

Sales and Distribution Management (MB3H2M) : January 2009

Section A : Basic Concepts (30 Marks)

This section consists of questions with serial number 1 - 30.

Answer all questions.

Each question carries one mark.

Maximum time for answering Section A is 30 Minutes.

1. The evolution of sales can be divided into seven generations. Which of the following statements relates to

fourth generation of sales?

(a) Selling took place in the form of exchange of goods

(b) Goods were stored for sale at one place from where the buyers could purchase whatever they required

(c) The emphasis of the trader in this generation of sales was to identify the customer's need and fulfill it

with a product or service

(d) Traders realized that certain customers purchased goods from them repetitively and at regular intervals

(e) The salesperson assumes the role of a moderator, his aim being to make the customer realize the

implications of buying the product or service.

2. Performance standards help sales personnel to know the level of performance they are expected to achieve.

Quality standards are one of the types of performance standard. Which of the following is true about quality standard?

(a) These standards include all the aspects that can be measured directly without any complex calculations

(b) These standards include all the aspects which are subjective in nature and are measured by interpretation

(c) These standards include all the aspects involved in the selling activity that can be measured relative to the factor of time

(d) These standards include all the selling activities that are linked to organizational expenses

(e) These standards include all the aspects which are related to the organizational profitability.

3. In a line and staff organization, reporting relationships vary according to the importance of staff activities.

Which of the following are the advantages of line and staff organization?

I. The presence of staff personnel adds expertise and a staff perspective to strategic decisions made by sales managers.

II. Generally, organizations that have more products and product lines opt for this structure.

III. Each function in the structure may try to further its own objectives.

IV. This type of structure is suited for organizations operating in a stable environment because any change

that is initiated will take place very slowly.

(a) Both (I) and (II) above

(b) Both (I) and (IV) above

(c) (I), (II) and (IV) above

- (d) (II), (III) and (IV) above
- (e) All (I), (II), (III) and (IV) above.

4. Which of the following is the function of dispatching material to meet the user requirements and involves activities such as matching the material with the order requisition and checking the material for packaging and any damage?

- (a) Material handling
- (b) Warehousing
- (c) Stock control
- (d) Outward transport
- (e) Physical distribution management.

5. The quality of a sales organization is directly dependent on how well its sales managers fulfill their

responsibilities. Which of the following is a responsibility of a sales manager?

- (a) Deciding upon the priority and frequency of making calls
- (b) Deciding upon the selling approach
- (c) Administering the sales order
- (d) Information gathering and reporting
- (e) Organizing the sales effort.

6. Depending on the number of intermediaries and the degree of market exposure sought at each level,

manufacturers can choose from various distribution strategies available to them. Which of the following

statements relates to exclusive distribution, one of the distribution strategy?

- (a) Companies provide time and place utility for customers
- (b) It is driven by the belief that every exposure to a customer is an opportunity to buy
- (c) The image of the outlet occupies less prominence in the customer's mind compared to the utility offered by the product
- (d) It allows manufacturer greater control over intermediaries in the areas of price, credit and promotion
- (e) It is adopted when the manufacturer lacks the resources to adequately influence the policies of all intermediaries who can carry a particular product.

7. Non-visual clarification is one of the techniques used by salesperson to make sales presentation. Which of the

following is/are the technique(s) included in non-visual clarification?

I. Questioning.

II. Showmanship.

III. Demonstrating.

IV. Comparisons.

- (a) Only (I) above
- (b) Both (I) and (II) above
- (c) (I), (II) and (IV) above
- (d) (II), (III) and (IV) above
- (e) All (I), (II), (III) and (IV) above.

8. In Vertical Marketing Systems (VMS), channel members work for a specified benefit common to the whole channel system. Corporate VMS is one of the types of VMS. Which of the following is/are true about corporate VMS?

- I. One company owns and operates the other channel members at different channel levels.
 - II. A company develops a corporate VMS, when it intends to produce nearly all of its internal requirements through this system.
 - III. In this system, the level of control is less than that of administered vertical marketing system.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Both (I) and (II) above
 - (d) Both (II) and (III) above
 - (e) All (I), (II) and (III) above.

9. Non-tariff barriers are the indirect means of restricting the entry or sale of foreign goods in the domestic market. Regulatory barriers are the non-tariff barriers which may be direct or indirect in nature. Indirect regulations is/are the regulation(s) imposed in the name of

- I. National security.
 - II. Environmental protection.
 - III. Profit repatriation.
 - IV. Quotas.
- (a) Only (I) above
 - (b) Both (I) and (II) above
 - (c) (I), (II) and (III) above
 - (d) (II), (III) and (IV) above
 - (e) All (I), (II), (III) and (IV) above.

10. The various criteria for selecting channel members are sales, product, experience, administrative and risk factors. Which of the following is a risk factor that needs to be considered while selecting a channel member?

- (a) The channel member's ability to sell the company's products in the market
- (b) The channel member's ability to handle products effectively
- (c) The types of customers handled in the past by a channel member and their satisfaction levels
- (d) The amount of work a channel member is handling
- (e) The channel member's commitment to the organization's progress.

11. Globalization changes have forced present day managers to equip themselves with a different set of skills. For a job that required aggressive selling skills and the ability to impart these skills to sales personnel, the sales manager's role has been transformed to becoming more of a planner and administrator, with emphasis on conceptual and human skills. Which of the following is not an activity performed by the sales planner?

- (a) Developing and implementing sales programmes and policies
- (b) Developing the reporting relationships

- (c) Preparing different policies for the sales force
- (d) Assigning routine tasks to sales force
- (e) Allocating resources to various sales activities.

12.Strategic Profit Model (SPM) is a tool for planning and evaluating the financial performance of a business.

Which of the following statements best relate(s) to this model?

I. It considers return on net worth as the most informative and significant measure of profitability of a business.

II. It uses data from the income statement as well as from the balance sheet to measure profitability and performance of a business.

III. SPM functions as an effective tool to evaluate the profitability of channel members.

- (a) Only (I) above
- (b) Only (II) above
- (c) Both (I) and (II) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above.

13.Time series analysis is one of the methods used in quantitative forecasting. Which of the following is/are true with respect to time series analysis?

I. It is a method of estimation of future trends based on the past performance of the organization.

II. This method is normally used for long-term forecasts usually for a period of ten years and above.

III. This is done on the assumption that the environmental factors prevailing in the previous periods will also be present in the future period.

- (a) Only (I) above
- (b) Only (II) above
- (c) Both (I) and (II) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above.

14.Channel leaders have the right to permit other channel members to be associated with certain trade

associations. They can develop policies that permit memberships of channel members in certain associations,

only on condition of compliance with rules and regulations. Which of the following types of leadership power is referred here?

- (a) Reward
- (b) Coercive
- (c) Expert
- (d) Referent
- (e) Legitimate.

15.Organizations can set sales quotas based on sales forecasts method alone. Which of the following is/are true with respect to this method?

I. This method is used only when the organization lacks the required data, capital, software or

personnel to estimate the territory or market potential.

II. It considers sales potential of the given region.

III. Disposable income, employment, consumer preferences and other demographic and geographic factors will be considered while developing sales forecasts.

- (a) Only (I) above
- (b) Only (II) above
- (c) Both (I) and (II) above
- (d) Both (I) and (III) above
- (e) All (I), (II) and (III) above.

16. Which of the following is a Windows NT geocoding system used by retailers in the US which categorizes customers, based on geographic region?

- (a) PrecisionCode
- (b) Data designs
- (c) Archer retail database marketing system
- (d) Data Master
- (e) Wholesaler database marketing system.

17. Which of the following wholesalers do not perform the activities of delivery, credit facilitation and promotional activities but they undertake warehousing and own the title of the goods purchased from the manufacturers?

- (a) Drop shippers
- (b) Cash-and-carry
- (c) Mail-order
- (d) General merchandise
- (e) Truck.

18. A periodic sales force audit helps sales managers to identify problems, ascertain the causes for them, and take necessary corrective action. Sales management function is one of the elements of sales audit. Which of the following is not an activity in sales management functions?

- (a) Recruitment and selection
- (b) Sales management program
- (c) Sales training
- (d) Territories
- (e) Compensation and expenses.

19. Which of the following stores sell products like apparel, shoes, cosmetics and house ware at every-day-low-prices (EDLP) in a self-service environment. They purchase goods only when there are special offers or good terms and conditions from manufacturers or wholesalers?

- (a) Full-line discount stores
- (b) Variety stores
- (c) Off-price chains
- (d) Thrift stores
- (e) Flea markets.

20. Which of the following type of tests, test the candidate for strength, dexterity and coordination

and are used for
the recruitment of drivers, pilots, and crane operators?

- (a) Proficiency
- (b) Psychomotor
- (c) Personality
- (d) Cognitive ability
- (e) Polygraph.

21. The ethical issues faced by a salesperson are issues with regard to the top management, other sales people and customers. Which of the following is/are the ethical issue(s) faced by a salesperson with regard to the top management?

- I. Misusing the company's assets such as the company vehicle, stationary, etc.
 - II. Money spent on a client's entertainment and sales expenses.
 - III. Offering free samples to the crucial decision makers in the buyer's firm.
 - IV. Encouraging salespersons of the same company to compete against each other.
- (a) Only (I) above
 - (b) Both (I) and (II) above
 - (c) (I), (II) and (III) above
 - (d) (II), (III) and (IV) above
 - (e) All (I), (II), (III) and (IV) above.

22. Breakdown method is a method used to design sales territories in a way that enhances the performance of the salespersons and improves organizational efficiency. Which of the following is/are the statements best relate(s) to breakdown method?

- I. In breakdown method, the market potential for the product is identified and the target share of the company is assessed.
 - II. This method is useful for consumer goods manufacturers to market their products.
 - III. In this method, the average number of sales required to be made by each salesperson is determined and the territories are then accordingly allocated to individual salespersons.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Both (I) and (II) above
 - (d) Both (I) and (III) above
 - (e) All (I), (II) and (III) above.

23. A decentralized sales organization is one in which each division within the organization has its own sales force to sell the products of that division alone. Which of the following is/are not the advantage(s) of decentralized organization structure?

- I. This structure places the responsibility of formulating strategies on those who are closer to the scene of action.
- II. This structure allows organizations to capitalize on the expertise and knowledge of divisional managers or managers of business units with regard to products, markets, competitors and customers in the

local
market.

III. This structure reduces the organization's costs.

IV. The top management can focus on more strategic issues instead of monitoring routine matters.

- (a) Only (I) above
- (b) Only (III) above
- (c) (I), (II) and (IV) above
- (d) (II), (III) and (IV) above
- (e) All (I), (II), (III) and (IV) above.

24. Which of the following involves periodic monetary advances given at a fixed rate of interest or commission

that must be repaid by the sales person to the company within a certain time frame?

- (a) Special cash incentives
- (b) Drawing account
- (c) Employee stock options
- (d) Commission account
- (e) Pre-bonus account.

25. Expert systems can be applied to logistic management to solve operational and strategic level problems in all

functional areas of logistics. Which of the following are the advantages that expert systems have over

conventional decision support tools used in logistics management?

I. Expert systems process only qualitative information.

II. Expert systems provide solutions that can be transferred, duplicated, and documented.

III. The use of expert systems in logistics management allows companies to apply expert logistics knowledge

uniformly throughout the firm.

IV. The display of expert problem solving logic by expert systems in logistics management allows logistics

managers to improve their decision-making abilities.

- (a) Both (I) and (II) above
- (b) Both (II) and (III) above
- (c) (I), (II) and (III) above
- (d) (II), (III) and (IV) above
- (e) All (I), (II), (III) and (IV) above.

26. Herzberg's two factor theory explains what motivates people and is one of the major theories of motivation that

affect the performance of salesperson. Which of the following is/are not true with respect to Herzberg's two-

factor theory?

I. This theory states that the job environment of an individual is categorized into hygiene and motivational factors.

II. Hygiene factors are part and parcel of the work.

III. Absence of motivational factors causes dissatisfaction in an individual.

IV. This theory concludes that the job performance of a salesperson depends on his level of motivation.

- (a) Only (II) above
- (b) Both (I) and (II) above

- (c) (I), (II) and (III) above
- (d) (II), (III) and (IV) above
- (e) All (I), (II), (III) and (IV) above.

27. Close is naturally the most important step in the personal selling process. Psychologically oriented close is one of the techniques of close used for closing sales effectively. Which of the following is/are the technique(s) used in psychologically oriented close?

- I. Silence.
- II. Summary close.
- III. Minor decision close.
- IV. Buy-now close.
- (a) Only (I) above
- (b) Only (II) above
- (c) (I), (II) and (III) above
- (d) (I), (III) and (IV) above
- (e) All (I), (II), (III) and (IV) above.

28. According to the career stage model, a salesperson's career passes through various stages and each of these stages can be studied in terms of various characteristics. Which of the following is the developmental task that can be undertaken at the establishment stage in sales person career?

- (a) Learning the skills required to do the job well
- (b) Becoming a contributing member of an organization
- (c) Developing creativity and innovativeness
- (d) Developing broader view of work and organization
- (e) Maintaining an acceptable performance level.

29. According to Kohlberg, an individual passes through six irreversible stages of moral development. Which of

the following statements belongs to the 'stage 5' of moral development?

- (a) Concerned with instrumental purpose and exchange
- (b) The individual gives importance to interpersonal accord, conformity, and mutual expectations
- (c) The individual gives importance to social accord and system maintenance
- (d) The individual is governed by social contracts and individual rights
- (e) The individual is governed by universal ethical principles.

30. Which of the following types of leadership style is followed by the leader when he give complete freedom to the employees and allow them to make own decisions with least supervision?

- (a) Democratic-participative
- (b) Laissez-faire
- (c) Autocratic
- (d) Consultative
- (e) Team management.

END OF SECTION A

Sales and Distribution Management (MB3H2M) : January 2009

Section B : Caselets (50 Marks)

This section consists of questions with serial number 1 – 6.

Answer all questions.

Marks are indicated against each question.

Detailed explanations should form part of your answer.

Do not spend more than 110 - 120 minutes on Section B.

Caselet 1

Read the caselet carefully and answer the following questions:

1. Fred Abbott, sales manager of Midland Office Engineering, was having difficulty in convincing his boss, general manager, John Racklin to accept his proposed sales budget. Explain why general manager opposed having any kind of sales budget and also, elucidate Abbott's proposal for sales budgeting program. (8 marks)

2. Although the sales of Midland Office Engineering has increased 1 to 2%, it experienced a steady decline in net profits. Abbott sales manager of the firm feels that profits can be improved by establishing sales budget to curb selling expenses. In this light, explain how budgeting can benefit companies like Midland Office Engineering.

(7 marks)

Fred Abbott, sales manager of Midland Office Engineering, was having difficulty in convincing his boss, General Manager John Racklin, to accept his proposed sales budget. Although sales had increased 1 to 2 percent each of the past five years, Midland had experienced a steady decline in net profits. Abbott believed that it was his responsibility to improve profits through cutting expenses and increasing efficiency and he proposed the establishment of a sales budget to curb selling expenses, which he contended had gotten out of line. Although the company currently had no formal sales budgeting program, Abbott firmly believed that one was absolutely necessary if the sales operation was to contribute to the overall improvement of the firm's net profit picture.

Midland Office Engineering was started in Kansas City, Mo., in 1972 by Edward Hawkins, an architect/interior designer. He found that the materials available for office modernization and restructuring were inadequate in terms of flexibility, price, and appearance. Modular office partitions and furniture offered tremendous savings in down time and loss of productivity for the users of the offices and flexibility in terms of future changes. Existing modular materials were unimaginative and too expensive, in the opinion of Hawkins, so he designed his own line of equipment and established the Midland Company to produce and market it with co-fo under John Racklin. The company had experienced an annual growth rate in sales of 15 to 20 percent during its first ten years. However, sales had stabilized somewhat over the past three years, averaging about 2.5 percent growth each year. During the same three years, net profits declined by more than 6 percent. In 1985 sales amounted to

\$12.4 million and yielded net profits of \$243,00, or 1.96 percent of sales. This was down from a high of 8.4 percent profit in 1982.

Midland products were sold in twenty-eight states by a sales force of twenty-three persons who operated out of five branch sales offices. The sales force was paid on a straight-commission basis. Earnings ranged from \$20,000 to over \$35,000, with the average just under \$26,000. Midland's sales force sold in forty-eight of the fifty largest metropolitan areas in the United States. The company estimated that it had captured 10 percent of the office modular equipment market.

Abbott's plan for establishing a sales budgeting program for the Midland sales department consisted solely of forecasts of sales expenses. He planned to determine the expenses involved in selling Midland products by scrutinizing the records of the branch offices and headquarters. He proposed to ask each of the five branch managers to submit itemized records of salespersons' salaries, traveling expenses,

overhead and maintenance, clerical costs, and the costs of branch management and supervision. Abbott suggested that the itemized records include expenses for the previous year, the average for the past five years, and a forecast of expenses for the coming year. Combined with the branch office sales operating expenses were to be the expenses of the headquarters sales staff and sales management salaries and expenses and all other costs attributable to the sales effort. The forecasts of the branch office and headquarters expenses for the coming year were to be combined to form the sales expense budget.

Abbott proposed to limit the sales budget exclusively to forecasts of sales expenses for at least three years. At that time, he expected to develop forecasts of sales volume and combine them with expense forecasts into a complete sales budget or projected statement of income and expense. It was Abbott's contention that the sales budgeting program must proceed slowly to gain acceptance and cooperation from everyone affected. Hence, he suggested a three-year interval between establishment of the sales expense budget and the sales budget complete with sales volume forecast.

The general manager, John Racklin, opposed having the company adopt any kind of sales budgeting procedure. He argued that sales budgets were nothing more than unreliable guesses and did not constitute a valid basis for executive action. He claimed that so many variables affected the forecasts of expenses and sales volume that the accuracy of any estimate was questionable. He also felt that any attempt to curb sales expenses through budgetary procedures would result in a reduction in the overall sales effort, harming both the company's sales and profits.

Abbott knew it was a complicated matter to establish a sales budget program. However, he felt it should and could be done despite the general manager's reluctance to accept the idea of a sales budget.

END OF

CASELET 1

Caselet 2

Read the caselet carefully and answer the following questions:

3. Rex Davis believed that although the sales personnel at Midwestern Elevator company are experienced and well trained and are paid straight salaries, there is a lack of growth of sales in recent years.

i. Is paying the straight salaries a reason behind the drop? Justify by citing its pros and cons.

ii. Evaluate Davis's and Joines's proposals for change in the method of compensating Midwestern sales personnel.

(10 marks)

4. Elucidate the approaches adopted to fulfill staffing requirement of sales personnel at Midwestern and justify whether the organization structure and communication at Midwestern is conducive for sales personnel.

(8 marks)

Rex Davis, president of Midwestern Westbrook Elevator Company, told his sales manager, Jim Joines, he was disappointed in the lack of growth of sales in recent

years. Sales had leveled off at slightly more than \$5 million, even though the elevator industry had received a considerable boost from the enforcement of federal requirements for handicapped access in all buildings serving the public. He believed that, although the sales personnel were experienced and well trained, they were not very strongly motivated to greater effort.

The industry made three main types of elevators: hydraulic, geared traction, and

gearless traction. Hydraulic elevators were suitable only for buildings less than five stories high, and they were the most economical for these small buildings. Geared traction elevators were most commonly used in buildings between five and forty stories high. Buildings over forty stories high required gearless traction elevators which were considerably more complex and expensive than the other types. The large elevator manufacturers, such as Westinghouse, specialized in gearless traction elevators, preferring to subcontract the manufacture of smaller systems to companies like Midwestern.

Midwestern had positioned itself as a custom designer of geared traction elevators and manufacturer with a good service and repair operation. The company was not lacking competition in this position. There were numerous other geared manufacturers.

Midwestern differentiated itself by emphasizing its own patented design advantages, such as better speed control than other hydraulic and geared manufacturers. However, no company had established a solid position of product superiority. Competitors pushed their own design advantages.

The company's product line included elevator power units for passenger and freight, control valves, hydraulic jacks, controllers, sling and platforms, freight cars, freight doors, gates, spring buffers, swivel guide shoes, rigid guide shoes, rail brackets, mufflers, deflector sheaves, traction and drum machines, safeties, governors and tension weights, selectors, operating and signal fixtures, hydraulic freight elevators, hospital and passenger hydraulic elevators, traction freight elevators, traction passenger elevators, and traction hospital elevators.

Research and development had been brought nearly to a standstill two years ago when the chief company design engineer resigned. The company, wanting a highly experienced person to take his place, had only recently filled the position with an engineering graduate of Carnegie Mellon, who had worked seven years for Otis. Promotion by sales personnel primarily involved "winning and dining" large contractors. Maintaining good relations sometimes helped sales personnel obtain valuable information on potential new jobs, and would occasionally permit submissions of second bids when the first was too high. Other promotion took the form of trade advertisements in Elevator Magazine. Rex and Jim were not sure how effective these advertisements were, but they believed that since the cost was low, the expense did not matter much.

Approximately half of Midwestern's sales came from bids on construction contracts. The other half came from direct orders of systems and parts. Contract sales were bid and expedited by five contract sales personnel located in the major trading areas in Illinois, Michigan, and Indiana, while direct orders were handled through Jim Joines's office in Chicago. The company also maintained eight regional offices to handle maintenance and service of Midwestern equipment. Each regional office had a trained serviceperson who maintained and serviced Midwestern's customers, and estimated and did repair work on existing elevators. For business emanating from outside this general trading area, Midwestern maintained authorized dealers and service representatives who were responsible for the sale and service of Midwestern's parts in those areas.

For example, all sales and service in Ohio was conducted by Toledo Elevator Company. Being independent, Toledo Elevator was an authorized dealer and distributor of Midwestern's parts. Authorized dealers were also allowed to carry and service equipment for elevator manufacturers such as Westinghouse.

Midwestern had no formal organizational structure. People in the various departments communicated with one another on an "as needed" basis.

Bidding on elevator construction contracts required skill on the part of sales personnel. Sales personnel spent much of their time trying to "win over" the con-

struction contractors and building owners to "obligate" them to invite the particular salesperson to bid on upcoming contracts. If invited to bid, the salesperson would study the building plans, visit the site to determine the job requirements, and submit a bid proposal to the contractor. If the bid was accepted, the salesperson was responsible for coordinating the construction, ordering the required materials, and subcontracting construction of the elevator's shaft.

Management had set a basic guideline of a 10-15 percent profit margin for each new contract. (Average profit on direct orders was 25 percent.) However, jobs were often "low-balled" if Midwestern needed additional business to utilize slack production capacity. Low bids were justified on the basis that future maintenance contracts and service would provide sufficient profit.

Midwestern generally hired only experienced sales personnel who had some background in the elevator or construction industries. Occasionally, however, the company hired college engineering graduates as sales trainees. Such a trainee would spend about one year traveling with a veteran salesperson to learn the business. Although sales personnel were widely dispersed geographically, each communicated with Mr. Joines at least once a week. Mr. Davis also encouraged sales personnel to contact him directly on any important matters. He felt that, as president, this communication provided an accurate picture of what was going on in the marketplace.

All sales personnel were paid straight salaries. Trainees received between \$18,000 and \$21,000, while new sales personnel were paid \$25,000. Senior sales personnel were paid up to \$50,000, depending upon their performance and years of service. Turnover had not been a problem in the past. Most sales personnel had expressed satisfaction with their jobs. The company had never been successful in recruiting women for the sales force.

On occasions when a salesperson brought the company a particularly large and profitable order, he might be paid a commission. Mr. Davis, the president, periodically reviewed the contract orders for each salesperson and allocated commissions at his discretion. This review was done subsequent to the salesperson's winning of the bid.

Although no sales quotas were assigned to sales personnel, each knew approximately what was expected of him. If the company's annual sales volume approached \$5 million, all sales personnel knew that Mr. Joines would be satisfied. Mr. Joines had come to feel that perhaps his expectations were a self-fulfilling prophecy. However, he was unsure of what might be the best way to improve the situation.

Joines did feel it was important to build some kind of automatic motivation into the compensation system. He believed that the present system of awarding commission on a somewhat random basis served as a reward for outstanding performance but did not provide an incentive for future improvement, since there was no guaranteed reward for greater effort. Consequently, he recommended to Rex Davis that compensation for contract sales personnel be changed from a straight salary to a commission and drawing account. He suggested that the commission be set at 5 percent of sales and that the drawing account be set at 90 percent of current salary. Thus, Green, the most senior salesman, with a salary of \$50,000, would be given a draw of \$45,000, or \$3,750 a month. If he achieved the same sales volume as last year (\$975,000), his total earnings would be \$48,750. Harcourt, the top producing salesman for the past two years, with a salary of \$45,000, would be given a draw of \$40,500, or \$3,375 a month, and if he maintained his \$950,000 sales volume, his total earnings would be \$47,500.

Davis argued that it would be a mistake to eliminate the security provided by a guaranteed salary. He believed that the sales force was a good one, and he did not want to risk a reduction in morale or an increase in sales force turnover. As a result,

he proposed that current salaries be retained, but that they be supplemented with a bonus for sales above quota. He suggested that each sales rep's quota be set at twenty times current salary and that a bonus or commission of three percent be paid on all sales above quota. Thus, Green would retain his \$ 50,000 salary and would be given a quota of \$1 million; all sales above \$1 million would receive a commission

of 3 percent. Harcourt would continue to receive a salary of \$45,000, and his quota would be \$ 900,000.

Joines argued that Davis's proposal did not provide a strong enough incentive for greater effort. Under the quota bonus proposal, an increase in sales of 5 percent would yield Green an increase of \$712.50 in income over last year, but under the drawing account proposal, with a 5 percent increase in sales, he would receive \$1,187.50 over the previous year.

END OF

CASELET 2

Caselet 3

Read the caselet carefully and answer the following questions:

5. Discuss the procedure followed by McDonald's to train its employee and also elucidate the pros and cons of off-the job and in-house training programs. (9 marks)

6. Analysts claim that emphasis on employee training by McDonald is partly responsible for such high customer service standards being maintained in all its restaurants. In this light, discuss the significance of sales training and also, explain how employees training help a fast food service giant like McDonald's. (8 marks)

McDonald's is the largest food service organization in the world with 30,000 restaurants located in 120 countries and visited by nearly 46 million customers every day. The company employs 4,13,000 people in its restaurants. It has been able to maintain similar service standards in all its restaurants spread across the world.

Analysts claim that emphasis on employee training by the company is partly responsible for such high customer service standards being maintained in all its restaurants. The core principles of McDonald's quality, service, cleanliness, and value (Q.V.C&V) guide its training programs. The company's highly structured training programs are conducted at four levels- crew development program, restaurant management program, mid-management program and executive development program.

Entry-level workers are trained under the basic crew development program. The training is conducted at each restaurant. Crew members are given on-the-job and off-the-job training. They are given an hour's orientation about the company and its operations. Each restaurant is equipped with a video player and a training room. Step-by-step manuals and videotapes on various operations that the personnel need to undertake are provided to the crew members. Then they are provided on-the-job training. Each activity is considered as workstation - the payment counter, the grill area etc. The crew members work under the supervision of crew trainers at each of these workstations. Their performance at each workstation is evaluated. There are 25 workstations in a restaurant at which the crew members have to gain experience. The company follows a 3/30 days rule wherein the crew member has to gain expertise in 3 workstations every month until he becomes adept in all 25 workstations.

The next level of training is the management development program. This training program is devised for the employees in the restaurant management team. These training programs range from the basic level to the advanced level. At the basic level course, the company provides training to the managerial staff in managing the

fundamental operations of a restaurant. Managers are trained in aspects like recruiting and scheduling staff, equipment management etc. at the higher-level training. The company also trains them in leadership skills, decision-making skills, and managing change. Thus, the managers after this program are fully aware about the complexities of the restaurant environment and to how to deal with it.

Apart from the training programs at each region or locality, the company also has a centralized training entity called Hamburger University, situated in Oak Brook, Illinois, USA. Here the company trains employees who come from various parts of the world. Founded in 1961, the university has faculty strength of 30 full time professors. The University is equipped with 17 teaching rooms, a 300-seat auditorium, and four special team rooms for interactive education. The University

trains more than 5,800 students every year. 73,000 students have passed out from Hamburger University since its inception. McDonalds also has the rare distinction of being America's largest training organization surpassing even the US Army.

In order to undergo training at Hamburger University, an employee should have undergone 2000 hours of training and be at the level of an Assistant Manager. The Advanced Operations Course (AOC) teaches various management subjects such as accounting, inventory control, and equipment management. Eight other courses are offered at the University for Various Levels of employees: Area Supervisor's Development Program, Field Consultant's Class, Operations Manager Class, Training Consultant's Class, and Presentation Skills.

Franchise owners also have to undergo a full time nine-month training before managing their restaurants. This training includes activities ranging from basic operations to the complete management of the restaurant such as recruiting, accounting and administration.

END OF CASELET 3

END OF SECTION B

Section C : Applied Theory (20 Marks)

This section consists of questions with serial number 7 – 8.

Answer all questions.

Marks are indicated against each question.

Do not spend more than 25 -30 minutes on Section C.

7. Cost analysis looks into the costs incurred to produce the results and examines if the returns justify the expenditure. In this regard, explain how a company can do cost analysis.

(10 marks)

8. Retailing started out as the last point in the distribution process. It acted as the sole means of providing essential commodities to geographically dispersed consumers. Over the years, from a modest beginning, retailing evolved into a specified form of selling products. Explain how retailing has advanced to cater to the need of people.

(10 marks)