

# **How to Effectively Manage Your Sales Team**

## **A Complete Sales Manager's Success Manual**

By BizMove Management Training Institute

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### **1. How to Evaluate and Compensate Your Sales Team Performance**

One of your problems as an owner-manager is how to motivate and measure the performance of each of your sales force. Your task is complicated because of the many criteria that can be used.

This chapter presents a method that is workable and effective. It discusses the development of yardsticks that will allow a sales representative's performance to be measured in numbers that are profit-orientated.

Some owner-managers find it difficult to motivate and measure the performance of sales representatives because representatives vary, customers vary, and business conditions vary. This chapter is a conversation between a consultant who specializes in sales representative incentives (C) and an owner-manager (M). As their discussion opens, the consultant is pointing out:

**C:** Fortunately, your competitors face the same variables you face. But tell me, why do you want to measure the performance of your sales force?

**M:** I heard recently that industrial sales can average as much as \$175 a visit. I don't want to spend that kind of money unless it's a good investment.

#### **Sales Force Measurement Problem**

**C:** Here's a list that I call "Sound Criteria for Measuring Performance"

#### **Sound Criteria For Measuring Sales Force Performance?**

Which of the following are sound criteria for measuring the performance of sales representatives?

1. Volume of sales in dollars.
2. Amount of time spent in office.
3. Personal appearance: for example, clothes, hair, cleanliness, and neatness.
4. Number of calls made on existing accounts.
5. Number of new accounts opened.
6. Completeness and accuracy of sales orders.
7. Promptness in submitting reports.
8. Dollars spent in entertaining customers.
9. Extent to which the sales representative sells the company.

10. Accuracy in quoting prices and deliveries to customers.

11. Knowledge of the business.

12. Planning and routing of calls.

**M:** From the question mark at the end of the title I gather that not all of the 12 are sound criteria?

**C:** Right. First let's look at some of the common errors that owner-managers make in measuring the performance of their sales representatives.

**M:** I'm willing to listen.

**C:** You probably aren't. Usually owner-managers make one of the five following errors: They evaluate their sales representatives primarily on the basis of sales volume. They rely too much on the number of sales call made by each of their sales representatives. They compare each sales representative's present sales results with past sales for a corresponding period - for instance, May of the current year against May of last year. They expect their sales representatives to follow explicitly the selling methods that worked for them when they were selling. Or they give their sales representatives too much freedom.

**M:** That's interesting, but not clear. What do you mean? Would you explain each point? For example, what's wrong with evaluating my sales force in term of their sales volume?

**C:** Usually, sales volume by itself won't tell you how much profit or loss you're making on each sales representative. Unless you know this fact, a sales representative can cost you money without your realizing it. For example, one small manufacturer was losing money until he analyzed the profitability of the sales volume brought in by each member of the sales force. He found that one of them created a loss on almost every order. This representative was concentrating on a market that had to become so competitive that markups had to be drastically reduced to make sales.

**M:** Assume that I have an adequate markup on my sales. Isn't performance then largely a matter of how many calls each of my sales representatives makes to get the business?

**C:** Of course making calls on customers and prospects is important, but a sales representative should make calls on accounts in relation to their sales and profit potential.

**M:** It sounds to me as though you're questioning if sales representatives should get in the habit of making regular call on their accounts.

**C:** If your sales force is more responsible for servicing their accounts than selling their accounts, than a regular routine of calls may be okay. But paying sales representatives to do routine pick-up and delivery, for example, can be expensive.

**M:** How about comparing a sales representative's current performance with the past?

**C:** That can be very misleading, Some months have more working days than others. Changes in products, prices, competition, and assignments make comparisons with the past unfair, sometimes to the sales representative, sometimes to you. It's much better to measure cumulative progress - quarterly, semi-annual, or annual results - toward goals.

**M:** Why not evaluate a sales representative's selling methods?

**C:** You should if a sales representative violates company policy or doesn't accomplish goals. But why criticize a sales representative for spending too much time in the office if that brings in profitable orders by telephone or by mail?

**M:** I suppose owner-managers who've had sales experience themselves expect their sales representatives to use the same selling methods that worked for them - even if they don't realize it.

**C:** It's natural that they would. But it's often unfortunate. Market conditions change or the sales representative faces different problems. I know of one good sales representative who's basically an introvert - avoids socializing whenever possible. This rep's boss is an extrovert and can't understand this.

**M:** What about owner-managers without sales experience? Do they face any special problems in measuring the performance of their sales forces?

**C:** They surely do. They often give their sales representatives too much freedom. Their knowledge of selling is limited. Often they don't know what they should really expect from their sales representatives.

### **Yardsticks for sales Force Measurement**

**M:** Okay, now I understand what you meant by the five errors which owner-managers make. But I'm confused about the so-called criteria in your Exhibit 1. Are any of them usable for measuring the performance of sales representatives?

**C:** Yes: Some of them are excellent. The trick is to use the yardsticks that can be expressed in numbers. The best one in Exhibit 1 are items 1, 4, 5, and 8.

**M:** I can see that item 1, "Volume in sales dollars," item 4, "Number of calls made on existing accounts," can be expressed in numbers.

**C:** Right. And also item 5, "Number of new accounts opened," and item 8, "Dollars spent in entertaining customers". All four of these items are especially good when they are accompanied with target dates such as month-end, quarter-end, or year-end.

**M:** This is beginning to look good to me.

**C:** Fine. But I believe there are better criteria than those we've been talking about.

**M:** I'd like to hear about them. But first, what about the other items shown in Exhibit 1?

**C:** The other items can affect a sales representative's performance. That means you may have to make judgments in these areas. I would hope your judgment would be made after you give the most weight to the items that can be measured in numbers...

### **Planning, Measuring, and Correcting**

... But there's more to sales force performance than merely compiling sales figures.

**M:** What else is there to do after performance has been measured?

**C:** Actually, the answer to that question is planning for better performance in the future and correcting past performance with which you are not satisfied. You do this by finding out what profit contribution each sales representative makes.

**M:** But what do you mean by profit contribution?

**C:** Oh. I'm about to get ahead of myself. First, let's look at this guide for planning, measuring and correcting a sales representative's performance.

### **Guide for Improving a Sales Force Representative's Performance**

One goal of measuring a sales representative's performance is improvement assistance. The three steps in bringing about improvement when it's needed are: planning, measuring, and correcting.

#### **Planning**

Get the sales representative's agreement about goals to attain or exceed for the next year:

(1) Total profit contribution in dollars.

(2) Profit contribution in dollars for:

Each major profit line.

Each major market (by industry or geographical area).

Each of 10-20 target accounts (for significant new and additional business.)

Get the sales representative's agreement about expenses to stay within for the next year:

(1) Total sales budget in dollars.

(2) Budget in dollars for: travel, customer entertainment, telephone, and other expenses.

#### **Measuring**

Review at least monthly the sales representative's record for:

- (1) Year-to-date progress toward 12-month profit contribution goals.
- (2) Year-to-date budget compliance.

### **Correcting**

Meet with a sales representative if his or her record is 10 percent or more off target. Review the number of calls made on each significant account plus what he or she feels are his or her problems and accomplishments. In addition, you may need to do some of the following to help improve performance:

Give more day-to-day help and direction.

Accompany on calls to provide coaching.

Conduct regular meetings on subjects that representatives want covered.

Increase sales promotion activities.

Transfer accounts to other sales representatives if there is insufficient effort or progress.

Establish tighter control over price variance allowed.

Increase or reduce selling prices.

Add new products or services.

Increase financial incentives.

Transfer, replace, or discharge.

**M:** It looks good. I like the breakdown into three sections.

**C:** Right. But to answer your question about profit contribution - it's a term I use to designate what's left in the sales dollar after you subtract direct costs and a sales representative's controllable costs.

**M:** Markup?

**C:** Yes, but the important thing is to keep your eye on what the sales representative does to it. Suppose, for example, that one of your sales representatives makes a \$1,000 sale. If your direct material and direct labor total \$600, you would give him or her credit for a \$400 contribution to profit.

**M:** If I allow my sales representatives to cut the price, and they cut it each sale by \$50, they would contribute only \$350 per sale to profit - toward my overhead, selling expense, and so on.

**C:** That's right. Additional costs such as price cuts, non-reimbursed overtime or makeovers caused by them, claims or credits due to their errors, and their expenses over what you'd budget for - any of these reduce their profit contribution.

**M:** That looks like a good way to get owner-managers to think in terms of the dollars their sales representatives bring in to cover overhead and profit. Of course, I don't necessarily have to let my sales force know what my direct costs are. But I do have to urge them to sell products with high profit margins. Or if they're selling products with low profit margins, they have to bring in big volume.

**C:** That's the idea. Incidentally, you don't have to have 100 percent accuracy on your direct costs for each product or product line. You can use standard estimates or annual estimates, as long as your sales representatives know what figures or numbers you're basing your performance evaluations on.

**M:** The product Line A might have a profit contribution credit of 40 percent of the sales dollar; Profit Line B, a contribution of 25 percent; and Profit Line C, a contribution of 10 percent. Again, this is aside from any sales representative's controllable costs.

**C:** That's correct.

**M:** I believe the sales budget items in your "Guide for Improving Sales Representative's Performance" (Exhibit 2) are self-explanatory. So my next question is: How can a sales representative plan the number of calls that should be made on accounts?

**C:** That's largely a matter of arithmetic. After all, there are only so many calls a sales representative can make in a year. Depending on selling style, one sales representative might average 4 calls a day, another 6, and another 8. Say you have a sales representative who averages 6 and who is free to make calls on 200 working days a year - that's 1200 potential calls. The representative can allocate these calls among accounts in terms of the number of calls he or she feels in necessary and affordable to generate the business desired.

**M:** How should the sales representative keep track of the number of calls made on accounts?

**C:** One way is to have each sales representative turn in a regular report on calls made. Another way is to leave it up to each of them to record dates of calls on account cards.

**M:** I prefer the second way. My sales force knows I wouldn't have the time to read all the reports every week. Furthermore to find out what my sales force is really doing takes an account-by-account review with each one. In the "Measuring" section of your "Guide" (Exhibit 2), why don't you use weekly figures instead of year-to-date volume?

**C:** You can have weekly figures if you want them. But year-to-date figures average out the very good or the very bad periods. With them, you're better able to see how each sales representative is progressing toward annual goals.

**M:** The measuring job looks fairly simple when each sales representative has profit contribution goals and has planned his or her other calls.

**C:** Yes. But you still have to use judgment. You have to judge if, and when, you need to take corrective action. Unless you take the appropriate corrective action listed in the

"Correction" section of the "Guide" (Exhibit 2), measurement is a waste of your time and money.

**M:** I agree. I can see that the foundation of measuring and correcting lies first in planning - by defining the yardsticks in numbers that are profit-orientated.

**C:** Right. I couldn't have expressed it better.

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## **2. Basics of Managing Salespeople**

Ever tapped your fingers on a counter waiting for a salesperson or done a slow burn when a salesperson walked away from you? What was your impression of the store? How did you feel about buying there again? For all your displeasure with the salesperson, it was the store you blamed. Your customers will blame you too if your salespeople are offensive or not doing their jobs. You will be the loser.

### **Salespeople's Efforts**

To the customer, the salesperson often is the business. He or she is the only person with whom the customer has contact. It is the salesperson who encourages the customer to buy or, through a hostile or indifferent attitude, drives the customer away - forever.

### **Building Sales and Profit**

There are many ways that your salespeople can build your business for greater sales and profit. Some of these are as follows:

Sell skillfully to realize maximum sales and profit from each customer attracted to your store.

Provide customers with useful selling suggestions that will build sales and improve customer satisfaction.

Assure that customers' needs are met so that returns are held to a minimum.

Develop a loyal following of customers who will return to your store and will send their friends.

Follow store policies and procedures so that losses through billing oversights, failure to secure credit approvals, and acceptance of bad checks are held to a minimum.

### **Top Producers**

In retailing, the top producers far outsell the average. The more top producers you have, the more profitable you will be. As an owner, you cannot expect your salespeople to become top producers by accident. There is no magic wand you can wave or button you



can push to make this happen. However, there are a number of positive actions you can take to attract people with potential and, once hired, develop that potential so that maximum performance is achieved.

This section has been developed to help you attract, develop, and retain successful salespeople. In this section, you will learn how to do the following:

Recruit and select people with potential.

Prepare job descriptions so that your employees will know exactly what is expected of them.

Train salespeople so that they will learn proven techniques for building sales.

Establish a system of management by objectives that will give direction to your employees' efforts and set goals for performance.

Motivate employees so that they will be more willing to exert the extra effort needed for success.

Supervise employees through day-to-day observations and constructive suggestions.

Establish a compensation plan that will help you compete in employee recruitment, reward outstanding performance, and retain successful salespeople.

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### **3. How to Hire Salespeople**

A most critical point in the management of retail salespeople is the initial decision to hire. Some hiring mistakes can be difficult to correct. The person who does an unsatisfactory job because of incompetence or disinterest can jeopardize the morale of the organization.

Obvious hiring mistakes are easily corrected. If employees are dishonest, openly offensive to customers, and regular violators of store regulations who ignore your warnings to straighten out, you fire them. In so doing, you restore the morale of those other employees who have been pulling the load wondering why "so-and-so can get away with anything."

A more difficult problem is the careless or indifferent employee. Neither guilty of any serious offenses nor deserving of praise for effective performance, this person simply puts in his or her time, contributing little or nothing to the store's success.

#### **Problem Avoidance**

Both of these problems are more easily avoided than corrected. Correcting personnel problems takes time. Time to identify the problem. Time to take action. And time means money. Sales are lost, loyal customers are lost, and unnecessary expenses are

incurred. Even if the problem is identified fairly soon, and the person is promptly terminated, you are still faced with the cost of hiring a replacement - sometimes an expensive process.

### **Turnover Costs**

In a small business, the cost of employee turnover cannot be measured in dollars alone. Turnover also demands a substantial amount of the owner's time in recruiting, interviewing, selecting, training, and developing a replacement. Repeating this process several times yearly to fill a single position will leave the owner with little time left to attend to other important aspects of the business. All of these problems - unnecessary costs, lost sales revenue, and lost time - are best prevented when the hiring decision is made.

### **Job Determination**

The hiring decision begins with a precise determination of the job to be filled. Hiring only to meet specific needs eliminates unnecessary turnover costs and the threat to the morale of other employees when a person with an ill-defined position is apparently pulling less than a reasonable share of the load.

Large businesses can afford to hire apparently talented people in the anticipation that they will find a spot for them in the organization and develop their managerial talents. Few, if any, small businesses can afford this luxury. When a person is hired by a small business, there must be a specific job for that person to fill. The job must be necessary and productive. Unless a specific opening exists, any decision to hire should be postponed.

### **Recruitment**

After deciding upon a specific position to be filled, you should recruit candidates through all reasonable channels such as the following:

**Present employees.** People now working for you may know of others who would be interested in the job and able to perform up to your expectations. Since your present employees know your expectations, and the persons they recommend, their judgment may be helpful in the hiring decision. Since they also feel some responsibility for the hiring decision, they can be helpful in the person's development.

**Classified advertising.** Perhaps the most common source of recruitment. An advertisement in the classified section of your local newspaper that accurately describes the job can attract a host of candidates. Applications can then be screened and reviewed, with promising applicants granted an interview.

**Employment agencies.** Local employment agencies usually have candidates for retail selling positions. Although the cost is sometimes high, the pre-screening performed by a reputable agency will often remove a substantial managerial burden to justify the agency's fee.

**Government agencies.** Local unemployment offices, welfare offices, and job training programs can often provide experienced or trained personnel to fill retail sales positions.

## **Personal Interview**

In hiring people for retail selling positions, a personal interview is particularly important. The job that they are expected to fill involves dealing with people in situations where first impressions are critical. Therefore, the impression that they make with the interviewer and their ability to communicate in the interview is often a meaningful indicator of their ability to perform on the job later.

## **Interviewing Guidelines**

When conducting an interview, try to use the following guidelines:

**Let the person talk.** As somebody once said, "When you're talking, you're not learning anything." You want to learn about the person. You will only learn by listening. As you listen to the person talk, consider how you would react as a customer. Do you find the person persuasive, pleasant, informative, and cooperative? Or do you find the person disinterested, arrogant, or boastful? Chances are, your customers' reactions will be similar to your own.

**Ask about previous work experiences.** Find out if they were satisfactory or unsatisfactory. What are the person's reasons for leaving the prior job? If a person left several jobs because of personality differences with the employer, this probably indicates an unfavorable attitude that will only be perpetuated. Perhaps the cause of the personality differences was the employee, not the employer. Ask the question, "How do you plan to correct this problem of personality clashes that seems to develop on every job?"

**Ask about educational experience.** First, determine the applicant's relevant education or training. Even if no formal education is relevant, the person's ability and willingness to learn might indicate how well he will learn to perform the job you wish to fill.

**Describe the job in as much detail as is reasonably possible.** Give descriptions of typical situations that might arise and ask the applicant how he or she would handle it. "What would you say to a customer with a complaint?", "What color blouse would you recommend to complement a red plaid skirt?"

You shouldn't expect responses to be as expert as your own, but training could make them so. Don't be discouraged or discouraging. Offer some praise such as, "That's a good way to go about it. If we hire you, we can teach you several other ways to handle situations such as that."

A detailed description lets the person know your expectations from the earliest stage. It also lets the person make a realistic personal judgment as to his or her ability to fill the job.

**Differentiate between your requirements and the ordinary retail selling position.**

You need more than an order-taker. You expect the person to build sales, provide customer service, and project and protect your image. Discuss the plusses and the minuses. No job is without its minuses. If they are known initially, they are less likely to become obstacles later. If the person is expected to work nights, say so. If the person is expected to work week ends, say so. If the person is expected to work holidays, say so. This can prevent many misunderstandings later.

**Explain the compensation plan.** What is the salary? What fringe benefits are offered? What holidays are allowed? What is the vacation policy?

**Weigh all factors in reaching a decision.** Of all the factors mentioned above, no single one is overriding. Perhaps the most important characteristics to look for are common sense, an ability to communicate with people, and a sense of personal responsibility. Only your personal judgment will tell you whether or not the applicant has these characteristics.

**Product Knowledge**

Relatively few retail selling jobs require the beginner to have a high level of product knowledge. Naturally, there are exceptions, but in general, any necessary product knowledge can be taught easily. Similarly, selling skills can be taught to those with no previous selling experience. In fact, many successful retailers prefer to hire people without previous experience because they find it easier to develop skills in the untrained than to correct poor habits in the more experienced. They prefer that employees learn to sell using the store's techniques, not those they may have learned elsewhere.

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## **4. How to Develop Salespeople Job Specifications**

When a person is hired, an important first step is to present the new employee with a written job description clearly indicating your expectations and identifying any persons to whom the new employee is responsible.

Too often, retail salespeople are hired with little or no understanding of the owner's expectations. They are advised to "ring up all sales, be polite, and keep the area clean. If you have any questions, just ask."

Frequently, the new employee will not even know what questions to ask. Eventually, all employees have questions as to the owner's expectations. These questions may be spoken or unspoken, but nevertheless the questions exist. Frequently, these questions can be answered through the written job description. The use of a written job description offers several advantages as follows:

Represents an informal "contract" between employer and employee, committing both parties to its provisions.

Provides a disciplined atmosphere for employee supervision and performance review, eliminating the customary pleas of ignorance concerning responsibility.

Reduces the chances of misunderstandings between employer and employee. The person with little understanding of what is expected on the job has little chance of fulfilling it. As a result, both owner and employee soon become dissatisfied. The owner is dissatisfied because the salesperson is not living up to expectations. The salesperson is dissatisfied because of inability to understand why the owner is dissatisfied. Dissatisfaction is usually obvious; the cause of it is often elusive. Unless the cause is known, it cannot be corrected.

### **Typical Job Description**

A typical retail selling job description appears on the following pages. This description, prepared for a person selling power tools in a home supply center, clearly describes the person's authority and responsibilities for product knowledge, selling skills, customer service, store policy, sales, and profit.

### **Performance Evaluation**

Such a description assists the owner and the employee in evaluating performance from time to time. It provides a check list so that all responsibilities can be reviewed and the need for corrective action can be identified. The employer and the employee can meet to determine those areas where the employee is living up to expectations, those where improvement is in order, and how this improvement will be achieved.

## **JOB DESCRIPTION**

### **Retail Sales - Home Power Tools**

#### **Function**

Assist customers in the purchase of power tools. Responsibilities and Authority

#### **Product Knowledge**

Have working knowledge of product line.

Be familiar with use and application of various power tools in order to provide reasonable technical assistance for customers.

Be reasonably familiar with competitive products in order to point out advantages of our line.

#### **Selling Skills**

Be able to present features of various power tools in terms of customer benefits.

Close sales quickly.

Suggest related sales such as bits with drills, blades with saws, safety, glasses with all tools, etc.

Upgrade customer's purchase when appropriate.

### **Customer Service**

Explain warranty requirements to customers.

Assist customers in forwarding tools for repair.

Advise customers of tool maintenance and operation tips.

Advise customers of availability of any tools that are out of stock; follow up with telephone call or card when available.

Explain credit policies to customers.

### **Store Policies**

Be courteous and cordial with all customers at all times.

Refer all complaints to the manager, unless they can be handled to the customer's satisfaction immediately.

Have all customers' checks approved by manager before acceptance.

Record all sales, showing amount, department number, manufacturer, and product code.

Refer all credit requests, including layaway and budget plans, to manager.

Accept merchandise returns, whether for credit or exchange, only if original packing is available and undamaged.

Notify manager of credit requests so that credit authorization can be signed by manager in the customer's presence.

Total sales daily, recording cash receipts, credit memos, and charge slips separately. Reconcile cash balance.

Maintain department in a neat and orderly fashion.

Notify manager of need for additional display stock.

Conform with all provisions such as appearance, punctuality, working hours, etc., as described in the store's general conditions of employment.

Read and understand all memos describing changes in store policy.

### **Sales and Profit**

Meet with store manager to establish goals for sales and profit.

Review department's performance with manager each month to develop recommendations for sales and profit improvement.

### **Reports to**

Owner

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## **5. How to Train Your Sales Team**

Ultimately, the value of any employee is measured by the employee's productivity. How many sales dollars did he or she produce? Did they stick? Or did they lead to an extraordinarily high percentage of returns, credit losses, or dissatisfied customers?

Productivity can vary widely from one employee to another. A top producer will often generate two or three times the sales of the average producer. The top producer will develop a loyal following of customers. People who always buy their suits from Sal because he knows what looks good on them. People who always buy wallpaper from Mildred because her recommendations have always been proven current. Best of all, this loyal following sends their friends!

### **Developing Top Producers**

To become a top producer, a person must get to know every aspect of the job thoroughly. This can only be done through development of skills.

### **The New Employee**

The time to begin an employee's skills development process is immediately upon hiring. Beginning training immediately has the following advantages:

Achieves a reasonable level of employee productivity in the shortest possible time.

Avoids unnecessary expenses and lost sales.

Takes advantage of the new employee's natural interest in the job and willingness to learn about it.

### **Training vs. Education**

Training is often confused with education. Therefore, it is often rejected by people whose background includes unsatisfactory educational experiences. In training, the traditional academic atmosphere of teacher, classroom, library, laboratory, and homework have little application because the objectives of education and training are totally different.

The objective of education is to expand the person's knowledge. The objective of training is to make the person able to perform specific tasks. Knowledge may provide a background for training, but the ability to apply that knowledge is the goal of training.

An educator would be satisfied with the student who understands and can explain the motivations of a consumer. The trainer wants the person to be able to use that knowledge in a selling situation, not just on a written examination.

## **Retail Training**

In retailing, training generally involves development of the following:

Knowledge of store policies and procedures including cash register operation, credit approvals, and customer returns.

Knowledge of the product that the person is expected to sell.

Selling skills to build sales and profit.

## **Training Techniques**

Most training in small retail operations involves "one-to-one" training. You, as the owner, training a single employee. Ordinarily, people are hired one at a time so that there is little opportunity for training in a classroom setting. To some extent, individual training can be supplemented by books and publications that are available for retail sales training. In other cases, courses sponsored by local community colleges or distributive education associations can be helpful in the development of selling skills.

## **Criteria for Successful Training**

Regardless of the training method that you use for your personnel, there are two key elements for success. These are as follows:

**Trainee participation.** The training process should directly involve the trainee. Asking the trainee to read a book or listen to you talk has little or no value. Few can absorb it. The passive role of reader or listener is seldom helpful in understanding and remembering. Reading a book or hearing a speech is fine for entertainment or intellectual stimulation, but these activities are seldom effective in a training environment.

People learn by doing things. When you teach new sales personnel how to prepare an invoice or credit memo, it is not enough to tell them how or show them how. It is far more important to have them do it.

**Feedback.** Feedback is what you learn by testing the employee's understanding of the facts that you are teaching. It permits you to measure the employee's progress at each step. Through feedback, you can recognize problems when they arise. Through early recognition of misunderstandings, you can correct them as soon as possible so that training can progress.



Feedback helps you direct your training efforts since you know those things that give the employee particular difficulty, such as arithmetic or trade terminology. In the remainder of your training effort, you can then be particularly careful and painstaking in teaching anything that involves trade terminology or arithmetic skills.

Teaching selling skills consists of the three following steps:

**Customer communications.** Developing a courteous approach to greeting customers and discussing their buying needs. This permits the salesperson to assist customers in their product selection and describe products in terms that show how they fulfill the customers' buying needs.

**Feature-benefit relationship.** Understanding the reasons why your customers buy, relating your products or services to those reasons, and describing your products or services to your customers accordingly.

**Suggestion selling.** Using customers' original purchase requests to develop suggestions for related or additional sales in which your customers might be interested.

## **Customer Relations**

Customer relations is the foundation of a successful selling effort, not simply because a courteous approach to selling is "nice," but because it can build sales and profit. In small businesses, it is particularly important because the customers of small retailers generally expect more personal service than they find in a major department or discount store. The personal service could be advice on the color, quality, or use of certain products. Or it might be just a friendly greeting and the confidence that comes with knowing that they are buying from people who are interested in them and their business.

A courteous greeting establishes rapport between the sales person and the customer. The traditional "May I help you?" is self-defeating. Nine times out of ten, the answer is "No, thanks, just looking." A better approach is to use a simple, common greeting such as "Good morning." Or a comment on the merchandise that the customer is examining: "Shetland sweaters are very popular this season." Or a question about the customer's purchase: "Do you want something for yourself or for a gift?" Such comments will usually prompt a positive response from the customer. In general, they are far more effective than questions that can only be answered "Yes" or "No." A greeting such as "Good morning.

"What can I do for you?" is far more productive than "May I help you?" Greetings should be the beginning of conversations, not the end.

The salesperson should try to know as much about the customer's buying interest as possible. This is done by asking questions such as:

"Are you looking for a fall or a winter coat?"

"How long has your daughter been playing tennis?"

"How often do you need a power saw?"

The answers to these questions will help the salesperson direct the customer to the right product -- perhaps the winter coat, the expert model tennis racket, or the most durable saw. The salesperson will be performing a service for the customer by matching the customer's needs to the right product and will be increasing the chances of closing the sale.

As in the hiring interview, the most effective questions are those that cannot be answered "Yes" or "No." Instead, the salesperson should try to use open-ended questions that require a more complete answer. These are usually questions that begin with "Why," "What," "How," or offer a choice for the customer to make.

Even an apparently negative response can be useful. The customer who likes the style of a skirt but dislikes the color can be shown another skirt in a color she may prefer. The customer who objects to the price of an appliance can be shown a lower priced model, or can be shown how the particular appliance justifies the apparently high price.

Unless the salesperson is aware of the customer's objections, nothing can be done to overcome them.

Salespeople are responsible for selling products and services. Customers have no responsibility to buy them. It is up to the salesperson to find out what the customer wants and match a product or service to those wants.

### **Feature-Benefit Relationship**

Whenever a salesperson describes the product or service to a customer, it should be described in terms of the "feature-benefit" relationship. Features and benefits defined as follows:

A feature is any tangible or intangible characteristic of a product or service.

A benefit is the customer's basic buying motive that is fulfilled by the feature.

For example, a salesperson says, "These all-leather hiking boots have waterproof seams. They are our highest priced line, but the leather will last a long time, look good, and keep you dry even on wet trails." The salesperson mentioned two features, "all leather" and "waterproof seams." The benefits that the owner can expect to derive from these features were also mentioned as follows:

"last a long time" - Although they are higher priced, they represent value because they won't have to be replaced frequently.

"look good" - People want things that they wear to look good.

"keep you dry" - People are naturally interested in comfort and in preserving their health.

People's buying motives vary widely. In fact, two people buying the same product might be looking for altogether different benefits. One man buys an expensive suit because of the status it confers upon him. Another man buys the same suit because its superior tailoring will make it more durable and long-lasting. A third buys it because he likes the styling.

The following are some typical benefits that people seek from the things they buy:

**Safety.** The desire to protect their lives and property.

**Economy.** Not just in the initial purchase price but in long-run savings through less frequent replacement or, in the case of certain products, lower maintenance and operating costs.

**Status.** People buy things to be recognized. The woman buying an evening dress may consider the designer's name all-important. A 12-year-old boy might consider the brand of blue jeans or the autograph on a baseball bat to be equally important.

**Health.** People buy exercise equipment, athletic equipment, and outerwear because they wish to preserve their health.

**Pleasure.** People attend theaters, go to athletic events, eat at restaurants, and buy books and objects of art because they expect to derive personal pleasure from these pursuits.

**Convenience.** People buy many things to make the routine chores of life easier. For example, the cook buys a cake mix because it is far more convenient than mixing the individual basic ingredients.

The list could go on indefinitely. The important question to consider is the customer benefits that are provided by the goods or services that you sell. Knowing these benefits, salespeople can describe your products to customers in terms of the benefits that your customers can derive from them. Relatively few customers are interested in the technical or design details of a product. The customer is primarily interested in what the product will do for him or her.

The principal reason for a salesperson to describe features of a product or service is to prove the benefits that the person can expect from it. For example, a salesperson might describe insulating material to a customer as follows:

"This insulating material creates a thermal barrier." Impressive words, perhaps, but the statement tells the customer little or nothing about the reasons for buying.

### **Suggestion Selling**

In suggestion selling, the salesperson tries to build upon the customer's initial request in order to sell additional or related merchandise. For example, the salesperson might suggest that a woman buy two blouses to take advantage of a week end special. If a man buys a dress shirt, the salesperson should suggest a complementary tie. With a tablecloth, a salesperson might suggest napkins that go well with it. With a stereo

receiver, a skilled salesperson could suggest a pair of speakers matched to the output of the receiver.

The opportunities for suggestion selling are endless. Frequently, the benefit that a customer might derive from one product could be used to develop suggestions for others. Young parents buying one safety product for a baby would be interested in seeing others. Or the man who buys a designer necktie for status reasons could be persuaded to buy a belt, shirt, or eyeglass frames from the same designer.

Even a "no sale" or a return can become a sales opportunity through suggestion selling. The customer who is looking for a shirt to buy as a gift may not find the right shirt but could be persuaded to buy something else, perhaps a necktie or a sweater. The man who returns a raincoat because it doesn't fit properly still needs a raincoat and could be sold one if the salesperson takes advantage of the opportunity for a suggestion sale.

### **Involvement and Feedback**

When training people in sales skills, it is relatively easy to get their involvement and the feedback you need to evaluate their progress so that you can shape your training approach. Instead of telling salespeople how you would sell a certain product, ask them how they would do it, and what they would say to a customer.

After you have heard their presentation, explain any other features you would have mentioned and any other benefits you might consider important. Then let the person try again, perhaps reviewing the basic technique of features and benefits if necessary.

Similarly, you can list a number of products that your store offers and have the salesperson write down a related product that he or she would suggest to every customer. In so doing, you will be gaining the trainee's active involvement and secure necessary feedback so that you can see where review or correction is necessary. You will also learn of the employee's strengths and weaknesses so that you can perform your supervisory job more effectively.

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## **6. How to Motivate Your Team**

Historically, the concept of motivation has evoked heroic images. Fearless leaders whose courage, dedication, rhetoric, and charisma inspired their followers to ignore their own self-doubts and overcome overwhelming odds.

This view of motivation makes great movies but does the concept a disservice. It makes motivation appear as an unattainable goal in itself, one that can't be reached by ordinary mortals. Yet, the motivation of people is an everyday function of small business owners.

## **Doing What's Best for the Business**

In a small business, the task of motivation can be described in simple terms without epic overtones. Motivation in a small business is simply a matter of getting people to do what's best for the business.

### **Fear**

In an earlier, more authoritarian society, the task was relatively simple. Fear was the motivator. The turn of the century coal miner knew that failure to meet his daily quota meant not only the loss of his job but also the loss of his home.

In today's commercial society, fear is no longer a valid motivator. In retailing, the salesperson motivated solely by fear would not be likely to project the image that you want for your business.

To realize the type of performance that you expect from your sales personnel, you want people to be motivated on a higher plane than that of fear.

### **Motivating the Employee**

In a working environment, people are motivated by demonstrating to them how a job well done satisfies their human needs. There are a number of these basic human needs that you can fulfill. By satisfying them, you will be motivating your salespeople to do the job that you expect, the way you expect it.

### **Security Needs**

Security needs are filled through compensation, benefits, job availability, and advancement opportunities. In most retail selling, economic rewards are somewhat limited. The retail salesperson is often employed at a wage at or near the legal minimum. There are exceptions such as appliance sales, automotive sales, and door-to-door sales, where five-figure incomes are commonplace and six-figure incomes can be achieved. Similarly, service personnel in popular restaurants often realize incomes well above the national average. However, in most retail businesses, narrow profit margins restrict the owners' ability to pay attractive wages.

This presents the owner of a small retail establishment with a serious dilemma. The small retailer must compete with more profitable businesses to attract effective personnel. Frequently, the small business owner has higher expectations of salespeople's performance, relying heavily upon personal service as a way of attracting customers. Since small business owners cannot compete effectively in providing economic rewards, they must take full advantage of other motivators to offset the effects of inferior salaries and wages.

Few small businesses can afford retail sales personnel who are simply order-takers. Instead, they must depend upon sales personnel to assist customers, provide personal service and be courteous and friendly. These services permit the small retailer to compete with the giants.

The small retailer's competitive disadvantage in offering security rewards is not limited to salaries alone. Without the natural chain of command through which the talented and motivated individual can progress, advancement opportunities are limited. To some extent, opportunities for advancement can be made available. Better sales personnel can assume new responsibilities such as assisting with buying, training, and supervising. They can also participate in sales and profit growth and expansion, assuming new and more rewarding responsibilities - perhaps managing a new branch, location, or department.

## **Recognition**

Beyond the security need, people also need recognition. This social need is a natural desire to be part of the group, to have your efforts recognized by those with whom you come in contact -customers or fellow employees. In this respect, praise for good performance is even more important than the reprimand for poor performance. Employees' behavior is often reinforced by the owner's reaction toward it. If you ignore a mistake or an oversight, you reinforce it by your inattention. If you neglect to praise a job well done, the employee may feel that it was unappreciated. Therefore, the employee will not repeat it, particularly if it required any extra effort.

By recognizing good performance when it occurs, you reinforce good behavior so your employee will be more likely to perform well again.

Often, it is the best employee who has doubts about his or her own performance. Having set high personal standards for performance, the employee may often have doubts as to whether or not performance is satisfactory.

## **Self-Fulfillment**

To many people, the ultimate achievement is self-fulfillment. The satisfaction realized from a job well done. The self-fulfillment of the athlete, the entertainer, the poet, or the author is easily recognized. Yet it exists at other levels of endeavor. The teacher is rewarded by the progress of pupils, the accountant is rewarded by the error-free trial balance, and the landscaper is rewarded by the beauty of the plantings. In each of these cases, the person's self-esteem is fulfilled by the knowledge of a job well done.

This same type of self-esteem can be developed within the retail environment so that employees look upon their jobs as something more than "another day, another dollar." Let us take a look at some of the personal achievements that can be realized by a retail salesperson that could fulfill the need for self-esteem.

A personal daily sales record.

Leading all other salespeople for a week or a month.

Selling the "unsellable" customer.

Discovering a new and effective selling technique.

Knowing that his or her selling efforts solved a customer's problem.

Achieving a record of zero customer complaints.

These opportunities for self-esteem are not always obvious, and they must be pointed out to people. Through your recognition of their efforts and their successes, you will be showing them how they can be more appreciative of their own work and find more fulfillment in a job well done.

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## **7. How to Effectively Supervise Your Sales Team**

So far, you have seen in this section a number of key elements involved in the job of managing retail salespeople. These include objective-setting, performance review, training, and motivation. Supervision can be regarded as the day-to-day application of these same functions. Performance review by personal observation rather than an analysis of figures, training through immediate corrective suggestions, and motivation through on-the-spot praise and reinforcement for a job well done.

### **Continuing Awareness**

Through your day-to-day supervisory activities, you are keeping salespeople constantly aware of your performance expectations. If you notice a customer being ignored by a salesperson and you fail to comment on it, this may be regarded as approval. On the other hand, you might see an employee sell a sport coat, shirt, tie, and sweater to a customer who originally came in for a pair of slacks. If you fail to praise the salesperson for this job well done, the employee will soon decide the extra effort was worthless.

### **Observation**

Just as you walk through your store each day, you will be making continual observations of your employees' performance. You will notice the rapport they establish with customers; their efforts in keeping displays attractive even after customers have disrupted them; the dispatch with which they prepare invoices and credit approvals; and their general attitude toward customers and fellow employees.

Naturally, there will be many occasions when you will be critical of an employee's performance, and the sooner it is brought to the employee's attention, the better. However, you must always avoid criticizing an employee's performance in front of a customer or in front of other employees.

### **Talk to Employee Alone**

At the first opportunity, talk to the employee alone and remind him or her of how you expect the job to be done. Criticizing an employee in front of a customer will lower the customer's opinion of your employees and, consequently, your store. Critical comments should also be made outside the range of other employees. Since your criticisms will be accompanied by constructive suggestions for performance improvement, you want to be sure of holding the employee's attention and maintaining a proper attitude so that the

employee will be receptive to your advice. Embarrassing the employee in front of others will create a negative attitude that will interfere with understanding and acceptance of your suggestions.

### **Public Praise**

On the other hand, when you praise an employee for a job well done, you want other employees to hear it. This will not only fill the employee's need for recognition, it will remind other employees of your definition of satisfactory performance so that they, too, will try to do their jobs accordingly.

### **Giving Information**

Frequently, you will have to give employees special instructions to carry out certain assignments. Perhaps instructions to rearrange a display, to handle a special situation with a customer, or to assist you in an administrative task. Your instructions should follow guidelines similar to those that you use in establishing performance objectives.

### **Reasonable, Understandable, Complete**

Instructions must be reasonable, understandable, and complete. Mrs. Jones may be dissatisfied with a toaster she bought last week and wish to return it. If you instruct a salesperson to "take care of Mrs. Jones," this tells the employee little or nothing. Should the employee issue a cash refund, give Mrs. Jones another toaster, or return the toaster to the manufacturer for warranty repairs? All these details must be spelled out so that the employee will know exactly what you expect to be done.

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## **8. How to Compensate Your Salespeople**

As a small retailer, you have a relatively limited budget for employees' compensation. Therefore, you must take special pains to make every dollar count. You must try to establish a compensation plan that will reward outstanding performance so that all employees will have an incentive to exert the extra effort required for success. Your compensation plan must be designed to attract competent employees, reward satisfactory performance, and retain qualified personnel.

### **Easily Understood**

The compensation plan must also be easily understood and easily administered. Complex incentives are often self-defeating. The employee who cannot understand the potential reward for superior effort is unlikely to be motivated by it. A compensation plan with unnecessary complexities can be divisive or difficult to administer.

For example, plans that give bonuses based upon performance compared with objectives will often result in unnecessary quarreling over the objectives rather than a joint effort in developing suggestions for performance improvement.



## **Evaluating a Compensation Plan**

In evaluating your compensation plan, you must consider the entire package, not simply the weekly salary or hourly wage. Evaluation must also consider other factors such as health insurance plans, life insurance plans, vacation policies, holidays, sick leave, savings plans, pensions, profit-sharing, employee discounts, and opportunities for bonuses or other special incentives.

## **Performance Rewards**

Rewards for outstanding performance can be built into your compensation plan in a number of ways. They can include straight commissions on all sales or commissions based upon profit. Instead of commissions, performance incentives can be built into the plan through occasional bonuses for outstanding performance, salary increases for top producers, or special rewards.

## **Seniority Benefits**

In designing a compensation plan to hold employees, it is often useful to develop it so that there are direct rewards for longevity with satisfactory performance. These rewards could include longer vacation periods for senior employees or progressive increases in the employee's participation in a retirement or profit-sharing program.

## **Types of Compensation Plans**

Most sales compensation plans are based upon salaries, incentives, or a combination of the two. Compensation plans based upon straight salary offer the employee the advantage of security, which can be desirable in attracting new people. A salary is also a predictable expense month to month so that budgeting is simplified. However, salaries continue even in low sales periods when your business can least afford them. Also, they lack the short-term economic incentive that is often necessary to encourage top performance. The prospect of a salary increase a year from now is seldom enough to make an employee work harder today.

Compensation plans based largely upon incentives, such as commissions, offer the advantage of encouraging extra effort on every sale every day. Since these plans usually vary compensation with sales volume, this expense is highest when you can best afford it and lowest when you can least afford it.

However, there are several disadvantages to commissions in retailing. They may prompt salespeople to use unnecessarily high-pressure tactics that could damage your store's reputation. They can lead to disputes among employees over credit for sales. They can fail to attract competent employees who may feel that their need for the security of a salary outweighs the earnings potential of a commission plan.

In general, the most satisfactory approach is a combination plan that gives the employee a guaranteed income plus some economic incentive for top performance through commissions, overrides, or bonuses.

## **9. How to Use Independent Sales Agents Effectively**

The independent sales agent may be the answer for owner-managers who have problems with selling. In some cases, the problem may be that there are not enough prospects to justify putting a full-time sales force on the factory's payroll. In other cases, because of heavy schedules, the sales staff may be missing opportunities to cultivate new accounts.

This guide provides guidelines that should help the owner-manager of a small company to determine whether or not a sales agent is needed. Pointers are also given on how to choose an agent and how to work profitably with him or her.

If selling your product requires a salesman's or sales-woman's call, using an independent sales representative may be more efficient than having sales personnel on your payroll. Which is better depends on your situation.

Selling for others is the business of independent sales agents. They make their money by representing several clients on a commission basis. They solicit orders for clients in territories upon which they have agreed. Some agents have employees who help them cover a wide area.

The manufacturers, as a rule, ship and bill the customer directly. They set prices, terms, and other conditions of sale.

Sales agents go by various names. A few examples are manufacturer's agent, manufacturer's representative and "reps." The labels vary according to industry. Also, the marketing functions which agents perform vary from one industry to another.

### **Sales Representative Cost and Control**

Whether it is better to use your own sales force (direct selling) or a sales agents depends mainly on cost and control. Which method is more economical for you? Which method gives you the control of your, marketing that you need?

When you add sales personnel, what do they cost? In considering this cost, you should include items such as the paperwork necessary to keep them on the road; fringe benefits, such as vacations, hospital and other insurance, which you provide.

On control, the question is: What degree of control do you need to achieve your sales objectives? When an agent represents you, the agent controls the approach to customers. In effect, they are your agent's customers rather than yours.

In many cases, such a relationship may be as good as, or better than, using your own sales force. For example, if your products are attractive to distributors and retailers, it may make little or no difference whether they buy from a factory salesperson or an independent sales agent. When it makes no difference, the owner/manager who insists

on maintaining a sales force for the sake of ego may be kidding himself or herself. You may be paying too great a price for the satisfaction of saying, "I have my own sales force. They are my employees."

On the other hand, when products require a special personal touch or service, the owner-manager may need to control the entire selling job. You may need to build an image by training and coaching your own technical sales staff rather than by offering your products through a manufacturer's agent who cannot usually be expected to do this type of work.

### **The Selling Job**

In considering whether a direct sales staff or an independent sales agent is better, examine your company's selling job. The questions that follow are designed to help you think about the various aspects of that job.

#### **Territories**

In a given geographic area, does your company dominate, or does it lag way behind, competition? How near are you to your estimated potential sales volume?

What is your goal for that specific territory? If you had the best sales force money could buy, could your goal be achieved? If you could get only mediocre employees, what maximum dollar volume would you set for their quota?

What is your present dollar volume in the territory? What does it cost to bring in that volume? Based on these cost figures, what would your cost of sales be for achieving your ultimate sales quota?

How many dollars do you have to invest to build up a, specific territory? Does this investment (for salaries, traveling expenses, and supervisory expenses) run over a long enough time period to enable even a mediocre sales staff to reach your objectives?

#### **Selling**

Is your selling mostly service selling? (Service selling often requires technicians who can explain equipment and processes to middle management.) Is your selling nontechnical? (This type of selling does not require detailed knowledge of equipment and processes.)

What are the selling practices in your industry? Is there a good reason why the industry leans a particular way? Or is it just a custom which no one has thought of changing?

#### **Market Penetration**

How well do you know the market you are trying to penetrate? Do you know it well enough to guide your sales personnel? Or will you be relying on them because of your lack of knowledge of certain territories?

How often must the trade be seen? Can one employee handle all the calls? Or will several employees be needed because the area or number of accounts are too big for one person to cover regularly?

How quickly do you want to penetrate the market? (Someone with a knowledge of the field and personal contact with buyers will, of course, obtain this penetration more quickly than new employees.)

### **Cost**

What is your cost for executive and clerical personnel to manage a direct sales staff in all your territories? (Break this cost down by territories.) What will it cost for executives and clerical people to manage an agent?

If you maintain a training program for your sales force, what does it cost? Does it pay off in increased sales?

### **Compare the Two**

The statements that follow are designed to help you consider the advantages and disadvantages of direct sales staff and independent agents.

### **Training**

**Direct Sales.** Finding and training new sales agents can be time-consuming. Moreover, the cost can be high when employees quit shortly after they have received their training.

**Sales Agents.** With agents you can put them in the field quickly, and the training cost is nominal.

### **Type of Selling**

**Direct Sales.** The sales person is, or becomes, a specialist in selling your line. It is easier to choose a person for a specific type of selling, such as service selling.

**Sales Agents.** They are specialists in selling only. They can seldom afford to offer service selling. Usually, they sell in a given territory and in a given product line and know their customers' needs. Often customers heed their advice because of the other items the agent sells them.

### **Experience**

**Direct Sales.** You can hire a direct sales staff with any degree of experience. The degree depends on how much you are willing to spend and on what your situation calls for. The staff may not have the depth of knowledge of the territory and industry that you can draw upon.

**Sales Agents.** Normally, they will be experienced. Most agents are experienced professionals. Agents must have a depth knowledge of their territory and industry to exist, and it is there for your use.

## **Selling Time**

Direct Sales. More time is devoted to selling your products.

Sales Agents. They devote only part of their time to your products because they handle a number of lines. But, in many cases, an agent has several people working so that you are buying their talents and time also.

## **Opening New Territories**

Direct Sales. It often takes a direct sales staff a good deal of time to develop a following in a new territory. Even an experienced person needs time to accumulate detailed knowledge about a new territory. Investment can be high in starting a new territory or walking up an old one. Cash must be spent for the employees' salaries and travel, sometimes for months, in order to build a profitable sales volume.

Sales Agents. Established agents offer a built-in following in given territories. They and their assistants have depth knowledge of the territory and the customers they serve. Moreover, an agent only gets paid on results.

## **Cost**

Direct Sales. Employees' pay, if you want to hold them, has to be a living wage regardless of results. In an established territory, as sales go up, the results should more than pay for salaries and travel expenses. However, the cost of maintaining a direct sales staff may sometimes mean increasing their territory with diminishing penetration-loss of sales because of less frequent calls on customers.

Sales Agents. Their pay is a percent of sales. They pay their own travel expenses. In opening up new territories and maintaining sales coverage in territories with a limited yield, you pay for results. Coverage is concentrated in a given geographic area.

## **Paper Work**

Direct Sales. Payroll and other clerical work is necessary to maintain direct sales staff.

Sales Agents. Only commission statements need be issued. The agents handle their own expenses, taxes, and have their own clerical staff.

## **Control**

Direct Sales. You have complete control and direction of your own employees.

Sales Agents. The agent is free to operate according to the terms of your agreement with him or her.

## **To Summarize**

Advantages of using sales agents:

They can give you immediate entry into a territory. They can make regular calls on customers and prospects.

They can provide quality salesmanship.

Their cost is a predetermined selling expense a percent of sales as their commission.

Disadvantages of using sales agents:

Your control over their selling techniques is more limited than when you train and use your own employees.

On a large volume of sales, the selling expense may be excessive-greater than it would be with your own employees.

Agents' allegiance to your company and its products is not total because they serve other clients also. They have to have extra financial incentives to push your products.

If, and when, you cancel a contract, the agent may take many of your customers.

### **Selecting a Sales Agent**

If you decide that you need an independent sales agent in a specific territory, how do you select one who is right for your company? Every agent, no matter how good, is not right for every manufacturer. Selecting the one that can be an extension of your firm to the trade is not easy. To the customer, the agent is your company.

Here are some points to consider in matching an agent to your company's character and image.

What sort of selling skills are necessary for selling my products? Does the agent need technical knowledge and experience in addition to personal selling ability?

What marketing functions, if any, do I need in addition to selling?

Must the agent service my products as well as sell it? Do I need a one-man or one-woman agency or an organization? If the latter, how large an organization?

What is the agent's record of success in products and territories similar to mine?

How long has the agent been in business? What is the agent's reputation? How well can I trade on it?

Are the other lines carried by the agent compatible with mine? Will the agent's contacts for existing lines help gain entry for my line?

Is the trade the agent specializes in the one I want to reach?

Does the agent cover the geographic area I need covered and in what depth?

Do the character, personality, values, and integrity of our two organizations correspond?

Can the "reps", who are employees of the sales agent, sales-manage their own territories or will they need management and guidance from the agent? Or from me?

Is the agent the type that merely follows instructions? Or does the agent have a reputation for offering constructive suggestions? Which type do I need?

Is the "chemistry" right? Will we enjoy working together?

### **Sources of Sales Representative**

Once you know the kind of agent you are looking for, it becomes relatively easy to target in on the right one. You know what questions to ask the prospective agent. You know what qualities will satisfy your need. It is a matter of getting prospects from several sources. Those sources are:

Classified ads in trade papers whose readership is geared toward the type of manufacturer's representative you seek.

Recommendations from customers and sales managers or owners of non-competing companies in your industry. Also, editors or salesmen and saleswomen from trade magazines can often offer recommendations.

You will probably come up with several choices. Agents are not hard to find. However, selecting the right one for you requires careful study on your part. Don't rush into a relationship. Getting the right partner is vital. Once the agent and manufacturer become associated, they are truly "married," so to speak. Their common goal is to get maximum sales from the territory.

### **Working With a Sales Agent**

A written contract is the start of harmonious relations with an agent. It should spell out what each of you is to do.

But don't stop after you've signed on an independent sales agent. Look for ways to get the most out of your relationship.

How do you motivate your agent to peak results? Unfortunately, here is where many manufacturers fail. They don't know how to work with a good agent. Often they blame the agent for their own shortcomings.

Actually, the formula for working harmoniously with an agent is fairly simple. Companies that work successfully with an independent sales agent accept the agent as a professional arm of their organization. Their owner-managers respect the talents of their agents.

Involve the independent sales agent in various phases of your marketing. For example, the agent may have constructive suggestions on packaging, sales promotion, and advertising. Many sales agents have strong ego drives and thrive on involvement. When other clients lean heavily on the agent, you may have to fight to capture the agent's

interest and get constructive advice. Hold your agent by making the agent part of your team.

Your communications must be clear and concise. The agent depends on you for information about your products, processes, and other matters that bear on selling for you.

The agent's interest, challenge, and profit - as does your profit-comes from making sales. Don't burden your agent with detail. Rather help cut through to the heart of what you expect your rep to accomplish sales.

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## **10. Summary**

In hiring and developing salespeople, the small retailer is faced with a delicate, difficult task. Forced to compete with the giants, the small retailer does not have the compensation budget to attract and hold people with economic rewards. Simultaneously, the small retailer expects more of salespeople than does the large department store or the discount house.

The small retailer expects salespeople to provide customer service so that customer loyalty is retained and word-of-mouth advertising will build the customer base. The small retailer expects salespeople to be knowledgeable about their products and provide advice to customers. And, most of all, the small retailer expects salespeople to sell.

The job is not easy and can only be done through your own efforts. Despite the many demands upon your time, you must find time to devote to employee selection and development. This task involves attention to the following:

Hiring new employees so that problems are avoided before they occur.

Developing employees into sales-oriented top producers, not just order-takers.

Establishing a system of objectives so that problems are quickly detected and corrected before lost sales and excessive costs get out of hand.

Motivating employees to do a better job and realize a sense of self-fulfillment for a job well done.

Supervising employees from day to day so that rewards and reinforcement are almost immediate.

Developing a compensation plan that will be affordable but competitive in attracting qualified people, rewarding outstanding performance, and retaining successful personnel.



If you apply the techniques you have learned in this book to your own business, you will be able to hire better people, reduce employee problems, and improve the productivity of your personnel.

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## **11. How to Sell on Consignment**

Sellers seeking new and expanded wholesale and retail markets for goods can use consignment sales to economic advantage in many cases.

This guide provides a discussion of the advantages/disadvantages of consignment sales and general comments about how to use consignment as an effective selling tool for the small business operation.

What happens to a manufacturer who has developed a new consumer product that is thought to be a best seller, but no retailer or wholesaler is willing to invest enough capital to stock a small number of the items in inventory?

What happens to a manufacturer who is told that the seasonal product he or she is trying to sell is such a capital risk that there is probably no chance that it will make the retail shelves during that Christmas season?

How can manufacturers in these cases and similar cases make the products and terms of sale sufficiently attractive to get the product on retail shelves for exposure to the buying market?

### **Perhaps through the use of consignment sales.**

Selling goods on consignment is described as a situation whereby goods are shipped to a dealer who pays you, the consignor, only for the merchandise which sells.

The dealer, referred to as the consignee, has the right to return to you the merchandise which does not sell and without obligation.

As you can see, this may not be an ideal arrangement. The dealer has no money invested and is not obligated to "push" your merchandise.

### **Purpose Of Consignment Sales**

Even with obvious disadvantages, there may be times when you may decide that consignment selling can serve your purpose. It can be used as a marketing tool which creates no obligation on the part of the dealer in the event they do not sell. As a result, such practice can provide an attractive incentive for the dealer, at least to stock your merchandise. The dealer has no risk and you have your merchandise before the buying public.

Examples of goods which very often are sold on consignment include light bulbs, produce, eggs, poultry, magazines, newspapers, Christmas decorations, garden seeds, batteries for flashlights, and potted plants such as those found in supermarkets.

In the case of perishable merchandise (either in quality or in seasonal appeal) dealers are often more inclined to consider placing it in their stock if they have no great threat of financial loss on investment in the event it does not sell.

In the case of a newly designed and manufactured product for which there is no sales record, dealers might be more enthusiastic about promotion if their investment loss is minimized.

### **Advantages Of Consignment Sales**

Now that you've read some general facts about consignment selling, look at the specific advantages to you as a manufacturer.

It allows a seller (manufacturer) to place merchandise in wholesale and retail outlets for additional exposure to the buying market.

It can provide an incentive for the wholesaler and retailer to stock goods in inventory because no capital of theirs is tied up in inventory.

It can encourage wholesalers and retailers to stock seasonal or otherwise newly introduced merchandise which they might not usually buy because of a lack of demand.

It provides the manufacturer with the opportunity to have the merchandise exposed to the buying market, instead of having it stored and isolated in a warehouse while waiting for an order from a buyer.

### **Disadvantages Of Consignment Sale**

In deciding whether or not to use consignment selling, you need to look at the disadvantages.

While your merchandise is being exposed on the shelves of a wholesaler or retailer, you get no money until they sell.

As the manufacturer you must have enough cash on hand to wait extended periods for payment of merchandise sold.

Since the goods are out of your physical control, you cannot control the damage and shopper abuse which inventory merchandise is generally subject to.

You can not always affect shelving decision which wholesalers and retailer make concerning maximum exposure of the merchandise. Because consignees do not have any capital invested in the inventory, they may be inclined to place their outright-owned inventory in the most advantageous display spots in order to realize a fast return on investment. They are aware that they do not lose any investment if the consigned goods do not sell. They do lose if the inventory they own does not sell.

Where personal selling is important, outright owned merchandise might be promoted over consigned goods because, again, return on investment matters where investment exists.

If the gross margin to the seller is greater than the percentage commission with the sale of consigned goods, then the seller might tend to favor selling the outright owned goods. For this reason, the consignor is introduced to the importance of providing an attractive incentive in the form of a commission for the consignee. In other words, the consignee needs a strong reason to sell the merchandise since the motive to recoup investment is not present.

### **A Few Words Of Caution**

Consignment selling may or may not be attractive to you. It depends on your situation. You might use consignment selling for market testing. It might be a fairly inexpensive way to learn how or if a new product will sell.

Keep in mind, however, that you tie up your funds waiting for merchandise to be sold. Also, the dealer may be a poor credit risk. Moreover, there may be other hazards inherent in a situation where the dealer does not have funds tied up.

In brief, the various factors over which you have less control than in other marketing situations could mean that the risks may be greater than your resources can absorb.

To evaluate whether or not consignment selling can be advantageous to you, consider the following discussion of the consignment relationship, special considerations, and examples of operational aspects.

### **The Consignment Relationship**

The relationship which exists between you, the consignor, and another seller, the consignee, is an agency relationship. That is the consignee never takes title to the merchandise but acts as the agent of the consignor to pass title to the buyer.

Since title does not pass to the consignee in the absence of an agreement, liability of loss for the merchandise remains with the consignor.

This means that you and the consignee can agree to specific statements for assuming a share of the loss in case of shoplifting or other damage to the merchandise. However in the absence of such an agreement, you, the consignor, are responsible for the loss involved even though the merchandise might have been shoplifted from the premises of the seller while the consignee exercised normal care in the display and handling of the merchandise.

Because of the details and legal implications involved in consignment selling you, as a consignor, should give careful attention and planning to selling products on consignment.

### **Give Special Consideration To...**

Contractually speaking, you and your consignee can agree to a variety of mutually-advantageous measures. That is, you might agree in writing that the merchandise will be placed in the wholesale or retail business where it is exposed to an estimated 50 percent of foot traffic that enters the store.

Also, you should agree as to the exact commission to be awarded to the consignee upon sale of the merchandise. The length of time (days, weeks, etc.) which the consignee will agree to keep the merchandise will probably be specified. Also, the intervals at which the consignee will make payments for goods sold should be considered.

Agreement concerning delivery and pick up of the merchandise might be included, as well as conditions of storage of any merchandise that is not on display, particularly perishable merchandise. Your contractual agreement might specify that you will be paid for "inventory sold," when

Inventory Delivered Less Inventory Collected Equals Inventory Sold

Yet, the formula for payment noted above assumes that all merchandise will be either sold or claimed by the consignor and completely rules out the possibility of disappearance of the merchandise from the sales floor. Since shopper damage and shoplifting are sobering realities of doing business, it is wise to consider them and to plan for their occurrence beforehand.

The merchandise legally belongs to the consignor in a consignment sale and liability for any loss is still the consignor's problem. Some consignees may be willing to share the responsibility involved in loss due to shoplifting if the issue is handled tactfully.

In some cases, the consignee will assume responsibility for damaged goods. When this is the case, you, the manufacturer, will suffer no loss. However, such cases are rare. At best, you can expect a sharing of the loss with the consignee.

When you assume part or all of the loss, ask for and keep the damaged goods for your own records. A consignee could claim that some of your merchandise was damaged when in fact the consignee sold it and pocketed the money.

Also consider damage caused by sun rays that fade colors and make some merchandise unfit for sale.

### **Examples Of Consignment Sales**

Consider the wholesaler of artificial floral merchandise who sell to numerous small and medium retail floral establishments. Such a wholesaler often stocks mostly staple merchandise with a limited assortment of infrequently sold items.

A manufacturer who has developed a novel item for that industry and has no sales history to use as a basis for showing the wholesaler that the item will sell, probably will have a difficult time getting the item into the wholesaler's inventory.

If a potential consignee such as the wholesaler in this example, is comfortable with current sales levels and gross margin, the manufacturer will find it difficult to convince the wholesaler to carry this item in inventory.

Yet, in a consignment sale, the manufacturer can always ask, "What do you have to lose?" The answer is, of course, "Nothing."

If the manufacturer makes it easy enough for the wholesaler to stock the item and the wholesaler is aware of a possible commission for exerting very little effort, the merchandise usually has a very good chance of being placed in stock. As a result, the merchandise has wide exposure in the market and the wholesaler feels no risk associated with trying the merchandise. If it sells well, chances are good that it will be placed again. Even if the wholesaler had bought the items outright the first time around, and they did not sell, they would not be reordered. Thus, the marketability of the merchandise is at stake in either situation and the positive aspect in consignment selling is that the wholesaler is assured that he or she has no investment to lose.

In another example, consider a manufacturer of a seasonal item such as Easter baskets, Christmas ornaments, Halloween items, or beach toys. Often wholesalers and retailers order these items far in advance and make a strong effort not to over-order because the market is defined in terms of days or weeks.

Manufacturers can promote their products in these industries by assuring the wholesaler and retailer that whatever is not sold will be taken back by the manufacturer.

In such cases as these, shopper density is usually heavy during a short period of time. That is, there are several peak shopping days during which crowds of shoppers are likely, by their number alone, to cause significant sales and damage to at least some of the merchandise on the shelves.

An agreement concerning shoplifting and damage becomes particularly important in such cases.

### **Consignor's Liability**

A serious issue to consider in consignment selling is that of liability for merchandise. Since the consignor remains owner and title does not pass to the consignee, legally the liability rests with the consignor, in the absence of any other agreement.

This means that whenever merchandise is destroyed by water, fire, or smoke while in the inventory of the consignee, the loss is that of the consignor.

The importance of the issue calls for special attention at this point because there is a sales situation which has been viewed by some as similar to consignment selling and can become a legal problem for the consignor.

"Sale or return" as its is called, is a situation in which the risk of loss passes to the consignee when the goods are in his or her possession.

### **"True Consignment"**

From court decisions over the years, certain points have surfaced that are important in the determination of "true consignment." They are:

The consignor is authorized to demand return of the goods at any time.

The title rests with the consignor until the goods are sold, at which point, title moves directly to the buyer and never passes through the consignee.

The consignee is authorized to sell the goods only at a specified price or not less than the invoice amount.

The consignee is required to meet certain standards in keeping of the goods, such as their segregation from goods wholly owned or held under a claim of ownership or interest.

The consignee is required to forward proceeds of sale immediately to the consignor or to deposit them in a special account.

The title issue becomes critical because creditors of the consignee will have claim to the merchandise if the title has passed to the consignee in a "sale or return" situation. In a true consignment sale, the title always remains with the consignor.

If you plan to sell on consignment, your attorney can provide guidance on the legal aspects and your accountant can advise on the record keeping and accounting aspects of this type of selling.

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