1 Introduction to the dynamic sales force management process

Case study 1: myopic sales force management at an Industrial Mechanics Corporation

A few years ago, the Industrial Mechanics Corporation (IMC), a large firm selling and leasing mechanical equipment to building contractors for use on construction sites, implemented a new compensation plan for its sales force. The objective was to provide its salespeople with a more motivating plan than the current one which was based on salary plus commission on sales volumes. The principles of the new plan were: (1) to reduce the proportion of fixed salary in the total remuneration, (2) to slightly reduce the commission rates on sales, and (3) to compensate for the decreased remuneration level by adding an individual bonus. The salespeople could earn a substantial bonus by meeting an individual annual sales target. Sales quotas were set in such a way as to be higher than the sales volumes realized the previous year in a given territory, but at levels that were deemed both realistic and achievable.

Several months after its implementation, the new plan was considered a success. By the end of the first year, most salespeople had met or exceeded their targets. The average remuneration paid to sales staff had slightly increased. At the same time, company sales and profits had increased substantially – management attributed these positive outcomes to the new compensation structure.

Soon after, however, the situation in the sales department started deteriorating. The morale of the sales force declined, several top salespeople resigned and joined competing firms. Many others did not hide their dissatisfaction and openly declared their intention to leave, should they find the right position elsewhere. All perceived that their working conditions had deteriorated considerably, and that management always expected them to work harder for less money than they would previously have been paid in a similar job with another employer.

To compensate for this increased sales force turnover, IMC launched an aggressive recruitment campaign. The results were well below the stated objectives. It seemed that one of the major causes of the company's inability to recruit high caliber salespeople was the very tight labor market prevailing at that time. Another reason given was that the compensation package that the firm offered was lower than that they could get elsewhere.

The end result was that the firm was unable to recruit the required number of salespeople. Consequently, some sales territories were left vacant or were only covered part time by salespeople from adjacent territories. IMC's sales manager had some hired salespeople, that did not meet the required standard.

By the end of the second year, IMC's sales and profits had dropped significantly.

This case illustrates some of the complex interactions that exist within a sales force. Decisions in one area may directly or indirectly affect other aspects of the sales force, sometimes immediately, and at other times, after some time lag. The decision to change the compensation plan, which seemed to be appropriate to boost sales in the short-term, happened to have subsequent adverse effects. The new compensation plan had been "motivating," in the sense that salespeople had to work harder to meet their quotas and earn a bonus. They had been given the choice of either increasing their remuneration (slightly) by achieving a higher performance level, or accepting a pay cut. The implied increase however, was not commensurate with the additional effort they had to put in, as well as with the increased risk associated with the new plan (i.e. working harder and not meeting their quota). IMC's management failed to anticipate the negative impact the plan could have on salespeople's morale, on the sales force turnover rate, and on the firm's ability to recruit new staff – all long-term effects.

This case study suggests that IMC did not have a long-term vision for the management for its sales force. In order to account for the long-term consequences of any decision, management's vision must encompass future events over some far-reaching time horizon. This requires a *dynamic* management of the sales force. In other words, to be efficient, sales managers must *develop and keep a holistic vision of the complex sales force system they must manage, over a sufficiently far-reaching time horizon.*

To properly handle such a complex human system, sales managers must be competent and possess strong *leadership qualities*. A major characteristic of leaders is their ability to develop a far-reaching vision and to induce all the people involved in a given endeavor to share this vision. Effective sales executives manage the sales force by making decisions that contribute to their firm's short- and long-term objectives. This dynamic vision was absent from IMC.

Over the last few decades, most of the books published in Europe and North America about sales force management have considered the various management areas as if they were isolated and independent from one another. Sales force management has often been presented as a juxtaposition of various decision domains. For example, the recruitment of salespeople, the organization, supervision, motivation, compensation, and control of the sales force are treated successively. This may be an extremely efficient approach from a didactical point of view, because it focuses on one decision area at a time. It fails, however, to accurately describe what managing a sales force efficiently is all about.

Sales force management involves a very large number of decisions, some strategic, others tactical, all bearing on a complex system (Darmon 1993). As suggested by the IMC case, this complexity calls for a holistic and dynamic approach to sales force management.

The selling function is gaining in importance in most organizations. Nowadays, an increasing number of firms recognize the central role and importance of their customers in their own operations. As a result, salespeople who have traditionally been assigned the role of ensuring quality relationships with customers through face-to-face interactions, tend to play a decisive role in the success of many firms. More frequently than ever before, firms involve sales management in strategic planning. In addition to operational decisions, for which they traditionally have assumed – and will continue to assume – this responsibility, sales managers must now conciliate operational responsibilities and strategic missions for the sales force. This broadening role of personal selling in an organization gives increased importance to this concept of sales force dynamic leadership.

This chapter is devoted to an analysis of the main implications of this holistic vision of sales force management on objectives setting and control decisions. After a more detailed definition of the concepts of dynamic sales force management and control, it provides an overview of the dynamic management process that serves as a guiding framework throughout this book.

The dynamic sales force management process defined

Sales force control and dynamic management process

A dynamic management process links the strategic and operational actions that take place within the framework of a specific organizational structure. It relies on a number of systems (objectives, plans, budgets, control indicators, etc.) and practices. As a result, dynamic sales force management implies meeting pre-specified objectives under the best possible conditions, within a given time frame, and within a sales strategy defined by marketing and/or sales managers.

For an organization, controlling its operations consists of devising and implementing procedures for checking, orienting, evaluating, and compensating employees (Anderson and Oliver 1987). Consequently, the concept of dynamic management goes well beyond the simple notion of control. Although the dynamic management of a sales force includes the control function, its main purpose is to meet a firm's objectives. It is the process that sales managers follow when they define and display the appropriate means at their disposal for influencing and controlling (within limits) the actors of the selling process – these include customers, salespeople, and middle sales management. The process intends to make all the actors contribute to the firm's objectives in the most efficient way possible. In this book, this process is called the 'dynamic sales force management process' ("the process").

Understanding the process: a metaphor

The dynamic sales force management process concept that has just been defined is perfectly in line with the roles, tasks, responsibilities, and duties that must fulfill the pilot of any means of transportation, be it a car, a train, an aircraft, or a vessel. However, if similarities are substantial, some differences are also important and worth noting.

Main similarities

Piloting an A380 Airbus

Let us observe the activities of a captain at the commands of (for instance) an A380 Airbus aircraft that must take off from London's Heathrow airport to Paris Charles-de-Gaulle, some Monday at 10 o'clock in the morning.

Given the exact location of the Charles-de-Gaulle airport (the objective), the date and time of departure (some constraints), the captain of this aircraft and its crew must step on board some time before the departure time. They set up and study the flight plan (the planning stage). For that purpose, the crew members in the cockpit study navigation maps. They inquire about weather forecasts over the Channel, as well as all other facts that they deem relevant for preparing for the voyage. The crew members get information about all the environmental constraints they must take into account.

On the basis of such information, the captain and crew decide which route to follow to reach Paris on time. To do this, they must analyze and take into account a large amount of data, as well as a number of unavoidable constraints. These are imposed by the airline (e.g., certain flight procedures), the control tower (e.g., the departure time and the runway for take off), or the prevailing air traffic regulations. Given these constraints, the crew selects what appears to be the best route, speed, cruising altitude, as well as other planning details. In other words, the captain selects an efficient *strategy* for the London-Paris flight.

After departure, the crew follow the flight plan (the implementation stage). In spite of the forecasts, however, pilots sometimes face unforeseen (and typically unforeseeable) situations over which they have little or no control. Exceptionally, a major dramatic event occurs – for example, an engine fails. This requires the crew to make major decisions that will mean drastic changes to the original plan. For example, the pilot may decide to land at a closer airport or to return to the original airport.

Even in less dramatic situations, the pilot frequently faces unforeseen events. For example, the aircraft may have to deal with some turbulence. To avoid causing discomfort to passengers, the pilot may ask to change altitude. These are tactical adjustments to deal with the current situation, but they do not substantially alter the original flight plan.

In the cockpit, the pilot consults a large number of displays, and numerous measuring instruments. These inform the crew of the amount of fuel still available, the altitude, the speed of the aircraft, the outside temperature, as well as many other pieces of information that are relevant to air navigation. By keeping track of these indicators, the pilot knows if he or she will keep to the intended route or not and eventually, take corrective action.

To maneuver the aircraft, a pilot must activate certain switches and levers. These control the aircraft. They allow it to take off, to increase or decrease in altitude, to veer right or left, or to land, as desired. Because of unexpected variations in the environment, however, a pilot's actions do not always have the expected results. Gaps between objectives and actual situations are generally signaled by the aircraft's instrument panel. The pilot can make tactical adjustments to bring the aircraft back to the intended route.

Aircraft pilots must have definite and specific competencies. They will have undertaken extensive training and will have acquired a vast theoretical knowledge about general air navigation. Theoretical knowledge, however, is not sufficient. Pilots cannot be considered competent unless they have actually flown an aircraft for a substantial number of hours, under various types of conditions, and have acquired the practical experience on how to handle exceptionally difficult situations on flight simulators.

In addition to general knowledge and competencies, pilots must be given and collect all the relevant information about the various missions they must perform. Competent pilots must have the ability to look for, process, and integrate relevant information for accomplishing specific missions.

Implementing the process

Sales managers fulfill functions that are in many ways very similar to those of the A380 Airbus pilot. At the beginning of every year or every quarter, general managers or marketing managers assign (or establish) sales and marketing objectives to be met by the end of a relevant planning period. Then the sales managers start planning. They try to obtain information about economic forecasts concerning their markets and their clients' industries. In other words, they collect information about relevant environmental constraints. Then, they generally define a sales strategy: an action plan, which, according to their best estimates, should permit them to reach the yearly or quarterly objectives they have been assigned, taking into account the prevailing market and economic constraints.

A sales manager may face important unforeseen events when implementing the sales plan. For example, a competitor may possibly have launched a major innovative product that could make the firm's product obsolete. Fortunately, in the same way as engine failures are relatively rare events, this type of occurrence does not happen too often. Should it happen, however, it requires drastic action on the part of the managers who must reconsider the marketing strategy that was originally planned.

Events that occur in the environment often have less dramatic consequences. They are, however, frequent and almost impossible to anticipate. The economic conditions may be better (or worse) than anticipated. These may be effects from an aggressive promotional campaign by a competitor. New laws may be adopted which affect the selling conditions for the product, as is frequently the case in the tobacco industry. These are only a few examples out of a very large number of possible events. In such cases, sales managers react by adjusting their sales programs. They make tactical adjustments that do not put the general strategy into question. For example, they may react to more difficult economic conditions by increasing the number of calls made to prospects by salespeople. Following a promotional campaign by a competitor, they might give their salespeople more leeway to give better discounts. They may also adjust their advertising campaign to abide by the new regulations.

Like a pilot at the controls of an aircraft, sales managers cannot properly manage their sales force if they do not have precise and relevant indicators about their operations, for example salespeople's call reports, or customer satisfaction surveys.

Sales managers too, exert some control over the sales force by adjusting the elements that are under their control, for example, the compensation plan, the objective or quota plans, the direct supervision of salespeople's activities, or training sessions. Sales managers regularly compare the performance levels of their sales force with performance forecasts to make sure that everything is on track. If this is not the case, some corrective action is called for.

Sales managers, like pilots, must have acquired the necessary knowledge and competencies to manage their sales teams. They must understand the general personal selling process, the management of a sales team, the behaviors of their customers and of their salespeople. The quality of a manager's knowledge base depends on the amount and accuracy of the relevant information it contains.

Note that major differences exist among the concepts of management's information, knowledge, and competence (see Figure 1.1). A piece of information is an element that has meaning, but which becomes useful only when interpreted and integrated with other information to become knowledge. "The sales force turnover rate has increased from 10 to 20 percent this year" was information for IMC's sales manager. When this information is interpreted so that the causes of such an increase can be understood, it becomes management knowledge. Knowledge is a set of information about a topic that an individual has interpreted and integrated to understand some phenomenon or a given situation. When the increase in turnover rate can be attributed to dissatisfaction with the new compensation structure, this becomes managerial knowledge.

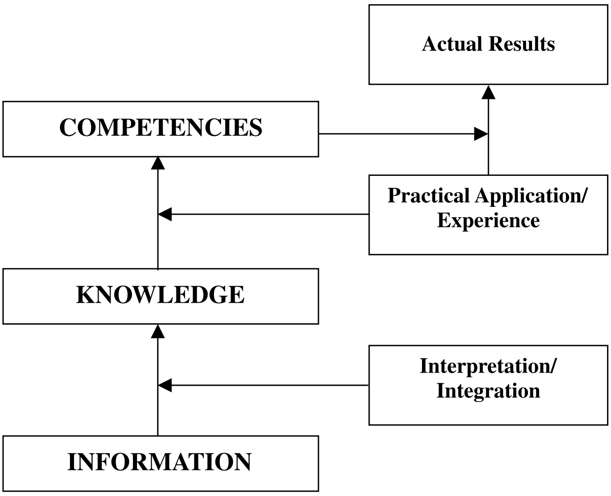

Fig. 1.1 Various levels of information integration

Competencies are a set of integrated information about a certain field of knowledge, plus a recognized and proven experience of the practical application of this knowledge. In the same way as pilots are considered as competent when they have shown they know what to do in a variety of (often difficult) situations, competent sales managers must have demonstrated their ability to manage a sales force effectively. Returning to IMC, a competent sales manager should have known exactly what to do when the sales force turnover rate had increased as a result of their dissatisfaction, and should have done it!

Sales managers must be able to look for, process, and integrate the information relative to every sales mission to make appropriate decisions and fulfill the mission. Some of a manager's knowledge and competencies apply irrespective of the firm and its sales force. Others, are firm-specific and not transferable to other selling situations.[1] Like pilots, competent sales managers must demonstrate that they can apply their knowledge in practical situations.

Some differences

Although the similarities between the functions of a pilot and that of a sales manager are substantial, there are also some major differences. From a practical point of view, a pilot controls a material entity (the aircraft),

[1] These are referred to as specific assets in the transaction cost analysis literature (Williamson 1975; 1983).

while a sales manager manages a team of human beings (the sales force). When pilots activate a switch, they may reasonably expect the aircraft to respond in a particular way (short of mechanical failure). When sales managers attempt to ‘‘control’’ a sales force, by, say, setting new norms on the number of calls to make to prospects, they cannot predict how individuals will actually react. The IMC sales manager learned this the hard way!

It may be more accurate to compare sales managers to the commander of a squadron, all displaying more or less autonomy in their actions. Even in this case, however, the metaphor can only be carried so far. Military discipline, the personal and collective danger that may result from an individual action on the part of a pilot, mean that squadron commanders have much more authority over their pilots than sales managers have over their sales force. Although sales managers can expect an average salesperson to react as anticipated, they cannot know with certainty how every salesperson, and consequently how the whole sales force, will actually react to their directives.

There is a second major difference between aircraft pilots and sales managers. To meet their objectives, sales managers, unlike pilots, can easily alter the structure of the system they control. They may, decide to increase or decrease the size of the sales force, or permanently redefine the role and assignment of every salesperson. Sales managers encompass a much larger decision domain than pilots do. This makes their function more complex.

When pilots have completed a mission, the aircraft is repaired, and put back into its original order. Sales managers must fulfill a series of missions, with the sales force in the state it was left in at the end of the preceding period. This can be a threat or an opportunity, depending on how they have accomplished their preceding missions.

In spite of these differences, however, the pilot metaphor that has been developed in the preceding paragraphs should provide a good understanding of the scope and content of the dynamic sales force management concept.

Main elements of the process

The dynamic sales force management process consists of devising procedures that induce the sales force to perform correctly to achieve the specific objectives set by management. Be it an aircraft, a vessel, or

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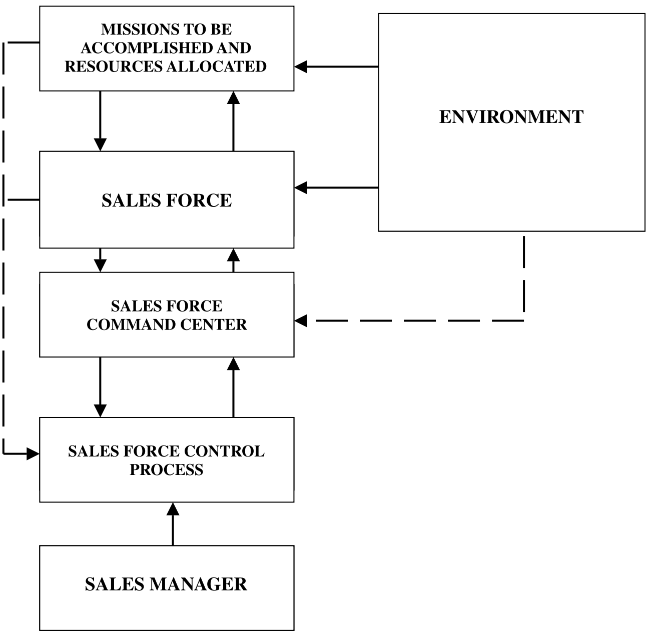

Fig. 1.2 The main elements of a dynamic sales force management process

a sales force, any system to be controlled is made up of a certain number of elements that can be conveniently grouped into five categories (Figure 1.2):

- A (sales) mission, with a number of characteristics, that must be accomplished in a given constrained context (customers and/or markets), in a typically uncertain environment, and with the resources allocated for meeting the mission (budgets, support from other functional departments, etc.);
- a system that must be managed in order to accomplish the missions in this uncertain environment (the sales force);
- a (sales force) command center;
- a dynamic (sales force) control process; and
- a leader (the sales manager) who is responsible for achieving the objectives of the missions (Darmon 1998a; Jaworski and MacInnis 1989).

Figure 1.2 describes the main links among these five sets of elements. Once the customer and market objectives of a mission are set, sales managers exercise their leadership to meet those objectives. Analyzing the information obtained from the command center, they follow managerial procedures for making and implementing adequate decisions: they utilize some resources and some tools out of the management tool kit at their disposal. The sales force reacts by taking the proper actions toward