

Telling the Rep's Story

Published by
Manufacturers Representatives Educational Research Foundation (MRERF)

The constantly changing marketplace has created an atmosphere that continues to emphasize the importance and growth of the manufacturer's sales rep—the only catch is that the rep must be savvy enough to turn those changes to his advantage. Heading the list of variables that are at work is the fact the marketplace has evolved to a point where "the customer is king." In no particular order, that important development is followed by:

- a continued focus on the importance of cost in bringing product to market
- the downsizing of many manufacturing firms including their sales operations—coupled with a move toward outsourcing
- the demand for more product knowledge and technological support
- advances in technology
- growth of international trade.

Today's independent manufacturers rep brings to the marketplace a wealth of talent that allows him to address those needs not the least of which is his ability to communicate compelling reasons why he and not the factory direct salesperson is the most effective means for servicing customers and delivering product.

The Customer Is King

Considering the "customer is king" trend first, it wasn't that long ago that the means for delivering product to the end-user customer were well established and reflected the maturity of the marketplace. Manufacturers either sold direct or through distribution—often making use of the manufacturer's rep primarily for the value they added in the marketplace. Times have changed, however, and now customers and manufacturers have more options at their disposal for selling and buying products. That phenomenon has firmly placed on the shoulders of reps the onus of proving their worth in the marketplace. In addition, what has been dubbed as "customer anarchy" by some, is in reality a simple matter of the marketplace having and exercising choices—choices they didn't have in the past. What this means is that at the same time the customer has discovered and made use of any number of means to get product into his hands, the manufacturer has developed any number of means by which he can take his products to market.

It used to be that manufacturers sold products through a well-established network of reps and distributors. Now, however, with the advent of "super buyers" such as Wal-Mart and The Home Depot, mail order catalog firms and even the internet, buyers and sellers have any number of options at their disposal.

Ultimately, what has grown among some of the buyers and sellers has been a feeling that the rep is a separate, unnecessary layer in the channel. For instance, consider the move by Wal-Mart to deal direct with principals, thereby bypassing the independent rep. Why? By exercising that option, this "super buyer" feels it can get a better deal.

What all too often results is that in this kind of an effort to reduce costs (i.e., the rep's commission) manufacturers and / or customers make an effort to eliminate the rep—citing the rep as an "intermediary" (or cost adder) rather than an integral part of the buying/selling process. But rather than viewing the rep as a separate channel, a more precise view is that reps are an "outsource function of the selling process," meaning they

are a marketing arm, offering the lowest price, value-added services, and premium territory coverage. Reps, in fact, are not a step or an unnecessary intermediary in the distribution channel, but rather are a necessary means to employ in order to sell the principal's product. The message should be driven home that independent reps provide what customers need and are a permanent fixture in their respective territories.

Calculating the Cost

The most glaring aspect of viewing the rep as an intermediary in the marketing/selling process is the fact that the cost savings and value-added services the professional independent rep contributes are often overlooked. Admittedly, getting your arms around the cost of independent sales reps vs. the direct sales force (DSF) is a formidable task given any number of concerns that may alter the view. Among the considerations that come into play when deciding whether to go the route of dedicated sales force or an independent sales agent is the sticky issue of how much one or the other costs.

For instance, when a manufacturer adds sales personnel, he had better consider their full cost, including the additional management required. What is the cost for executive and clerical personnel needed to manage a direct sales staff in all the desired territories? Balance the answer to that question with the cost for executives and clerical people to manage and work in concert with an agent. In addition, what about the paperwork necessary to keep a direct sales force on the road; the manufacturer's contribution to Social Security; taxes; and a myriad of other fringe benefits such as vacations, medical coverage and other insurance; training and personnel turnover? And, once again, balance that cost against the absence of it when contracting with independent reps.

It's no secret that a dedicated sales force carries with it the variable cost-to-sales ratio. When business is good, the cost goes down; but when business is bad, the cost goes up. As the decision is being made to go with an agency vs. the dedicated sales staff, that fact has to be uppermost in the manufacturer's mind. The independent agent sales force, on the other hand, has a fixed cost-to-sales ratio. The commission is agreed upon ahead of time during negotiations—and, that commission is paid only if the sale is made.

Commission agreements with reps, unfortunately, often lead to the question of whether reps make too much money. The fact is that some reps make more money than others, and many even make more than the sales managers who hired them. But, a reasonable look at the reps' income must take into account the fact that they are independent businessmen who have assumed all the risks of self-employment. And, while their income may rise considerably, they can only increase at the same time they make the principal successful.

Remember that the keystone of agency selling is that agents are paid only for results achieved. Unlike many all-commission company sales forces, the agency, not the manufacturer assumes all selling costs (including fixed costs, such as running a sales office and the usual variable costs of selling, such as entertainment). Such a system offers high rewards to achievers—and quickly puts the others out of business. The Darwinian nature of the system attracts, retains, and motivates excellent salespeople, who operate at variable cost to their manufacturers. Further, representation begins as soon as the agency is signed, not when recruiting and training are finished and contracts have finally been developed. In short, reps offer efficiency, variable cost, and immediate results, a package any manufacturer finds appealing.

In addition, the most commonly cited advantage of reps is the "economy of scale" they achieve by pooling the products of several manufacturers. With a broader range of product types and brand names to sell, reps are more likely to recoup the cost of a call than are most direct salespeople. This means they can justify calls that are not worth a company salesperson's time. And by shrewdly combining products, reps can generate synergy among the brands, using one to help sell another.

One rep who has taken a swing at the subject of the cost of a DSF vs. independent reps is Bill Trembly, Trembly Associates, Inc., Albuquerque, NM. Trembly offered this analysis: "It is so important when a principal is evaluating the possibility of going direct or a representative is contemplating adding a salesman that the cost of fielding a salesman be analyzed correctly."

For a rep firm, that cost "can very simply be calculated by taking the total of the annual expenses and dividing that by the number of salesmen fielded."

Trembly further stated that the "total expenses" he referred to "should be the total of all of the checks written from your company or your corporation account divided by the number of salesmen you field."

"If you are a principal, taking the annual cost of the field sales personnel, their internal support staff, and overhead, divided by the number of salesmen in the field will give you the same result. There have been many articles in periodicals from many university schools of business that provide the same number when using this technique. So, there is a very good correlation in the industry.

The following is a table of these averages:

TYPICAL SALES REPRESENTATIVE FIRM ANNUAL COST PER SALESPERSON

<u>Number of full-time outside salespersons</u>	<u>Cost per salesperson</u>
1 to 3	\$129,500 to \$139,500
4 to 5.....	\$135,000 to \$145,000
6 to 10	\$144,000 to \$163,000
11 to 15.....	\$146,000 to \$167,000
16 to 20.....	\$143,000 to \$164,000
20 and up.....	\$139,600 to \$158,200

This chart was generated from data collected on annual surveys of U.S. representative firms in 1994 and 1995 and represents averages. The cost per salesperson was obtained by simply dividing the total rep firm annual expense (i.e., total of checks written) by the number of salesmen fielded.

The representative of the manufacturer considering adding a new salesman must plan for this total cost when fielding a new salesman. This is the real cost you should plan for and use in your diagnostics for calculating how much sales must be generated by each salesman to generate a profit.

If you use this method in calculating the cost to field a salesman, you will find it will typically fall within the ranges in the table cited. If the total from your corporate or company checkbook for the year, divided by the number of salesmen you field is below this range, congratulations! You have been able to run your organization in a more efficient way than most.

Those rep firms working out of their homes and absolutely minimizing their costs, will find that their cost is in the low end of these ranges. Those with an office or multiple offices with approximately eight, nine, or more salesmen, will find they're right in the middle of this range. Those principals that use the methods mentioned above will tend to be in the higher portion of this range. In many cases, the manufacturer's cost is usually in the upper portion of each range per salesman. The representative, therefore, offers an outstanding advantage to the principal to field his products with the lowest costs of sale of any other method we know of in the free-enterprise system. Splitting that cost of fielding the salesman among a number of lines, not only provides sales at lower cost, but provides a much broader selection of products and in turn many more solutions to problems than a direct salesman could provide."

While Trembly has provided a well-founded look at the cost of the rep, coming up with as accurate a means to gauge the cost of the DSF appears to be a bit more difficult because those costs will vary depending upon the needs of the individual principals and the marketplaces they are serving.

Adding his thoughts to this subject is author and consultant Harry Novick. Novick, president of Novick & Associates, Inc., a general management and industrial marketing consulting firm, maintains in his book *Selling Through Independent Reps*, that it's only large manufacturers that can afford to employ a sufficient number of salespeople to provide intensive coverage of their target markets who enjoy the "undiluted effort" on the part of their sales staff. "Smaller manufacturers, profit centers with a manufacturer, or the marginal market cannot afford that kind of sales staff. There just will not be sufficient selling hours available to provide intensive coverage of many prospects over a wide geography."

Expanding on that thought in an article scheduled later this year in *Agency Sales* magazine, Novick added: "As independent reps operate on a purely commission basis and are typically paid either on the shipment of the order or when the manufacturer gets paid, reps become the preferred channel from a cost point of view."

The subjects of costs and the independent manufacturer's rep haven't escaped the attention of Tim Coakley, CPMR, and president of Coakley, Boyd & Abbett, Inc. (New England). In an article that appeared in the Fall 1996 issue of *The Representor*, Coakley stated his view that as pressure mounts from customers to keep costs under control "principals and customers are looking for and drumming out redundancies all through their companies." He further maintained that in the search for that goal of reducing costs, the sales function will not be overlooked. In an effort to focus on cost redundancy "field sales cost will be heavily scrutinized. Principals will critically assess rep commission rates, but manufacturers now using direct sales forces will likewise closely evaluate those costs."

Taking a bit of a different approach when it came to comparing the direct sales force with the agency was John Greenwald, CPMR, Intelligent Control Devices, Denver, Colorado. He maintained that too often the comparison between the two is made strictly on the basis of salary vs. commission—but there's much more to it than that: "One of the big advantages of the rep when considering whether to go with the rep or the direct sales force is that in

addition to his commitment to the principal and the customer, the rep also has a commitment to his community. Remember, the rep isn't looking to move up and out; he's there for the long haul. He possesses a personal and business strength in the community. The position he occupies is not a stepping stone to something bigger and better. On the other hand, when a direct salesman is put out in the field, that's exactly how he looks at it and many times the relationships he establishes are wasted when he does make that move. The rep, on the other hand, establishes those relationships that last him and serve him for his entire career." Greenwald continued that while you can still have a certain amount of personnel turnover at the agency, "the management remains the same to provide the established business direction."

He added that something else important that is often missed when comparisons are made in an analysis is that of the cost of personnel. While it may be very difficult to put a real dollar figure on it, "there is a cost to personnel that the manufacturer takes on with a direct sales force. There's training, turnover, and various legal costs that all must be factored into the cost of conducting business. Too often, all that is considered is the cost of salary vs. commission and that's not accurate."

Manufacturer Downsizing

In the article cited previously, Coakley predicted that sales management "will also come under a microscope. Some manufacturers are already operating with fewer people dedicated to marketing, and reps can expect to be asked to fulfill more of that function in the future."

He emphasized how the rep can turn that movement to his advantage in the marketplace: "Outsourcing is in, and there are going to be some excellent opportunities available to us because we have the advantage of being the low-cost alternative." Left unsaid in that statement, however, is the critical need for the rep to communicate that "low-cost" message to the marketplace.

In summation, Coakley offered this take of how the cost-to-market scrutiny can work to benefit the rep: "remember the good news. That same spotlight is going to be placed on the direct sales force cost as well, and the result, will be some outstanding opportunities for us as reps."

Technological Advances

Think for a moment about how business is conducted today compared to just a few years ago. Manufacturer and customer demands are greater now than they've ever been; and, luckily for the manufacturer, the customer and the rep, technology has come to the rescue with any number of tools which meet the demands for more and better service. It's the professional rep who has already come to grips with the need for those tools and has integrated them into his daily operations.

To say that computer literacy is a need today is an understatement. Along with that literacy comes the need to be equally adept with everything from the Internet, e-mail, fax capability and EDI. The efficiencies and increases in productivity through the use of these tools ensure the rep's place in the marketing channel.

International Trade

Another mark in the plus column when considering the value of the independent rep has developed with increases in international trade. One of the first things foreign companies

considering expansion into U.S. markets see is the fact they can effectively and efficiently cover new territories through the use of reps. Reps are the low-cost option and have direct access to an established customer base to promote new foreign products. In addition, reps possess the ability to identify and sell to smaller companies in the U.S. market--companies that foreign manufacturers have little familiarity with.

Accompanying this development of foreign companies seeking to conduct business in the U.S. is the fact U.S. companies are now a major presence in the global marketplace—hence, companies going abroad face the need to keep their domestic costs as low as possible. As a result, they're developing foreign markets and must combat high sales costs that must be subsidized by U.S. sales. Thus, the move domestically toward independent reps.

— John J. Foster

Advantages of a sales agent:

- Provide immediate entry into a territory
- Provide regular calls on customers and prospects
- Provide quality salesmanship
- Provide predetermined selling expense—a percentage of sales as their commission

The Truth About Reps

In his book, "Selling Through Independent Reps", author and consultant Harry Novick made the following points when discussing "Some True Statements About Reps": What you see is what you get and he urged principals to "use reps for what they are good at and do not expect them to perform in other areas." You Are Faced With a Second Set of Competitors. While all the other lines carried by the rep are competitors for the principal's selling time, they do present an opportunity. "The great majority of reps have a number of manufacturers that are not truly precise fits with the rep's capabilities and interests, and others do not properly support the rep. The astute manufacturer can gain more than a fair share of a rep's time by precise selection and support of them." Novick continued that while selling through reps is more complex than with a direct sales force, at the same time it also carries with it:

1. Professional salesmanship
2. Customer continuity
3. Commitment to selling
4. The ability to provide customers business entertainment
5. The benefits of synergistic products with their complementary product lines they call on the same specifiers and influencers in the same industries on the same types of applications that you need for market penetration.
6. Knowledge of the customer's processes
7. Cash flow with a DSF, investment in salary occurs before results can be expected.
8. A variable selling expense

9. Improved return on investment
10. Lower administrative cost
11. A business advisory source

Disadvantages of a sales agent:

- control over their selling techniques is more limited than when the manufacturer trains and uses their own employees
- When a contract is cancelled, the agent may take many of the customers with him.
- On a large volume of sales, the selling expense may be greater than it would be with the manufacturer’s employees.
- Agents’ allegiance to the manufacturer and its products is not total because they serve other clients at the same time. Extra financial incentives may be needed to push the manufacturers’ products.

	Direct Sales	Sales Agents
Training	Time consuming, high cost	Enter the field quickly, minimal training
Type of Selling	Salesman is a product specialist	Salesmen are specialists in selling
Selling Time	More time on specific products	Part time selling your products, but you have the benefit of the entire agency
Experience	Depends on manufacturers’ needs	Experience in the territory and industry
Opening New Territories	Takes considerable time to develop a new territory	Have a built-in following in their territory--can hit the ground running
Cost	Total cost of employee	Only paid percentage of sales
Paperwork	Payroll and all related clerical	Commission statements only
Control	Complete control and direction	Operates according to agreement

What the Future Rep Needs

In an article that appeared in the Fall 1996 issue of The Representor, Tim Coakley offered the following characteristics the field sales rep of the future ought to not only possess, but should communicate to principals and customers:

- The field sales role will be highly focused on developing and defending the partnerships.
- Field salespeople will become systems sellers.
- Principals will demand and expect much higher quality marketing and non-sales intelligence efforts from field salespeople.

- The post-sales roles of field sales will be modified and re-prioritized to become more important definers of "value."
- Field salespeople must take their competence to a new level.
- Principals must heavily invest in cost-effective and time-sensitive field sales training.
- Reps, with inherently more partnering opportunities, will have significant advantages over direct sales competitors.
- Many manufacturers now selling via direct sales forces will change to reps, both in total and in hybrid configurations. Reps will become an even more viable outsourcing option.
- Reps will be selected because of their competence and their partnerships, and significant (OEM) customers will have influence.
- Creative rep compensation experiments will flourish; a few will stick
- More creative and nontraditional rep-principal contractual relationships will arise.
- Rep-principal and rep-internal communications will be real-time, reducing rep administrative needs.
- Multiple territory reps will be an accepted alternative with advantages to sell, but not everyone will buy.
- Reps and principals will partner, much like customers and suppliers.

Comparing the DSF and the Rep - More Reasons to Go With Reps

In addition to cost efficiencies, additional advantages of principals contracting with reps include:

- Since contracts with reps are agreed upon in advance, principals know the cost of sales.
- If principals are not satisfied with the job being performed by the rep, they can cancel according to the terms of a negotiated time frame.
- Reps only get paid when they have made the sale
- While reps are in the territory talking with customers about other products, they provide the principal with constant product exposure.
- Perhaps the rep's major strength is that they are experienced sales people. The average age a rep starts his company is 40.
- Reps live and work in the sales territory and can be the principal's first and least expensive contact if there is a service problem.

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