of impact of these bodies on the organization is dependent of sphere at which it operates i.e. local market, national market and international market.

Any government’s economic policy or central bank’s monetary policy has an indirect or direct impact on the organization. A direct impact would be passing legislation to break cartels or monopoly or price regulation.

Government’s role is just not restricted to economic and monetary policy, but it sphere of influence includes society, the environment, and culture fabric of the country. Regulation around food and health safety directly impacts the function of the organization. For example, cigarette manufacturers anxiously await budget hoping government does not increase sales/excise tax, thereby increasing the selling price.

Political environment also plays an important in impacting functioning of the organization. Any sudden animosity between neighboring countries can result in government imposing trade embargo thereby halting commerce.

### ****Mass Media****

In the current world with 24×7 media and the flow of information, it is very important to pay particular attention on strategies to deal with mass media. Typically, organizations need to develop strategies to tackle news reporters and editors, investigative journalist, and sectorial analyst.

Organization need to develop a proactive approach in dealing with mass media. By creating open channels of communication with them. This could be achieved through providing them with actual and crucial business information from the senior management interview or product testing etc.

### ****Industry Associations****

Sometimes companies join hands in delivering value to customers. This so called alliance and collaborations have their own set of challenges. These collaborations can be divided into four categories internal (within the industry), external (outside industry), informal (business network) and formal (trade associations and alliances)

There are so many external relationships, organizations have to deal with. It has to determine which one of it is going to impact it most and develop strategies around that. Relationships with external stakeholders can make or break the success of an organization.

### ****Financial Institutions and Creditors****

Financial institutions, banks, creditors, lenders do not serve as direct customer for an organization, thereby not really forming the inside core of relationship marketing. However the influence they have on the overall working of the organization make them important element of relationship marketing. This aspect of relationship marketing is called Public Relationship or Investor Relationship management.

For an organization, it is important to have loyal and long term customer, but it is equally important to have loyal and long term investor who will stay invested in the company. Long term investors provide financial stability to the organization and also help companies avoid hostile takeover bids.

Financial performance as understood by an external stakeholder like an analyst will also determine the fate of the company. If the analyst expresses a positive response to the financial performance, it is likely that company will attract steady investors and also keep supplier confidence going. By providing quality company information to financial analyst, PR team can develop strong relationship with them.

### ****Consumer Groups and External Pressure Group****

Another extension of external stakeholders is public pressure groups like consumer activist, environmentalist, human and animal activists, ideological groups, local leaders etc.

Consumer groups are created to fight for the rights of consumers and sometimes represent a portion of customers. It is generally perceived that consumer group exists to provide customer satisfaction. However, they may be constituted to take on organization perceived with too much power or control over the market. These consumer groups can exert pressure through boycotts or protests.

Environmentalist groups like Greenpeace, World Wildlife Fund, PETA raise issue against companies which they believe are hurting the environment. Some of the issues raised by this group are illegal dumping of industrial waste in rivers, water wastage, plastic usage, pesticide usage.

Some of ideological and animal rights groups are difficult to deal and negotiated with. It requires a different PR strategy from company to protect its interest.

Public opinion leaders, civil rights leaders, TV Hosts are high profile individuals who command substantial public support. Any opinion expressed by them against any company can generate a negative environment for the company.

Essentially, companies are left with two options in dealing with pressure groups. The first option is to go alone and develop its own corporate social responsibility agenda and develop wider public acceptance. The second option is to develop working relationships with pressure groups and gaining their favorable opinion.

# Customer focus and Distribution Management

Too often, distribution is the neglected side of marketing. Automobile companies, savvy in many aspects of strategy, have lost huge shares of the parts and service markets to NAPA, Midas, and Goodyear because they resist making changes in their dealer franchise networks. A great many other American companies—Tupperware springs to mind—are reaching their markets in similarly outmoded ways. It is hardly seemly for Tupperware to continue with its “parties” when more than half of American women are working outside their homes.

In contrast, a number of companies have outstripped their competition with imaginative strategies for getting products to their customers—and marketing executives can learn from them. The Federal Express system is so innovative and formidable that it might be considered a model even beyond the small-package delivery industry. American Hospital Supply has gained the edge over its competition by linking up to hospitals and clinics with a sophisticated system of data processing, while Steelcase has set a standard for delivering complex office furniture installations, complete and on time.

Although American companies have been ignoring the ways in which they deliver products and services, their customers are increasingly inclined to demand higher standards of performance. Customers want companies to value their time and trouble.

And so important opportunities for gaining a competitive advantage through distribution remain, and given the new technology, some companies may, as Federal Express has, achieve a breakthrough. Will the management of American companies (deregulated telecommunications companies included) make use of these opportunities or even recognize them for what they are? Just what process should a company use to select or structure the best possible distribution channels for its products?

We suggest eight steps to design a distribution system that really performs. The word process is key here because whatever the result of taking these steps, management will gain by clarifying what its customers want and how to serve them. Managers are always saying that they want their company to be “market driven.” In following these steps, they can give substance to what is too often merely corporate rhetoric.

### ****Step 1: Find Out What Your Customers Want****

Of all marketing decisions, the ones regarding distribution are the most far-reaching. A company can easily change its prices or its advertising. It can hire or fire a market research agency, revamp its sales promotion program, even modify its product line. But once a company sets up its distribution channels, it will generally find changing them to be difficult.

And so, the first step calls for researching what customers want from the buying process and then using their preferences to group customers into market segments. Managers conducting the research concentrate on learning what their ultimate customers—the end users—want in the way of service. It is these people, of course, who actually benefit from the products a company makes.

It is important for the researchers to emphasize that the product’s quality is not an issue. Nor should there be any question at this stage of what may or may not be most practical for the company, whether it be a service company, a manufacturer, or a middleman. Rather, respondents should be encouraged to consider the delivery of the service, the convenience of shopping for the product, and the kind of add-ons that are sold along with either.

There is, of course, no such thing as a truly homogeneous market, in which all customers view the company’s offerings in exactly the same way. Yet managers who routinely try to ascertain what market segments are worth preparing for when they design a product rarely try this when they make decisions about how to distribute it. This is a crucial mistake.

The preliminary research is meant to generate an inventory of customers’ desires, but it is important to exclude ideas too grand or trivial for consideration. Without restrictions of any kind, who wouldn’t ask for the moon? Needless to say, an overarching consideration is price: respondents should be made to realize that for every service (or lack of one) there will be a correspondingly higher or lower price. Equally important, however, respondents must be forced to weigh their preferences not only in relation to price but also in relation to one another.

Consider personal computers. The delivery of service might include such things as a demonstration of the product before sale or the provision of long-term warranties and flexible financing. After the sale, there might be training programs for using the equipment and a program to install and repair it. Customers might appreciate “loaners” while their equipment is being repaired or technical advice over a telephone hot line. They should be prepared to make trade-offs among these inducements.

Services, we’ve found, usually fall into five categories:

1. **Lot size.**Do customers want to buy in units of one or in multiple units?
2. **Market decentralization.**Do customers value around-the-corner convenience, or are they willing to deal across great distances, say via an 800 number?
3. **Waiting time.**Do customers want immediate delivery, or are they more concerned about the assurance of delivery?
4. **Product variety.**Do customers value having the choice of many related products, or do they prefer the store to specialize?
5. **Service backup.**Do customers want immediate, in-house repair and technical help, or can they wait and choose their own local repair services?

Once customers have traded off, say, demands for convenient location against product variety or variety against expert sales assistance, researchers can group these preferences into market segments and look for links between the segments suggested by the survey and the segments that may be generated by analysis of independent demographic or other marketing data.

We suspect, for example, that a segment of small businesses would be much more concerned about one-stop shopping than large businesses; big companies have purchasing specialists with the time to choose complementary products from different sources and to secure the lowest prices within various quality ranges. If a company sells to people who want one-stop shopping, it might want to know whether this segment coincides with self-employed accountants, for example. This small market segment is likely to be substantial, and it has needs quite different from those of a segment consisting of start-up scientific research companies.

A number of marketing research techniques are available to researchers at this step in the process, among them conjoint analysis, hybrid modeling, and constant-sum scales.1 Unfortunately, most of these techniques have been developed to elicit choices among the tangible properties of product design: gas mileage versus size of car, size versus model, and so on. The things people want from a distribution system tend to be less tangible and more difficult to visualize and make judgments about (convenience of location versus depth of assortment, for example). Survey instruments ought to be designed with this challenge in mind.

### ****Step 2: Decide on Appropriate Outlets****

At this stage researchers focus on the relation between market segments—defined as clusters of demands for service—and the outlets where services are normally delivered. Suppose, for example, that customers for a home computer indicate a desire for self-service, a somewhat narrow assortment of merchandise, limited after-sale service, and a relatively Spartan atmosphere—so long as the prices are low. Clearly, this segment consists of people who would put up with a discount store operation—a 47th St. Photo, for instance—and trade off the amenities of upscale service or nearby location.

The fame of a store such as 47th St. Photo can be an asset in the analysis. Using the names of such well known existing outlets or suggesting a hybrid of two or more kinds of such outlets, researchers can label potential clusters of service attributes. Respondents are asked about the service outlets they visualize, and researchers label the clusters constituting a segment precisely and vividly. On the other hand, labels are merely points of reference. They suggest existing kinds of retail outlets without limiting the possibilities.

For clusters suggesting no existing kinds of outlets, short descriptions of hypothetical outlets may be of help. Researchers may coin new names and, in analyzing the data, position the various segments along a wide continuum. The chemical industry, for example, may have no analog to a discount store or a rack jobber. But if many respondents indicate that they would like to see something along these lines, then the research team might, in the course of the survey, develop an appropriate option, describe it, think of a label for it, and present it to new respondents for consideration.

Venturesome financial institutions such as Merrill Lynch, Bank One, and GE Credit have scored impressive gains with just such distribution ideas. How else did we get to “financial supermarkets” and “discount brokerage”? In contrast, many marketing strategists in the personal computer industry have failed to predict the significance of value-added resellers or retail outlets with multiple but highly focused assortments. Obviously, they did not start by conceiving their distribution channels according to the shopping needs of potential customers.

Do not be hamstrung by industry experience. The more creative researchers are with their labels, the better step 2 will work.

### ****Step 3: Find Out About the Costs****

Up to this point, the customer is sovereign: the process aims to determine what customers perceive to be optional shopping conditions among the many pertaining to distribution and related services. In the first part of step 3, however, it is essential to obtain an impartial assessment of whether the things that customers want (more precisely, the “clusters” of things they want) are feasible for the company. This is the first reality check, one that is made before management as a whole gets involved in the process.

It may be made by selected members of the corporation’s staff, assuming they are professionals who can be objective about the company’s line operations. Otherwise, the company must turn to executives from unaffected wholesaling or retailing enterprises or to academic authorities.

Researchers have already asked customers to trade off their demands for service against price, so utterly implausible combinations of shopping conditions—outlets combining small-lot purchases and low unit prices, for example—have been eliminated from further consideration. But less obviously implausible combinations may remain. Suppose a group of customers for personal computers claim they are willing to pay any price for a hypothetical shopping outlet combining custom tailoring with quick delivery. Are these two shopping conditions ever practical in combination?

The second part of step 3 aims to determine what kind of support will be needed from suppliers or other “up-channel” participants for any hypothetical outlet suggested by the data. Distribution outlets do not operate in isolation; there is always a distribution system backing them up.

For example, if an attribute cluster suggests a “limited line, full function, vertically oriented industrial distributor,” the question would be this: What backup system ensures that this kind of distribution will satisfy customers as well as possible? The answers should be concrete: high-technology distribution centers, training programs, catalog expertise. Sometimes existing distribution systems enjoy the necessary support, sometimes not. If not, the division of labor among suppliers will have to be restructured so that what customers desire may be delivered by the most capable up-channel participant.

Step 3 is a good time to get insights from people out in the distributive trades. It is also the time to tap in-house knowledge, the opinions of salespersons and others who stay in contact with customers.

The third and final part of step 3 is to project the cost of support systems feasible for each outlet type, on the assumption that the company may be able to contract with third parties to perform the outlet functions. Researchers cost out the new support systems on an incremental basis, starting with the company’s existing distribution system. Costing requires informed guesswork; any change in one element of a distribution system has ramifications for another. But if, for example, the data suggest that customers want rapid delivery, local inventories will have to be maintained. Distribution centers may have to be constructed to support the local inventories. Cost accountants familiar with distribution may provide estimates, although they may have trouble dealing with the more theoretical scenarios. In the end, the question to be answered is this: What increase in market share is required to offset the added costs of the new distribution alternatives?

It is important to collect these cost estimates during step 3 because they are backup material for step 4. The figures may well reveal that certain systems of distribution are prohibitively expensive and should be removed from further consideration. We know one manufacturer of specialty medical supplies and equipment that was losing sales to competitors selling via mail order. But the added cost of establishing a competing catalog system did not make sense, so the company abandoned the option at this stage.

### ****Step 4: Bound the “Ideal”****

At this point the researchers have come as close as they can to discerning an ideal market-driven system. Top management has been obliged to keep its hands off. Researchers have had a chance to find out, perhaps for the first time, what it really takes to please customers.

Step 4 gives a cross section of the company’s executives an opportunity to subject the research findings to their own hard tests. Researchers invite these executives to investigate how any existing or hypothetical channel of distribution would affect company efficiency (costs, revenues, and profits), effectiveness (especially market share), and adaptability (fluidity of capital invested, ability to accept new products or adjust to new technologies). At the same time, executives give their impressions of what distribution is or is not doing. Though this part of the process is meant to generate reliable numbers, discussions with managers should be open-ended. They may even bring up their pet peeves.

Finally, researchers develop a list of company objectives for distribution based on their conversations with top management. They turn this list into a survey instrument and send it to every executive in the company who has a stake in distribution matters. Executives trade off objectives in the same way that customers trade off their requirements for outlet design. The result is a list of weighted objectives that are the constraints bounding the system.

Inevitably, at this stage, some executives want to impose constraints on the distribution design, which they justify not so much by numbers as by industrial tradition. There are rigidities and prejudices in most industries, some of which are reinforced by law, some of which are perceived to have the force of law.

The faltering car dealer system has not been altered since the mid-1920s, in part because of peculiarities in the legal structure of auto distribution (franchise laws, dealer-day-in-court laws). But there is also an industry folklore that gets in the way of change, even though auto companies face a shift in power to consolidating dealers. How much longer before the executives of Chrysler, GM, Toyota, and other companies will be forced to compare their old objectives with new options?

The Coca-Cola Company and PepsiCo, in contrast, are consolidating their traditionally independent franchise bottler networks into distribution systems with greater maneuverability. At IBM, distribution by means of a direct sales force had been a sacred principle essentially until the company started making personal computers. It finally began to use third parties but only after great internal strain, after which the personal computer division was accorded the status of an independent business unit.

### ****Step 5: Compare Your Options****

With the completion of step 4, company researchers will have a weighted list of management’s objectives and constraints on the one hand and on the other a roster of the various ideal, market-driven distribution systems generated earlier in the process. Step 5 requires them to compare these two sets of data with each other and also with the system of distribution already in place. The researchers will, of course, consult with distribution managers about the company’s present system: structure, functions performed by various channel participants, costs, discounts, and the like. It may be necessary for researchers to undertake an analysis of volume flows by channels as well as by margins, functions, and value-added at each level. A reasonably detailed map of this type can be very illuminating.

One of three conclusions will emerge from these comparisons. First, the existing system, the management-bounded system, and the ideal system may closely resemble each other. If this is the case, then management knows for sure that the existing system is about as good as it can get. If customer satisfaction is mediocre nevertheless, the message should be clear: the fault lies not in the design of the system but in its implementation.

Second, the existing and management-bounded systems may be similar to each other but substantially different from the ideal. This outcome may mean that the objectives and constraints adopted by management are causing the gap. Such a finding calls for a careful investigation of management’s perceptions, the purpose of step 6.

Third and especially sobering, all three systems may be substantially different. Assuming that the management-bounded system is positioned somewhere between the existing and the ideal, it may be possible to improve customer satisfaction without relaxing management’s objectives. This is the time to ask if relaxation of certain management constraints might not produce even greater benefits.

By 1980, IBM’s direct sales force and sales branches had formed the core of the distribution network for its existing line—mainframe and word processors. These channels could not, however, be cost-effective in delivering personal computers to the small business market—not, in any case, at the standard for customer satisfaction that IBM’s executives considered their company’s hallmark.

The ideal would have been a network of highly decentralized, service-intensive specialty stores carrying an assortment of personal computer brands and models as well as other types of office equipment. Because some IBM executives were convinced that the company could not maintain control over the quality of service without ownership, the company opened its own retail outlets to sell IBM equipment alone. IBM product centers offered the consumer a variety of equipment, but comparison shopping within them was impossible. In 1986, IBM sold off its product center network to NYNEX. (Interestingly enough, IBM has since come to realize that the small business market is so heterogeneous that it consists of multiple segments.)

And so the ideal system acts as a stake in the ground. If the management- bounded options are not reasonably similar to the ideal, then researchers will ultimately have to confront managers with the fact that the company has been sacrificing customer satisfaction to other objectives.

In the long run, some of these other objectives may be critical and may even supersede the effort to satisfy customers via distribution. When management decides on any new strategy, it will simultaneously establish a hurdle rate—a minimum projected return on investment that justifies going ahead. Managers may, of course, set hurdles incorrectly, not only because they miscalculate costs but because they acquire a prejudice for or against particular channels of distribution. In any case, distribution strategies that do not clear their hurdles should be dropped from consideration in step 5.

### ****Step 6: Review Your Pet Assumptions****

This step is meant to help distinguish a serious constraint from an ordinary prejudice. It entails bringing in outsiders—lawyers, political consultants, distribution experts from other industries—who will call management’s assumptions into question. Management often protects the status quo, for example, by claiming that changes might violate the law or encourage shadowy activities. Outsiders can look at the relevant laws and ask if they are what they seem. Can’t they be changed? Does holding to one value force the company to sacrifice another?

The automobile industry has clung steadfastly to the dealer franchise system, in part out of fear of legal tangles. Porsche’s attempt to implement a more consumer-responsive approach to distribution in the early 1980s turned into a fiasco largely because Porsche’s dealers made clear that it would keep the company tied up in the courts for a generation. Alas, Porsche was on the right track.

But the impulse to stand pat does not always stem from anxiety about the law. The use of authorized third-party outlets for personal computers is an example: it often portends gray market activities. Some time ago, top managers at IBM indicated that they had been worried about the price cutting and “footballing” that would result if they authorized third-party outlets—a concern that proved justified. Had they let this serious concern paralyze them, their personal computer division would never have expanded as quickly as it did.

And so during step 6, outside authorities should be called on to check whether legal and other constraints exist and, if they do, whether they can be overcome. Of course reliance on outside experts can be risky. Who is to say top management doesn’t know what it is talking about? Who can tell what course a lawsuit will take or what laws Congress and state legislatures will enact?

Business decisions are based on judgments, not certainties. Merrill Lynch would never have launched its highly successful cash management account program if it had not altered its assumptions about how the SEC would enforce federal banking laws. What are other companies missing?

### ****Step 7: Confront the Gap****

This is the climax of the process. It requires top management to confront the gap between its practices or objectives and the ideal. For the first and only time, managers conducting the research bring together all executives responsible for distribution to determine the shape of a new system. To underline its significance, the company holds the meeting somewhere offsite.

The researchers get things going by presenting the ideal distribution system. Then they share the results of steps 4 and 5. In the course of this discussion, researchers outline for top management the objectives and constraints that were used to bound the ideal and show their effect, if any, in limiting what customers really desire. Next, researchers present the data and expert opinions challenging the validity of management’s objectives and constraints—what was gained from step 6.

All this information serves as background for what usually proves to be a provocative discussion. We have found that researchers can prompt openness to it if they use computers to readjust weightings or other data and display the results instantaneously. This session brings top management face-to- face with the folklore restricting its thinking. Executives compare alternatives, weigh opportunity costs in relation to risk and exposure, and consider a host of other quantitative and subjective variables that are all too easily buried under day-to-day affairs. Most important, they make decisions in a new context—one in which an attainable ideal has been delineated, the intervening distance between the ideal and the reality has been measured, and the obstacles to closing the gap have been made explicit.

Such was the case for a personal care products company, whose ideal suggested the elimination of one level in its system—the brokers. It was a big step for managers to contemplate. When the company’s brand lacked visibility and strong consumer demand, brokers had played a key role in providing access to the retail trade. Management felt a strong sense of loyalty and indebtedness to them. Over the years the brand had emerged as the best seller in its category; now the brokers contributed little to volume. Indeed, a growing price sensitivity on the part of consumers, coupled with the inefficiency of the broker system, placed the manufacturer in a vulnerable position.

It’s not important to know this company’s final decision. What is important is how the process teased out the lines of a crucial choice. Apple Computer, for example, would not likely have experimented with mail order channels in its early history had it followed this line of investigation to its conclusion. It would have found that the amount of hand-holding required to make a personal computer plus a software sale is extremely high. Similarly, IBM would not have been so surprised to find that dealers with outbound sales forces have greater staying power than those who simply rely on inbound retail sales. IBM retail showrooms cannot provide the kind of in-depth analysis and training that visits to a customer’s premises can.

### ****Step 8: Prepare to Implement****

The final step in the process modifies the ideal distribution system emerging from step 3 according to the final objectives and constraints established in step 7. What managers are left with is a good system—not ideal, perhaps, but optimal.

This should be the subject of intensive implementation planning. And it is important for senior managers to help implement the system, if for no other reason than to give them a personal stake in the outcome. Besides, having confronted the ideal and having tested it against the other options, management has a full understanding of the trade-offs as well as the obstacles to implementation.

When it comes time to change the existing distribution system or to scrap it entirely, managers should test modifications on a small scale before committing resources to them. The major problem is that word will spread quickly. The gossip network among dealers and distributors is one of the busiest around.

The process we lay out in this article is not a simple one. Managers are required to focus on something as insubstantial as quality, or the ideal system, and then to come up with hard numbers to project a reasonable ratio of return to expense. They must even anticipate how adaptable their ideal might be to changes in the law or the political environment. Clearly, there is as much art here as science.

Still, none of the eight steps we outline should be skipped in the interest of apparent expediency. Managerial sophistication will speed things along, but sophistication alone will be no substitute for going through the entire process. With all the effort reevaluating the system requires, readers may assume that the process always justifies itself by the constructive changes it brings about. In fact, its real value is in the clarity it brings to a critical aspect of doing business.

A specialty grocery products manufacturer discovered that it was getting its products onto supermarket shelves in ways that on the surface looked Rube Goldbergian. It was using an array of third-party players, including food brokers, grocery wholesalers, and health food distributors, some of whom carried out a remarkable range of functions between the manufacturing and the retail level of the distribution chain. When the company drew a structural diagram, it looked like a bowl of spaghetti. Nevertheless, further analysis revealed that the system met all the criteria of an ideal.