SALES ACTIVITIES—MANAGEMENT AND ORGANIZATIONAL ISSUES

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Sales activities are obviously an essential, if not the primary, concern of senior management and great care must be taken in designing the appropriate organizational structure to support the activities of the sales group. The key design principals when designing the sales organization structure include the following:

- The structure should be built around the most strategically appropriate marketing dimension such as geography, products, market, types of sales activities or specific large customer accounts.
- The skill set and allocation of human resources within the organizational structure should be driven by the necessary activities and the level of sales effort need to achieve success with the target accounts.
- The structure should reflect the proper balance between the need for centralized authority and providing managers and salespersons at lower levels with sufficient latitude to make decisions needed to close sales transactions within acceptable parameters.
- Spans of control within the organizational structure should be reasonable and allow for adequate managerial support.
- The structure should include processes for coordinating activities among different sales groups working on common projects or types of accounts.
- The structure should be stable and transparent yet provide for flexibility that allows the sales organization to quickly adapt to changes in the marketplace.

1. Specialization and Centralization

As with other functional areas, decisions need to be made regarding the degree of specialization and centralization in that part of the company's organizational structure that pertains to sales activities. With regard to specialization, the continuum of responsibilities for members of the sales force runs from a generalist at one end to a specialist at the other end and the three key factors to consider are the permitted scope of sales activities, products and customers. An absolute generalist would be allowed and expected to engage in all types of sales activities for all of the company's products and to sell to all of the company's customers. On the other hand, an absolute specialist would have a much narrower focus and would be restricted to engaging in a limited set of selling activities for only a portion of the company's products and would be constrained

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to selling only to a certain group of customers. Obviously there is a good deal of latitude within these two extremes that would allow companies to adopt varying degrees of specialization with respect to selling activities, products and/or customers.

The degree of centralization in the organizational structure relating to sales activities determines the level in the organizational hierarchy where authority and responsibility for managerial decisions will be vested. A centralized structure places authority and responsibility at higher management levels while a decentralized structure allows authority and responsibility to be delegated downward to managers at lower levels of the hierarchy. Related issues are the number of management levels and the span of control and distinctions are generally made between flat and tall sales organizations. A flat sales organization might have two management levels—a national sales manager at the top level and several district sales managers at the next level reporting to the national sales manager—and the span of control for the national sales manager would be determined by the number of district sales managers reporting to him or her. On the other hand, a tall sales organization might have three management levels—a national sales manager at the top level, several regional sales managers at the next level reporting to the national sales manager and a number of district sales managers at the third level reporting to one of the regional sales managers.

As a general rule, taller organizational structures have narrower spans of control but more reporting levels to work through in order to get to the top (i.e., the national sales manager). For example, a company using a flat sales organization might have six district sales managers reporting to the national sales manager and there would be one span of control, with respect to the national sales manager, of 1:6. If, however, a company used a tall sales organization with one national sales manager at the top level, two regional sales managers at the second level and six district sales managers at the third level (three reporting to one regional sales manager and three to the other regional sales manager), the biggest span of control, with respect to the two regional sales managers, would be 1:3 and the national sale manager's span of control would be 1:2. While this reduces direct reporting obligations it does make it more difficult for a district sales manager to get an issue in front of the national sales manager since it must first be heard and reviewed by one of the regional sales managers.

A number of factors must be considered in determining the appropriate degree of specialization and centralization in the organizational structure for sales activities. For example, three useful reference points are the level of uncertainty in the business environment in which the selling activities will occur, the degree to which the tasks performed by salespersons are routine or repetitive and whether the performance objective for salespersons is adaptability or effectiveness. In general, when salespersons are working under high environmental uncertainty the appropriate organizational structure should be more flexible since tasks tend to be non-routine and salespersons need the latitude to adapt to the circumstances in front of them and make decisions based on their specialized expertise and experience. On the other hand, when the business environment is relatively stable the activities of salespersons become somewhat repetitive and the focus of the organizational structure will be on ensuring that salespersons discharge their duties efficiently, which means that a centralized structure—with authority at the top of the hierarchy and minimal discretion at the lower levels—will be the preferred organizational approach.

Two additional factors that are especially relevant in determining the appropriate levels of specialization for salespersons are the complexity of the products and the variability of customer requirements. Assuming that a salesperson is working with a relatively simple product and that the requirements of each customer are similar it is appropriate for salespersons to be organized geographically (i.e., geography-driven specialization); however, the sale of simple products to a customer universe that may have different needs calls for organization along market lines (i.e., market-driven specialization). On the other hand, the sale of a complex range of products to customers with similar requirements should be done using product specialists (i.e., product-driven specialization) while the sale of those types of products to customers with different needs will require the highest level of specialization with salespersons being segmented along both product and market dimensions.

2. Span of Control

The optimal span of control at a particular level in the organizational hierarchy will depend on a variety of factors and two managers with similar or identical titles may have different responsibilities with respect to the number and type of salespeople reporting to them. For example, when the company is using a market-based sales organization and has divided up its customer base into commercial and government accounts it may have district sales managers that oversee the activities of salespersons selling to commercial and geographic accounts in defined geographic areas. The span of control for the district sales manager for commercial accounts may be narrower than for the district sales manager for government accounts because commercial accounts require more frequent decisions regarding terms of transactions and the manager will need to schedule more visits to customers to assist salespersons in the sales activities. In contrast, government accounts may have longer sales cycles and the manager in that market can easily monitor a larger number of salespersons. As a result, the average number of salespersons reporting to a district sales manager for commercial accounts may be five or six while district sales managers for government accounts will usually have eight to twelve salespersons reporting to them. The total number of salespersons needed on a national basis to service all of the prospective customers in a market will also impact the number of hierarchical levels in the organizational structure for each market and, in turn, the span of controls for the managers at each level.

Returning to the illustration above where commercial and government markets have been created it is realistic to assume that the commercial market will need significantly more salespersons than the government market. If that is true the national sales manager for commercial accounts may first divide the country into several zones, with zone sales managers, and then divide each zone into districts with district sales managers who will directly oversee the salespersons. This allows each manager—the national sales manager, the zone sales managers and the district sales managers—to have a reasonable number of reporting relationships that is aligned with type and volume of support they need to provide to those at lower levels in the organizational hierarchy. Assume that there are 400 salespersons in the entire sales organization and that 300 of them are assigned to commercial accounts and the other 100 are assigned to government accounts. The organizational structure for the commercial market may be taller and include four zone sales managers reporting to the national sales manager (i.e., a zone sales manager for each of the following: East, North, South and West); 50 district sales managers reporting to one of the zone sales managers, which means zone sales managers will have, on average, about 12 reporting relationships; and, finally, the 300 salespersons reporting to one of the district sales managers, which means district sales managers will have, on average, about six reporting relationships. In contrast, the organizational structure for the government market may be flatter and may include 10 district sales managers—no zone sales managers—overseeing an average of 10 salespersons.

3. Organizational Structures for Sales Activities

The most commonly used organizational structures for sales activities track the options that are available for the company as a whole in that decisions can be made to use one of the following as the primary structural dimension—geography, product, market or function. Each structure has its own set of advantages and disadvantages and companies will generally need to review their choices periodically as changes occur in composition of their target market and in the size and complexity of their product line. Hybrid organizational structures, which create reporting relationships along more than one dimension, will often be used as the company grows; however, a hybrid structure should not be implemented without designing and implementing policies and processes to resolve conflicts that may arise between dimensional priorities.

a. Geographic Sales Organization

When the sales organization is organized geographically the responsibilities of the managers and salespersons will be defined by reference to particular geographic areas. For example, the leader of a geographic sales organization may be the national sales manager and he or she may have regional sales managers for two or more parts of the country, each of whom report to the national sales manager. Each regional sales manager may divide his or her territory into two or more zones, each of which has a zone sales manager reporting to the regional sales manager. These zones may be further sub-divided into districts that are overseen by district sales managers accountable to the applicable zone sales manager. At the bottom of the hierarchy would be the non-managerial salespeople who are given their goals and objectives by, and report to, one of the district sales managers. In addition to these line positions there will be staff positions including sales training managers. For example, a national sales training manager may have a dotted line communication relationship with the national sales manager and will be responsible for designing and implementing uniform training programs for managers and salespeople in each region, zone and district.

Salespersons in geographic organizational structure are responsible for all types of accounts in a particular geographic territory (e.g., a town, city or county) and generally are permitted and expected to promote and sell all of the company's products to those accounts. In general, a geographic structure is generally considered to be cost-effective and avoids the duplication of resources associated with other organizational structure since a single salesperson is responsible for communicating with an account rather than a different salesperson for each major product line. The use of such a structure also avoids the need for supporting multiple salespersons in each territory, each of which would be responsible for a different type of account (e.g., commercial or government). Finally, geographical organizational structures tend to be flatter and allow for more rapid and efficient decision processes. On the other hand, geographic organizational structures limit access to the advantages of product- and market-based specialization and make it difficult to for senior management to emphasize investment of resources in particular products or types of customer accounts. A geographic organizational structure is generally used when there are relatively simple products and the requirements of each customer are similar. In that situation it is possible to create a generic sales training program that can be used with all salespeople regardless of where they are located and thus the appropriate placement for the leader of the sales training initiative is near the top of the organizational hierarchy where training activities can easily be coordinated with the national sales manager and then mandated downward to the various regions, zones and districts.

b. Product Sales Organization

When the sales organization is organized by product the responsibilities of the managers and salespersons will be defined by reference to a particular product or a related group of products. For example, the leader of a product sales organization may be the national sales manager and he or she may have product sales managers for two or more product groups, each of whom report to the national sales manager. By way of illustration, a distributor of consumer electronics products might have product groups for laptop computers, desktop computers, monitors and mobile communications devices. Each product group manager may divide his or her area of responsibility into geographically-based districts, each of which has a district sales manager reporting to the product group manager. At the bottom of the hierarchy would be the non-managerial salespeople who are given their goals and objectives by, and report to, one of the district sales managers.

The obvious advantage associated with a product organizational structure is the opportunity for product-based specialization where salespersons acquire and dispense expertise in particular product applications. However, however, this type of structure tends to be more costly than a geographic structure since there needs to be product specialists in each territory. In addition, efficient servicing of particular customer accounts becomes more problematic, especially for larger customers purchasing different groups of products, since two or more product specialists will be calling on those accounts and there may be confusion within the customer's buying function as to who they should be dealing with inside the company's sales function.

c. Market Sales Organization

When the sales organization is organized by markets the responsibilities of the managers and salespersons will be defined by reference to a particular group of customers. For example, the leader of a market sales organization may be the national sales manager and he or she may have two or more sales managers that report to him or her and oversee sales activities to identifiable groups of customers, such as commercial, government and retail accounts. As is the case with a product sales organization, each market-based manager may divide his or her area of responsibility into geographically-based districts, each of which has a district sales manager reporting to the market-based group manager. Each market-based manager should be given some latitude regarding how he or she organizes the various levels of the hierarchical structure that the manager oversees. For example, when one of the markets is much larger than the others there may be more levels in the organizational structure for that market such as starting with a small number of zone sales managers reporting to the market-based manager and then having a larger number of district managers that each report to one of the zone sales managers. In this way the market-based manager can reduce the number of reporting relationships that he or she needs to handle to a manageable number. At the bottom of the hierarchy would be the non-managerial salespeople who are given their goals and objectives by, and report to, one of the district sales managers. In addition to these line positions there will be staff positions including sales training managers. In this situation there will likely be sales training managers for each market and they will have a dotted line communication relationship with the corresponding market-based group manager and will be responsible for designing and implementing uniform training programs for managers and salespeople in each zone and district that are appropriate for the customers in that market.

Market organizational structures promote great understanding of unique customer requirements and allow companies to efficiently allocate managerial resources among customer markets. It is clear that different sales strategies are required when dealing with a government account as opposed to commercial buyers and companies interested in participating in the governmental marketplace need salespersons trained in that particular procurement process and also need to be able to establish compensation programs that are consistent with the longer sales cycles associated with government accounts. However, adopting a market organizational structure is more costly than a basic geographic structure since more market-focused salespersons will be needed for particular territories. In some cases it is possible to mitigate this disadvantage by assigning a subset of the sales group to two types of accounts. For example, the primary responsibility of a salesperson might be government accounts in a particular territory but he may also be given a handful of commercial accounts to manage to keep him or her occupied during downtimes in the sales cycle with the government accounts.

d. Functional Sales Organization

A functional sales organization divides managers and salespeople into groups based on specific and distinguishable categories of sales activities. For example, a functional sales organization might be led by a national sales manager who designates sales managers that oversee field sales activities and telemarketing sales activities. These two managers would have their own hierarchical organizational structure broken out by various geographic levels depending on what makes sense in terms of the support that must be provided in reporting relationships. Since field sales require more frequent communications within the sales team the organizational structure might be taller with several regional sales managers reporting to the national field sales manager, a group of district sales managers in each region reporting to the applicable regional sales manager and the salespersons reporting to the district sales managers. On the other hand, telemarketing activities can be carried out with a flatter organizational structure and broader spans of control and the national telemarketing sales manager may have a small number of district sales managers who oversee a larger number of telemarketers than the number of salespersons that the district sales managers in the field sales group are required to supervise.

Assume that there are 400 salespersons in the entire sales organization and that 300 of them are assigned to field sales activities and the other 100 are assigned to telemarketing sales activities. The organizational structure for the field sales group is taller and includes four regional sales managers reporting to the national sales manager (i.e., a regional sales manager for each of the following: East, North, South and West); 30 district sales managers reporting to one of the regional sales managers, which means regional sales managers will have, on average, about seven or eight reporting relationships; and, finally, the 300 salespersons reporting to one of the district sales managers, which means district sales managers will have, on average, about ten reporting relationships. In contrast, the organizational structure for the telemarketing group is flatter and include five district sales managers—no zone sales managers—overseeing an average of 20 telemarketers.

A functional organizational structure allow companies to be more efficient with respect to performance of specific activities relating to the sales process and not surprisingly is best suited to the situation where the company is active in only one small territory and has a narrowly defined group of relatively similar accounts. For example, a functional structure might be used when a company is first launched and is attempting to sell only to commercial accounts in a single state. As the company grows, however, the amount of potential geographic and customer duplication increases significantly and the company will need to implement internal policies and procedures to coordinate the communications that different types of salespersons (i.e., field salespersons and telemarketers) might be having with the same customers.

e. Hybrid Sales Organization Structure

One way to overcome the disadvantages associated with a particular form of sales organizational structure is to implement some version of a hybrid structure that uses two or more of the basic structural dimensions—geography, products, markets and functions—when assigning responsibilities for sales managers and salespersons. For example, the leader of the sales organization, the national sales manager, may have two market-focused sales managers (e.g., a commercial accounts sales manager and a government accounts sales manager) reporting to him or her at the top of the organizational hierarchy. In turn, each of these market-focused sales managers would create their own different organizational structure to suit their specific management styles and the business environment that exists in their market. The commercial accounts sales manager may divide the accounts in that market into major and regular accounts and designate a sales manager for each category. While the major accounts sales manager will likely oversee those accounts directly—either personally or through a dedicated salesperson or account representative for each account—the regular accounts sales manager with a large number of accounts may divide sales activities into field sales and telemarketing, each of which would have its own sales manager reporting to the regular accounts sales manager. Even further down the line the field sales manager might break up the national market into two or more regions with regional sales managers for each of them supervising the field salespersons in those regions. As for the government accounts sales manager, his or her organizational hierarchy may be flatter given that there are generally fewer government accounts to pursue; however, the government accounts sales manager may choose still another variation by dividing sales activities into product lines and designating a sales manager for each of those product lines that reports back to the government accounts sales manager.

Companies may also choose from a wide array of alternative organization structures for sale activities that tap into related specialties such as marketing, product development and customer service. For example, the organizational structure may combine sales and marketing activities under the direction of a chief sales and marketing executive who then divides up those activities into groups headed by a general sales manager, a marketing research manager, an advertising manager and product managers for each of the company's major product lines. The general sales manager would select from among the organizational structure alternative outlined above; however, it is likely that a product organizational structure will be chosen so that salespeople can interact directly with the appropriate product managers. The advertising and marketing research managers would be charged with designing effective promotion campaigns for the products that will condition the market for the sales group and would also be responsible for collecting and disseminating competitive and customer information to the sales group.

4. Identification and Staffing of Major Accounts

Companies should establish criteria for identifying major accounts that might warrant special accommodation in the sales organizational structure. One simple method is to evaluate two dimensions—the size of the account and the complexity of the account. An account that is small and simple is likely to be categorized as a regular account while an account that is large and simple would be categorized as a large account. An account that is small yet complex would be classified as a complex account. Finally, an account that is large and complex, which generally means it will require a substantial amount of attention and that provides an opportunity for substantial returns on any required investment, would presumably meet the criteria for designation as a major account. Once the company has an idea of which accounts qualify as "major," they need to decide how those accounts will be serviced. The options that are available include creation of a separate sales organization dedicated to major accounts; assigning major accounts to sales managers, rather than salespersons; or assigning major accounts to salespersons along with other accounts.

5. Sales Force Deployment

One of the obvious, and most important, issues in designing and implementing an appropriate and effective sales organizational structure is how to deploy the members of the sales force. Salespersons are a scarce and valuable resource for all companies and it is important to maximize the investment that must be made in training and supporting salespeople and ensure that they are placed in positions where they can be successful. It has been suggested that deployment decisions cannot be made without address three interrelated questions. First, an assessment should be made about the amount of selling effort that will be required in order to cover existing accounts and prospects so that the revenue and profit goals set by the company can be achieved. Second, once the amount of selling effort has been estimated an evaluation should be made to determine how many salespersons are needed in order to provide the necessary level of selling effort. Finally, the responsibilities of the salespersons must be carefully and clearly defined to ensure that existing accounts and prospects are properly covered and that each salesperson has a reasonable opportunity to be successful in his or her sales activities.

The level and type of sales effort is determined by the choice made regarding the appropriate individual sales strategy for each salesperson. A number of activities and tactics are commonly used include cold calling, networking, seeking and obtaining referrals from existing customers, attendance at trade shows, participation in trade groups and community organizations, articles and speeches, etc. Several approaches can be used for estimating the appropriate allocation of sales effort. The simplest model calls for an evaluation of all current accounts and prospects and then dividing them into several categories based on a single factor, such as market potential. All accounts assigned to a particular category will receive the same amount of effort, which may be measured by reference to the target number of sales calls to be made to those accounts during a particular period. The category with the accounts that have the highest market potential will be allocated the largest number of sales calls. For example, if there are three categories, each with roughly the same number of accounts (i.e., high potential accounts, average potential accounts and low potential accounts), 60% of the total sales calls may be allocated to the high potential accounts, 30% may be allocated to the average potential accounts and 10% may be allocated to the low potential accounts. The decision regarding how much sales effort should be focused on particular categories should take into account empirical information on how many calls were made to accounts in those categories in prior periods. This model requires consideration of only one factor and does not take into account any specific differences between accounts in the same category when deciding how much sales effort is needed for those accounts.

An alternative to the single factor model is the portfolio model that takes into consideration how accounts and prospects fall on two dimensions—account opportunity, which is based on the account's need for the company's products and the account's ability to actually purchase those products; and competitive position, which is based on an estimate of the strength of the relationship between the company and the account. An account for which opportunity is high and competitive position is strong would be placed in a group that will receive the greatest amount of sales effort while an account for which opportunity is low and competitive position is weak will receive little or no sales effort. Second and third priorities will be given to high opportunity/weak competitiveness accounts and low opportunity/high competitiveness accounts, respectively.

Once the volume and intensity of the required sales effort has been estimated, consideration needs to be given to how many salespersons should be recruited to perform the activities necessary to achieve the desired effort. Each new salesperson carries a cost to the company in terms of compensation, training and overhead and the company must weigh the cost of expanding the sales group against the expected returns associated with the sales efforts of the new additions. As a general matter, when the sales group is small each new salesperson will, assuming that he or she performs at the expected level of productivity, increase sales revenues far more than the costs associated with him or her. However, as the sales group continues to expand the incremental improvements in sales revenues begin to decline until at some point the cost of adding a new salesperson exceeds the revenues he or she can reasonably be expected to generate for the company. Other factors that need to be considered when determining the appropriate target size for the sales group is the average level of productivity among salespersons (i.e., the ratio of sales generated in relation to the sales effort expended) and rate of turnover within the sales group. Productivity can be influenced by inputs such as training and technology while turnover can obviously disrupt sales campaigns increase the overall costs associated with sales activities due to the need to recruit and train new salespersons who will be relatively less productive during their first few weeks and months on the job.

The last piece of the puzzle is making sure that the specific responsibilities of each member of the sales group are clearly defined and closely aligned with the sales effort expected of each salesperson, the organizational structure within the sales area and the strategic goals and objectives of the company. The responsibilities of a salesperson, often referred to as his or her "territory," should be servicing specific assigned accounts. The method used for assigning accounts depends on the chosen sales organizational structure. For example, in a geography-based sales organization salespersons will be assigned accounts in a specific geographic territory. In fact, most assignments have some form of geographic boundary for the sake of efficiency; however, it is common to break the sales group down by additional dimensional categories such as products and markets. Therefore, in a product-based sales organization the territorial responsibility of a typical salesperson would be selling a particular product or group of related products to customers in a defined geographic area with the scope of the product line and the size of the area being determined by matching the sales effort that can reasonably be expected from the salesperson with the effort that is believed to be appropriate in order to effectively service the assigned accounts.