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# **Sales Budget**


For Internal Circulation and Academic  
Purpose Only

# Programme Educational Objectives

- *Our program will create graduates who:*
  - *1. Will be recognized as a creative and an enterprising team leader.*
  - *2. Will be a flexible, adaptable and an ethical individual.*
  - *3. Will have a holistic approach to problem solving in the dynamic business environment.*

# Sales and Distribution Management Course Outcomes

- CO1- Given a situation of Festival, student manager will be able to identify appropriate Sales Forecasting method to be adopted by a company.
- CO2- Given a situation of opening a new outlet, student manager will be able to draft a sales plan.
- CO3- Given a situation of Selling products / services, student manager should be able to explain Personal Selling Process.

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- CO4-Given a criteria of newly launched company, student manager should be able to design an effective Sales Compensation Plan for Sales Executive.
  - CO5-Given a criteria of distribution channel of a company, student manager should be able to outline different levels of Marketing channel used by the company.
  - CO6-Given a situation, student manager should be able to explain the process of Reverse Logistics.

# Sales Budget

## Purpose:


- Sales budget serves two purposes – **it is a mechanism of control and an instrument of planning.**
- Budgets clearly define the resources require for performing activities that help an organization achieve its goals and act as an effective tool for controlling firms performance.
- Should be developed by those responsible for achieving the stated objectives.
- Generally a firms budgeting process depends on the revenues it has been getting.

# ...it is a Mechanism of control

- Controlling and planning are inter-linked and one is useless without the other.
- **Budgeting in itself is a controlling process.**
- It emphasizes on controlling the deviations.

# ...is an instrument of Planning

- Is the process of determining a future course of action for helping employees trend a path.
- Forecasting sales, scheduling the production process and budgeting the expenditure for the organization are part of planning.
- Should be followed diligently by all.

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- For budget to act as an effective planning tool, they must be developed very carefully by following certain steps – assessing the previous years financial performance, connecting the current years expenditure and programmes with long term strategies, developing short term activities to achieve long term activities and finally communicating plans to all those concerned.
  - The next step is to identify the best ways to achieve these goals and to assess the expenditure that will be so incurred.



# Benefits of Budgeting

## I) Improved Planning ---

- It enhances the quality of planning as it describes the actions to be taken in quantitative terms.
- Although budgeting process can only guide the firm to follow a path that will lead to profits, it definitely helps improve planning.

## 2) Better Communication and Co-ordination—

- As budgeting gives the future course of action in quantitative terms for functions like sales, production, personnel tec., it forms the basis for co-ordination within the organization.

### 3) Control and Performance Evaluation---

- Any deviation from the plan can be easily identified by conducting periodic reviews.
- This will help the management to take necessary steps to rectify the situation.

## 4) Psychological Benefits---

- Budget instills a sense of profit consciousness in employees.
- Budgetary controls remain in the minds of sales personnel and encourage them to achieve the sales target with the least possible expenses.

# TYPES OF BUDGET

- **Sales Budget**
- **Selling Expense Budget**
- **Administrative Budget**
- **And Profit Budget**

# TYPES OF BUDGET

## I) SALES BUDGET

- Is a detailed plan showing the expected sales for a future period.
- It is developed based on expected revenues from the sales.
- It is the first part of master budget and forms the budget for the basis for other operational budgets like finance and production budgets.

## • 2) SELLING EXPENSE BUDGET

- Is a plan that gives expenses that would be incurred by the sales department to achieve the planned sales.
- These expenses could be salaries or commissions, travelling and entertainment expenses.
- Allocating a percentage of sales.
- Cost incurred in training a salesperson when a new product line is added should be included in the selling expense budget.
- Finally this must be closely linked with the Sales Budget.

### • **3) ADMINISTRATIVE BUDGET AND PROFIT BUDGET**

- It comprises the budget allocation for general administrative expenses such as rent, electricity, office furniture, stationary and other costs incurred by the sales department.
- In profit budget, the gross profits are calculated by deducting the sales expenses from the revenues generated by the sales department.



# METHODS OF BUDGETING

- Different types of methods are:
  - 1) Affordability
  - 2) Percentage of Sales
  - 3) Competitive Parity
  - 4) Objective and Task
  - 5) Return Oriented

# I) Affordability method

- Is a process where the management develops the sales budget depending on its ability to spend on sales functions.
- Here a firm develops the budget based on whether it can afford to spend a certain amount for selling its goods.

## 2) Percentage of Sales

- Is used for developing by multiplying sales revenue by a given percentage.
- The sales revenues used may be a past sales revenue figure or a forecasted figure.
- Sometimes, even a weighted average of the two is used.

### 3) Competitive Parity

- In this method, the sales manager sets the budget based on the budgeted figures of the competitors or the industry average.
- The budget is based on a comparable base - size and revenues.

## 4) Objective and Task

- The management develops the budget the budget based on the objectives to be attained.
- Involves 4 steps :
  1. Identification of objectives of the sales department.
  2. Next, the tasks to be performed for achieving the objectives are specified.
  3. Third step involves determining the expenditure required for the tasks.
  4. Fourth step involves adding all the above expenses to arrive at a final figure for the purpose of budgeting.

## 5) Return Oriented method

- The methods like return on investment (ROI), return on assets (ROA), return on total assets (ROTA) return on asset managed (ROAM) are some tools that help managers to develop a sales budget.
- It helps the sales managers analyse the impact of a particular sales cost allocation on revenues and profits generated by sales.

# Procedure for developing a sales budget

- 1) Review and Analysis of situations
- 2) Identifying Specific Market Opportunities and Problems
- 3) Sales Forecasting
- 4) Communicating Sales Goal and Objectives
- 5) Preliminary allocation of resources
- 6) Preparing the budget
- 7) Getting Approval