

# OUTSOURCING FIELD SALES



**A COST EFFECTIVE WAY TO GET PRODUCTS TO MARKET**



**MANUFACTURERS' REPRESENTATIVES EDUCATIONAL RESEARCH FOUNDATION**

*Building Sales Professionalism Through Certification*

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## LOWERING SALES COSTS

Leaders of corporate America are always working to increase profits and build shareholder equity. Increasing sales and decreasing costs are two of the most effective ways to reach these goals.

Outsourcing is a common practice to reduce costs, increase sales and still focus on core competencies. Companies regularly outsource their legal, security, technology and web maintenance departments. Equally effective, is outsourcing the field sales function. While more complex than other services, once mastered, it allows the Manufacturer to focus on its strength: manufacturing.

Large, established manufacturing firms as well as small starts-ups have realized the benefits of outsourcing field sales to independent Manufacturers Representative firms. The opportunity to lower overhead and standardize sales costs has convinced many Manufacturers to use professional sales firms, eliminating the cost of a direct sales force.

Outsourcing allows the Manufacturer to gain greater sales results with fewer dollars. The Rep firm builds, trains and maintains the sales force, while the factory provides technical training to the Reps along with samples, literature and other support. Using a network of Rep firms with synergistic product lines provides the ability to explore new markets and opportunities while keeping close to current Customers in a cost-effective manner.

By outsourcing the sales function, Manufacturers can:

- Lower overhead cost
- Standardize sales costs via commission rate
- Deploy a larger multi-faceted sales team
- Eliminate fixed payroll and benefits costs
- Profit from years of established relationships
- Increase sales coverage

Manufacturers Representatives are business professionals. They are sophisticated, technologically adept and everywhere. Reps may be traveling around the territory calling on Customers one day; the next they are part of the planning process with a Principal or major Distributor. All at their own expense.

## A PRIMER ON TERMINOLOGY:

**MANUFACTURER** = Factory, Line, Principal, Supplier, Vendor

**REP FIRM** = Independent Manufacturers Representative, Outsourced Sales, Professional Field Sales, Rep, Sales Agency

**DISTRIBUTOR** = Channel partner that purchases, warehouses and re-sells product, helping with scheduling, financing and other value-added services

## WHAT IS A MANUFACTURERS REPRESENTATIVE?

Manufacturers Representatives are professional sales companies. They are independent in terms of legal entities, but are truly *interdependent* with the Manufacturers they represent. Success for the Rep firm cannot be separated from success for the Manufacturer.

A Rep firm exists to provide professional field sales, market share growth, and marketing services to multiple Manufacturers within an industry. Typically, they sell within a defined geographic territory with an annual, renewable contract and are paid by commissions earned on sales. Because Rep firms are paid on commission, the Manufacturer incurs *no cost* to employ the sales force until there is a sale.

Rep firms come in all shapes and sizes. Large or small, these firms are always mindful that their income is directly tied to personal productivity. Rep firms are motivated to sell because commission income changes proportionately when sales change.

## **SYNERGY – THE BEST-KEPT SECRET**

The additional value that Rep firms provide emerges in great measure from the synergy created through multiple lines. The products on their line card are complementary in nature and the presence of each line benefits the other lines represented. Synergistic selling opens doors for product lines while adding value for the Customer with 'one-stop shopping'. This partnering relationship exists at different levels within a Customer.

Because of the synergy of the Rep firm's product portfolio, they can afford to call on smaller customers that do not warrant a visit from a direct sales rep. Leveraging existing business to introduce new products or Manufacturers creates greater market share and faster market penetration for all lines represented.

### **SYNERGISM**

*Joint interaction of agents which, when combined with each other, increase each other's effectiveness.*

Synergistic selling refers to the sales interaction between lines and products, which increases the sales of each.

## **MORE THAN A SOURCE**

In addition to synergy, the ability of Representative firms to perform well rests in the caliber of their sales personnel. Therefore, these firms attract and retain the top entrepreneurial, competitive, and goal-oriented talent in their industry.

Because Reps live in the territory they serve, they have long-term relationships with their Customers and Distributors. Customers appreciate the timesaving aspect of working with Rep firms that sell the depth and

breadth of their line card, addressing multiple solutions during a single meeting. Distributors appreciate the product training and other support Rep firms provide.

Independent Manufacturers Representatives are a resource. Professional Representative firms provide timely, valuable and relevant feedback to both their Manufacturers and their Customers. Rep firms make multiple points of contact, including engineers, designers, and purchasing agents. They support each buyer throughout the process. They supply in-depth multi-level interdepartmental coverage, helping to bridge the communications gap that can exist between engineering and purchasing. The Rep's advice is germane because of the familiarity achieved over the years with the total corporate culture of the Customer. This long-term understanding and greater market exposure gives the Rep firm access to a broader range of information, which can be analyzed with objectivity given their outside perspective.

The tenure of a Rep firm within their territory is typically counted in terms of decades, not months. Successful factory direct salespeople are often promoted, leaving the territory and negatively affecting sales. Recent figures indicate the average stay of a company salesperson is 19 months, down from 24 months (Dave Stein, Eyes on Sales accessed 8/2009 goto.MRERF.org/SalesFacts).

Both Customers and Distributors value the Reps they work with. Reps and Distributors are partners in providing excellent service to their mutual Customers. Customers can tailor their delivery schedule to match production needs through either the Rep or the Distributor. Services from Rep firms are limited only by their imagination and the solutions requested by their Manufacturers and Customers. Manufacturers that find value in these extended services will be inspired to look beyond standard commission formulas towards new methods of activity-based compensation.

## ADVOCACY

Rep firms are advocates for their Manufacturers and Customers alike. Living in their territory, they are committed to Customer satisfaction as they re-present the Manufacturer's message.

The unique perspective of the Rep firm means they understand the Customer's needs as well as the capabilities of each factory they represent. Their knowledge and objectivity become more important when a Customer's needs diverge from the factory's standard procedure. Whether it is a product modification or an expedited delivery, the Rep firm can and will fight for their Customer. As independent companies, Rep firms have more freedom to carry their influence all the way to the top, if needed. When the Customer's request cannot be met by the Manufacturer, the Rep firm will relay that information as well and look for other solutions.

## CONTINUOUS IMPROVEMENT

Rep firms recognize the need to be proactive and are always working to build their effectiveness as an economic engine. Any person can call themselves a Manufacturers Representative but that does not mean they have the education or experience that a Manufacturer should trust. Strategic planning plus continuous improvement of management and sales skills are critical to the success of the Rep firm. The Certified Professional Manufacturers Representative (CPMR®) program is a professional designation that displays commitment, professionalism and ethics.

*"Elkay values CPMR because it teaches our Reps how to be better business people. We value that our Reps are talking about business with Reps in similar situations. We value succession planning. The value is in becoming more businesslike and understanding the importance of becoming business partners with Elkay."*

**Mark Whittington, VP Sales - Elkay**

Manufacturers who use Rep firms with CPMR® graduates, gain true business partners who understand the issues that are involved in running a profitable business. These Rep firms are economical and efficient sales teams, strategic planners, and understand the importance of succession planning. Owners and managers of Rep firms that have earned their CPMR® designation have also created a network of colleagues that extends beyond their territory and across industries. This network provides trend-spotting intelligence on multiple business fronts and can be beneficial to Manufacturers using Reps.

Many Manufacturers have seen the value of the CPMR® program and some take the extra step to mandate CPMR® certification for the Rep firms they sign on. For more information on CPMR®, visit [www.CPMR.biz](http://www.CPMR.biz)

*"...seeking out Reps who have the CPMR designation absolutely maximizes the Manufacturer's efforts in the selection process. I don't know if the absence of CPMR is a real deal breaker or not, but from a recruiting standpoint, it's a true benefit. I'd also say that when we Manufacturers talk when we're looking for a Rep, the existence of the CPMR designation assuredly comes up."*

**Larry Fisher - Erico, Inc.**

## ECONOMICS

Basic economics may drive manufacturing start-ups to use Rep firms. However, the demonstrated success of going to market this way keeps 50-80% of all Manufacturers using Rep firms in some territories or market segments. The costs associated to outsourcing the sales function are covered by commissions on sales generated by the Rep firms.

The wide divergence of accounting allocations and standard commission rates across industries precludes furnishing specific numbers, percentages or category names. Sales cost comparisons can be made any number of ways:

- Through company-wide data
- Within a specific territory
- Across a product category

The importance of the cost comparison between outsourcing to Manufacturers Representative firms and a factory direct sales force lies not in the detail, but in the bottom line.

The bottom line is that the Manufacturer does not incur any cost of sales until a sale is made, shipped and paid for. Even then, the cost of sales is a fixed percentage of sales.

In addition to analyzing budgetary information, management at the factory should also consider a number of intangibles that are harder-to-quantify:

- Realizing cash flow benefits because the Rep firm is not compensated during the gestation of a sale, only when the sale is entered, shipped and paid for
- Reducing legal expense and exposure due to the Rep firm covering Human Resources issues
- Gaining market research because the Rep firm is rooted in its geographic territory
- Leveraging existing business with other product lines to create synergistic solutions
- Improving market access and penetration at lower cost
- Re-presenting the Manufacturer's image and message with professionalism throughout the territory

In the Manufacturers Representative environment, at least one dollar is spent supporting a salesperson for every two dollars the salesperson is paid. Recent estimates in the business-to-business environment put typical yearly costs for a direct salesperson's salary, benefits, incentives, office, travel and other support services in the range of \$260,000. When sales in a given territory grow, there is the temptation for the CFO to pull out a calculator and figure that it is possible to hire and support a dedicated, factory direct sales person and save money.

The calculation ignores the costs borne by the Rep firm that will become a factory liability, both at the corporate office and in the territory. Future growth will be compromised because the Rep firm has multiple salespeople in the territory, long-term relationships and synergistic product offering which will be lost with a factory direct approach.

Anecdotal evidence suggests that the ultimate cost of going direct lies in the business that disappears. Whether it disappears while the direct person is establishing relationships from scratch, or it is crossed to a ready competitor during the lengthy gap between visits by the factory direct sales person, the business is gone. The fiscal reality is that one direct salesperson cannot cover the territory as effectively as a Rep firm.

Creating a partnering relationship between Manufacturers and their Representative network is relatively easy. Important factors include:

- Paying commissions accurately and on time
- Communicating the value of the Rep network throughout the Manufacturing organization
- Sharing plans with Rep firm owners/managers and valuing their feedback
- Collaborating with Rep firm owners/managers on decision making
- Treating the Rep firm's staff as an important part of the Manufacturer's team

*Multiple-line Rep firms split the investment of a call among several Manufacturers instead of just one. They are able to make more calls at lower cost, enhancing opportunities for multiple sales from multiple Manufacturers.*

## RELATIONSHIPS ARE THE CORNERSTONE

Successful salespeople are resilient, resourceful, flexible, and fast moving. They have to react quickly to the trends shaping the environments of their Manufacturers, Customers, as well as their Rep firm. They must be prepared to seize opportunities when presented.

The internet has created avenues where Manufacturers and Customers can interact. However, inside and outside sales staff from the Rep firm foster relationships and offer valuable experience and information that a computer screen cannot.

The synergy of multiple lines, efficient and economical sales calls, territory permanence, indepth knowledge of Customers and Manufacturers are all benefits that flow freely from the Rep firm to their Manufacturers and Customers.

There are multiple ways for Manufacturers to go to market. The most cost-effective is through a network of Manufacturers Representatives firms. Manufacturers attempting to increase profitability need Rep firms who can speak their language and can accurately translate that language to the Customer. The best and most productive partnership between Manufacturers and their Rep network come about when both parties are clear about their mutual respect and follow through on their commitments to one another.

The increasing importance of partnering, supply chain management, and cost containment favors the Manufacturers Representatives solution. The Rep function survives and thrives by strengthening its own core competency through adept management, investment in technology, adding value at all levels of the supply chain, and ongoing professional development. Flexibility and initiative, combined with synergy and multiple streams of income create Rep firms that are versatile, innovative and enduring.

The professional Rep firm has a complete understanding of the territory in which they, and their Customers, live and succeed. Manufacturers will benefit from this deep-rooted understanding.

A direct sales force has costs allocated to various budget line items throughout the company. The category of "Commissions Payable" eliminates entries associated to sales in these categories:

HUMAN RESOURCES · MARKETING  
SALES TRAINING · SALES  
EXPENSE REPORTS  
WAREHOUSING · CUSTOMER SERVICE  
RESEARCH & DEVELOPMENT  
GENERAL & ADMINISTRATIVE



## MYTHS, FACTS AND BONUSSES

**Myth: Rep firm owners do not have a long-term perspective, because their contracts have a 30-day termination clause and are renewable every year.**

**Fact:**

Successful Rep firms are invested in their territory. They view their Manufacturer commitments as long-term, mutually profitable relationships that transcend any agreements. The focus is on nurturing the long-standing relationships with Customers and Manufacturers alike. Whether the sales cycle is long or short, Customer satisfaction leads to the next sale for the Rep firm and the Manufacturer together.

**Bonus:**

The Rep firm, not the Manufacturer, finances the visits, handholding, negotiating, troubleshooting, and problem solving during the sales cycle.

**Myth: Distributors can handle the entire field sales process.**

**Fact:**

Distributors are valuable partners in the sales, stocking, and financing process. Distributors have multiple sources for any particular product. The Rep maintains mindshare for their Manufacturer and provides frequent and reliable communication between Manufacturer and Distributor. Distributors benefit by receiving factory news, nationwide market trends, branch performance, as well as pricing, quality, and general information from the Rep firm.

**Bonus:**

Often times, a professional Rep firm will have a full-time Distributor Manager to create top-of-mind- awareness and meet Distributor needs.

**Myth: Manufacturers need control.**

**Fact:**

Manufacturers really desire *commitment* and *communication* from the territory. They, like all good business people, want to trust their business partners. With trust comes a confidence that relates to shared control. Rep firms, in turn, need support, technical training, and current information.

**Bonus:**

Rep firms have a vested interest in the continued success, and profitability, of the Manufacturers they represent.