

FORTUNE

OUTSOURCING FIELD SALES

©1999 Time Inc. Printed in the U.S.A. #99051



Manufacturers Representatives
Educational Research Foundation

**A BETTER-THAN-EVER
RESPONSE TO THE
COMPETITIVE
PRESSURES
FACING TODAY'S
TOP EXECUTIVES**

SPECIAL ADVERTISING SECTION
Reprinted from the November 8, 1999 Issue of FORTUNE®

OUTSOURCING FIELD SALES

A BETTER-THAN-EVER RESPONSE TO THE COMPETITIVE PRESSURES FACING TODAY'S TOP EXECUTIVES

As the leaders of corporate America react to the constant pressure for greater profits and faster buildup of shareholder equity, an old solution has quietly been taking on new relevance. To better focus on their core competencies, more companies are recognizing outsourcing as a more effective and economical way to perform many functions—not just security, plant maintenance, payroll, and human resources, but even such complex activities as purchasing and field sales. The trend is visible today in mega-billion dollar world-

18 Benefits of Outsourcing Field Sales

- 1 Predictable sales costs that go up and down with sales
- 2 Standardized sales costs
- 3 Lower sales costs
- 4 Immediate market access
- 5 Broader market penetration
- 6 More experienced sales force
- 7 Multifaceted, multiskilled sales team
- 8 Wider, deeper coverage
- 9 Stronger local relationships
- 10 Reduced sales force turnover
- 11 Training required only on product
- 12 Closer-to-the-customer forecasting
- 13 Better market intelligence
- 14 Increased sales
- 15 Knowledgeable advice and information—hear it like it is!
- 16 Risk-free exploration of new market niches
- 17 Problem-solving approach outperforms product selling
- 18 Vested partner in manufacturer's success

wide companies like IBM, Maytag, or 3M, as well as in start-ups and companies with more limited resources. Professional field salespeople who are not on the company payroll, and who don't get paid until they actually sell something, are now more than ever the choice of companies that had not previously chosen the independent manufacturers' representative route.

The surge toward outsourcing field sales to professionals probably has as many roots as there are manufacturers moving in this direction. Performance-based compensation may be a buzz-

word today in the executive suite, but it's been an ongoing reality in the world of sales for decades, if not centuries.

Companies with adequate resources to fund captive sales organizations are newly stimulated to recruit manufacturers' representatives as a practical approach to downsizing. Diversification into multiple markets and specialized distribution channels leads others to outsource their field sales. They thus explore new opportunities without the major financial commitment involved in building, training, and maintaining their own niche market sales forces. The opportunity to lower overhead and to standardize sales costs has convinced many manufacturers to utilize representatives even when sales volume would cover the expense of a dedicated sales force. With outsourcing, a company can cost-effectively deploy a multifaceted team instead of a single individual, and gain greater results for fewer dollars.

Today's sophisticated manufacturers' representative is professional, multifaceted, technologically adept, and everywhere. Today he may be traveling around the territory to call on customers, tomorrow, around the world to meet with principals. And as the rep will be quick to remind the sales managers he reports to (and their CFOs), he buys his own tickets and pays his own expenses.

WHAT IS A MANUFACTURERS' REPRESENTATIVE?

Manufacturers' representatives are independent professional providers of field sales and marketing services to manufacturers or suppliers. They typically handle a portfolio of related but noncompetitive product lines, working under a contractual arrangement within a defined geographic territory, on an exclusive basis within their assigned field of responsibility. In the food industry, these businesses and their people have been known as brokers—although they now prefer the more descriptive term prevalent in some other fields, agent—which accurately expresses the legal relationship with the manufacturers for whom they sell.

Manufacturers' representative firms come in all shapes and sizes, from small defined-focus firms to organizations handling all facets of marketing for their principals, with multiple-staffed offices and 500 or more on staff. Big or small, these firms never forget that their income is directly tied to

personal productivity. They have been quick to adopt the efficiencies afforded by e-commerce and field sales automation—often ahead of their principals—providing sophisticated opportunity tracking as well as instant access to all customer and factory data—inventory status, order status, customer history, etc.

The value that manufacturers' representatives bring—both to those they sell to and those they sell for—

THE VALUE THAT MANUFACTURERS' REPRESENTATIVES BRING— BOTH TO THOSE THEY SELL TO AND THOSE THEY SELL FOR— EMERGES IN GREAT MEASURE FROM THE SYNERGY CREATED THROUGH THE REPRESENTATION OF MULTIPLE LINES.

OUTSOURCING FIELD SALES

emerges in great measure from the synergy created through the representation of multiple lines. Their product portfolios allow manufacturers' representatives to present broad-based solutions to customer problems, rather than the price-and-delivery responses typical of single-product selling. Their consultative approach not only opens the door for other lines, but also adds value and stimulates a partnering relationship with the buyer, as the purchase progresses through an entire project.

There's even more benefit to synergy: the added market potential it offers, the greater market share it creates, and the greater speed of market penetration it facilitates. The multiple-line sales professional can afford to call on customers too small to be profitable for a single line. The new entry into the cutting-tool business gets in the door and on the floor faster, because the company's representatives have already established a relationship with the customer for their abrasives and their grinders. The ability to leverage the entrée created by the other lines in the portfolio gets a vendor into more places, and quicker, than could likely be achieved by a single-line sales force, no matter how aggressive and proficient. Basic economics may drive most manufacturing start-ups to go the rep route... but demonstrated successes keep 50% of all manufacturing companies using reps at least in some territories or market segments—a figure that rises above 80% in the electrical and food service industries.

WHAT A MANUFACTURERS' REPRESENTATIVE IS NOT

Unlike distributors, who take title and add cost to the goods they sell, reps are not an additional channel, nor are

UNLIKE DISTRIBUTORS, WHO TAKE TITLE AND ADD COST TO THE GOODS THEY SELL, REPS ARE NOT AN ADDITIONAL CHANNEL, NOR ARE THEY MIDDLEMEN, OR CHANNEL INTERMEDIARIES.

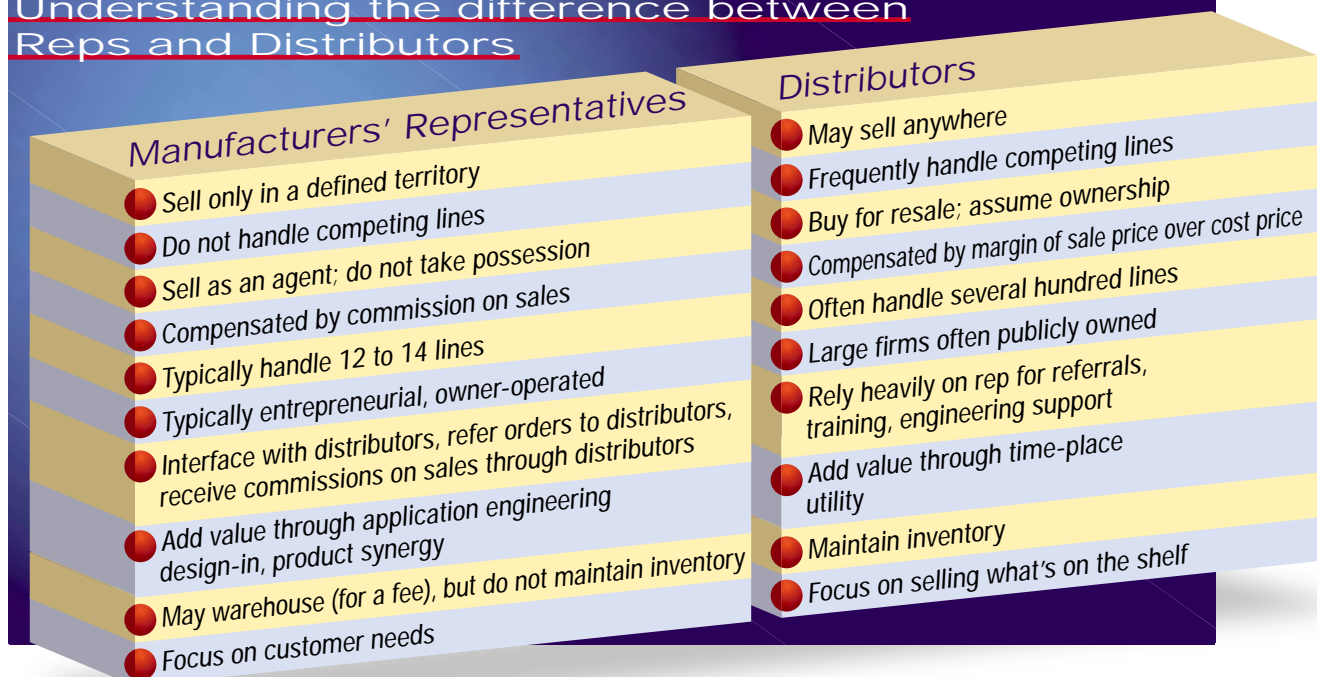
they middlemen or channel intermediaries. They are the manufacturers' sales personnel in the territory, simply paid on a different basis—commissions, rather than salary plus incentive plus expenses. In fact, reaching the channel in the most cost-effective manner is probably the most prevalent reason for choosing the rep route—although manufacturers report that their reps bring them many additional marketplace advantages besides the clear economic benefit of no sales expense until there is a sale.

MORE THAN A SOURCE, A RESOURCE

The ability of manufacturers' representatives to outperform direct employee sales forces starts with the inherent benefits of product line synergy, and continues with the caliber of rep sales personnel. Rep success is directly tied to productivity, so the profession attracts and retains the top talent in each industry—the entrepreneurial, the competitive, the goal-oriented. Moreover, their success is linked to their contacts with customers and distributors in the territory, not with their friends in the corporate hierarchy. The factory-direct salesperson who produces is likely to be promoted, whether to another location or to the home office. Recent Dartnell figures indicate the average stay of a company salesperson in a given territory is only 22 months. For manufacturers' representatives, a figure of 22 years would be more likely!

Being rooted geographically leads to stability of relationships, an important added value in a world where the

Understanding the difference between Reps and Distributors



OUTSOURCING FIELD SALES

customer is king. Another, possibly the most simplistic: the multiple-line sales call is simply more cost-effective. The buyer saves time discussing several needs during a single meeting. Putting together a power transmission system? The rep knows which control will interface most efficiently with the specified motor and power supply.

Because of their multiple-line perspective, reps are more likely to look at the forest, not just the trees. Their job is to add value, satisfying the customer's need and facilitating the flow of goods to the customer, in the way that the customer wants to buy. Astute manufacturers recognize this, and develop compensation programs that compensate the representative on all orders from the territory, whether placed through distribution or direct.

Win-Win-Win the Customer Benefits Too

- 1 Stable relationship with someone who knows the total corporate culture
- 2 Long-term commitment to the territory
- 3 Serves the customer as a multifaceted resource
- 4 More efficient sales calls—cover several products in a single meeting
- 5 Consultative selling
- 6 Bridges the communications gap among departments
- 7 Advocacy, ability to secure exceptions to supplier policy
- 8 Help in order strategy, through distribution or direct
- 9 Perspective on market conditions and trends
- 10 Solutions approach—looking at the forest, not just the trees

Independent contractor sales representatives are not only a source but a resource. They supply in-depth multilevel, interdepartmental coverage, helping to bridge the frequently encountered communications gap between purchasing and engineering. Their advice is cogent because of the familiarity achieved over the years not only with the customer's needs, but also with the customer's total corporate culture. Their greater market exposure gives them access to a broader range of information, which they can analyze with objectivity and added perspective.

ADVOCACY—THE CUSTOMER'S MOST IMPORTANT RESOURCE

The objectivity and perspective that the multiple-line sales professional brings to the table is never more important than when the customer's need diverges from the manufacturer's standard operating procedures. Whether it's a product modification or an expedited delivery, the representative can, and will, fight harder for the customer. The rep has more at stake, with all the other products being sold into that company, as well as more freedom than the direct salesperson to carry his

BECAUSE THEY'RE IN THE TERRITORY FOR THE LONG TERM, REPRESENTATIVES LOOK BEYOND THE SALE TO THE TOTAL RELATIONSHIP.

vendor who succumbs to the pressure must now perform the field sales function in house, and thus must bear the increased costs. If quality, service, and functionality are degraded for short-term number improvement, customers

will go elsewhere; so the vendor protects today's sale at the price of tomorrow's profit. It makes no sense to force suppliers to use second-best sales methods, limit choices by squeezing out small and start-up companies, and stifle open competition and free markets in the process.

The representative's role in advocacy goes hand in hand with that in consulting. Because they're in the territory for the long term, representatives look beyond the sale to the total relationship. Territory knowledge combined with multiple-line exposure and entrepreneurial personality adds up to a wide-ranging perspective on who's doing what, how it's working, and where it leads. The market intelligence gleaned from reps goes far beyond sophisticated forecasting. Good representatives provide immediate feedback that is invaluable to

the manufacturers they represent and to the customers they call on.

THE ECONOMICS OF OUTSOURCING FIELD SALES

Ask any rep, and you'll learn that one of the hazards of the business lies in being perceived as too successful. Recent estimates in the high tech industries put typical yearly costs for a direct salesperson's salary, incentives, office, travel, and other support services in the range of \$260,000. (In commodity businesses, they may run a little less.) The sales in a given territory grow to the \$4 million point, and the sales manager pulls out the calculator. With what the outsourced sales firm is being paid (and commission rates vary widely by industry and circumstances), it seems possible to hire and support someone dedicated to the company full-time.

Good arithmetic. Faulty reasoning. The calculation ignores the costs borne by the representative, as well as the administrative and facilities costs that will have to be added at the manufacturer's end, both in the territory and the home office.

OUTSOURCING FIELD SALES

Also often overlooked is the likelihood that the outsourced team, with its multiple sales personnel and regional systems, will grow the territory faster than can a single direct individual.

What are the costs? The rep not only finances the sale (usually not receiving commission until after the goods have been shipped), but the commission dollar also covers the cost of recruiting, training, employee benefits, travel, client entertainment, automation, order entry, and more. (These typically

Leading Indicators of a Skilled Manufacturer's Representative Firm



add half again to the direct salary costs.) The representative takes on a much broader role than sales alone, whether it's editing, administering, and expediting orders, staffing a trade show booth, or handling a customer return. Eliminating the manufacturer's exposures on a variety of legal fronts is another benefit to outsourcing—workmen's compensation, sexual harassment, and ADA lawsuits, state and local regulations, to name a few of the most obvious.

But anecdotal evidence from countless representatives who have experienced a factory decision to go direct suggests that the real cost lies in the business that goes away. One manufacturer's representative tells of being asked to take back a line that he had lost after building it to the \$5 million range. After 14 months of "factory-direct," there was \$400,000 of business in the territory! In this instance, the manufacturer determined it was more important to save customers than to save face. Not only were all the fired representatives invited back, but field sales in the territories that had previously been direct were outsourced.

MYTHS AND MISCONCEPTIONS

Despite the many economic benefits manufacturers accrue by outsourcing field sales, three persistent myths continue to create resistance in some quarters to using manufacturers' representatives.

One is the myth that surfaces from time to time, in relationship to commodity products, that distributors can handle the entire field sales process. Its subset is that electronic data interchange and e-commerce render personal contact superfluous.

Aside from the difference in selling function (problem-solving or design-in vs. time-place utility), a distributor is hard put to be the advocate for your brand, when he is also stocking and selling the products of your direct competitors, and often a private brand as well. Reps are part of the manufacturer's support system for distributors, working with them cooperatively, not competitively... sometimes even employing personnel assigned full time to create demand among a specific distributor's customers.

The advent of the Internet, EDI, and e-commerce has automated some of the customer service functions that may previously have been part of the rep's purview, but not the value-adding counsel and human interfaces that are so central to the field sales function.

A second myth is that reps don't take a long-term perspective. While it would not be surprising if they thought short-term, given that they often live with contracts with a 30-day termination clause, successful reps have to be invested in their territories, and in their clientele. They view their manufacturer commitments as long-term relationships that must be mutually profitable, but they especially nurture their long-standing customer relationships. They recognize that some sales are a long time in developing, and that even when they materialize, shipments and payments may also be

The Role of the Internet & Electronic Data Interchange in Industrial Sales

How EDI Supports the Sales Function

- Delivers product information and specifications
- Provides published pricing information
- Collects statistical information
- Facilitates checking order status
- Allows placement of order
- Takes care of the "nuts and bolts" so "face time" can be more productive

Where the Use of High Tech Still Requires High Touch

- Create demand
- Train and educate buyer personnel
- Close orders
- Negotiate contracts
- Analyze competitive solutions
- Deal with exceptions
- Identify problems/suggest solutions

OUTSOURCING FIELD SALES

REPS ARE PART OF THE MANUFACTURER'S SUPPORT SYSTEM FOR DISTRIBUTORS, WORKING WITH THEM COOPERATIVELY, NOT COMPETITIVELY.

staggered over a long time. In the interval, the field sales organization, not the manufacturer, has financed the visits, the hand-holding, and the negotiating process.

Perhaps the most damaging myths that reps have to overcome are those that connect

to the control factor. How much control the manufacturer wants is probably more the issue than how much control the manufacturer needs. The sales manager who believes that the sales force needs to be led every step of the way creates a self-fulfilling prophecy!

Unfortunately, reps add fuel to this fire when they refer to themselves and their organizations as independent businesses. Interdependent is a better term, suggests one of the profession's sage practitioners, urging colleagues to think of independence as a legal term, designed to protect manufacturers. Only the representative, not the distributor or the customer, has a vested interest in the manufacturer's continued success and profitability.

Reps do need to be managed, directed, and to some extent motivated. In fact, positive motivation is probably the best way for a sales manager to "control" his outsourced sales force! Establishing a partnering relationship, paying commissions on time, communicating the rep's value to all the departments with whom the rep interfaces, and consistent bilateral decision making lead to getting a greater share of the rep firm's time than the commission income alone would warrant.

EDUCATION, THE ROAD TO CONTINUOUS IMPROVEMENT

As aggressive salespeople, manufacturers' representatives have recognized the need for proactive strategies to keep ahead of the game, and to build their effectiveness as an economic engine. A dozen years ago, a handful of visionaries organized the Manufacturers Representatives Educational Research Foundation (MRERF) and its Institute for Professional Advancement (IPA), to enhance the management skills both of the men and women who operate rep firms, and of those at the manufacturer level who manage reps.

MRERF, a consortium of 30 primarily industry-specific rep associations, is dedicated to advancing the public understanding of the rep system and to enhancing the professionalism of its practitioners. The associations also cooperate on issues internal to their members through AMRA, the Alliance of Manufacturers Representative Associations.

MRERF's most dramatic device for fulfilling its mission is its certification program, an intensive three-year program for

Information Sources About Manufacturers' Representatives

- Manufacturers opting to embark on the rep route, whether out of considered choice or practical necessity, can get guidance from three sources in particular.
- The most widely distributed text is Harold J. Novick's *Selling Through Independent Reps*, published by AMACOM, a division of American Management Association. Its 352 pages go far beyond assisting the analysis leading to the decision to outsource and the process of building and managing the rep network. In particular, Novick details the commitment a company must make to its reps, in terms of support materials, training the reps on the product (reps are responsible for their own training in general sales techniques), and above all, on training the company from the top down on how to work with their rep organizations.
- The Manufacturers Representatives Educational Research Foundation (www.mrerf.org) can supply copies of the Novick book, now in its third edition, as well as contract guidelines and sample contracts, along with a variety of other materials useful in structuring and maintaining relationships.
- A monthly magazine, *Agency Sales*, is published by the horizontal trade association, MANA, Manufacturers Agents National Association (www.manaonline.org), for its rep and manufacturer members across a spectrum of industries. It not only covers the issues involved in operating as an outsourced sales organization, but also focuses heavily on the rep-principal relationship.
- Guidance is also available from the industry-specific associations that sponsor MRERF, and MRERF can guide manufacturers to rep associations that are not part of its structure.
- For a new market entry, the decision to go to market through manufacturers' representatives is usually not a choice. For the established company with a sales culture built around a home team, the decision to outsource carries with it the necessity to learn a whole new management vocabulary. Even if you choose the top-rated firms in their respective industries and territories, their success and yours will be dependent on the direction you give them, and your willingness to listen to them in their areas of expertise.

OUTSOURCING FIELD SALES

THE BEST AND MOST PRODUCTIVE PARTNERSHIPS BETWEEN MANUFACTURERS AND THEIR REP FIRMS COME ABOUT WHEN BOTH PARTIES ARE CLEAR ABOUT THEIR RESPECT FOR ONE ANOTHER AND THEIR RESPONSIBILITIES TO ONE ANOTHER.

manufacturer's representative firm owners and top executives, with a focus on management skills, business planning and succession planning. The academic component is taught by business professors, and passing the examinations leads to the CPMR designation—Certified Professional Manufacturers Representative. Each

year, over 100 individuals successfully complete the course, offered at Indiana and Arizona State universities.

Sales is an easy field to enter, but hard to succeed in, and it's also hard to predict who is likely to succeed. The CPMR designation demonstrates that its holder has committed to professional growth and achieved a tested level of proficiency. The manufacturers' representatives who developed the program were motivated primarily to be the best they could be. None of them expected the CPMR designation to become the equivalent of a license to practice sales, only to raise standards and develop their own skills.

However, the MRERF/IPA certification program reached an unexpected milestone when manufacturers who had seen the CPMR program in action began to mandate certification as a prequalification for appointment to or retention of their lines.

This dramatizes the importance that progressive companies place on the contribution made by outsourced sales organizations... and the corollary expectations. The best and most productive partnerships between manufacturers and their rep firms come about when both parties are clear about their respect for one another and their responsibilities to one another.

POSITIONED FOR TOMORROW

Good salespeople have to be quick to take advantage of their opportunities, and manufacturers' representatives must be the most resilient, resourceful, flexible, and fast-moving of all. They have to react quickly to the trends shaping the environments of the companies who employ them, and the companies to whom they sell. Today's economic climate, with its emphasis on vendor reduction, partnering, supply chain management, and cost containment, favors the manufacturers' representative system.

The professional field sales organization survives, and thrives, by strengthening its own core competency through adept management, investment in advanced technology to provide real-time information to vendors and customers, and above all, by bringing value at all levels in the supply chain. Particularly as the largest and most sophisticated corporations seek to increase profitability by outsourcing at least parts of

their field sales, they need representatives who can speak their language, and who can accurately translate the language of the field back to the factory. To work with and for larger companies, representative firms have had to expand their horizons along with their skills, and to adapt to new paradigms, as well as to develop them.

The blending of the direct and representative sales force is an efficient way to select and utilize skills for maximum impact. One evolving paradigm is for representatives to cover distributors and important secondary niches, while the



**CERTIFIED
PROFESSIONAL
MANUFACTURERS'
REPRESENTATIVE**

The distinguishing mark of distinguished manufacturers' representatives

- The letters CPMR after the name of a manufacturers' representative signal completion of a three-level on-campus executive course designed to enhance professionalism and productivity for the representative's firm, as well as for principals and customers.
- CPMR-designated representatives have taken positive action to earn the right to use those letters, for reasons both internal and external—
 - to improve their own performance and knowledge base
 - to demonstrate the extra degree of commitment that certification confers.

Annual continuing education credits are required to maintain certification.

Clearly the rep whose name is followed by the letters CPMR is a rep worth following

The CPMR Curriculum Covers:



OUTSOURCING FIELD SALES

THE PROFESSIONAL FIELD SALES ORGANIZATION SURVIVES, AND THRIVES, BY STRENGTHENING ITS OWN CORE COMPETENCY THROUGH ADEPT MANAGEMENT, INVESTMENT IN ADVANCED TECHNOLOGY TO PROVIDE REAL-TIME INFORMATION TO VENDORS AND CUSTOMERS, AND ABOVE ALL, BY ADDING VALUE AT ALL LEVELS IN THE SUPPLY CHAIN.

manufacturer maintains direct contact with customers and specifiers in the core category. This pattern is also found reversed. In another variation, the manufacturer appoints one rep firm to handle that customer category nationally, rather than manage a network of sales organizations. Expanded territories, whether regional or national, or even international, are a phenomenon that the trend-watchers (who tend also to be the trendsetters) see as a growing pattern.

As reps note their new opportunities with companies that formerly sold exclusively with direct payroll employees, they also note the new corporate

recognition that the value of outsourcing can transcend field sales, extending into many ancillary and support services. Office products manufacturers selling to national chains of superstores at their home offices outsource branch support to local reps. Local warehousing and customer service can often be provided more cost-effectively by the outsourced field sales organization, because the costs can be spread against several manufacturers, and because of the representative's smaller overhead burden. The extension of services to these new arenas challenges manufacturers to look beyond commission formulas toward new methods of activity-based compensation.

Today's and tomorrow's sales professionals are more than a source of product. The synergy of multiple lines, the economy of shared costs, the permanence in their territories, and thus the intimate knowledge of their customers, are all benefits that accrue to both of the key communities with whom professional field sales organizations interact—principals and customers. Manufacturers' representatives add value with their insight into the customer's needs, their ability to provide solutions to the customer's problems, and the perspective they bring on the world outside. When they prosper, as they do, it is only to the extent that they create prosperity!

The publication of this article has been made possible by contributions to the Manufacturers Representatives Educational Research Foundation from manufacturers' representatives, their associations, and other friends of the rep system. A complete list of contributors is available at www.mrref.org/wheels.

Written by Laurence Kaufman,
Kaufman Ryan Stral Inc.
Designed by Ariel Studio

MRREF Sponsoring Associations

Agricultural & Industrial Manufacturers Representatives Association (AIMRA)
www.aimrereps.org

American Beauty Organization (ABO)
www.americanbeauty.org

American Lighting Association (ALA)
www.americanlightingassoc.com

Association of Independent Manufacturers Representatives (AIMR)
www.aimr.net

Association of Sales and Marketing Companies (ASMC)
www.asmc.org

Automotive Aftermarket Industry Association (AAIA)
www.aftermarket.org

Broker Management Council (BMC)
www.bmcsales.com

Canadian Electrical Manufacturers Representatives Association (CEMRA)
www.electro.ca

Canadian Institute of Plumbing & Heating (CIPH)
www.ciph.com

Communication Marketing Association (CMA)
www.sdi.ioffice.com

Electrical Generating Systems Association (EGSA)
www.egsa.org

Electronics Representatives Association (ERA)
www.era.org

The Foodservice Group, Inc. (FSG)
www.fsg.com

Health Industry Representatives Association (HIRA)
www.hira.org

International Association of Plastics Distributors (IAPD)
www.iapd.org

International Sanitary Supply Association (ISSA)
www.issa.com

Manufacturers Agents for Food Service Industry (MAFSI)
www.mafsi.org

Manufacturers Agents National Association (MANA)
www.manaonline.org

Manufacturers Representatives of America, Inc. (MRA)
www.mra-reps.com

National Association Division Seven Representatives (NADS)

National Decorative Representatives Network

National Electrical Manufacturers Representatives Association (NEMRA)
www.nemra.org

NAGMR Consumer Products Brokers (NAGMR)
www.nagmr.org

Network of Ingredients Marketing Specialists, Inc (NIMS)
www.nims.com

North American Industrial Representatives Association (NIRA)
www.nira.org

Office Products Representatives Association (OPRA)
www.oprereps.org

PowerMotion Technology Representatives Association (PTRA)
www.ptra.org

Safety Equipment Manufacturers' Agents Association (SEMAA)
www.semaa.org

Specialty Equipment Market Association (SEMA)
www.sema.org

Wisconsin Association of Manufacturers Agents, Inc. (WAMA)