UNIT I

SALES MANAGEMENT: ITS NATURE, AND RESPONSIBILITIES

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Sales - Definition

- A **sale** is the pinnacle activity involved in selling products or services in return for money or other compensation. It is an act of completion of a commercial activity.
- **Sales** is everything that you do to close the sale and get a signed agreement or contract.

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Marketing – Definition

- **Marketing** is the process associated with promotion for sale goods or services. It is considered a "social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and values with others." It is an integrated process through which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

Copyright © 2001 by Harcourt, Inc. All rights reserved.

- Marketing is used to create the customer, to

Sales and Marketing

What's the Difference?

- Sales
- Sales starts with seller & is preoccupied all the time with the needs of the seller
- Emphasizes on saleable surplus available with the company

- Marketing
- Marketing starts with the buyer and focuses constantly on the needs of the buyer
- Emphasizes on identification of market opportunity
- Seeks to convert

Copyright © 2001 by Harcourt, Inc. All rights reserved.

The sales and marketing relationship

- Marketing and sales are very different, but have the same goal.
- Marketing improves the selling environment and plays a very important role in sales.
- The marketing department's goal is to increase the number of interactions between potential customers and company, which includes the sales team using promotional techniques such as advertising, sales promotion, publicity, and public relations, creating new sales channels,

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Sales Management

- **Sales management** is attainment of an organization's sales goals in an effective & efficient manner through planning, staffing, training, leading & controlling organizational resources. Revenue, sales, and sources of funds fuel organizations and the management of that process is the most important function.

Copyright © 2001 by Harcourt, Inc. All rights reserved.

What is Sales Management?

Sales management is the attainment of sales force goals in an effective and efficient manner through:

- *Planning*
- *Staffing*
- *Training*
- *Leading*
- *Controlling organizational resources*

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Objectives of Sales Function.

- To achieve Sales Targets
- To achieve Market share targets
- To manage dealer network
- To organize sales training
- To handle customer complaints
- To manage Sales promotion campaigns
- To effectively cover market

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Evolution of Sales function (Pre-Industrial Era)

Demand > Supply

Buyer Seek Sellers

Manufacturing had Higher Importance

No Mass Production

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Evolution of Sales function (Post-Industrial Era)

Mass Production Commenced

New Markets to be found

Specialized Departments for Personal Selling

Competition Forced it further

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Role of selling in Marketing

Prospect Qualification

Whereas marketing research is used to identify market segments for advertising, salespeople use more direct, question-driven approaches to qualify top prospects for selling opportunities. A few simple qualifying criteria help sellers ensure they invest time in the most profitable opportunities. Need for the product, ability to pay, authority to buy and willingness to buy are four common categories of criteria

sellers commonly consider when initially screening prospects.

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Art of Persuasion

Selling is often referred to as the art of persuasion. As opposed to manipulation, persuasion means convincing someone to make a purchase because it is in his best interests. This results from a customer-centric process where the seller builds trust with a prospect, asks needed discovery questions, deals with any buyer concerns and makes appropriate recommendations to suit. Emphasizing the benefits of a solution to best satisfy a customer's needs is key in persuasive selling.

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Interactive Communication

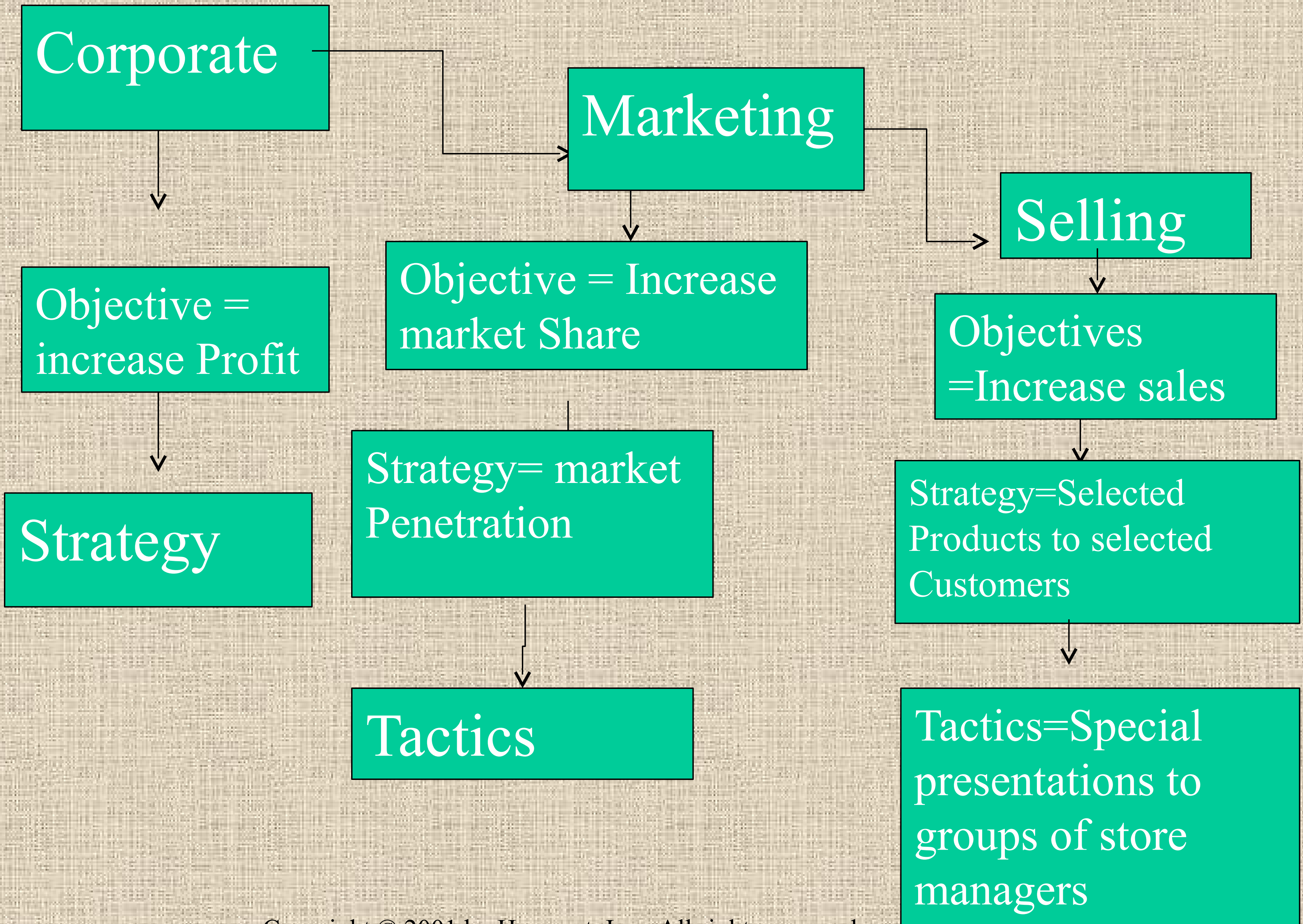
Promotional tools of advertising, public relations and selling all involve communication. With selling, the communication is two-way. Prior to persuasion, an effective seller asks questions and listens to the needs of a prospect. He also gets to address concerns that a paid advertising or PR communication doesn't allow. This is a huge advantage in trying to generate sales from customers struggling with doubt or not immediately recognizing the value of a solution.

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Personal Relationships

Building personal relationships is part of the role of salespeople and the selling process. Traditional selling of old includes pressure sales tactics and strong motives to create one-time sales. In the early 21st century, though, companies invest so much in attracting new customers that they usually expect to get ongoing purchases from them. Salespeople have significant responsibility in this through follow-up contact and inquiries about new or evolving needs customers have.

Copyright © 2001 by Harcourt, Inc. All rights reserved.



Copyright © 2001 by Harcourt, Inc. All rights reserved.

How marketing Function got Split?

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Sales Management Functions

Planning
Building a
profitable customer-
oriented sales team

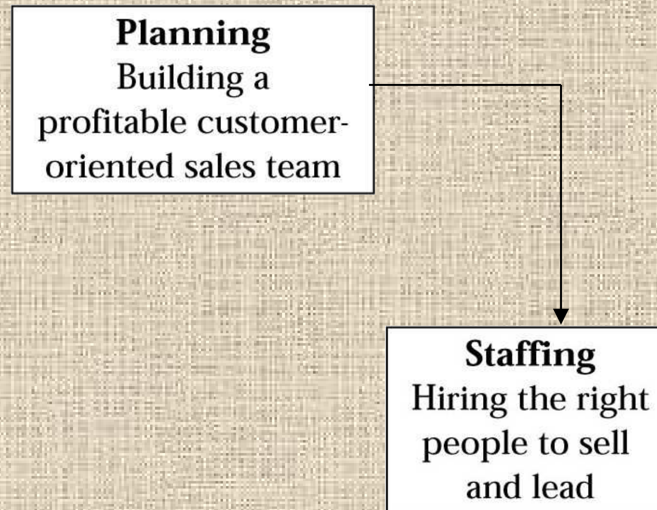
Copyright © 2001 by Harcourt, Inc. All rights reserved.

PLANNING

The conscious, systemic process of making decisions about goals and activities that an individual, group, work unit, or organization will pursue in the future and the use of resources needed to attain them.

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Sales Management Functions



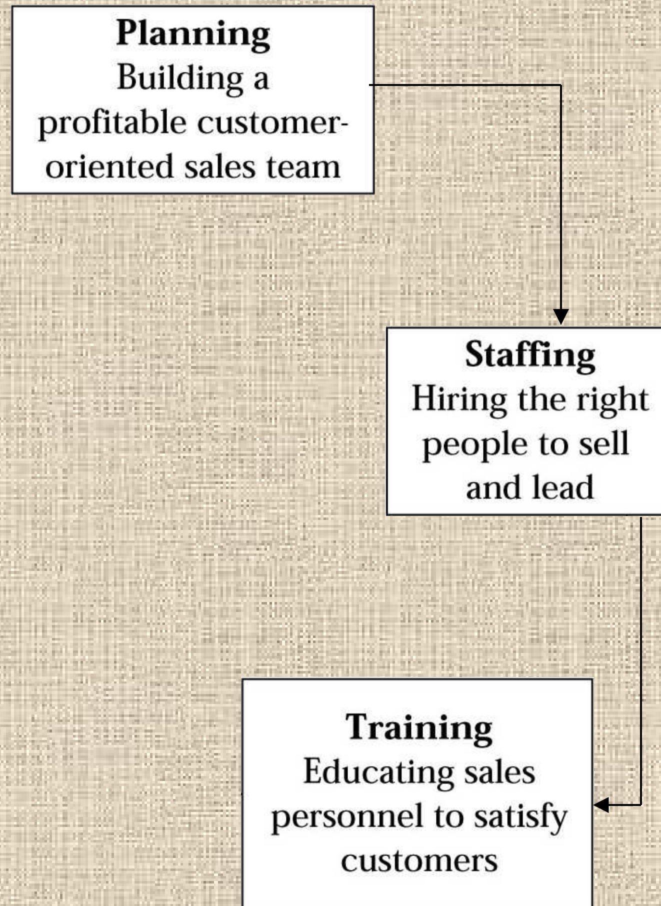
Copyright © 2001 by Harcourt, Inc. All rights reserved.

Staffing

Activities undertaken to attract, develop, and maintain effective sales personnel within an organization.

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Sales Management Functions



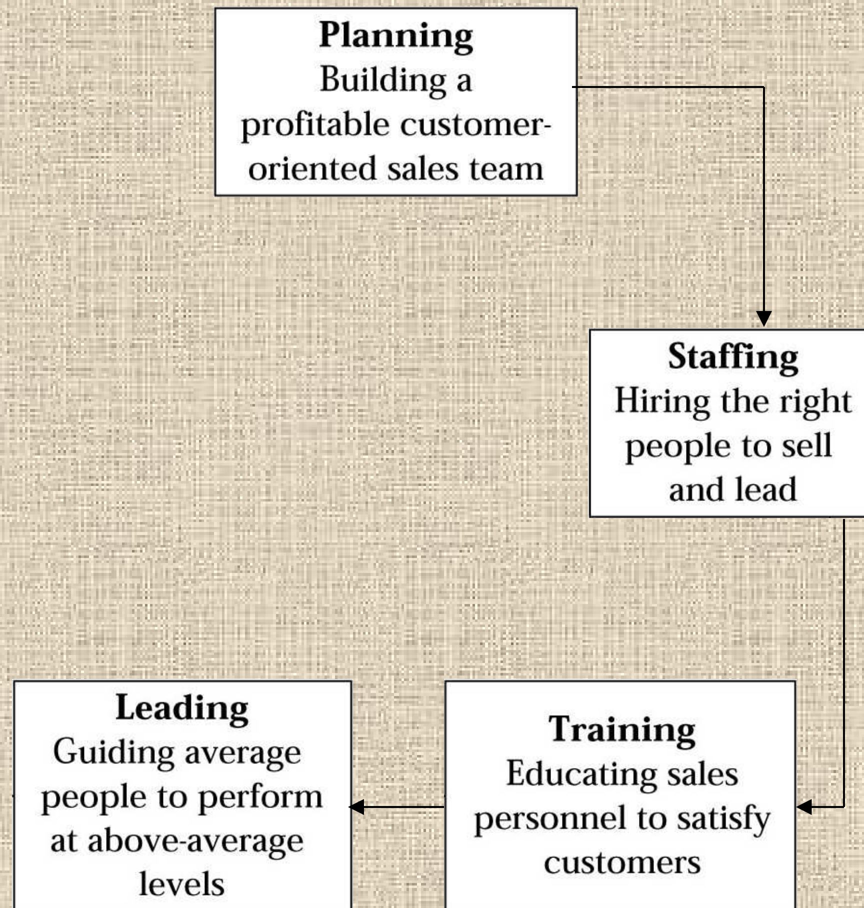
Copyright © 2001 by Harcourt, Inc. All rights reserved.

Sales Training

The effort put forth by an employer to provide the salesperson job-related culture, skills, knowledge, and attitudes that result in improved performance in the selling environment.

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Sales Management Functions



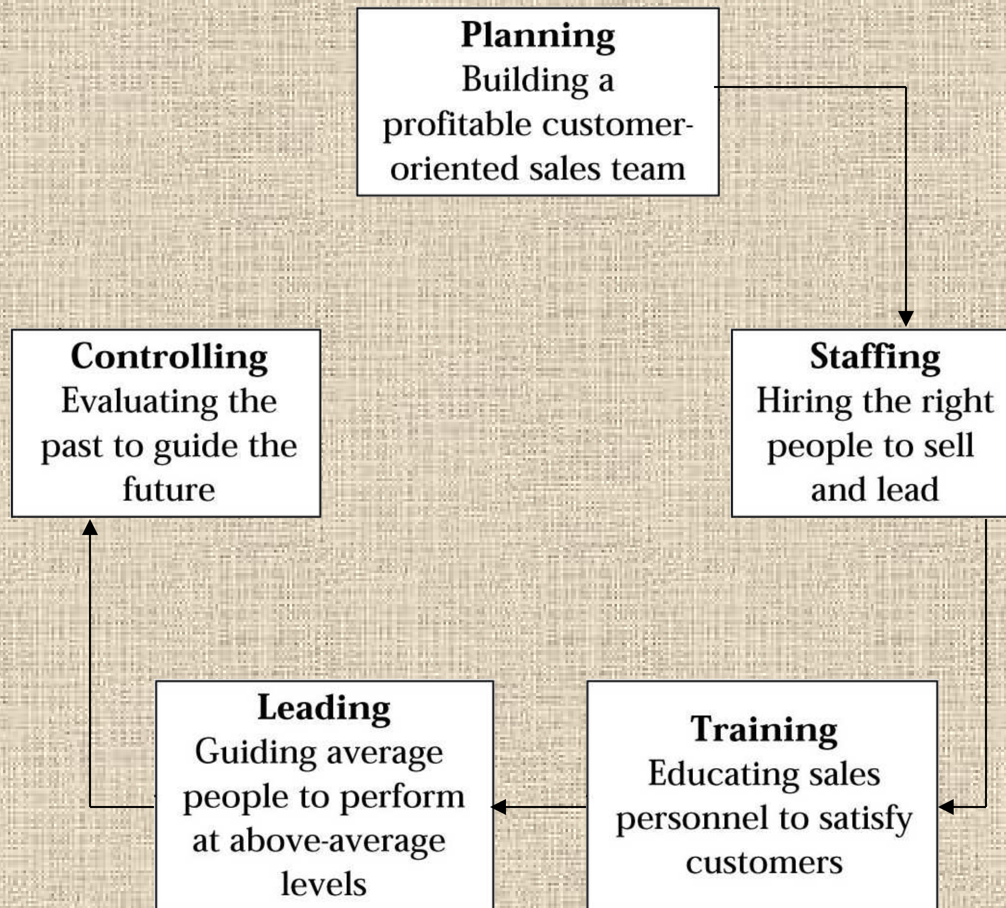
Copyright © 2001 by Harcourt, Inc. All rights reserved.

LEADING

The ability to influence other people toward the attainment of objectives.

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Sales Management Functions



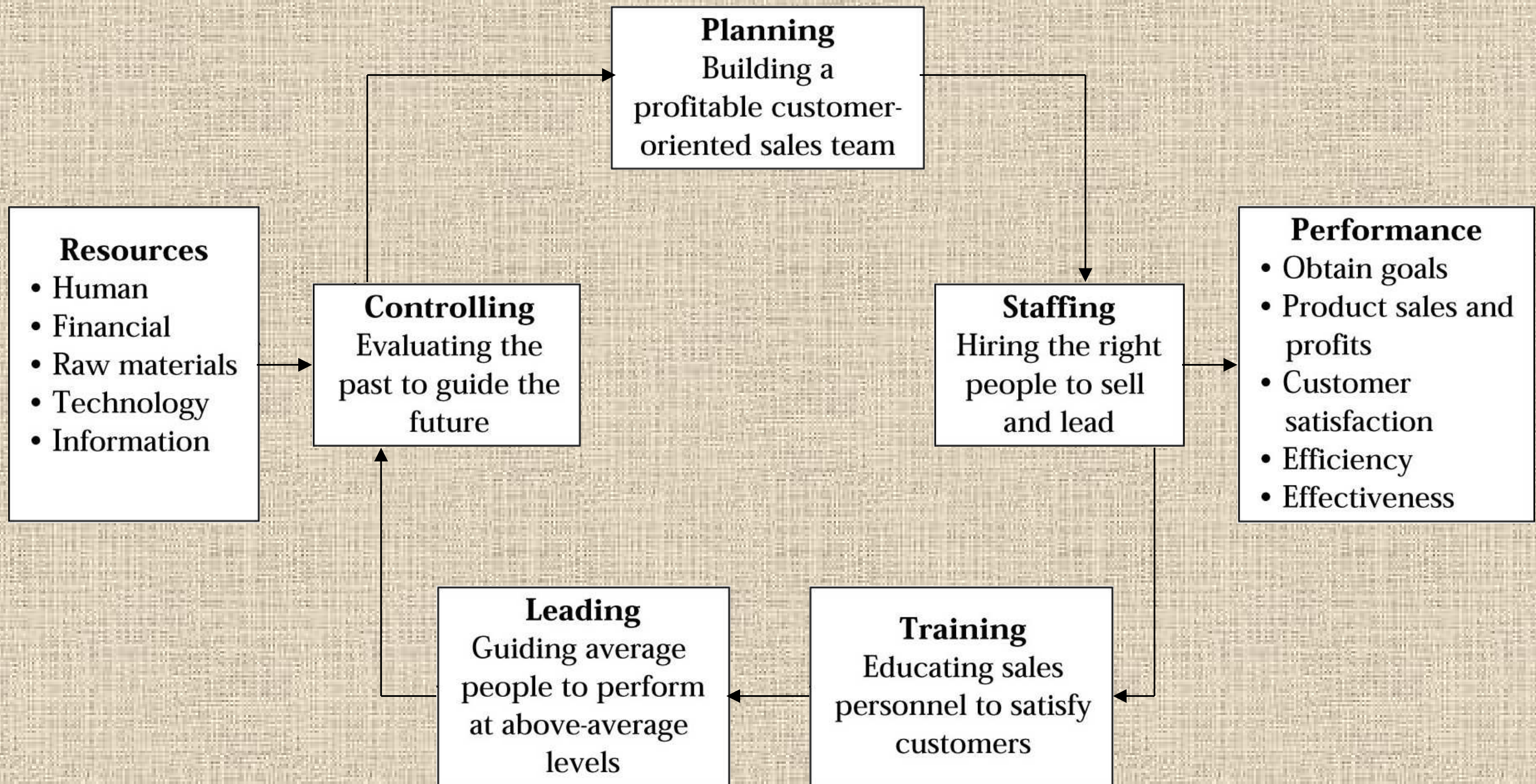
Copyright © 2001 by Harcourt, Inc. All rights reserved.

CONTROLLING

Monitoring sales personnel's activities, determining whether the organization is on target toward its goals, and making corrections as necessary.

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Sales Management Functions



Copyright © 2001 by Harcourt, Inc. All rights reserved.

SALES EXECUTIVE FUNCTION & QUALTIES

FUNCTIONS OF SALES EXECTIVE:

1.OPERATING FUNCTIONS 2 PLANNING FUNCTIONS.

OPERATING FUNCTIONS:

•SALES FORCE MANAGEMENT.

•HANDLING RELATIONSHIP WITH COMPANY AS WELL AS MARKETING CHANNELS

•COMMUNICATING AND COORDINATING WITH OTHER MARKETING EXECUTIVES AND REPORTING TO SOME SUPERIOR EXECUTIVES SUCH AS VICE PRESIDENT- MARKETING.

.

PLANNING FUNCTION:

SETTING PERSONAL SELLING GOAL

FORMULATING SALES POLICIES AND PERSONAL SELLING STRTEGIES

DESIGNING THE SALES PROGRAMMES

CONTROLLING SALES ACTIVITIES LIKE SALES VOLUME, SELLING EXPENSES

FUNCTIONS OF THE SALES EXECTIVES DEPEND ON:

THE TYPE OF THE PRODUCT
THE SIZE OF THE COMPANY
THE TYPE OF SUPERVISORY ORGANIZATION.

QUALITIES OF SALES EXECTIVES:

Ability to define the position's exact functions and duties in relation to the goals to a company should expect to attain.

Ability to select and train capable subordinates and willingness to delegate sufficient authority to enable them to carry out assigned tasks with minimum supervision.

Ability to utilize time efficiently

Ability to allocate sufficient time for thinking and planning.

Ability to exercise skilled leadership

Sales Manager

The sales manager is the chief executive incharge of a business enterprise. The functions of the sales manager or administrator vary widely according to the size of the company , the type of the product sold , the methods of distribution , number of salesman as well as the sales manager's concept on his job is limited to management of salesmen or whether it also involves coordination and integration of all the four elements of marketing mix.

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Qualities of Sales Manager

1. Social Qualities.
2. Moral or Character Quality
3. Physical qualities
4. Mental or Psychological Qualities

Social Quality

1. Politeness
2. Courtesy
3. friendly
4. Good manners
5. Dependability
6. Tactfulness
7. Cooperation
8. Helpfulness

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Moral or character quality

1. Self Management
2. Sincerity
3. Courage
4. Integrity
5. Industry
6. Determination
7. Loyalty

Physical Quality

8. Sound Health
9. Pleasing Voice
10. Good appearance
11. Good Posture

Copyright © 2004 by Harcourt, Inc. All rights reserved.

Mental or Psychological Qualities

1. Initiative
2. Self Confidence
3. Observation
4. Quick Actioned
5. Creative Talk
6. Imagination

Copyright © 2001 by Harcourt, Inc. All rights reserved.

SMBO: Sales Management by objective is a selling technique or approach which focus on result within a specified set of objectives.

Sales Volume: It is the total number of products sold. It may be expressed in monitory terms as well.

Copyright © 2001 by Harcourt, Inc. All rights reserved.

- Selling is the act, sales is the result of this act.
- Salesman is the person who does this act. So,
- Salesmanship is the quality of act of selling.

Thus, selling and salesmanship cannot be used synonymously.

Salesmanship serves the dual purpose of discovering and persuading prospective buyers. By his creative skills, a salesman has not only to sell but also establish a winning, regular and permanent relationship with his customers.

Copyright © 2001 by Harcourt, Inc. All rights reserved.

Introduction

- A sales organization.
- A sales organization structure evolved in such a way that sales people and sales manager carry out their activity effectively and efficiently. It gives a blue print that “what activity is performed by which person”. The basic concept include are following:

  i. Centralization
  ii. Specialization
  iii. Staff position
  iv. Marketing orientation
  v. Co-ordination
  vi. Control

Sales Organisations: Basic Purposes

1. Define the line of authority
2. Ensure that all necessary activities are assigned and performed
3. Establish lines of communication
4. Provide for coordination and balance
5. Economics of executive time.

Sales organisation also depends on the type of sales force which is used, for example, field sales force, national account management, team selling, telemarketing, part-time sales forces, direct selling, etc

Objectives of Sales Organization

1. **Developme**nt of the specialists.

2. **Performa**nce of all activities.

3. **Achieveme**nt of effective coordination.

4. **Defi**ne authorities.

Setting up a Sales Organization

There are five major steps in setting up a sales organization

1. Defining the objective

2. Grouping activities into “jobs” or “positions”

3. Assigning personnel to positions

4. Provision for coordination and control

Factors determining the structure of Sales Organization

1. Price of Product
2. Nature of Product
3. Nature of Market
4. Size of the enterprise
5. Ability of the Executives
6. Sales Policies of the Enterprise
7. Distribution System
8. Finance
9. Number of Products

Factor Determining the structure of sales organization

Product & Service Related Factors
- Nature of the Product
- Volume of Product mfg.
- Ability & competence of managers

Organization Related Factors
- Area of operation
- Size of the organization
- Sales Policy
- Management Policy

Marketing mix related factors
- Distribution Channel
- Competition Level
- Price of the Product

External Factor
- Speed Of Market Change
- Customer Relationship
- Customs & Traditions

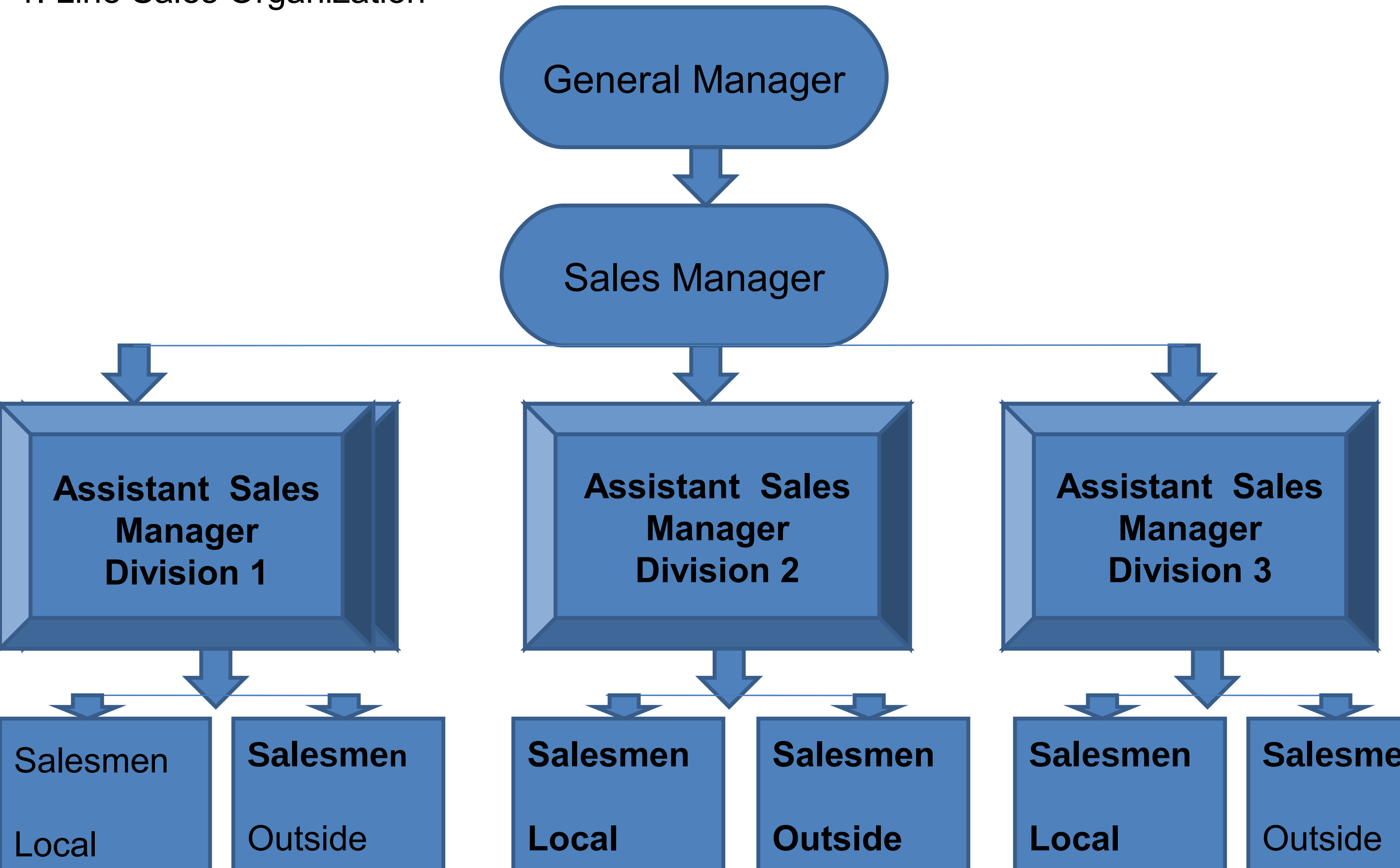
Qualifying Leads
Generating Sales Leads
Preparing for the sales meeting
Selling Process
Account Maintenance
Making Initial Contact
Sales Meeting
Closing the sales
Handling Resistance

Selling Process Activities

1. Generating Sales Leads
2. Qualifying Leads
3. Preparing for the Sales Meeting
4. Making Initial Contact
5. Sales meeting
6. Handling Resistance
7. Closing Sale

Types of Sales Organization structure

1. Line Sales Organization



Advan**tages:**

1.Easy to develop close relations with salespersons.
2.Administrative expenses are low.
3.Save time in making policy changes, in deciding new plans.
4.Less prolem of maintaining discipline and control.

Disadva**ntages:**

1. **More dependence on department head.**

President / Vice President

General Sales Manager

General Manager Advertising

General Manager Research

Assistant General Sales Manager1

Assistant General Manager (HR)

Assistant General Manager Sales & Training

Assistant General Sales Manager Sales Promotion

Assistant General Sales Manager Distribution & customer relation

Regional Sales Manager Promotion

Regional Sales Manager Administrator

Sales Manager (R & D)

Advantages:

1. Advantages of specialization and division of work.
2. Comparative evaluation of efficiency of departments is possile.
3.Effective control and coordination etween superior and suordinates.
4.Uyers get maximum satisfaction.

Disadvantages:

1. Costly to hire staff specialists.

Introduction

Some important aspects of personal selling are:

1. It enhances customer's confidence in the seller.
2. It promotes long-term business relations through personal intimacy.
3. It provides a human touch to business transactions.
4. It helps facilitate the seller to understand each customer's needs and preferences more clearly.
5. It helps satisfy a customer by modifying the product as per the customer's choice and preference.
6. It helps keep up with the competition in the market, based on product customization as per customer's preferences.
7. It is a powerful and effective tool for convincing the customer about the product.

Functions of Personal Selling

Personal selling is an oral presentation in face to face conversation with one or more prospective customers for the purpose of making sales. The main functions of personal selling are as follows:

1. Provide service to customers (Introduce the product, explain the right use, Convince them etc.)
2. To sell the product
3. Maintain the sales record
4. Develop goodwill
5. Achieve sales target

Some important aspects of personal selling are:

1. It enhances customer’s confidence in the seller.
2. It promotes long-term business relations through personal intimacy.
3. It provides a human touch to business transactions.
4. It helps facilitate the seller to understand each customer’s needs and preferences more clearly.
5. It helps satisfy a customer by modifying the product as per the customer’s choice and preference.
6. Personal selling followed by personal service helps build long-term relations between the business and the customer.
7. It helps keep up with the competition in the market, based on product customization as per customer’s preferences.
8. It is a powerful and effective tool for convincing the customer about the product.
9. Through personal selling the time lag between introducing a product through the media and actually selling it is reduced.

Functions of Personal Selling

Personal selling is an oral presentation in face to face conversation with one or more prospective customers for the purpose of making sales. The main functions of personal selling are as follows:

1. Provide service to customers (Introduce the product, explain the right use, Convince them etc.)
2. To sell the product
3. Maintain the sales record
4. Develop goodwill
5. Achieve sales target

Changing Face of Personal Selling

Modern sales approach is based on the following parameters

1. *Value Sharing:* Salespeople study the changing needs and preferences of their customers.
2. *Relation Building:* A value-based relationship helps the salespeople to constantly mobilise resources and modify the end product by catering to the specifics of the buyer.
3. *Role Playing:* The salespeople, in personal selling, go far beyond realising sales. Sales people act as consultants to their prospective customers constantly advising them of new products, their updates and impart knowledge to them.
4. *Changing Approach:* Personal selling comes in a package containing the inputs of the experts from different areas such as maintenance, installation, trouble shooting, delivery staff, sales personnel, etc.

Benefits of personal selling

1. Availability of expertise
2. Early access to relevant market information
3. Availability to be flexible regarding processes, timing
4. Fastest information sharing.
5. Lower cost of selling.
6. Knowledge of other uses or applications

Efficacy of Personal Selling

Personal Selling with Respect to Product Strategy

Since salespeople are in direct liaison with prospective customers, their input is valuable during product development.

Personal Selling and Pricing Decisions

Sales personnel undergo requisite interaction with prospective customers to gauge their mood with respect to different price levels.

Personal Selling and Distribution

The end result of any distribution effort is the ready availability of the product to the customer, in the right quantity and at the right place.

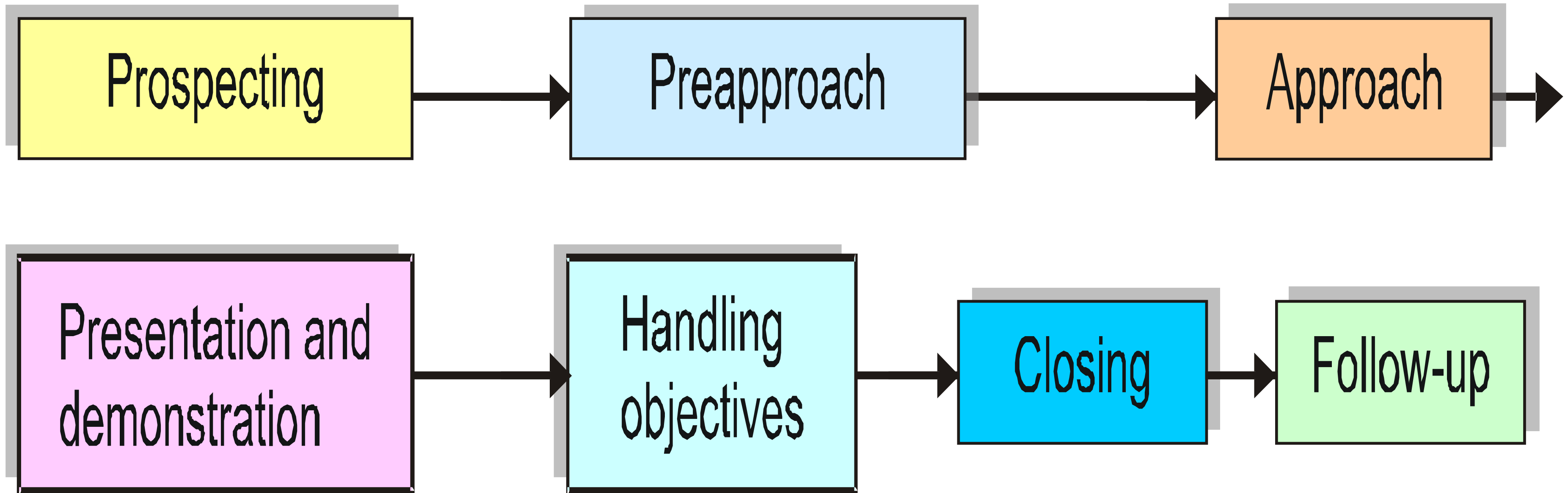
Personal Selling and Product Promotion

Sharing the same values that the customer does, a salesperson provides motivation and generates interest and confidence in the customer for the product.

Steps in Personal Selling

Successful personal selling calls for an integrated approach devised from the experience of the sales personnel. The approach comprises the steps as shown in the figure here. Each of these steps are further described in brief.

Steps in Personal Selling



Cont….

Prospecting

Prospecting is the process of identifying prospective buyers of the product. A prospect is qualified if he has the authority, need, ability and eligibility to buy. There are different ways to identify prospects. Some of the most frequently used methods are described below:

- Acquaintance References
- Cold Calling
- Centre of Influence Method
- Personal Observation Method
- Direct Mail or Telephone Method
- Company’s Records
- Newspapers
- Retailers
- Other Methods

Pre-approach

Pre-approach is the second step in the selling process which emphasises that the salesman should know, after identifying the prospect in the prospecting stage, the prospect's likes and dislikes, his needs, preferences, habits, nature, behaviour, economic and social status etc.

Significance of Pre-Approach

1. Salesman concentrates only on the prospects and not the suspects.
2. Salesman gain all the possible information about the prospect before approaching him. Hence any kind of loose talk or serious mistake can be avoided.
3. He is able to give a sales presentation more efficiently, effectively and with confidence.
4. It does not waste the prospect's time and energy since the salesman is already aware of the needs and preferences of the prospect.

AIDAS Theory

this theory is based on the premise that during a sales presentation, the prospect consciously goes through five different stages: Attention, Interest, Desire, Action and Satisfaction.

- ❖ Attention: The salesperson should attract the prospect to his presentation before he actually goes into the details of the same.
- ❖ Interest: He/she should maintain the interest of the prospects throughout the presentation.
- ❖ Desire: The next step in the sales process, as per the AIDAS theory, is to create a strong desire in the prospect's mind to purchase his product.
- ❖ Action: Once the salesperson has been successful in taking his prospect through the three stages, as discussed above, he should induce the prospects into actually buying the product.

Right Set of Circumstances Theory

The advocates of this theory opine that all the circumstances, which led to the sales, were appropriate or “right” for the sales to have taken place. In other words, if the salesperson is successful in securing the prospect’s attention, maintaining his interest and inducing his desire to buy the product, sales will result. Moreover, if the salesperson is highly skilled, he will take control of the presentation, which would lead to sales.

Buying Formula Theory

The buying formula theory is based on the analysis of the sequence of events that goes on in the buyer's mind during the sales presentation. Thus, the theory emphasizes on the factors internal to the prospect and the factors which are external, i.e., influence of the salesperson on his prospect's decision to buy his product. The theory is based on the presumption that the salesperson will take care of the external factors.

The sequence of events in a prospect's mind can be represented as

There are all the chances that a continuous relationship will develop between the prospect and the salesperson. As a result of sales, the satisfaction will also come in the sequence. This sequence can be presented as

Sales Management
Unit -3

Salesmanship

Salesmanship

- Salesmanship is an art of selling goods and services of the seller to buyers. It is seller-initiated effort that provides prospective buyers with information and motivates or persuades them to make favorable buying decisions concerning the seller’s products or service

Salesmanship

- The American Marketing Association defined the term ‘salesmanship’ as “ the personal or impersonal process of assisting and/or persuading a prospective customer to buy a commodity or service to act favourable upon an idea that has commercial significance to the seller.

Features of Salesmanship

- Salesmanship is an art
- Personal service
- Art of attracting and persuading customers
- Art of converting desire into necessity
- Buyer’s confidence
- Consumer satisfaction
- Establishment of permanent relations
- Service for producer, distributor and

Importance of Salesmanship

- Important to producers
- Important to customers
- Important to salesman
- Important to government
- Important to society

Scope of Salesmanship

- transport
- repairing
- teaching
- painting
- banking
- legal
- medicine
- insurance, etc.
- Salesmanship in its higher levels includes

Advantages of Salesmanship

- Salesmanship helps in preventing the piling up of huge stocks.
- Salesmanship helps in creating demand for the goods which leads to increase in production.
- Salesmanship is the best means of two-way communication b/w the company and customer.
- Increase in sales helps to increase the profits.

Limitations of Salesmanship

- High cost of personal selling.
- Salesmanship adopts the methods of pressure selling.
- Good and competent sales person are scarce.

Personal Selling

- According to American Marketing Association, “oral presentation is a conversation with one or more prospective customers for the purpose of making sales.”
- It is most important of all the market efforts of an enterprise because through personal selling consumers are encouraged more.

Characteristics of Personal Selling

- It is the method of direct selling .
- It involves oral communication between buyer and seller.
- In personal selling, the seller wants to convince the buyers to sell his product.
- It involve the sale of goods and services personally.
- It is most effective tool of increasing the sales.

Nature or Functions of Personal Selling

- Making sales
- Advertise the new product
- Service to customers
- Executive functions
- Records of the sales
- Collect statistics

Importance of Personal Selling

- Helpful in selling
- Demonstrating the product
- Helpful in removing the doubts & confusions of customers
- Helpful in communication
- Knowledge of prospective buyers
- Important from buyer’s point of view
- Important to the society

Limitations of Personal Selling

- Increase in the cost of sales
- Difficulty of reporting at right time
- Lack of efficient salesman

Types Of Personal Selling

- Selling for retailer or consumer salesmanship
- Selling for wholesaler or merchant salesmanship
- Selling for manufacturers

Sales Management – Cont'd..

What is Personal Selling?

Involves – oral conversations, either by telephone or face to face, between sales persons and customers.

Contribution to Personal Selling:-

- Sales generate revenue
- Sales people provide market research and customer feedback
- Sales people provide solutions to problems
- Sales people provide expertise and serve as information resources
- Sales people serve as advocates for the customer when dealing with the selling organization.

The four sales channels:-

- Field selling
- Tele marketing
- Inside selling – relying on phone, mail, e-commerce.

Personal Selling Process

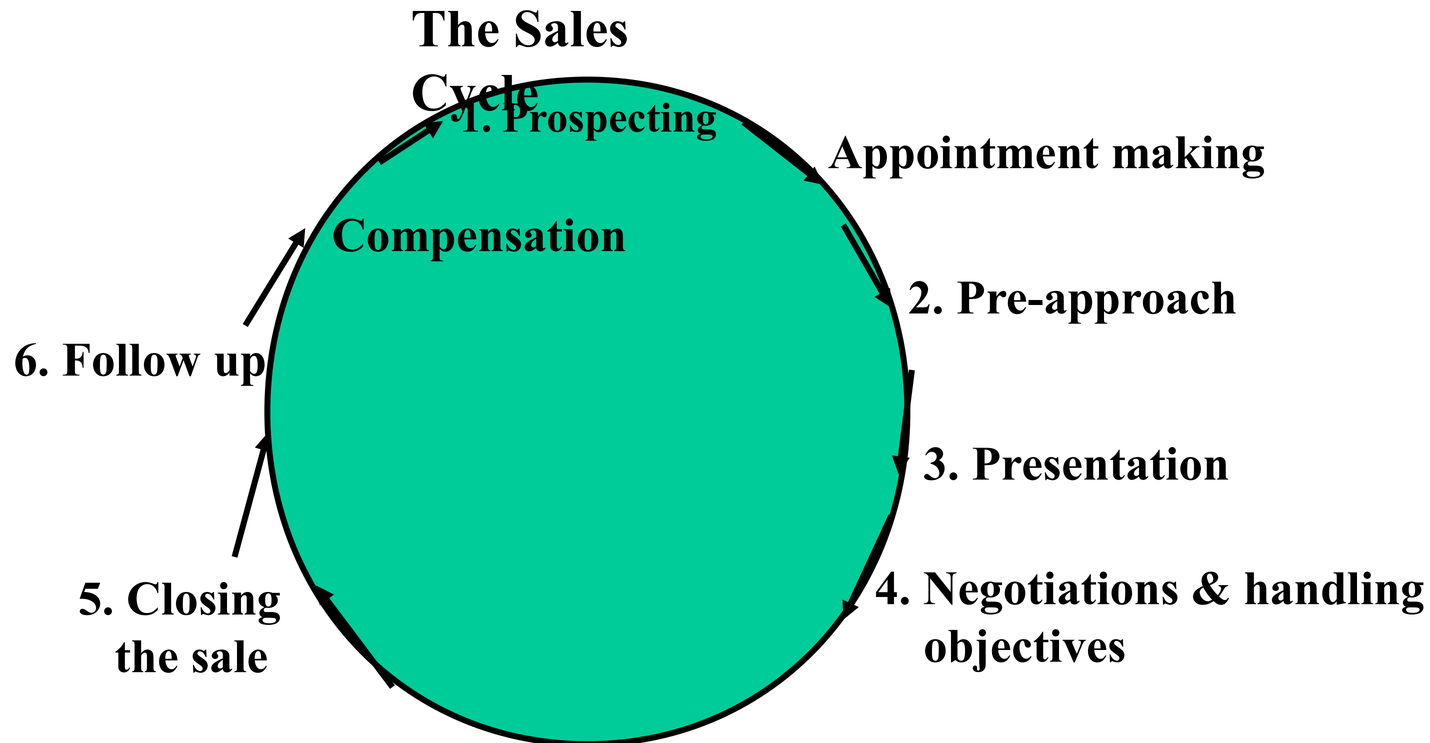
- Pre-sale preparation
- Prospecting and canvassing
- Approaching
- Sales presentation
- Demonstration
- Handling objections
- Closing the sale
- Follow-up

Sales & Distribution Management –Cont'd..

Personal Selling Processes

<u>Steps in Personal Selling Process</u>

- Consists of creating new customers, and maintaining existing customers. Sales people follow a series of steps in identifying prospects and turning them into customers.



1. Pre-sale Preparation

Presales is a process or a set of activities normally carried out before a customer is acquired, though sometimes presales also extends into the period the product or service is delivered to the customer.

- It is the first step in personal selling. They must be properly selected, trained, and motivated for the job.
- They must be fully familiar with the producer, the product, the market and the selling techniques.
- Both the product knowledge and the company knowledge must be aware of.

2. Prospecting and Canvassing

- It refers to locating the potential buyers for the product and satisfying buyers about the product and screen them to make sure that their sales efforts will not go waste.
- A salesman should examine the need of the buyers and their capacity to buy the product.

- He should always remember that every one cannot be a prospect. While "Selling" is the art of convincing someone to make a purchase, "Prospecting" is really the science of setting aside or disqualifying suspects who don't fit the right profile so your sales process can focus on the most profitable candidates.

Approaching

- Before calling on the prospects, the salesman should try to get information about their nature, habits, spending capacity, motives, etc.
- After collecting all such information, he should approach the customer in a polite and dignified way and introduce himself and his product to the prospective customers
- He should not be over-clever or deceptive at any stage.
- A counter-sale person should always be careful in attending the would be customer.
- He should be careful in his first impression.

Types of Approaching

- The Instant Buddy: People will be more willing to buy from someone they like. Salespeople who use this approach are warm and friendly, asking questions and showing interest in their prospects. They try to connect on an emotional level with a prospective customer.

- The Guru: Salespeople who prefer a more logical and less emotional approach often set themselves the task of becoming experts in anything and everything related to their industry. They position themselves as problem-solvers, able to answer any question and tackle any issue that the prospect lays before them.

- The consultant: This approach combines the 'guru' and 'buddy' approaches. The salesperson who elects to use the consultant approach presents herself as an expert who has the customer's best interests in mind. She knows all about her company's products and by asking a prospect a few questions, she can match him up with the best product for his needs.

- The Networker: Networking can be a big help for any salesperson. The dedicated networker takes it to the next level, setting up and maintaining a web of friends, co-workers, salespeople from other companies, customers and former customers, and anyone else he meets. A strong enough network will create an on going flow of warm leads that can provide most or even all of the salesperson's needs.

- The Hard-Seller: Best described as “scare the prospect into buying,” the hard sell approach is what gives salespeople their bad reputation. Hard selling involves getting someone to buy a product even though he doesn't want or need it.

Presentation

- The sales person has to gain the customers attention. For this purpose, he should start with sales pitch to present his product and describe its characteristics in brief.
- He should understand the attitude of the prospect and match with his attitude so that he may be able to hold his attention and create interest in the product. In selling technique, a sales pitch is a line of talk that attempts to persuade someone or something, with a planned sales presentation strategy of a product or service designed to initiate and close a sale of the product or service.

- A sales pitch is a planned presentation of a product or service designed to initiate and close a sale of the same product or service. A sales pitch is essentially designed to be either an introduction of a product or service to an audience who knows nothing about it, or a descriptive expansion of a product or service that an audience has already expressed interest in.

Demonstration

- Demonstration is one of the best methods of presentation. If necessary, the sales person should display and demonstrate the working of the product. He should explain and describe the utility of the product in brief through demonstration so that the prospect realises the need for the product to satisfy his wants.

- He should not be in hurry to impress the customer and should avoid any controversy. He may suggest uses of the product and may create impulsive urge to possess the commodity, by appealing to human instinct.

Handling Objections

- Resistance is a wider term than objection. Sales resistance is purported to those imaginary or actual hurdles that make the sale of product different. The salesmen therefore, are compelled to face resistance from the buyers.

It is necessary to evaluate correctly and immediately the buying motives in order to remove the sales resistance.

- Sales resistance may be of following types:

i. The product cannot be sold (product cannot be sold on credit).

ii. Sales objections (objections raised due to unclear, impure and inchoate presentation).

iii. Product related resistance (objection raised on account of color, size, shape, price, design, technical defects, etc.)

iv. Buyer related resistance (objection s raised due to ignorance toward their necessity).

- Closing is a sales term which refers to the process of making a sale. In sales, it is used more generally to mean achievement of the desired outcome, which may be an exchange of money or acquiring a signature. The salesperson should not force the prospect to buy but he should let the customer feel that he has made the final decision.

Common Techniques of Sales Closing

- The Assumptive close, also known as the presumptive close: in which the salesperson intentionally assumes that the prospect has already agreed to buy, and wraps up the sale. "Just pass me your credit card and I'll get the paperwork ready."
- The Balance Sheet close, also called the Ben Franklin close, in which the salesperson and the prospect build together a pros-and-cons
- list of whether to buy the product, with the

- The Cradle to Grave close, in which the salesperson undercuts prospect objections that it is too soon to buy by telling them there is never a convenient time in life to make a major purchase, and they must therefore do it anyway."
- The Direct close, in which the salesperson simply directly asks the prospect to buy. Salespeople are discouraged from using this technique unless they are very sure the prospect is ready to commit. •

- The Indirect close, also known as the question close, in which the salesperson moves to the close with an indirect or soft question.
- "How do you feel about these terms" or "how does this agreement look to you?

- The Minor Point close, in which the salesperson deliberately gains agreement with the prospect on a minor point, and uses it to assume that the sale is closed. "Would the front door look better painted red? No? Okay, then we'll leave it the colour it is."
- The Negative Assumption close, in which the salesperson asks two final questions, repeating them until he or she achieves the sale. "Do you have any more questions for me?" and "do you see any reason why you wouldn't buy this product?" This tactic is often used in job interviews.

- Possibility of Loss close, also known as the pressure close, in which the salesperson points out that failing to close could result in missed opportunity, for example because a product may sell out, or its price rise.
- The Puppy Dog close, in which the salesperson gives the product to the prospect on a trial basis, to test before a sale is agreed upon.

- The Sales Contest close, in which the salesperson offers the prospect a special incentive to close, disarming suspicion with a credible "selfish" justification. "How about if I throw in free shipping? If I make this sale, I'll win a trip to Spain."
- The Sharp Angle close, in which the salesperson responds to a prospect question with a request to close. "Can you get the system up and running within two weeks?" "If I guarantee it, do we have a deal?

Follow Up

- After closing a sale, follow up is must. It refers to the activities undertaken to ensure the customer that he has taken the right decision of buying the product. These activities include installation of the products, checking and testing its smooth performance, maintenance and after-sale service. It helps in building long term relationship with the customer.

Prospecting

- A salesman has to begin with identifying the potential customers. In personal selling it is called prospecting.
- A prospect is thus a potential customer who has the need for product, has the purchasing power and willingness to buy the product.
- Prospecting is a process whose ultimate aim is to build a prospect base consisting of current customers and potential customers

Techniques of Prospecting

- Cold calling via telephone
- Door to door cold calling
- Speaking at conferences
- Writing articles
- Trade shows
- Conferences
- Reading local newspapers
- Asking for referrals from existing customers
- Networking

Approaching

- Referrals
- Friends & relatives
- Directories
- Trade publications
- Trade shows
- Telemarketing
- Ads & sales letters
- Internet
- Seminars
- Old clients
- Approaching

Approach

- Approach means a positive, step by step proposition developed by a firm or a salesperson to win a favourable response from the prospects.
- Pre approach + Post approach = Approach

Pre Approach

- The planning and preparation done prior to the actual contact with the prospect is called pre approach.
- It is one of the stages in sales call preparation in which the sales person seeks out additional information after the prospecting process is completed.
- Allows you to be less mechanical and more thoughtful. Allows you to anticipate problems and plan ways to handle them.

Post Approach

- Post approach= demonstration + displaying

- Demonstration is the act of exhibiting the operation or use of a device, machine, process, product, or the like, as to a prospective buyer.

Display

Display is the act of putting things for view or on view. Sales display means "arranging systematically saleable goods so as to attract the attention of the customer".

By sales display, the manufacturer shows the goods or services in an attractive manner to catch the eye of customers. In fact, display is the silent salesman that calls the prospective buyer's attention to the product and hopefully makes him to purchase.

Sales & Distribution Management

Theories of Personal Selling:-

A) Is selling an `Art' or a `Science'.

B) AIDAS Theory of Selling:-

where,

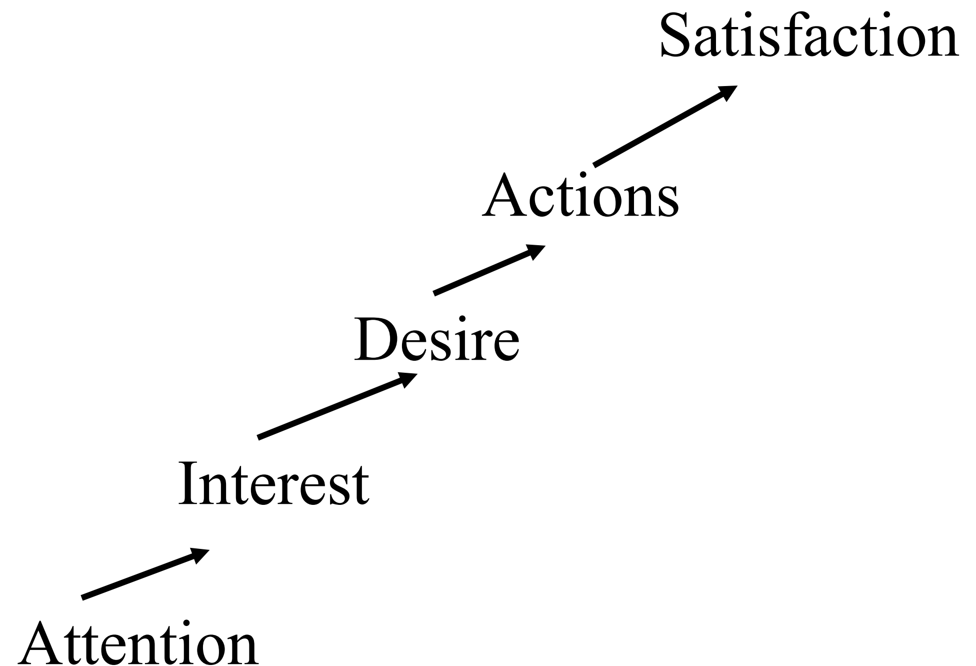
A = Attention

I = Interest

D = Desire

A = Action

& S = Satisfaction



AIDAS Theory of Selling:-

- ATTRACT ATTENTION
- SUSTAIN INTEREST
- CREATE DESIRE
- INDUCTING ACTION (clarify objections and close the sale)
- BUILDING SATISFACTION (activities after the sale)

C) "Right set of circumstances" Theory of selling.

"Situation – response, theory."

Right Set Of Circumstances

This theory can be summarized as “ everything was right for that sale”. Also called “Situation Response theory”.

- In particular circumstances we respond in a particular way .
- Salesperson needs to present PROPER STIMULI or APPEALS so that desired response is resulted
- Seller oriented Theory
- External Factors vis-à-vis Internal Factor
- Focus on the external factors at the expense of Internal Factors

- This theory sometimes is also called “Situation Response theory”, had its psychological origin in experiments with animals and holds that the particular circumstances prevailing in a given selling situation cause the prospect to responding a predictable way.
- If the sales person succeeds in securing the attention and gaining the interest of the prospect, and if the salesperson presents the proper stimuli or appeals, the desired response will result.

- Furthermore the more skilled the salesperson is in handling the set of circumstances, the more predictable is the response. The set of circumstances includes factors external and internal to the prospect.
- Example, Suppose a salesperson sales to the prospect, “Let’s go out for lunch”.
- The salesperson and the remarks are the external factors. But at least 4 factors internal to the prospect affect the response. These are the presence or the absence of desires

- (1)First to go out for lunch
- (2)To have it now
- (3)To go out
- (4)To go out with salesperson

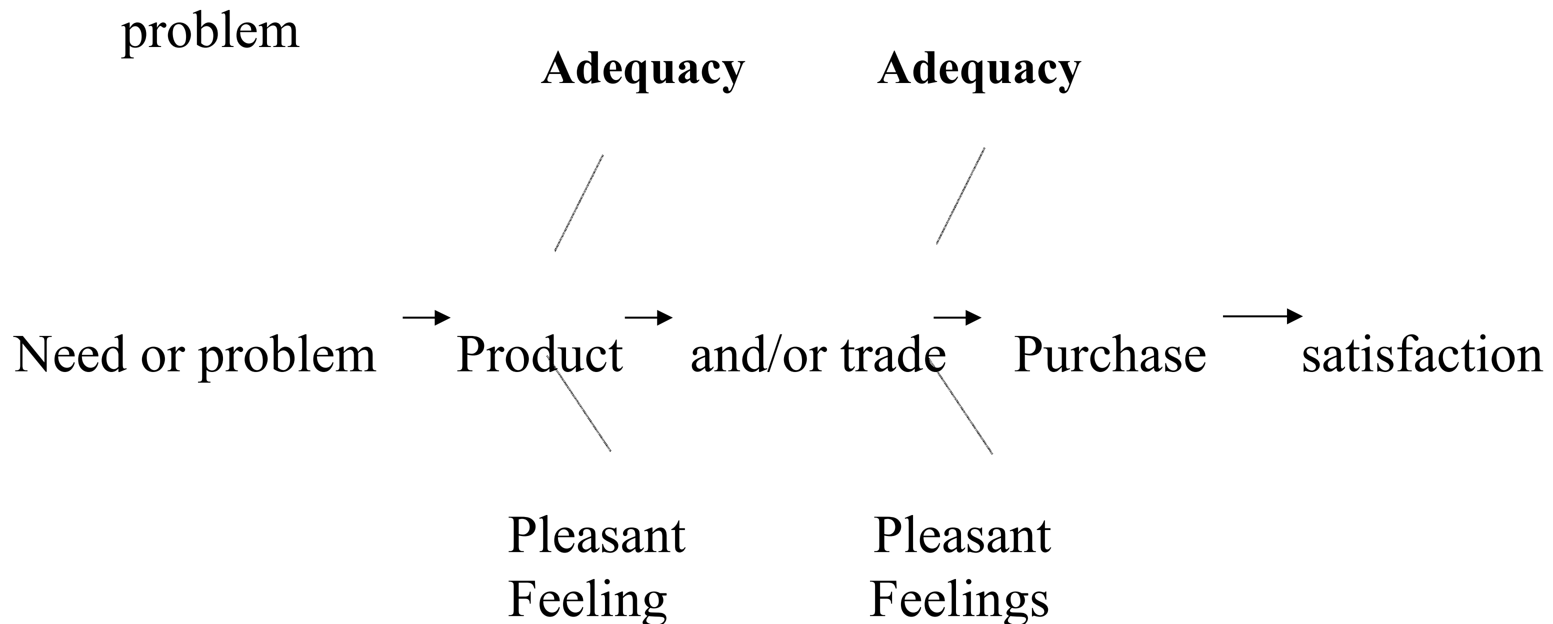
Sales & Distribution Management –Cont'd..

D) "Buying Formula" Theory of selling.

need (or problem) → Solution → Purchase

need → product and/or trade → purchase → satisfaction/dissatisfaction

or service



Buying Formula Theory

- Buying Formula Theory Emphasizes the Buyer’s side of the Buyer Seller Dyad Buyer’s needs or problems receive the major attention and the salesperson’s role is to find solution
- Buying formula is a schematic representation of a group of responses arranged in a psychological sequence Emphasizes the Prospect’s responses

- Simplest Model:

Need (Problem) – Solution – Purchase

Outcome of a purchase affects the chance that a continuing relationship will develop between buyer and seller

Need (Problem) – Solution – Purchase

Satisfaction

- Need is always satisfied by a solution in terms of product or services accompanied by respective Trade or Brand Name

Need (Problem) – Solution – Product or Service/ Trade or Brand Name – Purchase Satisfaction

- To ensure purchase, the product or service & the Trade Name must be considered adequate and the buyer must experience feeling of anticipated satisfaction

Sales & Distribution Management –Cont'd..

E) "Behavioural Equation" Theory:-

$$B = P \times D \times K \times V$$

where,

B = Response or the internal response tendency, that is the act of purchasing a brand or patronizing a supplier.

P = Predisposition or the inward response tendency, that is, force of habit.

D = Present drive level (amounts of motivation)

K = "Incentive potential"that is, the value of the product or its potential satisfaction to the buyer.

V = Intensity of all cues: triggering, product or informational.

Behavioral Equation Theory

- Buying Behavior in terms of the purchasing process viewed as phases of learning process .
- Four Essential Elements:
- Drives: Strong Internal Stimuli that impel the buyer’s action
- – Innate Drives
- – Learned Drives

Eg. : Innate drive –you are hungry

- Learned drive – you want to have burger

- Cues: Stimuli that will determine when buyer will respond
- – Triggering Cues
- – Non Triggering Cues
- (i)Triggering cue – activates decision process for a given product and evokes you to buy a product. For example : you are hungry and want to have burger
- (ii) Non – triggering cue – influences the decision process but not activate.

- It can be of two types for the product which helps to make opinion for decision process and the information which you get from advertisements, sales promotion etc. For example :You believe McDonalds provides the cheap and the best burger with quickest service time

- Specific product / information – also functions as triggering cue. For example special offers/discounts on cold drink and French fries with the burger.
- Response: What buyer does
- Example buyer can purchase or not
- Reinforcement: Event that strengthens the buyer’s tendency to make a particular response
- Example: convenience, time saving and money factor

- • Behavioral Equation:
- B = P*D*K*V
- B – Response or purchase of brand
- P – Predisposition
- D - Present drive level
- K - Incentive Potential
- V – Intensity of all cues

Summary

- Selling process involves methodologies step by step in getting closer to your client and achieving the sales objectives by successfully selling the products and services to clients.

Direct selling

- It means when product or service is being sold directly , face to face or one –to-one to an individual consumer. Many times middlemen are eliminated and sales persons directly deal with end consumers .

Direct selling methods

- Database marketing
- Telemarketing
- Cold calling
- Referral marketing
- Sales promotion
- Networking
- presentations

Indirect selling

- Selling where sales organzations use channels of distribution to sell their products or services . They do not sell directly to end consumers rather use middlemen to sell their products and services. Middlemen are known as customers.

Indirect selling

- Most of the consumer durable firms and FMCG companies use indirect selling as their medium to sales. CRM is a major tool in success of indirect selling along with good advertising , brand management, and decent profit margins.

summary

- Direct selling and indirect selling are the two methods to sell the products and services in open market and reach millions of consumers. It depends upon the nature of products and services that which method they adopt to sell.

Types Of Sales Executives

1. Order getting salesman

- Manufacturers order getting salesmen: these sales men deal with industrial products and raw material. Their main function is to receive orders in bulk quantity for their manufacturers.
- Wholesale order getting salesmen: the salesmen of this nature, receive orders from the retailers by strolling in the markets for wholesalers.

- Retailer order getting salesmen: these salesmen receive order from consumers by visiting door-to-door and convincing them for the retailers.

2. Order taking salesman

- These salesmen receive bulk orders and sometimes, receive the payment for products immediately delivered to the buyers. These salesmen work for manufacturers, wholesalers and retailers too.

3. Supporting salesman:

- Such salesmen neither receive orders for any person nor do the sale. They help the manufacturer in order to increase the sale in the common course of business in their respective areas.
- Missionary salesmen : also known as pioneer salesmen. They act as communication media aimed the manufacturers, wholesalers and the retailers. He creates the demand for the products and thus, enhances the popularity of the institution.

- Salesmen of mechanical expertise : these salesmen generally are highly qualified engineers or expert mechanics. they are sent to those consumers / buyers who face any problem, difficulty or grievance. They restore the confidence of the customers on product and provide them with satisfaction by solving the problem.

Qualities of Sales Executives

- Ability to define position's exact functions and duties in relation to the goals the company should expect to attain.
- Ability to select and train capable subordinates and willingness to delegate sufficient authority to enable them to carry out assigned tasks with minimum supervision.
- Ability to utilize time efficiently.
- Ability to allocate sufficient time for thinking and planning.
- Ability to exercise skilled leadership

Meaning of Capital Budgeting:

Capital budgeting is concerned with designing and carrying through a systematic investment programme. According to Charles T. Horngren, "capital budgeting is a long-term planning for making and financing proposed capital outlays."

According to G.C. Philippatos, "capital budgeting is concerned with the allocation of the firm's scarce financial resources among the available market opportunities. The consideration of investment opportunities involves the comparison of the expected future streams of earnings from a project with the immediate and subsequent stream of expenditure for it."

Thus, the capital budgeting decision may be defined as the firm's decision to invest its current funds most efficiently in long-term activities in anticipation of an expects flow of future benefits over a series of years. Such decisions may consist addition, disposition, modification, mechanization or replacement of any fixed asset.

Type of Capital Budgeting Decisions:

Broadly speaking, capital budgeting decisions are long-term investment decisions. They include the following:

Mechanisation of a Process - A firm may intend to mechanise its existing production process by installing machine. The machine is estimated to cost Rs. 1,50,000 and expected to save operating expenses of Rs. 25,000 per annum for a period of ten years. Thus, it is an investment decision involving cost outlay for Rs. 1,50,000 and an annual saving of Rs. 25,000 for 10 years. The firm would be interested in analysing whether it is worth to install the machine.

Expansion Decisions - Every company wants to expand its existing business. In order to increase the scale of production and sale, the company may think of acquiring new machinery, addition of building, merger or takeover of another business etc. This all would require additional investment which be evaluated in terms of future expected earnings.

Replacement Decisions - A company may contemplate to replace an existing machine with a latest model. The use of new and latest model of machinery may possibly bring down operating costs and increase the production. Such replacement decision will be evaluated in terms of savings in operating costs and increase in annual profits.

Buy or Lease Decisions - Capital budgeting is also helpful in making buying or lease decisions. The fixed assets can be purchased or arranged on lease arrangements. Such decisions create a great different in the demand of capital. Hence, a comparative study can be made with reference to future benefits from these two mutually exclusive alternatives.

Choice of Equipment - A company needs an equipment (plant or machinery) to perform certain process. Now a choice can be made between semi-automatic machine and fully automatic machine. Capital budgeting process helps a lot in such selections.

Product and Process Innovation - The research and development department of a company may suggest that a new product should be manufactured and/or a new process should be introduced. The intrduction of new product and/or a new process will involve heavy capital expenditure and will earn profits also in the

future. So, inflows (i.e. future operating income) will be very useful and the ultimate decision will depend upon the profitability of the product and/or process.

House-Keeping Projects - House-keeping projects are such projects which exert indirect impact on the production. They are finanaced either on account of legal necessity or to boost up the morale and motivation level of the employees, say :

(i) Health and Safety Projects.
(ii) Service Department Projects
(iii) Welfare Projects
(iv) Education, Training and Development Projects
(v) Status Projects
(vi) Research and Development Projects.

The decisions relating to financing of above-mentioned long-term projects are not made on the basis of profitability. They are approved or rejected in terms of their urgency, need, compulsion and desirability. Hence, no profitability analysis is made for them. The capital budgeting decisions exclude decisions regarding current assets. The management and investment problems of current assets are discussed under the head working capital management. The capital budgeting decisions are concerned with only those type of decision areas which have long-term implications for the firm in terms of current expenditure and future benefits. Current expenditure constitutes the outflow of cash and is represented by cost. The future benefits are measured in terms of annual cash inflows. Hence, in capital budgeting, it is the flow of cash outflow and inflow which is important, not the earnings determined in accordance with the accrual concept of accounting.

Importance of Capital Budgeting:

Capital budgeting decisions are among the most crucial and critical business decisions. The selection of the most profitable assortment of capital investment can be considered a key function of management. On the other hand, it is the most important single area of decision-making for the financial executives. Actions taken by management in this area affect the operations of the firm for many years to come. The need and importance of capital budgeting can be numerated as follows :-

Heavy Investment - Almost all the capital expenditure projects involved heavy investment of funds. These funds are accumulated by the firm from various external and internal sources at substantial cost of capital. So their proper planning becomes invitable.

Permanent Commitment of Funds - The funds involved in capital expenditures are not only large but more or less permanently blocked also. Therefore, these are long-term investment decisions. The longer the time, the greater the risk is involved. Hence, a careful planning is essential.

Long-term impact on profitability - The capital expenditure decisions may have a great impact on the profitability of the firm for a very long time. If properly planned, they can increase not only the size, scale and volume of scales but firm growth potentiality also.

Complicacies of Investment Decisions - The long-term investment decisions are more complicated in nature. They entail more risk and uncertainly. Further, the acquistions of capital assets is a continuous process. So the management must be gifted ample prophetic skill to peep into future.

Worth Maximization of Shareholders - Capital budgeting decisions are very important as their impact on the well-being and economic health of the enterprise is far reaching. The main aim of this process is to avoid overinvestment and under-investment in fixed assets. By selecting the most profitable capital project, the management can maximize the worth of equity shareholder's investment.

Process of Capital Budgeting:

Capital budgeting decisions of a firm have a pervasive influence on the entire spectrum of entrepreneurial activities. Hence, they require a complex combination and knowledge of various disciplines for their effective administration, such as, Economics, Finance, Mathematics, and Economic Forecasting, projection Techniques and Techniques of Financial Engineering and Control. In order to combine all these elements, a finance manager must keep in mind the three dimensions of a capital budgeting programme: Policy, Plan and Programme. These three P's constitute a sound capital budgeting programme. However, the important steps involved in the capital budgeting process are: (i) project generation; (ii) project evaluation, (iii) project selection; and (iv) project execution. These steps are necessary, but more may be added to make the process more effective. Joel Dean a famous economist has described the specific elements in an orderly investment programme which are as follows:

Creative Search for Profitable Opportunities - The first stage in the capital expenditure programme should be the conception of a profit making idea. It may be rightly called the origination of investment proposals. The proposals may come from a rank and file worker of any department or from any line executive. To facilitate the origination of such ideas a periodic review and comparision of earnings, costs, procedures and product line should be made by the management on a continuous basis.

Long-range Capital Plans- When a specific proposal is made to management, its consistency with the long-range plans of the company must be verified. It requires the determination of over-all capital budgeting policies beforehand based upon the projections of short and long-rum developments.

Short-range Capital Budget- Once the timelines and priority of a proposal have been established, it should be listed on the one-year capital budget as an indication of its approval.

Measurement of Project Worth- This stage involves the tentative acceptance of the proposal with other competitive projects, within the selection criteria of the company. Small projects under a certain rupee amount could be approved by the departmental head. Larger projects should be ranked according to their profitability. Any one or more tests of profitability may be used for it. For project evaluation, different techniques may be used, such as, payback period, accounting rate of return and discounted cash flow techniques.

Screening and Selection - This stage involves the comparison of the proposal with other projects according to criteria of the firm. This is done either by financial manager or by a capital expenditure planning committee. Such criteria should encompass the supply and cost of capital and the expected returns from alternative investment opportunities. Once the proposal passes this stage, it is authorized for outlays.

Establishing Priorities - Then comes the stage of establishing the priorities. When the accepted projects are put in priority, it facilities their acquisition or construction, avoids costly delays and serious

cost overruns. This stage is also called the ranking of projects. It helps in capital rationing and better utilization of capital.

Final Approval - Once the financial manager has reviewed the projects, he will recommended a detailed programme, both of capital expenditures and of sources of capital to meet them, to the top management. Possibly, the financial manager will present several alternative capital-expenditure budgets to the top management, it will finally approve the capital budget for the firm.

Forms and Procedures - This is a continuous phase that involve the preparation of report for every other phase of the capital expenditure programme of the company.

Retirement and Disposal - This phase marks the end of the cycle in the life of a project. It involves more than the recovery of the original cost plus and adjustment for replacement programmes. The old assets should be sold and realised sale price should be used for replacement financing.

Evaluation - An important step in the process of capital budgeting is an evaluation of the programme after its implementation. The evaluation process answers such questions, say, was the investment greater than anticipated? Were the expected net cash inflows actually realized? Was the proper test of evaluating the profitability of project applied? Management can improve its capital budgeting programme for the future from past experience. Such evaluation has also the advantage of forcing departmental heads to be more realistic in their approach and careful in actual execution of the projects.

Investment Evaluation Criteria

Because of the utmost importance of the capital budgeting decisions, a sound appraisal method should be adopted to measure the economic worth of each investment project. In most business firms, there are more than one investment proposals for a capital project than the firm is capable and willing to finance. Here the problem of ranking them in order of preference arises. Hence, the management has to select the most profitable project or to take up the most profitable project first. As we know that the ultimate goal of financial management is the worth maximization of the firm, hence, in order to achieve this objective, the management must select those projects which deserve first priority in terms of their profitability. For evaluating the comparative profitability of capital projects many methods have been evolved. Each method has its own merits and demerits. However, the method going to be used should, at least, possess the following characteristics:

(a) it should provide a means of distinguishing between acceptable and unacceptable projects.

(b) It should provide clear cut ranking of the projects in order of the profitability or desirability.

(c) It should also solve the problem of choosing among alternative projects.

(d) It should be a criterion which is applicable to any conceivable investment projects.

(e) It should emphasize upon early and bigger cash benefits in comparison to distant and smaller benefits.

(f) In the last but not the least, the method should be suitable according to the nature and size of capital project to be evaluated.

Method of Evaluating Investment Proposals

The various methods which are commonly used for evaluating the relative worth of investment proposals are as follows:

I. Non-discounted Cash flow Techniques (NDCF)

(A) Payback Period Method (PB)

(B) Accounting Rate of Return Method (ARR)

II. Discounted Cash flow Techniques (DCF)

(A) Net Present Value Method (NPV)

(B) Present Value Index Method or Benefit-Cost Ratio Method (BCR) or Profitability Index Method (PI)

(C) Internal Rate of Return Method (IRR)

1. Non-discounted cash flow Techniques (NDCF)

(A) Payback Period Method (PB)

This method is also known as pay-off, pay-out or recoupment period method. It gives the number of years in which the total investment in a particular capital project pays back itself. This method is based on the principle that every capital expenditure pays itself back over a number of years. It means that it generates income regularly during its estimated economic life. When the total cash inflows from investment equal the total outlay, that period is the payback period of that project. While comparing between two or more projects, the project with lesser payback period will be acceptable.

Calculation or Payback Period - The payback period can be calculated in the following manner:-

(A) In the case of even cash inflows:- If the pattern of annual cash inflow is of conventional character or they are in the form of annuity, the computation of payback period is very simple, as follow :

$$\text{Payback Period} = \frac{\text{Initial Investment}}{\text{Annual Cash Inflow}}$$

For example, if an investment of Rs. 10,000 in a machine is expected to produce annual cash inflow of Rs. 2,500 for 6 years, then

$$\text{Payback Period} = \frac{\text{Rs. 10,000}}{\text{Rs. 2,500}} = 4 \text{ yrs.}$$

(b) In the case of uneven cash inflows - When a project's cash flows are not equal, but vary from year to year, i.e., they are of non-conventional nature, the calculation of payback period takes a cumulative form of annual cash inflows. In such a situation, payback period is calculated

by the process of cumulating cash inflows till the time when cumulative cash inflows become equal to the original investment outlay. The following example will illustrate the point.

Illustration: A project requires an investment of Rs. 10,000. Its estimated (121) annual cash inflows have been given below:

Year	Annual Cash Inflows (ACF) (Rs.)	Cumulative Cash inflows (CCF) (Rs.)
1	2,500	2,500
2	3,500	6,000
3	4,000	10,000
4	5,000	15,000
5	3,000	18,000

Thus, Rs. 10,000 is recovered fully in 3rd year, hence, payback period is 3 yrs.

Illustration: A project requires an investment of Rs. 10,000 and its estimated annual cash inflows are as follows:

Year	(ACF) (Rs.)	(CCF) (Rs.)
1	2,000	2,000
2	3,000	5,000
3	4,000	9,000
4	2,000	11,000
5	3,000	14,000

Here, payback period will be $= 3 \text{ years} + \frac{10000 - 9000}{2000} = 3.5 \text{ yrs.}$

Accept-Reject Criterion - The payback period can be used as a decision criterion to accept or reject investment proposals. If only one independent project is to be evaluated its actual payable period should be compared with a pre-determined (standard) payback, i.e., the payback set up by the management in terms of maximum period during which the initial investment must be recovered. If the actual payback period is less than the standard payback period, the project would be accepted, if not, it would be rejected. Alternatively, the payback can be used as a ranking method also. When mutually exclusive projects are under consideration they may be ranked according to the length of the payback period. Thus, the project having the shortest payback may be assigned rank one, followed in that order so that project with the longest payback would be ranked the lowest.

Demerits of Payback Approach -

Major weakness of this approach is that it completely ignores all cash inflows arising after the payback period. This could be very misleading in capital budgeting decisions. It may be possible that two projects have similar payback period but their post-payback profitability differs significantly.

The following examples will illustrate the point.

	Project A (Rs.)	**Project B (Rs.)**
Cost of Project	15,000	15,000
Year	Annual Cash Inflows	
1	5,000	4,000
2	6,000	5,000
3	4,000	6,000
4	0	6,000
5	0	4,000
6	0	3,000
Payback period	**3 yrs.**	**3 yrs.**

Thus, project B is certainly advantageous as its post-payback profitability is more in spite of similar payback period of 3 years.

Look at this example also.

	Project x (Rs.)	**Project y (Rs.)**
Total Investment	10,000	10,000
Year	Annual Cash Inflows	
1	5,000	3,000
2	5,000	4,000
3	2,000	3,000
4	1,000	4,000
5	500	2,000
Payback period	**2 yrs.**	**3 yrs.**

Thus, the payback period for project x is 2 years and for project y it is 3 years. Obviously, project x will be preferable on the basis of payback period. However, if we look beyond the payback period, we see that project x returns only Rs. 3,500 while project y returns Rs. 6,000. Thus, project y should be preferred.

(ii) Earnings per Unit of Money Invested - As per this method, we find out the total net earnings (after taxes) and then divide it by the total investment. This gives us the average rate of return per unit of amount invested in the project, as follows:

$$\text{Earnings per Unit of Investment} = \frac{\text{Total Earnings (after taxes)}}{\text{Total Outlay of the Project}}$$

Higher the earnings per rupee, the project deserves to be selected.

(iii) Average Return on Average Investment - Under this method the percentage of average return on average amount of investment is calculated. To calculate the average investment, the outlay of the project is divided by two. ARR is calculated as follows:

$$\text{Average Rate of Return} = \frac{\text{Average Profits (after taxes)}}{\text{Average Investment}} \times 100$$

The average profits after taxes - Average profits after taxes are found by taking the sum of the expected after-tax profits of the project during its life and dividing the sum by the number of years of its life. In the case of an annuity, the average after-tax profits are equal to any year's profits.

The average investments - Any of the following three formulae may be applied to calculate average investment:

(a) Initial Investment/2

(b) (Initial Investment + Scrap Value)/ 2

be gainfully employed under certain circumstances. In a politically unstable economy, a quick return of investment is a must. Shortest payback period is the only answer to such investments. In case of foreign investments, the firms experiencing sever shortage of liquidity, for assessing short-run and medium term capital projects, the payback period is the only good technique for assessing their profitability. In fact, the payback period is a measure of liquidity of investment rather than their profitability. Thus, the payback period should more appropriately be treated as a constraint to be satisfied than as a profitability measure to be maximized.

(B) Accounting Rate of Return Method (ARR)

This method is also known as Financial Statement Method, Return on Investment Method or Unadjusted Rate of Return Method. It is based on operating earnings computed in the Profit & Loss Account, hence, no separate calculations are necessary to compute annual cash inflows. Finding the average rate of return is a quite popular approach for evaluating proposed capital expenditures. Its appeal stems from the fact that the average rate of return is typically calculated from accounting data (i.e. profits after taxes). According to this method, capital projects are ranked in order of their rate of earnings. Projects which yield the highest earnings are selected and others are ruled out. This return on investment can be expressed in several ways as below:

(i) **Average Rate of Return on Total Investment** - This method established the relationship between the average annual profits to total outlay of capital project, as follows:

$$\text{Average Rate of Return} = \frac{\text{Average Profits (after taxes)}}{\text{Total Outlay of the Project}} \times 100$$

(c) $\frac{\text{Recovered Capital}}{2}$ + Scrap Value

The averaging process outlined above assumes that the firm is using straight line method of depreciation.

Merits of ARR Method

The approach has the following merits:

(1) Like payback method it is also simple and easy to understand.

(2) It is based on the accounting concept of operating income and accounting profit figures are used in analyzing the profitability of alternative capital projects, hence no separate calculations are required.

(3) It takes into consideration the total earnings from the project during its entire economic life.

(4) This approach gives due weight to the profitability of the project.

(5) In investments with extremely long lives, the simple rate of return will be fairly close to the true rate of returns. It is often used by financial analysts to measure current performance of a firm.

Demerits of ARR Method

This method has following demerits:

(1) One apparent disadvantage of this approach is this that its results by different methods are inconsistent.

(2) It is simply an averaging technique which does not take into account the impact of various external factors on overall profits of the firm.

(3) The method ignores the time factor of future cash streams which is crucial in business decisions as the amount of interest and discount is substantially affected by it.

(4) This method does not determine the fair rate of return on investments. It is left at the discreation of the management. Hence, the use of this arbitrary rate of return may cause serious distortions in the selection of profitable projects.

II. Discounted Cash Flow Techniques (DCF)

Although, return on investment has been considered a satisfactory technique of capital budgeting in accounting circles for long. Next came the payback approach which is based on cash flow technique. But the lacuna of the above methods is that they do not take the time factor of the income into account. The earlier receipts are certainly more important than the income to be received in later years. A bird in hand is worth than the two in the bush, is aptly applicable to the management of capital. Accordingly, a rupee in the hand has more worth than a rupee to be received five year later, because the use of money has a cost (interest) just as the use of building or an automobile may have a cost (rent). The DCF techniques take care of these both aspects, i.e., time value of money and cost of capital. As a capital project yields returns spread over a number of years, correct assessment of its profitability can be made only if the annual returns of the future years are brought to their present value after applying a discounting rate (i.e. cost of capital or interest rate). Similarly, if the investment is to be made over a number of years, the cash outflows have to be brought down to their present value. Thus these techniques recognize time-adjusted rate of return as well as the cost of capital. The aggregate of future cash flows discounted at a given rate of cost of capital is called the present value of those cash inflows.

The calculation of present value consists of the following steps:

(a) Estimating future cash inflows from the project.

(b) Selecting a discount rate which is commonly known as opportunity cost or cost of capital also.

(c) Discounting those cash inflows with the discount factors or present value factors picked up from the present value tables according to the rate of cost of capital.

There are three methods to judge the profitability of different proposals on the basis of discounted cash flow technique. These are as follows:

(A) Net Present Value Method (NPV)

The calculation of net present value (NPV) of project is one of the most commonly used capital budgeting techniques. This method is also known as Excess Present Value of Net Gain Method. The definition of net present value can be expressed as follows:

NPV = Total Present value of Future Cash inflows - Initial Investment.

The total present value of future cash inflows is calculated with the help of the following formula:

$$P = \frac{S_1}{(1+i)} + \frac{S_2}{(1+i)^2} + \ldots\ldots\ldots\ldots\ldots\ldots + \frac{S_n}{(1+i)^n}$$

Where, P = Present Value of future cash inflows.
S = Future Value of cash inflows for n years.
i = Rate of interest
n = number of years (1, 2, 3,……..)

Based on the above equation, the present value factors tables have been prepared. In these tables, the present value of Re. 1 at different rates of interest has been given. The second type of present value tables provides us the cumulative amount of an annuity of Re. 1 for a given rate of interest. If the annual cash inflows are of even nature, the compound present value factor should be used and if it is of uneven nature, the simple present value factor should be applied. If the NPV is in positive the project should be accepted. If it is in negative, it should be rejected. In mutually exclusive projects, the project with higher NPV should be preferred.

The following example will explain the procedure.

Illustration: Suppose a project costs Rs. 5,000. Its estimated economic life is 2 years. The firm's cost of capital is estimated to be 10%. The estimated cash inflows from the project are Rs. 2,800 p.a. calculate its NPV.

Solution: As the firm's cash inflows are of conventional pattern (i.e. even amount), the compound value factor can be used for calculating their NPV.

	Rs.
Total Present Value = Rs. 2,800 x 1.813	5,272
Less:- Cost of the Project	5,000
Net Present Value	272

Merits of NPV Method

(1) The NPV method takes into consideration the time factor of earnings as well as cost of capital.

(2) It is very easy to calculate, simple to understand and useful for simply "accept" or "reject" type of projects.

(3) It can be applied to both types of cash inflows patterns - even and uneven cash inflows.

(4) The NPV method is generally preferred by economists. If one wishes to maximize profits, the use of NPV always finds the correct decisions.

(5) It takes care of entire earnings.

(6) The concept of the present value of series of cash flows is an important feature in the analysis of different investment potentialities. The net present worth technique analyses the merit of relative capital investments in a nice and exact manner.

Demerits of NPV Method

(1) It involves a good amount of calculations. Hence, it is a complicated method.

(2) The use of this method requires the knowledge of cost of capital. If it is unknown, the method cannot be used.

(3) It leads to confusing and contradictory answers for the ranking of complicated projects.

(4) Keeping in view the substantial difference in time-span and involved risk in various capital projects, the use of one common rate of cost of capital for discounting cash inflows is not desirable.

B. Profitability Index Method

This method is also known as Benefit-Cost Ratio. One major demerit of NPV method is that it cannot be applied to compare those mutually exclusive projects which differ in costs substantially. To compare and evaluate such projects, the profitability index should be calculated. The profitability index is the relationship that exists between the present values of net cash inflows and cost outlays of the projects. It can be calculated in two manners:

$$\text{Gross BCR} = \frac{\text{Total Present Values of Cash Inflows}}{\text{Initial Investment}}$$

$$\text{Net BCR} = \frac{\text{Net Present Values of Cash Inflows}}{\text{Initial Investment}}$$

(Where NPV of cash inflows in Total Present value of cash inflows minus initial investment)

These both can be expressed in percentage also. Their expression in percentage helps in comparing the relative profitability of capital projects. The higher the profitability index, the more desirable is the investment.

(B) Internal Rate of Return (IRR) Method

The third DCF technique is the Internal Rate of Return Method which is commonly known as Time-adjusted Rate of Return method also. Like the present value method, the IRR method also considers the time value of money by discounting the annual cash inflows. But present value method can be applied only when the discount rate (i.e. cost of capital) is known to us. On the other hand, in IRR technique we find out that rate of return which will equate the present value of future cash streams to the present cash outlay of the project. It is usually the rate of return that the project earns. "It may be defined as the discount rate (r) which equates the

aggregate present value of the net cash inflows with the aggregate present value of cash outflows of a project". In other words, "IRR is the maximum rate of interest that could be paid for the capital employed over the life of an investment without loss on the project". Thus, it is that rate which gives the projects NPV of zero.

Assuming conventional cash inflows, mathematically, the IRR is represented by that rate, r, such that,

$$C = \frac{ACF_1}{(1+r)^1} + \frac{ACF_2}{(1+r)^2} + \frac{ACF_3}{(1+r)^3} + \text{---------------} + \frac{ACF_n}{(1+r)^n} + \frac{S+W_n}{(1+r)^n}$$

Here:

C	=	Cost of the Project
ACF	=	Annual Cash Inflows
S	=	Scrap Value of the Project
W	=	Working capital involved and recovered
r	=	estimated rate of interest

Fortunately tabular values of present values of future earnings are readily available. So, usually these tables are used for this purpose.

Computation of IRR

(a) In the case of even cash inflows - If the cash inflows are uniform each year then the computation of IRR involves the following two steps:

(i) Calculate Present Values Factor by applying the following formula:

$$\text{P.V. Factor} = \frac{\text{Initial Investment}}{\text{Annual Cash Inflow}}$$

(ii) Locate the factor calculated in (i) in the compount Present Value Table on the line corresponding the life span of investment in years. The interest rate of the line of that factor will be the required IRR.

It is to be noted that the present value of cash inflows at this computed rate must be equal to the present value of cash outflows.

Illustration: A project costs Rs. 10,000 and is expected to generate cash inflows of Rs. 1,750 annually for 10 years. Its salvage value is nil. Calculate its IRR

Solution: P.V. Factor = Investment ÷ Annual Cash Inflow
= 10,000 ÷ 1,750 = 5.714

Locating this factor in the compound present value table on the line corresponding to the 10th year. We find that this factor is most close to the factor in the table at 12%. Hence, the approximate rate of return is 12%.

As the factor given in the table is less than the factor computed above, actual rate will be a bit less than 12%. It can, however, be ascertained by applying the interpolation technique as follows:

$$IRR = r1 + \frac{V1 - V}{V1 - V2}(r2 - r1)$$

$$= 10\% + \frac{+6.145 - 5.714}{+6.145 - 5.652} \times (12\% - 10\%)$$

$= 10\% + 1.74\% = 11.74\%$

Alternative Formula:

$$IRR = r2 - \frac{V - V2}{V1 - V2} (r2 - r1)$$

$$= 12\% - \frac{5.714 - 5.650}{6.145 - 5.650} \times (12\% - 10\%)$$

$$= 12\% - \frac{0.064}{0.495} \times 2$$

$$= 12\% - 0.26\% = 11.74\%$$

Where,

r1	=	Lower Rate of return
r2	=	Higher rate of Return
V1	=	PVF at lower rate of return
V2	=	PVF at higher rate of return
V	=	PVF for which IRR to be interpolated

(b) In the case of uneven cash inflows –

Here the computation of IRR involves a trial and error procedure. To find the rate of interest that equates the cash inflows with the cash outflows, we start with an assumed rated and calculate the NPV. This NPV may be more than zero, less than zero or just equal to zero. If more than zero, a higher rate of interest should be tried to calculate NPV. Conversely, when the NPV is less than zero, a lower rate would be used. The procedure will go on till we find the rate which gives zero for the NPV.

Under IRR approach, the calculated IRR (i.e. actual rate) is compared with the required rate of return, also known as the cut-off rate or hurdle rate (i.e. the cost of capital or interest rate on which the funds will be available). If the actual IRR is higher than the cut-off rate, the project is accepted, if lower it is rejected.

If the IRR and cut-off are just equal, the firm will be indifferent as to whether to accept or reject the project.

Illustration: A project requires an initial outlay of Rs. 32,400. Its estimated economic life is 3 years. The cash streams generated by it are expected to be as follows:

Years	Estimated ACF (Rs.)
1	16,000
2	14,000
3	12,000

Computed its IRR. If the cost of capital to the firm is 12% advise the management whether the project should be accepted or rejected.

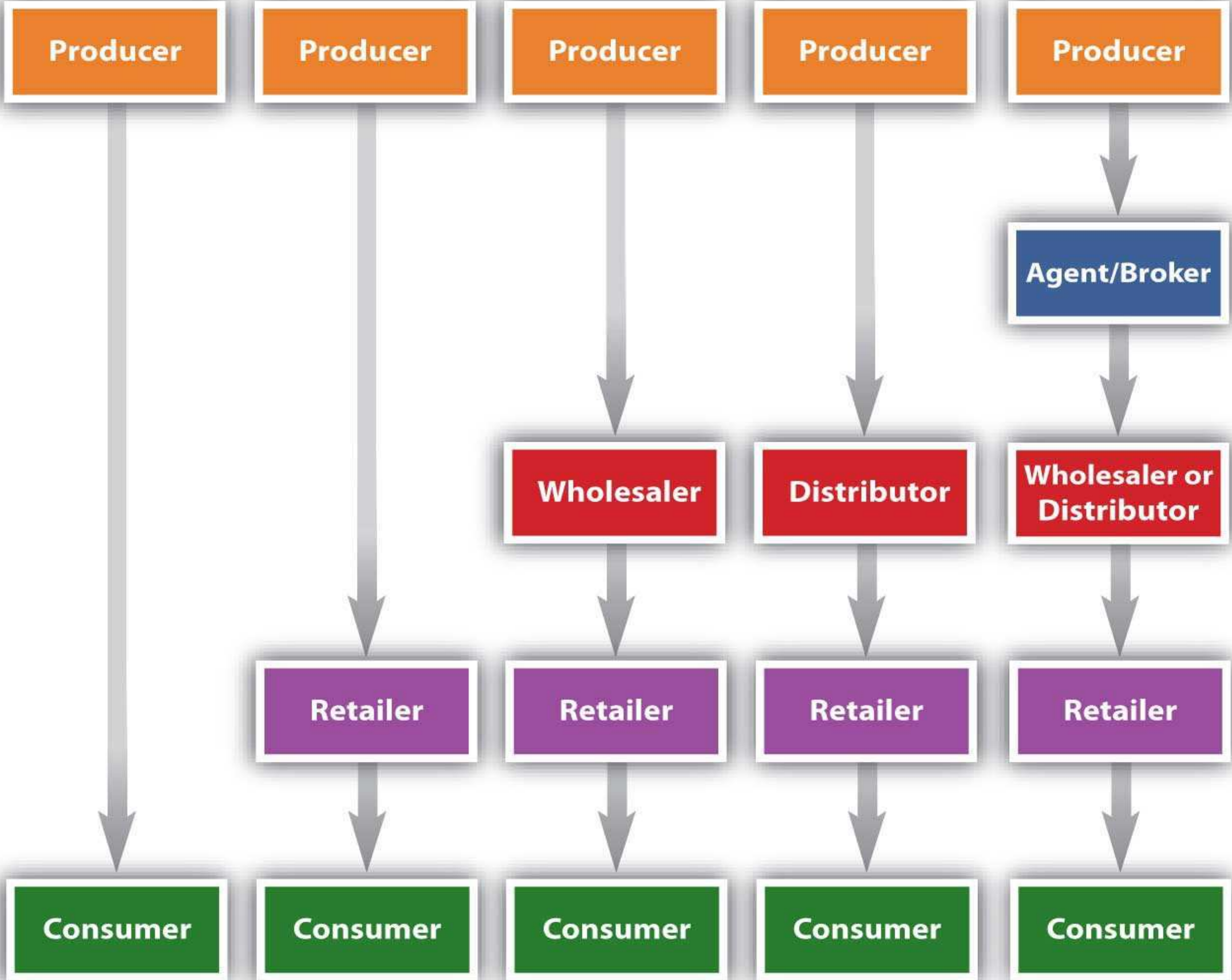
Solution: To compute IRR, we have to follow the trial and error procedure with various rate of interest. The following table presents the calculations:

Table showing calculations of IRR for unequal cash inflows

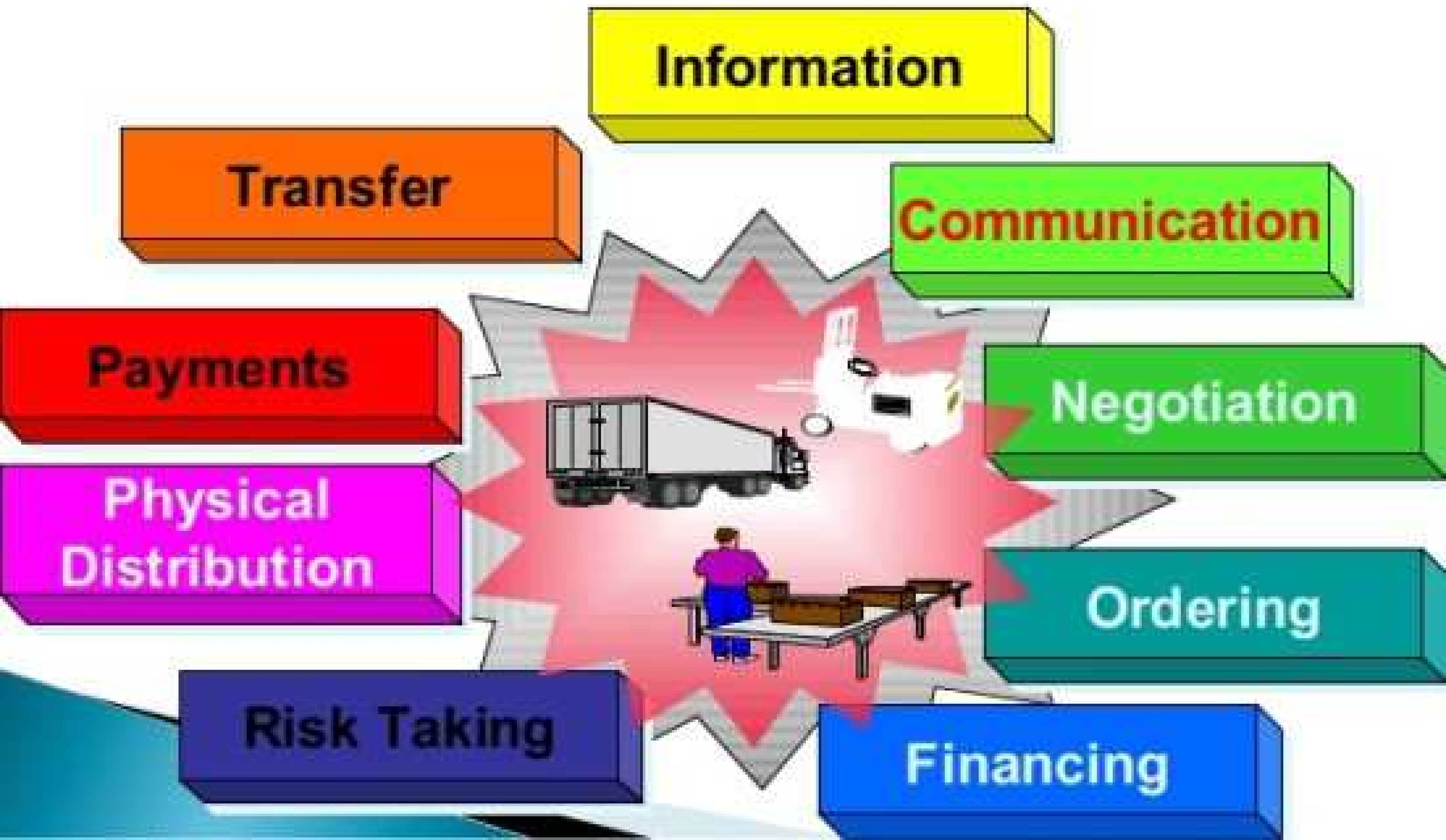
			Total Present Values at different rate of interest				
Year	ACF (Rs.)	DF at 14%	P.V. (Rs.)	DF at 16%	P.V. (Rs.)	DF at 15%	P.V. (Rs.)
1	16,000	0.877	14,032	0.862	13,795	0.870	13,920
2	14,000	0.769	10,766	0.743	10,402	0.756	10,584
3	12,000	0.675	8100	0.641	7,692	0.658	7,896
			32,898		31,886		32,400
Less:- Cost of Project			32,400		32,400		32,400
			+498		-514		0

Since NPV is zero at 15% discount rate, it is its IRR. If the cost of capital is 12%, the project must be accepted as its internal return is 15% while cost of funds is only 12%. The project will contribute 3% to the value of the firm.

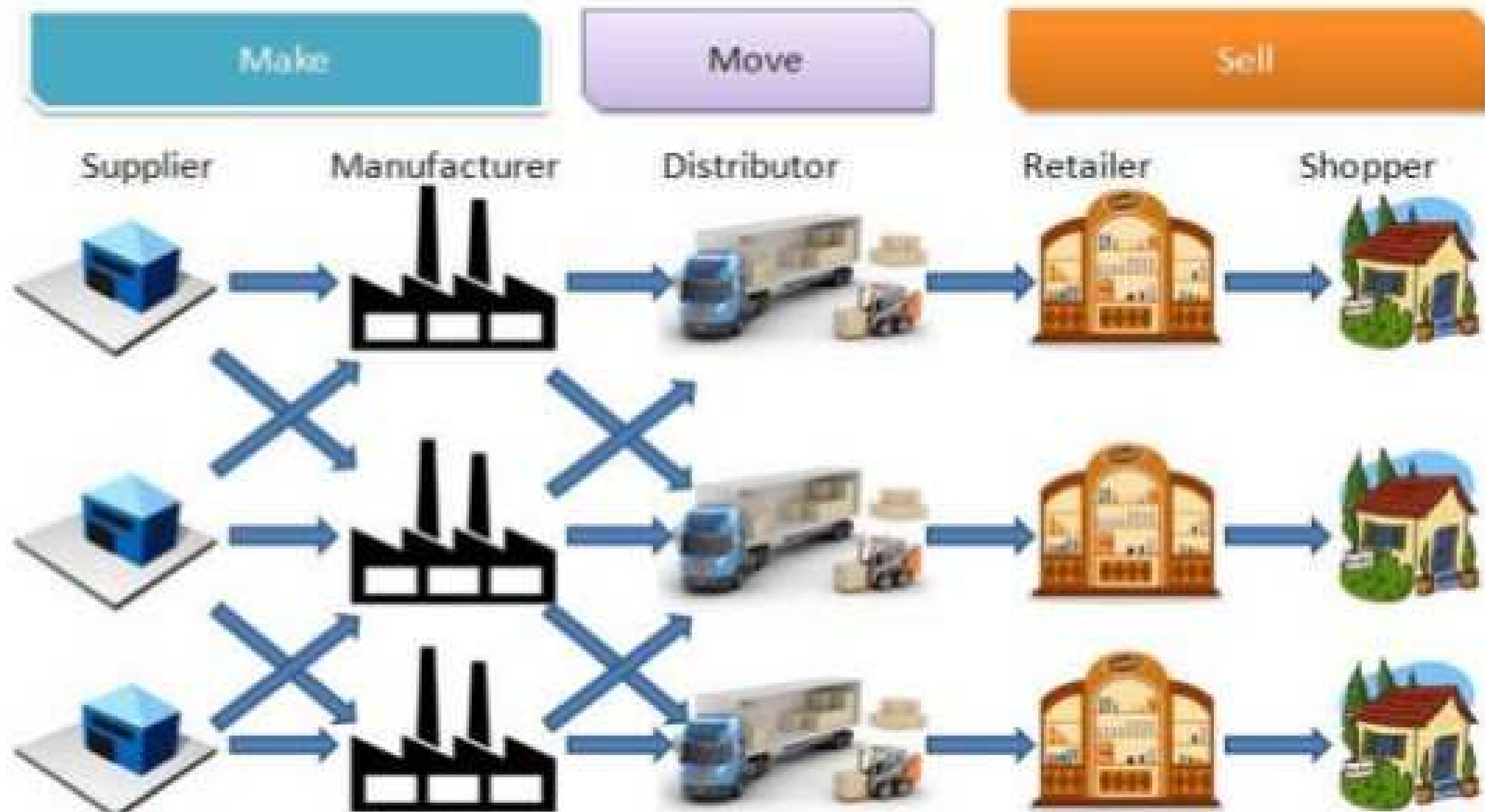
Sales Management
Unit 4 & 5


Producer
Producer
Producer
Producer
Producer
Agent/Broker
Wholesaler
Distributor
Wholesaler or Distributor
Retailer
Retailer
Retailer
Retailer
Consumer
Consumer
Consumer
Consumer
Consumer

Distribution Channel Functions



Modern Supply Chain



-Creation of value, not just money saving robot.
- Integrating all sectors with companies main objective
- Effective use of Information Technology

Distribution Network

- A distribution network is an interconnected group of storage facilities and transportation systems that receive inventories of goods and then deliver them to customers. It is an intermediate point to get products from the manufacturer to the end customer, either directly or through a retail network. A fast and reliable distribution network is essential in today's instant gratification society of consumers.

There are four main types of marketing channels.

1 Producer → Customer

2 Producer → Retailer → Consumer

3 Producer → Wholesaler → retailer → Customer

4 Producer → Agent/Broker → Wholesaler or Retailer → Customer

Producer → Customer

- The producer sells the goods or provides the service directly to the consumer with no involvement with a middle man such as an intermediary, a wholesaler, a retailer, an agent, or a reseller. The consumer goes directly to the producer to buy the product without going through any other channel.

- This particular channel has three main ways of direct selling and these include; peddling, mail-order sales and trade through manufacturer-owned stores. Peddling is an outdated version of trade between two parties and consignments are often sold in small amounts by sellers who are traveling to different places. For example, sales representative sells New Wave cosmetics to housewives by using a method of peddling. Mail-order sales are usually used to sell catalogs, books etc., except industrial and bulky goods. For example, a firm sells collectible through the use of mail-order. Also, this method of selling is normally made without eye contact.

- The last method undergoes through manufacture-owned stores. In this situation, the manufacturer itself is surrounded by the stores and directly supplies goods to its stores.

Producer → Retailer → Consumer

- Retailers, like Walmart Target, buy the product from the manufacturer and sell them directly to the consumer. This channel works best for manufacturers that produce shopping goods like, clothes, shoes, furniture, tableware, and toys. Since consumers need more time with these items before they decide to purchase them, it is in the best interest of the manufacturer to sell them to another user before it gets into the hand of the consumers.

Producer → Wholesaler → retailer → Customer

- Wholesalers, like Costco, buy the products from the manufacturer and sell them to the consumer. In this channel, consumers can buy products directly from the wholesaler in bulk. By buying the items in bulk from the wholesaler the prices of the product are reduced. This is because the wholesaler takes away extra costs, such as service costs or sales force costs, that customers usually pay when buying from retail; making the price much cheaper for the consumer.

- The wholesaler does not always sell directly to the consumer. Sometimes the wholesaler will go through a retailer before the product gets into the hands of the consumer. Each dealer (the manufacturer, the wholesaler, and the retailer) will be looking to make a decent profit margin from the product. So each time the buyer purchases the merchandise from another source, the price of the product has to increase, in order to maximize the profit each person will receive.

Producer → Agent/Broker → Wholesaler or Retailer → Customer

- This distribution channel involves more than one intermediary before the product gets into the hands of the consumer. This middleman, known as the agent, assists with the negotiation between the manufacturer and the seller. Agents come into play when the producers need to get their product into the market as quickly as possible.

Types of intermediaries

The firms need to identify the types of intermediaries available carry on its channel work. Marketing intermediaries, also known as middlemen or distribution intermediaries. Important part of the product distribution channel. Intermediaries are individuals or businesses that make it possible for the product to make it from the manufacturer to the end user, essentially facilitating the sales process.

Four basic types of marketing intermediaries :

- a) AGENT - is an independent individual or company whose main function is to act as the primary selling arm of the producer and represent the producer to users. Agents take possession of products but do not actually own them. Agents usually make profits from commissions or fees paid for the services they provide to the producer and users.
- b) WHOLESALERS - Wholesalers are independently owned firms that take title to the merchandise they handle. The wholesalers own the products they sell. Wholesalers purchase product in bulk and store it until they can resell it. Wholesalers generally sell the products they have purchased to other intermediaries, usually retailers, for a profit.

- c) DISTRIBUTORS - Distributors are similar to wholesalers, but with one key difference. Wholesalers will carry a variety of competing products, for instance Pepsi and Coke products, whereas distributors only carry complementary product lines, either Pepsi or Coke products. Distributors usually maintain close relationships with their suppliers and customers. Distributors will take title to products and store them until they are sold.
- d) RETAILERS - A retailer takes title to, or purchases, products from other market intermediaries. Retailers can be independently owned and operated, like small stores, or they can be part of a large chain. The retailer will sell the products it has purchased directly to the end user for a profit.

2. Number of intermediaries (Intensity Analysis)

- Companies have to decide on the number of intermediaries to use. Three strategies available;

a) EXCLUSIVE DISTRIBUTION

- limited number of intermediaries. It is used when the producer wants to maintain control over the service level and service outputs offered by the reseller.
- It involves exclusive dealing arrangement, which the resellers agree not to carry competing brands. By granting exclusive distribution, the producer hopes to obtain more dedicated and knowledgeable selling.
- It requires greater partnership between seller and reseller.
- Appropriate for specialty products which are expensive, infrequently bought and require service or info to fit them to buyers needs, such as Rolex watch, Mercedes and Roll Royce car.

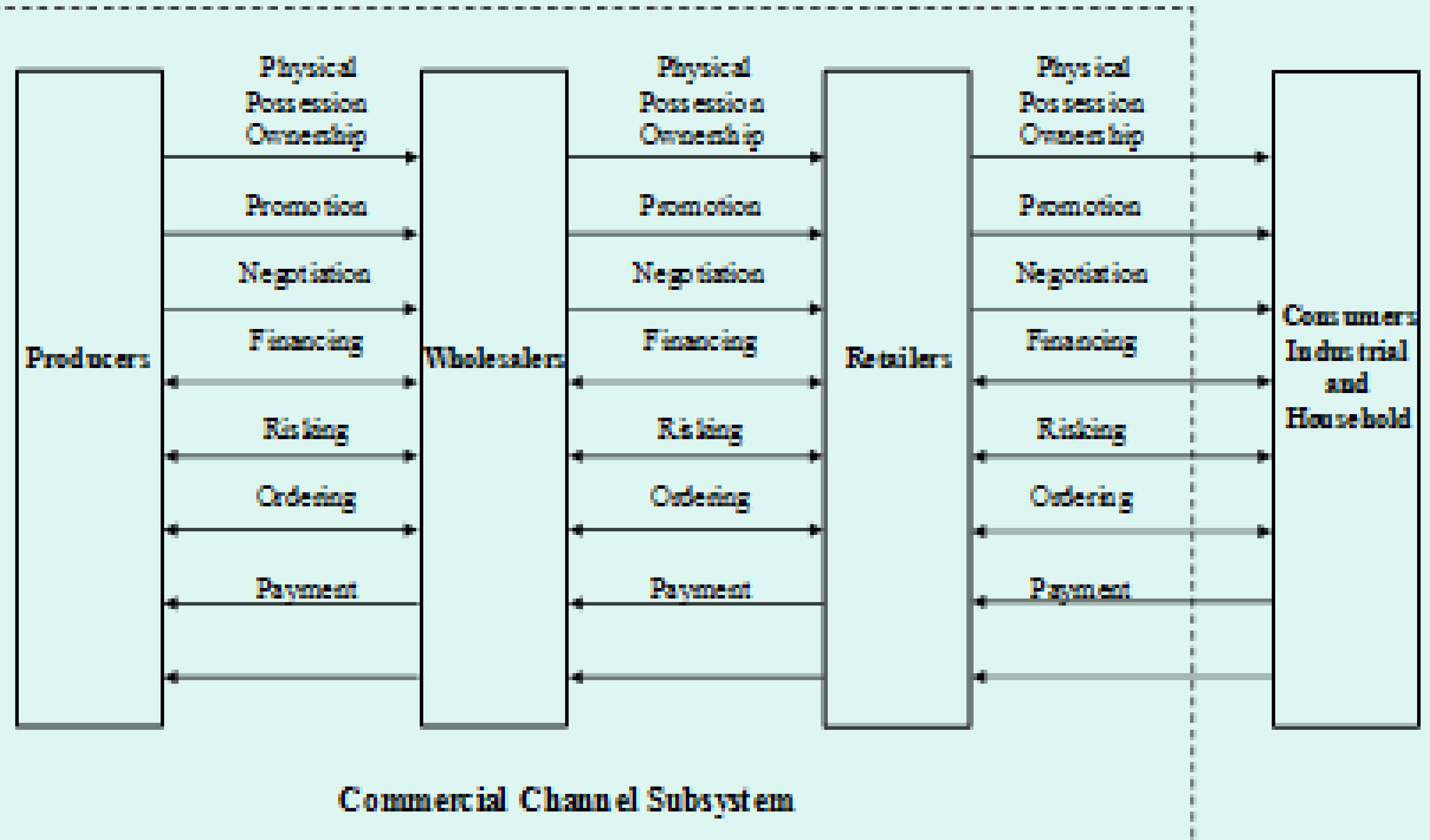
b) SELECTIVE DISTRIBUTION

- • Only some available outlets in area are chosen to distribute a product.
- • The company does not have to dissipate its efforts over too many outlets, it enables the producer to gain adequate market coverage with more control and less cost than intensive distribution.
- • It is appropriate for shopping products, which consumers are willing to spend more time visiting several retail outlets to compare prices, designs, styles, and other features of these product. Nike is a good example of selective distribution.

c) INTENSIVE DISTRIBUTION

- • Intensive distribution is the use of all available outlets to distribute a product. It is suitable for convenience products, such as soft drinks, bread, candy, newspapers, etc. because they have high replacement rate and require almost no service.
- • Multiple channels (i.e. convenience stores, service stations, supermarkets discount store) are used to sell these products. Availability of these products is more important than the nature of the outlet.
- • For convenience of consumers, store must be located nearby and minimum time will be necessary to search for the product at the store.

FIGURE 1.2: MARKETING FLOWS IN CHANNELS



rows above show flows of activity in the channel

Factors affecting the choice of channel

- **(A) Considerations Related to Product**
- **(B) Considerations Related to Market**
- **(C) Considerations Related to Manufacturer/Company**
- **(D) Considerations Related to Government**
- **(E) Others**

- **(A) Considerations Related to Product**
- When a manufacturer selects some channel of distribution he/she should take care of such factors which are related to the quality and nature of the product. They are as follows

- **1. Unit Value of the Product:**
- When the product is very costly it is best to use small distribution channel. For example, Industrial Machinery or Gold Ornaments are very costly products that are why for their distribution small distribution channel is used. On the other hand, for less costly products long distribution channel is used

2. Standardised or Customised Product:

- Standardised products are those which are pre-determined and there has no scope for alteration. For example: utensils of MILTON. To sell this long distribution channel is used.
- On the other hand, customised products are those which are made according to the discretion of the consumer and also there is a scope for alteration, for example; furniture. For such products face-to-face interaction between the manufacturer and the consumer is essential. So for these Direct Sales is a good option.

3. Perishability:

- A manufacturer should choose minimum or no middlemen as channel of distribution for such an item or product which is of highly perishable nature. On the contrary, a long distribution channel can be selected for durable goods.

4. Technical Nature:

- If a product is of a technical nature, then it is better to supply it directly to the consumer. This will help the user to know the necessary technicalities of the product.

(B) Considerations Related to Market

- **Market considerations are given below:**
- **1. Number of Buyers:**
- If the number of buyer is large then it is better to take the services of middlemen for the distribution of the goods. On the contrary, the distribution should be done by the manufacturer directly if the number of buyers is less.
- **2. Types of Buyers:**
- Buyers can be of two types: General Buyers and Industrial Buyers. If the more buyers of the product belong to general category then there can be more middlemen. But in case of industrial buyers there can be less middlemen.

- **3. Buying Habits:**
- A manufacturer should take the services of middlemen if his financial position does not permit him to sell goods on credit to those consumers who are in the habit of purchasing goods on credit.
- **4. Buying Quantity:**
- It is useful for the manufacturer to rely on the services of middlemen if the goods are bought in smaller quantity.
- **5. Size of Market:**
- If the market area of the product is scattered fairly, then the producer must take the help of middlemen.

(C) Considerations Related to Manufacturer/Company

- **Considerations related to manufacturer are given below:**
- **1. Goodwill:**
- Manufacturer's goodwill also affects the selection of channel of distribution. A manufacturer enjoying good reputation need not depend on the middlemen as he can open his own branches easily.
- **2. Desire to control the channel of Distribution:**
- A manufacturer's ambition to control the channel of distribution affects its selection. Consumers should be approached directly by such type of manufacturer. For example, electronic goods sector with a motive to control the service levels provided to the customers at the point of sale are resorting to company owned retail counters.
- **3. Financial Strength:**
- A company which has a strong financial base can evolve its own channels. On the other hand, financially weak companies would have to depend upon middlemen

(D) Considerations Related to Government

- Considerations related to the government also affect the selection of channel of distribution. For example, only a license holder can sell medicines in the market according to the law of the government.
- In this situation, the manufacturer of medicines should take care that the distribution of his product takes place only through such middlemen who have the relevant license.

(E) Others

- **1. Cost:**
- A manufacturer should select such a channel of distribution which is less costly and also useful from other angles.
- **2. Availability:**
- Sometimes some other channel of distribution can be selected if the desired one is not available.
- **3. Possibilities of Sales:**
- Such a channel which has a possibility of large sale should be given weight age.

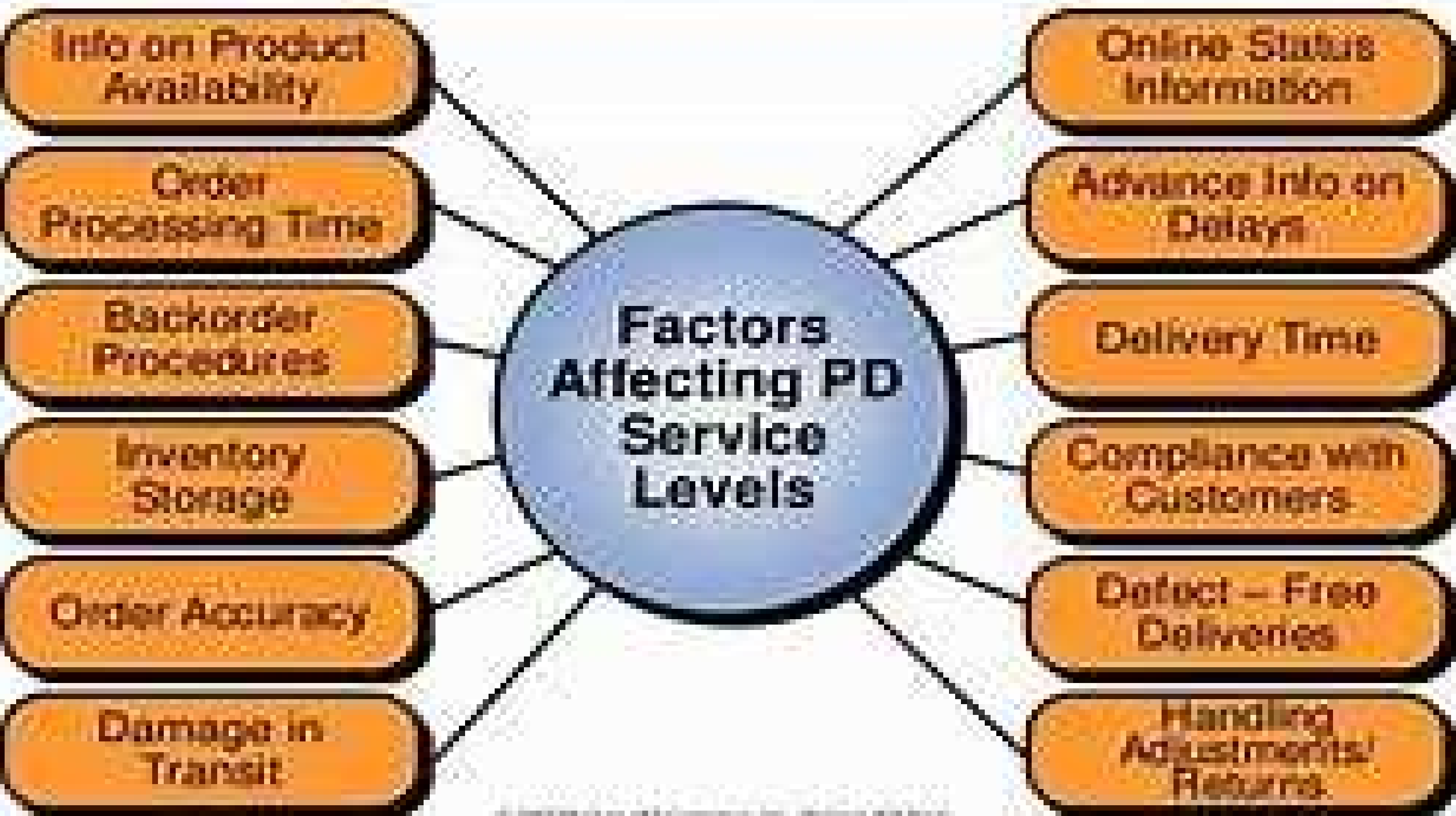
Sales force

- For effective operation of selling activities, sale force in terms of manpower and womanpower is necessary for a business concern. For attaining predetermined objectives; it is imperative that entire manpower should be in place. Manpower i.e. in this case sales force is one of the most precious resources of a business unit.

Component of Physics Distribution

1. Order processing
2. Transportation
3. Warehousing
4. Material handling
5. Inventory Managemnet and Control

Physical Distribution Concept Focuses on the Whole Distribution System



Recruitment

- According to Edwin Flippo: “Recruitment is the process of searching the candidates for employment and stimulating them to apply for jobs in the organisation “
- Recruitment is the activity that links the employers and the job seekers.
- A process of finding and attracting capable applicants for employment process begins when new recruits are sought and end when their applications are submitted.
- The result is a pool of applicant form which new employees are selected

Selection

- Selection on the other hand is a process whereby out of the many job applicants the best are taken to fill the vacancy. Selection means whittling down the application pool by using the screening tools such as test, assessment centers, background and reference checks.

RECRUITMENT	SELECTION
The **recruitment** is the process of searching the candidates for employment and stimulating them to apply for jobs in the organisation	Selection involves the series of steps by which the candidates are screened for choosing the most suitable persons for vacant posts.
The basic **purpose** is to create a talent pool of candidates to enable the selection of best candidates for the organisation, by attracting more and more employees to apply in the organisation	The basic purpose of selection is to choose the right candidate

Recruitment	selection
A positive process i.e. encouraging more and more employees to apply	A negative process as it involves rejection of the unsuitable candidates.
Is concerned with tapping the sources of human resources	Is concerned with selecting the most suitable candidate through various interviews and tests
There is no contract of recruitment established in recruitment	Results in a contract of service between the employer and the selected employee

Purpose and Importance of effective recruitment

- The increasing unemployment means that the labour market is large, hence the need to ensure that you attract the right candidates for the jobs
- High turnover for some occupations are another problem for recruiting
- Finding the right inducements for attracting and hiring employees can be a problem also

Recruitment Process

1. Planning
2. Strategy Development
3. Searching
4. Screening
5. Evaluation and Control

Planning

- The first stage in the Recruitment Process is planning. Planning involves the translation of likely job vacancies and information about the nature of these jobs into a set of objectives is targets that specify the number and type of applicants to be planned.

Strategy Development

i. Make or Buy Employees

ii. Technological Sophistication of Recruitment and Selection Devices

iii. Geographic distribution of labour markets comprising job seekers

iv. Sources Of Recruitment

    Internal sources

    External sources

Searching

i. **Source Activation:** Source Activation takes place when a job vacancy exists in the organization. If the organization has planned and well and done a good job of developing its source and search methods, activation soon results in a flood of application.

ii. **Selling:** In selling the, both the Message and Media deserve attention in the organization. Message refers to the employment advertisements. Media refers to the source of any recruiting message. For example, Employment Exchanges, Advertises in Business magazines

Screening

- The purpose of screening is to remove from the recruitment process at an early stage, those applicants who are visibly unqualified for the job. Effective screening can save a great deal of time and money. Care must be exercised to assure that potentially good employees are not lost.

Evaluation and Control

- The purpose of screening is to remove from the recruitment process at an early stage, those applicants who are visibly unqualified for the job. Effective screening can save a great deal of time and money. Care must be exercised to assure that potentially good employees are not lost.

Selection

Selection has been regarded as the most important function of HR department. It ensures the organization that; it has right number, right kind of people at the right place and at the right time.

Meaning and Definitions:

“It is the process of differentiating between applicants in order to identify (and hire) those with the greater likelihood of success.”

SELECTION PROCESS

1. Preliminary Interview
2. Selection Tests
3. Employment Interview
4. Reference and Background Checks
5. Selection Decision:
6. Physical Examinations
7. Job Offer
8. Contract Of Employment
9. Evaluation of Selection program

1. Preliminary Interview:

The purpose of this interview is to scrutinize the applicants, i.e. elimination of unqualified applications.

2. Selection Tests:

Different types of selection tests may be administrated, depending on the job and the company. Generally tests are used to determine the applicant's ability, aptitude, and personality.

3. Employment Interview:

The next step in the selection process is employment interview, an interview is conducted at the beginning, and at the selection process of the employment interview can be one- to-one interview or panel interview.

4. Reference and Background Checks:

Many employers request names, address, telephone numbers or references for the purpose to verify information and gaining additional background information of an applicant.

5. Selection Decision:

Selection decision is the most critical of all steps in selection process. The final decision has to be made from the pool of individuals who pass the tests, interviews and references checks.

6. Physical Examinations:

After selection decision and before the job offer is made, the candidate is required to undergo a physical fitness test. A job offer is often; contingent upon the candidate being declared fit after the physical examinations.

7. **Job Offer:**

The next step in selection process is job offer. Job offer is made through a letter of appointment. Such a letter generally contains a date by which the appointee must report on duty

8. **Contract Of Employment:**

Basic information is written in Contract of employment that varies according to the levels of job. After the offer and acceptance of the job certain document is the attestation form.

9. **Evaluation of Selection program:**

The broad test of effectiveness of the selection process is a systematic evaluation .a periodic audit is

Training

- Training is included in one’s experiences. Thus, training is part of an individual’s total learning experience.

- Increase productivity Increase productivity

- Create positive attitudes/improve morale Create positive attitudes/improve morale

- Improved customer relations Improved customer relations

- Reduce role conflict and ambiguity (turnover) Reduce role conflict and ambiguity (turnover)

- Improve efficiencies (time and territory) Improve efficiencies (time and territory)

- Introduce new products, markets, or Introduce new products, markets, or programs

Dividend Policy

INTRODUCTION

Once a company makes a profit, it must decide on what to do with those profits. They could continue to retain the profits within the company, or they could pay out the profits to the owners of the firm in the form of **dividends.**

The dividend policy decision involves two questions:

1) What fraction of earnings should be paid out, on average, over time?

2) What type of dividend policy should the firm follow? I.e. issues such as whether it should maintain steady dividend policy or a policy increasing dividend growth rate etc.

- On the other hand Management has to satisfy various stakeholders from the profit. Out of the Stakeholders

Dividend Decision

The Dividend Decision is one of the crucial decisions made by the finance manager relating to the payouts to the shareholders. The payout is the proportion of Earning Per Share given to the shareholders in the form of dividends.

The companies can pay either dividend to the shareholders or retain the earnings within the firm. The amount to be disbursed depends on the preference of the shareholders and the investment opportunities prevailing within the firm.

- The optimal dividend decision is when the wealth of shareholders increases with the increase in the value of shares of the company. Therefore, the finance department must consider all the decisions viz. Investment, Financing and Dividend while computing the payouts.

DIVIDEND

- The term dividend refers to that portion of profit (after tax) which is distributed among the owners / shareholders of the firm.
- Dividend may be defined as the return that a shareholder gets from the company, out of its profits, on his shareholdings."
- In other words, dividend is that part of the net earnings of a corporation that is distributed to its stockholders. It is a payment made to the equity shareholders for their investment in the company.
- Dividend is a reward to equity shareholders for their investment in the company.
- It is a basic right of equity shareholders to get dividend from the earnings of a company. Their share should be distributed among the members within the limit of an act and with rational behavior of directors

TYPES OF DIVIDENDS

- Classifications of dividends are based on the form in which they are paid. Following given below are the different types of dividends:
- Cash dividend
- Bonus Shares referred to as stock dividend in USA
- Property dividend
- Interim dividend
- Annual dividend
- Special- dividend

- **Cash dividend:** Companies mostly pay dividends in cash. A Company should have enough cash in its bank account when cash dividends are declared. If it does not have enough bank balance, arrangement should be made to borrow funds. When the Company follows a stable dividend policy, it should prepare a cash budget for the coming period to indicate the necessary funds, which would be needed to meet the regular dividend payments of the company.
- **Bonus Shares :** (OR Stock -dividend in USA) An issue of bonus share is the distribution of shares free of cost to the existing shareholders,

- **Annual dividend:** When annually company declares and pay dividend is defined as annual dividend.
- **Interim dividend:** During the year any time company declares a dividend, it is defined as Interim dividend.
- **Special dividend** : In special circumstances Company declares Special dividends. Generally company declares special dividend in case of abnormal profits.
- **Property dividends:** These dividends are payable in assets of the corporation other than cash. For example, a firm may distribute

Factors affecting Dividend Policy

EXTERNAL FACTORS	INTERNAL FACTORS
General sta	Desire of Shareholders
Capital Ma	Financial needs of Company
Legal Restr	Nature of Earnings
Contractual Restrictions	Desire of Control
Taxation Policy	Liquidity Position

External Factors – Dividend Policy

- General state of Economy – in cases of uncertainty, depression in the economy, the mgt. may like to retain the earnings and build up reserves to absorb shocks in the future and preserve liquidity.
- Capital Markets – if a firm has easy access to capital markets to raise funds, it may follow liberal dividend policy and vice versa.
- Legal Restrictions – the mgt. must comply to all legal restrictions such as transfer to reserves etc.
- Contractual Restrictions – lending financial institutions may put restrictions on dividend payments to protect their interests.
- Taxation Policy – consideration of corporate taxes and dividend distribution tax to be paid by the companies.

rnal Factors – Dividend Policy

- <u>Desire of Shareholders</u> – the shareholders, being the owners of the company influence the dividend payout. Their expectation for dividend depicts companies strength, certainty and liquidity.
- <u>Financial needs of Company</u> – financial needs of the company may directly conflict with shareholders' desire. Company's vision for future growth and profitability may bypass the dividend expectation.
- <u>Nature of Earnings</u> – a firm with a stable income can afford to have higher dividend payout and vice versa
- <u>Desire of Control</u> – higher dividend implies liquidity crunch that can be met by new equity issue. New equity dilutes mgt. control.
- <u>Liquidity Position</u> – prime importance for dividend payments, company need to maintain its liquidity in business so may decide to distribute less dividend.

Dividend Policy

- Dividends (including interim dividend) are returns given to shareholders out of profits earned by a company.
- Payment of dividends not only depends upon profitability, but also the recommendation of Directors, i.e. known as '*Dividend Policy*'.
- Dividend policy determines the ultimate distribution of the firm's earnings between retention (that is reinvestment) and cash dividend payments of shareholders
- *In dividend policy, it is decided how much profit should be distributed as dividend and how much to be kept as reserve (retained earnings).*
- Shareholders approve the dividend as recommended by the Directors. Dividend rate can be reduced by shareholders, but cannot be increased

dividend policy : significance

- Outflow of cash, pressure on liquidity of the company
- Opportunity cost of the funds distributed
- Dividend payment maximizes shareholders' current wealth while retention facilitates future wealth generation.
- Dividend payment is a sign of goodwill, and a positive impact on investors, and in turn the market price / share.
- Retention leads to faster growth resulting in higher profitability and increase in shareholders' wealth.
- *Harmony between payout & retention – key mgt. decision*

TYPES OF DIVIDEND POLICY

Dividend policies may vary between various firms as every firm sets its own policy for dividend distribution.

A) **Generous or liberal dividend policy:** Firms that follow this policy reward shareholders generously by stepping up dividend over the time.

B) **Stable dividend policy :** According to this policy, the percentage of earnings paid out of dividends remains constant. The dividends will fluctuate with the earnings of the company. Stable rupee (inflation adjusted)

C) Low regular dividend plus extra dividend policy : As per this policy, a low, regular dividend is maintained and when times are good an extra dividend is paid. Extra dividend is the additional dividend optionally paid by the firm if earnings are higher than normal in a given period. Although the regular portion will be predictable, the total dividend will be unpredictable.

D) Residual dividend policy : Under this policy, dividends are paid out of earnings not needed to finance new acceptable capital projects. The dividends will fluctuate depending on investment opportunities available to the

Multiple dividend increase policy : Some firms follow the policy of very frequent and small dividend increases. The objective is to give shareholders an illusion of movement and growth.

F) Erratic dividend policy : Dividends are paid erratically when the management feels it will not strain the resources of the firm. Interests of the shareholders are not taken care of while making the dividend decisions. It has been observed by various researchers that firms generally prefer to follow a stable or a gradually rising dividend policy.

G) Uniform Cash dividend plus Bonus Policy : Under this policy, the minimum rate of dividend per share is paid in cash plus bonus shares are issued out of accumulated reserves. However bonus shares are not given compulsorily on an annual basis. They may be

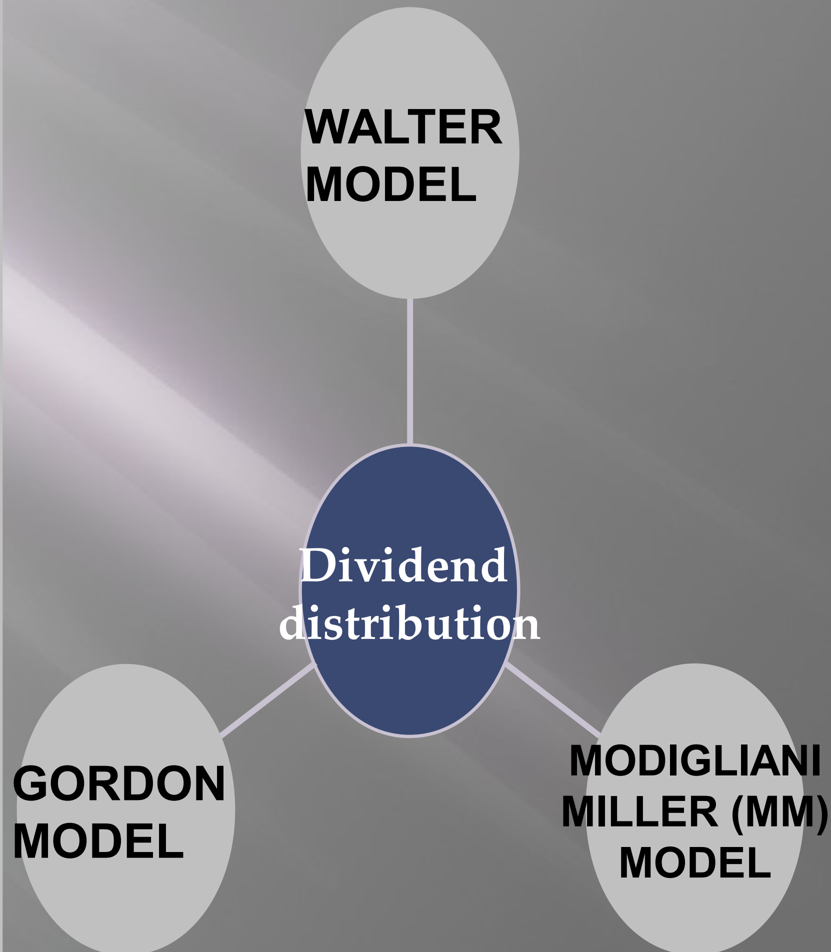
Dividend Distribution Theories

Dividend Policy

- Dividend Irrelevance Theory
  - Miller and Modigliani Hypothesis
- Dividend Relevance Theory
  - Walter's Model
  - Gordon's Model

Dividend Distribution Theories

- Economists & thinkers studied the outcome of dividend on the value of the firm.
- Establish a relationship between dividend payment and value of the firm.
- The theories put forward provided extreme views.
- Dividend and value of firm are related as well as totally unrelated etc.



A. Walter’s Model –

- According to Prof. James Walter, the ***choice of dividend policy always affects the value of the firm.***
- The Walter model exhibits a **clear relationship** between the firm’s rate of return (r), cost of capital (k), and dividend policy.
- **Assumptions –**
  - There is only internal financing of investments, i.e. no debts, no equity
  - Rate of return (r) and cost of equity (k) are always constant
  - Firm has a very long life
- As per the theory, Walter has classified firms into 3 categories, viz. Growth firms (*where* $r > k$), Normal firms (*where* $r = k$), and Declining firms (*where* $r < k$)

…vidend Distribution Theories

- According to Walter model –
  - *Growth firms* earn higher return on their investments $(r > k)$ and hence, the firm should *retain its earnings*. These firms maximize value of shareholders since their earnings (r) are greater than shareholders' expectations (k), i.e. **market price will increase.**
  - ***Normal firms*** earn a return on their investments equal to its cost of capital $(r = k)$. In such cases, the dividend policy has ***no effect*** *on the value of the firm*, i.e. market **price per share is constant.**
  - ***Declining firms*** earn lower return on their investments $(r < k)$. Value of firm is highest when all its earnings are distributed as dividend, the market price per share being maximum. Investors of such firms like its earnings to be distributed to them, so that they may spend it or earn a higher return elsewhere.

Dividend Distribution Theories

A. **Walter's Model –**

- According to Walter model, mathematical formula for calculation of expected market price per share –

$$MP = \frac{D + (r / k) * (E - D)}{k}$$

Where,

- MP = Market price per share
- D = Dividend per share
- E = Earnings per share
- r = Firm's rate of return
- k = Cost of capital

B. **Gordon's Model –**

- Myron Gordon used the dividend capitalization approach to **prove the effect of dividend policy on stock price (value of firm)**
- Gordon model verifies the **relation between a firm's dividend policy with the expectation of the shareholders.**
- **Assumptions –**
  - The firm is an all equity firm, i.e. it has no debt in its capital structure
  - There is only internal financing of investments, i.e. no new equity
  - Rate of return *(r)* and cost of equity *(k)* are always constant
  - Retention ratio *(b)* remains constant, (*retention = 1 – dividend ratio*)
  - Cost of capital *(k)* is always greater than growth rate *(g = b*r)*
  - Firm has a very long life and perpetual earnings
  - Corporate taxes does not exist

Dividend Distribution Theories

B. **Gordon's Model –**

- As per Gordon's model, 'the *market value of a share is equal to the present value of an infinite dividend stream to be recd. by the shareholders in the future*'.
- Gordon's model assumes that investors are rational and risk-averse. They prefer current dividends and avoid risk in future.
- Also known as *"bird-in-hand"* argument. Where a bird in hand is better than two in the bush, **current dividend better than future earnings (which are uncertain)**
- Thus, for two firms with same earning power

ividend Distribution Theories

B. **Gordon's Model –**

- According to Gordon model, mathematical formula for calculation of expected market price per share –

$$MP = \frac{E(1 - b)}{k - br}$$

- MP = Market price per share
- b = retention ratio
- E = Earnings per share
- k = cost of capital
- r = rate of return

Dividend Distribution Theories

c. **Modigliani Miller (MM) Approach –**

- According to Modigliani and Miller, under a perfect market situation, **the dividend policy of a firm is irrelevant and it does not affect the value of the firm.**
- As per MM approach, **value of a firm entirely depends on its earnings**, which are a result of its investment policy.
- **Assumptions –**
  - **Capital markets are perfect, ease of raising funds**
  - Investors are rational, information freely available
  - Transaction and floatation costs does not exist
  - No individual taxes
  - The firm has fixed in investment policy
  - **No risk of uncertainty**, hence *'r = k'*

Dividend Distribution Theories

c. **Modigliani Miller (MM) Approach –**

- According to MM approach, there are 3 situations –
  a) Firm has sufficient cash to pay dividends – when dividend is paid, shareholders receive cash and firm's assets are reduced (cash bal). Hence, shareholders gain cash and lose proportional claim on assets. There is just transfer of wealth and value of firm is **unaffected.**
  b) Firm issues new shares to pay dividend – Existing sh. holders get cash but their share in total assets reduces. New sh. holders pay cash and receive proportionate claim on assets. Hence value of firm **unaffected.**
  c) Firm does not pay dividends – **if a shareholder needs cash, he may sell his shares to satisfy his**

Dividend Distribution Theories

c. **Modigliani Miller (MM) Approach –**

- According to MM approach, the market value of share at the beginning of the period is equal to the present value of dividends paid at the end of period (plus) market price at the end of period. i.e. $P1 = P0\ (1 + Ke) - D1$

  where,

  - P0 = prevailing market price (start of period)
  - D1 = dividend to be recd at end of period
  - P1 = market price at end of period
  - Ke = cost of equity capital

- $N1 = \dfrac{I - (X - ND1)}{P1}$ (new shares to be issued for dividend payment)

- Value of firm $= \dfrac{(N + N1)\,P1 - (I - E)}{1 + Ke}$ [N = current shares, N1 = new shares] [I = investment reqd, X = profits]

THEORIES OF PERSONAL SELLLING

- AIDAS Theory of Personal selling
- Right set of circumstances Theory
- Buying Formula Theory
- Behavioural Equation Theory

AIDAS theory of selling

- A-*Securing attention.*
- I-*Gaining Interest.*
- D-*Kindling desire.*
- A-*Inducing Action.*
- S-*Building Satisfaction.*

1. AIDAS Theory

- Buyers' mind passes through 5 stages consciously – Attention, Interest, Desire, Action, Satisfaction

i. Securing Attention: Good rapport, conversation openers, first impression, attire, smile, social skills

ii. Gaining Interest: Visual aids, effective selling appeal, asking questions, brochures, handing over product to customer

iii. Kindling Desire: Ready to buy point, Handling objections, summarizing, focus

iv. Inducing actions: Sense timing for trial close, asking for orders, reassuring

v. Building Satisfaction: Thank customer, reassuring decision, written order, following up promises made

Attention

- An advertisement **must grab the attention of a potential customer.**
- Coca-Cola Zero original campaign consisted of posters on bus stations and billboards with no notion that it was an advertisement
- The posters were black and had peculiar red questions written on them.
- The campaign successfully attracted attention of massive amounts of people before they even knew what it was about.

Copyright © 2010, S L Gupta

Interest

- It is **essential to keep the potential customers interested in the advertisement.**
- The above stated campaign formed the questions always incorporating the symbol or the **word 'zero'.**
- When people started noticing that **this was the only consistent thing** (in addition to appearance) in the posters, they became interested to know what it represented.

Desire

- Building up the desire to have or use a product/service in potential customers consist mostly of accumulation of positive arguments.
- **The Coca Cola Zero campaign introduced the beverage and focused on advertising the fact that although it does not contain sugars.**
- It tastes the ***same as the original beverage.*** This stimulated customers to give it a try!

Theories of Selling
(“Right Set Circumstances” Theory of Selling)

This theory sometimes called **“Situation-Response”** theory and it emphasizes on creating a right circumstance or situation by the sales person so that he succeeds in securing the attention and gaining the interest of the prospect, and if the sales person presents the proper stimuli or appeals, the desired response (that is the sale) will result.

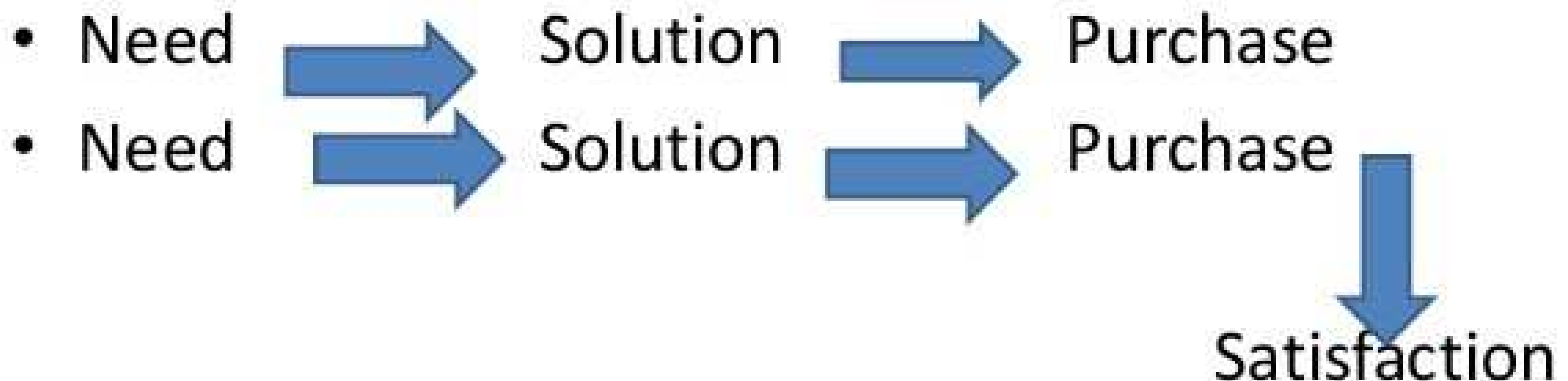
This is a seller-oriented theory and stresses upon the sales person controlling the situation.

“Right Set of Circumstances”

- Theory can be summarized as “*Every thing was right*”.
- This theory is also known as “*Situation-response*” theory.
- A sales person needs to be well skilled to handle the set of circumstances.

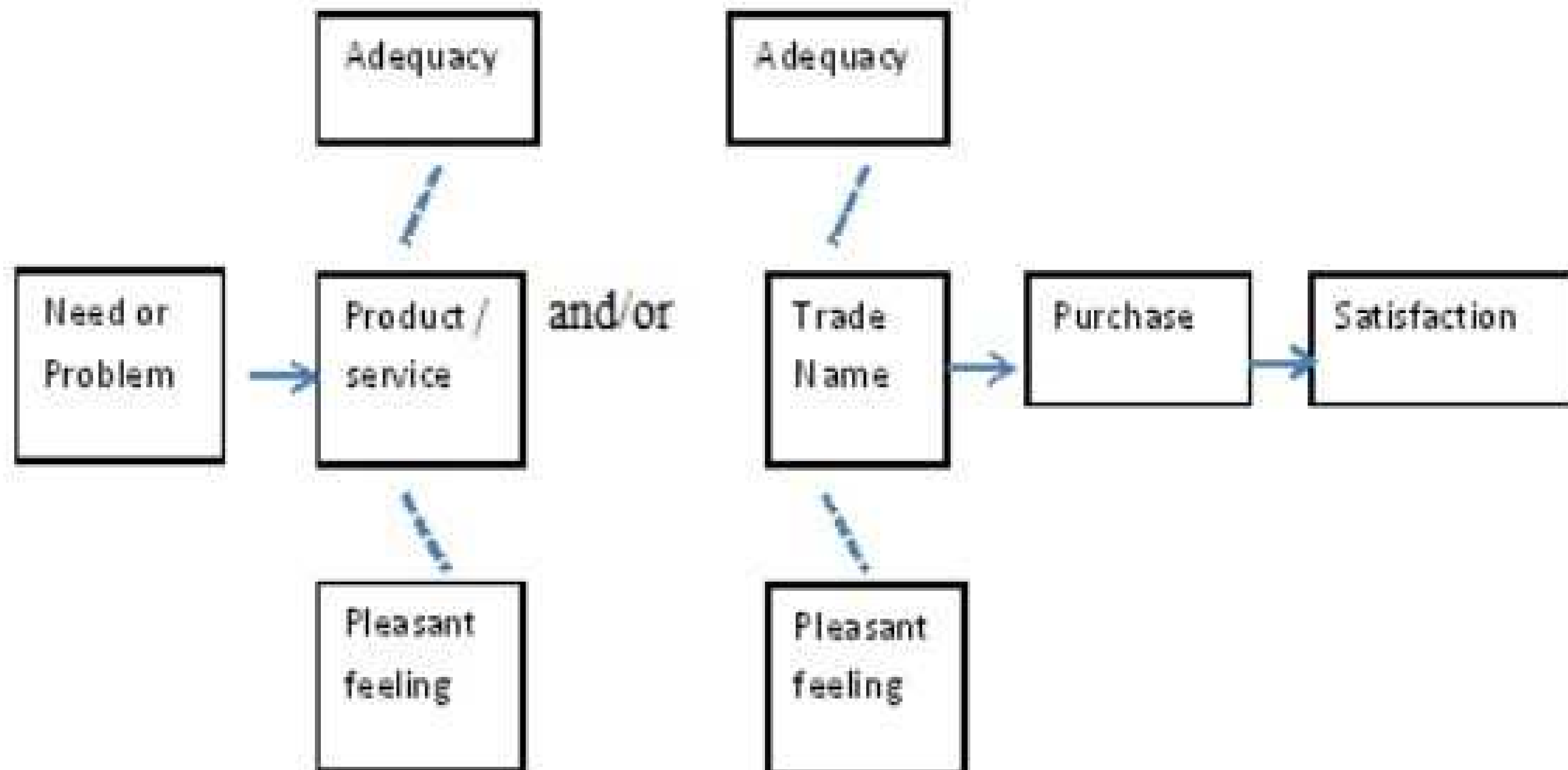
“Buying Formula” Theory of Selling

- Name coined by E. K. Strong
- Emphasizes the buyer’s side



- Need → Product/Service → and/or trade name → purchase → Satisfaction/Dissatisfaction

Theories of Selling
("Buying Formula" Theory of Selling)



Theories of Selling
(" Behavioural Equation" Theory of Selling)

Howard incorporated these four elements into an equation:

$$B = \underline{P} \times \underline{D} \times \underline{K} \times \underline{V}$$

Where

B = Response of the buyer

P = Predisposition or force of habit

D = Drive level of the buyer or motivation to buy

K = " Incentive potential" , that is the value of the product or its potential satisfaction to the buyer.

V = Intensity of all cues : triggering, product or informational

BEHAVIOURAL EQUATION THEORY

- J A Howard explains buying behaviour in terms of the purchase decision process. He uses four essential elements of the learning process namely
- Drives – Strong internal stimuli that impel the buyers response

  Innate –Physiological like hunger, thirst etc

  Learned – Strive for status
- Cues – Weak stimuli that determine when the buyer will respond

  Triggering – Activate the decision process (price, smell, aroma etc)

  Non-Trigerring- Influence the decision process but do not activate (Package, information on the cover etc)
- Response – is what the buyer does
- Reinforcement - any event that strengthens the buyer's tendency to make a particular response