

Sales and Distribution Management
Prof. Sangeeta Sahney
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

Lecture – 32
Sales Quotas

[FL] Today we will be beginning with our next topic in our course on Sales and Distribution Management. And this topic is Sales Quota which we shall be covering in two lectures, which is lecture 32 and lecture 33. Now in the previous two lectures which was lecture 30 and 31, we have spoken about evaluation of sales force.

And there in we saw that companies set performance targets for their sales personal at the say various territories and the various branches and the various zones. And accordingly the sales persons performance is assessed in terms of whether he meets, those targets or those standards or not.

At the micro level it helps asses the performance of the sales person, at the branch level it would help assess the performance of the sales personal posted or placed in the branch. Similarly at the zonal level it would mean assessing the performance of the sales personal in the different branches, are making up that zone.

And so, forth to reach a macro level, where it would be assessing the performance of sales force you know over in a zone or in a country, you know at the head quartered you know assessments to be made at the macro level, at the head quarter level; to see whether the different you know targets with respect to sales volume is being achieved or not; and whether profitable sales are occurring or not. And this would help assess whether the performance of at this at the national level or at the zonal level or at the regional level or the branch level or down at the micro level at the sales personal level, is something which is positive or something which is negative.

In case it is negative, in case it does not meet you know the in case the performance does not meet the standards or meet the targets which has been set up in those case corrective action is required. So, the entire process begins with one establishing standards of or performance standards, second measuring performance against standards. Now measuring performance here would mean of the sales personal at the branch and of all the sales

personal at the branch level. And then similarly as I said at the regional or the zonal level and then, at the national level to give a macro picture of the overall performance of the sales function in the organization.

Once the actual performance is measured, it is then compared to the desired or the performance standard which was expected to be attained and the gaps are identified between the actual and the desired and corrective action plans are suggested; so that such deviations can be controlled. So, the entire evaluation process starts with you know setting up of performance standards or desired performance standards, measuring performance against standards or measuring actual performance against standards and comparing you know the actual visa the desire.

And then identifying deviations to look for contractors, which can be controlled or factors which are cannot be controlled so, as to lead to identification of controllable and non controllable variations, and then the sales mangers or the marketing mangers must must you know suggest corrective action plans or strategies and tactics to be. So, that so that you know future deviations between the actual and the desired can be controlled and the actual is something which is always more than the desired.

So, what I am talking of is a performance standard or a performance measure. And this brings us to a discussion on this topic which is sales quota.

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CONCEPTS COVERED

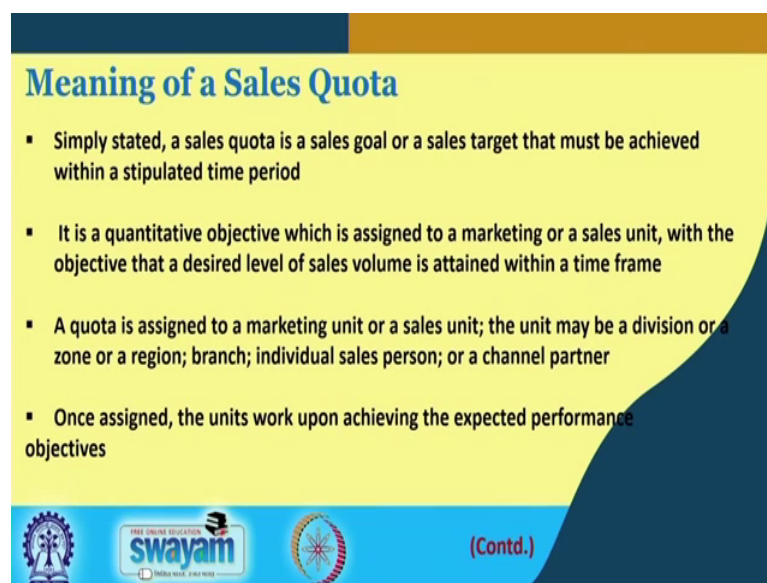
Concepts Covered:

- Sales Quotas
 - Meaning of a Sales Quota
 - Rationale behind Sales Quotas
 - Objectives of Setting Sales Quotas
 - Types of Sales Quotas
 - Methods for Setting Sales Quotas
 - Administering the Quota System
 - Guidelines for Setting and Administering a Good Sales Quota System

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Now, what is a quota? Coming to this we were in this particular topic lecture we shall be studying what are sales quotas, what are the meanings of sales quotas, what is the rationale behind sales quota, the objectives of setting sales quotas, the types of sales quotas, the method for setting sales quotas, how do you administer the quota system, what are the guidelines for setting and administering a good quota system? So, this is what we shall be discussing in this particular lecture. Now we will be talking about the meaning the rationale the objectives and the types of sales quotas in this particular lecture. And then we shall be continuing with our discussion in the subsequent lecture.

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Meaning of a Sales Quota

- Simply stated, a sales quota is a sales goal or a sales target that must be achieved within a stipulated time period
- It is a quantitative objective which is assigned to a marketing or a sales unit, with the objective that a desired level of sales volume is attained within a time frame
- A quota is assigned to a marketing unit or a sales unit; the unit may be a division or a zone or a region; branch; individual sales person; or a channel partner
- Once assigned, the units work upon achieving the expected performance objectives

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Now, let us first talk about the meaning of a sales quota, now simply put forth sales quota is a sales goal or it is a sales target, that must be achieved by sales person within a stipulated time period. Now it be a sales person if we are talking about you know the sales person at the micro level, it could be the target set for a branch it could be which should mean target set for all the sales personal placed in the branch or posted in the branch. And similarly as I just said it could move further at you know standard set for the region or for the zone or for the national level.

Now, quota is a quantitative objective which is assigned to a marketing or a sales unit with the, objective that a particular level of sales volume can be attained desired level of sales volume can be attained within a time frame. And it is assigned to a marketing unit or to a sales unit and as I just said, it could be a division or a zone or a region or a

branch; it could be an individual sales person at the you know deep down at the micro level, it could also be a channel partner or dealer or a distributor.

So, it is a sales goal or a target which must be achieved within stipulated time period, by any of the marketing or sales units. Now, once assigned the units then work together towards achieving the expected performance objectives; sometime in several cases the performance is something which is individual based where, individual sales persons must work on their own to achieve the sales goal or the sales target. In certain cases it is more of a team approach that must be adopted and the various sales units must work together for achieving the expected performance objectives.

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- Quotas may be set for sales volume, expense, profits as well as for selling and non-selling activities
- The sales quotas for the various marketing and sales units are formulated keeping in mind the annual marketing plan. The stronger the integration between the sales forecast, the sales budget, and the sales targets, the better the control mechanism
 - The sales budget based on the sales forecast, delineates the company's sales volume and selling expenses; this is then broken up into sales quotas for the various control units, and the sales territories, and the quota is then divided among salespersons
 - Annual quotas may be broken into half yearly, quarterly, monthly and weekly quotas
- Sales targets help in managing and controlling the sales operations of an organization; however, the effectiveness of determining targets majorly depends on the quality of market information received

Now, a quotas here may be set for the sales figure for the sales volume, it can be set for the expense or the profits, we have spoken earlier about gross profits and net profits. So, you know the quotas here could be set for ensuring that a company is able to earn, you know secure and its good or healthy net profits and for this is a very essential. That not only is sales volume emphasized, but even sell selling expenses are controlled.

So sales quotas can be sales volume quotas are one; the other is with respect to generating healthy profits for the organization and so quotas may also be set for you know the expense which a sales person must incur so, that you know it is ensured that what he earns? Or kind of revenue he generates or the sales he earns is something which he contributes to you know healthy net profits for the organization. And so it is important

that you know quotas are laid out for expense as well. So, as to ensure high healthy network profits for the organizations; quotas may be also set for selling and non selling activities which we shall see subsequently.

Now, going back as a recap if you recall, we spoke about the sales having a big role you know in determining the profits of the organization, the gross profits of the organization and we said that sales volume or the sales earned you know minus the cost of goods sold gives the gross profit. And the gross profit minus selling expenses gives you the net profits.

So, here the sales person you know plays a very crucial role, in determining the net profits of the organization, through the kind of sales volume he can generate and through the selling expenses that he incurs. Both of which will have an impact on the net profit that an that that a sales person can contribute for the organization.

So quotas are thus set for sales volume quotas are also set for the selling expenses; so, that a healthy net profits can be assured you know in the long run. And quotas are also set for selling as well as non selling activities. Now why should quotas be set for selling and non selling activities? Is because selling activities are get you know are always associated with some kind of incentive and reward, which non selling activities are not.

So, in those cases it is a natural tendency on the part of the sales persons to avoid non selling activities which could be very crucial for the organization. And these could include calling upon clients and customers post sales I mean you know, arranging for local advertising and promotion with dealers, you know ensuring that records are generated by dealers from time to time and such reports are sent to the branch and to the zone and to the corporate. Also you know making calls on dealers and distributors to to seek you know to feedback from them; with you know or information about market trends or about customer feedback etcetera.

So, these are certain things which sales person would avoid because they do not directly to commissions and incentives. But these are activities which have to be undertaken and performed whether it is making to calls to customers or making calls to dealers and distributors.

And so because these activities are important it is essential that quotas are set for them as well. Other non selling activities could include, you know sending reports to the head office or to the corporate office. We has spoken about field sales report earlier, you know arranging for corporate social responsibility activities in the region or in the branch. And arranging in a arranging for participation in local affairs and trade affairs etcetera are important non selling activities which the sales person must undertake.

And so there is a quota set for these activities as well. Now, the sale quota for the various marketing and sales units are formulated keeping in mind the annual marketing plan. And the stronger the relationship or the integration between the sales forecast the sales budget and the sales targets, the better the control mechanism. Now the ales budget is based on the sales forecast, and it delineates the company's sales volume and the selling expenses. This is then broken into sales quotas for the various control units and the send sales territories and the quota is divided among sales person.

So if you see, what we get is that, there is a strong relationship between the sales forecast the sales budget and the sales target. The sales budget is actually going to talk about the sales volume and the selling expense. And the sales budget is based on the sales forecast and then this with the sales volume and selling expense, you know which are the two components of the sales budget will be broken in to sales quotas for the various control units and the territories and the quota is then going to be divided amongst the sales personal.

So, further these quotas may be broken into half yearly quotas or quarterly quotas or monthly quotas or weekly quotas and so forth. And they are extremely helpful in managing and controlling sales operations of an organization, you know they help in a big way to plan activities to control sales operations. However, the effectiveness of determining targets mainly majorly depends upon the kind of market information that has been received, because if we see we just spoke about the sales forecast having you know providing inputs for the sales budget.

And until unless accurate information is achieved about the market about the demand about the competitors etcetera targets may not be suitably or appropriately set and so the effectiveness of determining targets majorly depends on the quality of market information that is received.

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Rationale behind Sales Quotas

- A sales quota acts as planning tool and acts as a control mechanism
- The sales quota has motivational implications
- The sales quota also has implications with respect to:
 - Performance appraisal
 - Career development: Internal mobility and transfers, promotions
 - Training needs identification and design of training programs

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Now, what is the rationale behind sales quotas? Now a sales quota acts as a planning tool it acts as a control mechanism we have discussed earlier how planning and control are two (Refer Time: 13:15) twins, they cannot be separated from each other. And the sales quota tells us how much to be achieved in what time period in what you know sales territory by what marketing or sales unit?

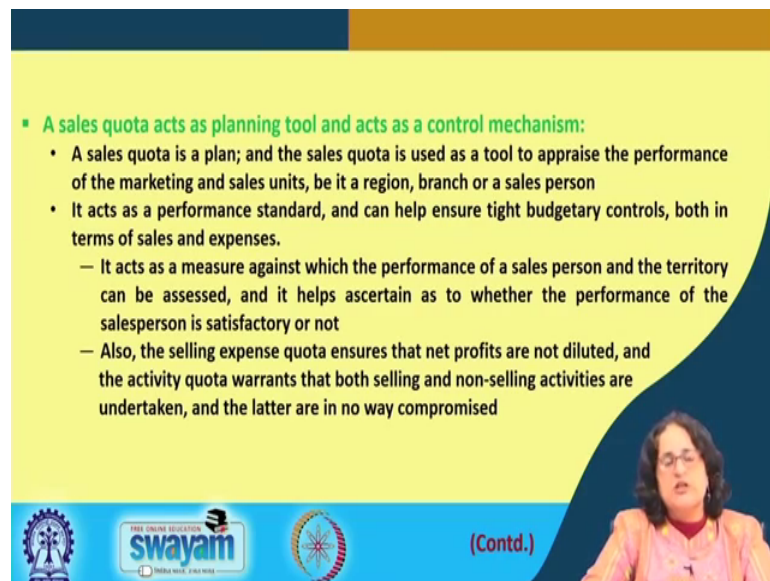
So, in this way it clearly tells what is to be sold where and by whom and in what time period? So, it acts as a planning tool and against this planning tool or against these you know targets formulated for the control units you know measurements can be made and control mechanism exercise. So that is, how we say the sales quota acts as a planning tool? And it acts as a control mechanism. It gives you know and it clearly specifies what is to be sold by whom in what time period in what territory? And so you know proper controls can be exercised.

Now, the sales quota also has motivational implications, it has implication with respect to performance appraisal and evaluation which we just spoke off and we started the lecture. It has implications for courier development whether it is with respect to internal you know mobility and transfers or promotions. It also has you know implications for training needs identification and design of training programs because if it is realized that you know targets are not being achieved or sales quotas are not being achieved, because of lack of knowledge sales expertise talent amongst sales force.

Then such training programs need to be organized; so that the sales persons can be equipped with the necessary knowledge skills and abilities to be able to perform well in the field.

So, that is how we say that sales quota also has implications for training needs and identification and designing of training programs.

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▪ **A sales quota acts as planning tool and acts as a control mechanism:**

- A sales quota is a plan; and the sales quota is used as a tool to appraise the performance of the marketing and sales units, be it a region, branch or a sales person
- It acts as a performance standard, and can help ensure tight budgetary controls, both in terms of sales and expenses.
 - It acts as a measure against which the performance of a sales person and the territory can be assessed, and it helps ascertain as to whether the performance of the salesperson is satisfactory or not
 - Also, the selling expense quota ensures that net profits are not diluted, and the activity quota warrants that both selling and non-selling activities are undertaken, and the latter are in no way compromised

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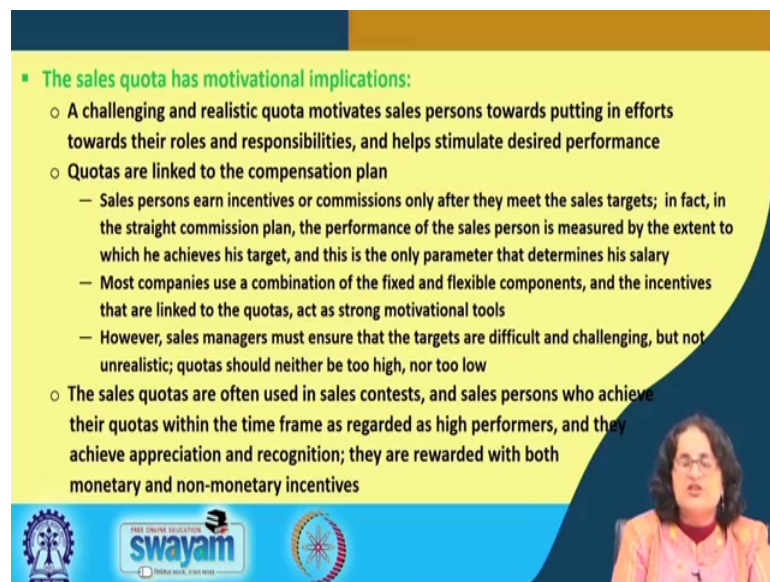
Now, little more to elaborate on the sales quota acting as a planning tool and acting as a control mechanism. Now sales quota is a plan and it is used as a tool to appraise the performance of the marketing units or of the sales units be it a region, or be it a branch or be it a sales person and it acts as a performance standard and can help ensure tight budgetary controls both in terms of the sales volume that is expected to be generated as well as the expenses that should be incurred.

ah So, it acts as a measure, against which performance of the sales persons and the territory can be assessed and it helps assess, helps assess whether the performance of a sales person is satisfactory or not whether the performance of the sales people in a particular branch you know is satisfactory or not. Also the selling expense quotas ensures that the net profits are not diluted and as I just mentioned, because you know it is very very important that sales person contributes towards profits in a healthy way, and this is measured only and only through the net profits; which we shows that the kind of sales

volume that is generated is in no way diluted because of the you know the selling expenses that the sales person incurs.

So, the selling expense quota ensures that, net profits are not diluted and the activity quota warrants that both selling and non selling activities are undertaken and non selling activities are in no way comprised or you know ignored. Because as I just said the non selling activities are equally important, whether it is with respect to follow up calls on customers or dealers or distributors or whether it is with respect to generating goodwill developing rappo, you know assessing market trends and gaining feedback, or it is report generation etcetera.

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▪ **The sales quota has motivational implications:**

- A challenging and realistic quota motivates sales persons towards putting in efforts towards their roles and responsibilities, and helps stimulate desired performance
- Quotas are linked to the compensation plan
 - Sales persons earn incentives or commissions only after they meet the sales targets; in fact, in the straight commission plan, the performance of the sales person is measured by the extent to which he achieves his target, and this is the only parameter that determines his salary
 - Most companies use a combination of the fixed and flexible components, and the incentives that are linked to the quotas, act as strong motivational tools
 - However, sales managers must ensure that the targets are difficult and challenging, but not unrealistic; quotas should neither be too high, nor too low
- The sales quotas are often used in sales contests, and sales persons who achieve their quotas within the time frame as regarded as high performers, and they achieve appreciation and recognition; they are rewarded with both monetary and non-monetary incentives

Now, the sales quota also has motivational implications, we just spoke about it a little while go a challenging and realistic quota motivates sales people towards putting in effort towards their roles and responsibilities. And helps stimulate desired performance now here we must actually keep in mind that the quotas are something which are very realistically set. They can be difficult they can be challenging, but they should be attainable. And here is where we can relate this to the rooms expectancy theory where we spoke about you know how effort and perform effort leads to performance and performance leads to outcome, and the outcome is something which relates to the reward which is highly attractive for the sales person.

We are speaking about room's expectancy theory of motivation, where you know that it is clearly you know it can be applied that the targets are something which are difficult which are challenging. But realistic, so that the sales person can well understand, that his effort will lead to the desired performance and the performance which lead to the outcome.

In case targets are too unrealistic and the sales person feels that they are unattainable or they are unrealistic in those cases the sales person will not put in efforts, because he realizes that he would realize that effort would not lead to the performance. And performance can never lead to the outcome you know so in those. So, that is how room's expectancy theory of motivation becomes relevant here, but it is very important to understand that targets or something which should be very realistically set, they must be difficult they must be challenging, but realistically set.

Also the reward or the incentive system in place is something which is attractive or perceived to be lucrative by the sales person. So, quotas are linked to the compensation plan and sales persons earn incentives or commissions only after they meet the sales targets. In fact, in the straight commission plan, the performance of the sales person is measured by the extent to which he achieves his target and this is the only measure which determines his salary.

So, you know the sales quota does have motivational implications, whether it is with respect to setting the right kind of quotas or it is with respect to you know setting or deciding on the right kind of incentives to be provided to the sales person. Most companies use a combination of both the fixed and the flexible elements you know and incentives are linked to quotas which act as a strong motivational tool.

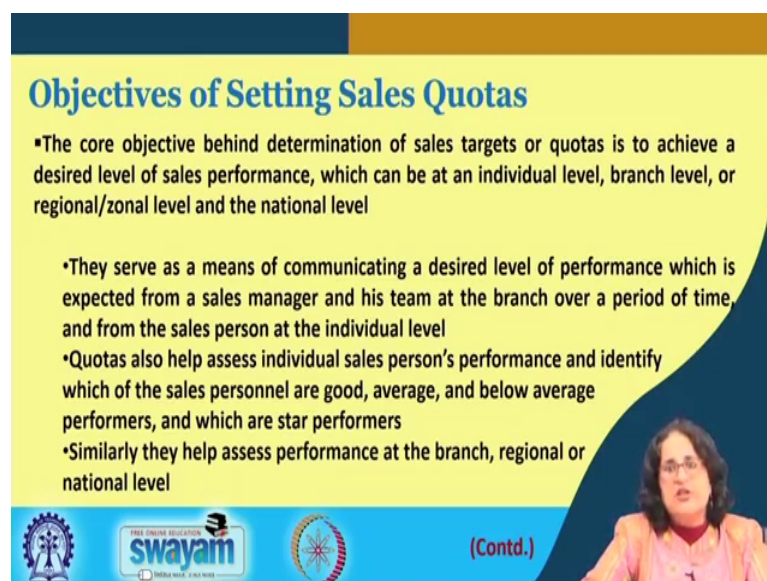
Of course in cases, where you know sales persons earn incentives or commission only after they meet the sales targets. So, there what we you know it is only and only their performance, which determines whether they would get their salary or not. So, but in other cases most companies use a combination of the fixed and the flexible components, and the incentives are linked to the quota which act as strong motivational tools. In fact, the incentives comprise the flexible element, and they are only and only earned when sales persons exceed their quotas or are able to generate you know healthy sales for the organization.

So, but again sales managers must understand the targets need to be realistic and they also must ensure that whatever reward system is in place, whatever incentives are in place are some are actually attractive to the sales force and to the sales personal. Sales quotas are often used in sales contest and sales people who achieve their quotas within the time frame are regarded as high performers. They are they receive a lot of appreciation, recognition and they are rewarded with both monitory and non monitory incentives.

Now, here again we can link this to Herzberg's theory of motivation, where even achievement or recognition or you know challenging work and attainment of goals can act as motivators. And so, its very very essential that the sales managers at the branch or at the or sales executives senior executives at the region, and at the corporate sets such targets, which will motivate people towards putting in hard work put words putting in lot of effort to achieve the goals.

And they must also ensure that the reward system is something, which is lucrative this could be both monitory as well as non monitory and monitory in the form of commissions incentives, and non monitory in the form of awards accolades, certificates, paid holidays, trips. Overall company and corporate recognition through medal, certificates etcetera which can be highly attractive to sales force to be able to on their toes to achieve their organizational goals.

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Objectives of Setting Sales Quotas

- The core objective behind determination of sales targets or quotas is to achieve a desired level of sales performance, which can be at an individual level, branch level, or regional/zonal level and the national level
- They serve as a means of communicating a desired level of performance which is expected from a sales manager and his team at the branch over a period of time, and from the sales person at the individual level
- Quotas also help assess individual sales person's performance and identify which of the sales personnel are good, average, and below average performers, and which are star performers
- Similarly they help assess performance at the branch, regional or national level

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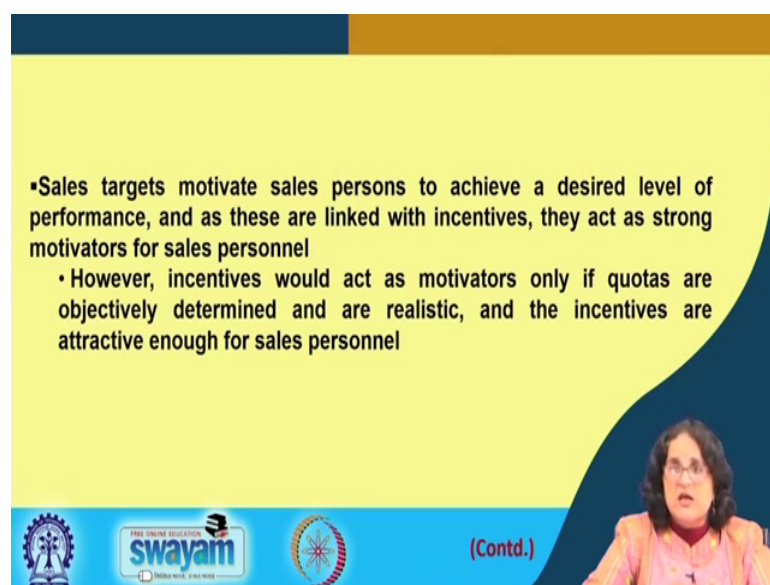
Now, what are the objectives of setting quotas? So, the core objective behind determining sales quotas or targets is to achieve a desired level of sales performance. And this performance could be micro level which is the individual level or it could be at the branch level or regional level or at the national level which would be more of a macro level.

So, the major objective behind setting sales targets or quotas is to achieve a desired level of sales performance, either the micro level which is the individual sales force level or it could be at the branch or the region or the national level which is more of a macro level.

Now, quotas serve as means of communicating a desired level of performance, which is expected from the sales manager and his team. In a branch over a period of time and from sales people you know who are employed in their respective territories, it helps assess individual sales persons performance and helps identify sales people, who are good who are average or below average performers and who are star performers. And similarly they also help assess the performance of the different branches in a region or the different regions and zones in the country and at the national level.

So, sales quotas help assess performance at micro level as well as at macro levels. Micro level being the sales people then sales person himself, and then assessing performance at the branch at the regional at the zonal and at the national level, which is more of the macro level.

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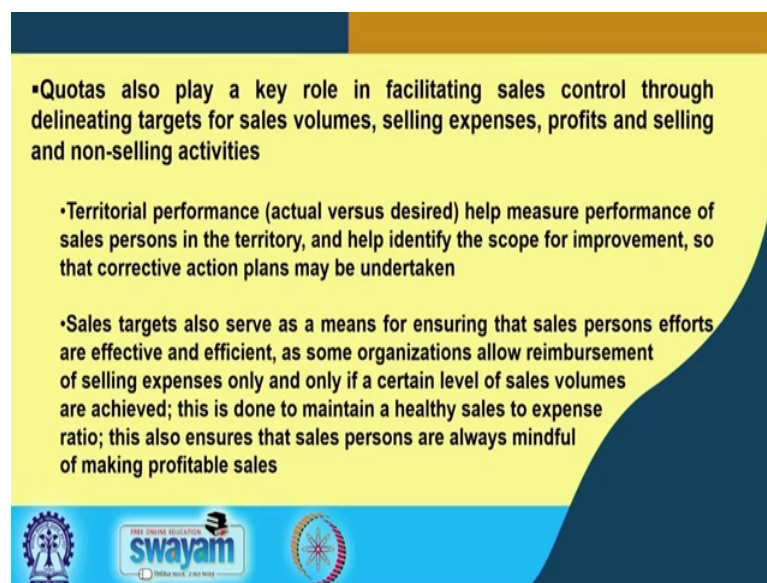
• Sales targets motivate sales persons to achieve a desired level of performance, and as these are linked with incentives, they act as strong motivators for sales personnel

- However, incentives would act as motivators only if quotas are objectively determined and are realistic, and the incentives are attractive enough for sales personnel

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So, such targets motivates sales people to achieve a desired level of performance and then these are linked with incentives, they strong they act as very strong motivators. But again as I just mentioned these incentives would act as motivators only if quotas are objectively determined very systematically you know set, and clearly communicated across the branch and the region. And the incentives are something which are highly attractive for the sales person.

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- Quotas also play a key role in facilitating sales control through delineating targets for sales volumes, selling expenses, profits and selling and non-selling activities
- Territorial performance (actual versus desired) help measure performance of sales persons in the territory, and help identify the scope for improvement, so that corrective action plans may be undertaken
- Sales targets also serve as a means for ensuring that sales persons efforts are effective and efficient, as some organizations allow reimbursement of selling expenses only and only if a certain level of sales volumes are achieved; this is done to maintain a healthy sales to expense ratio; this also ensures that sales persons are always mindful of making profitable sales

Now, quotas also play a very important role in facilitating sales control, through delineating targets for sales volume selling expenses profits and selling and non selling activities. Now territorial performance which is measured in terms of the actual performance, vis a vis the decide help measure performance of sales people in a territory, and help identify the scope of improvement.

So, that corrective action plans can be undertaken and sales targets also actually help, ensure that sales persons efforts are effective and efficient. As some organizations allow reimbursement of selling expenses only and only when a certain level of sales volume is earned by the respective sales person.

So you know some companies have a policy, where they allow reimbursement of selling expenses; only and only if a certain level of sales volume is achieved by the sales person. So, sales targets also serve as a means for ensuring that the sales persons efforts you know move towards you know a fruit full end. And their efforts are effective and

efficient, and this is actually done to ensure healthy sales to expense ratio this also ensures that sales people are always mindful of the fact that they do not just have to generate sales, but they have to generate profitable sales.

So, its very very important that they keep this in mind that while earning sales is important while earning sales volume is important. It is also important that, expenses are controlled. So that overall contribution of a sales person is you know is positive for the organization and it leads to net profits for the organization.

So, the so sales person must understand that its not only sales that needs to be generated, but it is what is more important is generating profitable sales.

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Types of Sales Quotas

Sales Quotas may be of different types:

- Sales Volume Quotas: Rupee/Dollar Sales Volume Quotas
Unit Sales Volume Quotas
Point Sales Volume Quotas
- Financial Quotas (Sales Budget Quotas): Gross Margin or Net Profit Quotas
Expenses of Marketing Units
- Activity Quotas (Sales Activity Quotas)
- Combination Quotas (Point System Quotas)

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Now, let us now come to the different types of sales quotas now, sales quotas here can be sales volume quotas which are rupee or dollar sales volume quotas unit sales volume quotas or point sales volume quotas. And then we have financial quotas or the sales budget quotas which talk about the gross margin or the net profits. So, we have the gross margin or the net profit quotas and we have the expense of marketing units. And then we have the activity quota or the sales activity quotas and then we have combination quotas or it is a point system quota.

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Sales Volume Quotas

- The sales volume quota is the oldest and most commonly used form of targets
 - It is extensively used by companies for evaluating the sales performance of sales persons at the individual, branch, regional or national level
- Sales volume quotas may be stated in the form of rupees /dollars, units, and points
- Sales volume targets are set and communicated to the sales persons, thus making them aware as to how much they must sell in rupees or in units within a time frame; sales volume targets are indicative of the desired level of profitability that an organization aims at achieving
- For effective control, sales volume quotas should be set for the smallest marketing and sales unit, be it the sales person, branches, and for product items and/or brands

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So, what is the sales volume quota? Now the sales volume quota this is one of the oldest and the most commonly formed, you know commonly used form of targets and extensively used by companies to evaluate the performance of their sales force, at individual level or at branch or at regional and national level. And here the sales quota may be stated in the form of currency, which is rupee or dollars it may also be stated in the form of units and points.

Now sales volume targets are set they are communicated across to the sales persons in a branch and in a territory, thus making them aware as to how much they must sell in rupees or in units within a time frame?

So, here the sales volume quota could be either set in the form of a currency unit which is a rupee or a unit or a dollar or it could be also set in terms of units, which the sales person must sell.

Now sales volume targets are indicative of the desired level of profitability that an organization expects to earn, and for you know of effective control. The sales volume quota must be set for the smallest market and sales unit may be it the sales person or be it a branch and a be it product items and or branch or a SKUs.

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Rupee/Dollar Sales Volume Quotas: Sales targets are specified in the form of rupees or dollars

- the method is used by such companies that sell wide product lines, and where salespersons are required to sell several products; the target is specified in terms of currency, so that the complexity of specifying target for individual products can be avoided; also, the selling expenses to sales, expressed in percentages or ratio can be easily calculated

Unit Sales Volume Quotas: Sales targets are specified in the form of product volumes

- the method is used by such companies that sell narrow product lines and the salespersons are required to sell few products; the method is also used in cases where the prices of products are high, or where prices fluctuate significantly over a period of time; also a rise in prices can result in easy attainment of rupee/dollar sales volume quotas

Point Sales Volume Quotas: Sales targets are specified in the form of points

- the method is used by such companies that sell wide product lines, and want their salespersons to sell a balanced line and/or to sell products that have higher profit margins (eg. big-ticket items, which contribute to profits of the company significantly, but which are difficult to sell, and salespersons avoid selling them)

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Now, let us first talk about the rupee or dollar sales volume quota, now sales targets here are specified in the form of currency be it rupees or be it dollars. Method is used by companies that sell wide a product assortment and they sell wide product lines, and where sales people are required to sell several products. Now the target here is specified in terms of currency; so, that the complexity of specifying targets for individual products can be avoided.

So, instead of you know setting targets you know for each of the products in terms of numbers, which could contribute differently and variedly in terms of you know money to the to the organization. Companies prefer to actually use this quota, where the target is specified in terms of currency without taking into account the it price differences across different products. So, you know in case there is an organization which sells you know wide products and these products are very variedly prized. It would become difficult for an organization to keep tab, is to which of these is being sold more or which is contributing you know higher profits. And it would become difficult it would also involve a lot of paper work.

So, to avoid such of kind of complexities to allow to avoid such kind of problems, sales people are required to you know they are provided a target in terms of currency. So, that you know they do not have to specify you know targets for individual products.

So, those companies that sell wide product lines, and where sales people are required to sell different products, this rupee or the dollar sales volume quota is used; where the target is specified in terms of currencies. So, that the complexity or the problem of specifying targets for individual products can be avoided also the selling expense to sales expressed in percentage or ratio can be easily calculated.

The second type of quota is the unit sales volume quota. Now sales targets here are specified in the form of product volumes, the method here is used by those companies which sell narrow product lines and the sales people are required to sell very few products. So, the method is also used where the prices of products are high or where prices fluctuate, you know over a period of time significantly.

So, in this case what happens is a rise in price can easily result in attainment of a rupee or dollar sales volume quota. So, it would be a wrong indicator of the sales persons performance. You know like for example, the price of a product suddenly increases and so a sales person who sells the product suddenly shows a positive contribution in terms of the rupee or dollar sales volume that he has generated for the organization.

Now, this may not be a true indicator of his performance because the contribution to the you know contribution in terms of rupee or dollar sales volume has not happened, because of the performance of the sales person, but it is happened because of the price rise.

So to avoid this kind of problem, you know companies who sell products narrow line of products and products which are expensive and where products fluctuate very rapidly over a period of time. They use the unit sales volume quota, where targets are specified in the form of product volumes. The third is the point sales volume where sales targets are specified in the form of points, and method is used by such organizations that sell wide product lines and what their sales people to sell a balanced line and to sell products that have higher profit margins.

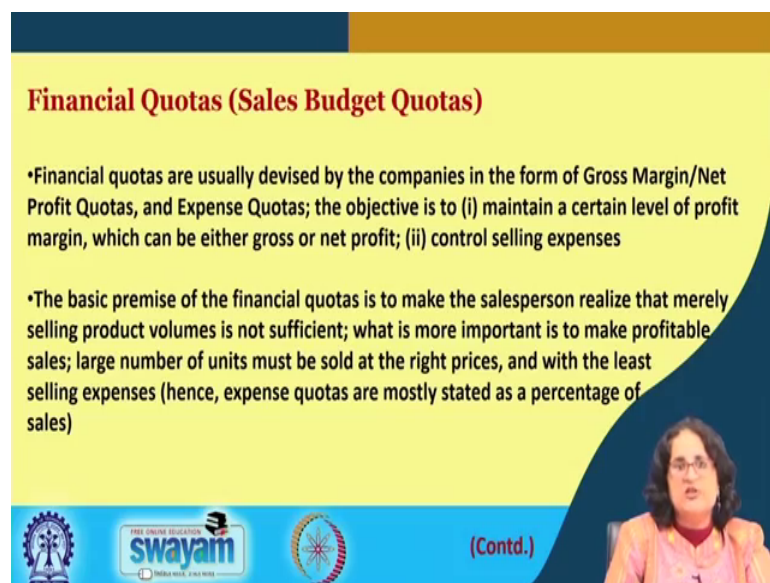
For example, a companies which sell you know products which are low priced or some ticket items and high priced and big ticket items; now it is always easy to sell small ticket items. And so in order to make up the number in terms of unit sales, sales person may go easy way find an easy way out by you know selling more of the small ticket item which are easy to sell.

Now, in this case what happens is that the big ticket items or the more profitable items would get ignored. And the competitor can take advantage of such a situation also you know the company would find itself with a huge inventory of you know such products, which are big ticket items and with no takers because the sales people are not putting in those desired efforts to push those products.

So, in such cases companies use the point sales volume quota, where they want the sales persons to sell a balanced line or to sell products which are both high priced and low priced. And so they come in with a point system, where you know a big ticket item which contributes to profits of a company significantly, but is difficult to sell would you know if sold the would mean more points compared to small ticket items.

So, in this case sales person, who sells you know one big ticket item may get say 5 points. As and if he sells a small ticket item he gets just 1 or 2 points. And then these points get related to incentives later on; so, this is what is a point sales volume quota.

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Financial Quotas (Sales Budget Quotas)

- Financial quotas are usually devised by the companies in the form of Gross Margin/Net Profit Quotas, and Expense Quotas; the objective is to (i) maintain a certain level of profit margin, which can be either gross or net profit; (ii) control selling expenses
- The basic premise of the financial quotas is to make the salesperson realize that merely selling product volumes is not sufficient; what is more important is to make profitable sales; large number of units must be sold at the right prices, and with the least selling expenses (hence, expense quotas are mostly stated as a percentage of sales)

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Now, the next is financial quotas or sales budget quotas, these are devised by companies in the form of gross margin or net profit quotas and expense quotas. And the objective here is to maintain a certain level of profit margins, whether it is gross or net and the basic you know reason to have this quota is to control selling expenses. Now the basic premise of the financial quota is to make the sales person understand that merely selling volumes is not enough what is more important is to make profitable sales? So, large

number of units must be sold at right prices, and with the least of selling expenses. So, hence expense quotas are generally stated as a percentage of sales.

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Gross Margin/Net Profit Quotas:

- The gross margin is calculated by subtracting the cost of goods sold from the sales volume; the cost of goods sold equals the cost of manufacturing a product
 - The problem with this quota is that sales managers and sales persons have no control on the cost of goods sold and hence, they cannot be held responsible for gross margins
- The net profit is calculated by subtracting the direct selling expenses from the gross margin; the direct selling expenses of salespeople include expenses incurred on travelling, boarding, lodging, as well as on gifts and entertainment of customers
 - The problem with this quota is that some salesperson may reduce necessary expenses like travelling, or may avoid non-selling activities as these are generally not linked to rewards and incentives, and this may have a negative impact on sales

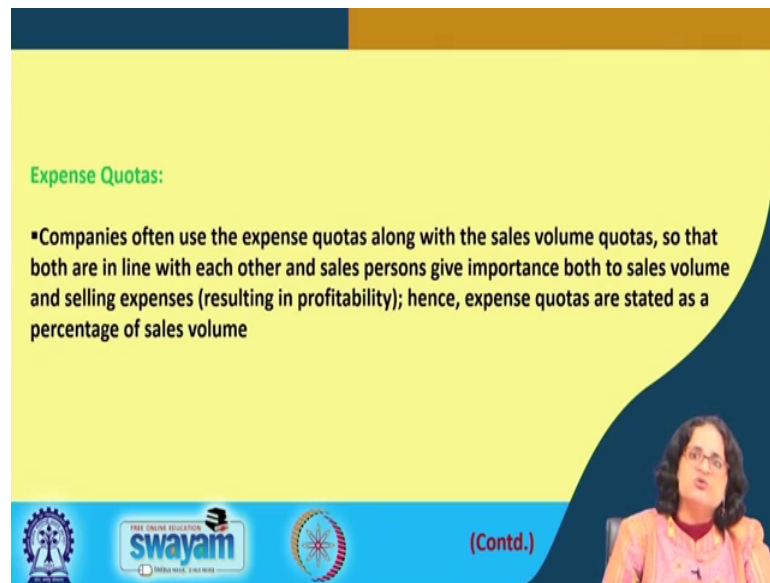
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Now, we have the gross margin and net profit quotas where the gross margin is calculated by subtracting the cost of good source from the sales volume. And the problem here with this quota is that the sales manager or the sales team or the sales person does not have a control on the cost of good sold. So, they cannot be held responsible for the gross margin.

ah The other hand the net profit is calculated by subtracting the selling expenses from the gross margin. And the direct selling expenses of the sales people include expense on travelling, boarding, lodging you know entertainment for customers etcetera. And the problem here again with this quota is that some sales people reduce these expenses on travel and they also avoid non selling activities, because they incur an expense, but they are not are linked to an incentive and so this could have negative impact on the on the sales of the company.

Because the sales person may avoid travelling because that would mean an expense, and so he may lose out on calling on clients or customers or prospects; and so this can be a problem for the company.

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Expense Quotas:

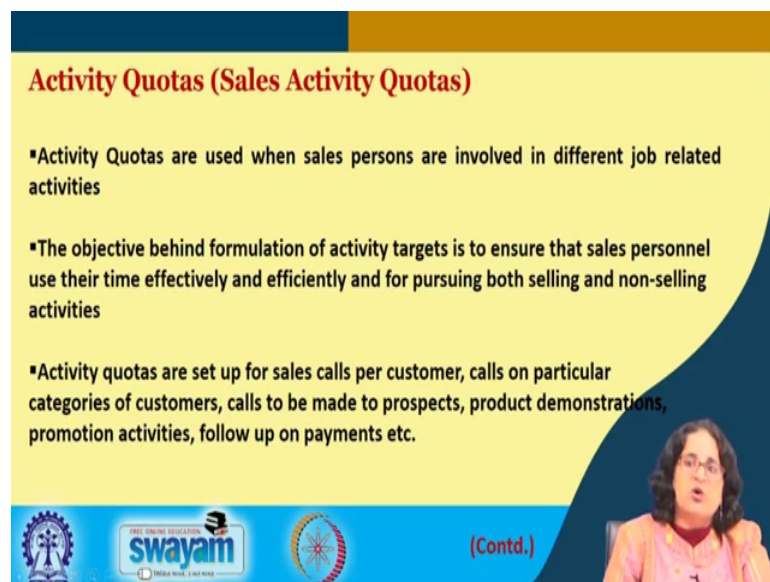
- Companies often use the expense quotas along with the sales volume quotas, so that both are in line with each other and sales persons give importance both to sales volume and selling expenses (resulting in profitability); hence, expense quotas are stated as a percentage of sales volume

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Expense quotas are used along with sales volume quotas. So, that both are in line each other and sales people give importance to both sales volume as well as selling expenses, and so expense quotas are stated as the percentage of the sales volume.

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Activity Quotas (Sales Activity Quotas)

- Activity Quotas are used when sales persons are involved in different job related activities
- The objective behind formulation of activity targets is to ensure that sales personnel use their time effectively and efficiently and for pursuing both selling and non-selling activities
- Activity quotas are set up for sales calls per customer, calls on particular categories of customers, calls to be made to prospects, product demonstrations, promotion activities, follow up on payments etc.

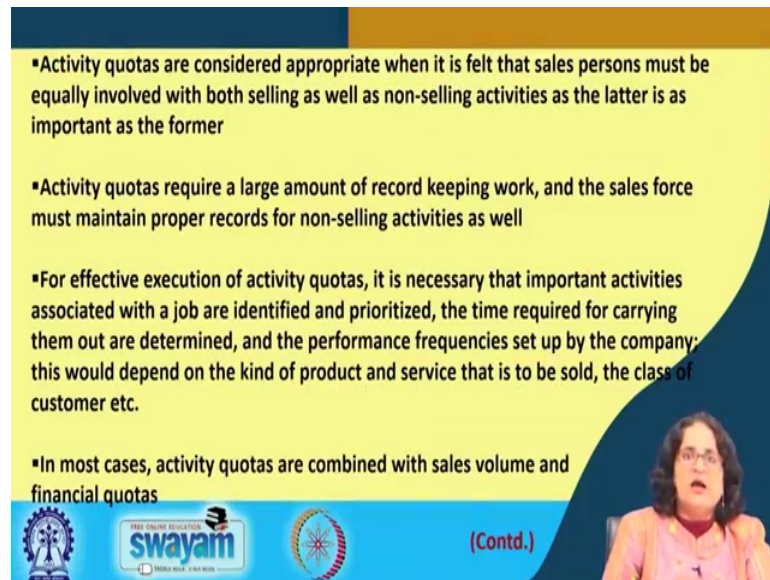
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And then we have the activity quotas which are used, when sales people are involved in both in several job related activities. And the objective here is to ensure that sales people use their time effectively and efficiently for also in both selling and non selling activities.

Now, activity quotas set up for you know with respect to calls per customer, calls on particular categories of customers, calls to be made to prospects, demonstrations promotional activities etcetera.

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▪Activity quotas are considered appropriate when it is felt that sales persons must be equally involved with both selling as well as non-selling activities as the latter is as important as the former

▪Activity quotas require a large amount of record keeping work, and the sales force must maintain proper records for non-selling activities as well

▪For effective execution of activity quotas, it is necessary that important activities associated with a job are identified and prioritized, the time required for carrying them out are determined, and the performance frequencies set up by the company; this would depend on the kind of product and service that is to be sold, the class of customer etc.

▪In most cases, activity quotas are combined with sales volume and financial quotas

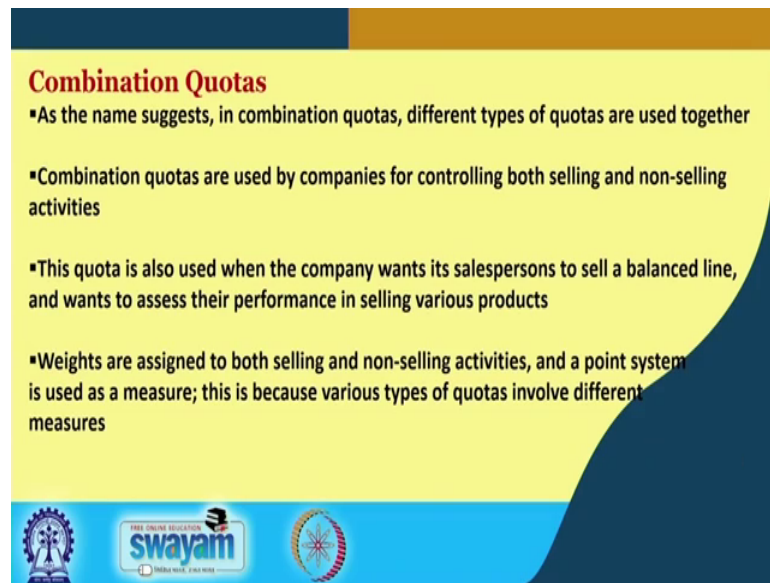
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And further activity quotas are considered appropriate, when sales when it is felt that sales people must be equally involved in selling as well as non selling activities.

Now, activity quotas involve a lot of record keeping and sales people must maintain proper records, for both selling as well as non selling activities. And in most cases activity quotas are again combined with sales volume and financial quotas.

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Combination Quotas

- As the name suggests, in combination quotas, different types of quotas are used together
- Combination quotas are used by companies for controlling both selling and non-selling activities
- This quota is also used when the company wants its salespersons to sell a balanced line, and wants to assess their performance in selling various products
- Weights are assigned to both selling and non-selling activities, and a point system is used as a measure; this is because various types of quotas involve different measures

Logos at the bottom: A gear icon, the 'swayam' logo with 'FREE ONLINE EDUCATION' and 'SWAYAM' text, and a circular emblem with a star.

Coming to the last of them which is the combination quotas. So as the name suggest the combination quota here are said different for or set, you know different where in different quotas are used together. They are used by companies for controlling both selling and non selling activities and it is also used when companies want to what their sales force to sell a balance line and they want to assess the performance of the sales force in selling different kinds of products.

So, weights are assigned for selling you know for performing both non selling and selling activities, then a point system is used as a measure this is because different types of quotas would involve different measures.

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So, with this we come to an end of this lecture, the references are still Cundiff Govoni Puri Sales and Distribution Management 6th Edition 2017 Pearson India. Panda and Sahadev Sales and Distribution management 2011 and 2012 Oxford University Press and Havaladar and Cavale, Sales and Distribution Management 2017 McGraw Hill.

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So, this brings us to an end of the second lecture on the 7th module of the course. I hope you found this lecture beneficial.

Thank you.