Chapter 6

Design and Size of Sales Territories

Chapter Outline

What Is a Sales Territory?

Factors to Consider When Designing Sales Territories

The Sales Territory Is a Business

Using Computers to Design Territories

Learning Objectives

The design, size, and operation of sales territories are critical to a firm's success because they allow the firm to provide service to customers. This chapter will help you to understand:

- The definition of a sales territory.
- Who is responsible for territorial development.
- The factors to consider when designing sales territories.
- The importance of reducing sales leakage.
- How computers can help design territories.

When Digital Equipment Corporation's account team in Connecticut needed to see what marketing manager Joe Batista and his team in Massachusetts had prepared for a client, Batista was able to present his ideas with the click of a mouse. Batista input his ideas into a PowerPoint presentation and uploaded it to Internet Conference Center, a Web-based presentation provided by Contigo Software. Within minutes the software converted the presentation into HTML (a language that prepares files for the Internet) and published it online.

The account team joined Batista via teleconference and used their own computers' Web browsers to log on to the Web site Batista specified. Once the team was logged on, Batista was able to take control of the browsers and lead them through the presentation in real time, highlighting and pointing out specific items as he went. The account reps used their more detailed knowledge of the client to add comments that would help refine the presentation. The client was then shown the presentation online. Batista and his team did not even have to leave their office.

"The use of [Web-based communication] clearly helps shorten our sales cycle," Batista says. Presentations are created and delivered much quicker, sometimes taking weeks less than the process would take face-to-face. "It's all about speed," agrees Julie Creed, a partner at the Chicago-based Financial Relations Board, which uses the same Web product to help clients. Salespeople invite potential investors to simply log on to the Financial Relations Board's Web site for a demo, supplemented by teleconference. If the prospect shows interest, the salesperson may then schedule an in-person meeting.

"They're reaching many more investors this way," Creed says, "because a salesperson who might not have an extra day to fly down to Dallas to give a demo can simply say to a prospect, 'Dial up this Web site and I'll show you what our company's all about.'" Creed says that salespeople are also allowed to have their manager or CEO sit in on an online demonstration—something that would rarely be possible if they had to travel to conduct an in-person presentation. Technology is helping both of these companies significantly reduce the length of their sales cycles, broaden their lists of prospects, and reach more people scattered across large geographical areas.[1] ■

The sales territory is an important business unit containing the organization's customers. Territory design and management are important to the success of the sales force. This chapter introduces you to the factors to consider when designing sales territories. First, let's examine the question "What is a sales territory?"

What Is a Sales Territory?

A **sales territory** is composed of a group of customers or a geographic area assigned to a salesperson. The territory may or may not have geographic boundaries. Typically, however, a salesperson is assigned to a geographic area containing present and potential customers.

As discussed in Chapter 3, companies analyze their total markets by looking at the various market segments, estimating their sales potential, selecting their target markets, and developing a marketing mix based on the needs and desires of the marketplace. Many of these practices also can be applied to a sales territory. In fact, the single sales territory should be considered as an individual market or segment of the company's total market.

Who Is Responsible for Territorial Development?

Development of sales territories is usually the responsibility of the sales manager overseeing the larger sales units within the organization—for example, the divisional, regional, or zone sales manager. This person knows the markets, customers, and sales personnel needed to service these accounts. The manager makes recommendations to corporate management on whether to increase or decrease the number of sales territories. Often, however, the manager has the authority to change geographic boundaries without corporate approval. It is important that all field managers (for example, district, regional, divisional) affected by territorial change have a part in seeing that the needs of the company, customers, and sales personnel are served.

Why Establish Sales Territories? Companies develop and use sales territories for numerous reasons. Seven of the more important reasons are discussed here.

To Obtain Thorough Coverage of the Market With proper coverage of its territories, the company can better achieve the sales potential of its markets. The salesperson can analyze the territory and identify and classify customers. At the individual territorial level, the salesperson can better meet customers' needs. Division into territories also allows management to realign territories easily as customers and sales increase or decrease.

To Establish a Salesperson's Responsibility Salespeople act as business managers for their territories. They are responsible for maintaining and generating sales volume. Salespeople's job tasks are clearly defined. They know where customers are located and how often they should be called upon. They also know what performance goals they are expected to meet. This can have a positive effect on their performance and morale.

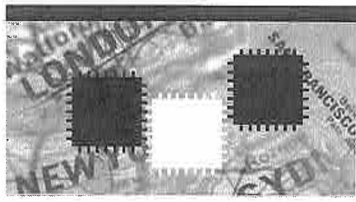
To Evaluate Performance Performance can be monitored for each territory. Actual performance data can be collected, analyzed, and compared with expected performance goals. Individual territorial performance can be compared with district performance, district compared with regional performance, and regional compared with company performance. With computerized reporting systems, the firm can monitor individual territorial or area performance on a weekly, monthly, or quarterly basis to ascertain the success of its marketing efforts.

To Improve Customer Relations Customer goodwill and increased sales can be expected when customers receive regular calls. From the customer's viewpoint, the salesperson is the company—for example, Procter & Gamble. The customer looks to the salesperson, not to Procter & Gamble's corporate office, when making purchases. Over the years, some salespeople build up such goodwill relations with their customers that customers will delay placing their orders because they know the salesperson will be at their business on a certain day or at a specific time of the month. Some salespeople even earn the right to order merchandise for certain customers.

To Reduce Sales Expense Sales territories should be designed to avoid duplication of effort so lower selling costs can be realized and company profits improved. Fewer travel miles, fewer overnight trips, and contacting productive customers regularly can improve the firm's sales/cost ratio. In addition, by using the data collected, management can make decisions about the profitability of territories and determine whether to maintain, expand, or merge sales territories.

To Allow Better Matching of Salesperson to Customer Salespeople can be hired and trained to meet the requirements of the customers in a specific territory. Indications are that the greater the similarity between customer and salesperson, the more likely the sales effort will be successful.

To Benefit Salespeople and the Company Proper territorial design must aid salespeople in carrying out the firm's sales strategies. Thus the company can maximize its sales effort, while the salespeople can work in territories that afford them the opportunity to satisfy their personal needs (for example, good salary).



SELLING AND MANAGING GLOBALLY

SALESPEOPLE ARE MAKING IT HAPPEN IN CHINA

Today thousands of American companies are competing to take advantage of the booming market in China. Avon is selling cosmetics door to door. Texaco opened gas stations. Xerox has captured 45 percent of the photocopier market. AST computers hum away in schools and factories while Keystone valves are finding their way into infrastructure projects. Boeing keeps its assembly lines at peak capacity through lucrative aircraft sales to China. Experts estimate that China will purchase 50 to 60 large aircraft per year through 1998 to meet the rapidly growing demand. Motorola built a plant in China that produces 10,000 pagers a week that retail for $200 with a one-year service contract. The market for pagers is estimated at 4 million a year.

AT&T has publicly stated its Chinese business may eclipse its U.S. business after the turn of the century. Although most of the country's 400,000 entrepreneurs view cellular telephones as a necessity, 95 percent of the people in China look with envy at the communication toys used by their rich neighbors.

The insurance giant AIG has hired 140 salespeople who are knocking on doors in Shanghai. According to *The Wall Street Journal*, in eight months they sold more than 12,000 policies.

A few years ago, Diebold Inc., an Ohio-based manufacturer of banking equipment, learned that China was in the process of upgrading 100,000 bank branches. The company sent a lone sales representative, Edgar Petersen, on a two-week trip to China. He visited a number of banks, found a need for safe-deposit boxes, and returned with orders for safe-deposit boxes equal to a year's worth of Diebold's manufacturing capacity. Today, Diebold has captured 60 percent of China's ATM market. Diebold's chair, Robert W. Mahoney, estimates the Chinese market for ATMs will grow to 5,000 units per year within a short time. (That's about one-half the size of the U.S. market.)

Source: Sam Shaw, "Salespeople in China," *Business Week*, October 1995, 83.

WHY SALES TERRITORIES MAY NOT BE DEVELOPED In spite of its stated advantages, developing sales territories does have disadvantages. First, salespeople may be more motivated if they are not restricted by a particular territory and can develop customers wherever they find them. In the chemical industry, for example, salespeople may be allowed to sell to any potential customer. However, after the sale is made, other company salespeople are not allowed to contact that client. Second, the company may be too small to be concerned with segmenting the market into sales areas. Third, management may not want to take the time, or may not have the know-how, for territorial development. Fourth, personal friendship may be the basis for attracting customers. For example, life insurance salespeople may first sell policies to their families and friends. As a general rule, however, assigning people to their own sales territory is best.

FACTORS TO CONSIDER WHEN DESIGNING SALES TERRITORIES

Sales force objectives may be based on factors such as contribution to profits, return on assets, sales/cost ratios, market share, or customer satisfaction. The attainment of sales force objectives is realized at the territorial level. These broad objectives are eventually converted into individual sales territorial goals based on factors such as sales increases, individual product sales, number of sales calls, and number of new customers obtained. Individual territorial sales are an important factor contributing to the achievement of corporate sales goals. For example, for an average territory, Procter & Gamble sales can be in the millions of dollars. Thus a single territory's sales can be greater than the total sales for many small companies.

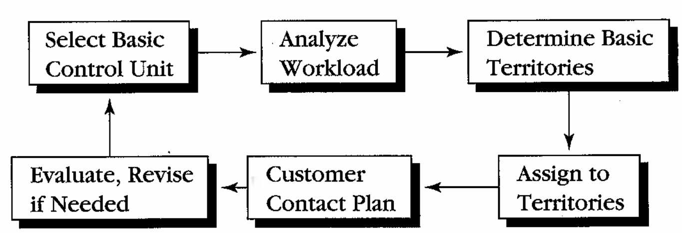
The design of a firm's sales territory is an important factor in successful selling and in servicing various markets and customers. Figure 6.1 contains the major factors organizations should consider when designing sales territories. In the following example, note how these factors came into play when Kodak decided to realign 300 of its salespeople into a more effective sales organization.

Kodak's business research and marketing groups spent several months interviewing customers to try to discover how to best serve them. The feedback Kodak received prompted the company to reorganize its field force based not only on geography but also on customer needs and salespeople's expertise. Provided with a database of all existing accounts plus sales history data by product line and by customer segment, Kodak's top sales managers generated a new map of its territories using a geographic information systems (GIS) program called MapInfo.

Once these data were mapped out, they were aggregated at the county level, showing the concentration of sales dollars by county and metropolitan statistical area as well as where salespeople were located. The management team then analyzed each salesperson's workload. As a result of this analysis, the Kodak field force was reorganized into nine groups based primarily on the customer type. Salespeople were assigned to certain territories based on their strengths—technical knowledge,

FIGURE 6.1

FACTORS TO CONSIDER WHEN DESIGNING TERRITORIES



marketing skills, and so forth. With each salesperson focusing on one type of customer, Kodak hopes its salespeople will pay more attention to market trends and will be better able to solve customers' problems.[2]

Select Basic Control Units

Based on sales force objectives, sales managers can create, revise, or evaluate basic geographic control units and their territorial boundaries. Usually, territorial boundaries are based on:

- States.
- Counties.
- Cities and ZIP-code areas.
- Metropolitan statistical areas.
- Trading areas.
- Major accounts.
- A combination of two or more factors.

Industry and the type of products a firm sells usually dictate its basic control unit. Many firms use several control units. For example, a national pharmaceutical manufacturer now has 27 distribution centers with approximately 1,000 salespeople in the United States. The state of Texas is one of its sales units, with four sales districts employing 50 salespeople. The northeast Texas sales district has 13 salespeople, 4 of whom contact customers in the Dallas metropolitan area. The individual sales territories of the four salespeople living in Dallas are based on ZIP codes while the salespeople in northeast Texas living outside the metro area have their territories structured around counties.

No matter how a company divides its territories, however, it should always consider present and potential sales of the geographic areas. Customers and prospects become the nucleus around which sales territories are formed. Thus, the individual sales territory can be operated as a business or minimarket.

Analyze Salespeople's Workloads

It often seems that every company has a different territorial design. Because of differences in salespeople's workloads, firms in the same industry may even have different territorial designs.

Workload is the quantity of work expected from sales personnel. Three of the main influences on workload involve the nature of the job, intensity of market coverage, and type of products sold.

Nature of the Job The nature of the job determines the job activities of salespeople. The salesperson who only calls on buyers and does no "missionary," or service, work can be responsible for a much larger geographic area than the salesperson who does both. Many companies selling consumer goods use both a senior salesperson and a service salesperson. The senior salesperson, for example, calls on buyers, while the service salesperson actually goes into the stores and services the accounts. In this way, a larger area can be covered by two salespeople.

Intensity of Market Coverage A key sales force strategy involves having the correct number of salespeople required to cover the firm's market. Each firm determines which of these distribution methods works best:

- *Intensive distribution:* Sell the product in every outlet where final customers might reasonably look for it.
- *Selective distribution:* Use a limited number of wholesalers and retailers in a given market.

- *Exclusive distribution:* Use only one wholesaler or retailer in a given market.

Firms using an intensive distribution strategy will require more territories than a firm using a selective or exclusive distribution strategy.

TYPE OF PRODUCTS SOLD Whether the salesperson sells convenience, shopping, or specialty goods or services has an effect on call patterns and the amount of territory that can be covered. The salesperson who works for Frito-Lay selling snack foods to retail stores has to call on many more accounts than the Dell salesperson who sells computer networks to Fortune 100 organizations.

DETERMINE BASIC TERRITORIES

Once sales managers have selected the basic control unit or units and carefully analyzed salespeople's workload, they are ready to determine how to design the sales territories. Table 6.1 shows the six steps to consider when designing territories.

Step One *Forecast sales and determine sales potentials.* Using the forecasting methods discussed in Chapter 5, the firm forecasts sales for its total market and for each geographic region. Sales potentials are also considered.

Step Two *Determine the sales volume needed for each territory.* Next, management determines the level of sales needed to support each territory. Consideration must be given to all costs associated with the territory, including the salesperson's salary and expenses.

Step Three *Determine the number of territories.* The following are several ways to determine the number of territories needed to sell and service a firm's market. The breakdown approach is the simplest. Steps 4 to 6 then will be discussed.

BREAKDOWN APPROACH The **breakdown approach** uses factors such as sales, population, or number of customers. Assume a firm forecasts sales of $18 million. It feels that each territory must generate $1 million. Using the following formula, it finds that 18 territories are needed:

$$\text{Sales Force Size} = \frac{\text{Forecasted Sales}}{\text{Average Sales per Salesperson}}$$

The number of customers and population are frequently used to determine the number of territories. The Houston sales district of companies such as Quaker Oats has a guideline of one salesperson for every 100 to 120 retail stores. The population of an area determines the number of retail grocery stores. Thus, sales, population trends, and the number of retail stores help a district manager estimate the number of territories needed in the sales unit.

TABLE 6.1

SIX STEPS TO CONSIDER WHEN DETERMINING A FIRM'S BASIC TERRITORIES

1. Forecast sales and determine sales potentials.
2. Determine the sales volume needed for each territory.
3. Determine the number of territories.
4. Tentatively establish territories.
5. Determine the number of accounts for each territory.
6. Finalize the territories, and draw boundary lines.

EQUALIZED WORKLOAD This method uses the number, location, and size of customers and prospects. Size refers to the amount of actual sales and sales potentials of customers and prospects. For many companies this information has already been collected by the time sales forecasts are made (Chapter 5) and by the time marketing costs and sales are analyzed (Chapter 15).

The firm knows where present customers are located. Field sales managers and their salespeople can provide information on prospects and new companies. Data also can be collected from places such as federal, state, and local governments, trade associations, telephone directories, and *Sales & Marketing Management* magazine's yearly publications on consumer and industrial buying power and sales potentials.

Once a firm determines the number, location, and size of customers and prospects, it needs to determine the frequency of sales calls and amount of time a call takes by using such data as:

- Time required for each sales call.
- Frequency of sales calls per given customers.
- Time intervals between sales calls.
- Travel time around territories.
- Nonselling time.

Here is how a firm can use this information: Sales managers first classify customers to identify the profitable ones. This, in turn, determines where the salesperson's time will be invested. One method of doing this follows:

KEY ACCOUNT	UNPROFITABLE ACCOUNT	REGULAR ACCOUNT
■ Buys over $200,000 from us annually ■ Loss of this customer would substantially affect the territory's sales and profits.	■ Buys less than $1,000 from us annually ■ Little potential to increase purchases above $1,000	■ All other customers

The unprofitable accounts would not be called on; the key accounts and regular accounts become target customers. Once the accounts have been broadly classified, categories or types of accounts can be defined in such terms as extra large (key), large, medium, and small—this will be referred to as the *ELMS system.* For example, management may divide the 3,000 accounts in the firm's total market into these four basic sales categories, as shown in Table 6.2. As can be seen from the table, although relatively few extra large or large accounts exist, these quite often account for 80 percent of a company's profitable sales even though they represent only 20 percent of the total number of accounts. This is referred to as the **80/20 principle.** Eighty percent of a firm's sales comes from 20 percent of customers.

TABLE 6.2

EXAMPLE OF ACCOUNT SEGMENTATION BASED ON YEARLY SALES

CUSTOMER SIZE	YEARLY SALES (ACTUAL OR POTENTIAL)	NUMBER OF ACCOUNTS	PERCENT
Extra large	more than $200,000	100	3.3
Large	$75,000–200,000	500	16.7
Medium	$25,000–75,000	1,000	33.3
Small	$1,000–25,000	1,400	46.7
Total customers		3,000	

TABLE 6.3 DETERMINATION OF TOTAL NUMBER OF SALES CALLS

CUSTOMER SIZE	CALL FREQUENCY	(TIMES)	NUMBER OF ACCOUNTS	(EQUALS)	NUMBER OF CALLS PER YEAR
Extra large	1 per month (12)	×	100	=	1,200
Large	1 per month (12)	×	500	=	6,000
Medium	1 per month (12)	×	1,000	=	12,000
Small	1 per quarter (4)	×	1,400	=	5,600
Total			3,000	=	24,800

The number of key accounts in an individual territory varies, as does responsibility for them. Even if a key account is located geographically in a particular salesperson's territory, a key account salesperson may call on the customer. Typically this is done because of the account's importance to the company or the inexperience of the local salesperson.

The accounts with the higher sales or sales potential typically will be assigned to a higher number of sales calls. For example, extra large, large, and medium accounts are called upon once a month; small accounts are called upon every three months.

Assume the company has 3,000 real and potential customers. As shown in Table 6.3, the number of accounts multiplied by the call frequency equals the total number of sales calls the sales force must make per year. Assume a firm has determined that 24,800 calls per year must be made to service its 3,000 customers. It is estimated that the average salesperson works 46 out of every 52 weeks (considering time off for vacation, holidays, and illness). Taking into consideration travel time and nonselling time, the salesperson can make 6 calls per day, 30 calls per week, or 1,380 calls annually. This company needs 18 sales territories.

$$\frac{\text{Total Sales Force Customer Calls}}{\text{Individual Customer Calls}} = \frac{24{,}800}{1{,}380} = 18 \text{ Sales Territories}$$

This method is simple and straightforward. Its main drawbacks are that salespeople are not alike in their abilities and that all customers do not have similar characteristics and requirements. For example, all salespeople would not be able to average six daily calls. However, the method can be used in conjunction with management's knowledge of its market.

To revise the number of existing territories, some firms use the **incremental method.** It is based on the assumption that an additional territory can be added if profit contributions from sales in the territory exceed the costs of the territory. Thus, territories are added until the incremental profit contribution from the last additional territory equals the territory's incremental cost. To use this approach, management must know (1) the sales potential of an area, (2) the selling costs, and (3) the costs of production and distribution.

The following is an example of the incremental method applied to a sales district that currently has nine territories. First, assume a firm has estimated product- and distribution-related costs to be 70 percent of sales. The accounting department furnishes this information. This leaves a margin of 30 percent to cover a salesperson's costs, such as salary, car expenses, and profits. Management feels that sales volume is directly related to the number of salespeople. The more salespeople, the higher the district's sales will be. The question is whether increasing the number of territories will produce increased *profitable sales.* The data necessary to obtain an answer are presented in Table 6.4.

TABLE 6.4

PROFIT CONTRIBUTION OF NEW TERRITORY

Forecast sales for "proposed" 10 territories		$1,250,000
Forecast sales for "present" 9 territories		1,125,000
Sales from additional territory		$ 125,000
LESS COSTS		
Cost of additional salesperson	$29,000	
Production and distribution costs at 70 percent	87,500	
Total costs		116,500
Profit contribution of additional territory		$ 8,500

TABLE 6.5 PROFIT CONTRIBUTIONS OF ADDITIONAL SALESPEOPLE

ADDITIONAL SALESPEOPLE	SALES INCREASE	(MINUS)	DIRECT SELLING COSTS	(MINUS)	COST OF GOODS SOLD	(EQUALS)	NET PROFIT CONTRIBUTION
10	$125,000	–	$29,000	–	$87,500	=	$8,500
11	100,000	–	29,000	–	70,000	=	1,000
12	80,000	–	29,000	-	56,000	=	−5,000

In this example, a territory can be added to the sales force because forecasted sales exceeded costs, leaving a profit contribution of $8,500. However, this conclusion is based on the assumptions that the increase in sales was due to the added salesperson and that the creation of a new territory would not affect other territories.

This method is particularly appropriate for the firm expanding its markets into previously uncovered or understaffed areas. The major element to consider is the territory's total incremental or marginal cost relative to its incremental or marginal revenue. Although it is assumed the cost of hiring an additional salesperson will be the same as the cost of the existing salespeople, the new salesperson's sales will be lower than those of other salespeople in the region. This is true because the region's sales potential will decrease faster than sales will increase as salespeople are added. Thus, as shown in Table 6.5, as salespeople are added, the profit generated by each new salesperson decreases. Personnel in this sales region could be increased to 11 salespeople for a net profit contribution of $1,000. Beyond this, a loss occurs even though sales are increasing. The addition of the 12th person increases sales by $80,000 but causes a profit loss of $5,000.

The drawbacks to using the incremental method center on the difficulties of estimating marginal sales directly produced by the added salesperson, marginal costs, and production and distribution costs. This method is theoretically attractive but sometimes impractical because of the difficulty of making these estimates.

Step Four *Tentatively establish territories.* New territories now can be tentatively formed. If possible, each territory should have the same sales potential. This helps in properly evaluating and compensating salespeople.

The entire market can be divided into regions, regions into districts, and districts into sales territories. Contiguous territorial control units can be used to form one territory. If a company selling nationally has 18 salespeople, it might use states to form territories. If it is a regional office-supply firm selling in several states, it could use counties and cities as its basic control unit.

TABLE 6.6

DETERMINATION OF CUSTOMER NUMBERS FOR EACH TERRITORY

CUSTOMER SIZE	NUMBER OF ACCOUNTS	NUMBER OF CALLS PER MONTH
Extra large	5	5
Large	28	28
Medium	56	56
Small[a]	78	26
Total	167	115

[a]Contacted once every three months.

Step Five *Determine the number of accounts for each territory.* We determined earlier that using the equalized workload method, one salesperson could make 1,380 sales calls annually or approximately 115 a month. Using the information in Table 6.3, we simply divide the number of accounts by the number of salespeople, or 18, to help determine the number of accounts of each territory.

This was done to create the information in Table 6.6. Slight differences in the numbers occur due to rounding numbers. For example, a total of 500 accounts are classified as "large." Divide 500 by 18 salespeople, and rounded off you have 28 large customers. Each salesperson has a total of 167 accounts of all four sizes. This assumes all salespeople have the same ability and customers are geographically clustered together. This is typically not the situation, so adjustments are made to finalize the territories.

Step Six *Finalize the territories, and draw boundary lines.* Finally, the territories should be adjusted based on factors such as workload requirements, sales, sales potentials, number and size of customers, geographic distances between customers, and any other aspects that may influence territorial boundaries. Boundaries then can be drawn using one or more of the control units, such as states or cities.

ASSIGN TO TERRITORIES

Some salespeople can handle large territories and the travel associated with them; some can't. Some territories require experienced salespeople; some are best for new people. Some people want to live in metropolitan areas such as Chicago, Los Angeles, or Houston. Other people prefer territories with smaller cities. Someone born and raised in New York City may not want to be headquartered in Jackson, Mississippi, and vice versa.

These are a few of the factors a manager needs to consider when assigning new and experienced people to territories. Executive judgment based on past experience generally guides a manager in determining who should be assigned to a specific territory.

This is an important decision since a territory may generate millions of dollars in sales. The wrong person can cost the company in lost sales and bad relationships with customers. The right person can turn a poor territory into a winner. Hiring the right person is so important that the next three chapters involve staffing the sales force.

TABLE 6.7

WEEKLY ROUTE REPORT

TODAY'S DATE: DECEMBER 16		FOR WEEK BEGINNING DECEMBER 26
DATE	**CITY**	**LOCATION**
December 26 (Monday)	Dallas	Home
December 27 (Tuesday)	Dallas	Home
December 28 (Wednesday)	Waco	Holiday Inn/South
December 29 (Thursday)	Fort Worth	Home
December 30 (Friday)	Dallas	Home

CUSTOMER CONTACT PLAN

The fifth factor to consider in designing sales territories is the **customer contact plan.** This involves scheduling sales calls and routing a salesperson's movement around the territory.

Scheduling refers to establishing a fixed time (day and hour) when the salesperson will be at a customer's place of business. Routing is the travel pattern the salesperson uses in working a territory. In theory, strict formal route designs enable the salesperson to (1) improve territorial coverage, (2) minimize wasted time, and (3) establish communications between management and the sales force in terms of the location and activities of individual salespeople. When developing route patterns with their manager, salespeople determine the exact day and time of sales calls for each account; approximate waiting time; sales time; miscellaneous time for contacting people such as the promotional manager, checking inventory, or handling return merchandise; and travel time between accounts.

Typically, when the salesperson finishes the work week, a routing report is filled out. It is sent to the supervisor and indicates where the salesperson will be working in the future (see Table 6.7). In the example, today is Friday, December 16, and the salesperson is based in Dallas and planning, during the week of December 25, to call on accounts in Dallas for two days. Then the salesperson plans to work in Waco for a day, spend the night, drive to Fort Worth early the next morning to make calls, and arrive home Thursday night. The last day of the week the salesperson again plans to work in Dallas.

The weekly route report tells management where the salesperson is, and, if necessary, they can contact the salesperson. Some firms may ask their salespeople to specify the accounts they will call on and at what times. For example, on Monday, December 26, the salesperson may write "Dallas, 9:00 ante meridiem, Texas Instruments; Grand Prairie, 2:00 post meridiem, L.T.V." Thus, management also knows which accounts a salesperson will call on during a report period. If no overnight travel is necessary to cover a territory, the company may not require any route reports because the salesperson can be contacted at home in the evening.

CAREFULLY PLANNING ROUTES

At times, routing can be difficult for a salesperson. Customers do not locate themselves geographically for a salesperson's convenience. Also, getting around in large cities is becoming increasingly difficult. In addition, some accounts will see salespeople only on certain days and hours.

In today's complex selling situation, the absence of a well-thought-out daily and weekly route plan is a recipe for disaster. Salespeople cannot operate successfully without it. Imagine you are a salesperson planning your routes. How would you begin?

Start by locating your accounts on a large map. Mount the map on corkboard or foamboard, which can be obtained from an office supply store or picture framing shop. You can use a road map for large territories or a city map for densely populated areas. While you are at the office products store, pick up a supply of map pins with different-colored heads. Place the pins on the map, so you can see graphically where each account is located. For example, you could use:

- Red pins for extra large (EL) accounts.
- Yellow pins for large (L) accounts.
- Blue pins for medium (M) accounts.
- Black pins for small (S) accounts.
- Green pins for best prospects.

Once all the pins are in place, stand back and take a look at the map. Notice first where the EL accounts are located. This will help you determine your main routes or areas where you must go most frequently.

Now divide the map into sections, keeping about the same number of EL accounts in each. Of course, each section should be a natural geographic division; the roads should be located so you can drive easily from your home base to each section and get around readily once you are in a section. Generally, your L, M, and S accounts will fall into place near your EL accounts, with a few exceptions. For example, if you are working on a monthly or four-week call schedule for your ELs, then divide your territory into four sections, and work one section each week. In this way, you will be sure to get to all your ELs and also have the flexibility needed to get to your other accounts on a regular basis. If you had 31 EL, 57 L, 120 M, and 151 S accounts, your sections might look like this, but you would not be able to see all the accounts each week.

Section 1	Section 2
7 ELs	9 ELs
15 Ls	12 Ls
35 Ms	25 Ms
40 Ss	35 Ss
Section 3	**Section 4**
5 ELs	10 ELs
15 Ls	15 Ls
35 Ms	25 Ms
40 Ss	36 Ss

By setting up your geographic routes this way, you could call on all of your EL accounts every four weeks, half of your L and M accounts (making an 8-week call cycle), and one-quarter of your S accounts (making a 16-week call cycle). Allow time for calls on prospective customers, too. Use the same routing procedure as you would for your regular customers. The only difference might be that your prospects would be contacted on a less frequent basis than your customers, in most cases.

No "right number" of sections or routes is correct for all salespersons. The size of their territory, the geographic layout of that part of the country, and the call frequencies they want to establish determine the number of sections or routes. They should lay out the travel route so they can start from their home in the morning and return in the evening. If, however, they have a larger territory, they could make it a Monday to Friday route or a two-day (overnight) route. Remember, the critical factor is travel time, not miles. In some cases, using major nonstop highways may increase miles, but total travel time may decrease.

The actual route salespeople follow each day within each section can help maximize their use of daily prime selling hours. They should make long drives early in the morning and in the late afternoon, if possible. For example, if most of their accounts are strung out more or less in a straight line from their home base, they should get up early and drive to the far end of the territory before making the first call. They would then work their way back, so they end up near home at the end of the day. Figure 6.2 illustrates three basic routing plans, including the straight-line method just mentioned.

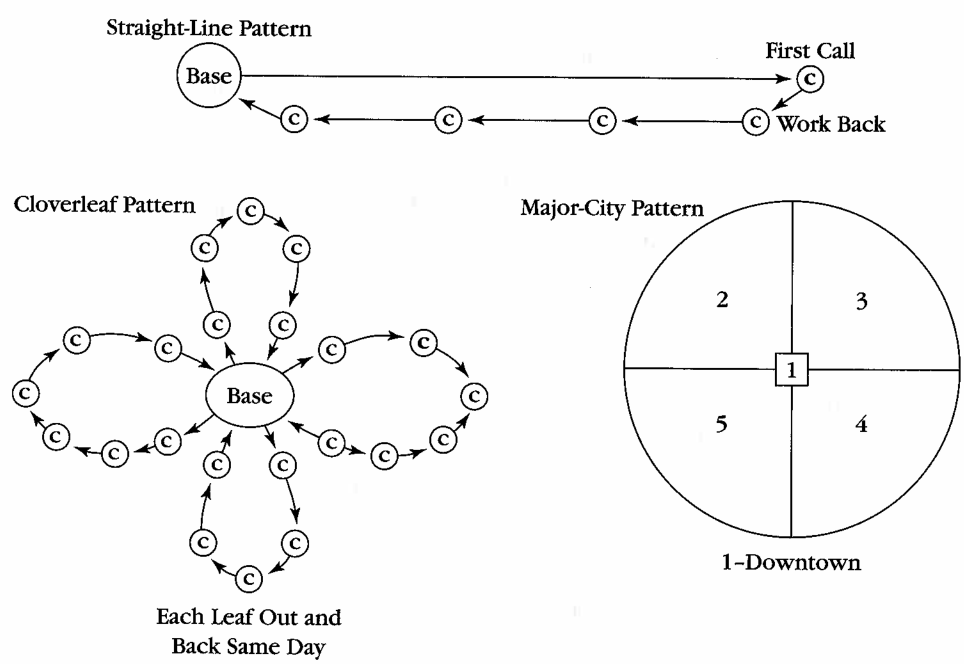
USING THE TELEPHONE FOR TERRITORIAL COVERAGE The telephone has been described as simultaneously a great time-waster and a great time-saver. It all depends on how it is used. The increasing cost of personal sales calls and the increasing time spent traveling to make them are reasons for the efficient territorial manager to look to the telephone as a tool for territorial coverage.

With field selling costs still on the rise and no end in sight, more and more companies are developing telephone sales and marketing campaigns to supplement personal selling efforts. These campaigns use trained telephone communicators and well-developed telephone marketing techniques. Usually, they require a company-wide effort. Here, though, we will concentrate on how an individual territorial manager can use the telephone as a tool to save time on territorial coverage.

Telephone use in the individual territory may be grouped into three categories: sales generating, order processing, and customer servicing. The following are some applications of the telephone in each of these categories:

1. Sales generating
   - Selling regular orders to smaller accounts.
   - Selling specials, such as offering price discounts on an individual product.
   - Developing leads and qualifying prospects.

FIGURE 6.2 THREE BASIC ROUTING PATTERNS



2. Order processing
   - Ordering through the warehouse.
   - Gathering credit information.
   - Checking if shipments have been made.
3. Customer servicing
   - Handling complaints.
   - Answering questions.

Although each salesperson has to decide which types of calls and which accounts may lend themselves to telephone applications, most people can benefit from adopting the following practices, as a minimum, in territorial coverage:

- Satisfying part of the service needs of accounts by telephone.
- Assigning smaller accounts, those that contribute less than 5 percent of business, substantially to telephone selling.
- Doing prospecting, market data gathering, and call scheduling by telephone.
- Carefully scheduling personal calls to distant accounts, replacing some of these personal visits with telephone calls, if possible.

As we have seen, the telephone and the computer are important selling tools for salespeople.

EVALUATION AND REVISION OF SALES TERRITORIES

Territorial control is the establishment of standards of performance for the individual territory in the form of qualitative and quantitative quotas or goals. Actual performance is compared with these goals for evaluation purposes. The salesperson can see how well territorial plans, strategies, and tactics were carried out toward meeting performance quotas. If quotas were not met, then new plans must be developed for the territory.

Many companies routinely furnish managers and individual salespeople with reports on the number of times during the year their salespeople have called on each account and the date of the last sales call. Management can monitor the frequency of—and time intervals between—calls for each of their salespeople.

As an example, a national pharmaceutical company supplies its sales force with the "net sales by customer and call report." The report lists each customer's name, address, and medical specialty. The desired number of monthly calls on a given customer and the actual number of calls to date are noted. Net sales are broken down into last year's sales, the current month's sales, and year-to-date sales. Finally, the date the salesperson last called on each customer is reported. Using this type of information, which might include 200 to 300 customers for each salesperson, management and salespeople can continually review sales call patterns and customer sales to update call frequency and scheduling.

REVISING SALES TERRITORIES Management can follow the same procedures shown in Figure 6.1 when revising sales territories. Many companies continually evaluate their sales territories. Changes can be made, such as increasing or decreasing the number of territories or shifting geographic boundaries while keeping the same number of territories. These revisions help the company respond to business conditions. The use of computers to redesign sales territories is becoming popular and will be discussed later.

THE SALES TERRITORY IS A BUSINESS

Picture the individual sales territory as a business unit that incurs costs and generates revenues. The salesperson is the manager of that business—territory—responsible for improving sales.

TABLE 6.8 SALES LEAKAGE IS COSTLY!

1. If you have 30 salespeople and lose no one during the year:
   30×12 months = 360 yearly sales-months
2. If it takes an average of 4 months (hiring and training) to fill a territory and you lose 9 salespeople a year:
   9×4 months = 36 months of sales leakage
3. Now you're down to 324 yearly sales-months or a 3-year loss of sales time.
   - If the average $30,000-per-month territory lost $15,000 the first month and from $20,000 to $22,000 per month the next 3 months, then losses are about $75,000 until the vacancy is replaced with a new salesperson.
4. Many managers estimate a new salesperson sells only 50 percent of the industrial sales territory's potential in the first 6 months.
   This does not include
   - Recruiting costs—air, hotel, advertisements, or recruiters' fees.
   - Training—space, personnel, and travel.

THE RIGHT SALESPERSON PAYS OFF

Sales can go up or down within the territory, often depending on the salesperson. Take Jim Lane, for example, who sells for an electrical distributor in Dallas. Eighteen months after being assigned, Lane increased sales more than $1 million. In doing so, he created $110,000 of pure profit for his employer.

OPEN SALES TERRITORIES

Open sales territories are those left vacant until new salespeople are assigned to them. Jim Lane caused sales to increase in his new territory. However, vacant territories experience the following:

- Lost sales due to the vacancy.
- Lost sales due to the time needed for the new salesperson to build sales productivity—often five to six months to reach the entire sales force's sales average.

Sales leakage refers to the lost sales due to both the vacancy and the time required for the new salesperson to produce at average. Sales leakage can be very expensive, as shown in Table 6.8. The table information was provided by Texas Distributors, a wholesaler of construction materials.

USING COMPUTERS TO DESIGN TERRITORIES

A sales territory is a dynamic environment, constantly involving changes in customers, competitors, products, and sales force turnover. Although this creates imbalances in workloads and potential sales, managers are reluctant to realign their territories to reflect such changes because the tedious calculations consume time.

Marion Merrell Dow, Cincinnati, a Dow Chemical subsidiary, put an end to such reluctance with a PC-based mapping software that enables managers to realign territories and see an instant visual display of the effects of such realignment in a matter of minutes. Using the Maps III (Manpower Allocation and Planning System), a manager inputs criteria such as potential and actual sales, doctor and pharmacy counts, and travel time. Maps III combines this business data with geographic features, road networks, and five-digit ZIP codes to come up with the optimal territorial alignment.

MANAGEMENT IN ACTION: ETHICAL DILEMMA

IS IT TOO EARLY TO TELL?

You and all of your firm's other regional managers recently met at your corporation's home office where the company's long-range sales plans, objectives, and quotas were discussed. Although no specific discussion on confidentiality occurred, you assumed the plans were to be kept a secret. One of your trustworthy district managers is determined to find out what happened at the meeting.

WHAT DO YOU DO?

1. Share the information, since no warnings were given. Besides, he works for the same company, and he would do the same.
2. Find out why he wants to know, or needs to know, before deciding what to do.
3. Treat the meeting as confidential, and refuse to discuss it with the district manager even if it jeopardizes your friendship.

The program was especially helpful when the company replaced its single sales force with two sales forces to get broader product coverage. One Marion Merrell Dow sales force promotes prescription pharmaceuticals, while a Lakeside sales force sells over-the-counter drugs. In all, the United States had to be redivided to create 400 Marion Merrell Dow sales territories and 250 Lakeside territories.

"Such a task," Dan McKee, manager of marketing decision support systems, says, "ordinarily takes a lot of time, hand-drawn maps, grease pencils, and plastic overlays. In addition, there are hours consumed in doing the arithmetic involved with the attributes assigned to individual sales territories and redrawing the boundaries. The PC does the arithmetic for a territory in a matter of seconds, and it creates a map of the realigned boundaries in two minutes."

Robert Mayne, sales operations manager, adds: "Human judgment still plays a role when the manager uses Maps III. However, the program gives him instant feedback on what he is thinking of doing, so that if his first realignment still leaves something out of balance, he makes further adjustments until he has the balance he wants. Thus he's able to try out more workable solutions until he is satisfied that he has the optimal territory alignment with regards to such factors as market potential and the experience level of sales representatives."

Computerized mapping is part of the company's effort to beef up its integrated planning. "Maps III, a new call reporting system, and mathematical models," McKee says, "will be rolled together to sharpen our marketing strategy. Because Maps III will be used with our management reports, we'll have a better idea of what's being done and where—and what's not being done."

THE BOTTOM LINE

According to salespeople, managing time and territory is the most important factor to be considered when carrying out their selling duties. This area of selling is emphasized heavily by companies and sales managers. The sales territory is a group of customers or a geographic area assigned to a salesperson; it is usually developed by the sales manager.

Developing sales territories has advantages as well as certain disadvantages. Salespeople may be more motivated if they are unrestricted, or the company may be too small to justify segmenting the market. Also, the manager may not want, or have the knowledge, to develop territories.

Sales force objectives are usually converted into individual sales territorial goals. The design of a territory is important to successful selling. Territorial boundaries are based on states, counties, cities, ZIP-code areas, metropolitan statistical areas, trading areas, or major accounts. The industry a firm belongs to determines its basic control unit.

The three main influences affecting the sales personnel's workload are nature of the job, intensity of market coverage, and products sold.

Before designing sales territories, managers must consider six factors. First, they must forecast and determine the sales volume needed for each territory. Next, they must determine the number of territories. They can use the breakdown approach or the equalized workload. Once the number and location of customers are determined, the key accounts must be established by their equal sales potentials. Managers determine the number of accounts for each territory by dividing the number of accounts by the number of salespeople in each territory. The last step is to finalize territories and draw boundary lines.

The customer contact plan includes scheduling sales calls and routing a salesperson's movement around the territory. Routes should be planned carefully so no time is wasted in traveling. The telephone also can be used to save time.

Territorial control allows actual performance to be compared with standards of performance for evaluation purposes. Companies want to avoid costly sales leakage. Computers can be programmed to design the ever-changing territories.

KEY TERMS FOR SALES MANAGERS

Sales territory, 120
Sales force objectives, 122
Workload, 123
Breakdown approach, 124
80/20 principle, 125
Incremental method, 126
Customer contact plan, 129
Scheduling, 129
Territorial control, 132
Open sales territories, 133
Sales leakage, 133

MANAGEMENT APPLICATION QUESTIONS

1. What is a sales territory, and what may be some of the reasons a firm establishes sales territories? Can you think of a reason why a firm might not want to have sales territories?
2. What major factors do organizations consider when designing sales territories?
3. What are the six steps to consider when determining a firm's basic territories? Step number 4 has three methods—what are they?
4. Assume Music Express, Inc., has 6,000 prospects and customers. It is estimated that each salesperson can average 1,400 prospect and customer sales calls during a year. The entire sales force will need to make a total of 50,000 calls on prospects and customers. How many salespeople does Music Express need to have in its sales force? Explain your answer.
5. Use the following information to determine the sales force size for this company using both the equalized workload and the incremental methods. Should these two methods give the same result?

   The regional manager has asked you to decide if you should hire more salespeople for your district. Right now you have seven sales territories with one person assigned to each. The total number of real and potential customers in the district is 2,100. Present sales in the district are $750,000. Production and distribution costs are 60 percent of sales. If you add another salesperson, sales should go up 10 percent; two salespeople should increase it by 19 percent; and three salespeople would boost sales 24 percent. Of the 2,100 customers, 300 could be classified as A accounts, 700 as B accounts, and the rest as C accounts. It has been determined that A accounts need to be called on at least once every two weeks, B accounts once a month, and C accounts about once a quarter. Each salesperson should be able to make about ten sales calls in a day. Each salesperson added to the sales force will cost the firm another $25,000.

6. One of your salespeople has come to you for help. He is having trouble calling on his accounts. He says he feels his territory is too large and spread out, and he feels as though he is spending all his time in the car instead of making sales calls. What steps would you take to help him develop a more effective sales route?
7. Discuss why sales managers are using the telephone more in their work. For what kinds of applications might the telephone be useful?

FURTHER EXPLORING THE SALES WORLD

Contact any organization with two or more people in its outside sales force. Find out (1) who is responsible for determining the number of salespeople and sales territories, (2) the factors considered in designing sales territories, and (3) if accounts and prospects are segmented.

SALES MANAGEMENT EXPERIENTIAL EXERCISE

YOUR SELLING DAY: A TIME AND TERRITORY GAME

Your sales manager is working with you tomorrow only, and you want to call on your customers with the greatest sales potential (see Exhibit 6.1 below). Because you are on a straight commission, you will have the opportunity to maximize your income for that day. The area of your territory that you feel should be covered tomorrow contains 16 customers (see Exhibit 6.2 on the following page). To determine travel time, allow 15 minutes for each side of each small square. Each sales call takes 30 minutes. You can leave your house at 8:00 A.M. or later. Time for lunch must be taken in 15-minute blocks of time (for example, 15, 30, 45, or 60 minutes). Your last customer cannot be contacted after 4:30 P.M. in order to allow enough sales time. Your customers do not see salespeople after 5:00 P.M. Travel home can be done after 5:00 P.M.

Questions

1. Develop the route that gives the highest sales potential for the day your boss works with you.
2. For the next day, develop the route allowing you to contact the remaining customers in this part of your territory.

EXHIBIT 6.1

CUSTOMERS' SALES POTENTIALS

CUSTOMER	SALES POTENTIAL	CUSTOMER	SALES POTENTIAL
A	$4,000	I	$ 1,000
B	3,000	J	1,000
C	6,000	K	10,000
D	2,000	L	12,000
E	2,000	M	8,000
F	8,000	N	9,000
G	4,000	O	8,000
H	6,000	P	10,000

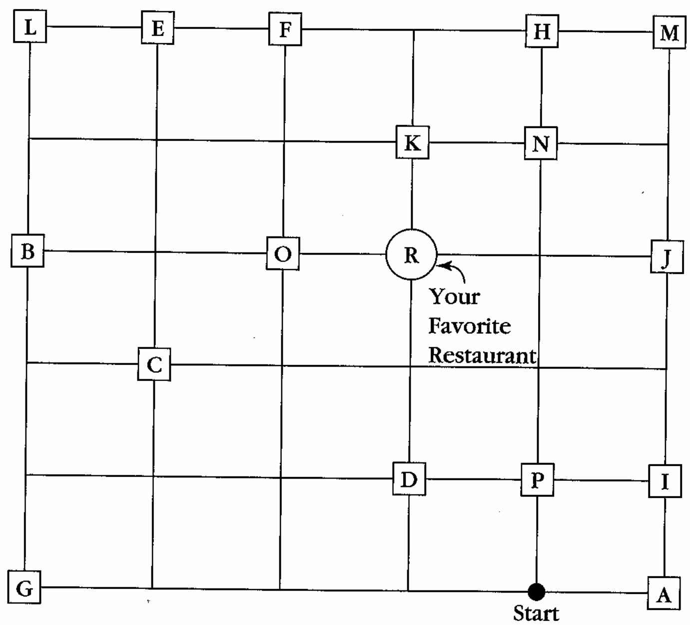


EXHIBIT 6.2

PARTIAL MAP OF YOUR SALES TERRITORY

CASE 6.1

ARIZONA ELECTRICAL, INC.
Is the Information Important?

Arizona Electrical sales reports prove that one of your salespeople is a top producer—creative, popular, and a super problem solver. Joe Jingle is almost the ideal member of your sales team. But not quite. The problem is with the quantity and quality of his written reports. For one thing, he never delivers them on time. If you do get them at all, it's only because you've nagged to the point of embarrassment. What's more, Joe's reports are downright cryptic—so terse, hasty, and abrupt they rarely contain useful information. The data they do contain read more like inadequately substantiated hints, rather than facts. Naturally, you hesitate to base your sales plans and forecasts on this top producer's "field intelligence."

Nobody really likes to write reports, especially when they have to be done every week within a specific deadline. Sure, it seems that just as you finish one report, you have to start another. That's the way of corporate life—your life and those of all the people who work in a hierarchical structure. The time has come for you to do something that, once and for all, will solve this problem and keep it solved.

QUESTION

What do you do?

CASE 6.2

SALLY MALONE'S DISTRICT

Development of an Account Segmentation Plan

Sally Malone sat patiently listening to her boss talk about the new time and territorial management program her company was implementing. Her boss was saying, "Since we wish eventually to establish priorities for our accounts in order to make time-investment decisions, we must classify the accounts into categories. A simple A, B, C, D, E designation of categories is the most commonly used approach, with A accounts the most valuable.

"The basis for setting the values or limits for each category is the distribution of sales, or concentration patterns, in most industries. In general, business in our company is distributed approximately as shown in Exhibit 1. Generally, the top 10 percent of the accounts will generate 65 percent, and the top 30 percent will generate 85 percent of the sales in any given territory. Salespeople may use this rule-of-thumb breakdown in determining the classification system for their accounts. Once the sales potential for all their accounts has been calculated, their territory should break down like this on the basis of that potential:

- A accounts = top 10 percent of the accounts, numerically
- B accounts = next 20 percent of the accounts, numerically
- C accounts = next 50 percent of the accounts, numerically
- D accounts = next 10 percent of the accounts, numerically
- E accounts = last 10 percent of the accounts, numerically

"Sally, I want you to have each of your salespeople take a close look at his or her sales call cycles. As I have explained, a call cycle is a round of calls in which all A accounts are called on at least once and some, but not all, B, C, D, and E accounts are called on. When a salesperson has visited all of his or her A accounts, the cycle is completed. Then a new cycle begins, and the series of calls repeats itself. Since not all B, C, D, and E accounts are called on in every cycle, the specific accounts to be seen in these classifications differ from cycle to cycle. A call cycle, therefore, is established around the call frequency patterns of A accounts.

"Suppose a group of accounts is classified in this way:

ACCOUNTS	EXPECTED VALUE
A	$100,000 plus
B	50,000–100,000
C	30,000–50,000
D	20,000–30,000
E	Less than $20,000

"The call frequency patterns, therefore, based on potential and return on time invested, may be as follows:

ACCOUNTS	WEEKS BETWEEN CALLS	NUMBER OF ACCOUNTS
A	2	10
B	4	20
C	6	45
D	8	12
E	10	10

"Thus, a call cycle in this territory will cover two weeks. This means that in every two-week cycle the salesperson will call on these accounts:

- All of the As
- Half of the Bs
- One-third of the Cs
- One-fourth of the Ds
- One-fifth of the Es."

EXHIBIT 1 DISTRIBUTION OF SALES

CUSTOMER CLASSIFICATION	PERCENTAGE OF CUSTOMERS	PERCENTAGE OF TOTAL SALES VOLUME
A	10	65
B	20	20
C	50	10
D	10	3
E	10	2
	100	100

QUESTIONS

1. Develop a table showing a salesperson's call cycle using the call frequency patterns.
2. Discuss why this should be done.