IIHMR UNIVERSITY

School of Pharmaceutical Management

MBA Pharmaceutical Management

Batch-09th (2017-2019)

First Year

Human Resource Management

Term Examination

Time - 3 Hour **MM-70**

The question paper contains 6 printed page.

INSTRUCTIONS : Please attempt as many number of questions from sections B and C so as to get a maximum total of 60 marks

Note: The Question Paper consists of three sections.

Section A-SEPARATE sheet attached - consists of 12 multiple choice/ one word/ true-false answer type questions. **Please attempt any ten questions .** All questions carry one mark each. Prefer to complete this part first in maximum 15 minutes. **Attach this sheet to question paper.**

Section B- Consists of short notes type answer. Each of which carry 10 maximum marks. **You may attempt maximum 3 questions from this section.**

Section C - consists of 4 questions based on BIOMED CO., LTD.: DESIGNING A NEW SALES COMPENSATION PLAN (part reproduced here) . **Each question carries 15 maximum marks.**

Section B : You may attempt maximum 3 questions from this section. (10 Marks Each)
Write Short Notes on

a) Human Resource Planning
b) Performance and Potential Appraisal
c) Managing Employee Exits
d) Career Management and Competency Mapping
e) Recruitment and Selection
f) Internal Mobility (Promotion/ Demotions/ Transfers)

Section C : Each question carries 15 maximum marks

Q.1 **Compare** the job description of Sales Representative of BioMed Co. Ltd. for existing and new sales strategy.

Q.2 Based on the information given in the case, identify **7 qualitative indicators** of performance and **7 Key Result Areas (KRAs)** for the sales representative as per the new sales strategy.

Q.3 Comment on the old compensation plan and propose a new compensation plan for the Sales representative.

Q.4 Propose atleast 6 need based themes with narrative contents to train the sales team as per requirements of revised strategy

Q.5 What implications will the new strategy have on HRM issues of :

a) Attracting, Retaining and Managing Talent at BioMed Co. Ltd

b) Morale and Motivation of Sales Representatives

c) Factors of Job Evaluation (Factor Method)

Part Case BIOMED CO., LTD.: DESIGNING A NEW SALES COMPENSATION PLAN ***Reproduced***

Existing Sales Strategy

Sales Role

Given that the sales representative was the only person who touched the customer, the role of the salesperson was complex. The current role and goals could be described as:

- Generate sales according to quota.
- Find new accounts.
- Build and maintain relationships between customers and Biomed.
- Negotiate prices with customers within a given range.
- Decide whether customers should receive 30-day credit or 60-day credit.
- Take orders.
- Listen to customer complaints and provide feedback to management.
- Gain and share market intelligence.

Existing Compensation Plan

The existing compensation plan had three components:

Salary: The current salary was THB5,000 per month (THB60,000 annually).
Commission: Sales reps received 1.5 per cent of sales volume with a progressive ramp. Sales above 100 per cent of targeted annual sales were compensated at three per cent. Targeted annual sales per rep were THB2 million, on average.
Quarterly bonus: A bonus was paid at the end of each quarter if the year-to-date sales quota was achieved for the quarter. This bonus was retroactively paid whenever year-to-date sales reached quotas. Overall, the compensation package was on par with the rest of the industry

EXISTING COMPENSATION PLAN

Component	Base Salary with Commission and Bonus	
Base Salary	THB60,000	
Commission on sales volume*	Performance To Goal To 100% Beyond 100%	Commission rate 1.5% 3%
Quarterly bonus	Performance Q1 Achieve 100% of Q1 YTD Goal Q2 Achieve 100% of Q1-2 YTD Goal Q3 Achieve 100% of Q1-3 YTD Goal Q4 Achieve 100% of Q1-4 YTD Goal *Bonus for previous quarters are retro-backed when YTD goal is achieved	Bonus THB3,000 THB4,000 THB5,000 THB6,000

**Sales were credited when money was collected.*

THB is currency of Thailand (Thai Bhat)

Expenses

Each sales representative received a basic allowance of THB380 per day. This was to cover all costs, e.g., fuel, hotel costs, entertainment expenses and cell phone. This level of allowance typically covered a basic hotel room and daily meals. No additional expenses were reimbursed. The expense allowance had an incentive portion. Regardless of territory, if year-to-date sales reached a certain level, the daily allowance would increase as follows:

Sales Volume YTD (THB)	Allowance/day
0 – 500,000	THB380
500,000 – 1,000,000	THB420
1,000,000 – 2,000,000	THB460
2,000,000 and above	THB500

Other Benefits

Sales reps were entitled to the same basic benefits as other Thai Drugs employees. This included a medical insurance plan and a company contribution of seven per cent of salary to the provident (retirement) fund.

New Market Strategy

Although management decided on changes in market focus, products and price, the overall value proposition would remain the same, i.e., high quality products backed by excellent service. The key changes inherent in the new market strategy were:

Product Market Focus

From the strategy review, management decided that Biomed's products could not compete in the low-price hospital market. The new product market focus was to be on drugstores and doctor clinics.

Product

Instead of selling more than 100 items, the new strategy was to focus on only 10 to 15 items and to reduce the prices on these select items. The rationale was that by focusing on the right items at the right price, it would be possible to gain larger orders with two subsequent benefits. First, Biomed would lose fewer orders because of price. Second, combining large orders of fewer items would make it possible to have longer production runs. This would yield economies of scale and lower the unit cost of these selected products. This would lead to more contribution and provide more room if further price cuts wererequired.

The items selected would have three main characteristics. From a costperspective, there must be enough room to be able to lower the price to the same range as competitors. Since Thai Drugs had strength in manufacturing sugar coated tablets and formulating multivitamins, which were skills that not all manufacturers had, these drugs would be preferred over other basic tablets and capsules. Finally, products that had sold well in the past were also good candidates, since it meant that customers valued these products as high-quality products.

Price

Selling prices would be reduced to the low-medium to medium price range. However, not all prices would be reduced. Price reductions would tie into the reduced set of products upon which Biomed decided to focus.

THE NEW MARKET STRATEGY AND BIOMED'S SALES STRATEGY

After digesting the new strategy, Chiemchanya was in a position to think about the implications for Biomed's sales strategy. Before jumping into redesigning the compensation system, he knew that it made sense to review the overall implications for the sales strategy, and then to revisit the role of the sales rep under the new strategy.

Implications for the Sales Strategy

In the new market strategy, the biggest changes included reducing market scope, lowering selected prices, focusing on 10 to 15 items, and the resulting challenge of generating both volume and THB contribution from this sharper product/market focus. Chiemchanya thought that instead of focusing on sales volume, looking at each sale on a contribution basis might make sense. This would mean that reps would have to consider the cost of the products, transportation costs and ordering costs before deciding to accept an order. This would require training.

In addition, each sales representative would have to promote the same selected 10 to 15 products so that, collectively, the sales volume for each item from all territories would increase dramatically. This would lead to economies of scale in production and lower unit costs. Sales representatives would have to learn how to convince customers to purchase the items upon which Biomed wanted to focus. This would change the conversation when visiting customers. Sales reps would have to sell versus simply taking orders for any products that the customer wanted.

Finally, hospitals would not be targeted. This change would have minimal impact on sales reps, whose volume came from drugstores. However, there were some sales reps who had a lot of sales activity within the hospital segment. How could Chiemchanya encourage these reps to change their planning and working style to focus away from hospitals?

The New Sales Role and Goals

The sales force would remain as the single point of contact with the customer. Sales reps would still have a complex set of tasks, and many of the tasks in the old strategy would transfer to the new. As Chiemchanya reflected, he thought the new sales role would have as its overarching purposes: being the single point of contact with the customer, and being the THB contribution generator for the company. He thought the following tasks would make up the sales role.

Generate THB contribution, which included the tasks of:

- Price negotiation — sales representatives would have autonomy to negotiate prices with customers within a range.
- Credit evaluation/provision — sales representatives would have autonomy to decide whether a customer should receive a 30-day or 60-day credit.
- Taking orders.

Focusing on contribution margin would fit perfectly with the new strategy. Biomed's new market strategy had prices going down, so reps need to combine these decreases in unit contribution with increased volumes on an order-by-order basis to ensure company profitability. Reps would be informed of the "loaded" cost of goods, including the variable cost of the product, the transportation cost for each order, and the ordering costs. They would be responsible to negotiate with the customer to reach the price and order quantity that maximized THB contribution.

- Focus selling efforts in drugstores and doctor clinics.
- Find new accounts.
- Build and maintain relationships between the customer and Biomed.
- Focus selling efforts on 10 to15 items selected by management.
- Listen to customer complaints and provide feedback to management.
- Gain and share market intelligence.

Chiemchanya was still not comfortable jumping to a compensation system that would encourage the accomplishment of the tasks inherent in the new sales role. He thought it was important to set explicit goals against each of these tasks. In the past, only one goal had been set: a sales volume goal. He wanted to be much clearer under the new sales strategy and came up with a specific list of tasks and their associated goals .

Task	Goal
Generate THB contribution	THB contribution against a quota which might vary by territory
Focus selling efforts on drugstores and clinics	At least 60% of contribution derived from drugstores and clinics (with allowances for reps who currently have a large number of hospital accounts)
Find new accounts	Number of new accounts/year, which might vary by territory
Build and maintain relationships between customer and company	Volume of repeat sales
Focus selling efforts on 10 to 15 items selected by management	75% of contribution derived from the focused items (derived from management's estimate of what is required to achieve economies of scale)
Listen to customer complaints and provide feedback to management	Monthly report of customer complaints, feedback
Gain and share market intelligence	Monthly market intelligence report

DESIGNING THE COMPENSATION SYSTEM AND NEXT STEPS

Chiemchanya believed that he was now set to revamp the sales compensation system at Biomed to reflect the new market strategy. He knew that he was following a logical path since he had translated the market strategy into a new sales strategy with a revised sales role and associated goals. He wondered how he would judge the new system as he designed it. Although Chiemchanya was confident that he had developed a logical approach to redesigning the compensation system, he knew that his task did not end with the compensation system documented on a piece of paper. Two other issues still dogged him.

The first was the implementation of the new plan. Anytime a manager makes decisions that potentially have an impact on someone's wallet, careful thought needs to be given to the communication of the proposed changes. There also has to be consideration of any protection that might be given to reps as they move from one system to the next. In addition, if the new plan required the use of territory-specific targets or quotas, deriving these would have to be done in a manner deemed to be fair and equitable by the sales reps. The first person to get on board would be the sales manager. He could act in concert with Chiemchanya to sell the new approach, although Chiemchanya surmised that the initial reaction of the sales reps would be negative. The new plan required changes in behavior, and the sales reps may feel that their income would be at risk as a result.

The second issue that kept Chiemchanya awake at night was the sense that, although important in supporting the new strategy, there were many other things required from the sales program in order to ensure the success of the new market strategy. Chiemchanya needed to think through any training interventions that would be required. He also had to think through whether or not all the sales reps were suited to the new sales role. It is different selling on volume than selling on contribution to a focused market segment with a focused set of products. What if some reps could not make the switch? He also needed to determine whether or not there was a place for recognition, in addition to rewards, to encourage the desired behaviors under the new strategy.