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Sales Management and Sales Communication of SMEs

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Abstract:

This article presents an interpretation of sales process management in small and medium size businesses. Sales management is based on the M-C model built on planning, forecasting and thorough controlling. The process model is based on the theory of management, management accounting and human resources management. Controlling is seen as management of deviations arising out of sales targets and proposals for measures how to eliminate these deviations through risk management.

Key Words: *Sales Management, Sales Controlling, Sales Communication, Sales Plan, Forecasting, Trade Receivables, M-C Models*

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1. Introduction

In small and medium-size businesses it is often very difficult to distinguish the boundaries between marketing management and sales management. In many cases marketing and sales form one department that prepares sales and marketing plans. In any case it is not possible to simplify the actual sales activities and talk only about purchase and sales, but it is essential to view sales management as a complete process including sales management and sales controlling. Sales management is viewed as preparation of the main company document - a sales plan - and controlling is viewed as management of ongoing sales forecasting and controlling of trade receivables.

Process management based on the M-C model[3] can be defined as the Management Control System that includes a comprehensive view of management on the basis of management accounting, management theory and personnel management. It is an interdisciplinary management system where the most important thing is not the interface of the process but the understanding of business management as a whole, mastering planning tools based on research, objectives, visions and missions (management) and control tools based on evaluation of deviations and proposal of risk management measures (controlling). The M-C model shows that a successful business can work only if you manage to grasp all of its processes and understand their interdependence.

2. Sales Plan

The sales plan (sometimes referred to as a turnover plan which is a rather simplified term) should be prepared one year in advance and should be divided into respective months and quarters. Financial plans are based on the sales plans. A marketing plan must precede a sales plan; however, some smaller companies use only one plan, which is then called a sales and marketing plan. Sometimes companies ignore the marketing plan and use only a sales plan to manage sales. From a short-term point of view it is possible, but in the long run this cannot be effective as sooner or later the company loses touch with market reality. The plan is copied, more or less automatically, every year and is based on the history of revenue and intuitive estimates of salespeople (Havlíček, 2009).There are no innovation impulses, there is no capturing of new trends, no feedback, there is no control of competition, communication with customers is chaotic, distribution lacks any concept and prices are often determined randomly, or they are dictated by the

[3] One of the authors (Havlicek) of the article has been interested in process management for several years. The term "M-C process management" was first used in the publication by Havlíček,K.,2009, "Role of Managers in Company Management", Eupress, Prague.

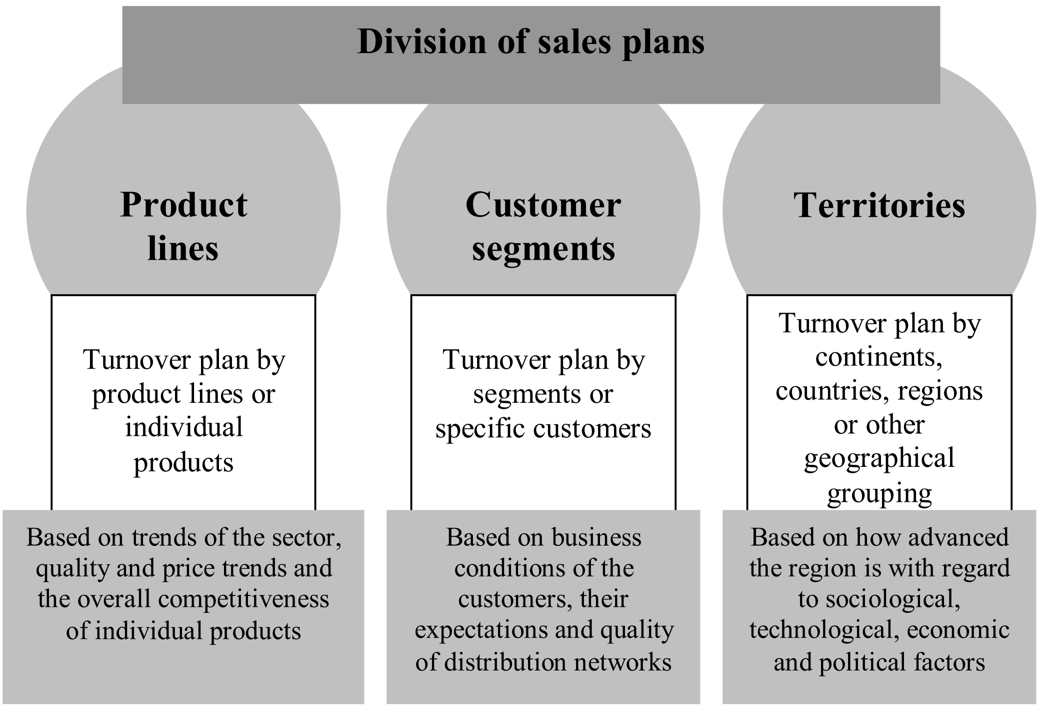
customer, regardless of the overall market situation and the overall standing of the business.

2.1 Distinguishing sales plans

The basis of sales plan management is to view its components (most often the turnovers) from several angles and to eliminate the risk of a one-sided view of the market. The most common viewpoints are the product viewpoint, customer viewpoint and geographical viewpoint. By doing this we create a basic controlling mechanism which minimises the error rate of sales planning. The overall sales plan is usually divided (Figure 1) by:

- **product groups** (sometimes stated by production ranges or product lines),
- **customer segments or specific important customers** (if mixed, by stated product groups and territories),
- **territories** (foreign territories are shown separately, individual regions can be shown as sub-groups or territories can include continents).

Figure 1. Types of sales plans and starting points for their preparation



Sales plan objectives are specific numbers shown in world currencies (usually in the form of turnover, also showing sales margins, added value etc.) or units of measures. Sales plans are commonly prepared in combination with sales in specific currencies and it is also shown how many units of measures of specific products must be sold by the company.

2.2 Preparing a Sales Plan

Data from past periods

This is the simplest and most accessible method when we can see what was sold in the respective product groups, territories and customer segments in past periods. If we have been longer on the market, we can see a trend in individual categories, total turnover numbers and sales margins, and also any seasonal changes. This information is very important for preparing plans, but not crucial. The condition is that we have been trading in the respective territory.

Market research in terms of competition and long-distance environment

The research is based on regular or specific market research. Among other things, we are interested in competition sales and trends, the purchasing behaviour of our clients, the price policies of our suppliers, threats of substitution products, capacity of foreign markets, etc. For long-distance territories, we are also interested in sociological, technological, economic, environmental and potentially also political factors (Kašík and Havlíček, 2009). Information on the market established on the basis of market research of the far and near environment (Frame, and Barnes and.,Edwards,2001) is a very important stepping stone for estimating sales performance correctly.

Professional intuition, experience and market estimates

This is more of an additional method of estimating sales performance, however it is still very valuable. This method can only be employed by a very experienced sales person, who is able to estimate consumer behaviour in selected markets. For example, foreign salespeople who have been trading in foreign territories for a long time and are well aware of locals' shopping behaviour. These experienced managers are very valuable even though even here it is necessary to take their estimates and intuition, prognosis and forecasting as an additional factor when preparing the plan.

3. Sales Controlling

As in marketing, sales controlling is also directly linked to the business environment and without thorough research of the environment it is not possible to carry out controlling. Compared to marketing, sales controlling is implemented more on an operational level as noncompliance with sales targets immediately leads to breakdowns of financial budgets, which consequently results in deficit income and problems with financial liquidity of the company. Showing deviations in sales is connected with financial indicators and controlling must describe the impact on financial results very convincingly, both over a shorter time horizon (operational controlling) and over a longer time horizon (strategic controlling). It is generally understood that the annual budget is the breakdown point between a shorter and longer time horizon.

3.1 Strategic sales controlling

As was mentioned above, sales controlling mostly works in the operational area; however key markets for export companies and regular evaluation of key clients are connected with strategic planning and long-term ambitions of the company, and therefore we are going to discuss them as part of strategic controlling, Fig.4.2.

Evaluation of objectives at decisive markets

Each company's strategy should clearly indicate in which markets (international, local) the company will implement its decisive sales turnover. The idea is not to forecast turnover using a very specific percentage, but the sales manager, participating in the strategic business plan, should be able to say which markets will contribute to the majority of future turnover. Based on the presented analysis, supported by market research, controlling should regularly monitor if there are any major breakdowns of a macro or micro nature on the markets when high performance is expected. Early discussions and measures concerning markets under threat can save the company many resources, not even mentioning the necessity to start activities on supplementary markets or to start reducing costs.

Monitoring key customers

In order to be able to prepare a long-term prognosis of revenue on key markets, it is important to define which customers will help us to reach major sales turnover. As above, the sales team should be able to present key customers who will buy no less than half of our company production. The controlling mechanism is based on the fact that the sales department should be forced to work not only with product prognosis, but it should also intensively communicate with customers and search for potential clients. For small and medium-size business this is quite difficult, as their clients are not usually large entities who prepare their forecast for several years in advance; however it is the duty and partially also the skill of our salespeople to be able to make prognoses of future sales to customers. The role of controlling is based on permanent monitoring of important clients, both in terms of their performance, but also in terms of indicating any potential problems and looking for an alternative in good time.

3.2 Operational sales controlling

Controlling in the sales department is mainly focused on short-term and operational activities and it has an immediate impact on the performance of the whole business. In some phases it is interlinked with financial controlling and for this reason a sales plan forms a direct part of financial plans. To put it simply, the turnover plan divided by months represents the "first" line of the financial budget, and many other items, in particular in terms of cost, are derived from it. Noncompliance with sales targets in terms of turnover and margins represents a major breakdown in the economics of the whole business as profit targets and cash flow plans are not met. Thorough controlling of sales activities is an elementary precondition for business success. On the other hand, its failure is bound to lead to crisis scenarios. In terms of time horizon, sales failure is visible almost immediately, which significantly differs from marketing failures that are evident after a certain period of time.

Controlling of operational sales plans

The role of controlling in process sales is to create an opponent to sales targets and to monitor meeting of the targets on a regular basis as well as to evaluate their potential impacts on business finance and economics, and to propose measures. This can be achieved by a system known as pairing up (Havlíček, 2011).

The logic of preparing plans by products, customers and territories is based on this requirement. It is not essential to prepare a sales plan by all stated parameters; however, it is good to divide the plan into two categories and to crosscheck results and expected sales. It is good for managing expected sales (forecasts) and this will help us to force salespeople to think about a plan based on products (supported by research of trends for particular products), and based on customers (supported by communication with key customers). The means that the final and monthly totals divided by individual categories (products and customers) must be identical. It is clear at first sight where the biggest deviation is and what needs to be focussed on. For example, if we plan by product groups, we find it difficult to plan and state expectations by customer groups, and it means that we might have a good market prognosis overall, but it is more difficult for us to work with sales prognoses for specific customer groups. There is probably not a completely ideal communication between us and the customers, which might actually lose us customers over a period of time. It is important to respond and search for corrective measures. The task of the controlling manager is to evaluate the sales plan objectively, to become a constructive opponent and in conjunction with the sales department to reach certain final targets.

Forecast management

Sales forecast management is more important as it is generally perceived by companies and as it has an immediate impact on profit and loss, working capital and the number of employees, it more than exceeds the scope of a sales department.

First, we should have a look at the sequence and importance of sales forecast management. Sales person presents and consequently defends the following data(Havlíček, 2011):

a) sales plan - usually for one year in advance, by month (by territories, segments or product groups),
b) sales forecasts - usually for several months in advance (usually 3 - 6 months), every month (it is monitored how the sales plan differs from sales forecasts),
c) reality - the actual result, by month (it is monitored how much the reality differs from the budget and regular forecasts).

By monitoring the development regularly and by making prognosis, we can monitor how the forecast sales differs from the budget sales and how it can affect the budgeted profit.

In principle, there are three options of development of sales forecasts:

- **Regular forecasts do not differ from the sales plan** - this means that we have planned very correctly; however, even here it is necessary to compare sales results and financial results. If we trade in one currency and follow budget discipline (cost management), we should meet our profit results. However, for companies trading in several currencies or companies with a high level of variable cost, meeting of the sales plan might not correlate with the financial performance.

- **Forecasts are higher than the sales plan** - this means that our turnover will probably be higher than budgeted for, which can bring many positives, but it is also necessary to perceive possible negatives. There might be a lack of human resources, production, technology and material resources in the business. In addition, sales receivables can increase due to a higher volume of sales which will require replenishing financial resources to cover operational capital and which in terms of guarantees does not have to happen immediately. What´s more, there might be more receivables after the due date, which further complicates replenishing resources from banks. However, the opposite effect might be caused by higher sales, i.e. surplus of cash, which is undoubtedly positive. Even in this case it is good to know in advance that this might happen as we can reduce some credits, change the method of financing and prepare another investment or business plan where we will allocate these means. This is a matter of several months and therefore regular information on higher expected sales over the next months is very important for us.

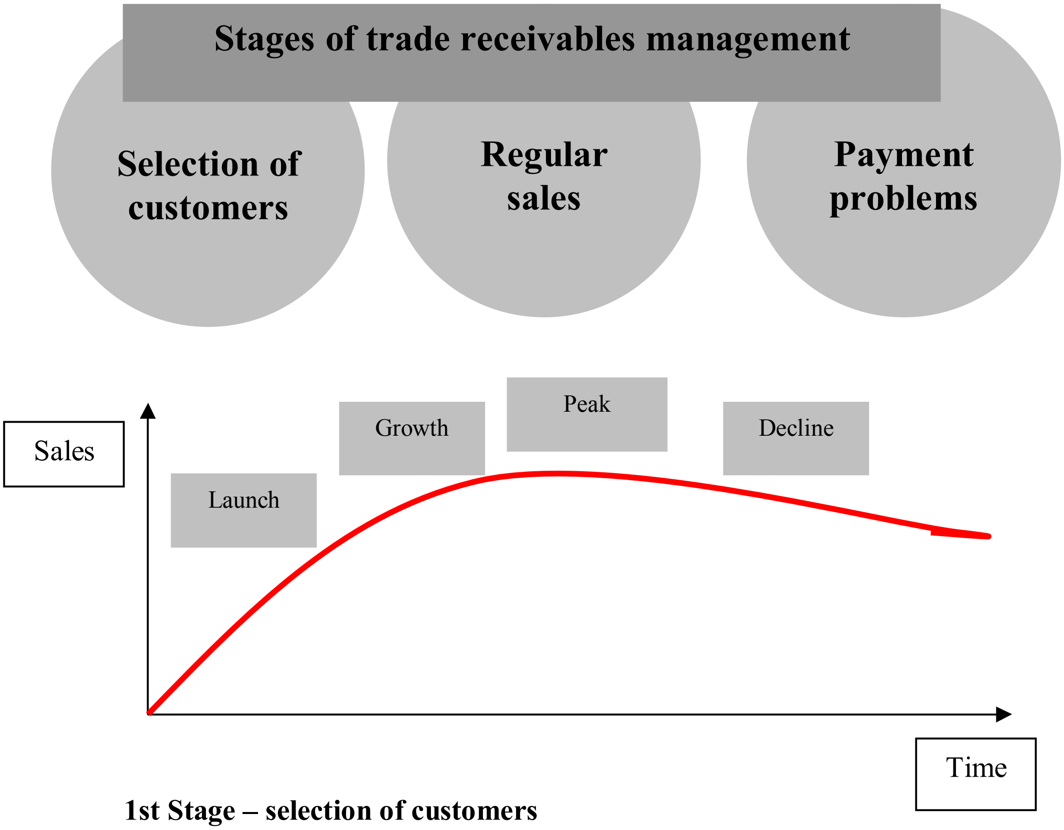
- **Regular forecasts are lower than the sales plan -** this is a negative piece of information, which affects the budgeted financial results, and sometimes the existence of the entire business. Timely indication of this situation several months in advance is twice as important, as it is essential to start implementing immediate measures. These might include a request for replenishing financial resources, which for the banks might be a matter of several weeks or even months. These can also be drastic cost savings, among other redundancies; this is again a matter of several months (notices plus severance pays). The company has several months to sell off remaining investment property and to secure necessary cash; otherwise it is important to take restructuring steps.

By being able to make good prognoses, we have a higher chance of persuading our partners that we can manage our sales and company well, which will secure us certain advantages. The advantages can take the form of goods and raw materials suppliers who can provide us with regressive bonuses and who can allocate goods for us in their warehouses. This fact is also positively perceived by banks that carefully monitor our expected business. The advantage might also lie in our shareholders. Last but not least, we will significantly simplify the work of our finance department. In other words, we create another competitive advantage. At times of crisis and during the restructuring of companies, the importance of sales forecasts increases and it is often a decisive tool for a correctly implemented restructuring process.

Trade receivables management

Trade receivables management falls under the competency of sales departments This is in particular trade receivables management up to a certain time period, after the expiry of this period the management of the respective receivable (enforcement) is taken over by the finance department, or legal steps are taken. Trade receivables management is shown in Figure 2. and it has three main stages (Havlíček, 2011).

Figure 2. Stages of trade receivables management



1st Stage – selection of customers

The management of trade receivables starts at the moment of first contact with the customer, when we try to learn about the client´s business environment, its business culture, its reputation and that of its partners and interested parties. We try to learn about the key personnel working for the customer, their qualifications and abilities. To a certain extent we act as a banker - salesperson, trying to establish if credit will be allowed and up to which amount. It is evident that this must be carried out by a salesperson who is the only person communicating with the customer at this early stage.

At this stage experienced and mature salespeople are able to establish the standards of the business they are going to sell to, and if it is actually possible or strategically advantageous to offer credit sales, i.e. deferred invoice maturity. At this stage of customer cooperation, salespeople recommend a **sales credit** (maximum amount of finance allocated for the customer, this is in fact a financial credit limit) and the **maturity period** (period within which the customer shall pay its invoices), at the same time salespeople help propose ways of securing provided credits (insurancing receivables, banking guarantees, bills of exchange, letters of credit, or other guarantees).

2nd stage - active sales to the client

At this stage active sales are underway. This is usually the longest stage and in terms of communication it is a long-term relationship based on trust, which is typical for this stage. We provide credits for our partners by providing them with extended maturity periods as agreed up to the amount of approved credits. However it is important to monitor any potential changes in client behaviour which might indicate any future financial problems. We monitor their development and evaluate if it is not too rapid (rushed investment is often the cause of failure of small businesses); we monitor if the staff are not getting nervous about the situation in their company, if the customer does not have problems with payments to other suppliers or state authorities, banks, etc. We monitor if there are redundancies, if branches are being shut down, or if there are any disputes between business partners. If possible it is also good to monitor the personal life of the owners. A typical example of complications can be family problems, ostentatious behaviour, and other business activities of the owner.

The second phase is often decisive. It is very important and also somewhat difficult to determine when, in the event of initial problems with making payments, to start lowering credit or even start collecting payments beforehand in the form of advance payments. However, we should be able to determine when our customer´s company is in difficulties and we should change our supplier behaviour accordingly.

3rd stage - clients with payment problems

Customers start experiencing payment problems. It is important that salespeople start to act by either calling or sending an e-mail to the customer to make the payment, or by meeting the client in person and trying to establish the reasons of the client´s inability to pay. The business controlling department must determine when it is not viable any more for the salesperson to deal with the situation, and when it is necessary to use other means, for example start taking legal steps.

It is essential that sales meetings discuss reports of overall trade receivables and receivables past their due date, specifying the time periods (e.g. up to 30 days, 30-60 days, 60-90 days or more than 90 days past their due date) and individual salespeople. **It is best to reward salespeople not only on the basis of sales and forecasts, but also collection**. It is also advisable to compare individual salespeople in terms of receivables past their due date and the ratio of total receivables and receivables past their due take, and consequently to take action. It is also essential to monitor the trend of changes in receivables past their due date, specifying individual salespeople, which can be done very easily by archiving and evaluating reports.

By monitoring receivables we refer to determining and comparing the actual due dates and measuring the time of receivables turnover. The business is forced, and sometimes it is not necessary, to draw down large credits in order to provide credit to its partners, which is not a good strategic step and banks do not like seeing this behaviour. Regardless of the fact that such practice decreases profit and loss results (interest rate impact) and it can also financially threaten the existence of the company.

Therefore, it is essential to always compare the receivables turnover (Average Collection Period) ,and payables turnover (Creditors Payment Period) in order to optimise CF. It should be valid that the average collection time < the time of payables:

$$\frac{\text{Receivables}}{\text{Annual Revenue/360}} < \frac{\text{Payables}}{\text{Annual Revenue/360}}$$

Proper receivables management is a key activity in each business and the staff of sales department play an extremely important role. Controlling managers must provide regular feedback, evaluate impacts and factually argue with salespeople, however they must not get into the stage when they manage receivables. This must be the responsibility of those who serve and administer the markets. The failure to manage receivables results in excluding salespeople from sales teams.

Optimising sales communication

The actual management of sales relationships and communication with customers is an important marketing activity which should be subject to regular controlling. In particular, in terms of compliance with minutes from meetings, reporting, opposing contracts and archiving documents.

The method of communication can have a significant impact on the success of sales activities. It is not easy to keep customers in a demanding competitive environment when it comes to comparable products for comparable prices, in particular in foreign countries where the local competition has a major competitive advantage in terms of communication. It is the personal contacts, which often turn into friendships and relationships based on partnership, which play a major role. This means that there is another requirement placed for the selection of salespeople. In addition to professional qualifications, being fierce, creative, and having marketing and sales skills, analytical abilities, a solid general overview, it is also advisable that salespeople can communicate, listen, get excited and create serious, long-term relationships. The list itself makes it apparent that it is practically impossible to combine all these qualities into one salesperson. It is more viable to compile sales teams that will represent, at least partially, all these qualities. By mutually supporting each other, monitoring and implementing joint projects it is possible to approach this ideal.

It is important for there to be a system for working with customers that is subject to feedback. Salespeople should keep the following records and overviews (Havlíček, 2009):

Overview of existing, potential and utopian customers

These overviews provide a list of customers to whom we sell, to whom we would like to sell and the ones we can only now dream of, but who cannot be excluded as potential future business partners. For each customer is it essential to keep business results and their real potential - which shows how far we can get with certain customers in terms of turnover. The turnover can be completed in a different way and it should serve as a brief overview of existing and potential clients. Each year it is good to determine a certain number of potential customers who should get into the category of existing customers, or to turn some of the unlikely customers into potential customers. Controlling should monitor these objectives on a regular basis.

Overview of customer visits, records from meetings

There should be a comprehensive system of record keeping and an overview of visits of all customers. The outcome should be structured reports from business trips. Visits should be done on a regular basis and they should be combined with phone, or e-mail and internet communication. Standard operational matters should be discussed during the visits, such as news, price changes, topical offers, extraordinary discounts, more beneficial offers, etc. The salesperson should listen to business partners and show that they are interested in their comments. They should make it clear, for example, that the business partner can have an influence on product innovations. Business partners should state whether they are happy with our services and should also express their wishes and their requirements.

Good salespeople should go even further and try to get information on competition and other suppliers, and they should try to detect any potential problems threatening their business partners and any other valuable details that might eliminate our risks or detect further business opportunities. Good communication with customers is an ideal format both for marketing research and for detecting and eliminating potential risks.

Records from business trips must be archived. Electronic format is sufficient. Formal records are not very popular with salespeople, but they are important for three reasons:

They enable the time and movement of salespeople to be monitored as well as the success rates of their visits. Therefore it is good to compare salespeople and to monitor the requirements of our customers.

In the event of forced departure of salespeople from the company, the records are priceless for their successors who start their work by learning about customers, their wishes and problems. If such records are available to successors, they gain an immediate advantage and can continue in the work of their predecessors without any interruptions.

The third reason is practical and it serves the salespeople themselves. When you have many customers, it's not easy to remember everything and it's good to be able to consult notes from the last meeting to remember the last conversation that you had with that particular customer.

Clearly a lot of information cannot be ascertained formally, through standard monitoring or by asking formal questions. It is advisable for salespeople to create various VIP lists of loyal, occasional and other customers with whom we want to do business. A typical example can be a TOP 5 list, i.e. the five best business partners of the company who have a special monitoring and communication regime. A standard communication tool is an invitation to various company events, such as "Customer Days" linked with other activities, social and sporting events, etc. This is often a good opportunity to further business relationships. The sign of a good company is having a well prepared and functioning system that is a part of the corporate culture and controlling mechanisms.

4. Conclusion

Process sales arising out of the M-C model are based on sales planning (management) and evaluation of the reached targets on the basis of managerial accounting in conjunction with estimating impacts of future deviations (controlling). Strategic controlling is based on working with key customers and key territories, operational controlling focuses on managing forecasts, receivables and sales relationships with external and internal customers. A key controlling instrument of sales plans is their division by products, territories and segments.

It has been confirmed that even the best sales planning must be supported by systematic work with customers, suppliers, sub-suppliers and other interested parties. This shows that the role of Front Office salespeople is to always be with their customers. We have no chance to survive in a hyper-competitive environment by doing business only "from the office." The demanding global environment shows that our biggest competitive advantage is the long-term, high-quality relationship that we have built with our customers. However, this relationship must be realistically evaluated and its failure must be projected into the company's key financial indicators.

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