

# THE SALES DEPARTMENT

## 1. Goals

The sales department consists of a dynamic and ambitious team of salespersons.

The goals set by the general management are twofold:

- To develop the market shares
- To guarantee a sufficient contribution to the firm's income

### 1.1. Market shares

For the year  $20n+1$ , the sales manager's target market shares are as follows:

- 25% on the golf short segment
- 20% on the track suit segment
- 12% on the parka segment

### 1.2. Contribution to the firm's income

The contribution of the sales department is computed as follows:

Contribution = Sales – Full production cost of goods sold – Sales costs

Production costs are included in the calculation of the contribution so that salespersons have to take them into account when negotiating selling prices with their customers. However, production costs are in the hands of the production department. Hence, the production cost included in the contribution calculation is a *standard cost* defined *a priori*. In the case of an increase of the real production cost, the sales department will not be affected. For simplification reason, the standard costs for  $20n+1$  are the real costs of  $20n$ .

Sales costs include:

- Wage expenses (salaries, pensions, etc.)
- Costs of visiting clients (gas, depreciation of vehicles, vehicles insurance, etc.) and entertainment expenses
- Advertising and documentation expenses
- Delivery expenses
- Allowances for uncollectible accounts (estimated at € 300,000 for 20n and € 152,000 for 20n+1)

For 20n+1, given the profitability imperative, the sales manager wishes to reach a contribution level of 13% of sales.

## 2. Information on past sales

### 2.1. Sales growth in monetary terms

Sales (in €K)	20n-2	20n-1	20n <sup>1</sup>
Golf shorts	9,409	9,653	10,050
Track suits	12,480	14,625	17,600
Parkas	0	5,661	8,525
Total	21,889	29,939	36,175

### 2.2. Sales growth in units

Sales in volume	20n-2	20n-1	20n <sup>2</sup>
Golf shorts	485,000	490,000	500,000
Track suits	400,000	450,000	500,000
Parkas	0	85,000	125,000

<sup>1</sup> Information for 20n reflects end of year forecasts.

<sup>2</sup> Information for 20n reflects end of year forecasts.

### 2.3. Evolution of selling prices

Selling prices (in euros)	20n-2	20n-1	20n
Golf shorts	19.4	19.7	20.1
Track suits	31.2	32.5	35.2
Parkas	0	66.6	68.2

### 2.4. Information concerning market volumes

Volume (in units)	20n-2	20n-1	20n	20n+1 <sup>3</sup>
Golf shorts	1,940,000	1,970,000	2,000,000	2,020,000
Track suits	1,300,000	1,800,000	2,500,000	3,200,000
Parkas	100,000	500,000	1,100,000	2,000,000

### 2.5. Sales seasonality

	Jan	Feb	Mar	Apr	Mai	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Golf shorts	1%	2%	2%	7%	20%	20%	20%	10%	8%	4%	3%	3%
Track suits	8%	8%	8%	9%	9%	7%	7%	7%	10%	11%	8%	8%
Parkas	25%	20%	2%	2%	2%	1%	1%	1%	4%	7%	15%	20%

## 3. Sales promotion means

### 3.1. Marketing

An advertising campaign is launched every year to promote the STET brand. The cost of this campaign is equal to € 1,150,000.

<sup>3</sup> Information for 20n+1 reflects forecasts from a market study.

### 3.2. Documentation and catalogues

The annual cost of documentation and catalogues is equal to € 460,000.

### 3.3. Salespersons

In 20n, the firm employs 45 salespersons. Each salesperson is in charge of the relationships with a given list of 100 sports outlets, on average. Salespersons are not specialized by products. Past data shows that a sports outlet buys on average 250 units of all kinds of products.

Annual salespersons gross wages include:

- A € 23,000 fixed gross salary
- Commissions representing 1.4% of sales

Social charges represent 40% of the gross wages.

Each salesperson has a commercial vehicle. The life of these vehicles is equal to 3 years. Headquarters are in charge of the management of the vehicles fleet. They can purchase new vehicles on demand. The average annual distance covered by a salesperson is equal to 30,000 Km. The cost of 1 km is estimated at € 0.1 (gas + insurance). Entertainment expenses (lunch) amount for € 3,000 per year and per salesperson and should remain stable over 20n+1.

The sales administration is handled by 15 employees paid € 22,000 (exclusive of social charges) per year. The sales manager has its own personal vehicle and covers 30,000 Km per year. He is paid € 84,000 per year (exclusive of social charges). His entertainment expenses amount for € 15,000 per year. The general evolution of salaries is set by the human resource department. However, the sales manager is able to define the salespersons commissions.

### 3.4. Links with production

Production cycle times are short. The units to be sold within a given month are produced within this same month or are taken out of inventories. Until now, the inventory management system has always succeeded in providing enough slack to cover monthly sales despite a high seasonality.

The manufacturing plant is divided into two workshops. In the first shop, textiles are cut out. This shop is highly automatized. In the second shop, clothes are manually assembled. A total of 17 machines are currently used to their full potential. This corresponds to a total available capacity of 43,350 hours of cutting job per year. Investments in new machines are possible, within the limit set by the operational plan defined by headquarters.

### **3.5. The delivery system**

The delivery of finished goods has been sub-contracted to a third party. The cost of delivering one unit is equal to € 0.15. This is payable within the same month as the delivery.

## **4. Action plans for 20n+1**

### **4.1. Sales strategy**

Based on the analysis of past data, three mutually exclusive scenarios have been explored. It is your responsibility to choose one of the three.

#### *Scenario 1: Sustaining the growth of sales volumes*

This scenario consists in pursuing the achieved growth in volume from 20n-1 to 20n on each business segment for the incoming year. As the competition increases on each market, the sales manager has decided to limit the increase in selling prices for 20n+1:

- Golf shorts: € 19.4 /unit
- Track suits: € 33.5 /unit
- Parkas: € 65.2 /unit

#### *Scenario 2: Making a moderate effort on the parka market*

In this scenario, a target of 510,000 golf shorts and 640,000 track suits is set. Concerning parkas, the objective is to conquer a 12.5% market share of the 20n+1 estimated market volume. To achieve this, a specific advertising campaign would be launched for a cost of €

457,000. As this scenario is more ambitious than the first one, selling prices would be decreased as follows:

- Golf shorts: € 18.3 /unit
- Track suits: € 29.0 /unit
- Parkas: € 62.5 /unit

***Scenario 3: Making a significant effort on the parka market***

In this scenario, a target of 510,000 golf shorts and 650,000 track suits is set. Concerning parkas, the objective is to conquer a 18% market share of the 20+1 estimated market volume. To achieve this, a huge advertising campaign would be launched for a cost of € 760,000. Selling prices of golf shorts and track suits are the same as in scenario 2, whereas parkas would be sold at € 61 per unit.

#### **4.2. Sales force payment scheme**

In order to stimulate the sales force, the sales manager is considering a new payment scheme. For 20n+1, the fixed part of the salary would decrease to € 21,000 (exclusive of social charges), whereas commissions would increase to 1.9% of sales instead of 1.4%. This new payment scheme would make it possible to ask each salesperson to visit a total of 120 sports outlets per year instead of 100. The average distance covered would then increase to 34,000 Km per year and per salesperson.

**Required work:**

- 1) Choose a sales scenario**
- 2) Establish monthly sales forecasts for each product line**
- 3) Decide upon changing the sales force payment scheme or not**
- 4) Prepare a global and monthly sales budget for 20n+1**