

SALES REPS/MANUFACTURERS

ADVERSARIAL OR
COOPERATIVE?

TIPS FOR EACH
FOR MUTUAL GAIN



Bob Reiss

This is a Small Business Guide to help manufacturers and sales representatives understand each other better, so that their relationship is not adversarial, as it is in many instances. Both parties need each other and a mutual understanding should create a positive partnership that will yield more profits for each, while extending the duration of their relationship.

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GUIDE TO UNDERSTAND SALES REP / MANUFACTURER RELATIONSHIP

By Bob Reiss

A *manufacturer's representative*, also known as a sales representative, sales agent, a broker in some industries, or simply a rep, is an independent business person who acts as the sales arm for one or more businesses, comprising one or more products or services. Most reps are paid a commission for their sales efforts, rather than a salary. Some reps are permitted to take a *draw* (or advance) against expected commissions; others are not. They are responsible for their expenses. The commission can vary greatly—from 2 percent to 20 percent—depending on such factors as:

- the selling price of the product or service
- the channel of distribution
- whether the item is advertised
- the extent of the rep's services
- the difficulty of the selling task
- the competitive environment of the product
- the industry tradition
- the power of the rep vs. that of the manufacturer
- the respective reputation of the parties
- the respective negotiating skills of the parties
- the manufacturer's margins on the product
- the potential volume of the product

(In certain industries like Pharmaceuticals, reps are paid a base salary with performance bonuses.)

WHO BECOMES A REP?

In order to use reps effectively, it is important for you to understand why people become reps in the first place. Some do so out of the desire to be independent, to set their own hours, escape company rules and dress codes, and generally be the masters of their fates. Others like the fact that being a rep involves very low start-up costs, and also has no “ceilings” imposed on their potential income (other than by the limits of their own time, energy, and talent, of course).

Perhaps counterintuitively, some people see the rep’s life as a relatively secure one. If you don’t work for a corporation, the kinds of downsizings, mergers, and bankruptcies that worry many corporate employees hold no terrors for you.

And finally, some people become reps because they think their progress will be impeded in a corporate setting. Maybe they’re members of a minority population, or women, or just free spirits. For whatever reason, reps in this category have decided that there are unfair hurdles in their way in the corporate context. Rather than trying to jump over them, they head in a different direction entirely. Think of reps as entrepreneurs because that’s what they are.

WHY WORK WITH A REP?

There are two perspectives on this question: the manufacturer's, and the buyer's.

From the Manufacturer's Point of View,

- Reps bring in sales without the burden of a fixed salary or benefits. They are a variable cost.
- They give the manufacturer a relatively quick means of access to their customers.
- Many reps already have a relationship with the targeted buyer, and in some cases with other personnel in the target company.
- They have industry- and customer-specific knowledge that can be very valuable to the manufacturer. In many cases, they're well positioned to solve problems that arise with key accounts.
- Many industries have trade shows where all the buyers come to one location to visit their present suppliers and potential new ones. In many cases, a new manufacturer can't exhibit at their industry show because it's sold out or their lack of seniority gets them a poor location. The Rep can often solve this as they have a good location and can show your line in their booth on a lower shared cost, and the bonus that there will be heavy traffic.

From the Buyer's Perspective,

- Reps can fight the buyer's fight with the manufacturer for more favorable buying terms.
- Reps are easy to contact.
- They can keep the buyer aware of industry trends, including competitive shifts.
- Buyers turn over frequently, making reps valuable to the buying company as (1) an informal "training" resource for new buyers, and (2) an informal "institutional memory."
- Buyers also know that reps are more dependent on them than the manufacturer is. Because of this, they trust the rep more than the manufacturer.

HOW TO FIND AND SELECT A REP

First, ask yourself the fundamental questions: What are my objectives for the rep? To build volume? To maintain volume? To get access to top management? To help get bills paid on time? In servicing the accounts, how many and what kinds will they cover? What will their sales goals look like?

Next, think through the conditions under which the reps will work. Will they have to accept "house accounts" in their territories (accounts which you will control centrally)? What will the commission setup be, and what expenses (if any) will you pay? How long an agreement will you seek? What kinds of selling (e.g., demonstrations)

will be involved? How much help and service are you willing to give your reps, including advertising of the product. Are there certain compatible lines you will want them to carry and conversely, lines you *don't* want them to carry?

Based on the above, think through the resources, experience, and characteristics you want in a rep. Do they need a showroom? Do they need experience? (A key decision: Would you rather have a hungry young rep, or a more established rep with less time to give to your line? Both approaches have their merits.) Do they need to know above-buyer-level personnel in key targeted accounts? Are they detail-oriented?

How will you make your decision on whom to hire? Do you want more than one interview? Are references required, and if so, who will check them? (The two best places to check references are with buyers in the territory, and companies they currently represent and used to represent.)

When you've got these kinds of questions answered in your own mind, start trying to find the right person or people to fill the bill. As with reference checking, a good technique is to call buyers to whom you want to sell and ask them for recommendations. Alternatively, call a rep whom you trust and ask him or her. (Believe me: they all network, and the word will get around.) This has worked best for me over the years.

Check the appropriate media, and advertise in them. Reps looking for positions run ads in trade publications; you can scan those, and also place your own ("position offered"). Running an ad in a regular news-paper can also

be a good idea. Call editors of industry magazines and ask them for recommendations. Visit trade shows and trade buildings. If you have a booth at a trade show, put up an ad there. Call up trade associations and ask if they maintain current listings. Check search engines like Google where I found a company called RepHunter which has a very professional website where manufacturers can find Sales Reps to sell their products to targeted customers. Conversely, Reps can locate new manufacturers with products that can appeal to their customer base. Check them out at www.rephunter.net.

And finally, find out if someone else has already done your work for you. Some industries produce books listing reps in all geographic areas. Many quality manufacturers, moreover, run trade ads listing the names and addresses of all their reps. Surely you can think of some way to use lists like these productively.

REPS' COMPLAINTS ABOUT MANUFACTURERS

Reps don't lack for opinions about manufacturers. In my years of being a rep and dealing with reps, I often heard them talk about manufacturers. I present the following list to illustrate the range of problems that arise in the minds of reps, as they think about their relationships with manufacturers. If you can avoid these problems as a manufacturer, you're likely to have great representation in the field:

- They don't pay on time, or accurately.

- If I do too much business, they might replace me with in-house personnel, cut the commission, or shrink my territory.
- They don't communicate well:
 - They don't pass on enough product knowledge.
 - I don't receive timely copies of invoices.
 - When an item is a poor seller, I'm not told, and I stick my best customers with it.
 - They don't tell me about new products.
 - They don't share success stories from other territories.
 - They don't send copies of ads from other territories.
 - They don't keep me abreast of inventory status and out-of-stock items.
- They give my customers better prices or terms than I am empowered to give.
- They don't listen to my input, and afford me no respect for my experience.
- They have a poor customer service department.
- They don't set realistic goals or have no shared goals or expectations.
- They hire sales managers who don't understand the business.

- They don't ship on time (or ship incomplete).
- Product quality is poor.
- They don't innovate enough new products.
- Their new product introductions are always too late.
- They don't tell the truth, and break promises.
- They expect too much from the rep in terms of collecting bills.
- They talk to my buyers without keeping me in the loop.
- They have too many "house accounts" in my territory.
- They have poor follow-through and don't pay attention to detail.
- They don't understand the business.
- They hide problems.

MANUFACTURERS' COMPLAINTS ABOUT REPS

To be even-handed, I should also present the kinds of gripes that manufacturers have about reps. Note that some of these complaints mirror the complaints in the preceding list. Again, if you can avoid this range of problems, -you'll be in good shape:

- They carry too many lines.

- They don't sell my whole line; instead, they cherry-pick and sell the bestselling items only.
- They don't return my phone calls, faxes, or letters.
- They lack knowledge of my product line.
- They carry competitive lines.
- They are 98 percent in the buyers' camp and 2 percent in mine and I write their checks!
- They don't stand up to the buyers when the buyers are wrong.
- They look to sell on price only.
- They spend too much time in their showroom.
- They give unauthorized deals to buyers and don't tell us.
- Their follow-through is awful.
- They don't give me feedback on their calls, or on our competition.
- They misrepresent the company.
- They don't always tell the truth.
- They don't train their sub-reps.
- Their sales are below my expectations.
- They keep pressing for higher commissions.
- We can't read their orders (which are often incomplete anyway).

TRAINING THE REPS

Once you've gone through the arduous task of finding and retaining a good rep to work for you, don't make the mistake that many companies make. They mail their new reps some samples, catalogues, and price sheets, and wait for the orders to roll in.

Take this approach, and you're almost certain to be disappointed. And it won't be the rep's fault. Think about it: would you train any of your full-time people that casually?

What should you do instead? Depending on your budget, here are some ideas:

- **Have the rep visit your offices and/or factory.** There they can personally meet the people with whom they'll be dealing. This personal contact is important. You can show them your full line, fill them in on the history and traditions of the company, and share your vision with them.

Meanwhile, you can also state your expectations of them clearly. You should pay careful attention to the issue of sales quotas. These should be worked out jointly, rather than imposed arbitrarily by you. (If your rep is as good as you hope, he/she knows more about some key things than you do.) Get him/her to buy into a shared number. If yours is a new company, your rep will expect you to pay for this trip. Perhaps you could arrange a deal whereby you share this expense, with their portion coming out of commissions.

- **Visit the rep in their domain** so you can learn a lot about them as well as teach them about your company, its products, and how you want them to represent you. If your rep shares space with other people—e.g., shared office personnel or sub-reps, it may be beneficial for you to meet with all of these

people. (Obviously, this doesn't apply to a rep working solo out of home.) You can learn about their resources while you're educating them about your company and its products.

Ahead of this visit, ask the rep to set up sales calls for you to tag along on. These should include visits to some major existing accounts, and possibly some potential accounts. Making these calls will help you learn more about the rep's abilities and the strengths of his/her relationships with the buyer. It will help you determine what kinds of information you need to supply them to help sell your products. Meanwhile, you can be sharing your own thoughts about the best way to represent your company and its products.

You might try a variety of approaches on these calls. For example, at an early stop, you might present the product and company to the prospective client, and ask the rep to pick up the banner when it comes to talking specifically about benefits to this particular buyer. On subsequent calls, the rep might carry the whole load.

One fringe benefit of tagging along, by the way, is that this is one occasion on which your rep will talk only about your products. He or she certainly won't present multiple companies and their product lines if you're also in the room.

- **Work regional trade shows with your reps if they are exhibiting.** This will help you accomplish most of the ends described in the one-on-one calls above. It will also give you insights into your reps' other lines, how they allocate space to each, and how they deal with new and small customers. It will also give you the chance to interact with the customers and learn more about them and how they perceive your product and company.
- **Make time for socializing.** Whichever of the above techniques you employ, also try to spend some social time with your salespeople. If you're taking them out to dinner, invite their spouses or significant others to join you. Remember that you're seeking to build strong relationships with your salespeople.

And remember that these reps are, for the most part, strong-willed, skilled, entrepreneurial types themselves. You really can't order them around. Instead, you need to persuade them to give your products a fair share of their time and if you're just starting out in a relationship with them, you're likely to be at the bottom of the priority list. So sell yourself to them, to their staffers (if any), and to their spouses.

The training of reps is a constant process. It doesn't stop after one visit, or after thirty visits. As you grow, one of the first major hires you should consider is a sales manager whose primary duty will be to work with and train the

sales force. This will free you up to work on other important aspects of building your business. I strongly recommend, however, that you stay in touch with your sales force. Let your sales manager know why you're doing it, too: you're doing it to stay in contact with a rapidly changing marketplace.

Most of the preceding discussion also pertains if you decide to use full-time salespeople. One major difference, of course, is that you have more control over them, but again, if they're any good, simply issuing orders isn't going to do the trick. They still will need to be persuaded to make their best possible efforts to help you and your company succeed.

A TIP FOR REPS

Most of this guide is devoted to helping entrepreneurs understand how the manufacturer-rep relationship works. I've made this a priority because I think that in many cases, reps can help entrepreneurs be successful with minimal cost.

But I think I should include a reward here for any rep who's gotten this far. What follows is an idea that took me many years to arrive at, and which turned out to be worth a lot of incremental profits to me.

First, let's reconstruct our starting point, which was a very traditional one: When we were reps, we sold goods for manufacturers who paid us a predetermined commission on the wholesale value of our sales. We worked on a national basis. Our approach was to look for promising items, as well as extensive lines.

Given that focus, it was very common for us to come across “one-item manufacturers.” In many cases, in fact, they came to us, and tried to persuade us to sell their product. The problem that many of these manufacturers had was that large retailers didn’t want to buy from one-item companies. It was too expensive for the retailer to add a new vendor number; the freight factor could be high on single products; and the retailer’s top management was always hammering on the buyers to cut down on the number of vendors.

After thinking about this for a while, we stumbled on the idea of having our own vendor number with major accounts. This allowed us to put all of the single items in our line under this one number. Yes, the shipping points were all different, but the vendors’ systems were accustomed to dealing with large companies that had multiple shipping points. And yes, by going this route, we became responsible for billing and collecting. So what we did was instead of working on a 10 percent commission, we marked the product up 35 percent. In return for the extra 25 percent, we took responsibility for billing the customer, carrying the credit, and performing some extra paperwork.

Manufacturers loved us, because suddenly they had a way to do substantial volume with one entity. We were an entity, moreover, that paid on time. They began treating us far better than when we were “only” commissioned reps. In fact, almost overnight, we went from being a lower life form to a higher one.

Buyers, too, loved us. They could now take advantage of one-item companies without making trouble with their

own number crunchers. In fact, they got in the habit of referring good one-item prospects to us.

All in all, we loved this role as a “billing rep.” We made much more money, and dramatically reduced the chances that we would have a good line taken away from us if we did “too good a job” and our commission checks got too big. In fact, because we were controlling the billing and not dealing in branded products, we could change the manufacturer without upsetting the buyer. Our only real risk was that a customer might go bankrupt and not pay, but we minimized this risk by selling this deal only to AAA-rated customers whom we knew well.

It was win-win-win, for all three parties involved.

This experience led us to set up our own manufacturing company with a different name to outsource or import key items that our customers wanted. To all concerned, we were then the sales rep for this new entity.

ADVICE FOR BOTH PARTIES

Study the complaints of your opposite number and address them and work to alleviate them.

For Manufacturers

- Have patience—It is a long process to build an effective sales rep organization, and you will need to be changing many reps each year. The better your product performs in the market place and the more you prove your competence and integrity, the

more top reps will be approaching you to be your representative.

- Do not make the fatal mistake that many short-sighted manufacturers make by firing a rep because the commission checks are too high. Remember, for every dollar of commission you pay out, you get three, four, or five. You may think your new found sales hire will save you many dollars. Rarely does this work out. There is a reason the rep in question earns so much money. Their customers (who are also yours) like them and are satisfied with their performance and usually loyal to them. If you fire them, they will get a competing line (often with the help of their buyer) and compete against you with a ferocity that will cause you to regret your action.
- Replace reps whose commission checks are too small.
- Realize that the biggest reps in a territory will not necessarily perform well for you because they are carrying too many lines. Often you are better with a smart but less experienced rep who can give your products more selling time and with more passion.
- Understand that reps usually carry too many lines because they know from experience that many manufacturers will replace them when their commission checks get too big.
- Don't ask reps to sell products to their customers that you know have run their course and don't sell

well. Take those products, cut the price, and close them out. Pushing bad products through your reps and onto your customers will kill your integrity quotient with your rep and the buyer.

For Reps

- Don't take on new manufacturers unless you can give them a fair effort.
- Sometimes less is more. We discovered that eliminating lines we represented that carried small earnings and concentrating on the stronger lines put more money in our pockets at the end of the year. All your buyers don't have unlimited attention spans, so you can't show them 20 lines on a sales call.
- Concentrate on giving your manufacturers feedback. You don't have to write up every sales call for them, but let them know which items buyers like and their reasons for turning others down. Keep them abreast of competition. Send them copies of any ads on the manufacturers' products. Share ideas on how manufacturers can improve their operations and ideas for new products or presentations you may have.
- Don't give inflated projections to your manufacturers to insure that they have adequate inventory for your customers' reorders.
- Knowing that your living depends more on your larger customers than any manufacturer, neverthe-

less, you need to stand up for your manufacturer if the buyer is totally unfair in their dealings with them. The manufacturers do write your checks.

BOTH PARTIES TIP

Periodically major companies pass down an edict to their buyers not to deal with any sales reps. Their heads in the sand somehow tells their brains that they can get the manufacturers to pass on the reps' sales commission to them to help their margins, which are under attack from their stockholders. This ploy never works, and I believe the courts would overrule it if litigation came about. The buyers know the value of a good rep. To get around this problem, your rep should be given a business card of the manufacturer's with a title such as sales manager, regional sales manager, director of special accounts, etc. with the rep's name on it and give it to the buyer. Presto, he/she is no longer a rep. Nothing really changes, but you have just given the buyer cover to continue to do business with the rep. Without exception in my experience, the edict eventually gets reversed.

However, manufacturers be advised that if you use a sales rep to call on a major account, you must empower them to make major decisions (not all) on your behalf. If they must say that they have to check with the home office on every question, then the buying company has a right to ask for removal of the rep on their account and get a high official of the company to deal with them.

When I was a national rep to deal with this problem, I made a deal with my manufacturers that I could commit to giving the customer advertising dollars (within defined reason) without checking with the manufacturers, and if the promotion didn't pay off, I would split the ad dollars loss with the manufacturer. This worked out well and reinforced my value to the buyer.

THE FUTURE OF REPS

As the preceding pages amply illustrate, the manufacturer/rep relationship is a complicated one, and frequently adversarial. But most of the time, in my experience, the relationship can be made beneficial to both parties, if both parties want to make it work. Both parties need each other.

I do perceive some outside-world trends that are today posing a threat to the traditional manufacturer/rep relationship. If you are contemplating signing on reps, you should be aware of these kinds of potential problems.

Technology plays an important role in the manufacturer/retailer relationship and will continue to do so. This fact can diminish the role of the rep. However, this could be an opportunity for the savvy reps themselves to become technology proficient . . . in many instances more so than the smaller manufacturers. The reps' value can increase with their retail buyers by helping interpret the mass of computer reports spewed out to them and with little time to read. Reps can spot early positive trends on their products and use that knowledge to persuade buyers to advertise and give better presentations to their products.

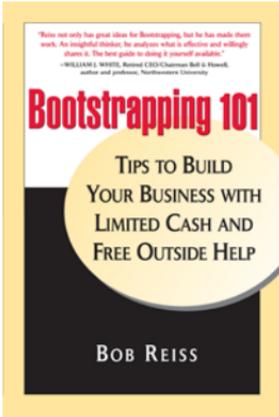
Many large retailers are going to dominant manufacturers, giving them permanent real estate in their stores, and telling them to manage the space to produce a certain level of profits. When this happens, reps become less important. At the same time, many retailers are going to private labels on volume products, thereby increasing their margins. Again, the need for a rep is diminished.

Large retailers are consciously scrutinizing the amount of business they do with small companies, to prevent any of those companies from becoming too large a percentage of their business. At the same time, they are pressuring their buyers to deal with fewer resources and carry fewer sku's ("stock-keeping units," a common industry reference to every product offered for sale).

And not least important, given consolidations and economic dislocations, there are both fewer retailers and fewer manufacturers out there.

In light of these more or less ominous trends, it seems clear that manufacturers and reps have to get their act together and work more closely and honestly with each other. They have a shared challenge: to persuade the customer that their team has something of value to offer to them. This is getting tougher—and you should be prepared to deal with it—but it's not impossible to do, and succeeding at it can be immensely valuable to your business.

ABOUT THE AUTHOR



Bob Reiss was a national sales rep for 14 years before he switched to being a manufacturer. He has been involved in 16 start-ups and one of his companies was named to the Inc. 500 list of America's fastest growing companies for three years in a row. A native of Brooklyn, he is a graduate of Columbia University and Harvard Business School. An army veteran, he is the author of [*Bootstrapping 101—Tips to Build Your Business with Limited Cash and free Outside Help.*](#)