

CASE A-5**HANOVER-BATES CHEMICAL CORPORATION****Evaluating District Performance**

James Sprague, newly appointed northeast district sales manager for Hanover-Bates Chemical Corporation, leaned back in his chair as the door to his office slammed shut. "Great beginning," he thought. "Three days into my new job and the district's most experienced sales representative is threatening to quit."

On the previous night, James Sprague, Hank Carver (the district's most experienced sales representative), and John Follett, another senior member of the district sales staff, had met for dinner at Jim's suggestion. During dinner, Jim had mentioned that one of his top priorities would be to conduct a sales and profit analysis of the district's business in order to identify opportunities to improve the district's performance. Jim had stated that he was confident that the analysis would indicate opportunities to reallocate district sales efforts in a manner that would increase profits. As Jim had indicated during the conversation, "My experience in analyzing district sales performance data for the national sales manager has convinced me that any district's allocation of sales effort to products and customer categories can be improved." Both Carver and Follett had nodded as Jim discussed his plans.

Hank Carver was waiting when Jim arrived at the district sales office the next morning. It soon became apparent that Carver was very upset by what he perceived as Jim's criticism of how he and the other district sales representatives were doing their jobs—and more particularly, how they were allocating their time in terms of customers and products. As he concluded his heated comments, Carver had said:

This company has made it darned clear that 34 years of experience don't count for anything . . . and now someone with not much more than two years of selling experience and two years of

pushing paper for the national sales manager at corporate headquarters tells me I'm not doing my job . . . Maybe it's time for me to look for a new job . . . and since Trumbull Chemical (Hanover-Bates's major competitor) is hiring, maybe that's where I should start looking . . . and I'm not the only one who feels this way.

As Jim reflected on the scene that had just occurred, he wondered what he should do. It had been made clear to him when he had been promoted to manager of the northeast sales district that one of his top priorities should be improvement of the district's performance. As the national sales manager had said, "The northeast sales district may rank third in dollar sales but it's our worst district in terms of profit performance."

Prior to assuming his new position, Jim had assembled the data presented in Exhibits 5-1 through 5-7 to assist him in his work. The data had been compiled from records maintained in the national sales manager's office. Although he believed that the data would provide a sound basis for a preliminary analysis of district performance, Jim had recognized that additional data would probably have to be collected when he arrived in the northeast district (District 3). To provide himself with a frame of reference, Jim had also requested data on the north-central sales district (District 7). This district was generally considered to be one of the best, if not the best, in the company. Furthermore, the north-central district sales manager, who was only three years older than Jim, was highly regarded by the national sales manager.

The Company and the Industry

The Hanover-Bates Chemical Corporation was a leading producer of processing chemicals for the chemical plating industry. The company's production process was, in essence, a mixing

CASE EXHIBIT 5-1 Summary Income Statements (thousands), 1996 to 2000

	1996	1997	1998	1999	2000
Sales	\$39,780	\$43,420	\$38,120	\$43,960	\$47,780
Production expenses	23,868	26,994	24,396	27,224	29,126
Gross profit	15,912	16,426	13,724	16,736	18,654
Administrative expenses	5,212	5,774	5,584	5,850	6,212
Selling expenses	4,048	4,482	4,268	4,548	4,798
Pretax profit	6,652	6,170	3,872	6,338	7,644
Taxes	3,024	2,776	1,580	2,852	3,436
Net profit	\$ 3,628	\$ 3,394	\$ 2,292	\$ 3,486	\$ 4,208

CASE EXHIBIT 5-2 District Sales and Gross Profit Quota Performance (thousands), 2000

District	Number of Sales Reps	Sales Quota	Sales Actual	Gross Profit Quota*	Gross Profit Actual
1	7	\$ 7,661	\$ 7,812	\$ 3,104	\$ 3,178
2	6	7,500	7,480	3,000	3,058
3	6	7,300	6,812	2,920	2,478
4	6	6,740	6,636	2,696	2,590
5	5	6,600	6,420	2,620	2,372
6	5	6,240	6,410	2,504	2,358
7	5	5,440	6,210	2,176	2,260
		\$47,600	\$47,780	\$19,040	\$18,654

*District gross profit quotas were developed by the national sales manager in consultation with the district managers and took into account price competition in the respective districts.

CASE EXHIBIT 5-3 District Selling Expenses, 2000

District	Sales Rep Salaries*	Sales Rep Commissions	Sales Rep Expenses	District Office	District Manager's Salary	District Manager's Expenses	Sales Support	Total Selling Expenses
1	\$354,200	\$38,852	\$112,560	\$42,300	\$67,000	\$22,920	\$139,000	\$ 776,832
2	286,440	37,400	101,520	42,624	68,000	24,068	142,640	702,692
3	314,760	34,060	108,872	44,246	70,000†	24,764	140,000	736,722
4	300,960	33,180	98,208	44,008	65,000	22,010	132,940	696,306
5	251,900	32,100	85,440	42,230	66,000	22,246	153,200	653,116
6	249,700	32,530	83,040	41,984	67,000	22,856	134,200	631,310
7	229,700	35,060	89,400	44,970	63,000	23,286	117,500	602,916
								\$4,797,830

*Includes cost of fringe benefit program, which was 10% of base salary.

†Salary of Jim Sprague's predecessor.

CASE EXHIBIT 5-4**District Contribution to Corporate Administrative Expense and Profit, 2000**

District	Sales (thousands)	Gross Profit (thousands)	Selling Expenses	Contribution
1	\$ 7,812	\$ 3,178	\$ 776,832	\$ 2,401,168
2	7,480	3,058	702,692	2,355,308
3	6,812	2,478	737,058	1,740,942
4	6,636	2,590	696,306	1,893,694
5	6,420	2,372	653,116	1,718,884
6	6,410	2,358	630,752	1,727,248
7	6,210	2,620	600,516	2,019,484
	\$47,780	\$18,654	\$4,797,272	\$13,856,648

CASE EXHIBIT 5-5**District Sales and Gross Profit Performance by Account Category, 2000**

District	A	B	C	Total
Sales by Account Category (thousands)				
Northeast	\$1,830	\$3,362	\$1,620	\$6,812
North-central	1,502	3,404	1,304	6,210
Gross Profit by Account Category (thousands)				
Northeast	\$712	\$1,246	\$ 520	\$2,478
North-central	660	1,450	510	2,620

CASE EXHIBIT 5-6**Potential Accounts, Active Accounts, and Account Call Coverage, 2000**

District	Potential Accounts			Active Accounts			Account Coverage (total calls)		
	A	B	C	A	B	C	A	B	C
Northeast	90	381	635	53	210	313	1,297	3,051	2,118
North-central	60	286	499	42	182	216	1,030	2,618	1,299

CASE A-5

HANOVER-BATES CHEMICAL CORPORATION (continued)

operation. Chemicals purchased from a broad range of suppliers were mixed according to a variety of user-based formulas. Company sales in 2000 had reached a new high of \$47,780,000, up from \$43,960,000 in 1999. Pretax profit in 2000 had been \$7,644,000, up from \$6,338,000 in 1999. Hanover-Bates had a strong balance sheet, and the company enjoyed a favorable price-earnings ratio on its stock, which was traded on the over-the-counter market.

Although Hanover-Bates did not produce commodity-type chemicals (e.g., sulfuric acid), industry customers tended to perceive minimal quality differences among the products produced by Hanover-Bates and its competitors. Given the lack of a variation in product quality and the industrywide practice of limited advertising expenditures, field sales efforts were of major importance in the marketing programs of all firms in the industry.

Hanover-Bates's market consisted of several thousand job shop and captive (i.e., in-house) plating operations. Chemical platers process a wide variety of materials including industrial fasteners (e.g., screws, rivets, bolts, washers), industrial components (e.g., clamps, casings, couplings), and miscellaneous items (e.g., umbrella frames, eyelets, decorative items). The chemical plating process involves the electrolytic application of metallic coatings such as zinc, cadmium, nickel, and brass.

Regardless of the degree of plating precision involved, quality control is of critical concern to all chemical platers. Extensive variation in the condition of materials received for plating

requires a high level of service from the firms supplying chemicals to platers. This service is normally provided by the sales representatives of the firm(s) which supply the plater with processing chemicals.

Hanover-Bates and the majority of the firms in its industry produced the same line of basic processing chemicals for the chemical plating industry. The line consisted of a trisodium phosphate cleaner (SPX), anisic aldehyde brightening agents for zinc plating (ZBX), cadmium plating (CBX), and nickel plating (NBX), a protective postplating chromate dip (CHX), and a protective burnishing compound (BUX). The company's product line is detailed in Exhibit 5-7.

Company Sales Organization

The sales organization consisted of 40 sales representatives operating in seven sales districts. Sales representatives' salaries ranged from \$28,000 to \$48,000 with fringe-benefit costs amounting to an additional 10 percent of salary. In addition to their salaries, Hanover-Bates's representatives received commissions of 0.5 percent of their dollar sales volume on all sales up to their sales quotas. The commission on sales in excess of quota was 1 percent.

In 1998, the national sales manager of Hanover-Bates had developed a sales program based on selling the full line of Hanover-Bates products. Anticipated benefits included the following: (1) sales volume per account would be greater and selling costs as a percentage of sales would decrease; (2) a Hanover-Bates sales representative could justify spending more time

CASE EXHIBIT 5-7

Product-Line Data

Container Product	Size	List Price	Gross Margin	Sales (000)
SPX	400 lb drum	\$160	\$ 56	\$7,128
ZBX	50 lb drum	152	68	8,244
CBX	50 lb drum	152	68	7,576
NBX	50 lb drum	160	70	9,060
CHX	100 lb drum	440	180	8,820
BUX	400 lb drum	240	88	6,952

with such an account, thus becoming more knowledgeable about the account's business and better able to provide technical assistance and identify selling opportunities; (3) full-line sales would strengthen Hanover-Bates's competitive position by reducing the likelihood of account loss to other plating chemical suppliers (a problem that existed in multiple-supplier situations).

The national sales manager's 1998 sales program had also included the following account call frequency guidelines: A accounts (major accounts generating \$24,000 or more in yearly sales)—two calls per month; B accounts (medium-sized accounts generating \$12,000 to \$23,999 in yearly sales)—one call per month; C accounts (small accounts generating less than \$12,000 yearly in sales)—one call every two months. The account call frequency guidelines were developed by the national sales manager after discussions with the district managers. The national sales manager had been concerned about the optimum allocation of sales efforts to accounts and felt that the guidelines would increase the efficiency of the company's sales force, although not all of the district sales managers agreed with this conclusion.

It was common knowledge in Hanover-Bates's corporate sales office that Jim Sprague's predecessor as northeast district sales manager had not been one of the company's better district sales managers. His attitude toward the sales plans and programs of the national sales manager had been one of reluctant compliance rather than acceptance and support. When the national sales manager succeeded in persuading Jim Sprague's predecessor to take early retire-

ment, he had been faced with the lack of an available qualified replacement.

Although most of the sales representatives had assumed Hank Carver would get the district manager's job, he had been passed over in part because he would be 65 in three years. The national sales manager had not wanted to face the same replacement problem again in three years and had wanted someone in the position who would be more likely to be responsive to the company's sales plans and policies. The appointment of Jim Sprague as district manager had caused considerable talk, not only in the district but also at corporate headquarters. In fact, the national sales manager had warned Jim that "a lot of people are expecting you to fall on your face. They don't think you have the experience to handle the job, and in particular, to manage and motivate a group of sales representatives most of whom are considerably older and more experienced than you." The national sales manager had concluded by saying, "I think you can handle the job, Jim. I think you can manage those sales reps and improve the district's profit performance, and I'm depending on you to do both."

