

# Designing a new sales compensation plan



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## **Introduction:**

The case study is about the local drug manufacturers of Thailand named Thai Drugs and its subsidiary Biomed which act as the sales organisation for Thai Drugs. The main aim of this report to analyses and criticized existing sales force organisation and compensation plan, explaining the advantages and disadvantages of the existing salesperson management framework and developing a salesperson organisation, management and compensation strategy to increase Biomed market share.

## **About Thai Drugs and Biomed:**

Thai Drugs Co., Ltd. (Thai Drugs), a family-owned business which provided more than 100 items of drugs, which is one of the 170 small-to-mediums sized local Thai pharmaceutical manufacturers. In Thailand, five major local drug manufacturers share 53% of the total market and other small-to-medium sized drug manufacturers share rest 47% of the total market. Its main strength was in the over-the-counter market, selling to drug stores. It expanded into the generic pharmaceutical market in 1990.

Biomed Co., Ltd. (Biomed) was a subsidiary of Thai Drugs, which was basically a sales organization which acts as Thai Drug's sole agent to sell generic pharmaceuticals to the market. In spite of the total market size of 14 Billion THB for the locally manufactured generics, Biomed accounts for THB 10 Million that is 0. 7% of total Thai drug market. Biomed's financial position is decreasing gradually which had been concern to Thai Drugs' management; hence they decided to revise market and sales strategies to make it profitable.

### **About Sales Force and Organization in Biomed:**

Biomed consist of limited sales force. Biomed sales force lead by General Manager, Ponlerd Chiemchanya, who earned his MBA from Ivey Business School and rejoined Biomed as the new general manager. He was teamed with one sales manager, eleven sales representatives and several sales administration clerks. The role of salesperson was quite complex because the sales representatives were the single contact and means of communication with the customer. The overall compensation package was on par with the rest of the industry. The commission and bonus payments were based on salesperson's sales volume. Biomed sales were so minimal that they accounted for only .07% share of local generic market in 2002

### **Existing Market Situation in Biomed:**

Due to the small market share and small margins in the generics market, Biomed sales profitability was uncertain which had been concerns of Thai Drug's management for a few years. Moreover, the changes in GMP (Good Manufacture Practice) requirements were expected to be effective in 2008, which means Biomed had to cover 4 million THB annually in fixed overhead to meet the investment standard for upgrading manufacturing most of its products. Management decided to give Biomed another couple of years to test the capability of Biomed and make efforts to increase Biomed's sales and profitability. The new market strategy was launched in 2006.

### **Analysis of Existing Sales Role:**

Biomed seems disappearing in current scenario because sales person role is overloaded. The sales representative was the only person who contacted the

customer, which make it hard for the salesperson to understand his primary role and goal.

### **Sales According to Quote and Finding new Accounts:**

The basic job of sales person is to generate sales through visiting customers and achieving targets for what they are being paid. They need to find new accounts by managing their time. Moreover, there was no primary market segmentation, and no target and no stress on one specific market. Sales representatives were the only person who called on any customer where they thought they could increase sales volume.

### **Build and maintain Relationship Between Customer and Biomed:**

The sales representative was the only person who contacted the customer, which make it hard for the salesperson to understand his primary role and goal. Besides, there were no other means of advertising. Biomed failed to build brand awareness among customers. Moreover, customers call must be scheduled, so that the sales representative may have visit the new customers when they have time.

### **Price Negotiation with Customers:**

On the existing sales strategy, there was no proper range of discounts and price, which creates problem for the sales representatives at the time of negotiation with customer. The Sales representative with their experience themselves set the final price with customers at the time of negotiation. Management should control the range of price so that sales representatives had choice to give huge discounts to customers to close the sales.

### **Decision of Credit:**

On the existing sales strategy, sale representative had right to decide whether he will give customer 30 days credit or 60 days credit which means that money from a respective customer used to stuck for month or two, which effects in the cash flow. Hence, it was a huge obstacle for financial decisions of the company.

On the other hand, on the existing sales compensation plan, sales representative used to get 3 % compensated bonus once they achieve their target. Hence most of the sale representative tries to achieve their target in any cost. So the sales representative may give 60 days' credit to every customer which results in longer recovery period. Also the longer are the recovery period lower are the chances of getting amount back. Hence, management should had taken the decision of credit according to the volume of the sale and the customer profile.

### **Customer Feedback:**

On the existing sales strategy, there were no written documents such as call sheet, feedback form so that the sales representative have proper database for the complete customer's feedback. Only the mean of communication was ' word of mouth'. The sales representatives listen to customer problem and provide feedback to management. Hence, it was upto the sales representative whether they provide feedback to management on time. Because of this Biomed can lose relation with customer.

### **Market Share Intelligence:**

On the existing sales strategy, Biomed's sales representatives were already loaded with other work and they are not focused on industry market and other competitors' sales strategy. Hence management should have properly schedule and compensated sales representative work so that they collect data form market about industry and competitors to help organization marketing and sales strategy in the future.

Moreover, other than the basis existing sales role there were other problems in the existing sales strategy which management should have look into:

### **Territory Management**

On the existing sales strategy, one of the major reasons for low sales outcome was territory management. Sales representatives were not allocated any territory to work within. If all the 11 sales representatives were visiting their customers in three different market segments i. e. hospitals, drug stores and clinics, they may had overlap customers.

### **Analysis of Existing Compensation plan:**

Biomed's existing compensation plan had three main compensation slabs which are salary, commission and bonus. Also expenses and other benefits were provided.

### **Salary:**

On the existing sales compensation plan, sales representative were being paid THB 5, 000 per month which comes upto THB 60, 000 per anum. That was average sales person salary in Thailand in 2007 when this case study was produced. At that time this much salary was considered good.

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**Commission:**

Sales representatives receive 1.5% of their sales volume commission with a progressive ramp and they used to receive 3% commission once they hit their target. As mentioned on the existing sales compensation plan, the annual target for a sales representative was THB 2 million on averages. In this case, the management had relied on 'straight commission' where commissions are paid a percentage of sales or gross profits that the sales representatives generate (Cron and Decarlo, 2010). This plan motivated the sales representatives to achieve their targets since relying only on salary decreases the confidence of sales representatives regardless of achieving targets.

**Bonus:**

Bonus was paid at the end of every quarter. Sales representative were paid bonus when they achieve their quarterly quota. In this case, mostly all the sales representatives got their bonus whenever they achieve quota in year.

**Expenses:**

Basic allowance to each sales representative was very low that is THB 380 per day. It includes all cost of fuel, hotel, entertainment and mobile phone. And most importantly as mentioned on the existing sales compensation plan "No additional expenses are reimbursed". For an instance, if any customer was far from the city it mean sales representatives would have to pay all additional costs from their own pocket. It clearly indicates that sales representatives had been reluctant to visit those customers which results in effect in the targets of sales representative and subsequently it would have

effect the total market share. That would also effect the commission and the bonuses of the sales representative.

### **Others Benefits:**

Other benefits are reasonable because company is providing medical insurance and contributing 7% in their provident fund as Thai Drugs employee.

### **Analysis of New Market Strategy:**

New market strategy was mostly focused on target market; product and price. Management had kept the overall proposition same as the existing marketing strategy, i. e., “ high quality products backed by excellent service”.

### **Product Market Focus and Sales Strategy:**

The new strategy of Biomed was to focus on only 10 to 15 products whereas earlier they used to sell more than 100 items. Due to the existing marketing strategy, Biomed lost few orders because of the price and longer production time, hence the new market strategy focused on cost from low medium to medium pricing. Also, due to no competitive edge in the bidding process driven by hospitals buying groups, Biomed was unlikely to win in Hospital segment; hence management has decided to offer their products only in drugstores and clinics. The motive behind the entire process was few products would help the company to get economies of scale i. e. profit because large orders of fewer products would be in series and they will not lose orders on the basis of price.



Moreover, if Biomed is concerned of losing customers because of high price then they should consider different price strategy for different segments. However, avoiding large hospitals segment would never increase the market share. Also, they do not have any differentiated product but they have technology of producing sugar coating tablets and multivitamins. Hence, critically, all of the strategically focused areas are negating themselves and rising questions about their rationale.

## **Sales Role**

In new strategy, sales representatives are assigned almost same roles as they had before. Management should have provided all the sales representatives the overall cost and discounted price range in which they could negotiate with the customers. Also, proper information should be provided to the sales representatives, for example information about loaded and variable cost of goods along with transportation and ordering would be unsafe for the company as, Sales representatives switch their job from one company to another quite often. Moreover, management should have concentrate more on training and development sessions where new sales and marketing strategy and product knowledge should be discussed which results in motivation for the sales representatives..

## **Recommended Market Strategy:**

As Biomed's deals with drug business which is of delicate nature hence low quality risk can never be taken because it is related to living beings. Hence the overall value proposition “ highly quality backed by excellent service” is very appropriate.

## **Marketing Strategy (Product)**

More variety of products should be added in the list. If any other products can help Biomed to make more profit, they should be considered. Also, addition of new product can also serve hospital segment. Hence, Product lines should be revised

## **Market Focus (Place)**

Biomed should have focused on all the three-market segments i. e. Hospitals, Drugstores and Doctor Clinics because this would improve the market share of Biomed. Focused territory management and focused target market should be the prime emphasis for the management. Also, effective sales force recruitment and proper documentation for all the sales calls should be properly maintained. Moreover, segmentation in different market will help Biomed to clarify the territory for respective sales representative. Every sales representative will work in its geographical distinct area and by focusing on all three segments, market size will increase.

## **Proper Selling Price (Price)**

Price strategy plays the most significant role. Firstly, the pricing strategy for the all the three segments should be different. Since high price medicine will not be appreciated to win the bidding process in hospital sector due to '30-baht universal health scheme' in Thailand, hence low price drugs can target hospitals. Secondly, Thai drugs have technology to produce sugar coat medicines and multivitamin, which can help Biomed to give a different shape and color to medicine which differentiate their product from the competition. This medium to high priced medicines can be sold at drugstores and clinics because people are willing to pay high price for differentiated products.

**Multiple Contact (Promotion):**

The sales representatives were the only person who contacted the customer, which make it hard for the salesperson to understand his primary role and goal. Hence, there should be other means of advertising to build brand awareness among customers.

**Recommended Market Strategy****Recommended Sales Force Management:**

In the case of Biomed, ' generalist structure' of sales force is the best choice, in which a sales representative sells the firm's entire product line to all accounts and prospects, usually within a specific geographic area. Hence, proper research should be done within the all segments around the Thailand before allocating territory among the sales representatives

Also, proper documentation should be maintained for all the customers separately . For example, database should contain customer details, specific needs and feedbacks.

**Suggested Sales Representative Role:**

Finding new customers and prospects.

Focus selling on the respective territory in all the three segments.

Focus selected range of products and weekly feedback to the management about the customers' preferences.

Build and maintain relationship with customers.

Online link should be provided so that customers can register their requirements, complaints and feedback.

Management should provide the price list to the sales representatives so that they have powers to negotiate with the customer.

Sales representative should send the weekly market intelligence report which helps the management to gain knowledge about the market.

### **Recommended Compensation Plan for Sales Representative Role:**

The recommended compensation plan consists of salary plus commission plus bonus where the payment plan combine the stability of a salary, the incentives of a commission and the special rewards of a bonus (Cron and Decarlo, 2010). The main reason behind recommending this plan is it allows the sales manager to reward virtually every activity performed by salespeople. Hence, targets would be given to each of sales person.

First Slab: Salary on selling products

Second Slab: Commission will be given of they exceed given targets

Third slab: Quarterly target achievement quotas.

Moreover, Bonus will only be awarded to those sales representatives who could achieve their target which includes total recovery of balance in certain quarter; results in undisputed cash flow and help Biomed to increase flow of products as well as cash.

## **Suggested Compensation Plan**

Other Expenses and Benefits:

Each sales representative should receive a basic allowance of THB 380 per day and additional expenses should be reimbursed with proper submission of bills. And other benefits should be same as the existing plan.

## **Case Study 2: Hamrlick Brewing**

### **Introduction:**

The case study is about a beer brewing company in USA named Hamrlick Brewing Company®. The main aim of this report is to analyse the product market and distribution strategy of Hamrlick Brewing, also to assess the new distributors considered by the management to expand their distribution channels and explaining the relative advantages and disadvantages in aligning with the proposed distributors

### **About Hamrlick Brewing**

Hamrlick brewing company was founded by Mark Hamrlick who was former Chicago police officer the year 2006. The main motive of the company was to brew “ finest beer in the world”. After reviewing more than 90 different varieties of beers from large and small breweries from different countries, Hamrlick and his management evaluated various formulations of German and Czechoslovakian types of pilsner and bock beers. After the several informal taste-tasting session of beer with the brand Saxonbräu® Premium Lager was first introduced in the market in the year 2009. Brewing plant was located in Elmhurst, Illinois since it was near to Chicago for the ease of distribution in Chicago area. With time and public offering, Hamrlick brewing

company has upgraded their brewing equipment and extended their business to full volume.

### **Current Market Analysis of Beer Industry in USA:**

Beer is the largest alcohol segment in United States. In a year, compared to all the alcohol sold in the country, beer accounts up to 85% of total alcohol sold and produces a huge amount of money. In United States, Anheuser-Busch, South African Breweries' Miller and Molson Coors are the well-known brewing companies and produce more than 79% of beer sales in the country. The brewers' keys to success are the expanding market share, increasing alcohol price and improving efficiency of the production (Goldammer, 2008). With the increase in numbers of big players in the beer industry, the small and the traditional brewers in the United States market are declining at a high rate. In most cases they are closed or else sold to a larger brewing company.

The general trends, product development and segmentation of beer industry in United States have been discussed according to the case study.

### **Trends in the Beer Industry in USA:**

The alcoholic beverages market in USA has been stymied over the past several years mostly due to the stricter enforcement and stiffer penalties for merchants and consumers in violation of applicable rules. Also it was affected due to increased taxes and also legalization of "happy hours"

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The above graph indicates the total amount of alcohol consumption in USA from the year 2005 to 2010. In 2005 beer sales in the United States was 23.

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8 billion liters and it rises so slightly to 23.9 billion liters in 2010 which indicates an increase of 0.06% per year. In USA beer sale is comparatively better than wine and other spirit categories. The USA brewing industry had been consolidating rapidly

### **Product Development:**

Despite of overall downward trend, some brand and companies still had a profit due to product and marketing effort. The introduction of light beer was originally for female consumers, but it has an impact on the total market since the number of beer drinker had increased at a time of slow growth in the overall population.

### **Product Segmentation:**

The USA beer market could be segmented either on the basis of product origin or perceived price/quality. Product origin was related to either manufactured in home or imported while quality/price was related to super premium, premium, popular and import & specialty beers.

### **Characteristics of Hamrlick Beer Company:**

#### **Market Analysis of Hamrlick Beer Company**

At the beginning, market was very restricted since there beer was not pasteurized and company had not enough capitals to effort refrigerated truck. In the beginning, the market radius was only upto 35 miles to serve the fresh beer; with time the company added refrigerated truck and a van to increase the delivery area. Saxonbräu® beer was segmented as a super-premium beer and no preservatives and additives are added during manufacturing which means there were only four ingredients in the bottle:

barley, water, hops and yeast. Moreover, Hamrlick can proudly declare that beer was brewed in strict accordance with 'Reinheitsgebot' i. e. the beer follows the German purity law of 1516 that shows that the quality was the most important criteria for the Saxonbräu® beer. Also, Saxonbräu® enjoyed both product origin or perceived price/quality sides of segmentation in United States as it possessed European formula.

### **Product Development for Hamrlick Beer Company**

As the beer industry in United States fluctuated heavily as in 2010 market share was dropped down from major manufactures. To compensate the effect Hamrlick Beer Company worked on the product development. Also in the year 2012, they were planning to introduce 'Bock Beer', which is a dark beer made from chocolate malt which is basically adopted from Europe.

### **Segmentation for Hamrlick Beer Company**

Saxonbräu® beer was segmented as a super-premium beer; hence it was more quality sensitive than price sensitive. Based on market research toward consumption of beer in United states, the overall beer sales was 23, 887 million in liters in the year 2010, out of which 1900 million in liters was domestic premium beer and 2, 899 million in liters was imported. This indicates as positive response for Hamrlick Beer Company since Saxonbräu® beer possessed European formula. Also, in United States beer sales were decreased an estimated 1. 3% by volume in the year 2011 and by 1. 2% in year 2010 whereas imported beer sales were increased by 1% in the year 2011 and by 5% in the year 2010 (Brewer Association Official Website, 2012).



## **SWOT Analysis of Hamrlick Beer Company**

Strength

### **Quality**

Higher concentration on hops compares to most American beer

Contained no additives

Premium Quality

### **Product Development**

Introduction of bock beer made of “ all chocolate malt”.

Use of “ smart cap” with double seal to prevent oxidation.

Weakness

### **Price**

Premium Price compare to most American beer

### **Distribution Channel**

Limited distribution channel

### **Segmentation and Target Market**

Limited target market

Opportunities

### **Expand Market**

Opportunities to expand its product line to international market.

## **New Product Development**

Beers for health and fitness conscious beer drinker

Low alcohol beer such as draft beers, microbrew, dry beers.

Threats

## **Other Competitors**

SAB Miller and Anheuser Busch InBev

## **Other Government Roles**

Stricter administration and stiffer penalties for dealers and consumers in violation of applicable laws.

Higher prices due to increased taxes

Legislation at the state levels that imposed stiffer penalties for drunk driving

The legalization of “ happy hour”

## **Current Distribution strategy in United States:**

“ The distribution channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption” (Coughlan et al., 2006).

The beer industry in United States is organized into a so-called “ three-tier” distribution system: Brewers and Importers, Wholesalers and Retailers.

Under this system, brewers and importers sell their products to wholesalers who in turn sell to the retailers. As explained above, when states took over regulation of these three tiers after Prohibition, they chose to either license

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or directly control sales and distribution. These laws (known as “ tied house” laws), adopted at the state and federal levels, regulate how alcoholic beverages are marketed and how the various tiers of the industry interact.

Capture

## **Brewers and Importers**

This tier includes firms that brew beer and other malt beverages, and firms that import malt beverages for consumption in the United States. The brewing tier also includes company-owned packaging and wholesaling operations. Brewers include major multistate multi-operational brewing companies, regional brewers, microbrewers, and brewpubs.

## **Wholesalers**

Beer wholesalers serve as the middle tier in the three-tier system. They purchase beer from suppliers and importers and, in turn, sell beer to retailers. In general, a brewer sets the wholesale price at the brewery (freight on board, f. o. b.) but may vary price by region of the country in response to different demand and levels of competition.

Wholesale Consolidation: Since 1995, the number of distributors has dropped from 5, 500 to about 2, 000 as smaller multi-brand wholesalers have been bought out. Rising costs as well as the need for scale and for broad, well-balanced portfolios has driven consolidation among U. S. beer wholesalers.

## **Retailers**

Finally, the third tier of the industry directly sells products to the consumer either by on-premise or off-premise sales. On-premise retailers were those

retailers that sold beverages to be consumed at that location. These include restaurants, hotels, bars, etc. Off-premise retailers were those that sold beverage for consumption in locations other than those in which they are sold.

Retail Consolidation: Over the last decade or so, the off-premise retail segment for beer has changed dramatically. While traditional liquor stores and mom-and-pop operations continue to account for a significant share of off-premise beer sales but in ever decreasing numbers, national retail chains-supermarkets, drug stores, membership clubs, or convenience stores-are increasingly accounting for an increasing share of total market volume.

### **Analysis of Distribution strategy for Hamrlick Brewing:**

By the end of 2010, when Hamrlick brewer started operating its full capacity, the production increases upto 12, 500 gallons of Saxonbräu® a week. The management decided to expand its distribution area of 35 mile radius in Illinois since Chicago was considered to be a relatively price-sensitive market which shows it was one of the toughest markets for the premium beers.

### **Analysis of Different Distributor**

The work of the channel distributors includes the performance of several marketing flow. The productivity derives from the value end-users place on the service outputs resulting channel efforts. Flow in this case is defined as “ functions or activities being done at different points in time by different channel members” (Coughlan et al., 2006).

According to the case study, Hamrick consider three potential distributors in United States along with the own distribution channel. Below, the channel flow for the three distributors is analyzed below:

## **Kalagwine Channel Flow**

### **Physical Possession**

More than 80 sales representatives in the marketplace.

Refrigeration and wasan will be provided

Big control on market and other 19 states of United States.

### **Promotion**

Intend to supply point of purchase materials, glassware, t-shirt, and other promotional items to promote the product.

### **Negotiation**

Enlarge distributor of Saxonbräu® pilsner and bock into other considered markets where Kalagwine tends to be superior.

### **Financing**

Approved to endure all substantial costs and spending of promoting, selling, and distributing Saxonbräu® pilsner and bock.

Believe that target of US\$ 22. 50 locally and US\$18. 50 outside Chicago area will be achieved.

Intended to sell Saxonbräu® at the front line prices of US\$ 39. 00 per case and US\$ 140. 00 per keg.

## **Risk Taking**

There were 'No assurance' for the company and or its subsidiary for successful distributing of Saxonbräu® pilsner

In experience in sales and distribution of beer.

No guarantee of achieving margin and inventory turnover.

## **Bitswells Investment in Flow**

### **Physical Possession**

Bitswell employed 40 sales representatives in Chicago.

Refrigeration and will be provided

Well distributed at both on and off premise retailers.

### **Promotion**

Develop supply point of purchase materials and other promotional items

Concentrate on establishing Saxonbräu® pilsner and bock as super premium beers in Chicago Market.

### **Negotiation**

To develop and maintain consumer awareness of Saxonbräu®

Accept to handle any new products that Hamrlick Brewing should grow in the future.

### **Financing**

Agreed to bear 75% of all significant costs and expenses involved in the promotion, selling and distributing

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Convinced to market Saxonbräu® beer at US\$37. 50 per case and US\$145 per keg

Convinced to set front line price for Saxonbräu® beer at US\$25. 75 per case and US\$98. 50 per keg.

## **Risk Taking**

Only concentrated about Chicago Market.

## **Hansfire's Investment in Flow**

### **Physical Possession**

Employed approximately 25 sales representatives in Chicago.

Limited vehicles available.

### **Promotion**

Agreed to publicize Saxonbräu® pilsner and bock.

Agreed to develop and maintain customer awareness.

### **Financing**

Agreed to bear 50% of all the significant costs and expense involved in the promotion, sales and distribution.

Planned to set the price US\$80. 00 per keg, US\$21. 50 locally per case and US\$20. 00 outside Chicago area.

Planned to set the front line price of US\$29. 75 per case and US\$ 108 per

### **Risking**

Mostly concentrated in Illinois market rather than other part of the country.

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Other than Chicago area, no sale representative is mentioned.

## **Advantages and Disadvantages of Distributors**

### **Kalagwine:**

Advantage: Kalagwine offers the best financial offers for The Hamrick Brewing Company; they agreed to support 100% of all the significant cost, as well as to provide all of refrigerated vehicles needed. The sales team of Kalagwine is much stronger than the competitors and it is distributed in larger target market, it rules the whole United States, not only Chicago. Kalagwine had extensive experience in the importing and distributing of wines. Also management efficiency, Kalagwine employed 80 sales representatives in marketplace which explain that it has wide market coverage.

Disadvantage: Regardless of so many good things offered by Kalagwine Distributor had a high reputation of selling wine; however Kalagwine had no experience for distributing beers.