Pearson LCCI Level 3 Certificate in

Sales and Account Management

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Lynne Williams

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Pearson
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ISBN 978-0-9924262-2-4

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CHAPTER 1

SALES FUNDAMENTALS

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Learning Objectives

1.1 The link between the marketing mix, the product life cycle and sales
Understand the marketing mix and its relationship with the product life cycle and sales, and how the marketing mix is adapted at different stages in the product life cycle.

1.2 Types of sales techniques/opportunities
Understand the features of different types of sales techniques/opportunities and how they are used in different situations to maximise sales revenue.

1.3 The customer's buying process
Understand the buying process and the stages that the customer goes through, including the Attention-Interest-Desire-Action (AIDA) model of engagement.

1.4 Sales activities
Understand sales activities and their importance to a business.

1.5 Legal and ethical selling
Understand the legal and ethical requirements involved when selling a product, how the attitude and behaviour of the salesperson can influence the reputation of a business and the implication of not adhering to these requirements.

1.6 The organisational structure of the sales team
Understand the typical roles and responsibilities in a sales team and the activities that are carried out.

1.7 Payment of salespeople
Know the features of the different ways in which salespeople are paid and their impact on both the individual salesperson and the business.

1.1 The link between the marketing mix, the product life cycle and sales

Businesses provide products that are sold to customers. When a customer buys a product, the transaction becomes a sale for a business. The revenue of a business is made up of the value of sales made, therefore all businesses rely on sales to grow and develop.

To sell its products, a business will create a marketing mix. This is a marketing tool that combines elements into a strategy to strengthen a product's brand and helps to sell a business's products. The marketing mix consists of the **4Ps**. These are a set of actions that a business uses to promote its brand or product in the market. The 4Ps can have a direct impact on the life cycle and sales of a product.

Figure 1.1 The 4Ps

Product

Businesses market and sell a variety of **products**, which consist of goods and services. **Goods** are items that you can touch and are often referred to as 'tangible' products. These include food products, household appliances, electronic items, furniture and cleaning products, for example. **Services** are things which are done to you or for you by someone else and are often referred to as 'intangible' products (for example a car wash, dentistry or a haircut).

Product is often thought of as the most important part of the marketing mix as it is the part of the mix that directly meets customer needs. Goods and services must match the people they are aimed at and provide customers with value. As customers are the people who will purchase the products, it is essential that businesses find ways to cater to their desires and needs. Having a **unique selling point** (**USP**) for each product, by making sure the good or service has and/or does something that no other product on the market does/offers, will help it to be more attractive to consumers.

A business will firstly identify who will be interested in buying their goods and service by using the results of their market research. The data obtained through market research will allow them to look more closely at what the markets want and then look at the products to see if they are satisfying their customer's needs. It is also important that the product is changed as the market changes to bring it up to date and prevent it from being overtaken by competitors.

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The product life cycle (PLC)

The number of products sold and the amount of money spent on marketing will change as the product moves through different stages during its life. This is called the **product life cycle** (**PLC**). After a period of development, a product is **introduced** or launched into the market (although it is worth mentioning that many products fail in the introduction phase) and developed; it attracts more and more customers as it **grows** and eventually the market stabilises and the product becomes **mature**; then after a period of time the product is overtaken by development and the introduction of superior products, or competitors may offer a better choice, and so sales fall, it goes into **decline** and is eventually withdrawn. In reality, few products follow such a rigid cycle and the length of each stage varies enormously. Not all products go through each stage, as some go quickly from introduction to decline. At each stage of the product life cycle there is a close relationship between sales and profits, and so as products go into decline, profitability decreases. It is therefore very important that businesses use the marketing mix to keep interest and sales of the product high.

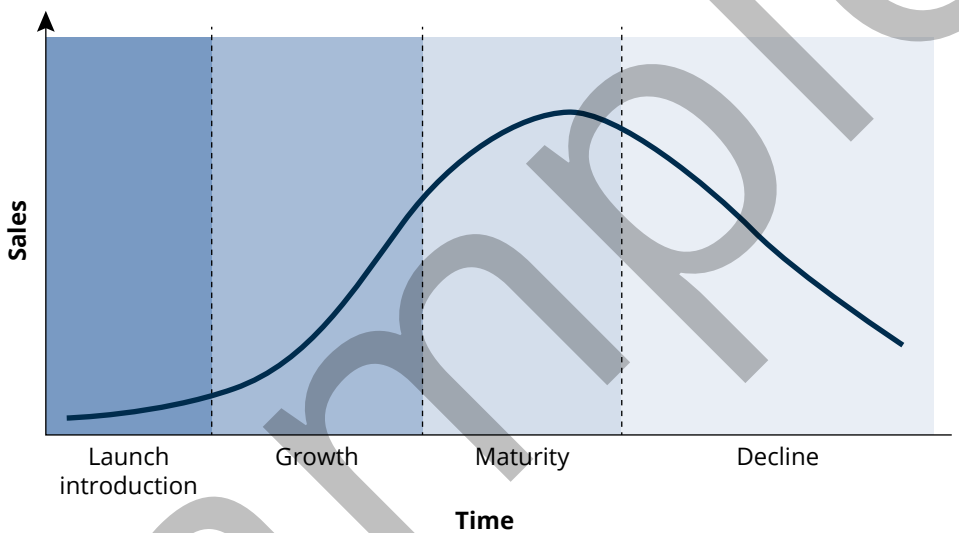

Figure 1.2 The stages of the product life cycle

Price

Price is the amount of money paid by customers to purchase a product. Businesses think very carefully about the price to charge for their products as there are several factors to consider when reaching a pricing decision. Price depends on the type of market the business is targeting and a business can make a profit only if the price charged eventually covers the costs of making an item. The decisions of marketers can change the stage of the life cycle of a product by increasing or reducing the price. For example, a product falling into decline may see a boost in sales if the price is dropped to below that of a similar product from a competitor.

There are several pricing strategies that a business can choose based on the product itself, the competitive environment, customer demand and other products on offer from the business and/or its competitors.

- **Cost-plus pricing** – This is the simplest pricing strategy and is aimed at ensuring the business covers its costs and makes an acceptable profit. The total cost of producing one unit of the product is calculated and the required profit margin is added. This gives the selling price. For example, adding a 50% mark-up to a sandwich that costs $2 to make, means setting the price at $3. The drawback of cost-plus pricing is that it may not be competitive.

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- **Price skimming** – This is where a high price is set for a product before competitors come into the market. If a new product is likely to generate a high volume of sales (for example because it is new) a high price is charged at the introduction stage to maximise profits. The price will be reduced when the initial high demand has gone down. This is often used to quickly regain the investment related to its development and marketing, and is used by well-known businesses at the introduction stage of the product life cycle when launching new, high-quality, premium products.
- **Premium pricing** – This is where the price of a product is set at a high price for certain goods or brands in the hope that the higher price will give the impression the product is of a higher quality. For example, Apple products (such as iPhones) are generally more expensive than similar competitors' products and brewers Stella Artois refers to its lager as being 'reassuringly expensive'.
- **Penetration pricing** – This is where the product's price is set significantly lower than a competitor's price. This pricing strategy is used where the objective is to enter or capture a larger share of the market but the business may have low profits or even a loss in the short run. The price is usually raised later. This strategy is often used when a new product is launched (at the introduction stage of the product life cycle) or if the main objective of the business is growth to maximise its sales.
- **Competitor-based pricing** – This is where a price is set based on what the competition is charging. Where the amount of competition in the market is strong, customers have a wide choice of suppliers to buy from. As such, businesses must set their prices close to the prices of competitors (sometimes called 'going rate' pricing) in order to stay competitive. Setting a price above that which is charged by the market leader can only work if the product has a better USP or better features and appearance, for example. Competitor-based pricing will be higher in the introduction stages and lower towards the end of the life cycle when the product is starting to decline as it is replaced by competitor products or an updated version of the product by the same company.

Businesses that sell a range of products usually aim for consistency in pricing. This means that customers feel there is value across the whole range of products the business sells. For example, restaurants often apply similar pricing strategies across their menus. Some businesses however, for example supermarkets, position different products as up-market or down-market and so will often offer a more expensive finest range and a cheaper smart price range.

Place

Place is the location where products are made available to the customer and how the product is distributed to the customer. It is the way that products are moved from the manufacturer/service provider to the consumer. It is important that customers can find and buy products at their convenience. As such, there are factors that need to be considered when a business chooses a location. This may be physical, online or both.

Wholesale and retail

Place can be critical as it must reflect the needs and types of customers, and their shopping preferences (for example, for short travel journeys, easy access, parking and so on). Another consideration for location will be the types of product sold by the business. For example, a large **retailer** that sells direct to the public, such as a supermarket, do-it-yourself store or **wholesalers**, that buy large quantities of goods from other businesses, warehouses them, and resells to retailers, may need to be located out-of-town if they are to have a large customer car park where customers can take their purchases direct from the store to their cars.

Physical location and online

A retailer will need to decide whether the cost of a **physical location** is worth it, as prime spots on the high street can be very expensive but being out-of-town may mean less passing trade. Retailers will often compete with other businesses on physical location. A business wants to be as close to as many customers as possible

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and, since every business wants the same thing, they will compete with one another. This eventually causes similar businesses to end up in a cluster focused in a specific area and can often be seen with fast food chains in the high street or in shopping centres.

A business may decide on a physical location (such as the high street) but many goods and services are now increasingly being sold **online** as it has a huge geographical reach. Trading online can be less costly than a physical location and as a result, the business will make savings in operational costs as there is no need to rent expensive premises. Trading online also increases sales opportunities because the business can reach a global audience. It is more convenient for customers who can place orders 24 hours a day/seven days a week and allows businesses to compete with one another.

Today, many retailers have both physical stores and online locations. There are many advantages to this, for example:

- customers can see goods in person to assess quality, fit (such as clothing), get advice from knowledgeable staff and enjoy the shopping experience
- customers may feel safer buying online from businesses with physical stores they have visited personally
- orders can be picked up at the store or delivered to customers' homes according to their preference and schedule
- orders can be placed from mobile devices and desktop computers
- customers can bring returns to a store, reducing the business' shipping costs
- stores can use their existing distribution networks to deliver to online shoppers.

Mail order

Mail order allows a customer to choose goods to purchase, usually from a **catalogue**. The customer places an order by telephone, post or through a website. Many goods such as clothes, household items and garden products can be bought by mail order. The customer can spread the payment for these goods over a number of weeks but this may mean that the items bought are more expensive to purchase as the business may charge interest for items being paid for over a period of time.

Personal selling

When a business uses its salespeople to sell its products face-to-face, this is called 'personal selling'. Salespeople will use specialist product knowledge to advise and encourage the customer to buy or try the product. The attitude and appearance of the salesperson is therefore important as they are promoting the product and the business. Personal selling is often used to sell cars to retail customers or office equipment to business customers, for example. This has advantages as salespeople can customise their messages to suit each individual customer, questions can be answered and objections can be overcome, and so customers can be more easily persuaded to buy. The disadvantages of personal selling, however, are that the experience and expertise of salespeople may vary and the process is both labour intensive and costly. (The personal selling process and its activities is covered in more detail in Chapter 2.)

Promotion

Promotion is the way in which existing and potential customers are informed about the products of a business. Communication also involves trying to understand how the initial message from the business is received by the audience. A successful communication is a communication that reaches out to the audience through one-way promotion but also listens to customer feedback and tips on how to improve the product.

The main objectives of promotion are to communicate with prospective customers and inform them of both the product and the business, show the benefits of the product, persuade them to buy the product and present a

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good image of the business itself. Other objectives of promotion may be to increase market share in a current market or to enter a new market. The success of a promotional campaign will be measured against these objectives.

As a product moves through the different stages of the product life cycle, a business may increase or reduce the amount of promotion. For example, if a business is launching a new product into a market, the amount spent on promotion will be high as the enterprise focuses on building a brand. As the product goes into decline, the business may decide to increase promotion to extend the life of a product and regain customers or to reduce spending to cut costs and so increase profits. Businesses will use several promotional elements to communicate with the public, raise awareness and inform customers about a product, and build a positive reputation or even repair a negative public image.

Method	Example
ADVERTISING METHODS	• Broadcast media such as television and radio. • Print media such as newspapers, magazines brochures and catalogues. • Billboards (both standard and digital). • Guerrilla marketing (using a series of creative and strategic techniques to build and maintain public awareness).
SALES PROMOTIONS	Special deals, coupons and discounts (usually used in sales promotions that focus on a specific period of time) such as: • buy one get one free (BOGOF) • early bird meals in restaurants • money-off coupons • end of season sales.
SOCIAL MEDIA	• Creating and sharing content on social media platforms such as articles or blogs. • Posting updates such as text, images and videos on social media platforms.
PUBLIC RELATIONS (PR) ACTIVITIES	• Press releases. • Newsletters.
DIRECT MARKETING	• Direct mail. • Telephone marketing (telemarketing). • Digital methods such as websites, email marketing and SMS or text messaging.
MERCHANDISING	Promoting the sale of goods and influencing consumers' buying decisions through: • pricing/special offers • tasting sessions and in-store demonstrations • give-aways and samples • visual display of products

All the elements of a business's marketing mix must be consistent. For example, if a business has premium prices but the product is of a low quality, a customer will become confused and their trust and reliability in the brand will be undermined. Customers may therefore decide to shop elsewhere. The price must match the quality of the product and the promotional message must reinforce this. In addition, the product should be available in the right place (for example, if a business is selling high-quality, high-priced items, an exclusive store or specialist online retailer will be more appropriate than the local supermarket).

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Examination Tip

You need to be able to understand the 4Ps of the marketing mix, how these 4Ps can affect the product life cycle and sales, and how the marketing mix may change at different stages in the product life cycle. You may be required to apply this knowledge to specific contexts in the examination by looking at how a mix can be adapted based on changing strategies.

1.2 Types of sales techniques/opportunities

One of the tasks of a salesperson is to identify sales opportunities to create new business. A salesperson or sales team will then use sales techniques to help sell products effectively and so create revenue for the business. There is more than one way to make a sale and so salespeople may use a variety of techniques to sell products.

Sales techniques

Transactional selling

Transactional selling is about short-term solutions. The salesperson is mainly concerned with the promotion and selling of the product with little or no emphasis on customer needs. It is solely about the single sale. In transactional selling, the buyer comes to the seller who has a product and price list. Negotiation between the buyer and seller is not needed as the buyer already knows what they want to purchase and so the salesperson has a minimal role to play in the process. For example, a customer goes into a newsagents, knows which newspaper they want, chooses a newspaper and purchases it.

Relationship selling

Relationship selling is about building long-term relationships. The salesperson will get to know the needs and wants of a customer before attempting to make a sale. Relationship selling is more likely to generate additional sales revenue than transactional selling, as it has a much higher probability of multiple transactions or **repeat sales** that provide the opportunity to re-sell the same product again. Relationship selling works best for goods and services such as insurance, which compete on quality and cost but customers buy and keep buying because of the relationship that is formed.

Cross-selling

Cross-selling gives the opportunity to sell related or complimentary products to an existing customer. This is also referred to as '**add-on selling**'. Cross-selling is common in every type of business and as the customer is already buying something, getting them to make an additional purchase will increase sales revenue. When a customer goes to pay for their product an additional product is suggested (for example, a leather care spray could be cross-sold to a customer purchasing leather shoes, insurance to people buying expensive jewellery or electrical items, or a memory card to someone buying a smartphone). The additional sale relates directly to the purchase and always costs less than this core purchase (for example the leather care spray will only cost a few dollars in comparison to the initial cost of the leather shoes).

Cross-selling gets customers to purchase products they might have purchased anyway but, by pointing them out at the right time, the salesperson can ensure these additional products are bought with their original purchase rather than waiting for the customer to purchase it naturally. Online businesses such as Amazon will show 'frequently bought together' or 'customers who bought this item also bought' on its product pages

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to prompt customers to buy an additional product. Retailers will often position relevant accessories next to products (for example cases, batteries and gift wrapping). In addition, customers who think that a business makes useful recommendations for other products that the customer might be interested in, may be more loyal to that business and so make repeat purchases.

Upselling

Upselling gives the opportunity of selling a better/newer version of what is currently being purchased; usually a higher-value product. A salesperson will upsell by showing a customer that a more expensive, upgraded or premium version of the chosen product may better fulfil their needs. This can lead to increased sales revenue. An example would be a customer who wants to buy a television and is persuaded to buy a newer, more expensive model. Upselling can also help customers feel that they have had a better deal by buying a product that will deliver more value, which leads to customer satisfaction and repeat sales.

Case Study 1.1 The disadvantages of upselling

Upselling in business can sometimes gain bad press. In a fast food restaurant, being asked if you want to 'go large' or 'supersize' means that both the portion size and calories increase, often by 55%. This can lead to an extra 750 calories a week that could potentially lead to a weight gain of 5kg a year. In 2017, upselling in coffee shops and fast food restaurants was being blamed for weight gain, with young people aged 18-24 being the most likely to experience upselling when buying food and drink.

Examination Tip

You need to be able to understand the features of different types of sales techniques/opportunities mentioned in the chapter and how they are used in different situations to maximise sales revenue, including the advantages and disadvantages of each. You may be asked to apply this understanding to specific contexts in the exam.

1.3 The customer's buying process

The customer buying process shows the stages that the purchaser will go through before making a final purchase decision. When a potential customer is considering a purchase that is more expensive or requires some kind of monthly commitment (such as a smartphone, a laptop computer or a car), they will usually spend more time thinking about it. They may research different options, talk to a family member or friend to obtain their opinions and weigh up the information they get to help them make a decision on what to buy.

At each stage in process, the potential customer will usually go through a specific thought pattern. Understanding this buying process is important for salespeople and can help a business to design a better sales strategy in the future. If a salesperson understands what the needs and wants of the potential customers are at each stage, they can help a potential customer to make a purchase.

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Figure 1.3 The Customer Buying Process

The stages in the customer buying process

Problem/need recognition

This is the first stage of the process, the purpose of which is to find out exactly what the customer needs or the problem the customer is trying to solve. This may be triggered by internal stimuli (such as hunger or thirst) or external stimuli (such as advertising or word of mouth). A purchase cannot take place without first recognising the problem or need.

Information search

Having identified a need/problem, a customer will begin to start to gather information on a product and may ask others for recommendations to help them to make a decision. This stage is particularly important if the purchase a customer wishes to make is expensive and they don't want to risk making a wrong decision. The customer may gather information from several different sources, such as by looking at products in a shop, over the Internet, reading reviews, seeking third party references and asking friends or colleagues to make personal recommendations. Buyers in large organisations may have to make their choices from a list of approved suppliers, in which case they must identify with their organisation's procurement department who these suppliers are.

Evaluation of alternatives

Unless a customer knows exactly which product they want to buy, they will usually evaluate several alternatives, especially in competitive markets where there is plenty of choice. Customers may ask questions to find out which product is really the right product for them. To help with this, they may carry out extensive research over the Internet and use price comparison websites and product review websites. If they feel that in fact they need a different product, they may go back to one of the previous stages. This may happen several times before a purchase decision is reached.

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Once the customer has determined what will satisfy their need/problem, they will begin to seek out the best deal. An important consideration during this stage is price, as prices for identical products often vary greatly. This is especially true when comparing shop prices to online process, which can be extremely competitive.

Purchase decision

Having gathered all of the information on quality, price and other factors, customers must then make a value judgement and decide which product best meets their needs/problem and which vendor can provide the product at a price they are willing to pay. They then move onto the next stage of the buying process. A final decision is made by the customer prior to purchasing.

Purchase

A need has been created, the research has been completed and the customer finally makes the formal purchase. Ideally, this will be a straightforward transaction whereby the customer pays for their good or service and receives it within the expected timeframe.

Post-purchase evaluation

This is the review stage. It is a key stage for both the business and the customer. A customer's experience of using a particular good or service will determine their opinion of it and specifically how well the product met their needs and expectations. If a customer decides that the product or business has matched or exceeded the promises of the purchase and their own expectations, they will potentially recommend the product to others. This can increase the chances of the product being purchased by others.

If the customer experiences post-purchase dissatisfaction, they may never purchase the item again and their relationship with the business may stop here. If the customer gives negative feedback to another customer who is at an earlier stage in the process, they might dissuade that potential customer from buying the product or even worse, from buying from the business at all.

Customer-focused businesses strive to meet and exceed their customers' expectations because they understand satisfied customers often become repeat buyers, generating more revenue and profits over time. It is also important, more cost-effective and efficient to retain existing customers than it is to find new customers, so businesses may put considerable effort into communicating with current customers to keep their interest and loyalty.

An example of the customer buying process

Imagine you want to buy a new laptop computer, how would the buying process work?

- **Problem/need recognition** – You decide that you want word processing capabilities, access to the Internet, light and easy to transport.
- **Information search –** What laptops are available? Do they use Apple or Windows operating system? How heavy are they? Are they recommended by others? You search the Internet, get opinions from friends and colleagues, visit computer stores and speak to sales staff.
- **Evaluation of alternatives** – You weigh up the advantages and disadvantages of each.
- **Purchase decision** – You make a final decision.
- **Purchase** – You buy the laptop.
- **Post-purchase evaluation** – You use the laptop and decide if it meets expectations. If it meets or exceeds expectations you tell others buying a laptop and positively influence their information search (stage two). If it does not satisfy your needs you tell others why you are dissatisfied and so negatively influence their information search.

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AIDA model of engagement

The **AIDA** model is an advertising model that shows the stages a customer goes through when engaging with and purchasing a good or service. This model allows markets to develop communications what are customer focused and designed to engage the target audience into responding to a message. It is also important for salespeople to understand this model as it will help them to understand the stages a customer travels through and which sales techniques are appropriate and when in order to build a relationship with the customer. AIDA stands for **awareness**, **interest**, **desire** and **action**.

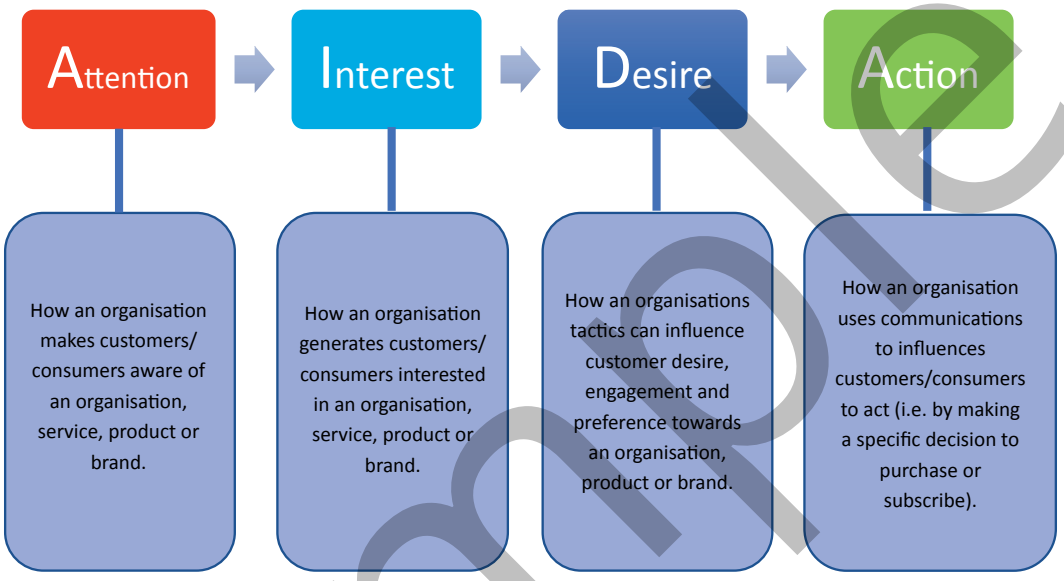

Figure 1.4 The AIDA model of engagement

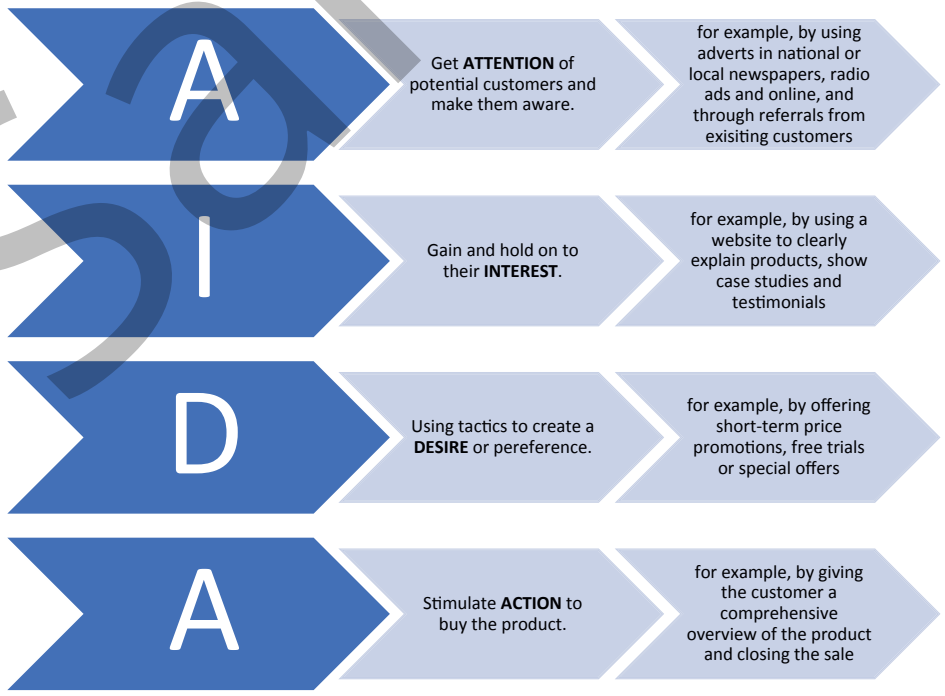

Figure 1.5 Sales and AIDA

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An example of AIDA is a movie poster. The main aim of a movie poster is to get the customer's attention, draw their interest, give them a desire to want to watch the movie and action them into buying a ticket when the movie is released. The same is true of sales. Imagine you are buying that laptop. The salesperson wants to attract your attention to the laptop, draw your interest to it, give you a desire to buy and action you to purchase it.

Examination Tip

You need to be able to understand the benefits to the salesperson and to the business of understanding the customer buying process, including the AIDA model of engagement.

1.4 Sales activities

Information gathering

A salesperson may talk to customers on the phone, in a video/conference call or face-to face. These are all sales activities but before a salesperson can talk to new or existing customers and make a sale, they must first **gather information** through research to help understand their customers. It is helpful if the salesperson knows beforehand what customers want and why. Good customer research that gathers information on new and existing customer needs will help the salesperson to work out how to convince customers that they need the products of the business. Research is important as it can help businesses to develop a detailed picture of their customers and so help the salesperson to understand how to target them. (Market segmentation and the use of market research data is covered further in Chapter 3.)

Customer prospecting and development

Customer prospecting means to search for possible customers (called 'prospects'). The aim of prospecting is to **develop** a list of likely customers and then communicate with them. Prospects are people the business has made contact with and who have confirmed that they might be interested in buying from the business when it is right for them. For example, a prospect for a car dealership may be a customer who is the owner of an older car with high mileage. A salesperson may telephone, send emails or direct mail to prospects to increase their awareness of and familiarity with the business in the hopes of converting them from a prospect to a customer. This is important as it gains new sales for the business.

Selling and negotiation

Once a salesperson has identified a prospect, the next stage is to sell. Selling and negotiation are both parts of the sales process. **Selling** is the process to identify if what the seller is offering is what the buyer is looking for. This involves the salesperson helping the customer to understand their needs or wants, then suggesting a solution. A good salesperson will develop a relationship with the prospect by asking questions and delivering convincing solutions that meet both their requirements, and so that the prospect has all of the information they need in order to make an informed decision as to whether or not to buy. A salesperson will use the selling stage to lay the ground rules for negotiation by making sure that they fully understand the requirements and decision-making process of the prospect, whilst setting the tone for the negotiation phase.

Negotiation begins when the selling process is complete and there is a genuine commitment from the buyer and seller towards a sale. Negotiation is the process of agreeing and confirming the terms and conditions of

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the sale and ends with the salesperson closing the sale by taking an **order** from the customer. Without this process of converting sales prospects into orders, the business cannot survive. (The stages of the sales process is covered in more detail in Chapter 2.)

Reporting

In addition to prospecting and making sales, a salesperson will also be expected to **report to colleagues**. Salespeople are required to make sales reports that will be regularly reviewed by their sales manager. These reports will provide data that is generated by the salesperson when carrying out their activities. From the sales report, the sales manager must be able to know who the customers are, where they come from, what causes a prospect to purchase a product and what prompts them not to buy. This information is important to the business as it allows improvements to be made as necessary to increase the success rate of the sales process. This means that a salesperson must complete their reports properly and in a timely manner, so that colleagues can review them regularly in order to keep the business on track.

Account management

Account management takes place after the sale. An account manager maintains the relationship with customers so that they continue to use the business. This is important as it ensures that company targets for generating sales for a portfolio of accounts are met. (The features of account management is covered in further in Chapter 5.)

After-sales support

After-sales support (or after-sales service) is provided after a customer has purchased a product. It refers to all the things done to care for customers such as warranties (a warranty allows the products to be repaired or replaced if it breaks down within a certain period of time after purchase), upgrades, servicing or follow-up calls. For example, a customer being sold a car may be given free service after six months or a call may be made to customer after purchase to ensure that the product is working as expected and the customer is happy. After-sales support can be a way to encourage people to buy the product in the first place as some customers might only purchase products from a business because of its after-sales support. For example, a customer may choose to buy a specific Apple product over another brand because the product offers AppleCare (technical support for the product). It can also be used to justify charging a higher price for products. After-sales support is important as it can also influence the long-term reputation of the business and can influence future sales.

Sales forecasting and budgets

Sales forecasting allows a business to make financial projections by calculating the expected sales revenue and expected profit over a designated time period. For example, if an established business averages 2,000 customers per year with an average sale of $100 per customer, this would be the starting point for the sales forecast. If the business assumes that nothing changes, it could expect total sales of $200,000 for the year. A business can also use a sales forecast to model projections. The business may see opportunities for more sales if competition is decreasing or if it is planning to enter a new market. The business can do the same with potential threats, for example using a sales forecast to predict how increased competition or a change in legislation might affect sales.

A **sales budget** is a financial plan. It shows the expected number of sales of a product in a given period and the expected price per sale. Based on this, the total predicted revenue can be calculated. The sales budget is usually presented in either a monthly or quarterly format. The information for this budget usually comes from the salesperson who deals with the products on a day-to-day basis. A sales budget is important to the business as the information in the sales budget informs most of the other budgets in the business, such as the production budget and the materials budget. This means that if the sales budget is wrong, then the other budgets that use it will be wrong too. This could lead to too few materials being bought to allow for the production of goods, too few products being made or vice versa.

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Examination Tip

You need to be able to understand sales activities, how and why they are important to a business.

1.5 Legal and ethical selling

Legal requirements and implications of the selling process

There are a number of **legal issues** that have to be considered by businesses when selling products. Businesses must know what is lawful and what is not, and must be sure to follow the laws that protect consumers, regulations and codes of practice when marketing, advertising and selling their goods. For example, an advertisement can be banned if it breaks the law or may have to be changed or replaced if consumers complain.

Contract laws

A business will need to consider contract laws as every time a customer buys something a contract is made. Contracts do not have to be in writing. A contract is put in place when the business's products are exchanged for the purchaser's money. A customer or supplier could take legal action against a business if it fails to perform their part of the contract. Similarly, a business might take legal action against both the buyer and seller as they are obliged to fulfil the terms of the contract.

Intellectual property laws

Different countries have different intellectual property laws but patents, trademarks and copyright are the most common.

- **Patents** are used to protect inventions. Patents give the owner the right to take legal action against anyone who uses or sells their inventions without permission. A patent can take 2–3 years to be issued and has a maximum life of 20 years in most countries. There is no symbol to indicate that a product is patented.
- Businesses will decide on a brand and these can be protected with a **trademark**. This protects the name and visual identity of the goods or services. With a registered trademark, the owner can take legal action against anyone who uses or copies the brand without permission. Putting the ® symbol next to a brand name shows that the brand is registered with a trademark. An unregistered trademark will be shown by using ™.
- **Copyright** is used to protect original work and is most often used for creative works such as illustration, photography, literary pieces, web content and music. The owner of a copyright can licence the use of their work to others. The licence is a contractual agreement in which the owner of the copyright outlines the ways in which the work can be used, if it can be changed and if it will cost anything to use it. The © symbol is used to show the work has been copyrighted. The duration of a copyright varies according to the country.

Avoiding bribery and price fixing

Many countries have laws in place to ensure that businesses avoid bribery and price fixing. A salesperson may be tempted to bribe a prospective or existing customer. This could be done by offering corporate hospitality, such as tickets to high profile sporting events to close a sale, or fix prices by agreeing with a competitor what price to charge customers, agreeing not to sell below a minimum price, or simply agreeing not to undercut a competitor, for example.

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Consumer protection law

Consumer protection law gives consumers protection against unfair selling practices. The business must provide the consumer with all relevant materials and information to allow them to make an informed decision about whether to purchase a product. Businesses must comply with these laws and its sales force are responsible for ensuring that accurate information is given to consumers.

Businesses must ensure that its products comply with the relevant **product standards** and are **safe** and **fit for their intended purpose**. Consumers have the right to claim a full cash refund, replacement, repair and/or compensation where the goods are faulty, are not as described or do not do what they are intended to do. For example, in many countries a business must give cash refunds for a faulty good and cannot give store vouchers.

Avoiding false advertising, untruthful or misleading information

Advertising must not be false. For example, businesses cannot state that a product is only available for a limited period of time to pressure consumers to buy, offer products for sale knowing that they will not be able to meet the demand for that product at that price or advertise a product at a specific price and then refuse to supply within a reasonable amount of time with the intention of selling a different product to the consumer.

It also must not give **untruthful** or **misleading information**, or inaccurate descriptions of goods and services. For example, if a store advertises a free gift with a purchase, customers should get one, or if a business advertises a product at $50 without stating that the price does not include sales tax, or says that a product weighs 1kg when it weighs 900g, then the advert is inaccurate and misleading to customers.

If a business that advertises a product similar to a product made by a competitor, they may **mislead** consumers into believing that both products are made by the same manufacturer. For example, customers could be misled if a business designs the packaging of shampoo A so that it very closely resembles that of shampoo B, an established brand of a rival competitor. If the similarity was introduced to deliberately mislead consumers into believing that shampoo A is made by the competitor (who makes shampoo B) this would breach the law.

It is also illegal in many countries for a business to display any notice that deliberately misleads consumers or deceives them about their rights. Rules regarding refunds must be clear and in the European Union (EU) for example, a business displaying a sign that says it does not accept returns or offer refunds, or saying that it does not provide cash refunds and will offer a credit note only, is breaking the law.

Businesses may also offer goods for sale on a credit basis. If goods are to be sold on credit then the **interest charges** must be disclosed by the business, with no hidden fees or charges.

Customer data protection

Businesses must respect the **privacy** of customers and **safeguard** their data. As a business also relies upon using customer information to target individual customers, a business must ensure that it complies with the most up-to-date data protection legislation to ensure secure storage and confidentiality regarding disclosure and access arrangements. Data protection legislation controls how personal information is used by businesses and the government. Computer databases are used in businesses to store information on customers and employees. These can be accessed, searched and edited more easily than if the records were paper-based. The computers are often networked to allow for organisation-wide access to databases and offers an easy way to share information with other organisations. It is therefore important that all employees follow the legislation regarding the collection and storage/sharing of personal data as there is a danger that the information could be misused or get into the wrong hands.

Breaching statutory legislation

There are consequences and implications for any business that is found to be in breach of the law. This may result in **legal action** which may later result in fines, possible **liquidation** (a process designed to allow an

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insolvent company to close voluntarily), **bankruptcy** (a legal status where a person or business cannot pay their debts) and even **imprisonment** (in some countries), which will adversely affect the profits of the business. For example, a business that sells consumer goods must follow product safety laws or face legal action.

Being in breach of the law may also damage the **reputation** of the business, which may result in less customers using the business and so cause a loss in revenue. For example, data protection is in place in order to protect the customers because businesses hold their financial information. If a business misuses this data (for example, by selling it to or sharing it with another business), it could damage the reputation of this business as it might be thought of as untrustworthy.

There are also **implications for the salesperson** of breaching statutory legislation. This can result in **disciplinary actions** or sanctions such as **monitoring** or **suspension**, which will impact on future **career opportunities** and advancement, or even the salesperson losing their job.

Case Study 1.2 An example of a business breaching the law

In 2015, four employees and the owner of a mobile phone retailer were taken to court for a number of unfair trading practices. They were accused of conspiring with the owner to cheat customers by telling customers that mobile phones would be sold to them at prices that they knew to be false.

The owner admitted to cheating 26 victims out of $16,599 over a period of 10 months. He was sent to jail for 33 months and ordered to pay back the losses suffered by his victims. The employees were sent to jail for between 4 and 14 months.

Behaviour, attitudes and ethical selling

Ethics refers to the moral rights and wrongs of any decision a business makes. Ethical issues arise as a result of conflict or lack of agreement on certain issues. Although unethical and controversial practices may be used to increase demand and sales, they can lead to a loss of customer confidence, and a decrease in brand image and reputation.

Businesses marketing and selling their products globally will face a number of challenges such as understanding the differences between different countries and different cultures. Consumers in different parts of the world have different tastes and requirements for products. Preferences, for example, for sports, music, food, fashion and hobbies differ between cultures. It is important that the business keeps in mind the needs of all customers and **respects their cultural differences** and **avoids discriminatory behaviour**.

Businesses will expect employees to conduct themselves in a professional manner when interacting with other employees or with customers. All employees must consider their own behaviour and the impact that this can have on others, and never behave in a way that is unacceptable or offensive to others. A salesperson is expected to have **positive attributes** and characteristics such as **product knowledge** and to be **honest**, **responsible**, **focused**, **courteous**, **empathetic**, **persuasive** and reflective. This is important as it can have a positive effect on the way the business is viewed and help to build a good reputation for the business that will encourage customers to buy from it. On the other hand, as many people see the salesperson as acting on behalf of the business, any actions a salesperson takes that are seen to be less than professional or ethical will reflect on the business in a negative way.

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Many businesses develop codes of conduct for ethical selling and train their sales staff to follow them closely. Codes of conduct are designed to highlight desirable and undesirable selling behaviours, promote high standards and to help salespeople make ethical decisions as they may be faced with selling dilemmas and choose to behave unethically in a bid to gain or increase sales. This might be **deceiving** the customer by providing **untruthful** or **misleading information**.

Benefits of a legal and ethical approach to a business

A business can **benefit** from taking a legal and ethical approach. It can build a reputation for treating customers fairly, which may lead to **customer loyalty** and encourage **repeat sales**. This will boost the **revenue** and **profit margins** of the business. Having a legal and ethical approach can **minimise customer complaints**, **reduce the risk of legal action** and so the business can gain a **competitive advantage**.

Examination Tip

You need to be able to understand the legal and ethical requirements involved when selling a product and the implication for the business and the salesperson of not keeping to these requirements. You will also need to understand how the attitude and behaviour of the salesperson can positively or negatively influence the reputation of a business as you may be required to show your understanding of this topic within a specific context.

1.6 The organisational structure of the sales team

The sales department is important as it generates revenue for the business. It will contain skilled salespeople who can effectively get the products of a business to market. A sales department has a direct link between the business and its customers, and a well-structured sales department can build and maintain strong relationships with new and existing customers to maximise sales revenue.

A sales department is often split into multiple roles that make up the sales team. A sales team must work together to increase brand awareness and drive sales forward, and an effective sales team (or sales force) is made up of carefully selected individuals who understand their role and responsibilities, who can engage with customers and build/keep their trust. The responsibilities and activities of each role differs but most roles will have some input to the sales plan (this is covered in more detail in Chapter 4).

Sales jobs can be found in all industries, including retail, finance, transport and manufacturing, estate agents, travel agents, medical care and equipment, and IT software. The roles within a sales team will therefore vary depending on the business. The table below shows some typical roles with their responsibilities and the activities they carry out.

Examination Tip

You need to be able to understand the typical roles and responsibilities in a sales team and the activities that are carried out by each.

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Sales roles, responsibilities and activities

Roles in a sales team	Typical responsibilities and activities
Sales director	• Team leading a group of sales managers. • Setting the sales strategy. • Compiling the sales plan. • Responsible for day-to-day activities of the sales force. • Interfacing with other departments and with management.
Sales manager	• Managing the sales force. • Recruiting new staff. • Setting operational objectives, such as increasing volume of sales, growth, contributing to profits. • Measuring performance of the sales force (this is covered in Chapter 4, section 4.4). • Setting sales force targets for individual salespeople (this is covered in Chapter 4, section 4.2). • Coaching the sales force. • Contributing to the sales plans and its tactics.
Salespeople • Office based (or inside) salesperson – works within the business talking with prospective customers on the telephone or face-to-face. • Field-based (or outside) salesperson – travels to customer locations to sell products, often demonstrating these products to prospective customers.	• Providing information. • Interacting with the customer. • Facilitating sales. • Generating income and revenue. • Contributing to the sales plan.
Sales support • Office and field based.	• Order taking. • Account support. • Administration. • Providing management information to the sales team.
Account manager • Office and field based (account management is covered in Chapter 5).	• Manages and supports general client accounts. • Contributes to the sales plan.
Key account manager • Office and field based (key accounts are covered in Chapter 5).	• Manages and supports the development of specific, profitable client accounts. • Contributes to the sales plan.

1.7 Payment of salespeople

In return for their work, a salesperson will expect to be paid. For some salespeople the pay offered may be the most important part of their job and so pay systems with different features can be used to motivate salespeople to sell more. Motivation is likely to be higher for salespeople if they know that they will receive financial rewards if the business does well. They are therefore more likely to work hard as they have a special interest in the success of the business.

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Wages, overtime and salaries

Salespeople may be paid in a number of ways. **Wages** are usually associated with hourly/weekly rates of pay. Retail salespeople would commonly be paid wages. **Overtime** may be paid for any hours the salesperson works in excess of their working week. It is usually paid at a higher hourly rate. **Salaries** are usually associated with fixed annual rates of pay and are paid monthly. Salaries are decided in advance and it does not matter how much a salesperson sells, their earnings are set.

Commission

Commission is a payment made based on the value of sales achieved by the salesperson. It can form all or part of a pay package. Candidates without any prior experience in sales wanting to start a sales career often accept a commission-only based position to learn the necessary skillsets to help them lead a successful sales career. The rate of commission offered by a business depends on the selling price and the amount of effort required in making the sale. This may be for example $1,000 for each new customer or 10% of all cross-sales/up-sales made. There are disadvantages of offering commission to salespeople based on sales as it can result in a salesperson using aggressive sales tactics, especially if their earnings are completely determined by commission, as if they sell nothing in a month their earnings are zero. Although commission-based sales may motivate the salesperson to push sales, as the potential earnings can be good and this may increase sales revenue for the business in the short term, over time it may lead to a negative image of the business as customers feel they are being pressurised into purchasing the businesses' products rather than choosing to buy themselves. This may drive away potential sales.

A common pay structure for salespeople is salary plus commission. This is where salespeople receive a fixed annual salary and a commission is added to this base payment. This gives the salesperson the security of a steady income plus they are motivated to sell as this will bring in extra earnings. It is also good for the business as motivated salespeople are likely to increase sales revenue.

Bonuses

A bonus is a sum of money that is added to a salesperson's wage or salary as a reward for good performance as a one-off payment. Salespeople can receive bonuses if they exceed their sales target. Although a business may put bonuses in place in order to encourage salespeople to be more productive, motivated and hardworking, there is a risk that salespeople might instead take shortcuts to achieve their bonuses. It is also important that the goals/targets given to the salesperson to reach in order to achieve a bonus are realistic or this may demotivate the salesperson rather than motivate.

Similar to the salary plus commission structure, is the salary plus bonus pay structure. Salespeople are awarded a base wage/salary plus a bonus if they hit an agreed sales target. For example, a salesperson may be awarded a base salary of $40,000 and a bonus of $10,000 for selling X amount of products each year. This motivates employees to meet a target but the disadvantage of this structure is that it does not motivate them to exceed the sales target, which could lose sales for the business.

Profit sharing

Salespeople may also receive a share of the profits each year in the form of additional payments. They may also be offered share options within the business giving them the right to buy a certain number of shares at a fixed price at some time in the future or share-award schemes that offer actual shares rather than options, either free or for less than their market value. Profit sharing payments are made if the business has been profitable in a specified time period. It usually occurs annually after the final results for the business have been calculated, however some businesses may pay quarterly. Profit sharing can be good for the business as

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it motivates salespeople by reinforcing the message that everyone is on the same team and all employees are working towards the same goal of maximising profits but, if the business is unlikely to make a profit or only make small profits, the salesperson may not feel profit sharing is worthwhile and so may not be motivated to sell by this option.

Examination Tip

You need to be able to show your knowledge of the different ways in which salespeople are paid and the advantages and disadvantages of each for both the salesperson and the business.

Chapter 1 Summary

What you have learned:

- The 4Ps of the marketing mix (product, price, promotion and place) and the link between the 4Ps, the product life cycle and sales.
- The different types of sales techniques/opportunities and how they are used in different situations to maximise sales revenue.
- The different stages of the customer buying process and AIDA model of engagement, and their importance when selling.
- Sales activities and their importance to a business.
- Legal and ethical selling and its implications.
- The typical roles and responsibilities of the members of a sales team and the activities that are carried out by each.
- How salespeople are paid and the impacts of this on the salespeople and the business.

Activities

1.1 Imagine you are selling a pen or another item of your choice to a prospective customer.

What **three** questions could you ask the buyer before trying to sell them the item?

1 .....

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2 .....

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3 .....

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1.2 How could you respond to each of these questions to make your pen the solution they need?

1 .....

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2 .....

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3 .....

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Practice questions

1.1 The seller is suggesting a solution to a buyer for their needs and wants. What is this process called?

(1)

- ☐ **A** Negotiating
- ☐ **B** Selling
- ☐ **C** Ordering
- ☐ **D** Forecasting

.....

1.2 What does the 'I' stand for in AIDA?

(1)

1.3 Identify **two** roles in a sales team, other than a salesperson.

(2)

1 .....

2 .....

Sample

1.4 Explain **one** benefit to a salesperson of being paid a salary plus commission.

(2)

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Sample

Sample

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