

**Sales and Distribution Management**  
**Prof. Sangeeta Sahney**  
**Vinod Gupta School of Management**  
**Indian Institute of Technology, Kanpur**

**Lecture – 29**

**Sales Force Management: Managing Expense of Sales Personnel**

[FL]. Today we will be deliberating and discussing upon another very important topic in Sales Force Management, which is Managing Expenses for Sales Personnel. In the previous lecture on comp on compensation, we had seen how important you know compensation plans can be for an organization in attracting talent, in retaining talent. And also you know encouraging sales personnel to perform better on their job positions and on their job roles.

We had also seen that a compensation plan comprises a fixed component, a variable component, fringe benefits and bonuses. And a very important portion of what sales personnel carry home every month is you know comprises the reimbursements which they receive with respect to the selling expenses that they incurred in the field. Now a managing expenses for sales personnel here in terms of the selling expenses which they incur while they are on their job in the in the field is very, very important. Because that keeps them moving, that keeps them on you know putting in as much effort as they might as they as they would be able to without worrying about you know the expenses that they are incurring on their travel, on their boarding, on their lodging, on their telephones, on the internet etcetera.

So, you know there are companies which arrange for such reimbursements. And that is something which sales personnel really appreciate and at that itself act as a motivating factor to keep them on their you know toes all the time with respect to the kind of efforts that they can put in while they are on the job. On the other hand there are companies which have very tight budgetary controls on these and there are also certain companies which do not reimburse at all. So, we will see that when companies you know reimburse selling expenses for sales personnel the impact is very different.

Of course they have options in doing. So, they may reimburse in full, they may reimburse in part. And, you know the different plans or the different reimbursement policies that they have need to be you know taken care of before deciding on the final

you know decision with respect to which of the plans or which of the policies they would like to implement. Because, selling expenses themselves are a big have a have a big role you know in if to determine the profitability or the net profitability of company.

As we have seen while sales persons play a very important role in earning huge sales volume for their sales personnel for their company, similarly they also have a big role to play in determining the net profits of the company by incurring as less as possible selling expenses on the field. So, what happens is that when they get huge sales for the company. You know what that the company is able to earn gross profits because sales minus cost of goods sold would be the gross profit of the company, but when sales personnel incur lesser expenses on their selling expense.

You know it contributes to net profit because, net profit is calculated by subtracting the selling expenses from the gross profit. So, the sales personnel are not only can help improve the profit net profitability of a company not only by increasing or generating huge sales, but also by doing so, in lesser amount of selling expenses which would help companies gain you know good net profits. So, we will see that when companies allow for you know say selling expenses reimbursement. They also must keep a tab or a control on the amount of selling expenses that they would be reimbursing else it would dilute the net profits for a company.

(Refer Slide Time: 04:38)

**CONCEPTS COVERED**

**Concepts Covered:**

- ❑ **Managing Expenses of Sales Personnel**
  - Background and Importance
  - Reimbursement Policy and Alternatives for Reimbursement of Sales Expenses
  - Methods for Reimbursing Expenses

Logos at the bottom: Swamyam (Free Online Education), and other institutional logos.

So, in this particular session we shall be talking about how should companies go about managing the expenses of their sales personnel. We shall be talking about you know the background and importance of managing expenses for sales personnel, the reimbursement policy and the alternatives for reimbursement of sales personnel. And then we shall also talk about the various methods for reimbursing expenses.

(Refer Slide Time: 04:54)

**Background and Introduction**

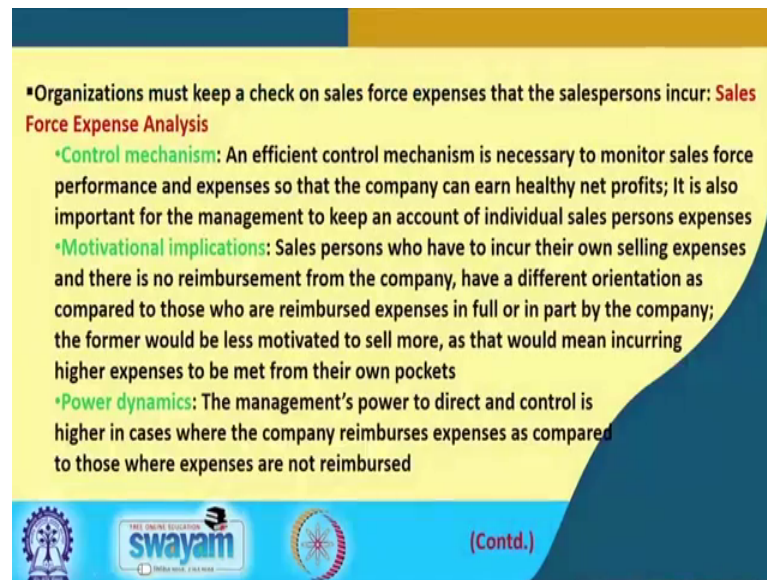
- Reimbursement of sales expenses is a vital component in the sales compensation plan
- The plan must be fair for both to the sales personnel and the company; the sales persons must be able to meet their expenses, and the company must be able to earn profitable sales
- Sales force expenses include expenses incurred on boarding, lodging, travel, mobile and Internet charges as well as money spent on gifts and entertainment of customers

(Contd.)

So, let us first start with and you know an introduction and a background to why is reimbursement important. Now reimbursement of sales expenses is a vital component it in the sales compensation plan which I just mentioned. And the plan or the composition plan that a company sets for the sales personnel must be very, very fair. The sales personnel must be able to meet their expenses and the company must be able to earn profitable sales


So, on one hand while these expenses must be met by organizations care should also be taken that these expenses are not so high or not so much that the profits of the company get diluted. So, before we go into detailed and you know discussion on you know sales force expenses, let us first see what we mean by sales force expenses. Now, sales force expenses here include expenses which I incurred on boarding lodging travel mobile and intense charges. As well as the money which sales persons need to spend on gifts and on entertainment of the customer. So, put together all this comprises what we refer to as the selling expense.

(Refer Slide Time: 06:04)



▪ Organizations must keep a check on sales force expenses that the salespersons incur: **Sales Force Expense Analysis**

- **Control mechanism:** An efficient control mechanism is necessary to monitor sales force performance and expenses so that the company can earn healthy net profits; It is also important for the management to keep an account of individual sales persons expenses
- **Motivational implications:** Sales persons who have to incur their own selling expenses and there is no reimbursement from the company, have a different orientation as compared to those who are reimbursed expenses in full or in part by the company; the former would be less motivated to sell more, as that would mean incurring higher expenses to be met from their own pockets
- **Power dynamics:** The management's power to direct and control is higher in cases where the company reimburses expenses as compared to those where expenses are not reimbursed

 (Contd.)

Now, organizations must keep a check on the sales force expenses and on the kind of expenses that sales persons on different jobs in different territories incur. So, we refer to this as the sales force expense analysis. And the sales force expense analysis becomes important for 3 reasons. One it acts as a control mechanism, 2 this has motivational implications, and 3 it also has a bearing upon the power dynamics in you know among sales force and amongst the management and the company. So, what do we mean by the control mechanism here.

Now an efficient control mechanism is required to monitor and to assess sales force performance and expenses. So, that company can unhealthy net profits it is also important for management to keep an account of individual sales force expenses because that would determine the individuals contribution towards the profitability of an organization. An individual sales person may be generating huge sales volumes for the company, he must be do he may doing very well in his territory, but if he is doing. So, at the sake of huge selling expenses that he that it may mean that he may not be generating any profits at all or he may be generating profits which are very less.

So, it is very, very important to keep a check on individual sales force or you know individual sales persons expenses. The second thing which is important here is motivational implications. Now sales persons were who have to incur their own selling expenses and there is no reimbursement. From the company have a very different

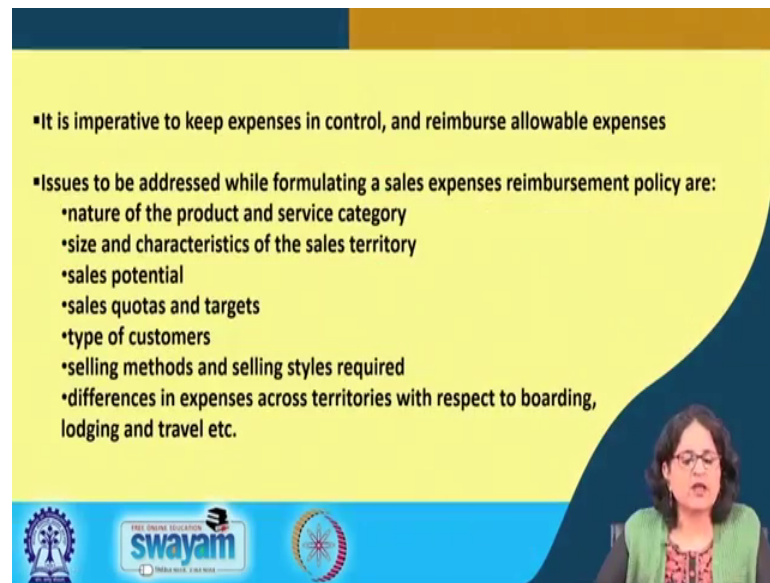
orientation as compared to those who are reimbursed expenses in full by the company or in part by the company. So, the persons who do not get a reimbursement would be less motivated to sell more as that would mean incurring higher expenses to be met by their own pocket which is something which they may not want. So, there is a motivational implication here.

And we see that sales persons who are reimbursed their expenses in full or in part tend to be motivated enough to you know to contribute towards selling and non selling activities as compared to those who feel that if they put in more effort to sell more they would also have to incur high selling expenses. And they will have to meet those expenses from their own pockets which is something which they would not like to do.

Now, the third is with respect to power dynamics between the management and the sales team or the sales first. Now, the managements power to direct and control is much higher in cases where the company reimburses expenses as compared to those where companies do not reimburse. Now we know when companies would reimburse either in part or in full they would also issue directives they will also issue guidelines with respect to the kind of activities the sales persons must indulging their roles their responsibilities and the activities whether it is with respect to selling and non selling functions.

But were in cases where management does not reimburse it would have lesser control and would not be able to exercise you know or and implement directives and guidelines with respect to tasks which the sales persons must perform. Because say in cases where the expenses are reimbursed the company would always have a upper hands saying that yes we give you so much. So, you must do this, but in cases where companies do not allow for any reimbursements in those cases of course, they would not have be able to exercise that kind of a control. And there and there and there power over the sales force or the sales personnel would be lesser.

(Refer Slide Time: 09:57)



- It is imperative to keep expenses in control, and reimburse allowable expenses
- Issues to be addressed while formulating a sales expenses reimbursement policy are:
  - nature of the product and service category
  - size and characteristics of the sales territory
  - sales potential
  - sales quotas and targets
  - type of customers
  - selling methods and selling styles required
  - differences in expenses across territories with respect to boarding, lodging and travel etc.

Now, it is very, very important that expenses are kept in control and companies reimburse only allowable expenses. So, it is very important to keep expenses in control and reimburse allowable expenses. And issues that need to be addressed while formulating a sales expense policy are the nature of the nature of the product and service category the size and characteristics of the sales territory the sales potential the sales quotas and the targets. The type of customers that the sales person would be dealing with the selling methods the selling styles required and differences in expenses across territories with respect to bolding lodging travel etcetera.

Now, with I will just give a brief you know explanation about the nature and size then sorry the size and characteristics of the sales territory. Now or not all selling sales territories would be having the same potential same size selling potential. They would differ with respect to the sales expenses also because, there would be huge differences in terms of you know the cost of travel boarding lodging across these territories.

Also you know the kind of customers which a salesperson may be dealing with in the different territories may be different. In certain cases he would be dealing with you know the dealers and distributors especially in the case of b to c. In others he would be dealing with you know the buying center where multiple sales calls are required which is which would be more in the case of b to b.

In certain situations he would be dealing with already existing customers. So, he will be into service selling. In others he would be dealing with new customers or he would be you know responsible for generation of new customers where it would involved leads prospects you know calls and multiple sales calls before a prospect is converted into customer. So, what we are referring to his developmental selling.

So, based on all of these you know whether it is the product or service in question, whether it is the nature you know of the sales territory in terms of potential in terms of competition in terms of kind of customers. Or whether it is with respect to developmental selling in service selling or whether it is with respect to the kind of customers that the salesperson has to deal with b to b or b to c.

And the also with respect to the selling styles and the selling methods that he must adopt; the sales expense policy across territories would vary and this is an issue which needs to be addressed. So, it is very, very important that the reimbursement policy takes into account all of these factors before you know selling expense per territory per salesperson is determined.

(Refer Slide Time: 12:49)

**Reimbursement Policy and Alternatives for Reimbursement of Sales Expenses**

- While deciding on a reimbursement policy, companies may opt from few alternatives that are available
  - Sales persons pay for their own expenses
  - Companies reimburse the expenses incurred by sales persons:
    - Companies formulate a sales expenses reimbursement policy of their sales personnel
    - The policy should be perceived as fair and equitable to its sales personnel across territories
    - It should be simple to understand and economical to administer
- The amount of control that companies exercise over the sales expenses of its salespersons varies across companies; some companies are strict and exercise close budgetary controls, wherein control is exercised over the kind as well as the amount of expenses that can be incurred

(Contd.)

The slide also features logos for Swamyam and a video feed of a presenter in the bottom right corner.

Now coming to the reimbursement policy and alternatives for reimbursements of selling expenses now; while deciding on a reimbursement policy companies may opt from a fewer alternatives that are available. Sales one option is or one alternative is that the

salespersons pay for their own expenses which would mean that the company does not reimburse at all.

The second is when companies reimburse the expenses which are incurred by the sales persons. And here this would mean that companies formulate sales expense reimbursement policy for their sales staff. The policy has to be something which is perceived as fair and equitable to the sales personnel across territories. And it should be simple to understand and very economical to administer.

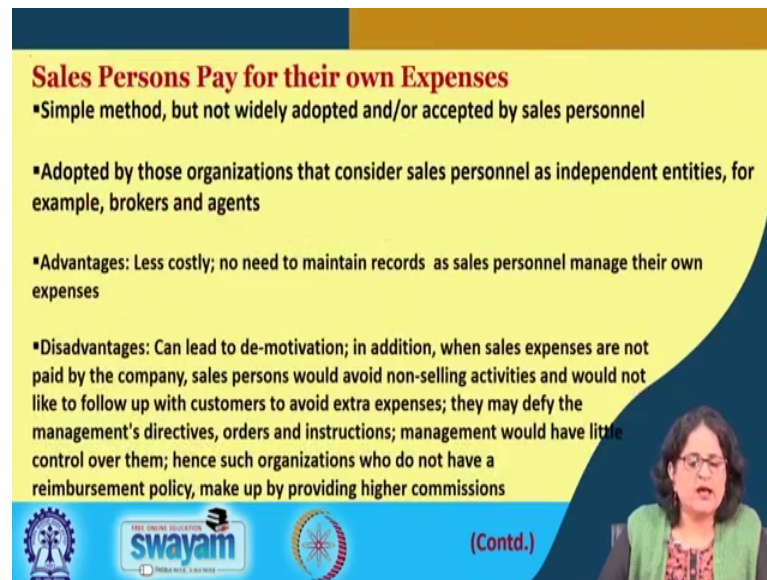
Of course, as I said you know differences to be taken into account while from you know deciding on the allowable expenses for the sales personnel before for the sales personnel across territories. So, the amount of control that companies exercised over sales expenses of it is sales persons will vary across companies. Some companies are very, very strict and exercise close budgetary controls where in you know control is exercised over the kind as well as the amount of expenses that can be incurred.

So, in some companies there are strict budgetary controls whereas, in others there is lot of flexibility. So, whatever be the policy whether it is to reimburse in part or in full it is very important the territorial differences are taken into account before deciding on matters of you know allowable selling expenses per territory per sales person, across territories across you know control units or states or countries etcetera.

And amount of control that these companies exercised over the sales expense of it is salesperson will vary again across companies. Some companies you know would want close budgetary controls. And so, the reimbursement policy there would be very rigid and very you know tight and it may not allow for any and every kind of expense. On the other hand, there are certain companies which allow for very relaxed approach and would be would reimburse anything and everything which the salespersons asked for.



(Refer Slide Time: 15:15)



**Sales Persons Pay for their own Expenses**

- Simple method, but not widely adopted and/or accepted by sales personnel
- Adopted by those organizations that consider sales personnel as independent entities, for example, brokers and agents
- Advantages: Less costly; no need to maintain records as sales personnel manage their own expenses
- Disadvantages: Can lead to de-motivation; in addition, when sales expenses are not paid by the company, sales persons would avoid non-selling activities and would not like to follow up with customers to avoid extra expenses; they may defy the management's directives, orders and instructions; management would have little control over them; hence such organizations who do not have a reimbursement policy, make up by providing higher commissions

(Contd.)

The slide features a yellow background with a blue and orange header. At the bottom, there are logos for 'swayam' and 'THE ONLINE EDUCATION' along with a small image of a woman in a green vest speaking.

Now, let us first take a such a scenario where the salespersons pay for their own expense. Now this particular option if you know adopted bike organizations you know is something which will which would be prove which would proved to be a very simple method but; however, this method is not widely adopted or accepted by sales personnel worldwide.

The reason being you know that the people would sooner or later begin to get demotivated and would not want to spend much time you know taking up roles and responsibilities which would which has to have the potential of increasing business. Because they would feel that taking on more responsibilities indulging in more selling and non selling activities would actually mean paying the expenses from one's own pocket.

However, this method is adopted by those organizations that consider sales personnel as independent entities. For example, in the case of brokers and agents where their commissions are paid to them and they are left on their own to manage their own selling expenses. Now the advantages of this system is that it is very less costly for the organization there is no need to maintain records as salespeople manage their own expenses and then there is no question of any reimbursement.

However, there are disadvantages of you know this method also as I said it can lead to demotivation in addition when sales expenses are not paid by the company. Sales persons

would avoid non selling activities and would not like to follow up with customers to void extra expenses.

They may defy managements directives orders and instructions. Management would have little control over them and hence such organizations who do not have a reimbursement policy make up by providing huge commissions to their independent you know entities or to the independent entities be the brokers and the agents. So, they make up by providing higher commissions.

(Refer Slide Time: 17:14)

**Companies Reimburse the Expenses incurred by Sales Persons**

- The reimbursement policy of a company may allow full reimbursement of sales expenses incurred by a salesperson or allow for only a partial reimbursement
- Company pays full expenses: Management has full control over salesperson's activities, and can exercise authority; however, there would be tendency towards unethical behavior and salespersons would over spend; this would dilute the net profits of the company
- Company reimburses expenses partially: Management can control salesperson's activities; however, the policy needs to be properly formulated so that allowable expenses can be properly set, and this would require a territory by territory analysis regarding potential, general expense conditions, type of customers, selling styles required etc.

THE URBAN EDUCATION swayam (Contd.)

The second scenario is where companies reimburse the expenses incurred by salespeople. Now here again the company may allow full reimbursement or only a partial reimbursement. Now companies paying full expenses and companies reimbursing expenses partially may end up you know with different kinds of reactions from their sales persons, in terms of performance, in terms of you know service selling and in terms of developmental selling.

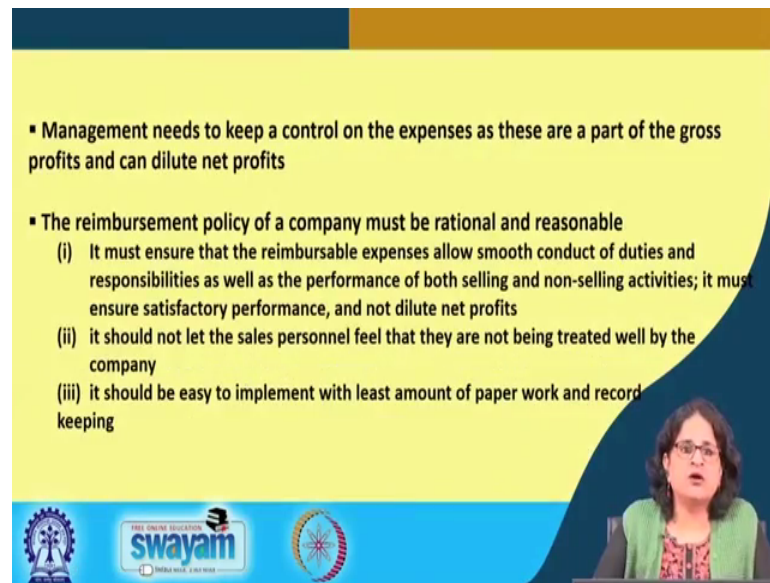
How? Let us first talk about companies which pay full expenses. Now management here is full control over the sales persons activities and they can exercise their authority; however, there would be a tendency towards unethical behavior and sales persons would overspend. This would mean that the net profits of the company may get diluted. Just because the company is going to pay full people would spend more. And they would also you know want to you know claim for those kinds of expenses which are unnecessary in

those cases, where companies reimburse expenses partially. The management would be able to control sales persons activities; however, the policy needs to be formally Fermi needs to be formulated very carefully. So, that allowable expenses can be properly set. And this would require a territory by territory analysis regarding the sales potential regarding general expense conditions in those territories. Also you know keeping in mind the kind of customers in those territories the selling styles required etcetera.

So, given the scenario where companies pay full expenses management would have full control and we will to direct and guide the sales force to do you know to in to indulge in selling and non selling activities. And to cater to selling off big ticket items small ticket items equally, which would mean selling balanced orders the company would be able to direct them towards you know lead generation prospecting they would be able they would also be able to exercise control with respect to service selling which is; that means, selling to current customers and maintaining goodwill you know and wrap you know good interpersonal relationships with their existing customers which again would mean a non selling activity.

So, where there are commissions involved. So, they would have they would have be able to exercise control. But in those case where companies pay expenses partially or reimburse expenses partially management will be able to control their activities, but the policy has to be properly formulated. So, that the sales person do not take advantage and of you know of the situation and they are well in control well care can be well directed with respect to the kind of activities that they have to be performing.

(Refer Slide Time: 20:14)



- Management needs to keep a control on the expenses as these are a part of the gross profits and can dilute net profits
- The reimbursement policy of a company must be rational and reasonable
  - (i) It must ensure that the reimbursable expenses allow smooth conduct of duties and responsibilities as well as the performance of both selling and non-selling activities; it must ensure satisfactory performance, and not dilute net profits
  - (ii) it should not let the sales personnel feel that they are not being treated well by the company
  - (iii) it should be easy to implement with least amount of paper work and record keeping

Now, management needs to keep a control on the expenses as these are a part of the gross profits and can dilute net profits. The reimbursement policy must be very rational must be very reasonable. It must ensure that the reimbursable expenses allow smooth conduct of duties and responsibilities as well as you know direct the performance of both selling and non selling activities. It must ensure that the performance of the salespersons is satisfactory and the selling expenses are not; so, huge that they dilute the net profits of the company. The reimbursement policy should also you know be easy to implement with the least amount of paperwork and record keeping and it should also make the employees feel that they are being treated well and by the company.

So, never should they feel that they are not being treated well by their organization; so, first you know is that the policy has to be something which is very rationable very rational and reasonable. It should ensure that the reimbursable expenses allow smooth conduct of business, smooth conduct of performance of selling and non selling activities, and it should ensure that people in the field are able to perform their duties satisfactorily. It should also make the employees feel that you know the company cares for them they are being treated well forth by the company. And it should also be something which is easy to implement and with the least amount of paperwork and record keeping.

(Refer Slide Time: 21:42)

**Methods of Reimbursing Expenses**

- Flat Expense Account
- Flexible Expense Account
- Honor System
- Expense Quota

(Contd.)

Now, what are the different methods of reimbursing expenses? We have 4 different methods of reimbursing expenses. The first is a flat expense method, the second is a flexible expense method, the third is an honor system and the fourth is the expense quota.

(Refer Slide Time: 21:58)

**Flat Expense Account**

▪A predefined fixed sum of money is paid to a sales person for a given period, be it weekly or monthly; the salesperson must manage the allocation of expenses under different heads like boarding, lodging, travel, entertainment etc. on his own

(Contd.)

So, let us first talk about the flat expense account. In the flat expense account predetermined a predefined fixed amount of money is paid to the sales personnel for a given is given to is paid to the sales person for a given amount of give given period of time. Now this period of time could be weekly could be monthly in most cases it is

monthly and the sales person must manage the allocation of expenses under different heads on his own.

The different heads being bodying lodging travel entertainment expenses on salespersons etcetera; so, what the salesperson gets on a weekly or on a monthly basis is a fixed sum. And he must then manage those funds on different heads you know he must he must allocate sensibly between boarding lodging travel entertaining his customers etcetera.

(Refer Slide Time: 22:52)

**Merits:**

- The company formulates a policy after determining the expense conditions, and once this is done, a fixed reimbursement allowance is paid; the company does not need to check expense accounts; it does not need to maintain records, and there is lesser paper work
- Salespersons have the freedom and flexibility to use the allowance as they want; they do not need to preserve bills and receipts; they also save on time utilized for making claims
- The method works best only when regular changes with respect to determining the fixed selling expense amounts are not required, and when expense allowances are reviewed and revised frequently

**Demerits:**

- The management would need to appraise the fixed amount periodically and make adjustments due to changing market conditions, and this would mean cost in terms of both time and money
- Salespersons often regard the amount as a salary or an add-on to the salary, and are inclined towards over-economizing of travel and stay so that they

can save money  
swayam  
THE OPEN SCHOOL

Now, there are merits as well as demerits to this you know to this method. With the merits being that the company formulates a policy after determining the expense conditions in a particular territory. And once this is done a fixed reimbursement allows it is paid on a periodic basis to the sales person. So, the company does not need to check expense accounts, it does not need to maintain records and there is a less there is less amount of paperwork. Second sales persons have the freedom and flexibility to use the allowance as they want they do not need to preserve with bills of any kind they do not need to keep receipts of any kind.

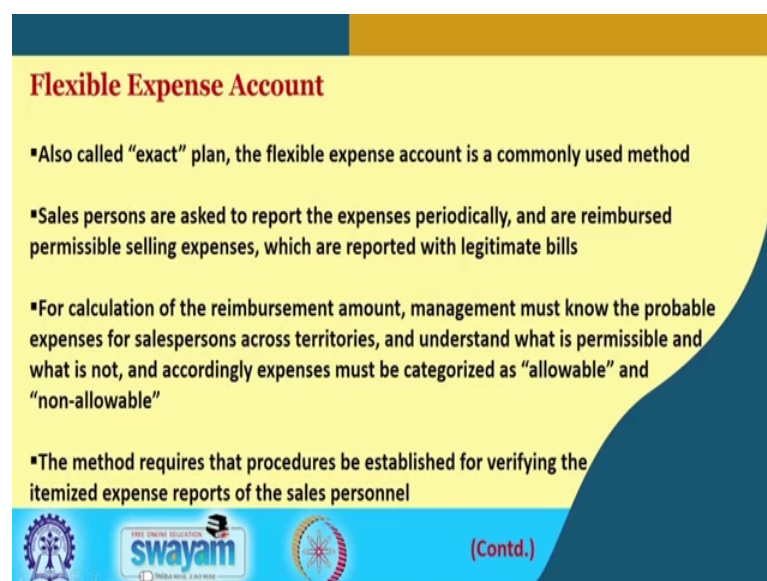
And so, they also do not have to make claims. So, they save on a huge they save on the time which will be utilized for making claims. The method works best only when regular changes with respect to determining the fixed selling expense amounts are not required and in cases when expense allowances are reviewed from time to time and revised. So, the so, only in these two conditions that this would this method holds good because. You

know frequent re visioning is happening a frequent review is happening. And which means that the amount which is being formulated as a fixed you know flat amount is something which would be good enough for a salesperson to be able to meet his you know needs or to be able to meet his selling expenses in the field.

The periodic revision the periodic review helps a certain that this is something which is good enough for a salesperson to be able to meet his expenses. As and when you know you it is realized that the amount needs to be you know increased because, of you know increases in travel cost or boarding and lodging cost in those cases it is reviewed and it is revised. So, the company is able to decide on amount which is good enough for a particular period.




And then of course, subsequent changes can be made. The demerits of this system, is that the management would need to appraise the fixed amount periodically and make adjustments due to changing marketing conditions. And though this would mean cost in terms of both time and money and another problem with this method is that the salesperson often regard this amount as a part of their salary as an add on to the salary. And they are always inclined towards over economizing for travel or for stay you know so, that they can save money for themselves. So, this is these are the demerits of the Kratt expense method.

(Refer Slide Time: 25:32)



**Flexible Expense Account**

- Also called “exact” plan, the flexible expense account is a commonly used method
- Sales persons are asked to report the expenses periodically, and are reimbursed permissible selling expenses, which are reported with legitimate bills
- For calculation of the reimbursement amount, management must know the probable expenses for salespersons across territories, and understand what is permissible and what is not, and accordingly expenses must be categorized as “allowable” and “non-allowable”
- The method requires that procedures be established for verifying the itemized expense reports of the sales personnel

   (Contd.)

The second is the flexible expense account now. So, flexible expense account is also called the exact plan. And it is a very commonly used method the salespersons asked to report their expenses periodically and they are reimbursed the permissible selling expenses which are reported.

Of course with bills with legitimate bills. So, for calculation of the reimbursement amount management must know the probable expenses of a salesperson you know in a territory. And you must understand what is permissible and what is not. And accordingly expenses must be categorized as allowable and non allowable. So, the method requires that procedures be established for verifying the itemized expense reports of the sales personnel.

(Refer Slide Time: 26:20)

**\*Merits:**

- The method is fair and flexible as it takes into account territorial differences, with respect to market conditions as well as cost of living expenses etc in a particular area
- Management can exercise better control and provide directives for selling activities (sales calls, frequency), non-selling activities, as well as, routing and scheduling
- Sales persons do not avoid going for regular follow ups as they are reimbursed for all the allowable expenses that they incur

**\*Demerits:**

- The method is difficult to administer; it is time consuming as a large amount of time is spent by sales persons in making bills and claims; a lot of time and effort is also spent by the accounts staff in checking expense reports, verifying them and settling claims
- Salespersons may over-spend in the absence of adequate checks and supervision

THE ONLINE EDUCATION  
swayam  
BROADEN YOUR HORIZONS

And based on what is what is allowable and what is not allowable you know. The various items in the rip in the expense report are you know examined. And again based on what is allowed and what is not allowed the reimbursements are made. So, the salesperson is asked to give a itemized report on his expenses. And these expenses are you know are examined for permissibility or non-permissibility. And accordingly the reimbursements are made for those for further amount which is admissible over the mount which is allowable.

Now, what are the merits and demerits of this particular method? The merit is that it is a very fair method very flexible, as it takes into account territorial differences with respect



to market conditions. As well as the cost of living etcetera in particular area. Management can exercise better control and provide directives for selling activities be it sales calls or frequency of sales calls as well as non-selling activities and routing and scheduling. Now, routing and scheduling is something which we shall be discussing next week when we do the sales territories.

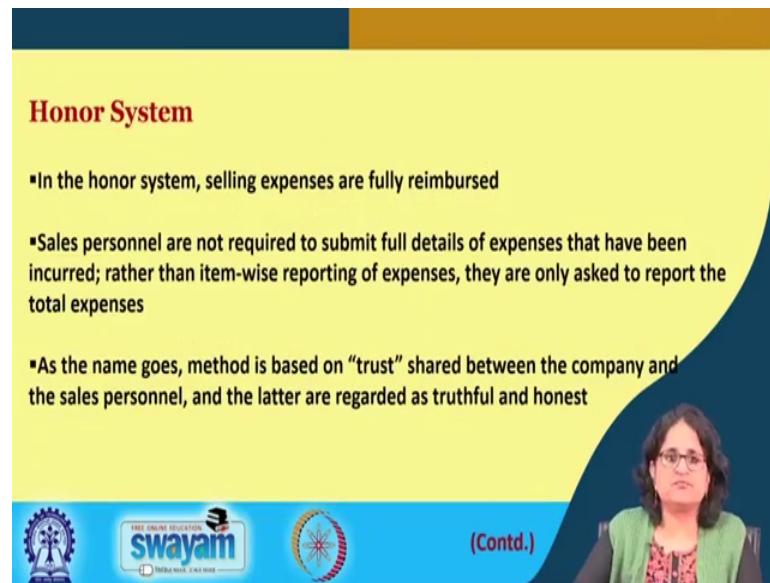
So, the management here can exercise better control over it is sales personnel. It can issue guidelines and directives with respect to you know the kind of emphasis that the salesperson must lay on selling activities and non selling activities as well as on routing and scheduling. Sales persons do not avoid going for regular follow ups as they are reimbursed for all of the allowable expenses that they incurred.

So, that keeps them motivated and that keeps them on their toes towards making efforts for making profitable sales; of course, at the system that this particular method also suffers from certain demerits. The method is difficult to administer it is time consuming as a large amount of time is spent by salespeople in making bills, making submitting clay submitting them for claims sorry submitting them for reimbursements making claims etcetera.

So, a lot of time and effort is spent by the account staff in checking these expense reports as well verifying them and settling claims. So, overall it is a very time consuming process. On one hand the salesperson has to make bills has to submit these bills you know for reimbursements. So, he has to make these claims and all this requires a lot of paperwork and you know which means a lot of time goes into doing this activity. Similarly, the accounts people have to spend the lot of time checking these reports, verifying those expenses and settling the claim.

So, it is a very time consuming process. Also salespersons may overspend in the absence of adequate checks and supervision. And this overspending may sometimes be on certain you know heads or certain you know kinds of you know expenses may be made which are something which are unnecessary and not required. So, these are the demerits associated with this method.

(Refer Slide Time: 29:28)



**Honor System**

- In the honor system, selling expenses are fully reimbursed
- Sales personnel are not required to submit full details of expenses that have been incurred; rather than item-wise reporting of expenses, they are only asked to report the total expenses
- As the name goes, method is based on “trust” shared between the company and the sales personnel, and the latter are regarded as truthful and honest

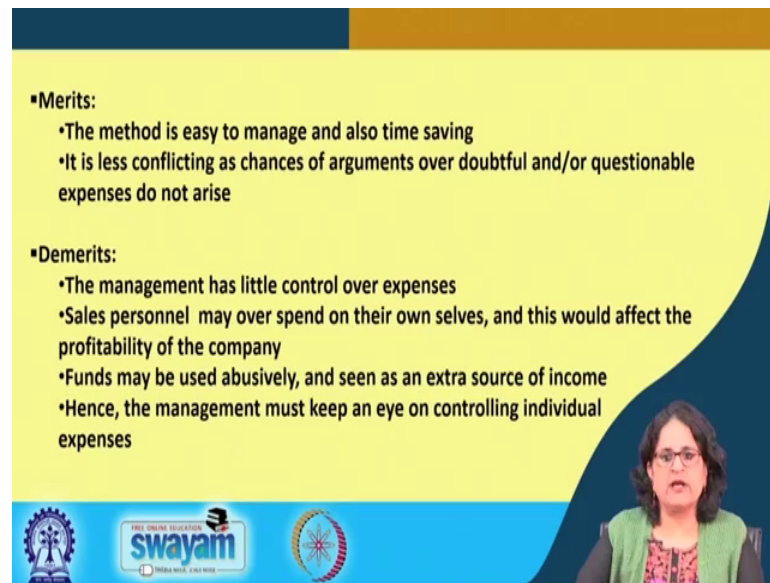
(Contd.)

The slide features a yellow background with a dark blue curved border on the right side. At the bottom, there is a blue banner containing the logos of Swamyam (Free Online Education), a circular logo with a sun-like design, and the text '(Contd.)'. A small video feed of a woman with glasses and a green vest is visible in the bottom right corner of the slide.

The third is the honor system. Now as the word goes honored we can link it with trust we can link it with integrity. And so, it actually denotes a kind of a trust which is shared between the company and the sales personnel. And the sales personnel here are regarded as somebody who are very truthful and very honest.

So, keeping in keeping this as a premise selling expenses are fully reimbursed in the case of honor system. So, sales people are not required to submit full details of the expenses that they have incurred. They do not have to submit I you know item wise reports or of expenses. They are only asked to report the total expenses that have been therefore, the total expense that has been incurred by them. And the entire amount is fully reimbursed.

(Refer Slide Time: 30:19)



**Merits:**

- The method is easy to manage and also time saving
- It is less conflicting as chances of arguments over doubtful and/or questionable expenses do not arise

**Demerits:**

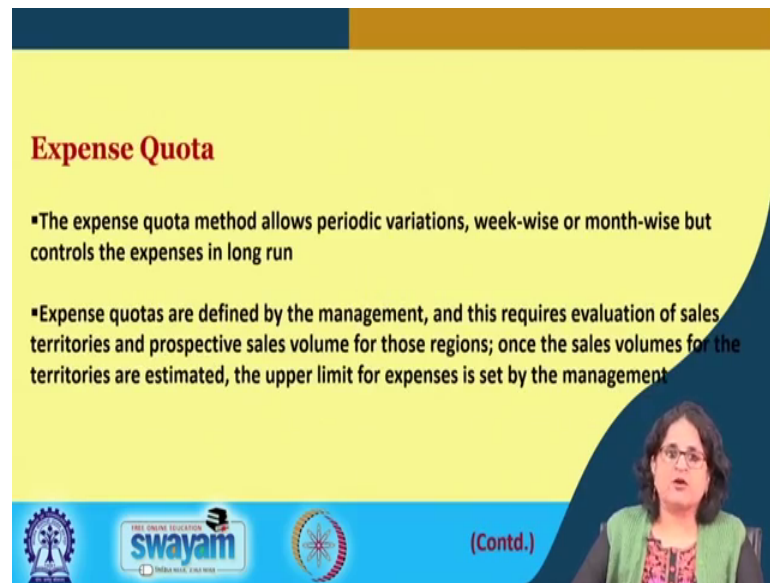
- The management has little control over expenses
- Sales personnel may over spend on their own selves, and this would affect the profitability of the company
- Funds may be used abusively, and seen as an extra source of income
- Hence, the management must keep an eye on controlling individual expenses

At the bottom of the slide, there is a blue banner with logos for Swayam and other educational institutions, and a small video inset of a woman speaking.

Merits and demerits of the honor system now; as far as the merits are concerned the method is easy to manage and also time consuming. No elaborate you know bills are required no elaborate you know item wise reporting is a is required. It is only you know that the salespeople must mention the total expenses that have been incurred by them. And these expenses are then reimbursed. Also the method is less conflicting as chances of arguments.

Over doubtful and or question or expenses either with the sales managers or with the account accounts team do not arise; however, the system has demerits. The management has little control over expenses sales personnel may overspend on their own sales. And this would affect the overall profitability of the organizations funds may be used abusively and they may be seen as an extra source of income. Hence the company must keep an eye on the control on controlling individual expenses. And if there is a sudden spot you know in expenses these need to be checked if there is some you know sudden rise in the kind of expenses that are being incurred that also must be checked.

(Refer Slide Time: 31:33)



**Expense Quota**

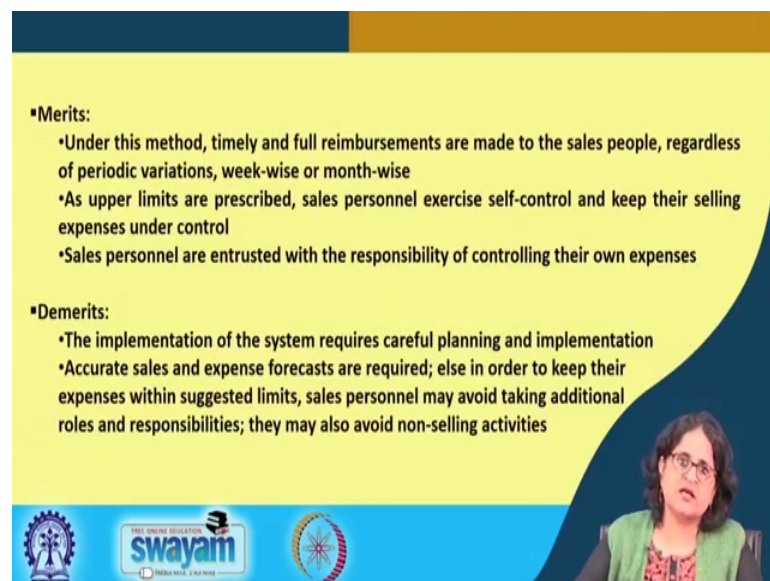
- The expense quota method allows periodic variations, week-wise or month-wise but controls the expenses in long run
- Expense quotas are defined by the management, and this requires evaluation of sales territories and prospective sales volume for those regions; once the sales volumes for the territories are estimated, the upper limit for expenses is set by the management

(Contd.)

The slide features a yellow background with a dark blue curved border on the right. At the bottom, there is a blue banner with logos for 'swayam' and 'THE ONLINE EDUCATION' along with a circular logo. A small video feed of a woman in a green vest is visible in the bottom right corner.

Now, coming to the 4th method of reimbursement which is the expense quota; now the expense quota method allows periodic variations in reimbursement in reimbursement allowances. It allows week to week or month wise variations, but controls the expenses in the long run. So, expense quarters are defined by the management and this requires an evaluation of the sales territories and prospective sales volume in those territories. Once the sales volume for the territories are estimated and upper cap or an upper limit for the expenses is set by the management and accordingly you know control is exercised.

(Refer Slide Time: 32:12)



**Merits:**

- Under this method, timely and full reimbursements are made to the sales people, regardless of periodic variations, week-wise or month-wise
- As upper limits are prescribed, sales personnel exercise self-control and keep their selling expenses under control
- Sales personnel are entrusted with the responsibility of controlling their own expenses

**Demerits:**

- The implementation of the system requires careful planning and implementation
- Accurate sales and expense forecasts are required; else in order to keep their expenses within suggested limits, sales personnel may avoid taking additional roles and responsibilities; they may also avoid non-selling activities

The slide features a yellow background with a dark blue curved border on the right. At the bottom, there is a blue banner with logos for 'swayam' and 'THE ONLINE EDUCATION' along with a circular logo. A small video feed of a woman in a green vest is visible in the bottom right corner.

The merits of the system is that it is a very you know timely and full reimbursements are made to the sales people regardless of periodic variations week wise or mine twice. As upper limits are prescribed salespeople exercise personal restraint and personal control and keep their selling expenses well within limits. And the sales personnel are interested with the responsibility of controlling their own say own selling expenses.

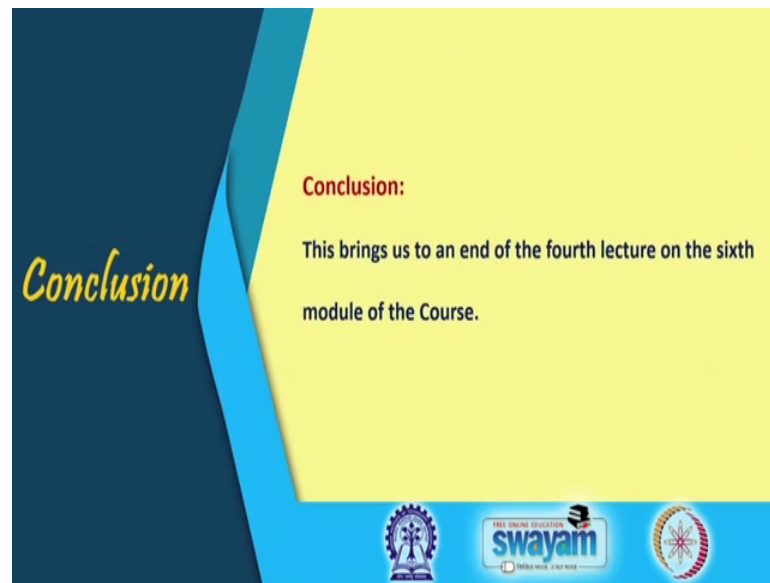
However, the system also has demerits. The implementation of the system requires careful planning and implementation. Accurate sales and expense forecasts are required. Else in order to keep their expenses within the upper limit sales personnel may avoid taking additional roles and responsibilities they may you know avoid non selling activities and this could be a problem for the organization.

(Refer Slide Time: 33:02)



So, with this we come to an end of this lecture. The references are Still and Cardiff Govoni and Puri Sales and Distribution Management Pearson India. Panda and Sahadev Sales and Distribution Management Oxford University Press 2011 and 12; Havaladar and Cavale Sales and Distribution Management texts and cases 3rd edition, 2017 McGraw Hill.

(Refer Slide Time: 33:25)



This brings us to an end of the 4th lecture on the 6th module of the course. We shall begin with our discussion on the next topic, which is evaluation of sales force in the next lecture.

Thank you.