THE CONTROL OF INDUSTRIAL SALES OPERATIONS

BY

HERBERT GIESER

A THESIS
SUBMITTED TO THE FACULTY OF
THE DEPARTMENT OF MANAGEMENT ENGINEERING
OF
NEWARK COLLEGE OF ENGINEERING

IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE

OF

MASTER OF SCIENCE
WITH A MAJOR IN MANAGEMENT
ENGINEERING

NEWARK, NEW JERSEY

1957

APPROVAL OF THESIS

FOR

DEPARTMENT OF MANAGEMENT ENGINEERING

NEWARK COLLEGE OF ENGINEERING

BY

FACULTY COMMITTEE

APPROVED: ______________________________

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NEWARK, NEW JERSEY

JUNE, 1957

PREFACE

With selling becoming so competitive in the past quarter century, managerial control over the sales organization is necessary for survival. Essentially, controls cover the regulation and administration of territories, expenses, and the measurement of performance.

The purpose of this thesis is to investigate the various phases of controls, the many plans which can be applied, and the advantages and disadvantages of these plans. Emphasis is placed on the case studies of some of the many firms which have put these control programs to work successfully.

This thesis is intended for management executives, sales managers, and sales staff executives in equipping themselves for the perplexing problems in administering sales policies in the field.

The author wishes to acknowledge with thanks the evaluation of the thesis and suggestions offered by Mr. Joseph F. Pellechia, Sales Manager, Chemical and Power Products, Inc. The many suggestions and helpfulness of Dr. William J. Jaffe of Newark College of Engineering during the preparation of this paper is gratefully appreciated.

These acknowledgements would not be complete without the author expressing his appreciation to his wife, Gladys, not only for the preparation of the manuscript, but above all for her forebearance and encouragement in making this thesis possible.

Herbert Gieser

Union, New Jersey
May 1, 1957.

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THE PROBLEMS OF MANAGERIAL CONTROLS IN INDUSTRIAL SELLING

WHAT ARE SALES CONTROLS?

Since the dark days of selling in the 1930's, progressive sales administrators have realized more and more that, in order to do a profitable business, coordinated managerial controls are a necessity in industrial selling.

Managerial controls are more then the setting up of objectives, plans, and policies. Although these are important in the control system, sales controls may be defined as action that adjusts the sales organization to standards which have been set up previously.[1] Controls include (1) a continuous check to see that assignments are carried out as expected, and (2) corrective action in the event they are not.

Essentially, managerial controls cover the regulation and administration of territories, expenses, and the measurement of performance. The bases of controls are the various field reports which are submitted by the sales force and should be coordinated and studied by the sales manager in order that the program is successful. Although reports are most important they must be held to a minimum so that the sales force continues to function as a selling organization and does not become a reporting or statistical group. Too many sales administrators become so involved in reports that they are forced to neglect their sales duties.

[1] "The Meaning of Control," Dun's Review, Vol. 67, January 1956, p. 45.

THE IMPORTANCE OF GOOD COMMUNICATION IN CONTROLS

For controls to be successful, good communication between the field and the home office is important. In most organizations the program is unsuccessful because reports become one-way communication only. In recent surveys of over 3,000 industrial salesmen, almost 50 percent felt that their field reports made no contribution to sales effort and their firms did not make good use of reports, simply because of little or no two-way communication.[2]

Good communication also insures a better understanding by the sales force of what management is trying to accomplish. With this understanding, better cooperation and more interest is assured. The salesman must recognize that the purpose of controls is to help him as well as the firm to do the most efficient job at the least expense. The attitudes of the sales force and management toward one another and toward their work has a direct bearing on sales effectiveness.[3] Thus, the importance of good two-way communication cannot be overemphasized.

SALES SUPERVISION

Territorial and expense controls and the measurement of performance requires good supervision. A sales manager must carry on a continuous check on salesmen's activities to find where improvements in performance and sales can be made. In order to be fully acquainted with the sales

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[2]"Call Reports-More Abused than Used," Dun's Review, Vol. 67, March 1956, p. 52.

[3]Canfield, B., Sales Administration Principles and Problems (New York: Prentice-Hall, Inc., 1954), p. 255.

operation, a sales manager must be in the field continuously with his men. The writer is familiar with one organization where one of the sales supervisors spends 90 percent of his time in the office working on reports and writing memoranda to the sales force. He may call on one customer a month with one of his salesmen. Although the manager feels he is doing a good supervisory job through the use of reports, he actually is doing a poor one by not being acquainted with the field situation. Conservatively, this organization could be making at least 20 percent more effective calls. Business has been good the past few years not because of the supervisor, but in spite of him.

Objectives of Sales Supervision

Primarily, supervision is necessary to measure sales performance, to make sales effort more productive, and to motivate the sales force.[4] These objectives can be accomplished by organizing every salesman's efforts. Scheduled calls, and planned coverage must be worked out with the salesmen by the supervisor.

By accompanying the men in the field, sales supervisors can point out improvements which can be made in the individual saleman's presentation. Also, they can reduce travel costs by studying coverage and routing first hand. Too often salesmen make long trips to one or two customers, passing many potential customers on the way, thus adding materially to travel costs.

A further objective of sales supervision is to improve the morale

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[4]*Ibid*, p. 289.

of the sales force, because a contented salesman makes for a successful salesman. The supervisor must strive to gain the confidence of his men, recognizing accomplishment. Constructive criticism should be done in private, on a friendly man-to-man basis. In one of the largest corporations in this country, the writer is acquainted with several supervisors who think nothing of criticizing a subordinate in a group meeting in a teacher-schoolboy type of relationship. One of these very supervisors told his men that he does not believe in praising a subordinate for obtaining a sizable order, because, he insists, that is what the salesman gets paid for. Of course, morale in this organization is very poor, as evidence by a 20 percent turnover per year.

Supervisory Control

Salesmen can be controlled by their supervisors in the following ways:[5]

1- Direct contact

2- Correspondence

3- Salesmen's field reports

4- Sales manuals and bulletins

5- Meetings and conventions

6- Contests

Direct contact.

The best method of supervision—like the best method of selling—is through personal contact. This method insures the salesmen

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[5]Nystrom, Marketing Handbook, (New York: The Ronald Press, 1951), p. 880.

understanding instructions and enables the sales administrator to determine the reaction of the salesmen at first-hand. Any questions in the minds of the salesmen can be answered before instructions are misapplied due to misinterpretation. In this way, management is more aware of the problems in the field. Of course, this is not without some difficulty: through personal contact the supervisor must be constantly traveling the territory.

Correspondence.

Many minor matters of control and policy can be handled through correspondence. This method of supervision offers a permanent record, and correspondence can be read at the salesmen's convenience. However, in matters of extreme importance the letter should not be used, because of the possibility of misinterpretation. It would do well for all supervisors to study a good manual on letter writing in order to get the desired results.

Salesman's field reports.

Most firms resort to the use of some field reports for supervision. There are many of these in use in industrial selling. Frequently, reports are the bases of controls, although, with this method, the control actually occurs after the facts.[6] Reports can be very valuable, but too often they say little more than to whom the salesman spoke and a "yes" or "no" on the order.

There are many different views concerning the use of field reports. Some widely known firms feel that no reports are necessary.

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[6] "The Meaning of Control," Op. Cit., p. 45.

They feel that they hire competent men only, and, in order to do the best selling job possible, the salesmen should spend all their concentrating on sales.[7] On the other hand, other sales executives feel that reports present the only overall picture of field conditions.

The most widely used report is the "call report." The call report indicates when and on whom the salesman called during the previous week or month. In determining the use and complexity of "call" or any other reports, the most important point is to require only that information that is of value to the administrator. Forms can be so arranged so that blanks may be checked and as little writing as possible is necessary. Some firms require daily call reports, while others use weekly or monthly records. Still others combine the call report with the expense account form, and, in that way, they are more apt to be received favorably by the sales force. (The use of the expense account will be discussed more fully in Chapter III under the subject of "Expense Control.")

Other forms in use include reports on customer complaints, prospective customers, lost business, competition, credit, market data and advertising.[8]

The report on customer complaints is important in determining service policies or design changes. A detailed description of the complaint and the cost to correct the complaint are valuable

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[7] Nystrom, Op. Cit., p. 885.

[8] Jones, J.G., Salesmanship and Sales Management (New York: Alexander Hamilton Institute), p. 307.

information on this form.

The use of reports dealing with prospective customers gives the sales manager a good idea of what is being done in the field. This is valuable in analyzing and increasing coverage. In some instances, this form is part of the call report, with the salesman reporting accounts added and lost, and listing initial calls.

Every firm should have some method of reporting lost business. Whether this report is incorporated into the call report or whether it is a separate report on business activities is immaterial. However, the information forwarded to headquarters is most important in keeping abreast of trends in each territory and the position of the firm with respect to competitors. Information regarding who the competition is, what was specified, what was offered, and at what price the job "went for" (if this information can be obtained) should be reported. By explaining to buyers that the firm is interested in offering as much service as possible and wants to be aware of trends as they occur, it is surprising how much information a salesman can report. The data should be studied by the sales manager, and, although no sales manager expects to get all the business that is quoted, he must be alert for chronic conditions which place the sales force at a disadvantage competitively. Any unusual conditions reported by a salesman should receive an honest and complete answer by the sales manager so that the men will realize that the report is not just a waste of time but is the basis of sales policy new product development.

The report on competition is often combined with the report on lost business. The information required is the appearance of new competition and any substitute products offered.

Credit reports may be required of the salesmen on any new customers in order to help determine a credit rating. From his contact with the customer the salesman may be able to offer information on how quickly invoices are paid as well as the customer's financial condition.[9]

The market research department depends on market data reports supplied by the field. These reports advise market conditions, the future outlook, supply and demand. They are the basis of territorial quotas (to be discussed in Chapter IV) and to estimate immediate production requirements.

The advertising report gives information regarding the salesman's reaction to advertising and its influence on business. This is not used to any great extent by most sales forces.

Sales manuals and bulletins.

A universally recognized method of control and supervision is the sales manual. A well-prepared manual written in simple and concise language will insure uniform interpretation of policy at all times. The manual supplements the personal contacts made by the manager and covers standard procedure on many subjects which the manager would not have time to discuss with each individual salesman. It should be prepared to serve as a text book for new men and a source

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[9] Nystrom, Op. Cit., p. 901.

of information for the whole sales force.

The contents will depend on the requirements of the particular firm. Usually it includes data on policies concerning the procedure for handling orders, credit, returns, guarantees, price policy, terms of shipment, organizational data, repairs and service, and information on selling tools. Separate price books, product manuals, and service manuals supplement the sales manual.

The sales manager should encourage his men to read the manual frequently so that they are familiar with its contents. The manual need not be elaborate, nor is its form important. The preparation of its contents requires the utmost care, however. Loose-leaf form is best since it allows changes and additions to be made easily. Keeping the manual up to date is an important function of sales management, and the manual should be based on the salesmen's actual needs. Many firms have the salesmen take an active part in its preparation so that it is sure to cover their field problems.

Meetings and conventions.

Many firms use annual sales conventions where salesmen work in widely scattered territories in order to present new information or to motivate the sales force. Usually they are held at the home office or factory and may be a three or four-day conference. The cost of this type of meeting is very high since the men must travel to the plant, hotel accommodations must be provided, and the men are away from their territories for several days. For these reasons the value of annual sales conventions or national sales meetings is often questioned.

Local or regional meetings are more economical and serve the same purposes as a national convention. Some sales managers feel they are more advantageous because the groups are smaller and there is more interest and group participation.

A convention must be well planned to be successful. It must be "played up" in advance by letters to the salesmen, who may be asked for suggestions regarding topics for discussion. The program must cover all important problems and, if the men are to participate, they should be told ahead of time what will be expected of them. The chairman should keep strong control of the convention so that the program is followed and is interesting enough to keep the sessions alive. He must not let the program degenerate into a "gripe session."

Contests.

Another method of control is by the use of contests. Everyone seems to have a desire to excel or belong to a team, and these desires can be satisfied by sales contests. They not only recognize accomplishment, but contests promote selling efficiency and fulfill a desire for recognition as well.[10]

Some sales executives object to sales contests because there is a tendency to oversell customers. Ill feeling or jealousy among the salesmen may be created, and morale will suffer among many of the

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[10] Jones, J.G., Op. Cit., p. 329.

men who do not win. Immediately after a sales contest there is a tendency for sales to decline.[11] Since most contests are based on volume, initial calls and service may be neglected.

In any contest everyone should have a chance to win. Since not all territories have equal potential contests must not be based entirely on volume. Standings must not be determined according to the percentage increase over a previous period, since this gives the poorest producer of the previous period the best chance to win. In order to satisfy these requirements, some contests offer prizes for percentage increase in sales over an established minimum and another prize for total sales.

Some contests give more credit on higher profit items than low profit products. However keeping score may become complex with this system.

Salesmen will respond more enthusiastically to an appeal to their pride and desire to win than to a monetary reward, unless the cash reward is sizeable. Therefore, prizes should not consist of money. Many successful contests are waged for pennants, a cup or even the honor of seeing one's picture in the company newspaper.

SUMMARY

With selling becoming so competitive in the past 25 years, coordinated managerial control is necessary for a sales organization to survive.

[11]Canfield, B., Op. Cit., p. 275.

Direct contact is the preferred method of sales supervision, but most organizations must resort to the use of reports. There are many forms used by sales organizations, however the number of forms must be held to a minimum, combining as many into one report as is practical. Only information that will be used by the sales manager should be required, and the check list type of form is preferable. To gain the enthusiasm of the sales force in the use of reports a good two-way communication system is necessary so they know the reports are used for their own improvement as well as the company's advancement in the industrial market.

A clear, concise manual is required by all sizeable sales organizations covering company policy and customer relations. The sales manager should insist that all salesmen be familiar with its contents. For the man in a remote territory it is his most important guide.

The value of conventions is questionable when the cost is considered. Too often they lack control. At many conventions the salesmen are all asked to speak and they usually only endorse what the first few salesmen say, thus they waste more time than they are worth.

II

TERRITORIAL CONTROL

Too often sales administrators think of territories merely as geographical areas. In progressive sales control, territories represent a number of potential and actual customers, and in some instances, this may cover a heavily industrialized area of only a few square blocks. A salesman who would be responsible for selling to the garment industry in New York City would probably never call on a customer beyond a three city block radius. A salesman for sub-assemblies to the automobile industry would have a lucrative territory just in the city of Detroit. Clearly then, a sales territory may include the area within a city's limits. In short, no longer are territories governed by political boundaries, but rather they are determined by the number of customers who have need for the product.[12] However, since most organizations engaged in industrial selling are set up on a territorial basis, a study of how territories should be determined must be considered.

DESIGN OF SALES TERRITORIES

The primary reasons for establishing sales territories is to reduce expense, meet competition, reduce wasted effort, compare performance, and increase coverage. These requirements can be fulfilled by following sound principles.

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[12] Poole, R.R., "Sales Territory is a Number of Accounts, not Geography," Printer's Ink, Vol. 223, April 16, 1948, p. 50.

Build From Subterritories and Marketing Areas

To insure equal opportunity for the sales force, territories of equal potential must be established. This is the most difficult problem in the establishment of a territory. Although territories may have equal potential, according to statistics, intangibles which vary from area to area (such as economic conditions in certain industries), activity of competition in some territories, the length of time a salesman has been in an area, and the size of the area all tend to create inequalities. Nevertheless these inequalities can be minimized by a sensible plan of territorial determination.

Sales territories should not follow geographical lines but should be determined by trade flow.[13] This may be called the first principle of territorial establishment. Many studies have been made to determine trading areas by the United States Bureau of Census and the Department of Commerce. The principle of territories according to trade flow is logical when one considers that industrials in Camden do most of their purchasing in Philadelphia, those in Philipsburgh purchase from Easton, and industrials in Hoboken purchase from New York City.

There are many bases which can be used to determine trading areas. Although studies have been made to make such a determination, the same areas do not necessarily form the basis for establishing territories for every firm. Consideration must be given to market concentration as well. Market concentration takes into account

[13]"Divide Territories by Map or by Type of Account?" Sales Management, Vol. 72, March 15, 1954, p. 86.

not only the principle trading areas but statistical data as to market potential as well.[14]

There are many indices which can be used to determine an industry's trading areas. These indices may be the value added to products, the number of plants in the area, population concentration, machine population, machine installation figures and industrial and population shifts.[15]

The second principle of sales territories is to build territories from subterritories.[16] Most territories have been planned from the top down, with the managers breaking their areas down into what they feel a man can handle. This does not coincide with progressive thinking in sales administration, to work from the ground up.

Under this principle territories are determined by grouping several subterritories, the number depending on intensity of coverage desired, the type of distribution, the type of product and the concentration of buyers. Thus, the greater the concentration desired the fewer the subterritories in a territory, the greater the number of distributors the fewer the subterritories. On the other hand the more specialized the product and the less concentrated the number and size of buyers, the greater the number of subterritories making up a territory.

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[14]Marsteller, W.A., "How 15 Industrial Companies Determine Sales Territories," Industrial Marketing, Vol. 36, Oct. 1951, p. 52.

[15]Heimer, E.J., "Mapping Industrial Markets and Planning Sales Territories," Dun's Review, Vol. 61, May 1953, p. 39.

[16]Crisp, R.D., "Build Your Territories Logically from the Ground Up," Printer's Ink, Vol. 232, August 25, 1950, p. 36.

There are many advantages of building territories in this manner. Not only can territories be enlarged or diminished more readily by adding or reducing the number of subterritories but territories are more easily controlled. Each subterritory becomes a control unit and government figures on market data for statistical analysis is available on a subterritory basis. Although territories may undergo vast changes, the control units usually do not change as drastically, and they do offer a better opportunity to study territories.

In the selection of subterritories certain conditions must be considered:[17]

1- Logical marketing units which follow established trade flow lines should be selected as subterritories.

2- The units selected should fit the firm's method of operation. For example, a wholesale food company would base its operation on the 184 wholesale grocery trading areas, but a fabrics firm would be established on the basis of the 46 wholesale dry goods areas as determined by the Bureau of the Census figures.

3- Territories of equal potential can and should be established.

4- Logical marketing units should not be divided—unless they become too cumbersome for one salesman to handle.

5- After all the above considerations have been evaluated, a final condition is the character of the territory. Thought must be given to train schedules and roads to insure that time and effort in travelling the territory are at a minimum.

[17] Ibid, p. 39-40

In some cases, the territory may be set up so that the salesman is home every night, thus reducing travel expenses and improving morale. In other territories, trading areas are so far apart that it is more desirable to keep a man on the road for a week at a time. In either case the selection of subterritories is the deciding factor.

In the manufacturing of industrial equipment, subterritories usually are based on the county unit and this is the basis of coverage, routing, establishing of distributors, and quotas. Although a county unit represents political boundaries, it is usually small enough so that a number of them can be grouped into subterritories without violating any of the principles cited previously. In the United States there are 3,069 counties, and it is doubtful if there is a sales organization in the country which would need a finer division than this. Trading areas for industrial equipment usually include from three or four to as many as fifty counties. Figures by the Bureau of Census on industrial equipment manufacturers are also based on the county unit.

From these figures and studies of several industrial equipment manufacturers by the writer, a list of representative centers of trading areas follows:

Akron - Canton, O.
Albany, N.Y.
Allentown, Pa.
Amarillo, Tex.
Atlanta, Ga.
Baltimore, Md.
Birmingham, Ala.
Boise, Ida.
Boston, Mass.
Buffalo, N.Y.
Butte, Mont.
Charleston, W. Va.
Charlotte, N.C.
Chattanooga, Tenn.
Chicago, Ill.
Cincinnati, O.

Cleveland, O.
Columbia, S.C.
Columbus, O.
Dallas, Tex.
Dayton, O.
Denver, Col.
Des Moines, Ia.
Detroit, Mich.
El Paso, Tex.
Erie, Pa.
Evansville, Ind.
Fargo, N.D.
Flint, Mich.
Grand Rapids, Mich.
Harrisburg, Pa.
Hartford, Conn.
Indianapolis, Ind.
Jackson, Miss.
Jacksonville, Fla.
Kansas City, Mo.
Knoxville, Tenn.
Little Rock, Ark.
Los Angeles, Calif.
Louisville, Ky.
Marietta, O.
Memphis, Tenn.
Miami, Fla.
Milwaukee, Wisc.
Minneapolis, Minn.
Mobile, Ala.
Newark, N.J.
New Hampshire
New Orleans, La.
New York, N.Y.
Norfolk, Va.
Omaha, Nebr.
Peoria, Ill.
Philadelphia, Pa.
Phoenix, Ariz.
Pittsburgh, Pa.
Portland, Me.
Portland, Ore.
Providence, R.I.
Richmond, Va.
Roanoke, Va.
Rochester, N.Y.
St. Louis, Mo.
Salt Lake City, Utah
San Antonio, Tex.
San Francisco, Calif.
Scranton, Pa.
Seattle, Wash.
Sioux Falls, S.D.
South Bend, Ind.
Spokane, Wash.
Springfield, Mo.
Syracuse, N.Y.
Toledo, O.
Tulsa, Okla.

Most industrial firms do not find it economical to establish territories or offices at each of these locations, but they combine adjacent trading areas. However the above list can be used as a good representation for territorial design.

THE SETTING UP OF TERRITORIES

The selection or revamping of territories may appear to be a simple matter from the principles set forth, but the consideration and acceptability by the sales force are most important. Usually resistance to change, by both the sales manager and the salesmen, is great.[18]

Many firms supplement the methods already discussed by conferences with the sales force to insure high morale and to "sell" the salesmen on the plan.[19] In conferences, market potential can be shown by marking a large map of the firm's entire area of coverage. After questioning each salesman regarding main population centers, how far from each population center he can cover effectively, how long it takes him to cover the territory, and the time he usually spends in each market area, he will soon realize the advantages of the plan.

Basic Factors

After considering trading areas and subterritories, thought must be given in determining territories, to the basic factors—objectives, and size of territory.

Objectives

The primary objective of territories is to insure adequate control of the sales force so that the market is exploited for optimum return to the firm. Good territorial design enables a sales organization to meet competition more effectively, eliminates arguments among salesman as to who handles a particular account, offers a basis of performance comparison, encourages economical

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[18] Crisp, R.D., "Do Your Sales Territories Match the Market Potentials?" Printer's Ink, Vol. 232, August 18, 1950, p. 30.

[19] Austin, B.M., "Key Questions to Ask Salesmen When You Revamp Territories," Sales Management, Vol. 70, March 15, 1953, p. 89.

coverage, and offers better customer service.

Size of Territory

In determining the size of territories, there are several considerations that must not be violated. It is necessary to analyze the subterritories which have been established for market coverage, potential volume, and market influences.[20]

A study of market coverage is made to determine the number of calls that should be made in the territory during a year. It is obvious that a determination of the number of actual and potential customers is a necessity. Figures which serve as guides here are the Census of Business and the Department of Commerce publications.[21]

Every customer or potential customer can be rated or classified according to the amount of sales and expected purchases. The location and cost of calling on each account should be considered. Although it is rather difficult to get information of this type, credit investigating agencies' reports are very helpful. From this classification, the sales force can determine those firms on which it is advisable to call every two weeks, those every month, and those firms which can be called on even less frequently.

After determining the number of buyers, a study should be made to determine the time required to call on customers. A review of sales records and discussions with the salesmen will reveal the

[20]Canfield, Op. Cit., p. 327.

[21]Nystrom, Op. Cit., p. 829.

time required for traveling, waiting time in customers' offices, actual selling time, and periods devoted to paper work and other non-selling functions. From this information an average "time-per-call" can be established for each subterritory. (The subterritorial unit is preferred, because of the wide variations in different areas.) In an area where there is a concentration of vendors, the waiting time may be extended and the time buyers spend with the salesmen is relatively short. In areas where buyers are concentrated, travel time is minimized.

After determining the average time required per call it is a simple matter to compute the number of calls a salesman can make. This is usually figured on the basis of 240 working days a year, allowing for vacations and holidays.

From the frequency classification previously discussed, the number of customers and prospective buyers in each subterritory, the average number of calls per year that can be made in each subterritory, the size of territory that a salesman can cover, and the number of salesmen required to service each territory can be determined. In these matters a certain number of calls should be allocated for initial calls, development calls, and distributor support calls.[22]

Before the subterritories are finally combined into territories, consideration must be given to potential sales volume so that territories of equal potential and work load are established. Too

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[22] Austin, Op. Cit., p. 90.

often this is neglected, and weak territories become areas of high turnover, high unit sales costs, and low volume.[23] Market potential indices are determined by the number of manufacturing plants, the value of goods sold, the value added to goods, capacity of electric power, and the number of industrial workers.

After establishing territories on the basis of market coverage, they are frequently adjusted on the bases of potential volume. By varying the number of subterritories, territories of equal potential are thus readily established.

There are many intangibles or market influences which tend to upset figures determined for coverage and potential. These influences include the salesman's ability and personality, competition, supporting services, the product and economic conditions in the territory.

Usually a more experienced salesman has the background and the ability to offer greater service to a customer and thus increase his bookings. He has a better realization of what his customer's problems are and how to help him. Some salesmen can apply their time to better advantage than others and can handle more profitable accounts.

In areas where competition is keen, a salesman usually must make more frequent calls than he ordinarily would in a less competitive territory. If this does not result in a satisfactory

[23]Crisp, R.D., "Do Your Sales Territories Match the Market Potentials?" Op. Cit., p. 52.

sales volume, it may be wise to increase the size of the territory so the salesman has sufficient opportunity or it may become necessary to establish a manufacturers' representative.

Supporting services, such as advertising and repair service, are important market influences. If a salesman is supported by good advertising his potential is increased. Where he must carry on his own advertising program, the number of calls he can make and the territory he can cover is reduced. The same may be said for the service department. If a firm has a reputation for a good service department, potential is increased and time lost on service calls can be reduced.

The type of product is another important matter. A highly specialized industrial product that has a limited number of buyers is conducive to large territories. If repeat sales are common, smaller territories are required.

In areas of industrial exodus the tendence should be toward larger territories. In periods of depression there may be a desire to reduce territories to curtail travel, however consideration must be given to the fact that dollar volume per customer will probably be reduced and larger territories may be in order.

Topography and transportation factors are important in the final establishment of territories. Thought must be given to natural boundaries, such as mountains, lakes, or marshlands which restrict a salesman's coverage. Another consideration is the problem of travel in winter in areas where snowfall is heavy. Presence or absence of means of transportation and available bus, railroad, and airplane routes may determine boundaries of large territories. Maps showing the usual routes should be used when laying out territories. (A study of methods of transportation from a viewpoint of economy will be discussed in Chapter III under "Expense Control.")

After territories have been built from subterritories on the basis of market coverage and adjusted for equal potential and market influences, further consideration may be given to plan for approximate uniform composition. It may seem to the reader that this is hypothetical rather than factual. Many companies ignore the consideration of uniform composition and miss a portion of the market. The purpose of this planning is to enable the salesmen to be familiar with each class of customer and his problems so as to be of service to each class. As an example, an equipment firm may build a product that is used by contractors in new construction, equipment manufacturers as part of their apparatus, and industrials in plant maintenance. It is important that the firm receive its share from each of these three sources and that the salesmen are experienced in the problems and peculiarities of all three. Territories should be arranged to include all three types of customers, if possible, to insure a "good mix" of product and business unless, speciality salesmen are used to call on each class of customer, which would lead to duplication of efforts since several salesmen are in the same territory. Unless the product has a large demand and turnover, this plan of speciality salesmen is unduly expensive.

THE ADVANTAGES OF GOOD TERRITORIAL DESIGN

There are many advantages to the establishment of territories based on the principles outlined. Good design is the basis for efficient measurement of performance and for sales expectancy figures.[24] Planned territories and coverage enable the sales organization to meet competition more efficiently. Potential customers are not neglected, and more calls can be made because of a definite plan and elimination of backtracking. The salesman will not travel (say) one hundred miles to call on a customer and pass five or six prospective accounts on the way. Selling expenses are reduced to a minimum by eliminating backtracking and increasing calls. Calls are readily coordinated with advertising through planning an itinerary. Equalizing work load will tend to stabilize the sales force, since no single salesman will have too much to do, while another may be discouraged due to lack of potential.

With these factors in mind, it is hardly conceivable that a sales force could afford to organize its territories without due consideration of the plan outlined.

REVAMPING TERRITORIES

The determination of territories as described is a dynamic procedure and not a static condition. Too often, once territories have been established, sales managers are reluctant to change.

[24] Fox, W.M., "How Many Men for Adequate Sales Coverage?" Sales Management, Vol. 68, Feb. 15, 1952, p. 62.

Although the selection of territories may have been made in the manner discussed, territories must be constantly studied for optimum results and changes must be made if necessary. Use of past company sales instead of the latest market data is misleading.[25] The market influences mentioned are constantly changing, and the sales manager must be able to measure the magnitude of these changes to determine if changes in territories are required.

Indications that territories may need revamping are evident when salesmen are receiving most of their business from a few customers and/or when selling costs rise excessively. In the first instance, the salesmen may be "skimming" the market, and an investigation of the number of customers called on and the frequencies is necessary. It may be that adjustments by the salesmen themselves to improve these considerations will remedy the situation. If selling costs rise excessively, territories may be too large for salesmen to cover economically and calls are infrequent. A study of call reports will reveal whether correction is necessary.

By continually checking sales costs ratios against potential in each territory and comparing the present share of market compared to a year or two previously, poor sales performance will become apparent.[26] Although territorial revision may seem to be in order, a check on coverage should first be made. Analysis of call

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[25] "Tips of Reshaping Sales Territories," Management Review, Vol. 41, June 1952, p. 376.

[26] Ibid, p. 377.

reports, the salesman's ability, and his routing may indicate a need for closer supervision, retraining, and better coverage.[27]

A big advantage of constant study of territories is that adjustments can be made long before a poor sales-cost ratio would have brought the territory to the attention of top management.

Although it is a simple manner to recognize a "problem" territory, it is rather difficult to know what changes are necessary to correct the situation. Variables such as declining potential, general economic conditions, competition, industrial exodus, product obsolescence, or outmoded sales policy may be causing the difficulty and must be investigated. Complications, such as changes in quotas, routing, call frequency, and advertising, become problems. A very important consideration is the morale of the salesmen. Not only are sales managers reluctant to change, but salesmen often regard changes in territories with suspicion. By reducing the size of a territory, commission salesmen feel they are penalized where it hurts most—the pocketbook. The salesman may get the idea that his job is insecure, if he is subjected to a change.

In any case, if changes are necessary, sales managers must go ahead with them despite all the obstacles mentioned and develop a sound plan. Before making the changes, however, the sales manager must discuss the plan with each salesman who will be affected. The manager must assure the salesman that the change is necessary and is evidenced by market data, that his job is not insecure, and, in the

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[27] Canfield, Op. Cit., p. 338.

long run, both he and the firm will benefit.

SELECTIVE SELLING

With sales costs constantly rising, consideration must be given to a new trend in sales management. Progressive managers, in the preparation of itineraries and territories, are putting to use the idea of selective selling.[28] Under this program, only those customers who yield a satisfactory return are serviced. Calls are no longer made on those accounts whose cost of sales are excessive. In this way unprofitable accounts can be dropped and the sales force can concentrate on the better accounts or make more initial calls on prospective customers. New accounts may be called on regularly for a period of one year, and, if they do not begin to show results after this time has elapsed, they are dropped. Selective selling is an important matter that should not be overlooked in setting up territories.

MAPPING THE TERRITORIES

When the area of each territory has been determined, it should be mapped with all its subterritories indicated. Each salesman should be supplied with a map of his own territory to aid him in effective coverage. It will also help him to understand how performance and potential are analyzed, and how territories are built from subterritories.

SELLING THROUGH DISTRIBUTORS OR AGENTS

Some products are of such a nature that they must be sold

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[28] "Attacking High Sales Costs; Bigelow-Sanford & Glidden Co.," Business Week, May 3, 1947, p. 60.

through distributors. Equipment, such as plumbing and heating specialities, is a good example. On the other hand, some products are of such a specialized nature, that the purchase of them is infrequent and volume is small. In this case, it is not economically sound to support a company sales force in the field, and selling is done through manufacturers' representatives or agents. In all cases the principles of territorial control should be applied, and the usual arrangement is one affording exclusive rights in order to afford the dealers or agents protection within a specific territory.

In the selection of distributors, the firm should be interested in having active distributors carrying the full line instead of resorting to an overabundance of dealers in every city or town who carry little or no stock.[29] Those dealers who carry no stock but sell only from samples should be dropped.

Manufacturers' representatives usually carry no stock, and they sell on a commission. They usually handle several non-competing but associated lines and are under contract with the producer. As an example, an agent may handle boilers, water treatment equipment, steam valves, and oil burners.

ESTABLISHING SCHEDULES

To be assured of complete and economical coverage, the use of call schedules or itinerary sheets is advisable. Some firms have had good results with $8\frac{1}{2}$ X 11 loose leaf sheets which are prepared a

[29] Ibid, p. 58.

week in advance, in duplicate. The salesman carries the original, and the copy is left in the office. Information regarding the customer and location are entered at the beginning of the week, and further information, regarding who received the salesman and remarks as to what was done, can be added on the original copy by the salesman after the calls are made. Unplanned calls are added as well.[30] In this way the call schedule serves the dual purpose of itinerary sheet and call report.

Types of Schedules

A standard schedule is arranged so that every firm is called on at least once in the course of covering all the accounts. It is not recommended for the reasons outlined previously.

The skip-stop schedule enables the salesman to devote more attention to the more lucrative accounts. Classes of accounts are established, and the better accounts are called on every trip, others every other trip, and the least profitable accounts every third trip.

Some firms make use of a time control schedule which sets the time of day and the day of the month each account is called on. The necessity of such close control in industrial selling is questionable.

Regardless of which schedule is adopted, some consideration must be given to unexpected or emergency calls. Allowing a certain percentage of time in the schedule appears to be the best way to

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[30] Meiter, W.A., "Industrial Sales Control," Sales Management, Vol. 59, Aug. 1, 1947, p. 91.

handle this problem.

SOME PRACTICAL APPLICATIONS

A study of fifteen industrial companies shows that territories are established in one of three ways: (1) trading areas; (2) areas of measured market potential; and (3) concentrated market areas.[31]

One of the largest midwestern producers of heavy construction equipment has established his district offices at the centers of national trading areas. The size of the staff is determined by recent and expected construction volume. A Milwaukee motor manufacturer has his district offices in major industrial trading areas, but these areas are broken down into small geographical trading areas to improve coverage. A manufacturer of rubber-making machinery has established offices in concentrated market areas—Akron, Chicago, Los Angeles, and New York.

Another survey points out that a progressive Chicago manufacturer has set up 73 territories from the 616 industrial trading areas established by the United States Bureau of Census. The territories are not uniform in potential, 40 percent of the industrial buying power being concentrated in ten territories.[32]

These firms have established profitable territories on the bases of the principles outlined in this chapter.

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[31]Marsteller, W.A., Op. Cit., p. 52.

[32]"Trade Flow, not Geographical Lines, Should Determine Sales Territory," Sales Management, Vol. 75, Sept. 1, 1955, p. 88.

SUMMARY

The establishment of territories is a definite asset to a sales organization, and the advantages must be familiar to the sales manager. A territory that is too small is discouraging to a salesman, a territory that is too large leads to "skimming."

Territories should be built from trading areas or subterritories based on an analysis of market coverage, potential volume, and market influences. This will require a study of the product, method of distribution, sales organization, and sales policy. Figures from the Bureau of Census publications and other government reports are helpful in the analysis.

Attention must also be paid to the number of accounts on whom the salesman can call and how frequently these calls should be made. The use of a skip-stop schedule allows more frequent calls on the profitable accounts. Planning territories and schedule will insure adequate coverage at the minimum expense, since backtracking and wasted effort are eliminated.

Territorial control is a dynamic consideration, and, if the sales-expense ratio begins to rise appreciable, readjustment of territories may be necessary. Before any changes are made, however, they should be discussed with the salesmen involved, so that they understand and agree that the changes are for their own as well as the firm's interests.

EXPENSE CONTROL

The control of salesmen's expenses is another function of sales management and has developed into a difficult problem due to the mounting costs of selling. By necessity the salesmen must be given some responsibility for the spending of company funds. These costs have increased some 75 percent since 1941, and, if not controlled, will get out of hand and reduce profits. Furthermore, with expense accounts growing, they are under closer scrutiny by the Department of Internal Revenue.[33]

The increase in sales expense is not entirely a result of rising costs of accomodations, meals, and transportation, for there are many other aspects of the problem. Thus, for example, before the abolition of excess profits taxes on December 31, 1951, many Companies had relaxed controls on expenses. Again, other companies permitted salesmen to increase expense allowances when wage control regulations prohibited salary increases. Once management controls were relaxed, it became almost impossible to revert back to stringent controls.

Nevertheless, in order to curb selling costs and to earn increased profits, closer control by management is necessary. Manufacturing costs have been studied for many years in order to reduce the cost of product to a minimum. Little has been done to

[33]"Age of the Expense Account," Management Review, Vol. 45, April 1956, p. 283.

keep sales expenses in line, due to the lack of interest on the part of many sales managers and the feeling that control is a petty nuisance and causes friction between the salesmen and management.

Excessive expenses are usually not due to dishonest salesmen, but they often are a result of unnecessary overspending on the part of the sales force. Contrary to popular belief, few salesmen "make money" on their expenses.[34] Usually they have many incidental expenses for which they are never reimbursed. Furthermore, the salesman must present a neat appearance, thus his personal expenses for clothes, haircuts, and shoe shines rightfully run higher than for others in industry.

REQUISITES OF AN EXPENSE CONTROL PLAN

In preparing a plan of expense control, certain fundementals must be considered as the basis. Even after a plan is in operation, controls may have to be adjusted to meet field conditions or changing situations.

The Plan Must be Flexible

The expense control plan must be flexible enough to meet the wide differences in the costs of covering different territories. It should align itself with the type of sales activity, the product, and the habits of the industry. Considerations regarding the type of customer and his acceptance of the product demand a flexible plan.

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[34] Aspley, J.C., "Our Expense Account Headache," American Business, Vol. 23, Sept. 1953, p. 10.

The Plan Must be Easily Understood

A good deal of the friction and disputes between salesmen and management over expenses are avoided if the plan is easily understood. The salesmen should know what is expected of them regarding expense control, and they should be able to compute their expenses easily.[35] This calls for a clear-cut statement of what is covered and to what extent.

The Plan Must Provide Reimbursement for Actual Expenses

Any expenses, over and above his home living costs, incurred by the salesman while on company assignment, should be reimbursed. Of course, it is difficult from a practical viewpoint to determine exactly how much a salesman's living expenses over his home living costs, are increased in the field. The salesman should not be given the impression that expenses are an element of compensation. He must not be given a more liberal expense account in lieu of a salary increase. The expense account must cover all legitimate expenses and no more.

The Plan Must Encourage Economical Coverage

Salesmen should be encouraged to cover their territories economically. This can be accomplished by providing an incentive for keeping expenses as low as possible without affecting sales activity or volume. Some firms establish an "expense par" for each territory and pay from one-third to one-half of the savings

[35]Phelps, D.M., Sales Management Policies and Procedures (Homewood, Illinois: Richard D. Irwin, Inc., 1953), p. 693.

as a bonus.[36] Nonfinancial incentives, such as promotions or recognition, may be provided for economical coverage.

However, sales opportunities must not be sacrificed simply to cut sales expenses. The plan must contribute to thorough coverage, good service, and missionary work.

FACTORS INFLUENCING THE PLAN

Many factors must be considered before the type expense control plan is selected.

Thus, in some industries, free entertaining and liberal spending are common, while in others these practices are restricted. Also, the usual expense practices in the industry will have some bearing on the type plan adopted. Again, in a large sales organization a more comprehensive plan is required than in a small sales force. More definite rules governing expense accounts are required in the large group. Further, a salesman doing variable type of selling, including missionary work and calling on distributors, requires a more flexible expense account, than one engaged in routine, repeat selling.

There are other factors, too. For example, the nature of the territory and the method of travel are important considerations. In some territories automobile is the most practical method of transportation, while in others railroad is prevalent. Then, too, some salesmen require stricter control than others, because they

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[36] Aspley, J.C., Op. Cit., p. 10.

are naturally less economical. Therefore, the plan may have to be tailored to fit the individual salesman.

EXPENSE CONTROL METHODS

There are five general methods of controlling expenses: (1) salesmen responsible for own expenses; (2) the honor system; (3) per diem allowance; (4) flexible method; and (5) flexible method with a maximum allowance. There are also several plans based on one of the general methods with special features.

Salesmen Responsible For Own Expenses

When salesmen act largely in an independent capacity on a commission basis, they may be held responsible for their own expenses. In some cases, the rate of commission may be high enough to cover expenses as well as compensation. Actually, the expenses may be covered by a percentage of net sales although they are not figured separately from the compensation.

A minimum of control is required, and no separate bookkeeping is necessary. Sometimes this plan may lead to skimping on expenses in order to increase earnings and may result in inadequate coverage or in neglect of missionary work. Furthermore, since territories differ, various commission rates may be necessary, resulting in unexpected administrative work.

This plan is prevalent in companies using commission salesmen, and it is preferred by both the companies and the salesmen.[37]

[37] Canfield, Op. Cit., p. 385.

The Honor System

Under the honor system, salesmen are given permanent advances on their expenses and are reimbursed, usually at the end of the month, for that month's expenses in excess of the amount given. In most cases the advances amount to an average month's expenses. With this system no expense report is necessary, and, the salesmen merely report their expenses as a lump sum. This method indicates management's complete confidence in the honesty and judgement of the salesmen. Under such circumstances it should only be used by firms with a few high-grade salesmen of executive stature.[38]

The cost of administering this plan is low, since it saves the time of both the salesmen and management. However, little control is exercised, and it does not permit the budgeting of sales expenses. Overspending is encouraged. For these reasons this plan is used infrequently.

Per Diem Allowance

Per diem or flat allowances pay fixed amounts for total expenses for a period of time. Sometimes a series of fixed allowances for meals, lodging, and automobile mileage is established. This system is favored by some sales managers, because it simplifies accounting and permits forecasting of costs.[39]

On the other hand, salesmen will cut corners to "make" a few

[38]Phelps, Op. Cit., p. 696.

[39]Montant, L.T., "Present Day Problems of Controlling Salesmen's Expense Accounts," Printer's Ink, Vol. 224, August 13, 1948, p. 36.

dollars, and often there is a controversy over the size of the allowance. This plan does not provide for variables in territories or in travel costs.

The Flexible Method

Many companies are now using a flexible method of reimbursing salesmen for expenses incurred. Permanent advances are given the salesmen and all expenses are reported on some type of expense account form. There is no prior limitation with this system. Usually receipts for lodging and automobile repairs are required.

This plan is preferred by many companies, because of its flexibility. Salesmen are not penalized who cover territories where the cost of coverage is higher. Salesmen will not be inclined to curtail activities in order to curb expenses. Opponents of the flexible plan point out that salesmen are likely to pad the account or make unwise expenditures. Furthermore, they insist, the plan involves considerable bookkeeping and administration by the home office and by the salesmen themselves.

The Flexible Method with Maximum Allowances

This method is similar to the previous one, except limitations are put on expenditures. Sometimes maxima are put on only specific items such as lodging or meals.

This plan permits budgeting of expenses to some degree. There is less likelihood of complaints provided the limitations are adequate. Although there may be a tendency to report the maximum permitted, if this figure is set correctly, the maximum will not be much more than the actual amount spent. Frequent accounting of expenses and rechecking of maximum allowances are necessary.

Many firms engaged in industrial selling, whose salesmen are on a salary basis, use the flexible method with maximum allowances on specific items. Again, a great number of companies use a bonus plan in conjunction with this method for control. The bonus may be based on the ratio of sales to gross amount of salary and expenses paid, or an expense quota based on dollar volume may be established.

The companies using this method of control depend on the salesmen's good judgement and do not limit meal and hotel allowances or restrict entertainment.[40] The limitations are usually on car allowances, car washes, laundry, and valet service.

Special Plans

Some firms presently use credit card or "traveletter" plans.[41] Credit accounts are established with hotels, restaurants, oil companies, and transportation companies. One nation-wide organization provides a one-billing credit card system which includes hotels, motels, restaurants, garages, barber shops, taxi cabs, and dry cleaners.[42]

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[40] French, M., Op. Cit., p. 19.

[41] Gray, R.E., "Centaur Finds a Short Cut for Handling Salesmen's Expenses," Sales Management, Vol. 70, March 15, 1953, p. 122.

[42] Canfield, Op. Cit., p. 384.

This plan is worthy of consideration by all sales organizations, since it eliminates tying up substantial amounts in advance funds, and permits the company to pay directly at commercial rates. It curbs padding and the reporting of false expenses. The cost for this service is around 10 to 15 percent, but the savings due to the advantages mentioned are usually considerably more.[43]

LEGITIMATE EXPENSES

Determination must be made as to what expenses are to be allowed. As mentioned previously, legitimate expenses may be defined as those which a salesman would not have incurred if he had not been traveling on company business.

Therefore, expenses incurred for lodging and meals are legitimate, because these expenses are much greater when traveling. Some firms set maximums for meals or lodging, or specify the hotel at which the salesman is to stay, with the home office making advance accomodations. Transportation is paid by the company, although some companies specify the type of accomodation depending on the distance. The cost of telephone calls, telegrams, and postage stamps is legitimate expense. Laundry and valet charges are not paid by many companies unless the salesman is on the road for an extended period. A few firms feel that the salesman must make a neat appearance, and that the small cost for laundry and valet service is unimportant.

[43]Gray, _Op_. _Cit_., p. 122.

The most controversial point of expenses is the payment for entertainment. Some firms prohibit entertainment, others allow up to a certain amount each month, and still others have no ceiling. The most sensible approach in industrial selling appears to be to permit taking influential people to lunch but to prohibit night clubbing and the soliciting of gifts.[44] Salesmen should entertain only to "get" business, and they should spend wisely. In many companies, however, the trend is for purchasing agents and buyers not to accept entertainment.

THE EXPENSE ACCOUNT FORM

The Expense Account Form is the foundation of good expense control. The form should indicate the towns worked each day, and daily automobile mileage. The cost of lodging, meals, railroads, and taxi fares, telephone and telegram charges, and laundry service should be indicated daily. The names of the hotels should be included as well. Entertainment should be itemized, and the names of the people and company indicated. Under no condition should allowances be made for "incidentals" or "miscellaneous" unless itemized.

The form should state all rules pertaining to allowances and prohibited expenses, so that the salesmen are familiar with the policy.

"Expense Accounts Shrink," Business Week, October 23, 1948, p. 84.

EXPENSE ACCOUNT POLICY

All personnel should be required to furnish proof of amounts spent, where the spending took place, and why. A close check on travel and entertainment is required. "Upper" management should be double-checked first, because here is where the biggest abuses occur. These safe-guards are necessary on account of the close scrutiny of expense accounts by the U.S. Treasury Department. Hence, a thorough study of the Treasury Department's requirements should be made, and the expense account policy formulated to meet these requirements.[45]

Rules on expenses allowed must be clear-cut. To insure honesty, some firms spot-check expense accounts or establish special accounts departments. Nevertheless, the value of these checks may be overrated due to the cost involved and the possible friction created between the sales force and management. A policy based on clear-cut rules is the best control.

POLICY REGARDING AUTOMOTIVE TRANSPORTATION

Since most sales organizations use automobiles to permit more frequent and thorough coverage of territories, attention must be paid to a sound control plan regarding automotive transportation. There are three programs from which to choose: (1) salesmen-owned cars; (2) company-owned cars; and (3) fleet leasing. Many studies have been made of the three plans, and each one has its own advantages and disadvantages.

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[45]"Taxes, Thrift Converge on Expense Accounts," Steel, Vol. 135, Dec. 6, 1954, p. 76.

Salesmen-owned Cars

This plan was the most prevalent until a few years ago, but there has been a shift to company-owned cars. When territories are small and the mileage covered per year is under 18,000 miles, salesmen-owned cars are more economical.[46] This plan frees large sums of money, which would be tied up in automobile purchases, for other investments. Furthermore, salesmen will usually exert greater care for their own cars than for company automobiles. Under this method, the very disturbing problem of salesmen using company cars for their own use is avoided.

Most salesmen are compensated for the use of their cars on a flat mileage rate basis. It is the easiest plan to administer, and it does not discourage the men to cover more territory, but the problem of determining a rate-per-mile is apparent. Some men may travel small territories where mileage is low and maintenance is high. Because of apparent differences in territories, this plan requires modifications.

Some companies compensate on a graduated mileage rate scale. A lower rate is paid after a specified number of miles. This plan tends to solve the problem of small territories with high operating costs.

By paying a fixed monthly allowance, excessive driving is eliminated. Salesmen know exactly how much they will receive, and

[46]Canfield, Op. Cit., p. 359.

the company can budget the expense in advance. The allowance must be tailored for each territory, so that some salesmen do not "make" money. In establishing fixed allowances, thought should be given to the probable annual mileage, number of nights away from home, annual fixed-charge allowance, and property damage and bodily injury insurance.[47] Since these facts depend to a large extent on judgement, which is subject to dispute, this plan is not used by many firms.

The Runzheimer Plan, a combination of flat mileage rate and fixed allowance, based on surveys by Runzheimer and Company of Chicago, is used by some firms.[48] This plan establishes fixed allowances for 24 areas in the United States. These allowances include depreciation, insurance, and license fees. Mileage allowances for gasoline, oil, greasing, and service are determined for these areas. There is an additional depreciation allowance for salesmen who travel over 18,000 miles per year to enable them to trade in their automobiles after 45,000 miles. The plan has merit since it is based on fact instead of judgement, and it is periodically adjusted for economic changes. However, due to the difficulty for the average salesman to understand the various considerations in computing his allowance, the advantages of this plan are questionable.

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[47]Hogeman, T.M., "Why Norwich Pays Flat Sum for Salesmen's Travel Expenses," Sales Management, Vol. 68, April 1, 1952, p. 106.

[48]Runzheimer, R.E., "How to Estimate and Pay for Auto Costs," Sales Management, Vol. 76, Feb. 1, 1956, p. 42.

Company-owned Cars

As already noted, the use of company-owned fleets is increasing.[49] In large territories this plan is more economical than salesmen-owned cars. Under this scheme, the cars may be replaced more often when company-owned: this insures better and more efficient operation. Furthermore, insurance protection is more complete, and savings through fleet purchasing are enjoyed with this plan.

In the many studies made of operating costs of company-owned cars, it has been found that maintenance cost, regardless of the type of car used, does not vary more than 0.1 cent per mile.[50] Although most firms use the most inexpensive models of the low-priced car group, there is a trend toward buying deluxe models, since they offer better trade-in allowances and are conducive to improved employee-employer relationship. A two-year, 45,000-mile replacement plan offers the best depreciation advantage.

A program of preventative maintenance will do much to reduce operating costs. However, blindly following the advertising of oil companies regarding lubrication, for example, often increases costs due to overmaintenance. Garagemen agree that a good driver has more to do with fuel economy than a tune-up of a satisfactorily working engine. Again, it is impossible to set up general rules regarding preventative maintenance, since conditions vary with the type of territory. The best way to handle this problem is to keep

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[49] "Are You Paying too Much for Auto Expense?" Steel, Vol. 135, October 18, 1954, p. 60.

[50] Ibid, p. 60.

an account of operating costs, and abnormal expenses will soon become evident.

To keep the number of accidents as low as possible, some firms conduct safety campaigns. Talks by supervisors and insurance men, and safety films are featured. A few companies conduct safety contests, offering yearly prizes to accident-free salesmen. The year should begin from the salesman's last accident, so as to encourage continuous safe practice.[51]

Fleet Leasing

The number of firms leasing automobiles on an annual basis from car rental companies is also increasing, for there are many advantages to this method. The rental fees are 100 percent tax deductible, and there is a saving in time, money, and bookkeeping.[52] Complaints from the salesmen that it is economically impossible to drive on their allowances are eliminated, while the heavy investment by the company or the men is nullified. Leasing plans offer clean, new cars and assure no lost time due to car failures. Investigation of this plan is recommended by all sales organizations whose salesmen travel extensively.

SOME PRACTICAL APPLICATIONS

Progressive concerns have made extensive surveys in order to

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[51]Markstein, D., "Why Lipton Salesmen Are Cutting Cost of Car Operation and Keeping Accidents Down," Printer's Ink, Vol. 237, November 16, 1951, p. 40.

[52]Rollins, J.W., "How Many Arguments for Fleet Leasing?" Sales Management, Vol. 72, February 15, 1954, p. 102.

control expenses. A review of 39 various companies, manufacturing all types of equipment, indicates that most firms rely on the good judgement of their salesmen.[53] Although 30 do not limit meal and hotel allowances and 32 do not restrict entertainment, the salesmen must outline the type of entertainment provided. One organization keeps a cumulative chart for each salesman showing how much he is spending, and overspending by any salesman becomes apparent: showing a salesman his curve is usually sufficient in curbing his expenses. Several firms have established expense quotas based on dollar volume and pay bonuses of one-third the saving, if the actual expenses are below quota. In many instances, the firms emphasize that supervision and control rather than dollar limits are the bases of a good expense program.

A large chemical company located in Cleveland found that marketing costs had risen to 25 percent of sales in 1954.[54] Investigation proved that salesmen were traveling excessively—sometimes 500 miles for one call—and they were overspending on entertainment. The problem was solved by curbing out-of-town entertainment and by establishing fixed expense budgets with flat allowances. The responsibility of route planning was transferred from the salesmen to the sales manager. Furthermore, expensive customers were dropped from the call lists, and active and prospective accounts were classified, for call frequency determination, by four

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[53]French, M., "Kiss the Swindle Sheet Good-by! How 39 Companies Handle Expense Accounts," American Business, Vol. 21, July 1951, p. 18.

[54]"Case of Creeping Costs," Chemical Week, Vol. 77, October 29, 1955, p. 68.

standards: (1) monthly tonnage, (2) future prospects, (3) profit per order, and (4) commission per call. After one year of control, expenses have been reduced considerably.

Many studies pertaining to car operation plans have been made. One of the largest drug wholesalers in the nation, with 536 men on the road traveling over 7,000,000 miles annually, has found it advantageous to lease cars for its men who individually cover a minimum of 22,000 miles annually. Under 22,000 miles, salesmen-owned cars are used.[55] This survey points out the advantages of leasing: clean, new cars with no lost time due to car failure are assured, and heavy investments in car fleets are eliminated.

An investigation by the National Association of Cost Accountants indicates that salesmen-owned cars are recommended. However, the advantages of leasing should be investigated if the salesmen travel over 20,000 miles per year. Leasing will permit the investment of capital elsewhere in the business, and the ratio of expense to sales may be reduced.[56]

SUMMARY

Investigation of expense control is necessary in order to keep selling costs reasonable. During World War II and the Korean Conflict, the trend was to relax control, and, as a result, costs

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[55] Ecks, A.B., "No More Company-owned Cars for Sterling's 600 Salesmen," Sales Management, Vol. 63, October 1, 1949, p. 90.

[56] Mack, J.W., "Fixed Asset Planning and a Fleet Economy Study," NACA Bulletin, Vol. 35, August 1954, p. 1606.

increased considerably.

Expense control must be planned, and based on factual analysis. The salesman's job must be defined, his trade contacts and geographical distribution of accounts must be analyzed. Unnecessary travel expenses should be eliminated. Management must recognize that good salesmen are not miserly, and any approach that annoys them will reduce sales as well as expenses. The best assurance for good expense control is a satisfied sales force.[57]

The car plan adopted by a firm should be based on the mileage the men travel. The plan must be flexible, to allow for differences in territories and for seasonal fluctuations. It should fit with the general method of compensation.[58] There are three basic plans: (1) fleet leasing; (2) salesmen-owned cars; and (3) company-owned cars.

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[57]Smith, C.W., "Getting Down to Bedrock on Field Selling Expenses," Printer's Ink, Vol. 227, June 24, 1949, p. 54.

[58]"Choosing a Car Plan for Salesmen," Management Review, Vol. 41, April 1952, p. 244.

QUOTAS

The purpose of the quota is to stimulate and measure sales effort. Quotas establish work loads, permit production planning, and give the sales force a goal towards which to work. Studies indicate that salesmen increase their sales and earnings when working toward specific objectives.

Quotas or sales performance objectives can be easily established by most industrial equipment manufacturers. However, in a few cases they cannot be applied because of the lengthy period of negotiation. For instance, in the sale of heavy electrical equipment, sales engineers must develop business over a period of several years before sales are made.[59]

Objectives, based on logical considerations, permit better supervision and control, and they enable top management to plan for plant expansion, production facilities, financing, and purchasing.

TYPES OF QUOTAS

The most common measure of performance is the volume quota. In most sales organizations, this is the only measure of effectiveness used. However, progressive managers are beginning to realize that volume is, at present, not as important as in the past. More thought must be given to quotas based on profitable accounts. They may be

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[59] "Do Sales Quotas Work?" Printer's Ink, Vol. 238, February 1, 1952, p. 40.

established by product, territory, or individual customer in order to present a more complete picture.[60] This, of course, requires a more accurate establishment of markets and potentials.

The trend in quota-setting is toward profit objectives. Performance (based on cost per sales dollar, per order, per negotiation, per customer, per call, and per territory) is receiving more consideration than previously. This encourages selective selling and points out the importance of dropping non-profitable accounts.

THE DETERMINATION OF QUOTAS

In the past many quotas were determined from inadequate bases or mere guesses. Flat percentages by which the organization would like to increase sales were often used. Performance objectives must not be treated too lightly, since the company's future is at stake. Market position can be jeopardized if consideration is not given to changing conditions.

Sound quota setting must be based on studies of market potential, sales potential, past performance, estimates of salesmen or distributors, company policies, factory capacity, advertising, and the ability of the salesmen.

Market potential is analyzed by studying market indices. The market indices represent consumption factors related to the product in question. In industrial equipment manufacturing, buying power is

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60"Trends in Sales Quota Setting," Printer's Ink, Vol. 238, February 15, 1952, p. 46.

determined from indices of value added by manufacture and value of manufactured products.

Reliable data pertaining to these indices are available from government agencies. The United States Bureau of Census, Department of Commerce, Department of Labor, Department of Agriculture, Federal Trade Commission, and Federal Power Commission publish marketing and consumption figures which should be used to determine market potential. Specific trade associations furnish helpful reports as well.

Many companies adjust quotas on the basis of information received from the sales force. These data make use of the knowledge of the men closest to the market. The responsibility for quotas is placed in the hands of those who must produce the results. This plan gives the sales force greater confidence in the quotas and permits easy breakdown into product, territory, customer and salesman.

On the other hand, salesmen are usually optimistic and tend to estimate too high. They are often unaware of broad economic patterns.[61] Consequently, their estimates must be integrated and considered in the over all economic environment. Nevertheless, the advantages of adjusting quotas on the basis of salesmen's estimates far outweigh the disadvantages. Hence, these estimates should be considered seriously.

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[61] Dix, A.H., "When Salesmen Set Own Quotas," Printer's Ink, Vol. 246, March 19, 1954, p. 38.

Past sales performance figures are a good gauge for setting quotas. However, objectives must not be based merely on these figures plus a "hoped-for" increase. Potential, based solely on past performance, is deceiving, because market conditions are constantly changing. These figures may be used if the percentage of market participation, rather than dollar volume, is considered. Thus, quotas will be based on unchanged relative market position. If past dollar volume is the index, market participation will be smaller if potential increases. Past performance should serve as a guide, but it should not be the sole basis of quota setting.

Policies pertaining to prices, advertising, credit, and service must be considered in establishing performance objectives. The more liberal the policies, the larger the sales volume, all other matters remaining unchanged.

Obviously, the size of quotas cannot be larger than manufacturing capacity. However, the objectives must recognize the need of economical operation and stable production.

A final factor is the ability of the individual salesman. A new, inexperienced salesman should not be expected to book as much business as an experienced salesman, covering the same territory. His objectives should be progressively increased as he matures.

CHARACTERISTICS OF QUOTAS

Since quotas are often the basis for compensation plans, they must be simple and easily understood. This diminishes the

the possibilities of misunderstanding and friction. Also, attention must be given to territorial differences so that all the salesmen are on a more or less equal basis. Morale will suffer, if this condition is not met.

Salesmen should be consulted before quotas are established. This will make them more receptive and enthusiastic toward the program. In addition, the plan should be flexible enough so that it can be revised upward or downward, if there are sudden changes in local conditions.

In order to be successful, quotas must not be set too high to discourage salesmen and, thus, reduce effectiveness. On the other hand, they should not be so low that the salesmen do not have to extend themselves to reach their goals.

OBJECTIONS TO QUOTAS

The preceding section implies the existence of several weaknesses and objections to the application of quotas. Objectives set too high, discourage the salesforce, lower morale, and increase turnover. Managers are inclined to use high quotas as a means for driving the salesmen.

In many instances, quotas are based almost entirely on guesswork. Because of variations in territories, it is impossible to establish a standard method of quota-setting, and, even with statistical data, judgement is a factor in establishing performance goals. Quotas often fail to consider all activities. Salesmen spending a great deal of time on missionary work, training junior salesmen, or making distributor calls are penalized, although their work is important for continued company good will. High administrative costs (such as salaries of market analysts and statisticians) must not be neglected. Often these costs outweigh the increased profits realized. Finally, volume quotas encourage high-pressure selling, possibly at the expense of future customer relations. Salesmen may ignore the customers' real needs, in order to build up bigger volumes.

SOME PRACTICAL APPLICATIONS

Extensive studies pertaining to quotas have been reported by several trade journals. Arguments for and against quotas are about evenly divided.

A large Midwestern crankshaft firm does not establish goals for its Cam and Crank Division, because it does little advertising, and all its business is with the same few customers year after year. On the other hand, its Induction Heating Equipment Division does set quotas from figures obtained from metal working plants in the various territories and from past performance. This division conducts concentrated advertising programs, and it has an expansive market. Sales quotas are established for district and regional offices.[62]

Performance objectives for salesmen employed by a fire protection equipment manufacturer are determined from past sales records. For

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[62] "Executives Tell Why They Use Quotas, and Why Not," Industrial Marketing, Vol. 36, June 1951, p. 40.

example, in matters relating to fire hazards, data are obtained in order to determine the importance of one industry in relation to another. This information is correlated with the relative employment in these industries, and it is the basis of sizes of territories.[63]

Most tool manufacturers set volume goals.[64] In one firm, the branch managers forecast sales, and the sales manager adjusts the forecasts to anticipated supply and sets quotas for each territory. A second firm establishes quotas as a standard of performance, and incentives are paid on increased volume and profit. Another tool manufacturer relates quotas to each man's break-even point: this serves as the basis of incentives. A fourth tool company uses quotas for its Supply Division, but not its Machine Tools Division. Monthly incentives are paid if salesmen are over quotas in the Supply Division. If they do not qualify for three consecutive months, the branch manager must investigate, and adjust the quota or correct the weakness. The Machine Tool Division does not use quotas because the products are capital goods and are not purchased regularly.

A firm specializing in cutting fluids and special industrial lubricants does not establish performance objectives because of the wide variety of sales coverage, and the sound engineering service which must be offered.[65]

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[63] Ibid, p. 40.

[64] Ibid, p. 41.

[65] Ibid, p. 41.

A local mill supply house has a unique way of setting quotas.[66] Around December 1, the salesmen receive sheets from the home office showing the amount of each product each customer bought during the preceding eleven months and during the previous year. The potential for each product is indicated as well. The salesmen enter the precentage of potential they expect the following year, and these data are forwarded to the home office. From this information, estimates of sales during the following year, inventory, turnover, potential in each territory, and percentage of potential the firm expects are determined. In October the salesmen make up sheets listing, on one side, customers, locations, products made, and contacts and, on the other side, data regarding purchases. The performance is then checked against the salesmen's forecasts.

Salesmen employed by an Eastern motor manufacturer determine their own quotas. They list each customer, his total requirement for each type motor, and the amount they expect to get.[67]

The National Industrial Conference Board suggests that quotas be developed from preliminary forecasts prepared by the district sales managers, preferably with the salesmen. These forecasts should be reviewed by the general sales manager and adjusted for anticipated changes in company plans and policies. The estimates are returned to the district managers, and they become the basis for setting performance objectives. Quotas should be set slightly above or

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[66] Dix, A.H., Op. Cit., p. 38.

[67] Ibid, p. 39.

below actual forecasts, depending on whether they are to serve as an incentive or form a basis for bonus payments.[68]

In the fourth quarter of every year, each salesman employed by a Milwaukee coupling manufacturer receives a record of the orders he received during the first nine months and prorated for the year. The current sales quota and the percentage achieved are indicated. Then the salesman estimates his volume for the next year. He reviews each principal account and predicts the share he expects to book. These data are submitted to the general sales manager for review. Simultaneously, the regional sales managers make independent estimates by territories based on past sales performance, personal knowledge of customer requirements, and information from the salesmen. The general sales manager reviews these reports, and he establishes quotas by making any adjustments he feels necessary in the salesmen's estimates.[69]

A New York tool manufacturer found that his quota plan was unsuccessful. A study pointed out that the men misinterpreted the purpose of the plan: they failed to understand the basic factors. The firm realized the need for education if the system was to be successful. Objectives were set at the break-even point in terms of volume, and market potential was estimated. The potential was determined from three sources of data: (1) types of industry using

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[68]"Measuring Salesmen's Performance," Studies in Business Policy, No. 79, (New York: National Industrial Conference Board, 1956), p. 12.

[69]Ibid, p. 19.

the product, and the amount used, (2) types of manufacturing associated with the product, and (3) types of allied machinery used, and where they are concentrated. This information was available from Government publications and trade journals. Each territory was analyzed for actual and potential sales with the salesmen, and the quotas were established.[70]

TRENDS IN QUOTA SETTING

Since 1939, there has been a great shift in market potential. Expansion of markets in the Pacific Coast and the Northcentral Regions has been very rapid. Although all markets have increased in potential, the New England and Middle Atlantic Areas have decreased on a basis of percent of the total country. These trends are important in quota setting, since too many quotas are still based on 1939 potentials.[71]

SUMMARY

Progressive managers realize that volume is not as important as previously supposed. Quotas must be based on profitable accounts only. They should be established by product, territory and individual customer, rather than overall performance, to insure profitable operation. This requires more accurate estimates of markets and potentials. Present practice puts more emphasis on

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[70] Painter, J.O., "How to Estimate Sales Quotas Your Salesmen Will Go For," Printer's Ink, Vol. 241, November 14, 1952, p. 56.

[71] Dix, A.H., "New Sales Quotas for Industry," Printer's Ink, Vol. 246, March 12, 1954, p. 43.

service instead of high-pressure selling.[72] Quotas must not be set so high that the salesmen's incomes are limited. Keeping salesmen happy financially will be reflected in their contacts.[73]

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[72]"Trends in Sales Quota Setting," Op. Cit., p. 46.

[73]"How to Set a Sales Quota," Printer's Ink, Vol. 238, February 8, 1952, p. 31.

V

SALES CONTROL AIDS

The control of industrial sales operation has been defined, previously, as action that adjusts the sales organization to predetermined standards.[74] These standards are established from three basic sales control aids: (1) forecasting, (2) market analysis, and (3) sales analysis. Research in these activities are conducted by marketing research departments, and their reports are invaluable to the sales manager.

Sales forecasting is a prediction of expected sales of a particular product. Market analysis represents the determination of potential within a particular market. Sales analysis represents a study of sales concentration by customer or territory. Although closely related, and often used synonymously, there is a distinct difference between the three phases of market research.

SALES FORECASTING

Sales forecasting serves not only as a basis of sales quotas, but also as the principal consideration in planning. Scheduling of production, hiring of manpower, investing of capital, and purchasing of raw materials depend on an accurate forecast for maximum efficiency.

Methods of Forecasting

The simplest method of forecasting is based on the estimates of

[74] "The Meaning of Control," Op. Cit., p. 45.

various officers of the firm. This plan offers a diversity of opinions, but the executives may all be influenced by conditions peculiar to their particular company.

Another method is the salesmen's or distributors' forecasts. Its place in quota-setting has been discussed in the previous chapter.

More and more firms are establishing forecasts on the basis of statistical data prepared by the market research department. Correlation analysis measures the relationship between the firm's sales and some other economic series. For example, a cement producer would probably find that his sales are, in some fashion, related to the amount of construction in his particular area. By studying this relationship, he can establish a correlation between the two. Perhaps a ten percent increase in construction results in a ten percent increase in sales.

Studies may point out relationships which "lead" sales. This offers an accurate indicator. For example, the awarding of contracts for power plant construction leads the purchase of the oil burning equipment by at least a year. Therefore, a manufacturer of heavy duty oil burning parts for power generation has an excellent lead indicator for forecasting sales. Statistical analysis is more objective than forecasting on the basis of opinion, but it is costly because of the specialized personnel required.

If a firm is large enough and can afford the expense, a forecast based on the three methods described will be the most accurate.

MARKET ANALYSIS

The determination of sales potential is of prime importance to the sales manager, if the control of sales operation is to be successful. It is one of the factors in establishing territories and quotas. Market analysis gives an indication of the amount of product and the total volume the whole industry will sell in a particular area. This is the basic criterion for allocating sales effort. It does, however, require adjustment for the competitive condition and the company's experience in the territory.

Figures of total industry sales, for each territory, from various government reports, are expressed as percentages of the industry sales for the complete area served by the company. These percentages are a measure of relative potential for each territory, and they enable management to determine the weak territories, by comparing with actual sales.

In many instances figures may not be available for a particular industry. However, data related to the product may be available. This collorary method may use one or several index factors. The main difficulty is to find a relationship which is constant over a long period of time. By using several related factors any unusual conditions influencing one index may be overcome by the influence of the other indices.

SALES ANALYSIS

A final function of market research, which is a necessary part of sales control, is the analysis of sales results. Sales records are studied on the basis of territory, product, customer, and order size, in order to determine where the sales force can be strengthened.

Comparisons by territory with market potentials enable the sales manager to concentrate on weak territories. Data pertaining to the customer, location, products sold, customer's purchases, dollar volume per product, and total volume give the supervisor basic facts for the establishment of a good control.

Sales analysis by product enables management to recognize which products give large sales volume. Unprofitable lines become evident, and steps can be taken to strengthen or, if necessary, to drop these lines.

Analyzing customer accounts points out those customers on whom it is unprofitable to call. This is the basis of selective selling, which is the trend in progressive sales administration.

A study of the size of orders enables management to find areas of good sales volume but low profit. Those areas, products, and customers where orders are small become evident, and they may be eliminated in order to improve the profit margin.

THE IMPORTANCE OF CONTROL AIDS

The importance of market research to the sales manager can not be underestimated in the development of controls for industrial sales operation. Just as motion and time study is the objective method of determining the best and most economical way to perform an operation, so is research in sales control the basis of developing sound and economical sales operations.

REQUISITES OF CONTROL PLANS

Industrial sales operations have six primary requisites for control: (1) information from the territories; (2) analysis; (3) development of plans; (4) deviations; (5) investigation; and (6) action.[75]

Information from the territories is available from field reports submitted by the salesmen. These reports must be comprehensive and prompt if good control is to be present. Other sources, of course, are the various government agencies and trade associations.

The data must be analyzed by the proper departments in a prompt and accurate manner. Analysis requires the services of specialists in accounting, statistics, market research, and sales analysis.

From the analysis of the data, plans and policies are established. Comprehensive analysis permits the development of more complete plans and policies and adjustments to rapidly changing conditions can be made before serious problems result.

The control system must enable management to become aware of any deviations before they get too far out of line. If someone is not doing his particular job, the control system should be so devised that it is brought to the attention of the sales manager at once.

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[75] Phelps, Op. Cit., p. 879.

Comprehensive reports will make these deviations apparent.

Investigation of field conditions by management is a necessity. Observing trends, competition, territories, and product application will enable management to adjust controls more intelligently.

Finally, action is required when and where it is needed. Management must have the decisiveness and willingness to act promptly when convinced that action is necessary.

IMPORTANCE OF GOOD LEADERSHIP

The success of the control of industrial sales operations depends on progressive leadership. Plans for territorial and expense controls as well as the establishment of quotas must be formulated if a sales organization is to be aggressive. The salesmen will not perform to the best of their abilities nor will control be successful unless supervisors and the sales manager lead the way, in showing how the plans are for the benefit of the salesmen and the company.

Control does not mean restrictions in selling, but it represents a goal which can—and must—be achieved in order to reduce sales costs to a minimum. The most difficult part of controlling sales operations is "selling" the program to the men and obtaining their cooperation. Here is where personality and sales ability of the supervisor are very important factors. To get the best out of his men is the most important task of the sales supervisor.

TRENDS IN SALES CONTROL

Although business in general has been active in the past sixteen years, competitive pressure has been increasing in the past decade. With production facilities being expanded by all manufacturers, selling is becoming a greater challenge. During the 1940's shortages of material were prevalent in many firms, so that a sellers' market existed. In recent years production has caught up, and in some cases has surpassed demand so that a buyers' market now exists in industrial equipment purchases. To meet this condition manufacturers must pursue available markets more vigorously than in the past.

Although some progressive sales managers have established definite plans for the control of sales operation, many supervisors lack the initiative to set up expense and territorial control. Too often, the emphasis is on volume instead of efficient and profitable operation. Nevertheless, with many small business ventures failing and sales cost ratios rising, sales managers will be forced to review their operations and to establish plans on the same scientific principles upon which improvements have been made in production methods in the past. Territories will have to be revised on the basis of trading areas. Quotas will require readjustments to allow for the growth of industry in the Pacific Coast region. Too many quotas are still based on 1939 regional comparisons. The next decade will find many firms analyzing their operations and setting plans for control of expenses, profitable coverage, and realistic quotas.

CRITICAL EVALUATION

Chemical and Power Products, Inc.

MAKERS OF CHEMICALLY RESISTANT TEFLON PACKING AND GASKETS.

11 Broadway, New York 4, N. Y.

WHitehall 4-2918

SEAL DIVISION

1133 South Ave., Plainfield, N. J.

11 March 1957

Mr. Herbert Gieser
1238 Wildwood Terrace
Union, New Jersey

Dear Mr. Gieser:

It was with a great deal of interest that I read your Master's Thesis entitled, "The Control of Industrial Sales Operations." The major phases of the problem which you presented - expense control, territorial control and quotas - must be studied by all sales organizations and plans based on the principles outlined are necessary in order to remain competitive.

Of particular interest to me was the discussion of sales control aids. The importance of plans based on market and sales analyses cannot be overemphasized if the operations are to be properly controlled.

With the high cost of selling, many firms will be forced to follow the programs of the many companies which you discussed so completely in your case studies. I know that there are many points outlined which our own organization will put to good use.

Very truly yours,

CHEMICAL AND POWER PRODUCTS, INC.

Joseph F. Pellechia

Joseph F. Pellechia
Sales Manager

JFP: lmk

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