Chapter 1
INTRODUCTION

1.1 Introduction

Indian pharmaceutical sector accounts for about 1.4 per cent of the global pharmaceutical industry in value terms and 10 per cent in volume terms. More and more pharmaceutical industries are being set up to meet the expanding needs of customers. The responsibility of catering to the needs of the customers is on the salesforce that works for the pharmaceutical companies. If salesforce is able to provide quality service, then this will help pharmaceutical companies in retaining customers and increasing customer satisfaction which will lead to increased profitability and market share for the pharmaceutical companies. So, the effectiveness of the salesforce is important for the success of the company.

In this age of competition, more and more companies are trying to distinguish themselves from the others. As the technological advancement is high, every firm is using high quality technology to produce high quality products. So quality alone cannot serve the purpose of distinguishing the firms. In such a scenario, the role of salesforce becomes more important. Salesforce can play a big role in affecting the performance and long term profitability of the firm. As the salesforce reaches out to customers, the role of salesforce becomes all the more important in a pharmaceutical industry where the major work of selling is carried out through medical representatives. It is here that the importance of salesforce control system comes into picture. A salesforce control system, which is an organization’s set of procedures for monitoring, directing, evaluating and compensating its employees (Anderson and Oliver, 1987) is important for several reasons. They exert a strong influence on a firm's economic performance and its relationships with customers because salespeople operate at the boundaries of a firm (e.g., Albers, Mantrala, & Sridhar, 2010; Krafft, 1999; Palmatier, Scheer, & Steenkamp, 2007). Controlling the salesforce is vital, since it accounts for the largest portion of marketing personnel and budget (Cravens, Ingram, LaForge, & Young, 1993). Consequently, designing mechanisms for controlling the activities of salespeople is an important area for sales research and practice (Baldauf, Cravens, & Piercy, 2005). Furthermore, there is ample theoretical
and empirical evidence pinpointing the importance of controls for improving organizational outcomes (e.g., Anderson & Oliver, 1987; Cravens et al., 1993; Jaworski, 1988). Noteworthy research on sales management controls over the past two decades includes landmark contributions by Anderson and Oliver (1987), Jaworski (1988), and Challagalla and Shervani (1996). Their work prompted others to conduct further investigation into the consequences of sales control systems, producing a solid body of research.

It has been found that the expenditures for the compensation and management of salespeople account for a substantial portion of companies' annual operating budgets. So it is important for the organization to control the behaviour of salespeople in the organization by using the right kind of salesforce control system.

Strong globalization initiatives and the challenges of gaining and sustaining competitive advantage mandate the need for executives to understand the drivers of sales performance and to develop appropriate and effective sales management control initiatives (Piercy, Low and Cravens, 2004b). According to Miao and Evans (2012), "Sales control systems represent an important managerial tool in directing the salesforce for desired organizational objectives."

Research on salesforce control system is largely based on the seminal works of Anderson and Oliver (1987) and Jaworski (1988). Anderson and Oliver’s (1987) framework consists of behavior-based and outcome-based evaluation systems, in which behavior and outcome represent the two extremes of the same continuum, and a firm may choose an optimal emphasis on behavior and outcome. Jaworski’s (1988) conceptualization consists of formal, written, management-initiated (e.g., output and process) controls and informal, unwritten, worker-initiated (e.g., professional and cultural) controls.

Following Jaworski (1988), a salesforce control system can be defined as the sales organization’s formal and informal attempts to influence the behavior and activities of its salespeople to achieve desired objectives. Formal mechanisms include input (e.g., resources, efforts, and technology), behavior or process (e.g., number of sales calls, presentation procedures, and skill development), and output controls (e.g., sales volume, profit margin, and market share), while informal mechanisms include self, professional, and cultural controls (Jaworski, 1988). Behavior or process control has
been further divided into activity and capability controls (Challagalla and Shervani 1996). Activity control is the specification and monitoring of the routine activities a salesperson is expected to perform (e.g., number of customer calls, following presentation scripts, time allocation to different tasks, type of services to perform), whereas capability control focuses the development of sales related knowledge and skills through training, mentoring, and support (Wang, Dou and Zhou, 2012).

This study focuses on formal controls because of following reasons: First, as management is directly responsible for designing and implementing formal controls, their impact (as compared with that of informal controls) is perhaps of greater concern to management, although informal controls clearly play a significant role in salesforce management. Second, the formal types of control are the most frequently studied in the sales literature (Baldauf, Cravens, and Piercy, 2005), helping us to develop hypotheses based on previous empirical studies in this area.

Salesforce is very crucial for the success of the organization. A good salesforce not only differentiates one company from the other but also creates a good reputation and image of the company. In order to produce desirable results, there are different ways in which a salesforce can be managed.

1.2 Background of the Study

Anderson and Oliver (1987) proposed a framework for selecting an appropriate salesforce control. Drawing analysis from economic theories of control (transaction cost analysis and agency theory), organization theory, and cognitive psychology, they proposed that salesforce control system can have an impact on salesperson cognitions and capabilities, affects and attitudes, motivation, behavioral strategies and performance.

There are two kinds of salesforce control systems. The kind of salesforce control system used by the firm can have different impact on several important outcomes like salesforce performance and sales organization effectiveness. According to Anderson and Oliver (1987), ‘‘a salesforce control system influences employee behavior, ideally in a way that enhances the welfare of both the firm and the employee.’’

This study adopts the Anderson and Oliver's (1987) conceptualization, for a number of reasons. First, the specific control philosophy has been used in the majority of
studies conducted on sales management control (Baldauf et al., 2002; Piercy et al. 2006). Second, the research model and hypotheses are largely based on the research propositions developed by Anderson and Oliver (1987) and subsequent studies that extended their work (e.g., Cravens et al., 1993).

1.3 Salesforce Control System

A salesforce control system is an organization’s set of procedures for monitoring, directing, evaluating and compensating its employees (Anderson and Oliver, 1987). According to Anderson and Oliver (1987), there are two kinds of salesforce control system: Behaviour based and Outcome based salesforce control system.

1.4 Characteristics of Behaviour based Salesforce Control System

The characteristics of behavior based salesforce control system are as follows:

- Considerable monitoring of salespeople by management.
- More managerial direction or effort to direct salespeople.
- Subjective and more complex methods based on salesperson’s aptitude and product knowledge, number of calls, their sales strategies are used to evaluate and compensate the salesforce.
- In behavior-based control system, active managers vigorously monitor and direct the operations of the salesforce. Managers know what they want salespeople to do. So they monitor their work in order to ensure that the salesforce behaves accordingly. Under this system, the firm pays salespeople a fixed amount of salary. The firm bears the risk. The rewards and performance evaluation of salesperson is based on complex and subjective measures of what they do rather than what they achieve. In this system, the invisible hand of management is substituted for the invisible hand of the market forces.
- Salespeople in this system are evaluated not on the basis of their achievement but on the number of factors that may result in performance. The number of calls, number of accounts, closing ability, presentation quality and product knowledge are some of the factors that are taken into account while evaluating the salesperson.
1.5 Characteristics of Outcome based Salesforce Control System

The characteristics of outcome-based salesforce control system are as follows:

- Less monitoring of salespeople by management.
- Less managerial direction or effort to direct salespeople.
- Objective measures of outcomes are used to evaluate and compensate the salesforce.
- In outcome based control system, salespeople are left alone to achieve results in their own way using their own strategies. Salespeople are held accountable for their results and not how they achieve the results. Under such system, the invisible hand of the marketplace pressures salespeople to perform and guide their actions. Firms reduce the managerial overhead and they rely on the direction afforded by market pressures, shifting the risk to salesperson (Basu et al. 1985) and sharing rewards with the salesperson in direct proportion to his measurable performance. So in this system a salesperson is responsible for his performance but he is free to select the method of achievement.
- Historically sales managers have emphasized outcomes rather than behaviours (Churchill et al. 1985). A major reason is the availability of simple measures of sales volume. Other indices which are used are sales unit volume, gross margin and net margin.

1.6 Advantages and Disadvantages of Behaviour based Salesforce Control System

➢ Advantages of Behavior based Salesforce Control System

As salespeople are guided by management about how to achieve results, it is likely to be good for the organization in the long run. For example increased customer goodwill and increased company reputation.

Apart from this managers can ask salespeople to perform certain behaviours which are a part of company strategy. For example low pressure expertise selling to create a particular image. Behaviour based control helps companies to make salesforce strategies that involve developmental work.
It helps managers to eliminate the inequality. In outcome based systems salespeople are paid according to the output they have produced. But this seems unfair as in selling jobs there are factors which are not in salespeople’ control but have a major impact on results.

➢ **Disadvantages of Behavior based Salesforce Control System**

As in behaviour based systems managers use subjective measures of evaluation, it can result in biasness, halo effect and ignorance (Behrman and Perreault, 1982; Jackson, Keith, and Schlacter, 1983).

Apart from this, managers have their rules of effective working and salesperson might feel that to be unfair. For example a salesperson who works for four days a week and make fewer calls outsells the salesperson who works for six days and make more calls, may feel underpaid in this system.

These systems involve complex evaluation process. So the more comprehensive they become, the more burdensome it is for the management to collect and combine the information.

These extremes are stereotypes. Many salesforce control systems are a mix of both controls, containing elements of both behaviour and outcome based strategies (Churchill et al. 1985).

1.7 **Advantages and Disadvantages of Outcome based Salesforce Control System**

➢ **Advantages of Outcome based Salesforce Control System**

Salespeople usually spend most of their time away from office, on the road. So this makes supervision very difficult.

Apart from this selling is a very demanding occupation. It is also very difficult to profile successful salespeople. It is also difficult to specify what makes salesperson more effective than another (Weitz 1981). As there are many types of salesperson and they use different methods of working, one method may succeed in one setting and may fail in another. So in such situation letting salespeople choose their own methods is preferred by mangers. Managers do not monitor the type of method salespeople are using rather they monitor the results or outcomes.
The third benefit associated with this system is that it motivates salespeople to work harder. Salespeople know that if they will produce more, they will receive more incentive. If they will not produce, they will receive no compensation. So it is believed that outcome based control is necessary to maintain motivation.

➢ Disadvantages of Outcome based Salesforce Control System

As in this system managers don’t monitor salespeople behavior, this lack of direction for salespeople can harm the organization in the long run. For example salespeople may not pay attention to customer satisfaction. They may try to sell the more profitable and easy-to-sell products. In outcome based system salespeople are concerned with their immediate incentive and don’t care about the long term results. They don’t want to put extra effort in selling new products and penetrating a larger market which are difficult to sell. They sell their established products to smaller and regular accounts (Moynahan, 1983).

1.8 Stages in a Selling Process

Following stages are involved in a selling process:

Prospecting

This is the first step of selling process. Prospecting is about searching for new customers. In words of Still, Cundiff and Govoni (1988), prospecting can be defined as the planning work which is essential in eliminating calls on non-buyers. A prospect is one who has the willingness, financial capacity, authority to buy and who are available to the salesperson (Still, Cundiff and Govoni, 1988). It is for the salesforce to search for appropriate prospects. It will just waste their time and money if they focus on non-prospects. The skills required for salespeople in this stage of selling will be to judge a prospect from a non-prospect.

Approach

After identifying the prospects, the next is how to approach the prospects. Approach tactic should be based on the profile of customers. There are different methods available to approach customers, like mail, phone and face to face interaction. For example, if a pressure cooker selling company wants to make the product information available to target market of housewives, then use of email by salespeople to send product
information is a useless effort. In a similar way, email can be the best way to reach top class executives. So, one approach can be useful for a particular group of customers while not for other. The skills that are required of salespeople in this stage are the ability to find the match between the profile of customers and the approach to be used.

**Needs Assessment**

In this stage of selling process, salesperson tries to know the needs of the customer. Knowing needs of the customer is important for selling the product. Unless salespeople know customer's problems (needs), they will not be able to devise solution (product). The skills helpful in this stage are ability to interrogate the needs of salespeople. Salespeople should be able to instill trust in customers by being confident about the product. A lot of salespeople use the approach of asking questions. This not only helps them to know customer’s need clearly but also gives them the opportunity to assert that their product is superior to that of competitors.

**Presentation**

In this stage, salespeople presents the product to customers keeping in mind the needs of the customers. Presentation should be made from the perspective of buyer and not the seller. Skills required for making a good presentation are – confidence, ability to make a clear, short and interesting presentation. Salespeople also make efforts to make the presentation interactive so that customers don’t feel bored.

**Negotiation**

In this stage, obstacles and objections of customers are faced by the salespeople. Obstacles are reasons that the prospect has for not buying the product (Still, Cundiff and Govoni, 1988). Objections may be real or false. The task of the salesperson is to understand these obstacles and provide a solution so that the sales process can be completed smoothly. As objections are raised by customers to discourage salesperson or to get rid of them (Still, Cundiff and Govoni, 1988), they should handle the objections gracefully with courtesy.

**Close**

It is considered as the most important stage of selling process as in this stage salesperson tries to close the sales process. The refusal take place. They do not mean
that the prospect is unwilling to buy but that he/she needs some additional information (Still, Cundiff and Govoni, 1988). Salespeople should try at least 5 closes before giving up. The skills required are self-confidence and the ability to handle the objections of prospects.

1.9 Research Background

As more and more companies are differentiating themselves on the basis of the quality of their salesforce, it becomes important to know as to how the salesforce should be managed. As salesforce is of utmost importance in pharmaceutical industry, this research tries to find out the effect of salesforce control system on salesforce and sales organization.

1.10 Need of the Study

As organizations are recognizing the importance of controlling salesforce, many studies have been conducted. But most of the literature is from industries other than pharmaceutical and surprisingly in U. S., U. K., and other developed countries. In Indian context, only few studies have been carried out. Salesforce control system techniques vary from industry to industry. Specific research studies in Indian pharmaceutical industries are very few. From this perspective, this study assumes prominence. Moreover, the salesforce control system is implemented by Area Managers on salespeople in Pharmaceutical companies. There has not been a single study in India which has taken into account the perceptions of both salespeople and Area Managers.

1.11 Scope of the Study

This study is confined to the pharmaceutical companies located and having operations in India. The study is mainly concerned with the execution and implementation of the salesforce control system in pharmaceutical industry and its outcomes.

1.12 Significance of the Study

Academic Perspective: In the proposed area of research, an exhaustive study was not found. This research study focuses on salesforce control system in pharmaceutical sector. This study provides insights of existing practices in the organization and fills the gaps in the literature.
**Industry Perspective:** This study helps pharmaceutical industry in identifying the consequences of the two types of salesforce control system for salespeople and the organization. This study further helps the companies to know how salesforce control system can affect the performance of their employees and their company. This study also helps the marketing department.

**Employee Perspective:** This study will help the salesforce know the consequences of salesforce control system on their characteristics and their performance.

**Social Perspective:** This study will help pharmaceutical industry to better understand the management of the salesforce. This will create an environment of trust and cooperation which is necessary to strengthen and develop the society.

**1.13 Organization of the Study**

Chapter 1 deals with the introduction of the topic.

Chapter 2 presents the profile of the pharmaceutical industry.

Chapter 3 deals with the detailed description of the literature. It includes literature review of salesforce control system.

Chapter 4 deals with the research methodology adopted for the study.

Chapter 5 is devoted to the analysis and interpretation of the data collected.

Chapter 6 presents the conclusion and suggestions.