

tion so the firm can count on repeat business. To accomplish these goals, the salesperson needs to match features of each product to the customer's needs and wants. This concept is called *feature-benefit selling*. We will look at it more closely in Chapter 13.

## Basic Classifications of Selling

Because selling is such a broad concept, we need to look at it from two points of view: where the selling takes place (*inside* or *outside* the firm) and the *type of product sold*. We will also look at a specialized selling technique called *telemarketing*.

## Inside Sales vs. Outside Sales

*Inside sales* are selling efforts that take place at the salesperson's place of business. Most salespeople who work for retailers, for example, meet their customers in the retail store.

*Outside sales* are selling efforts that take place outside the salesperson's firm. People who work in outside sales travel to meet their customers at each customer's place of business or home. (Remember that the distinction is whether the selling is inside or outside the seller's *place of business*. It does not matter whether the selling is indoors or outdoors.) A door-to-door salesperson who comes to your home and a Xerox salesperson who services accounts at her clients' places of business are both in outside sales. 1

# CASE CHALLENGE

## Commission Pay in Retailing

Just a few years ago, most department stores offered straight commission only to salespeople in high-ticket departments, such as large appliances. But more and more major department stores are switching from an hourly wage to straight commission on sales in all departments.

Nordstrom Inc., a Seattle-based department store known for its skilled salespeople and good service, has always paid all of its salespeople on commission. Now many other retailers are following suit. By July of 1989, all 113 department stores in Carter Hawley's five divisions were fully on commission. Federated and Allied stores had all sales associates on some form of commission by the end of 1990.

Employers get many benefits from incorporating straight commission into their pay structure. First, overhead is controlled. Salaries increase in direct proportion to increases in sales and vice versa. In addition, some retailers have found that they can increase the number of hours sales personnel work by 10 percent without increasing the cost of labor because salespeople are only paid for sales, not for the hours spent on the job.

One of the biggest problems for stores that use straight commission is getting and keeping qualified sales personnel. Because of the sink-or-swim challenge of working on commission, the personnel turnover rate is usually very high. Nordstrom, for example, reports an average annual turnover rate of 30 percent.

For sales personnel, the straight commission system can mean an increase in personal income. Those who generate high sales will see immediate financial rewards for their efforts. Nordstrom reported in 1989 that some of its salespeople earned upwards of \$25,000 a year. 2

Some analysts believe the move to paying salespeople straight commission makes retail sales more professional.

1. Would Nordstrom's sales personnel be classified as inside or outside salespeople?
2. What are the advantages and disadvantages to employers and to the salespeople of paying retail sales personnel straight commission?
3. Why do you think that paying sales personnel straight commission will make retail sales more professional?

See the Teacher's Manual for Case Challenge answers.

**1 COMPREHENSION CHECK** Ask students to bring in the classified section from the local newspaper. Have them study the want ads for sales positions to determine which involve inside sales and which involve outside sales.

**2 MATH APPLICATION** Tell students they have the following choice: they can sell ready-to-wear at Michelmann's for \$5 an hour (average work week 20 hours) or shoes at Fenwick's for a straight commission of 5 percent on sales (Cont.)

**Corporation.** The most complicated form of business ownership, the corporation is chartered by a state and legally operates apart from the owners. It is composed of shareholders (or stockholders, the owners of the corporation), directors, and officers.

A corporation can own assets, borrow money, and perform business functions without directly involving the shareholders. Therefore, it is subject to more government regulation than a sole proprietorship or a partnership. The profits are subject to double taxation, but the liability of the shareholders is limited. Owners of the corporation are not responsible for debts incurred by the corporation.

Corporations can be *incorporated* (established) in the state where they will do business or in another state. It is best for most small businesses to incorporate in the state where they are going to do business.

Otherwise, they may have to do business as a *foreign corporation*. A *foreign corporation* is incorporated under the laws of a different state from the one in which it does business. Foreign corporations must seek approval from and register with each state in which they intend to do business.

Some new businesses can also be established as *Subchapter S corporations*. A *Subchapter S corporation* is a small business that is taxed like a partnership or proprietorship.

1 There are strict provisions for Subchapter S corporations. The business, for example, can have no more than 35 shareholders. It must be incorporated in the United States. It can have no more than 20 percent of its gross revenues from investment-type income, and no more than 80 percent of its gross revenues from foreign sources. You can learn more information

## CASE CHALLENGE

### You Try Harder When It's Your Own

Imagine a company with several thousand employees, all of whom can say they own a piece of the firm. Does this sound impossible? Would you like to own a piece of the company that also employs you?

One company that has made employee ownership work is Avis, the "we try harder" car rental people. The employees bought the company in 1987 through an employee stock ownership plan.

As you can imagine, it takes a lot of money to buy a company such as Avis. The employees borrowed money to buy all the shares of stock. As the company pays off the debt, the trustee who holds the employees' shares distributes them to the employees according to their pay.

At the end of the first year, Avis's 12,500 employees each owned about 10 shares for every \$1,000 of their pay. (At a salary of \$20,000 a year, for example, an Avis employee would own 200 shares.) When the debt is paid off around the year 2004, the Avis employees will own all 24 million shares of stock.

Studies have shown that when employees actively take part in making company decisions, the company grows 11 percent faster than without employee participation. So, Avis keeps employees involved and keeps lines of communication open.

In a survey of 1,000 typical car renters, Avis found that 77 percent of them believed employee ownership would make Avis's service even better than it was. They were right. Customers almost immediately began to notice a difference. Complaints about service dropped 35 percent in the first year.

You can see, then, that it really does make a difference when the company is your own. Avis's new motto is: "We're trying harder than ever." 2

1. What do you think might be some of the most difficult problems to resolve in an employee-owned business?
2. What are some of the advantages to working for an employee-owned company?

See the Teacher's Manual for Case Challenge answers.

**1 COMPREHENSION CHECK** Have students briefly describe advantages and disadvantages of proprietorship, partnership, and corporate forms of ownership.

**2 MATH APPLICATION** A student starts work at Avis in 1989 at

a salary of \$20,000 a year. With pay raises of 10 percent every two years, how many shares of stock will he or she own by 2004? (4,140)

## Treating People Right

One of the best ways to help employees become more productive is to listen to their concerns. Federal Express does just that. While some corporations treat employees like replaceable parts, Federal Express founder Frederick W. Smith treats them like the valuable human resources they are.

Employees are encouraged to make suggestions that are evaluated by a special department. If the idea saves time or money, the employee receives an award of up to \$25,000.

When employees have concerns or see problems that need solving, quality action teams of managers and employees go to work to come up with solutions. In addition, Smith has an “open door” policy—any employee can come to his office to talk over problems or concerns.

If employees have complaints they feel their supervisors have not handled fairly, they may ask their supervisors’ managers for a hearing. If they still are not satisfied with the solution, they may continue to appeal—all the way up to the senior

vice-president level. Final decisions are not always in management’s favor. One year, out of five employees who asked for review, two were decided in the employees’ favor.

In its struggling early years, Federal Express occasionally asked employees to delay cashing their paychecks until the money was in the bank to cover them. Today the multi-million dollar company not only pays on time, but also distributes some of its profits among employees twice a year.

Smith also remembers that employees have family lives. To honor that symbolically, each Federal Express cargo plane is named for an employee’s child.

1. Tell five or six personal rewards you think Federal Express employees get from working there.
2. Give five or six benefits Federal Express receives from treating its employees so well.

See the Teacher’s Manual for Case Challenge answers.

### Be Consistent

When you say that a job must be done in a certain way, make certain that it is *always* done that way by every employee. Don’t make exceptions unless there is a good reason to do so. Always follow through on what you say. If you say that you will deduct part of an employee’s salary for being late to work, do it. If you don’t follow through on your decisions, employees will not respect what you say.

### Treat Employees Fairly

Employees will be more productive under your supervision if you treat them fairly. Expect the same standards of performance from *every* employee. Don’t give special privileges to a few favorites. But do set reasonable standards of performance that your employees can achieve. 1

actual sandwich. Follow the recipes to the letter (e.g., if a recipe doesn’t mention removing the lids from the jars, don’t; if it doesn’t say to use a knife, use your fingers). Conclude with a demonstration of the best-written instructions.

Listen and consider acting on suggestions from employees. If someone thinks you are being unfair, look at the situation from the employee’s point of view as well as your own. The employee may be right. If so, be honest enough to admit it and make changes. If you believe the employee is wrong, take the time to explain your reasoning. The person may understand your position and agree with you. If not, he or she will appreciate your effort to be fair.

### Be Firm When Necessary

Sometimes supervising others requires a firm hand. Never let an employee take unfair advantage of you, the company, or another employee. Learn to be firm without losing your temper.

Each situation requiring disciplinary action is different. A friendly suggestion is all that is necessary to get most employees on the right track. Some people,

**1 CRITICAL THINKING** Have students speculate about difficulties that might be encountered in maintaining uniform standards for all employees. (Possibilities: different educational backgrounds, mainstreaming the physically handicapped.)

## Currency Exchange

Every day customer service representatives at Deak International currency exchange house work with everyone's favorite thing: money.

At Deak International, counter tellers are as familiar with Japanese yen, Botswanan pula, and Yugoslavian dinar as they are with American dollars. Deak's 78 branches in the U.S and Canada convert hundreds of millions of dollars from one currency to another every year.

As more companies become international, you, too, may someday have to convert currencies.

Currencies are not equal. For example, one dollar may equal 140 yen, or 2.1 South African rand but only .48 English pounds. The amount of one currency it takes to buy an amount of another currency of equal value is called the exchange rate. The exchange rate often changes daily.

The exchange rate is given as a ratio. For example, the yen to dollar value is said to be 140 to

1, ( $1^{140}$ ). (In exchange ratios, the *one* represents the local currency, in this case, dollars.) One dollar buys 140 yen.

How many dollars (or parts of a dollar) does one yen buy? All you need is a pencil and simple fractions to figure it out.

Write down the reciprocal of the ratio of 140 to 1 (or  $\frac{1}{140}$ ). Now divide 1 by 140. This gives you a figure in dollars: \$.00714. One yen equals about seven-one-thousandths of a dollar or seven-tenths of one cent. (Check your answer by multiplying .00714 by 140.)

If you have basic math skills, you'll never have to worry if you misplace your calculator.

1. In what situations might you have to figure costs in terms of another currency?
2. You have 150 French francs. Estimate how many American dollars they buy if the exchange rate is 4.97 francs to 1 dollar. Check your answer with a calculator.

See the Teacher's Manual for Case Challenge answers.

have to find out the net selling price before you can figure the tax amount.

$$\begin{aligned} \text{List price} - \text{discount} &= \text{net price} \\ \$395.99 - \$59.40 &= \$336.59 \end{aligned}$$

Now you can proceed, following these guidelines.

Estimate:

Round  $6\frac{1}{2}\%$  to 7% and \$336.59 to \$300. A 7% sales tax means that \$7 tax is collected on every \$100 in sales. So you can estimate the tax to be \$21 ( $3 \times \$7$ ).

the following percentages to decimals: 75%, 7.5%, 750%. (.75, .075, 7.5)

**1 MATH APPLICATION** Have students compute the amount due on a purchase of \$17.63 when the sales tax is as follows:

Translate:

$$6\frac{1}{2}\% \text{ of } \$336.59 = 0.065 \times \$336.59$$

Calculate:

$$0.065 \times \$336.59 = \$21.8784$$

Round:

$$\$21.8784 \text{ rounds to } \$21.88.$$

Check:

\$21.88 is reasonably close to the estimate of \$21. The sales tax to be collected is \$21.88. **1**

state sales tax—5%, local sales tax— $\frac{1}{2}\%$ , temporary state sales tax (for disaster relief)  $\frac{1}{4}\%$ . (Estimate: Sales tax = about 6%, or \$.06 on every dollar; purchase = about \$20, so sales tax =  $20 \times \$0.06$ , or about \$1.20. Actual sales tax rate: (Cont.)

## Winning Friends

**M**ost of us are nervous about speaking to a group, even if that “group” is only two or three people. But in the business world it is important to be an effective public speaker.

In 1912, Dale Carnegie started teaching public speaking. Almost immediately he realized people needed more help in “the fine art of getting along and dealing with people.” So he started studying and interviewing famous people. He learned the secrets of their success and wrote a book called *How to Win Friends and Influence People*. And he started the Dale Carnegie Training program, which focuses on helping people develop self-confidence in public speaking. Students give one- to two-minute speeches on assigned topics. They are also asked to speak off-the-cuff in class.

In the field of human relations, students learn to remember people’s names, to appreciate and encourage others, to avoid criticizing and

complaining, to be interested in others, and to smile. More than 3 million graduates (including Chrysler Corporation’s energetic Lee Iacocca) have found that these simple techniques pay astonishing dividends.

Many of the ideas taught in Dale Carnegie Training sessions have become standard in today’s self-help books. Most modern sales training courses depend on them. A lot of big companies, such as IBM, Quaker Oats, Du Pont, TRW, and Mattel, believe strongly in Carnegie classes. They even pay for their employees to attend the courses.

Today, Dale Carnegie Training is known and respected for creating the positive attitude that helps so many businesspeople succeed. <sup>1</sup>

1. Why is public speaking important? When will you have to use public speaking skills?
2. Why do large companies pay for their employees to take Dale Carnegie Training?

See the Teacher’s Manual for Case Challenge answers.

As a new employee, it will probably be difficult to be assertive on the job until you have improved your knowledge and skills through experience. But as you gain more experience, you will gain confidence. Then you will be in a better position to influence others.

### Selling an Idea

A good idea represents value and power. So some of your co-workers may resent you for having an idea when they don’t have one. To lessen the probability of others’ resentment, sell *yourself* first. Here are some suggestions directed toward selling an idea. Follow them, and you will usually get the support you need.

**1 DISCUSSION STARTER** Ask students how they think skill and confidence in public speaking can help them in informal conversation, both in their personal lives and on the job. De-

### REAL WORLD MARKETING

#### The Note with a Peel

**A**rthur Fry, an engineer at 3M Company, liked singing in his church choir. However, he didn’t like losing his place in his hymnal every time his bookmark slipped out. Fry needed a page marker that would stay put. So, he invented one. Using glue left over from an unsuccessful experiment, Fry came up with Post-It Notes, little paper squares that can be pressed onto a page and easily peeled off again. Post-Its have given Fry peace of mind—and they have given 3M \$50 million a year in sales.

velop the idea that good public speakers do many of the same things that good conversationalists do. Both display enthusiasm, sincerity, an awareness of others, and a sense of timing.