UNIT 8 SALES BUDGET AND CONTROL

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8.0 INTRODUCTION

Sales budgets and control help to monitor sales performance. They also help to maintain and improve the efficiency of sales operations. This unit helps to understand the use of a sales budget and the ways in which a sales budget can be prepared. It also presents to the reader the the various processes and methods that go into sales control.

8.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Explain how sales control helps to monitor sales performance, maintain and improve the efficiency of sales operations
- Understand the various proceses and methods of sales control
- Appreciate the importance of audit
- Understand the role of budget setting in order to achieve the actual sales target
- Describe the various budget-setting methods

8.2 WHAT IS A SALES BUDGET?

A budget is a financial plan and tool of control. In a sales budget, resources are allocated to achieve the sales forecast. It states what and how much each salesperson will sell. It also spells out what and how much will be sold to the different classes of customers. A budget is an estimate of sales, either in units or value and the selling expenses likely to be incurred while selling.

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Once the budget is accepted in terms of estimated sales, expenses and profit figures, the actual results are measured, and compared against the budgeted figures. It is an instrument of planning that shows how to spend money to achieve the targeted sales. A budget also anticipates a particular level of profit.

Figure 8.1 *Budget in Promotion MIx*

Table 8.1 *Format of a Sales Budget (Quarterly)*

Budgeted	*Actual*	*December*	*January*	*February*
Expenses				
Salaries				
Commissions				
Bonus				
Medical				
Retirement				
Travel				
Lodging				
Food (Boarding)				
Entertaining				
Office expenses				
Mail				
Telephone				
Miscellaneous				
Promotions				
Samples				
Catalogues				
Pricelists				
Visuals				
Advertising				

Source: *Professional Sales Management* by Anderson, Hair and Bush (page 104).

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Budgeting is a short-term exercise that attempts to optimise business profits by accommodating customer-service activities and incurring expenses to acquire new business. For instance, to increase the sales volume by Rs. 2 lakh, sales management may have to rope in new customers. The expense of appointing new customers is also included in the budget.

A format of the sales budget can be seen in Table 8.1.

8.3 THE BUDGETING PROCESS

In many organizations, sales is the key variable for formulating the budgets of the other departments. Thus raw materials and production are purchased and planned in accordance with the sales estimate, leading to the purchasing budget. Finance is arranged in accordance with the requirements of production and other departments. Human resources are deployed to realize the overall planning requirements. The starting point becomes the sales budget. It generates other budgets like the inventory budget, purchase budget, production budget and so on. The sales budget becomes a major input in the financial plan.

Planning can be top-down or bottom-up. In a top-down plan, the plan flows from the top, and is broken down into smaller units. In a bottom-up plan, the departments and units set their own goals, which are aggregated at the top. In sales budgeting, some organizations adopt a top-down approach in which the goals are set by the immediate higher level. Some organizations follow a bottom-up approach where each level in sales right from the salesman puts forward sales and profit objectives. The bottom-up style is more participatory.

Each budget has quotas or standards, against which management has to measure performance. Evaluation and control are vital parts of the management process. As the opening scenario suggests, management needs feedback on the effectiveness of its plan and the quality of its execution to operate more effectively; otherwise it is easy to lose sight of the firm's objectives.

In order to achieve goals and objectives, sales managers plan by outlining the essential costs to be incurred.

The budget acts as an instrument of coordination. Selling is one of the functions of marketing and needs support from the elements of marketing mix. Budgets help in integrating all functions, like sales, finance, production and purchase.

A comparison between budgeted and actual cost results in the analysis of factors causing variations and enables the sales manager to spot problem areas or plan better for expected outcomes.

8.4 METHODS OF SALES BUDGETING

Affordable Method: Many companies set the promotion budget at what they think the company can afford. This method is adopted by firms dealing in capital industrial goods.

Rule of Thumb (percentage of sales) **Method**: Most companies set their sales budget as a specified percentage of sales (either current or anticipated). Mass-selling goods and companies dominated by finance are major users of this method.

Check Your Progress

1. What is a sales budget?
2. What is the advantage of comparing the budgeted costs with the actual costs?

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Competitors' Parity Method: This method is adopted by large-sized companies facing tough competition. The knowledge of competitors' activities and resource allocation is important if an organization wants to pursue this method.

Objective and Task Method: This method calls upon marketers to develop their budgets by identifying the objectives of sales function and then ascertaining the selling and related tasks to achieve the objectives.

8.5 PREPARING THE SALES BUDGET

The sales budget is the most important element of sales. There are three basic sales budgets, namely:

1. Sales budget: This budget is kept for sales activities.
2. Selling expense budget: This budget is basically designed for dealing with sales expenses.
3. Sales department administrative budget: This budget is designed for expenses related to administrative purposes.

The proforma of a sales budget is given in Table 8.2.

Table 8.2 *Specimen Form of a Sales Budget*

Items	*Month 1*			*Month 2*	*Month 3*
Sales	*Budget*	*Actual*	*Difference*		
Expenditure					
Salaries					
Commission					
Bonus					
Medical treatment					
Retirement					
Travel					
Lodging					
Food					
Entertainment					
Office Expenses					
Mail					
Telephones					
Miscellaneous					
Promotions					
Samples					
Catalogue					
Price list					
Advertising					

Control of the Sales Operation

8.5.1 Review and Analysis of the Marketing Environment

District sales managers prepare their district budget and submit it to the regional or divisional office where they are added to and included in the divisional/regional budget. In turn, these budgets are submitted to sales managers for the particular product or market groups. At the end of the chain of subordinate budgets, the top executives in the sales department scan and prepare a final sales budget for the company.

Resources have to be allocated to products, customers and territories. The budget should be realistic in order to maximize its favourable impact on the firm. An analysis of SLEPT factors is undertaken before setting the budget. SLEPT factors are social, legal, economic political and technological factors that are present in the environment and help in scanning the environment.

Every budget proposal submitted to top management must remain in competition with proposals submitted by heads of other divisions.

Actual budget control features go into operation as soon as the approved budget has been distributed to all units of the firm. Each item in the budget serves as a quota or standard against which performance is measured.

8.6 SALES CONTROL

One of the most important responsibilities of a sales manager is to exercise control over sales and the performance of selling/sales activities. Sales need to be controlled both on an ongoing (continuous) basis as well as overall, periodically. The sales control function assists the manager in ascertaining which level of sales have been achieved, why there has been a variance and what remedial action can be taken to achieve the target results.

8.6.1 Purpose of Sales Control

Sales control assists the sales manager in:

- Initiating remedial steps
- Revising the sales policy and strategies followed
- Implementing steps for improving the productivity of sales force
- Improving the quality of target-setting sales plans and budget functions
- Increasing sales profitability

8.6.2 The Sales Control System

A sales control system should be set up on the following guidelines:

1. Setting detailed objectives
2. Establishing standards for appraising performance
3. Gathering information on actual sales activities and results
4. Comparing actual with expected sales
5. Taking remedial action .

The existence of a comprehensive sales information system in the firm is a prerequisite for an effective sales control system. This can be done by recording sales by value, by customer, by salesperson, by territory, by distribution outlet, by cash or credit.

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8.7 NATURE OF CONTROL

The key role played by evaluation and control in the management process is depicted in the feedback-control system shown in Figure 8.2. Company goals initiate the process by serving as the targets that guide the formulation of plans. Once designed, the plans need to be implemented to become part of the daily operations. The firm then needs to collect and organize information about its operations so that it can compare this data with its goals to determine how well it is doing. Such evaluation and comparison provide the control for the enterprise.

Figure 8.2 *Control of the Sales Operation*

Comparison between budgeted and actual cost result in the analysis of factors causing variations and enables the sales manager to spot problem areas or plan better for expected outcomes.

8.7.1 Methods of Sales Control

Sales volume analysis

This is a detailed examination of sales volume by territory, salesperson, customer, product line, etc., which is recommended in order to know the real situation and gain meaningful insight.

The sales manager scans the total sales on territory basis. Any unusual conditions in any territory such as intense competition, strike by labour union or transportation, etc., which has an adverse effect on the company's products, is considered for further sales analysis. In the above example, actual sales need to be compared with desired sales and the reasons for variations looked into.

Table 8.3 *Sales Analysis by Product Line*

Product line	*Quota achieved*	*Actual Quota*	*Performance (%)*
Xerox machines	50	55	100
Portable typewriter	40	40	100
Fax machine	30	06	20
Laptop	20	20	100
Personal computer	20	18	90
	160	139	86.9

We see, in Table 8.3, that sales of typewriters and laptops have been achieved as per actual quota. Here the cost incurred to achieve sales is considered. It is not just sales but sales with budgeted profits or expenses that matter.

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Cost analysis technique

A cost analysis attempts to isolate the costs incurred in producing various levels of sales in order to determine the segment-wise profitability of sales of the business. Cost analysis can be used by sales mangers to investigate the profitability of regions, territories, customers and various channels of distribution.

A successful cost analysis benefits the manager in ascertaining:

- The relative cost and profitability of the sales operation
- Profitable, not-so-profitable and not profitable territories
- The products, pack sizes, market segments, distribution channel
- The minimum order level quantity
- The productivity of salespersons
- The profitability of different sales promotion techniques
- The profitability of different marketing mix programmes

Performance analysis

This analysis is used to judge the performance of the sales representative based on five factors:

role perception, aptitude, skill level, motivation level, personal and organizational variables that affect performance. All these factors are linked to behaviour, performance of the salesperson and the effectiveness in performing his duties. Behaviour refers to what salespersons do. Performance is behaviour evaluated in terms of contributions. Effectiveness is the outcome of the individual in the job he has to perform.

Figure 8.3 Represents the Performance Analysis Model.

Figure 8.3 *Performance Analysis Model*

Sales management audit

A sales management audit is a comprehensive, systematic, independent and periodic audit of sales policy, objectives, strategies, organization and procedures followed by the firm. The purpose of a sales management audit is to evaluate the soundness of the sales management of the firm. It examines the validity of the very basis and assumption on which the sales function is planned and managed. By critically evaluating the sales management against the changing market environment, it points out the emerging areas of opportunity as well as areas that need observation.

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Some aspects covered in a sales management audit are:

- The appropriateness of selling functions and objectives
- The role of selling function in promotional mix and sales marketing integration
- Organization and work norms of the sales force and its size
- Recruitment, selection, promotion policy, compensation motivation of the sales force
- The basis of sales quota, sales budget, territory allocation and their market suitability
- The quality of the sales force, appraisal criteria, training and development of sales personnel.

Marketing audit

The most thorough mechanism for evaluating the marketing effort is a marketing audit. A **marketing audit** is a complete, systematic, objective evaluation of the total marketing effort of a firm. Marketing audits examine the firm's goals, policies, organization, methods and procedures, and personnel.

The two basics types of marketing audits are vertical and horizontal. The horizontal audit is often referred to as a **marketing mix** audit in that it examines all the elements that go into the marketing mix. It emphasizes the relative importance of the various elements and the mix among them. In contrast, the vertical audit singles out selected elements of the marketing operation and subjects them to thorough study and evaluation.

Sales report

A sales report is an instrument of control and regulation of activities of a salesperson. A report can be a daily sales report or a weekly one. The salesperson fills the tasks and activities of the day in the sales report. This sales report is used by sales managers to evaluate the performance of the sales people, as well as compare the sales report with the budget and sales target set for the salesperson by the sales organization.

8.8 SUMMARY

Sales control is a function of sales management for ensuring that operations are carried out as per plan to achieve the sales objectives. The sales budget is a statement of revenues and costs. It is one of the control devices available with the management which also helps in sales planning. Thus budget and control complement each other in the implementation of the sales programme.

8.9 KEY TERMS

- **Budget:** It is statement of expenses for the coming financial year.
- **Marketing mix:** It refers to the four Ps of marketing, namely product, price, place, promotion.
- **Top-down approach:** It is an approach in which authority directions flow from top management downwards.

Check Your Progress

3. How is sales control useful for a sales manager?
4. What is a sales management audit?
5. Define 'sales report'.

- **Bottom-up approach:** It is an approach in which various decisions are taken at local levels and communicated upwards.
- **Performance Analysis:** It is analysis of various factors that affect the functioning of an employee.

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8.10 ANSWERS TO 'CHECK YOUR PROGRESS'

1. In a sales budget, resources are allocated to achieve the sales forecast. It states what and how much each salesperson will sell. It also spells out what and how much will be sold to the different classes of customers.
2. A comparison between budgeted and actual cost results in the analysis of factors causing variations and enables the sales manager to spot problem areas or plan better for expected outcomes.
3. Sales control assists the sales manager in:
   - Initiating remedial steps
   - Revising the sales policy and strategies followed
   - Implementing steps for improving the productivity of sales force
   - Improving the quality of target-setting sales plans and budget functions
   - Increasing sales profitability
4. A sales management audit is a comprehensive, systematic, independent and periodic audit of sales policy, objectives, strategies, organization and procedures followed by the firm.
5. A sales report is an instrument of control and regulation of activities of a salesperson. A report can be a daily sales report or a weekly one.

8.11 QUESTIONS AND EXERCISES

Short-Answer Questions

1. Why does audit play an important role in sales management?
2. What is the role of budget-setting in achieving the actual sales target?

Long-Answer Questions

1. Explain how sales control helps to monitor sales performance and maintain and improve the efficiency of sales operations.
2. What are the various and processes methods of sales control? Discuss.
3. What are the various budget-setting methods? Explain each in detail.

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