
UNIT 17 PERSONAL SELLING AND SALES PROMOTION

Objectives

On completion of this Unit, you should be able to:

- explain the nature and role of personal selling and sales promotion
- list different types of sales position and the sales promotion schemes
- describe the steps involved in the selling process
- learn about the growing importance of sales promotion in India.
- understand the process involved in planning sales promotions
- appreciate the need for integration among the different methods of promotion.

Structure

- 17.1 Introduction
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17.1 INTRODUCTION

In contrast to advertising and publicity, which use impersonal methods of communication, personal selling makes use of direct personal communications to influence the target customers. Personal selling is a highly distinctive method of promotion, and makes use of oral presentation in conversation with existing and potential customers, for the purpose of making a sale.

It is one of the oldest methods of business promotion. The contributions made by personal selling in making the promotion function more effective have earned in the distinction of being the most reliable promotion method. Though, it is the most expensive method of promotion, yet we see an increasing number of firms making use of it, and a good number of them realise that they cannot, perhaps, live without it. Increasing competition, growing sophistication of the buyer and his buying process, are making personal selling more or less indispensable.

17.2 ROLE OF PERSONAL SELLING

Personal selling, as the name implies, is an individual to individual selling. It, therefore, carries the distinctive advantage of **flexibility** in terms of tailoring the sales presentation to the needs of the buyer. Another unique advantage comes from its **two-way communication**, and human interaction thereby providing instant feedback. These two unique advantages make personal selling the most result-oriented promotion method.

Generally speaking, the **nature of goods** marketed, as well as the **distribution system** adopted, determine the role of personal selling in a firm. Therefore, personal selling is used extensively in the case of industrial goods, where the salesperson performs functions such as assisting the customer in designing the product specifications, product installation, product commissioning, solving technical problems through providing

service after sales and helping customer to have optimal utilisation of the product. In the case of consumer goods, on the other hand, the role of personal selling gets usually restricted to the dealer level. The scope of the tasks performed include obtaining periodic orders, ensuring supplies, offering tips to dealers on product display and attaining desired levels of stock movement. Similarly, the role played by personal selling is more in a firm which uses door-to-door selling method through its salesforce than in the firm which sells through large stockists, distributors or sole-selling agents.

Notwithstanding the varying role of personal selling in the strategies followed by different companies, the nature of the selling function, requires that the following tasks be performed:

- sales generation
- feedback and market information collection
- provision of customer service covering aspects such as delivery of goods, warranty administration, timely availability of repair and spares etc.
- performance of sales support activities such as monitoring distribution function, credit collection, improving manufacturer-dealer relations, implementing the promotional programmes, etc.

In practice, the complexity of the selling task actually performed varies from company to company even under the above four categories.

Exercise 1

The importance of personal selling varies from industry to industry and company to company. Explain why this variation occurs. Give examples of industries/companies which rely primarily on personal selling and give reason for this doing so.

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17.3 TYPES OF SELLING JOBS

From the foregoing discussion we understand that while sales as a function has a common purpose, that is, to effect sales, the selling situations differs due to interplay of various factors. These factors are nature of goods sold, type of distribution system used, nature of demand and the type of sales strategy followed by the firm. These factors require the salesforce to possess different traits and abilities suitable to the selling situation with which they are associated. To underscore the differences, Robert N. McCurry in "The Mystique of Super-salesmanship" classifies individual sales position based on the degree of creativity required into seven categories. These seven categories are described below:

- Merchandise Deliveries:** The sales person, whose primary job is to deliver the product usually against routine orders—popularly called sales and delivery boys.
- Inside Order-taker:** Working inside a store the primary job of such a sales person is to service the customer's request or suggest appropriate product to meet customer wants; such type of salespersons are popularly called retail salesman.
- Outside Order-taker:** The salespersons engaged in the task of taking orders from the resellers. They normally do not use hard selling approach for making orders.
- Missionary Salesperson:** The salesperson whose primary job is to educate, give product detailing, build goodwill or create primary demand for the product. Strictly

speaking, missionary salespersons are not permitted to take orders.

Sales Engineer: The salesperson who acts as a technical consultant to the client and as per the need helps him to design products or production system for the client. This type of salesperson is popularly called Technical Salesperson.

Tangible Product Seller: The salesperson whose job is to sell tangible products such as furniture, appliances, automobiles, etc. The job involves abilities to persuade and convince the customer.

Intangible Product Seller: Here the salesperson is associated with selling intangible products or services such as advertising services; insurance, education, etc., the common factor being difficulty in immediate demonstration of the perceived benefits of the product. This selling job requires perhaps the greatest degree of a creativity in the salesperson.

Defining the Salesperson's Job: The foregoing classification of the sales position into seven categories, on the basis of degree of creativity required in the performance of each job is only general in nature. Depending upon the organisational need, each company should clearly define what it expects from a salesperson in terms of the tasks to be performed by him. It should broadly specify how much of salesperson's time should be spent on developing new accounts versus servicing existing accounts, large accounts versus small accounts; bulk orders versus small orders; selling individual products versus selling the product line; selling old products versus selling new products; etc. Lack of clear definition regarding the selling tasks to be performed, often results in disproportionate spending of time between the tasks, as well as in imbalances in the goals achieved. To avoid this type of loss in productivity of the salesforce it is worth repeating that the job of the salesperson should be defined with sufficient specificity, so that he can use it as a guideline to keep himself in the right direction.

17.4 THE SELLING PROCESS

Up to this point we were discussing the role of personal selling and the degree of creativity required in a salesperson to perform his task satisfactorily.

Now we will take a look at the selling process followed for completing a sale. Though the steps in the selling process discussed below will be applicable to most of the selling situation. What will differ will be the degree of importance given to each step of the process under different selling situations. The basic steps in the selling process are given in Figure I. A salesperson must become accomplished at performing the selling steps. These steps are:

Figure I: Steps in the Selling Process

Resource customers on the correctness of their decision. Check whether the order was filled and delivered when promised. Make certain product is properly installed used and serviced.		SALE POST FOLLOW-UP	
Make conscious effort to close. Don't be afraid of being rejected.		CLOSING THE SALE	
Understand reasons for objection Have a positive attitude. Avoid arguments.		HANDLING OBJECTIONS	
SALES PRESENTATION		Arouse Desire	
APPROACH		Make initial contact with prospect	
PREAPPROACH		Study the organisation and those involved in buying	
PROSPECTING AND QUALIFYING		Develop sales leads from various sources "Separate the suspects from the prospects"	
PREPARATION		Know your product, Know your customer, Know your competitor. Know your company	

Step 1

Preparation: Before starting the selling job, a salesperson should make a valuable investment of time and resources to know the products he will be selling, know the customers (i.e. customer types, buying motives and buying process) to whom he will be selling; know the competitors against whom he will be selling, and finally know the philosophy, policies and range of products of his company. In short, he should be well equipped with the fundamentals of selling.

Step 2

Prospecting: This step of the selling process deals with locating and preparing a list of prospective customers. Prospects can be located through (1) identifying the potential of buying more in the existing customers, (2) recommendations of existing customers, (3) winning back lost customers, (4) attracting competitor's customers, (5) customers' information request from advertisement, (6) newspaper announcements, (7) public records, (8) directories like telephone, trade association etc., (9) other salesmen, (10) references from friends, neighbours and business associates, and (11) cold canvassing, that is, going from door-to-door.

The located prospects should first be qualified broadly in terms of (i) whether they want the product and how intense their want is, (ii) whether they have the adequate purchasing power, and (iii) whether and who possesses the power or authorisation to purchase and spend the required money. The qualifying of prospects is the process of separating the prospects from the suspects.

It is worth-mentioning here that the ability to prospect is the most essential ability of a successful salesperson. A good salesperson keeps examining, weeding out the already tapped prospects and updating his lists of prospects, and remains in constant search of new prospects.

Step 3

Preapproach: The qualifying process of separating prospects from suspects further requires that the salesperson should possess detailed information relating to the prospects in terms of existing products consumed, their scale of operation, product range, their buying size, frequency, budget and the process, etc. In short, obtain customer orientation. The sources of information for the purpose include company annual reports, other salespersons, other suppliers to the prospects, census of manufacturers, professional journals, newspapers and market intelligence. The availability of the above information in as detailed a manner as possible will help the salesperson in ranking the prospect in terms of their priority to the company. Good salespersons use the above information in classifying the prospects in A, B and C categories in terms of the immediacy of the attention to be given to them.

Step 4

Approach: 'First impression counts' As such, this step needs to be carefully planned. This step has two distinct parts. One, of meeting the customer with a positive set of mind, and the second, is make an impact on him. For the former, referrals of reliable persons known to prospects, calling after fixing an appointment, use of door openers, help. For the latter the salesperson should equip himself with the key benefit to be emphasised, samples or new literature to be handed over, etc.

Step 5

Sales Presentation: Through advance information relating to the prospect every effort should be made to match the product offered to the needs/problems faced by the customer. The sales presentation should generally go according to the AIDA—attention, interest, desire, and action approach. How can this be done? Use of key benefit or a problem solver, or a unique act of the salesperson results in gaining attention. When used attentively this part also provides opportunity to get the main point of the initial statements made by the prospect.

The presentation should proceed in a straightforward manner to help the prospect know that you understand his problem and that is the reason of your being there. To convince the prospect as early as possible, the salesperson should offer evidence through demonstration of the product, use of exhibits, models, sharing of acts, citing examples of its successful applications/usage, showing testimonials, etc. The overall approach should be to build credibility and confidence in the supplying company, its

products, and also in its competence to render specialised type of service to the complete satisfaction of its customers.

The flexibility of the sales presentations can range from the 'Canned' or previously prepared presentation, to those allowing the salesperson complete freedom in the presentation. Though both the extremes, or even the hybrid of the two, have their own situational suitability, the important point to note is that salesmanship, being a showmanship function, must arouse active participation of the prospect in the presentation process. This can be done by introducing some action which would keep the prospect captivated. One possible way would be a joint review of the problem faced by the prospect. Another is helping the prospect imagine the projected benefits of owning the product.

Step 6

Handling Objections: It is in the last phase of the sales presentation step that the prospects start expressing doubts, or raising objections whether relating to price, need for more time to think, satisfied with the existing product/supplier or product quality claims.

These doubts or objections should be welcome and they should be answered with confidence. There is certainly no doubt that the prospect has to be thoroughly convinced that the product would satisfy his need. The ability of the salesperson of mind reading of the prospects, enables him to anticipate the prospect's objections and reactions.

The golden rules for handling objections are: (1) welcome the objection and show respect to the prospect, and (2) do not argue with the prospect. Even when the objections raised are half-backed or trivial in nature, the salesperson should handle the situation tactfully. Only in extreme necessity, should a salesperson ask the prospect to adequately explain his problem faced. Even under these circumstances courtesy should not be lost sight of, and while the discussion is on, the salesperson should start recounting the benefits of the product agreed upon, and lead the prospect to make a favourable decision. It should be remembered that handling objections sharpens the selling skills of the salespersons.

Step 7

Closing the Sale : Closing is that aspect of the selling process in which the salesperson asks the prospect to buy the product. There is a critical point during each presentation when the salesperson should ask for the order. Pending the location of the critical point, as the objections are being met, the salesperson should help reduce the choice of options, summarise the benefits of buying, and the consequences of not buying, and if need be, make use of the big idea appeal of buying 'now' at that moment.

The salesperson should have the ability of catching the buying signals given by the prospect and should act on them fast. Some such signals are changing the sitting/standing position and moving closer to the product; reading the instructions on the product; perusing the testimonials; showing hesitation in being able to afford; asking for another demonstration, if applicable; checking the warranty or asking questions relating to warranty terms. These signals, show that the time is ripe to start taking the order.

Step 8

Post-sale Follow-up: The selling process does not come to an end by writing the order. A few repetitions reassuring the benefits of the product keep the customer sold. Follow-up provides an opportunity to ensure that the product is being rightly used, and if necessary to re-explain the method of using, handling, and storing of the product when not in use. This builds favourable feelings and nurtures strong buyer-seller relationships. Post-sale follow-up not only reinforces the customer's confidence in the salesperson and his company but also tends to keep competition out. This also helps generate repeat business and valuable word-of-mouth publicity. The follow-up is a good source of feed back too.

Let us conclude this section by stating that although the eight steps of the selling process are essential in spirit, these may not always be followed. This could be partly the (1) the selling situation involved (e.g., in the case of insider order-taker or retail salesperson) the first three steps of the selling process are generally not applicable as the customer

Roger A. Strang offers a simpler definition:

Sales promotion are short term incentives to encourage purchase or sale of a product or service.

Yet another definition that seems fairly exhaustive, and hence, will be used in this unit is the one given by Stanley M. Ulanoff in his **Handbook of Sales Promotion**. Stanley defines sales promotion as.

all the marketing and promotion activities, other than advertising, personal selling, and publicity, that motivate and encourage the consumer to purchase by means of such inducements as premiums, advertising specialities, samples, cents-off coupons, sweepstakes, contests, games, trading stamps, refunds, rebates, exhibits, displays, and demonstrations. It is employed as well, to motivate retailers', wholesaler, the manufacturer's salesforces to sell through the use of such incentives as awards or prizes (merchandise, cash and travel), direct payments and allowances, cooperative advertising, and trade shows.

It offers a direct inducement to act by providing extra worth over and above what is built into the product as its normal price. These temporary inducements are offered usually at a time and place the buying decision is made.

Summing up, Sales promotion deals with promotion of sales by the offer of incentives which are essentially non-recurring in nature. It is also known by the names of Extra-Purchase-Value (EPV) and Below-the-line selling.

Like in other market economies, the use of sales promotion is catching on in India. In terms of volume, the number of sales promotion schemes offered to the consumers alone have grown by over seven times in the first three years of the eighties as against the average in the seventies. The schemes offered at the dealer level also nearly doubled during the period 1978-79 and 1982-83. In terms of the expenditure incurred, the large size companies are stated to be spending between 40 and 50 per cent of their advertising and sales promotion budget on this activity.

Product group-wise, the major users of sales promotion are: tea, coffee and beverages, soaps, toiletries, detergents and washing soaps; toothpaste; textiles; food products and baby foods; household remedies; and consumer durables like fans, refrigerators, sound systems television and household appliances.

Among the various types of sales promotion schemes used contests at the consumer, dealer and salesforce levels have made a significant headway.

Why rapid growth?

A perusal of the list of the product groups which emerged as the major users of sales promotion, and from the market feel, it seems clear that a transformation from the seller's to the buyers' market is taking place and marketing has become more competitive in these product markets. In addition to **increasing competition**, other reasons for rapid growth of sales promotion in India, as pointed out ninety five large sized cooperating companies in survey are summarised below :

- sales promotion makes an immediate effect on sales
- measurement of the effectiveness of sales promotion is easier as against the other promotional methods
- channels of distribution are emerging as powerful entities and demand greater use of incentives to get desired results
- products are becoming standardised and similar, and so need increased support of non-price factors of which sales promotion is an important one
- impulse buying is on the increase, and so is the rise in the number of marginal customers. With virtually no brand loyalty, offer of attractive schemes help manufacturers to induce such customers to choose their product.

17.6 SALES PROMOTION OBJECTIVES

As a powerful method of sales promotion with a capability to complement and supplement the advertising function of marketing, sales promotion helps marketers

realise a variety of objectives. These objectives could relate to the promotion of sales in general, or to a specific activity at a particular level i.e. consumer, dealer or salesforce. Some of the commonly attempted objectives are to:

- increase sales (in general, and focusing on new uses, increased usage, upgrading unit of purchase, winning sales of fading brands etc.)
- make the sale of slow-moving products faster
- stabilise a fluctuating sales pattern
- identify and attract new customers
- launch a new product quickly
- educate customers regarding product improvements
- reduce the perception of risk associated with the purchase of a product
- motivate dealers to stock and sell more (including complete product line)
- attract dealers to participate in manufacturer's dealer display and sales contests
- obtain more and better shelf space and displays
- bring more customers to dealer stores
- make goods move faster through dealers
- improve manufacturer-dealer relationship
- motivate salesforce to take the achievement higher than targets
- attract salesforce to give desired emphasis on new accounts, latent accounts, new products, and difficult territories
- reward salesforce for active market surveillance and for rendering superior customer service
- put power into the sales-presentation
- counter competitors sales-promotion and, marketing efforts
- provide punch to the company's advertising efforts
- build goodwill.

Companies may use any one or a combination of the above objectives in varying form to suit the product-market needs of their product. What is of significance is that the sales promotion objectives set to be accomplished must be integrated with the promotion and marketing objectives pursued by the company.

17.7 SALES PROMOTION METHODS

Many methods of sales promotion are used by marketers. Depending upon the creativity level of their sponsors, their variety seems very large. We refer here to some of the most commonly used methods of sales promotion.

As noted above, the accomplishments of the desired promotion and marketing objectives ultimately depend on the extent of the desired response received from consumers, dealers and members of the salesforce. Hence various sales promotion methods are built around these three target groups. Further, in terms of the impact desired, the variety of sales promotion schemes offered are grouped into two categories: One, aimed at producing immediate impact, and the other delayed impact i.e. carrying on the impact over a period of time. Immediate impact schemes are those schemes where the consumer, dealer or salesperson gets the incentive on first contact, purchase or on performing a one-time act. On the other hand, under the delayed impact schemes, the consumer, dealer or salesforce is called upon to comply with the scheme over a period of time before receiving the full benefit of the scheme. Price discounts, free samples or large quantity packs are the popular examples of immediate impact schemes, whereas coupons, trading stamps, and contests are examples of delayed impact category of sales promotion schemes. Table 1 presents the variety of sales promotion schemes directed at the consumer, dealer and salesforce levels according to their grouping under immediate impact or delayed impact categories. The meaning and objectives of these schemes are given in Table 2.

Table 1 : Sales Promotion

Impact	Directed at			
	Users	Non-users	Trade/Suppliers	Salesforce
Immediate	* Price-off	* Price-off	* Discounts	* Perquisites & Allowances
	* Qty-off	* Sampling	* Shelf space allowance	
	* Over-the-counter	* Over-the-counter		
Delayed/ over a period of Time	* Package Premium		* Gifts	* Gifts
	* Banded Premium		* Push Money	
	* Container Premium		* Posting of Salesforce	
Delayed/ over a period of Time	* In Prdt. Coupons	* Media/Door Coupons	* Merchandise Deals	* Sales Contests
	* Personality Premiums	* Return/ Refund Offers	* Coupons * Display Contests	* Honours and Recognitions
		* Trading Stamps * Self-liquidators * Contests/Lucky Draws	* Co-op Allowance * Sales Contest Training Sales Force/Privileges	* Customer Service Awards

* The format of this table is based on Donald W' Cowell's article on Sales Promotion and the Marketing of Local Government Recreation and Liesure Services, European Journal of Marketing, 18.2.

Table 2 : Sales Promotions: Meaning and Objectives

Sales Promotions*	Meaning	Objectives
1 Price-off offers	Offering product at lower than the normal price	To encourage immediate sales, attract non-users, induce new product trial, counter competition, inventory clearance at the retail level, inventory build-up at the trade level.
2 Quantity-off offers	Offering more quantity of the same product at no extra cost or with a very nominal increase in the price of the larger quantity packs	To encourage more/longer duration consumption, higher or excess quantity movement from the factory, trade up consumer for higher quantity pack size.
3 Premium	Offer of an article of merchandise as an incentive in order to sell product or service. Its forms are:	To encourage purchase, stimulate loyalty, off-season sales promotion, induce trial of new product, ensures reach of premium to the consumer
a) Packaged Premium	When the incentive article is packed (inserted) inside the package of the product.	
b) Banded Premium	Where the premium article is banded to the package of the product say with cellotape etc.	Sampling new products, adding speed to slow moving products.
c) Over-the-counter (OTC) Premium	When the premium article is neither inserted inside nor banded to the product package but is given away to the consumer over the counter alongwith the product package	To counter competition, improve inventory clearance at the trade level
d) Container Premium	When the product itself is placed in an attractive and reusable container which serves as a gift.	As a durable reminder at home
e) Self-liquidating Premiums	Where the consumer usually is asked to pay a specified amount to liquidate or offset a part or full cost of the premium article or the scheme administration costs	To induce consumer to appropriate premium article, reinforce brand image, encourage more consumption, enables sponsor to offer better quality premium
f) Personality Premium	Where the consumer is required to redeem a specified proof-of-purchase for the premium article. Proof-of-purchase may be labels, pack tops, bottle tops, corks, etc.	To build loyalty and reward the consumer for that to counter competitive offers

	Sales Promotions	Meaning	Objectives
4	Coupons	When the consumer is entitled to redeem a specific standard certificate for a product/article free or in part payment. Coupons are used by both the manufacturer and the dealers for sales promotion. Coupons may be distributed by mail, by media advertisements, door-to-door, inside product package or by dealers on purchase.	To encourage product trial, build loyalty, trade-up regular users, stimulate re-purchase rate, solicit inquiries.
5	Refund offers	Offer of a refund of money to consumer for mailing in a proof-of-purchase of a particular product(s)	To induce trial from primary users, motivate several product purchases, obtain displays at the retailers, help retailers tie-in with other products, switch competing brand users to sponsor's brand, loading dealers with increased stock.
6	Trading stamps	Organised by Trading Stamp companies or large retailers. Trading stamps are a kind of discount coupons offered to consumers linked with the quantum of their purchase. On enough accumulation these are redeemable for various kinds of merchandise.	To encourage consumer loyalty to certain retail stores.
7	Consumer contests and Lucky draws	Where individuals are invited to compete on the basis of creative skills. The latter is based on the chance or luck factor.	To create brand awareness and stimulate interest in the brand, acquaint consumers with brand usage and benefits, build traffic at the store precipitate brand purchase. obtain consumer feedback, promote advertising theme of the company.
8	Dealer stock Display contests	It is a type of point-of-purchase advertising which uses the show windows of the dealers for providing exposure to the sponsor's products. Dealers participating enthusiastically and creatively are awarded.	To provide product exposure at the point of purchase, generate traffic at the store, infuse enthusiasm among dealers.
9	Dealer Sales contests	Where participating dealers are invited to compete in terms of the sales performance	To increase sales, buy dealers' loyalty, motivate dealers' staff to sell more.
10	Discounts	Other than normal trade and cash discounts	To push more sales to trade, early cash recovery.
11	Trade Allowances	These are temporary price reductions/reimbursement of expenses incurred by dealers-in full or in part, its varied types are as under:	
	a) Trade or Buying allowance	Offer of price reduction on purchase of specified quantity of a product	To load the trade
	b) Buy-back allowance	A secondary incentive which offers a certain sum of money to trade for each additional unit bought over and above the deal.	To encourage trade co-operation and stimulate repurchase
	c) Count and recount allowance	When a specific amount of money is offered after ascertaining the number of units sold during a specified period.	To move stocks faster, reward on sale only.
	d) Merchandise (display) allowance	An allowance to trade for providing desired sales promotion and product displays	To create enthusiasm in trade, improve traffic and exposure at the point-of-purchase, gain larger space/effort of the trade in the promotion of sponsor's product as against the competitors.
	e) Co-operative advertising & Promotion allowance	Wherein a manufacture shares at an agreed rate the advertising and promotional cost incurred by the dealer in the promotion of manufacturer's product.	To gain product and retail identity motivate dealers to promote manufacturer's product, obtain local advertising and promotion.
12	Dealer gifts	Offer of useful articles and attractive gifts to dealers for his personal, family or office use	To improve dealer relations, make impact on consumer scheme/contest offered

Sales Promotions	Meaning	Objectives
13 Premium or Push money	When an additional compensation is offered to trade or salesforce for pushing additionally a specific product or product line	To push a specific product or product line
14 Merchandise Deals (13 for 12)	Wherein additional quantity of the same or the same manufacturer's another product is offered to trade. May be offered jointly by non-competing manufacturers.	To load dealers with inventory, expose other products of the sponsor, encouraging dealers to sell more and early to realise their incentive.
15 Point-of-Purchase (POP)	Those special displays, racks, banners, exhibits, that are placed in the retail store to support the sale of a brand.	To attract traffic at retail store, remind customers, encourage impulse buying, ensure additional visibility to the advertising campaign.

* The format of this table is based on Donald W' Cowell's article on Sales Promotion and the Marketing of Local Government Recreation and Leisure Services. European Journal of Marketing, 18,2.

Though ideal for consumer goods, sales promotions are also used for promoting industrial goods. The difference in the use lies in the types of schemes offered, and in the frequency of their offer. Sales promotion schemes offered to industrial customers, besides the usual gifts, price-off coupons and contests, include product demonstration, training to customer staff, offer of interest-free instalment payment plan, ready and regular availability of repairs and spares, and posting of trained staff to assist/supervise in the working of the equipment in the client's premises, at the manufacturer's cost. The sales promotion schemes offered at the level of industrial distributors are: provision of extended credit, and provision of specialised sales/technical staff at the manufacturer's cost, besides the usual cooperative advertising and sales promotion, gifts, and organisation of distributors contests. The sales promotion schemes popularly used to motivate industrial salesforce are: prizes and awards on special achievements, sales contests, new accounts contests and prompt service awards.

Need for Orderly Management

In spite of the growth in the Sales promotion activity, one of the survey of the company practices revealed that the managerial efforts put in to manage this function were unsatisfactory. Use of adhoc approaches, neglect of sales promotion research, and lack of formal systems and procedures were found to be more prevalent in the case of 95 companies surveyed. Consequently larger number of companies experienced less than expected success of their schemes. When asked specifically about forty per cent of the companies surveyed, admitted that one or more of their sales promotion schemes misfired during the last three years due to causes which could be categorised as:

- faulty administration
- failure to match the scheme to the objective
- lack of proper planning
- poor dealer relations
- lack of creativity.

17.8 PLANNING SALES PROMOTION

With growing competition at the marketplace and the need to realise full benefits of this unique method of promotion it is required that the perfunctory approach used in its management is stopped forthwith and the sales promotion function is managed professionally. Systematic planning of this function should initiate the managerial process. The following steps are suggested for effective planning and management of the sales promotion function.

The first step is to assess and analyse the present situation of the brand in terms of market share, major competitors, and brand performance of brands users, non-users and lapsed users. This benchmark should then be related to the market size and the potential estimated. It will now pave the way for determining the role of sales promotion in effecting the desired change in the market share of the brand. The outcome of this exercise will be the availability of desired information to set measurable and attainable goals.

After the goals for sales promotion of the brand are set, the second step deals with the identification of the alternative schemes, and the selection of the most appropriate sales promotion scheme(s), capable of accomplishing the goal set, within the available budget.

The third step relates to incorporating creativity into the scheme to be offered. This is, making the scheme novel, attractive, and challenging from the viewpoint of its target group i.e. consumer, trade or salesforce.

The fourth step relates to legal validity of the sales promotion scheme to be offered. For example, before a consumer contest can be offered permission from the licensing authority of a State, usually, the Collector of the District is required under the Prize Competition Act, 1955. Similarly, with the amendment of MRTPA Act and the incorporation of Unfair Trade Practices therein, the sponsor must ensure that their schemes do not attract the provisions of the Act. The recent judgements of the MRTPC against the Sales Promotion Schemes offered (by a leading footwear company of India relating to children footwear; a dentifrice company relating to the toothbrush offer; and of a popular fan company relating to announcement of special off-season reduction in price) point to the strong determination of the commission to protect consumers from unfair trade practices.

The fifth step covers primary decisions relating to timing and duration of the schemes to be offered, location-wise selection of dealers, and conviction of the trade and salesforce about the appropriateness of the scheme. It will be useful to quote here the findings of a recent study of Kenneth G. Hardy on Key success factors for manufacturer's sales promotions. The major findings are given in a tabular form below:

Sales Promotion Objectives	Key success factors	
	Consumer Promotions	Trade Promotions
1 Short-term volume objective	<ul style="list-style-type: none"> • Dual promotions (offer of trade promotions simultaneous with consumer promotions) • Salesforce (trade) support 	<ul style="list-style-type: none"> • Trade support • Short promotion period • Offer of high level of incentives
2 Long-term market share objectives	<ul style="list-style-type: none"> • Salesforce support 	<ul style="list-style-type: none"> • Dual promotions • Trade support
3 Building trade inventory objective	<ul style="list-style-type: none"> • Avoid competitive promotion • Salesforce (trade) support • Offer of high level of incentives to the consumer (and to the trade in case of dual promotions). 	<ul style="list-style-type: none"> • Absence of competitive promotions • Trade support • Shorter-promotion period
4 Increase consumer Trial	<ul style="list-style-type: none"> • Salesforce (trade) support • Longer promotion period • Offer of higher level of incentives 	<ul style="list-style-type: none"> • Dual promotions
5 Load the consumer objective (Situational)	<ul style="list-style-type: none"> • Salesforce (trade) support • High promotion cost-special advertising, p.o.p., etc. 	

Other important decisions relate to scheduling for procurement of scheme related premiums, production of the brand, advertising, P.O.P. materials and other logistics related aspects.

The sixth step covers the development of the evaluation criteria in relation to the sales promotion goals set. The decision areas include what to measure, when to measure, how to measure and for how long to measure.

Effectiveness of Sales promotions is usually measured in references to sales achieved, cost effectiveness, redemption rate of coupons and trading stamps, turnover of special packs or special liquidators, number of entries received to the contest, etc. To do a good job special focus must be laid on measuring the incremental sales arising out of sales promotions. Before proceeding to the last two steps involved in management of sales

promotions let us take note of the select findings from the literature survey relating to the effectiveness of sales promotion. These are:

- Incremental sales are harder to get for high market share brands
- A coupon with a sample can be almost twice as effective as a coupon alone
- High redemption rates can be very costly
- The earliest redemptions are the incremental sales
- Short purchase cycles mean shorter term effects.

At the sales promotion offer commences, the seventh step relates to monitoring the offer and collecting the relevant data and experience for future use as well as mid-period corrections.

The eighth and last step relates to evaluating the effectiveness of sales promotions in the context of their goals. Efforts must also be put into perfect the measurement methodologies, and in conducting researches on aspects like deal prone consumer, incentive scheme and gift selection factors, attitudes of trade and consumers towards the use of sales promotion schemes. Documentation of corporate experiences on sales promotions, the pitfalls in the existing systems and procedures, and the mishaps that occurred, etc., ultimately help in improving the state of the art of managing the sales promotion function professionally.

Exercise 3

The sales promotion manager of an established lower priced washing powder is planning the sales promotion programme for the next year. Suggest a suitable programme for his consideration.

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17.9 TOWARDS PROMOTIONAL STRATEGY

After gaining an understanding of the concepts, issues and decision areas relating to four methods of promotion-advertising, publicity, personal selling and sales promotion, let us recall the need for determining the promotion mix (discussed in Unit 15) and make few observations concerning the formulation of promotional strategy. You would recall that promotion constitutes one of the important elements of the marketing mix of a firm. Each firm has a need to perform its promotion (marketing communication) function effectively. Further each of the four promotion methods (discussed in this unit and in Unit 16) has its own unique place in the marketing communications mix of a firm. The question facing marketers, therefore, is not which promotion method to use to meet today's complex marketing tasks. Rather the real question is which promotion method should be emphasised, how intensively it should be used, and how it can be integrated with the other promotional methods.

Decisions on determination of promotion mix take us back to the promotion objectives which must emanate out of the marketing objectives of the firm. A promotional strategy aims at accomplishing the promotion objectives in the allocated funds and within a scheduled period of time.

Promotional objectives, generally speaking, relate to sales and the marketing communication tasks required to be performed as per the needs of the product market

scenario. Expressed in specific measurable terms these can be put as: increasing sales, improving market share, creating product awareness and comprehension, developing positive attitude of the public towards the product, building favourable image of the product, or gaining competitive advantage.

In this contest Leonard M. Lodish suggests a 'vaguely right' criteria, the relevant part of which is as follows:

Promotion Decision Area	Vaguely Right Criteria for evaluation
Advertising Budget	Changes in buyer behaviour—long term or short term—and its resulting profitability.
Media Planning Promotion Management	Changes in buyer behaviour per dollar and resulting long and short term profits
Trade Promotion Management Consumer Coupons	Changes in buyer behaviour of the ultimate consumer Sales and profit changes (both short and long term) caused by the coupons

The extent of emphasis to be placed on the different promotion methods is determined by several variables. First, it is dependent on the promotional objectives. Next, on the characteristics of the target public their psychology, and the allocated funds. For example, a marketer of consumer durables in a metropolitan city like Delhi may use different means like advertising to create awareness and build comprehension. It would also require publicity which could be through press release on the contest technology backing his product. Sales promotion through demonstration, P.O.P. and offer of introductory price to encourage intentions would also be used and, definitely, personal selling to overcome objections offer conviction and precipitate purchase action would complete the promotion picture. Further, as revealed by Kenouth G. Nardy, for achieving the objectives of, for example, loading the consumer with larger supplies, and some can see that it is require that all the methods of promotion be approached simultaneously in terms of objectives to be achieved. Attaining synergistic advantage arising out of the use of different promotional methods is the hall-mark of an effective promotional strategy.

17.10 SUMMARY

In this unit we discussed the nature, role, types and the planning process involved in personal selling and sales promotion methods of promotion. Personal selling is a direct person-to-person selling and promotion method. The specific role and goals of personal selling vary from firm to firm depending upon nature of goods marketed, distribution system used, and the sales strategy adopted by a firm. The changing market environment calls upon the salesforce to transform itself in order to perform a more creative role.

Based on the degree of creativity required, McCurry classifies the sales positions into seven types—merchandise deliverer, inside order-taker, outside order-take, missionary sales person, sales engineer, tangible product seller and intangible product seller. To accomplish the job of making a sale satisfactorily, a salesperson should follow the basic elements of the selling process. These are: preparation, prospecting, preapproach, approach, sales presentation, handling objections, closing the sale and post-sale follow up. An understanding of each element helps a salesperson in developing skills necessary for successful selling.

Sales promotion, of late, has emerged as one of the more popular methods of promotion in the case of consumer goods. Stated simply sales promotion deals with offering something extra as an incentive to motivate an early purchase. Sales promotions can be offered at the level of the consumer, trade and salesforce. Sales promotions aid in achieving both the push-pull elements of a promotion strategy. Sales promotion schemes used to attain consumer pull include free samples, price-offs, premium give

aways, coupons and contests. Schemes offered for gaining the push cover promotional allowances, gifts, discounts, cooperative promotions, contests and awards and rewards. To save a sales promotion programme from getting misfired, it should be planned and managed in a systematic manner.

Promotion is an important marketing function of each firm. And, rare will be a firm which makes use of only one promotional method. The commonality in the ultimate goal of all the promotional methods apart, their limited suitability in influencing only a specific part of the consumer adoption process calls for the need to use the promotional mix in an integrative manner. Given the complexities in the management of the promotion function and its vulnerability to failure, it is desired that the function be managed professionally.

17.11 KEY WORDS

Bounce Back Offer: An additional offer made with an earlier self-liquidating premium offer on a usually related product.

Canned Presentation: A structured sales presentation made of an inflexible nature.

Cold Canvassing: Door to door conviction and sale of products.

Contest: A competition based on skill in which prizes are offered. Sometime also used for referring to competition based on chance.

Dealer Loader: A premium given to a dealer in return for an order of a specified value. This could take the form of a merchandise deal, price deal, gifts to dealers, or a combination of these.

Hostees Gift: A gift given to a housewife who provides for a product demonstration to be conducted in her home.

Lead: Name of an individual or organisation who might be a prospect.

Prospect: A lead who can both benefit from the use of the product and afford to buy it.

Point-of-Purchase Promotion (POP): A sales promotion method using window display and other display materials aimed at attracting customers to store and also encouraging the retailers to push displayed products.

Price Deal: Short-run price decrease.

Proof of Purchase: A bottle cork, box top, pack flap, label, coupon, cash memo of a product which qualifies a customer to receive a premium or refund.

Prospecting: The step during which probable customers are found for the product or service.

Referral Premium: A premium offered to a satisfied customer, who refers the seller to another person who purchases the product or service. It is also called use-the-user premium plan.

Trade Promotion: Sales promotion activities directed at the wholesaler and retailer levels.

Traffic Builder: Low cost premiums offered free as an inducement to visit a store. Also includes the organisation of product demonstration or unique display of products.

Window Display: A display placed in the window of a retail store facing outside to attract the attention of the passersby.

17.12 SELF-ASSESSMENT EXERCISES

A) Check whether the following statements are True or False

Statement	True	False
1 Personal selling provides marketers with greatest opportunity to adjust a message to satisfy customers' information needs.	<input type="checkbox"/>	<input type="checkbox"/>
2 The personal selling process begins with approaching the customer.	<input type="checkbox"/>	<input type="checkbox"/>
3 An important function of the technical sales person is to provide advice to the application of the product.	<input type="checkbox"/>	<input type="checkbox"/>
4 Missionary salesperson is a position where salesperson build goodwill and educate the consumer while taking orders and selling the firm's goods and services.	<input type="checkbox"/>	<input type="checkbox"/>
5 Getting the order is called closing the sale.	<input type="checkbox"/>	<input type="checkbox"/>
6 Objections tell the salesperson how far away the sale.	<input type="checkbox"/>	<input type="checkbox"/>
7 Sales promotion tends to be used to build up brand loyalty.	<input type="checkbox"/>	<input type="checkbox"/>
8 The short-term trade promotion used frequently with the introduction of a new product is a buying allowance.	<input type="checkbox"/>	<input type="checkbox"/>
9 Consumer sales promotion schemes stimulate trade to carry a product and promote it aggressively	<input type="checkbox"/>	<input type="checkbox"/>
10 Sales promotion activities are only appropriate when directed at the salesforce level.	<input type="checkbox"/>	<input type="checkbox"/>

B) Tick the Most Appropriate Answer

- 1 Creative selling, which requires a salesperson to recognise the potential buyer's need and then to provide the prospect with the necessary information, is performed by sales position called
 - a) order-taker
 - b) missionary salesperson
 - c) technical salesperson
- 2 Learning about the potential buyer, the buyers' purchasing process and needs, and anything else that could be helpful in the selling process is the activity of:
 - a) the approach
 - b) the preapproach
 - c) qualifying
- 3 The most effective short-term sales promotion incentive results from
 - a) price-off
 - b) coupons
 - c) premiums
 - d) contests
- 4 In establishing sales promotion objectives, marketers
 - a) focus on consumers
 - b) focus on trade
 - c) concentrate on activities that will increase consumer demand
 - d) align objectives with the overall 'organisation' objectives
- 5 The most effective sales promotion scheme to use in the product information is:
 - a) demonstration,
 - b) push money,
 - c) samples,
 - d) coupon,
 - e) contest.

Key to Self-assessment Exercises

- A) 1 (True), 2 (False), 3 (True), 4 (False), 5 (True), 6 (True),
7 (False), 8 (True), 9 (False), 10 (False).
B) 1(b), 2(b), 3(a), 4(b), 5(c).

17.13 FURTHER READINGS

- Burnett John J , 1984. *Promotion Management, A Strategic Approach*, West Publishing Company.
- Hardy G. Kenneth, 1986. Key Success Factors For Manufacturers' Sales Promotions in Package Goods, *Journal of Marketing*, Vol. 50, No. 3, July, pp. 13-23.
- Lodish M. Leonard, 1986. *The Advertising & Promotion Challenge*: Oxford.
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BLOCK 6 DISTRIBUTION AND PUBLIC POLICY

In this last block of our course Marketing for Managers we have focused on the issues related to distribution and legislations affecting marketing. The block initiates a discussion on the sales forecasting tools and techniques, an important area of marketing activity which provides a critical basis for devising the distribution strategy. In the following unit we have discussed some of the major aspects of distribution strategy namely channel mix and logistics support.

Any successful marketing programme requires a human delivery system. This is provided by the sales organisation. This is the theme we have addressed in unit 19.

The last unit in this course provides a comprehensive coverage on public policy and how it affects the marketing decisions in a firm.

UNIT 17 SALES FORECASTING

Objectives

After studying this unit, you should be able to:

- understand what a sales forecast is
- appreciate how the sales forecast is prepared
- list the product-sales determinants of different type of products
- explain the need for evaluating sales forecast and its relationship with sales budget and profit planning.

Structure

- 17.1 Introduction
- 17.2 What is a Sales Forecast?
- 17.3 How to Prepare a Sales Forecast?
- 17.4 Product Sales Determinants
- 17.5 Approaches to Sales Forecasting
- 17.6 Methods of Forecasting
- 17.7 Status of Forecasting Methods Usage
- 17.8 The Evaluation of Forecasts
- 17.9 Computerised Sales Forecasting
- 17.10 Relating the Sales Forecast to the Sales Budget and Profit Planning
- 17.11 Summary
- 17.12 Key Words
- 17.13 Self-assessment Test
- 17.14 Further Readings

17.1 INTRODUCTION

Sales forecasting, though crucial, is one of the grey areas of marketing management. It is crucial because without a proper sales forecast the marketing executive cannot determine the type of marketing programme to use in order to attain the desired sales and marketing objectives. It is a grey area of marketing management in the sense that it is based on a number of assumptions regarding customer and competitor behaviour as well as the market environment, and therefore, its reliability depends upon the extent of culmination of the uncertainty as predicted. Before understanding the various aspects of sales forecasting let us look at the sales forecasting practices followed by two large size companies.

A leading automobile engine manufacturing company determines the sales forecast of its diesel engines by using two approaches. In the first instance, it uses an econometric model and an estimate of the company's market share to derive the company forecast. Under the second approach the company initiates the process by undertaking a detailed study of the needs of each of its diesel vehicle customers. This study includes an analysis of market factors such as the vehicle manufacturer's present engine inventory and back orders as well as the vehicle manufacturer's marketing programme. The resulting forecast is prepared by vehicle manufacturer, model, and month-wise. These individual manufacturer forecasts are aggregated to produce a company sales forecast which is then compared with the company forecast arrived at under the first approach, and finalised.

A colour television receiver manufacturing company develops its sales forecast on the basis of : total colour television market demand (including the replacement rate of black & white television by colour television), growth rate of the colour television market, the government plans for commissioning additional transmission centres, availability of imported kits, and company's market share objective.

17.2 WHAT IS A SALES FORECAST?

A sales forecast predicts the value of sales over a period of time. It becomes the basis of marketing mix and sales planning.

A **short-term sales forecast** (say for a period of one year) when linked to the sales budget helps in the preparation of an overall budget for the firm as a whole. The short-term sales forecast in effect also provides the essential financial dimension to sales in terms of expected sales revenue and expenses required. Also, it helps in assessing the cash inflow and outflow needs and their sources.

A **long-term sales forecast** (say for a period of 5 years or so) on the other hand, focuses on capital budgeting needs and process of the firm. It provides for changing the marketing strategy of the firm, if needed, and includes reference to emerging product market needs, new market segments to be catered, review of distribution network and promotional programmes, organisation of salesforce, and marketing set up. The long-term sales forecast triggers the task of aligning the production, procurement, financial and other functional needs of the firm with the finalised sales forecast.

17.3 HOW TO PREPARE A SALES FORECAST?

The preparation of a sales forecast requires (a) the availability of historical information on the product and industry sales, (b) identification of product sales determinants, (c) prediction regarding the behaviour of market forces for the period under forecast, (d) use of appropriate techniques for forecasting, (e) judgement of executives preparing the sales forecast, and (f) the firm's market share objectives. These sales forecasting requirements are discussed below.

Information Needs for a Sales Forecast

Use of reliable, up-to-date and relevant information is the most critical aspect of sales forecasting. The information required for a sales forecast should cover:

- 1 An assessment of the total market size
- 2 An appreciation of the market trends
- 3 Innovations which may have an impact on the market
- 4 Market trends in foreign countries where the market pattern is in advance of the domestic market
- 5 An evaluation of the market share obtained
- 6 An evaluation of 'competitive strengths
- 7 The criteria on which purchase decisions are likely to be made
- 8 Assessment of elements at work in the market which will influence sales
- 9 The influence in the market of competitors
- 10 The level of sales needed by the company to obtain optimum use of resources
- 11 The image of the company in the market
- 12 The marketing strategy of the company to capitalise on its strengths and overcome its weaknesses
- 13 An evaluation of the market share which can be obtained
- 14 Assessment of factors within the company which will influence sales levels
- 15 Planned distribution and sales promotion activities by the company

Activity 1

By interviewing relevant persons, try to find out how the following forecast the sales of their merchandise:

A) Shopkeeper

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B) Wholesaler

.....

C) Manufacturer

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17.4 PRODUCT SALES DETERMINANTS

Product sales, generally speaking, depend upon the market need, price of the product, demand-supply situation, purchasing power available with the customers and their willingness to spend that on the purchase of the product. The importance of these factors varies according to the type of product sold i.e., consumer non-durable goods, consumer durable goods, and industrial goods. Let us now identify the major determinants of product sales relating to different types of goods.

Consumer Non-durable Goods

Three basic factors determine the sales of relatively low priced, short shelf life and frequently purchased consumer goods. These are: **disposable personal income** (personal income minus direct taxes and other deductions) of the customer; **demographic characteristics** (age, sex, occupation, urban/rural location, etc.) of the population, and the **price level** including competitive structure of the market.

The growth in the disposable income level as well as per capita availability of products provide continuity in the sales of food products, textiles, household articles and similar products.

Price of a product relative to the disposable income of the customer influences the customer choice criteria regarding purchase of complimentaries as well as substitutes. It also affects the quality level (high, average, low) of the products purchased.

Changes in demographic characteristics of the population such as its size, literacy, number of children in a family, etc. help in the selection of preferred market segments and their cultivation with the appropriate marketing mix.

Consumer Durable Goods

These goods have a durable (long) life and are generally bought out of savings. Their purchase frequency is thus limited to once or twice in the life of a household. The purchase of such products is influenced by:

a) discretionary income (disposable income minus essential expenditures on basic necessities and other fixed obligations like debt payments, insurance premiums, etc.) level of the population.

b) availability of infrastructural and support facilities for the product usage in the country such as pucca roads for the usage of scooters and other vehicles; broadcasting stations and transmission centres in the case of radios, transistors and television; and electricity in the case of various electrical appliances including refrigerators and air-conditioners. Availability

of repair, spares and maintenance facilities in proximity to the households location help increase the sale of consumer durable further.

c) price, credit or hire-purchase facilities available, and

d) life-style of the households and the role of ego, status and prestige in it.

The improvements recorded in the levels of discretionary income, extension in infrastructural and support facilities, easy availability of consumer loans and hire-purchase/instalment schemes as well as changes in urban life-style has opened up the Indian consumer durable market in a big way. The rising sales of transistors, two-in-ones, televisions, scooters and motor-cycles, mixers and cookers, foam mattresses and furniture items, etc. are just a few indications of the same.

Industrial Goods

These goods help in the production of other goods which are closer to consumer usage. Their demand, therefore, is linked with the off-take by the ultimate users and so is, popularly called 'derived' demand. In other words, industrial goods are mainly basic or mother goods, such as machine tools, power equipment, steel, industrial machinery, components, control instruments, lubricants, etc. And, to repeat, the sales of industrial goods is linked with the demand in the user industries e.g., demand of watch making machinery and components in India is determined by the sale and demand of watches in India.

Industrial goods forming part of the industrial infrastructure are greatly influenced by the Government of India's industrial and technology policy, budgetary outlays, developmental plans and the availability of industrial finance through national and international sources. Any policy or allocation change, therefore, affects the working of Industrial goods, firms and often makes them face either a recession or a recovery position in the market.

In short, an industrial products sales forecast is influenced by (a) company forecast, (b) industry forecast, (c) national economic forecast, and (d) world economic forecast.

17.5 APPROACHES TO SALES FORECASTING

There are two general approaches to sales forecasting at the level of the firm—the breakdown approach (also called top-down approach), and the market build-up approach.

Breakdown Approach

Under this approach, the head of the marketing function initially develops a general economic and market sales potential for a specific period. The firm's sales potential is then derived from it. The example of a colour television receiver company developing its sales forecast given in the beginning of this unit relates to the use of the breakdown approach.

Market Build-up Approach

In this approach the task of sales forecasting begins by first estimating the sales at the product, product lines, customer groups or geographical area level. The estimates of the different product, product lines, customer groups or geographical areas are then aggregated and reviewed in the light of the firm's objectives, available resources, as well as competitors activities before the sales forecast is finalised. The example of a leading automobile engine manufacturing company given in the beginning of this lesson relates to the use of both a breakdown approach and a market build-up approach.

While both the approaches have their own usefulness, the breakdown approach is less time consuming and costly when it can use aggregate data made available by others. It may, however, lack the advantages of greater realism and reliability which result from the use of market build-up approach. Combination of both the approaches though time consuming seems ideal and worth the effort expended.

17.6 METHODS OF FORECASTING

Let us now consider various methods used for preparing the sales forecast. These methods are commonly grouped into 5 categories: executive judgement, surveys, time series analysis, correlation and regression methods and market tests.

Executive Judgement

It is an efficient method of sales forecasting. Based on the past performance, insights gained and intuition of the executive(s), this method of sales forecasting works out fairly well particularly when the market is stable. However, this method generally suffers from difficulty in realistically reflecting changes in the market. Salesforce composite method and jury of executive opinion are the two popular forms of this method of sales forecasting.

Surveys

A second way of sales forecasting is by surveying the customers, salesforce, experts, etc. and ascertaining their predictions. **Customer surveys** can provide information relating to type and quantity of products which customers intend purchasing. **Salesforce surveys** can provide estimates of overall territory off-take, company's share and the share of the major competitors. Dealers survey may also form part of the salesforce survey if a firm so desires. **Expert surveys** provide sales forecast as the experts and industry consultants look at it. They bring in an outsider's view to the company's internal forecast and help many a times by adding new dimensions for consideration of management.

Time Series Analysis

Using the historical sales data, this method tries to discover a pattern or patterns in the firm's sales volume over time. The identification of the patterns helps in sales forecasting.

Time series analysis helps locate the trend, seasonal, cyclical and random factor changes associated with the past sales data. In this way, it improves the prediction from the past sales data. Experience reveals that time series analysis for sales forecasting are quite accurate for short and medium term forecasts and more so when demand is stable or follows the past behaviour.

Some of the popular techniques of time series analysis are: moving averages, exponential smoothing, time series extrapolation, and Box-Jenkins technique.

Correlation and Regression Methods

These methods attempt at examining the relationship between past sales and one or more variables such as population, per capita income or gross national product, etc. The use of regression analysis is done in order to determine whether any relationship exists between the past sales, and changes in one or more economic, competitive or internal variables to a firm. The accuracy of forecasts made by using correlation and regression methods is generally better than the other methods. Typical forecasting applications of these methods are sales forecasts by product class. Though the correlation method helps in identifying the association between the factors, it does not explain any cause and effect relationship between them.

Some more advanced forecasting methods explaining cause-effect relationship besides regression method include econometric model, input-output model and life-cycle analysis method. The life-cycle analysis method is used for forecasting of new product's growth rate based on s-curves. The phases of product acceptance by the various groups of customers such as innovators, early adopters, early majority, late majority, and laggards are central to the analysis.

Market Tests

Market tests are basically used for developing one time forecasts particularly relating to new products. A market test provides data about consumers' actual purchases and responsiveness to the various elements of the marketing mix. On the basis of the response received to a sample market test and providing for the factor of a typical market characteristic as well as learning from the market test, product sales forecast is prepared.

Substantial fluctuation that one finds in reality from market to market limit the accuracy of sales forecasts made by this method, unless the market test is designed systematically.

Combining Forecasts and Using Judgement

Experience brings out that the forecasts resulting from the use of multiple methods in a combined way greatly surpass most individual methods of sales forecasts. Research also supports the combined use of quantitative and qualitative methods of sales forecasting in a given situation rather than using either of the two. Application of judgement to

quantitatively arrived forecasts should be done in a structured manner with a view to adding insights and realism to the forecasts so arrived at, since a forecast is a prediction and needs the subjective perception too.

Several studies have shown how combining forecasts by using one or the other methods can improve accuracy of the forecasts. The methods which can be used for combining forecasts are: (i) a simple average of two or more forecasts, and (ii) by assigning historical or subjective weights to such forecasts which more closely reflect the changing reality. In short, being aware of the conditions under which some forecasting methods work better than others enables the firm to prepare for different alternative forecasts. By monitoring which alternative works better, the firm can learn to achieve its goals more effectively.

Activity 2

Suggest some useful techniques for sale forecasting in case of the following:

1. Pagers
2. Cellular Phones
3. Soft Drinks
4. Sun Glasses
5. Dentist
6. Room Heaters
7. Audio Systems
8. Readymade Garments (Childern)
9. 100 c.c. Motor Cycles
10. Light Commercial Vehicles

17.7 STATUS OF FORECASTING METHODS USAGE

In a study of 127 U.S. companies Steven C. Wheelwright and Darral G. Clarke found among other things the criteria used by U.S. companies for selecting the forecasting methods and also the usage of various forecasting methods by them.

The survey findings are summarised below in Tables 1 and 2.

Table 1
Criteria for selecting a forecasting method

<p>Factor 1: User's Technical Ability</p> <ul style="list-style-type: none"> • Level of forecasting sophistication • Understanding of the method • Formal training in forecasting
<hr/> <p>Factor 2: Cost</p> <ul style="list-style-type: none"> • User's time • Preparer's time • Computer time • Data collection
<hr/> <p>Factor 3: Problem-specific Characteristics</p> <ul style="list-style-type: none"> • Time horizon to be forecast • Length on each time period • Functional area involved • Degree of top management support • user-preparer relationship
<hr/> <p>Factor 4: Method Characteristics Desired</p> <ul style="list-style-type: none"> • Accuracy • Statistics available <hr/>

Table 2
Acceptance and use of alternative forecasting methods

Method	Use of the method by those familiar with it	Ongoing use of the method by those who have tried it	Those unfamiliar with the method
Jury of executive opinion (executive judgement)	82%	89%	6%
Regression analysis	76	91	8
Time series smoothing	75	84	13
Sales force composite surveys	74	82	10
Index numbers	67	85	33
Econometric models	65	88	12
Customer expectations surveys	57	78	15
Box-Jenkins	40	71	39

17.8 THE EVALUATION OF FORECASTS

Managers face a great deal of difficulty in evaluating their forecasts. The task becomes more difficult when the manager lacks any specific criteria for evaluating the forecast. Survey of literature suggests the consideration of the following important factors when evaluating forecasts. These factors are: understanding of the state of the art of forecasting techniques, the availability of reliable data bases, and knowledge about monitoring environmental changes. The value and outcome of the evaluation process depends on the firm's data base and the forecasting manager's experience, the manager's knowledge of the forecasting methods, and models, and his ability to understand the past and present changes.

The Forecasting Audit

In the final analysis, forecasting is more of an art than a science; nothing can currently replace experience and good judgement. Professor J. Scott Armstrong of Wharton School, U.S.A., suggests a Forecast Audit Checklist consisting of 16 questions covering the forecasting process, assumptions and data, uncertainty and costs. More no's to the questions will indicate negligence on the part of the manager and also lead him to think ideas on how to improve the forecasting process. The suggested checklist appears in Table 3.

Table 3
Forecasting Audit Checklist

Forecasting Methods	NO	—	YES
1 Forecast independent of top management	—	—	—
2 Forecast used objective methods	—	—	—
3 Structured techniques used to obtain judgements	—	—	—
4 Least expensive experts used	—	—	—
5 More than one method used to obtain forecasts	—	—	—
6 Users understand the forecasting methods	—	—	—
7 Forecasts free of judgemental revisions	—	—	—
8 Separate documents prepared for plans and forecasts	—	—	—
Assumptions and Data			
9 Ample budget for analysis and presentation of data	—	—	—
10 Central data bank exists	—	—	—
11 Least expensive macro-economic forecasts used	—	—	—
Uncertainty			
12 Upper and lower bounds provided	—	—	—
13 Quantitative analysis of previous accuracy provided	—	—	—
14 Forecasting prepared for alternative futures	—	—	—
15 Arguments listed against each forecasts	—	—	—
Costs and Benefits			
16 Amount spent on forecasting reasonable	—	—	—

It is also said that the ultimate test of how good a sales forecast is whether it can improve the firm's marketing strategy.

17.9 COMPUTERISED SALES FORECASTING

The rapid developments in computer hardware and software has made it possible for managers to make sophisticated forecasts with the help of computers. The greatest advantage of this is that managers can introduce subjective inputs into the forecast and immediately test their effects.

Specifically, the last few years have seen sophisticated forecasting models being rewritten using Spread Sheet software programmes for personal computers. Lotus 1-2-3 and Microcast programmes are now available at reasonably affordable prices. Developments in the computer field especially in computer artificial intelligence systems have also enabled the development of expert systems models i.e., the model that the experts use in making a decision. These are of great use when judgement is an important part of the forecast. In future, we are going to see greater use of computers in sales forecasting in India.

17.10 RELATING THE SALES FORECAST TO THE SALES BUDGET AND PROFIT PLANNING

In order to achieve forecasted sales and planned profits, a certain level of sales inputs are a must. The required sales inputs when expressed in monetary term result in the preparation of the sales budget. Since the sales inputs have to be deployed in anticipation of the sales results which may or may not be achieved on the expected lines suggest caution to be exercised while expending the sales budget.

Profitable marketing suggests a break up of the sales budget on product-wise, territory sales-wise and time-period-wise in the first instance. The second basic requirement relates to close monitoring of the actual sales against the targets on a continuing basis.

The thumb rule is that not more than 40 per cent of the sales budget should be spent in the first six months of the budget year. The underlying logic is that since a sales forecast is based on assumption, sales efforts should be spent in conjunction with the culmination of reality as assumed.

The dynamic nature of the market, therefore, requires that the managers must feel the pulse of the market particularly with regard to customer behaviour, competitors plans and reactions as well as the way the market environment unfolds itself. In case the market reality is markedly different from the forecasted one a thorough probe and necessary modification may be required in the deployment of sales inputs, budget and even in the profit plan.

In a nutshell, sales forecasting should be treated as a dynamic activity particularly in relation to the sales budget and profit plan of the firm. For, if forecasting is not practised as a dynamic activity then there may be little to regulate the continued use of sales budget and erosion of profitability. It is important, therefore, to use simple yet comprehensive sales information formats to monitor the market and conduct sales analysis at a regular periodicity.

17.11 SUMMARY

Evaluating the sales potential obtaining in the market place and preparing a sales forecast is an important function of the sales and marketing managers. While different approaches and methods can be used for preparing the sales forecast, a combined approach using together the quantitative and executive judgement methods help in putting realism into the sales forecast. The finalised sales forecast will be of greater utility if it is related to the sales budget and profit plan of the firm. Close monitoring of actual sales against the sales forecast and a thorough probe in case of substantial deviation can forewarn the unregulated expending of the sales budget.

17.12 KEY WORDS

Company sales forecast: The value and volume of a product that a firm actually expects to sell during a specific period at a given level of company marketing activities.

Expert forecasting survey: Preparation of sales forecasts by experts, such as economists, management consultants, or other professionals outside the firm.

Market potential: The maximum sales possible for all sellers of a product to an identified market segment within a specified time frame.

Sales potential: The maximum sales possible for one company's product as the firm's marketing efforts increases relative to competitors.

Seasonality analysis: A method of predicting sales in which a manager studies daily, weekly or monthly sales figures to evaluate the degree to which seasonal factors, such as climate, festivals and holiday activities, influence the firm's sales.

Top down forecasting: Analysis of sales for the purposes of forecasting from world, to natural to industry to firm level.

17.13 SELF-ASSESSMENT TEST

Self-test Questions

A) Check whether the following statements are true or false.

Statement	True/False
1 A sales forecast must be specific in terms of time
2 The customer survey is the most feasible sales forecasting method for a soft drink company
3 Time series analysis seeks a pattern in a firm's sales volume based on historical data
4 The top down sales forecast begins by examining the national economy and its forecasts
5 The accuracy of the sales forecast depends upon the sophistication levels of the forecasting methods used

B) Tick the one most appropriate answer.

- 1 A sales helps the marketing manager determined:
 - a) What sales forecast volume to expect
 - b) how much to produce
 - c) how much effort to spend on the marketing programme
 - d) all of the above
- 2 Sales forecasting methods should be:
 - a) sophisticated and computerised
 - b) the same as those of the competition
 - c) as simple and inexpensive as possible
 - d) none of the above
- 3 Using past sales data to identify patterns in sales volume is called:
 - a) executive judgement
 - b) correlation method
 - c) survey of sales data
 - d) trend analysis
- 4 Market potential is:
 - a) usually greater than market capacity
 - b) usually less than primary demand
 - c) the limiting level of a market demand function
 - d) none of the above
- 5 A poor forecasting capability can cause a firm to have:
 - a) poor confidence measure
 - b) inconsistent competitive power
 - c) biasing tendencies
 - d) an undesirable inventory level.

Key to Self-test Questions

(A) 1 (True), 2(False), 3 (True), 4 (True), 5(False)

(B) 1 (d), 2 (c), 3 (d), 4 (d), 5 (d)

Questions

- 1 What is a company sales forecast? Why is it important?
- 2 Under what conditions executive judgement method is useful for sales forecasting? Discuss its advantages and limitations.

17.14 FURTHER READINGS

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