Sales and Distribution Management
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Lecture – 15
Planning, Sales Forecasting and Budgeting (Contd.)

[FL] Today, we will be moving on with our next lecture in the 3rd module on our course called Sales and Distribution Management. And, in this particular lecture we shall be discussing a little bit more on Sales Forecasting and Budgeting. In fact this particular lecture will conclude this module on sales planning sales forecasting and budgeting.

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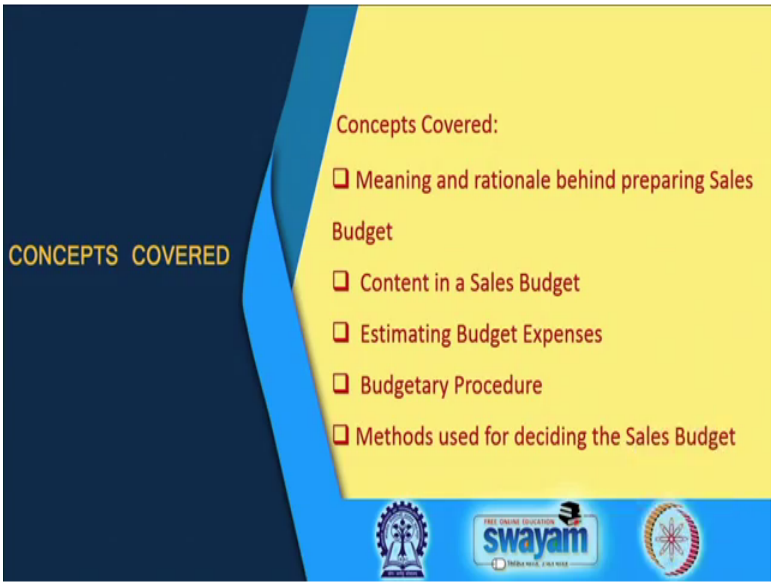

The different topics that we will be covering in this particular lecture are: 1 – the meaning of a sales budget and the rationale behind preparing sales budget, 2 – the content in a sale budget, 3 – estimating budget expenses, 4 – the budgetary procedure and fifth the methods used for deciding the sales budget. So, let us start with the first concept which is sales budget.

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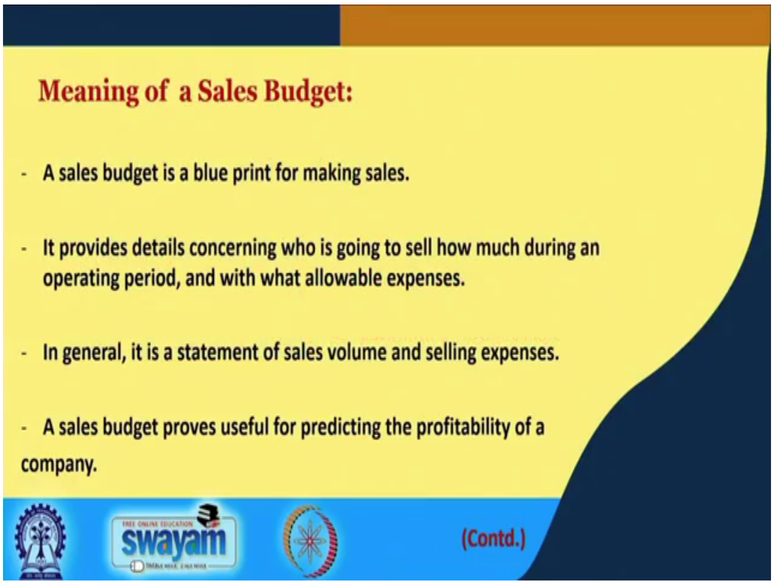

Now, sales budget is a blueprint for making sales. We have discussed earlier that any and every organization exist to earn profits. What an company aims at is sales it aims at large market share, it aims at increasing it is presence in different market segments and any and every business would want a profits which are which continually see a rise.

Now, in order to earn profits the sales people and the sales team have a huge role to play not only do they bring in sales for the company which will have an impact on the gross profit of the company. But, they also incur selling expenses which if controlled can have a positive effect on the net profit of the company and if the selling expenses are remain uncontrolled or are out of bond bounds then it would actually dilute the net profits of a company.

So, it is very very important that is sales budget is formulated and it provides details as to how sales are going to incurred and with what kind of allowable expenses. A sales budget basically provides details regarding who is going to sell how much during an operating period and with what kind of allowable expenses.

Now, in the first session we had spoken about how the salesperson plays a very important role you know in bringing sales for the company and when we subtract the cost of goods sold from the sales we what we get is the gross profit for a company. The gross profit of a company is important, but if sales and revenue are earned at the cost of huge selling expenses that will dilute the net profits of a company. Net profit of company equals the gross profit minus the selling expenses.

So, the sales people have a huge responsibility to you know bring in good profits for net profits for a company. How? One – by increasing the sales of a company, two – by reducing the selling expenses. Now, in this actually necessitates the requirement for a sales budget which is a blueprint for making profitable sales. It talks about how sales are to be earned, who is going to sell how much during a particular period and with what kind of allowable expenses. So, it is a it is generally when we speak of a sales budget we are actually talking of a statement of sales volume and the selling expenses.

The sales budget is important for determining the profitability of a company and any and every company must go through this exercise of preparing a sales budget which will act both as an element of planning as well as control. Planning in terms of the sales volume that must be earned in a particular period and control in terms of the expenses that can be allowable to a particular salesperson in a geographical territory or in a particular you know unit under study. So, this is what you know is relevance of a sales budget because it is going to act as both an element of planning as well as an element of control.

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Now, what why do we require a sales budget? As I said it is a tool for planning it is a tool for control. So, it sales budget helps in planning as well as in controlling expenses planning the sales volumes and you know controlling the selling expenses the sales budget ensures that there is a judicious utilization of funds you know if things are not going as per plans or if the performance of the sales people is not as per the desired performance. The sales budget also helps you know identify weaknesses in the operating plans and in the strategies and it also helps in estimating shortfalls in cash requirements of any.

So, because it is an instrument of planning and it is an instrument of control, it actually helps organizations at the macro level, it helps departments and sales people at the micro level judiciary utilize the funds. It helps you know keep a tab on the actual performance vis a vis they desired performance. It also helps identify the gaps and if such gaps are due to controllable variations variation factors this can be controlled through bringing about changes in the strategies in the tactics.

So, and on the other hand if these variations in the actual in the desired are because of certain uncontrollable factors or we would refer to them as uncontrollable variations in this case again the top management has to sit you know and take formulate strategies to deal with the problems. So, the variations between the desired sales volume and the actual sales volume may the gap between this may be either due to a controllable factors or due to non-controllable factors. If it is due to controllable factors we referred to as a controllable variation on the other hand if it is because of you know certain uncontrollable factors, we refer to them as uncontrolled variations.

And, while controllable variations can actually be dealt with by bringing about the change in the forth piece or you know strategies and tactics, the uncontrollable needed need to be taken care of via a in reformulating strategies and dealing with such situations which may not directly be in the hands of the you know sales people and the sales team.

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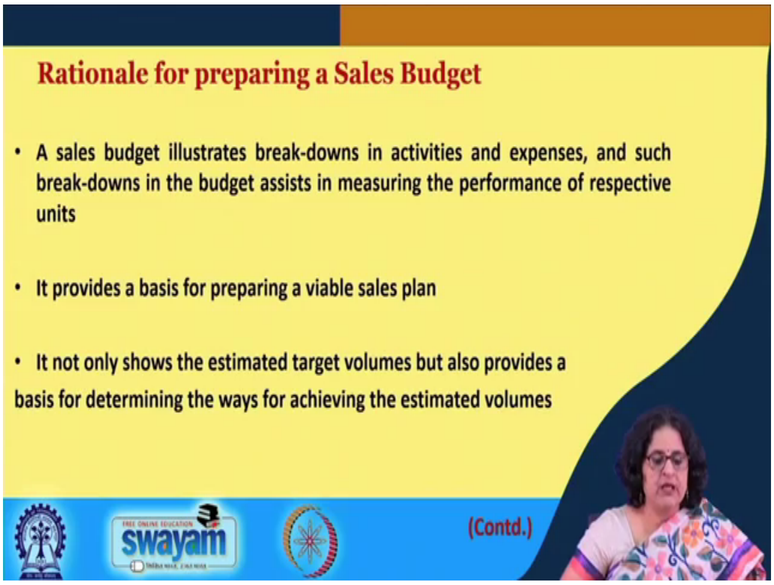

Now, sales budget again breaks down in terms of activities and expenses and such breakdowns in the budget helps measure performance of respective units, that it is here that companies would be able to understand that what was the at desired performance in a particular unit and what is the actual performance in a particular unit.

So, the sales budget who is clearly tell you know indicate the variations and how and why these variations have occurred and whether they can be controlled or they are something which are not within the companies control. A sales budget also provides a basis you know for you know targeting sales volume at also shows the ways for achieving the estimated volume. So, it not only shows the estimated target volume, but also to shows the path as to how those volumes have to be achieved and it provides a basis for preparing a very viable sales plan.

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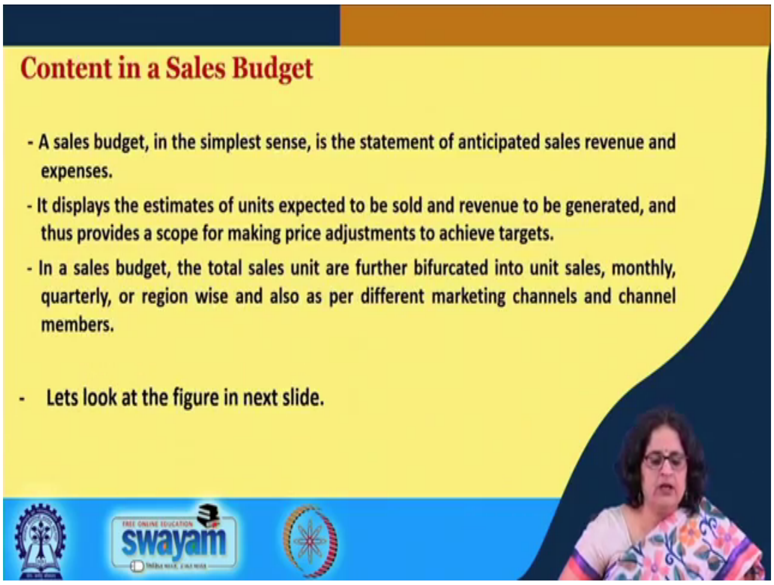

Now, if we talk about the content in a sales budget the sales budget is a statement of anticipated sales revenues and expenses as we discussed in the previous slide as well. It is displays the estimates of units expected to be sold and the revenue to be generated in a particular territory in a particular operating period. And so, it provides us scope for making any kind of adjustments to achieve those targets. These are adjustments may often relate to price adjustments.

In a sales budget, the total sales unit are further bifurcated into unit sales, product wise or you know period wise in terms of monthly, quarterly or it could also be region wise you know as we discussed in the previous session or it could also be you know bifurcated with respect to different marketing channels and the channel members be it you know members in the trade channel, the wholesalers, the retailers in different territories, it could be with respect to brokers, commission agents, distributors etcetera. So, let us look at the figure in the next slide to make things clearer.

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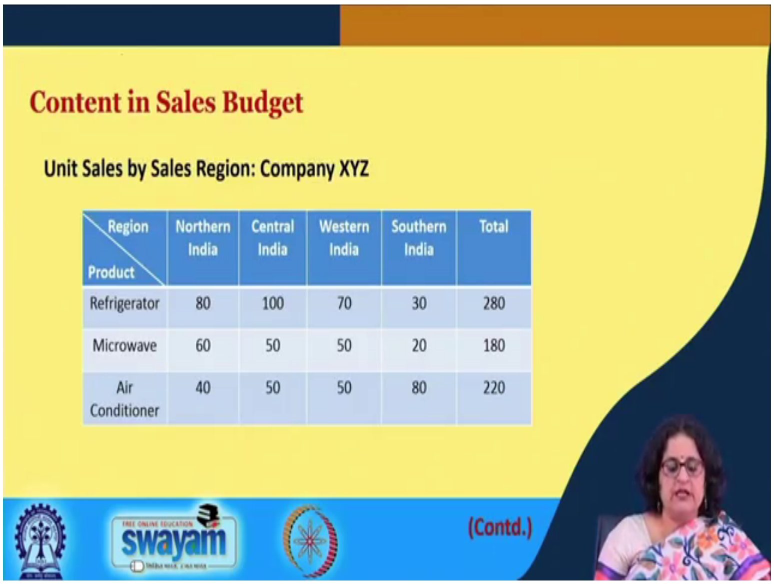

Now, this is a unit sales by sales region. There is this particular company called XYZ and this what if it goes in for you know making a sales budget which is region wise and let us take a scenario where the company has is into the electronics business and it makes a large number of you know consumer goods durables like refrigerators, microwaves or air conditioners. So, in this case we would by we would talk about sales budget not only in terms of the region here being a north, west, south, east ok, but it would also be in terms of product which could be refrigerators, microwaves and air conditioners.

So, if you see here you know this unit cells which could be spelled out in a sales budget for refrigerators in northern India could be 80ty units or it could be in central India it could be 100 units, in western India it could be 70 units and in southern India it could be 30 units and so forth.

Similarly, for air conditioners it could be now 40 for northern India or 50 for central India, 50 for western India and 80 for southern India. So, in this way the sales budget would clearly specify the total sales and as well as broken region wise for the different products clearly talking speaking in terms of the unit sales. So, this is how the sales budget would spell out sales volume for a product in terms of unit sales.

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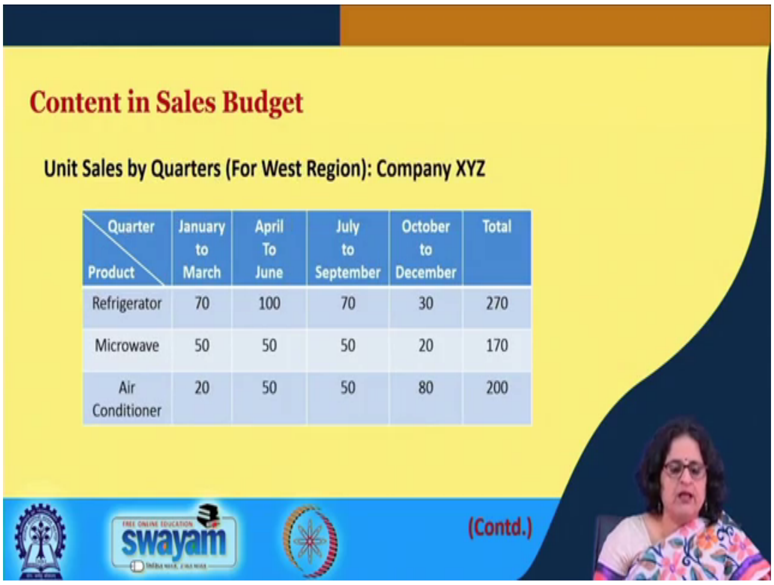

Unit sales could also further be you know spelled out quarterly or in terms of time period. So, for example, if this is a western region which we are talking of and this is a company XYZ. So, for again for the different products unit sales could not only a could be spelled out in terms of time period.

Just as in the previous slide we had the unit sales spelled out in terms of region, here we have for a particular region let us say western India or western region we have the unit sales spread across time period, so quarterly. So, it could be January to March and April to June, it could be July to September and then it could be October to December. So, refrigerators sales for January to March you know in the western region for quarter Jan to March is 70, for April to June is 100, for July to September is 70 and for October to December is 30.

Similarly, you have the microwave sales micro unit in unit sales for microwaves which in January to March quarter could be spelled out as 50 an April may could again April May June again would be 50, July to September could be again 50 and another quarter which is October to December could be 20. So, here you have the unit sales not only the total unit sales ok, but the total unit sales product wise and time wise or time period wise.

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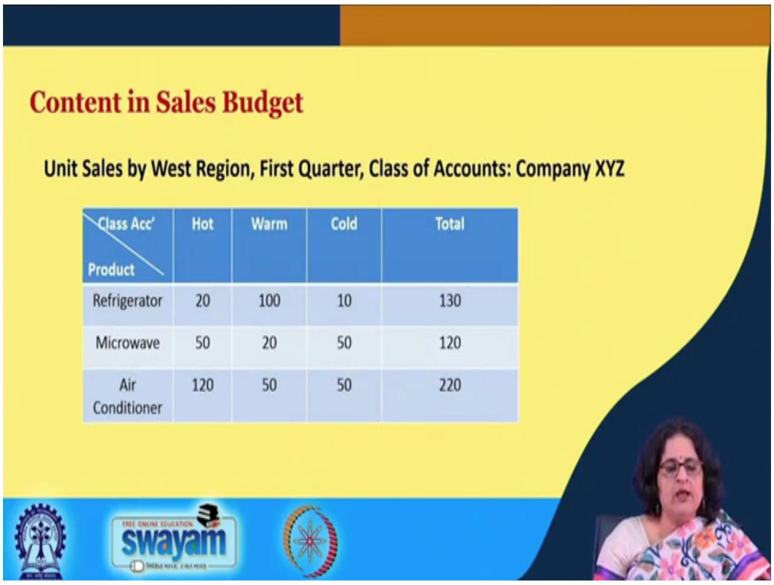

Again you have you know another situation where you may have unit sales by the western region or the western India and in a particular quarter ok, say January to March and you do it in terms of class of accounts or the kind of customer you are dealing with, whether he is a hot prospect or a warm prospect or a cold prospect. We shall be talking about hot, warm and cold prospects in the next module where, but briefly speaking, hot prospects are those who have a need and a want for a product and also would be willing to enter into an exchange, they constitute a demand for your product.

And, warm are those who have a need or want, but may or may not and if they do so they may not do so in the near future either because it a lack funds or because they do not have any immediate need. And, the cold are those who may or may not have the need at all, but may have to be influenced into at least qualifying them as warm. So, the cold here is which is least the probability of the cold being converted into a cold prospect being converted into an actual is low as compared to the hot ones.

Also if we talk about this you know class of accounts in terms of hot warm and cold. Hot are the ones would give you profits, warm will give you some profits of course, some mild and the cold are those who may not be able to may not constitutive to profitable buyers at all. So, in case of refrigerators you know the hot could be you know 20 and the warm could be 100 and the cold could be 10. If we talk about unit sales, total unit sales, western region, first quarter which is January to March and then we also you know further spell it out or bifurcate it in terms of class of accounts.

When we do the selling process next module we will see that the class of accounts have to be taken care of differently when you have a hot prospects they must actually be dealt with by the company sales people and warm prospects may or may not be company sales people. You may also depending upon the kind of product, you may also hire agents and brokers and, but or you may you know yeah and in, but in the case of cold prospect you may often you know have a telemarketing team dealing with them.

But, in any case whether it is hot warm or cold the hot would give you instant business and so are very profitable. The warm may give you may not give you, but the cold are the ones where the sales likelihood is the least and profits earned would also not be too much from this particular class of customers.

So, so, this is how you would bifurcate the unit sales by region for example, western region, again through time period which could be first quarter or second quarter. In this case we are talking about the first quarter and then you have the class of accounts which could be hot, warm or cold.

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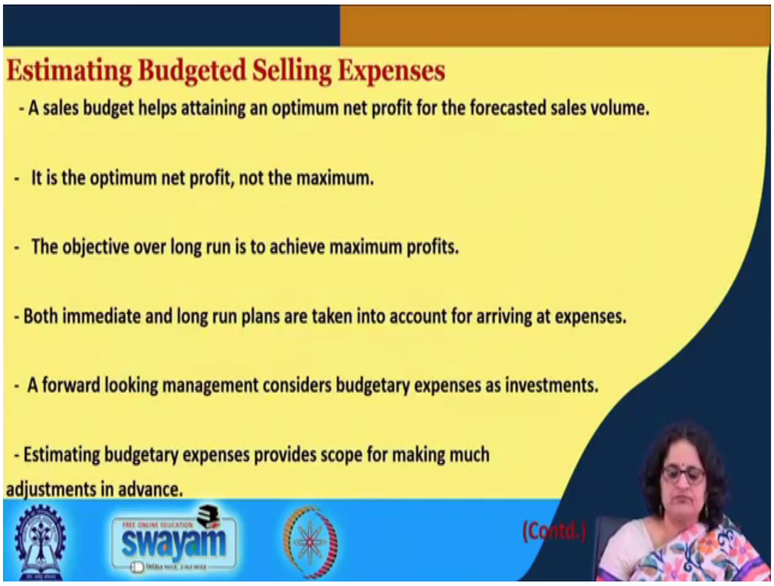

Now, how do you estimate so, we have just spoken about the units sales now let us come to the budget budgeted selling expenses. Now, sales budget helps you attain net profit for the forecasted sales volume. We have just when we started the lecture I discussed how the sales people have a you know big responsibility of earning net profits for the company. And how by formulating proper strategies and tactics they can increase the sales of the company and by reducing their selling expenses they can actually contribute towards building a good you know net profit for the company.

So, a sales budget helps attaining net profit for the forecasted sales volume and it is the optimum net profit, not the maximum. We have discussed in the previous class about the difference between the sales forecast so sales potential and the sales forecast. So, the volumes are kept in mind sales volumes are determined and kept in mind keeping in mind the sales forecast and accordingly sales volumes are forecasted.

Selling expenses are also calculated and then you know company specifies the allowable and the non-allowable, so that it is you know the sales people keep tab on their selling expenses and do not bring in sales at the cost of huge selling expenses. Because, if they bring in sales at the cost of huge selling expenses that it is going to actually dilute the net profits of the company.

So, while companies are actually you know estimating the selling expenses, they take into account both immediate as well as long range plans and a forward looking management considers budgetary expenses as investments. Because, the kind of expenses that sales people incur are often those which will bear fruit in future. For example, you know expenses with relate with respect to multiple sales calls or expenses with respect to local advertising or expenses with respect to you know entertaining clients gifting them taking them out for meals and dinners etcetera.

So, the company here often you know has to understand that while it should have a control element with respect to the selling expenses. It should also keep the long range in mind and long run plans in mind while taking decisions with respect to the allowable limits for the selling expenses. So, estimating budgetary expenses provides scope for making much adjustments in advance as well.

If you keep a little bit of a buffer to the kind of selling expenses that can be allowed per salesperson or per unit. It also helps because sometimes they may be a sudden rise with respect to boarding load lodging or with respect to you know you know expenses related to travel or with respect to you know calling on clients and you know dealing with them.

So, in such cases if there is a small buffer which a sales person can have things would become easier for him.

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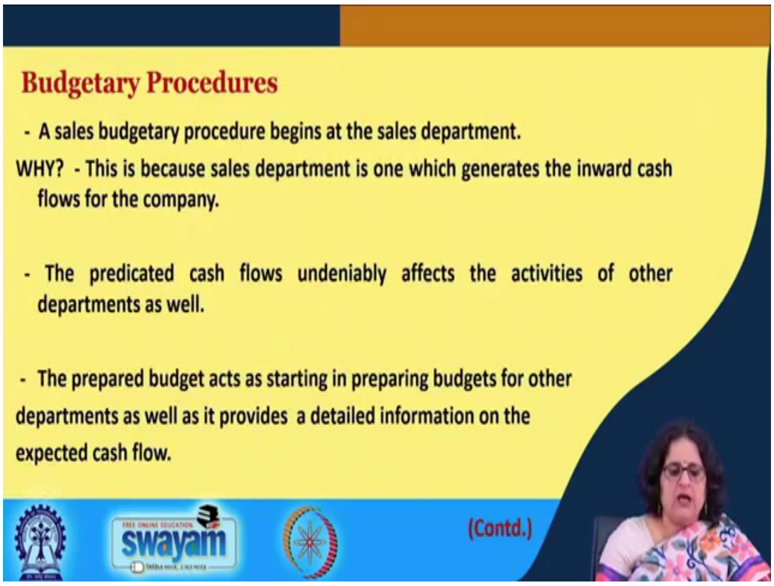

Now, us what let us talk now about budgetary procedures. A sales budgetary procedure begins at the sales department. Why? Because the sales department and the sales people are the people or the who are responsible for generating invert cash flows for a company. So, the sales budgetary process starts at the sales department. The selling team knows the kind of volumes it can generate; it also knows the kind of expenses that it has to incur. So, because it is the sales department which generates revenues for the company, it generates inward cash flows for the company.

The sales budgetary procedure begins at the sales department. The predicted cash flows undeniably affect the activities of other departments as well and we have discussed earlier how you know the different departments are related to each other and how sales gets related to other departments as well as other marketing activities. The prepared budget acts as a starting a point in preparing budgets for other departments as well as it provides detailed information on the expected cash flow. Because, the sales team gives vital inputs into the kind of sales volume that are expected this particular figure or the kind of figures they act as a you know a basis for other departments who have to then make detailed plans based on the expected cash flow number or numeric as provided by the sales team.

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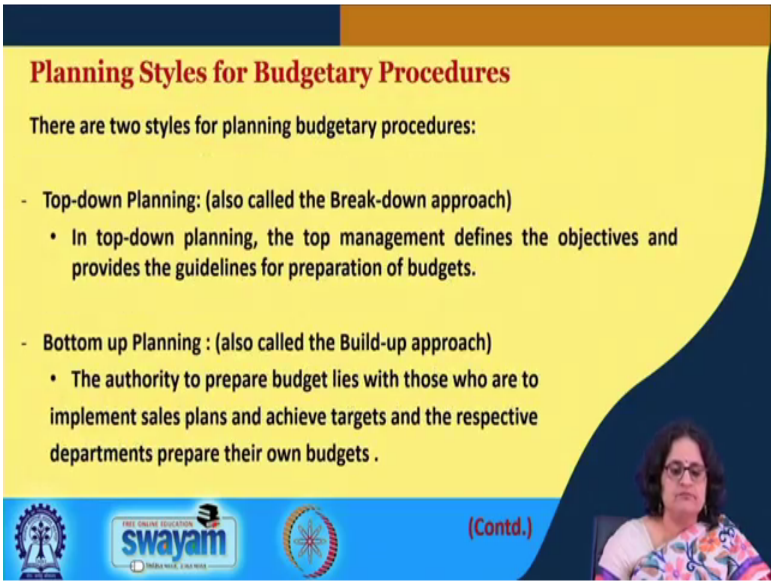

Now, talking about planning styles for budgetary procedures we have discussed a little bit of this in the previous session itself, but we will go and give a brief recap on that. The two styles for planning budgetary procedures, the budgetary procedure here again will involve both the sales volume as well as the selling expenses. Now, one is a top down planning approach which we often referred to as a break-down approach and the other is the bottom up planning which we call as the build-up approach.

In the top-down planning the top management will define the objectives and these will serve as broad guidelines for preparations of budget. On the other hand in the bottom up approach the authority to prepare a budget lies with those who are to implement you know the plans and who are to achieve targets and the respective departments prepare their own budgets.

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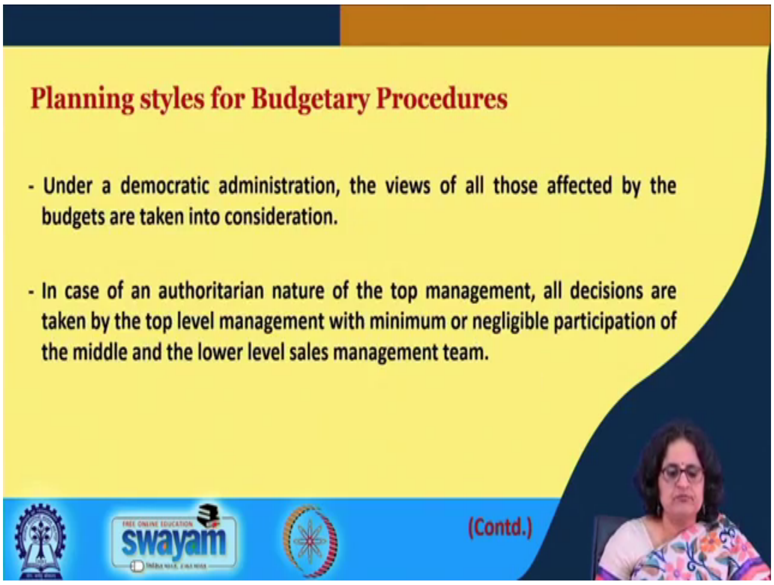

Now, under companies which follow very democratic pattern or a very democratic style of leadership the views of all those affected by budgets are taken into consideration, whether it is you know the sales people at the ground or at the grass root level or whether it is the marketing channel members, the retailers, the dealers, the distributors or whether it is people you know the branch sales managers and the people you know even the zone and in the region regional office, all there the opinions the suggestions from everybody is taken and budgets are accordingly prepared.

So, under democratic administration the views of all those who are affected by budgets is taken into consideration whether it is a salesperson or whether it is the marketing channel members of whether it is the manager at this branch or at or people working in the zone and in the region. But, in the case of an authoritarian you know regime or in the case of the tutorial leadership styles or where it is very autocratic decision making that is practice, all decisions are taken by the top level management with minimum or very little participation of people at the middle and the lower levels.

So, in the case of an authoritarian nature of the top management or where the participative style is very democratic is very autocratic you know in it is something which is very dictatorial. In those cases decisions are taken by the top management with very little you know involvement and participation of people from the middle and the lower.

Of course, both have their advantages and disadvantages in most cases a middle path is best suited which is a combination of both the top-down and the bottom-up approach. Where not only you know the top where the top management as well as the middle and the lower management they all have a say and they sit together and views are solicited and appreciated and they ultimately arrive at numbers with respect to both the sales volume as well as the selling expenses.

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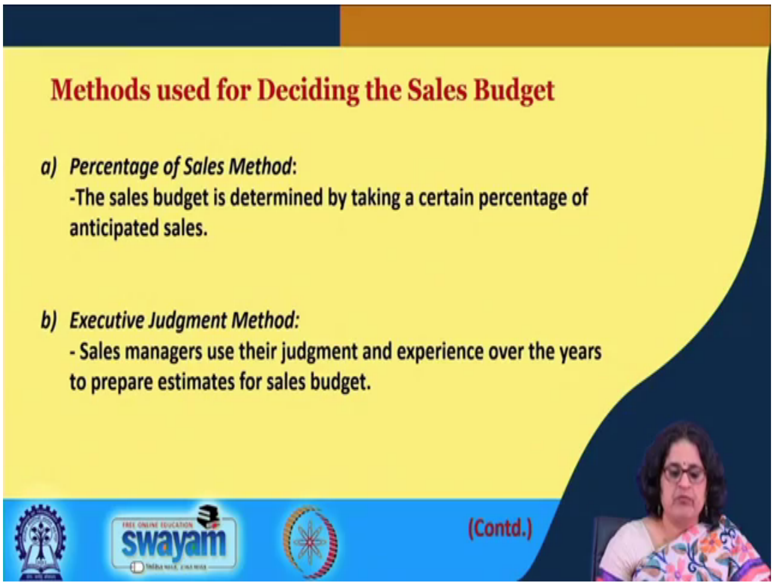

Now, what are the methods for deciding the sales budget? One could be a percentage of sales where the sales budget is determined by taking a percentage of the anticipated sales. Now, the anticipated sales here again the numbers could vary I you know with respect to regions with respect to products and we will be discussing about the subsequently later when we talk about the quotas and the targets.

The sales budget here is determined you know by taking a percentage of anticipated sales. The anticipated sales figures or the forecast again is something which could be determined both qualitatively or quantitatively, it is something which could be based on past data, it is something which could be based on the current scenario. So, also it could involve people only at the top management or it would also involve people at the grass root who give their inputs.

The second is the executive judgment method where the sales managers use their own judgment and experience over the years to estimate the sales budget. This is something which we discussed in the previous session as well whereas, people in the middle or in the you know higher levels as well who use their own judgment they use their experience over the years to prepare estimates for the sales budget. Such people could be those who have been in the selling role once upon a time who have huge amount of experience selling products or selling in particular territories and such people are asked for forecasts and such you know estimates then used to prepare the sales budget.

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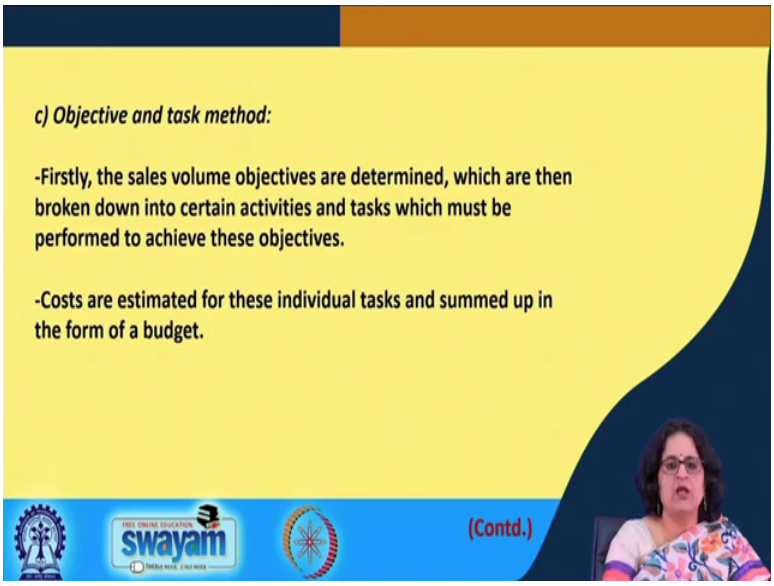

Another method which can be used as objective and task method here the sales volume objectives are determined which are then broken down into certain activities and tasks which must be accomplished to achieve those objectives. And, then the costs are estimated for each of the different tasks and activities and it is summed up in the form of a budget. So, this is what we mean by this is how we would be able to you know decide on the sales budget with the objective and task method.

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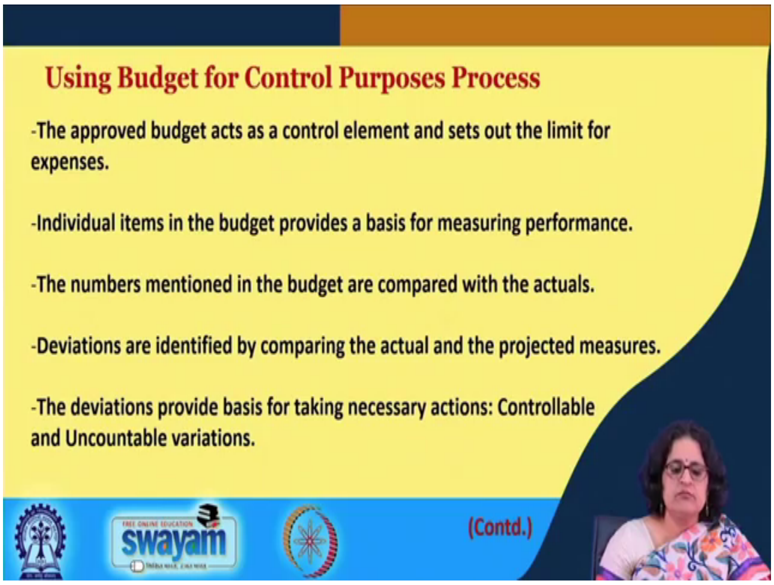

Now, budget of course, is a tool for planning it is also tool for control as we have discussed earlier. The approved budget act has a control element and it sets out the limits for allowable expenses. Individual items in the budget provide a basis for measuring performance. The sales figures or the estimated sales, volume figures are actually the desired goals; performance is measured product wise, territory wise you know across time period you know quarterly or half yearly or yearly and the performance which is actually you know the actual performance is then compared against the desired performance.

So, while companies set their goals and targets as a desired the actual is something which is calculated product wise geography wise time period wise and finally, it is seen that you know the gap between the desired and the actual is actually you know identified and has to be paid attention to.

So, the numbers mention with the budget are compared with the actual. Deviation are identified by comparing the actuals with the desired. In most cases desired will always be high as you all know it is something which is you know which is always seen. But, as we have said earlier this desired should be a is clear number, specific number with respect to product, with respect to territorial units, with respect to the time period it should be challenging as a goal, but it should not be unrealistic. So, it has to be very very you know lot of care has to be taken to decide on the desired output because this desired output is something which should be difficult and challenging, but in no way should it be unrealistic.

So, the actual is then compared with the desired. The deviations are identified by comparing the actual with the desired or the projected measures and the deviations then provide for a basis for taking necessary actions. As I have just said in previously some of these reasons are well within the control of a marketing team sales team and they can handle it. And these are controllable variations, but they may also be certain variations which are not within the control of the marketing or sales team or within the company. So, these again have to be paid attention and top management must formulate appropriate strategies to deal with such kind of problems.

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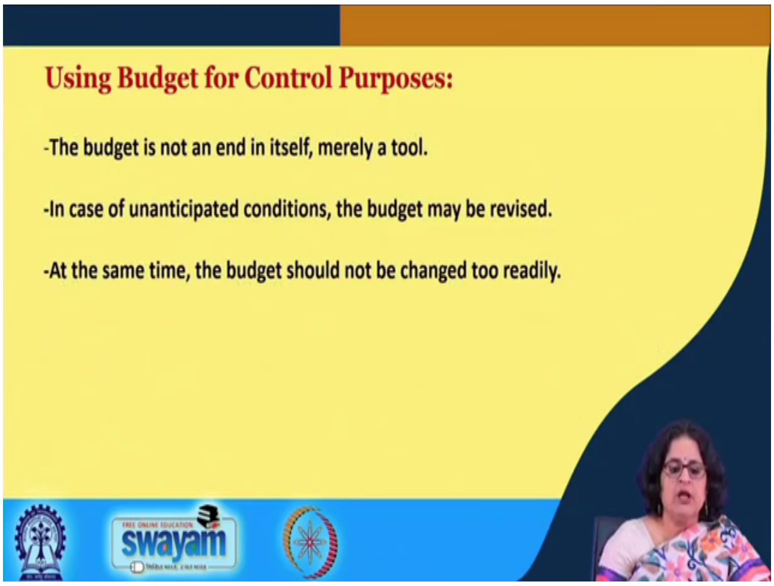

The budget is not an end in itself it is actually a tool, it is a tool for planning, it is a tool for control, in case of unanticipated conditions the budget need to be revised. As I just said sometimes the variations are due to uncontrollable factors. And in those cases the top management must understand that they have to take appropriate action and that has to be taken well within you know time and so, often the budget may need revision. Also it is important that the budget is not revived very quickly or very frequently because then it loses it is power as a planning tool or as a control tool.

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So, with this we come to an end of this particular session. The references are Still, Cundiff, Govoni, Puri, Sales and Distribution Management, Pearson India Education Service. Havaldar and Cavale, Sales and Distribution Management – third edition 2017, McGraw Hill and Havaldar and Cavale 2007 – 8, Sales and Distribution Management Tata McGraw Hill.

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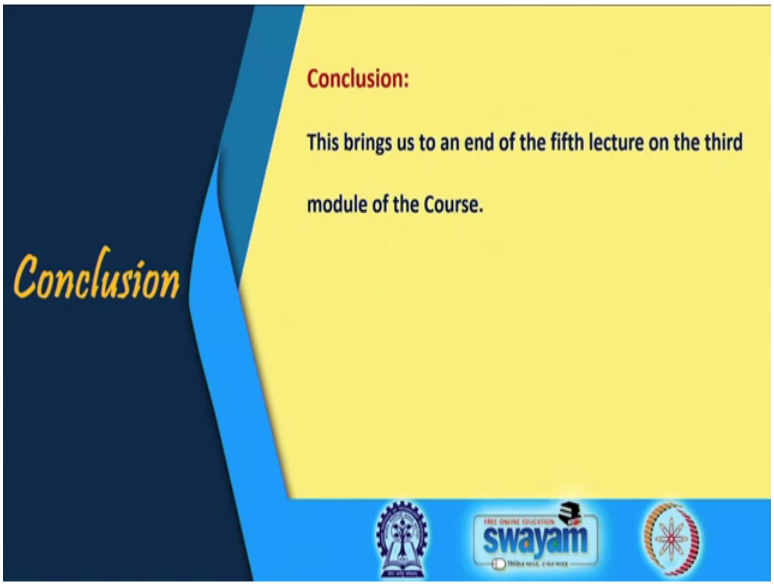

So, this brings us to an end of the 5th lecture on the 3rd module of the course. We shall be starting with the next module from the next lecture. I hope you found this lecture useful.

Thank you.