

WHEN, WHERE AND HOW TO USE MANUFACTURERS' REPRESENTATIVES

SUMMARY

Rising selling costs ... shifting market patterns ... changes in our customers' operations or locations - these are some of the reasons why many contract tooling and machining companies are turning to manufacturers' sales reps for help.

Today, more and more contract tooling and machining shops are using independent sales agents, or "manufacturers' reps" to represent them in territories or markets that are high in potential but too distant or unfamiliar to effectively cover within a job shop's normal marketing efforts.

With competition what it is, none of us can afford to ignore any potential means of gaining a sales edge. And many job shops are finding that the effective use of manufacturers' reps can help provide that edge.

The pros and cons for or against the use of manufacturers' reps should be examined carefully and weighed against the particular needs and circumstances of your shop. In most cases, only a careful weighing of the factors will lead to a sound decision. And the choice is not necessarily all or nothing. Hopefully, this BMA will provide the necessary framework for NTMA members to make an objective evaluation.

We'll talk about the pros and cons of manufacturers' reps, where to find reps, how to rate them in terms of your business, how to negotiate an equitable contract, and how to maintain a mutually beneficial relationship.

To begin with, let's take a look at today's reps.

Manufacturer's reps are often referred to as sales reps or as sales agents or manufacturers' agents. In this context, the word "agents" is not used in the legal sense but in a very loose and generic fashion. Agreements usually specify that reps are not employees or partners of their principals but are independent contractors responsible for their own actions and without authority to bind their principals by any contract or obligation, expressed or implied.

The rep may be one individual who covers a particular area, or a firm employing 50 or more salespersons whose territories span several states or even the nation. Though precise figures are not available, there are an estimated 30,000 rep organizations active today, employing over 105,000 individuals.

If you're picturing the old caricature of the manufacturers'

sales rep as a low-overhead, low status sales outcast operating out of a hotel room with a phone and a stack of speedy memos, you may be shocked to realize that less than 25 percent of rep agencies today are one-person operations. According to a recent survey conducted by the Manufacturers' Agents National Association, the average agency contains 4.5 people and sells in four states.

The commissions reps receive vary according to their lines and customers. Across the board, most rep commission rates seem to cluster in the 6 percent to 12 percent range. In our industry the range may be a shade lower-perhaps in the 5 percent to 8 percent range. On very large contracts involving millions of dollars over several years of production, the rate may be as low as 3 percent. But the important thing to remember is that a rep doesn't earn a nickel until he actually produces results.

Job shops are generally better off utilizing the services of a small technically competent rep agency or an individual manufacturers' rep. Small companies like those in our industry usually have better leverage when dealing with a small firm who, in addition, would usually be more adept at selling the more complex, technical skills and services of our industry. Large rep organizations tend to be better suited for the hard sell of less technical products.

There are a number of factors that seem to be influencing contract tooling and machining companies to take a harder look at the feasibility of using reps to augment their sales efforts.

For most companies, the cost of sales, i.e. sales related salaries, travel, training, fringes, etc. have increased dramatically and are likely to continue their upward climb. Even in a small job shop where the owner wears several hats, including sales responsibility, time searching for and calling on new customers means time taken away from other important tasks associated with running the business ... tasks at which the shop owner may be considerably more proficient than in selling.

Specialized markets may be more effectively tapped through reps than through direct sales efforts on your part. For example, a job shop may have perfected a machining process that is particularly suited for solving certain manufacturing problems for the medical diagnostic equipment industry. For a small shop, a rep or reps might be a more efficient way of effectively calling on customers in that particular market.

New territories offering new market expansion opportunities are opening up as more areas experience an influx of industry and population. During the initial period of growth, such new territories may not offer enough potential to support a direct sales approach on your part. Or it might not be profitable for you to invest the time and money it would take to research and call on customers in an area where you have very little knowledge and few contacts.

And, just as important, rising travel costs can add to your difficulty of effectively calling on customers regularly in areas distant from your shop.

Those are some of the factors that have led a number of companies in the contract tooling and machining industry to experiment with reps. When a shop turns to an outside representative to market its product and services, it is usually attracted by one or more of several potential advantages.

One major advantage of utilizing reps is that you receive the benefits of multiple line selling. Reps often refer to it as the "synergistic effect of multiple line sales." Since reps usually handle several compatible, though non-competing, lines, the sale of one product or service may often trigger the sale of another. A rep calling on a customer for the purpose of conveying the capabilities of a precision parts manufacturing client may, through conversations with the buyer, discover a need for a specially designed assembly system well within the capabilities of one of his other metalworking clients. Each customer need may involve different clients but a common rep whose calls on behalf of Client A may open the door for Client B.

Reps can sometimes offer faster, more complete coverage and deeper penetration into a particular territory or market. This can be especially helpful to a shop trying to penetrate a new geographical section of the country for the first time. And reps can also increase a shop's business with a current customer in a distant geographical area since he will be calling on the customer far more often than the job shop could from his shop location.

Manufacturers' reps may also provide a contract metalworking company with a more cost-effective marketing approach. The expense of selecting and training a rep is often nominal. And, since reps are paid for results only, they constitute a relatively predictable and stable cost as a percent of sales. Remember, reps maintain their own offices, staffs, and other expenses that would otherwise contribute to your increasing cost of doing business ... costs such as the paperwork/administrative burden associated with payroll and FICA withholding, unemployment and workers' compensation; life, health and accident insurance; sick pay - vacations; and other fringes.

A number of job shops, keeping in mind the cyclical nature of our industry, turn to manufacturers' reps as a means of keeping their sales expenses in line with their actual flow of orders.

Reps can also help you keep ever-increasing travel costs down. Since your rep will already be based in the territory you wish to penetrate, overnight trips for you or your own in-house sales people can be reduced.

The effective use of manufacturer's reps can also have favorable financing implications on your business. For example, when backlogs are high and billings low (such as might occur in the early upswing out of a recession), the relative lack of accounts receivable against which to borrow money to meet sales expenses will be less of a concern if your agreement with your reps specifies payment of commissions upon receipt of payment from the customer.

A good rep can also provide you with valuable market feedback. Since your rep will probably be handling a number of other non-competing products or services and calling on a broad range of customers in his territory, he can often sense overall market changes and sales opportunities much faster and more accurately than you could on your own - information that can be invaluable to you in developing and fine-tuning your marketing plans and sales objectives.

And finally, manufacturers' reps are an available reservoir of competent sales talent. As we all know, qualified sales personnel are not always easy to find. So the sheer availability of reps in a key area can be a potent advantage in their favor. Many good reps already have well-established business and social roots in their territories which they have worked for years and, as a result, may have built valuable customer contacts with many of the companies you wish to penetrate.

Those are some of the major potential advantages to consider when evaluating the feasibility of the use of manufacturers' reps for your company. However, don't lose sight of the fact that nothing is ever all black or all white. There are also some potential disadvantages of selling through reps. There are some situations in which a rep just won't work out satisfactorily. Let's take a look at some of the potential drawbacks.

If you decide to use a manufacturers' rep, you'll have to realize the need for much tighter sales direction. Although there are exceptions, contract tooling and machining firms generally have a greater degree of control over their own sales personnel than they do over reps. Since a rep usually represents a number of principals, he is not completely dependent on you for survival. He is subject only to your broad policies and to such controls dictated by you that he agrees to. Many control problems can be resolved or avoided by carefully drafted rep contracts, so that all parties know where they stand at the outset.

Some buyers prefer to deal with direct sales people rather than reps. So before you enter into any kind of relationship with a manufacturers' rep, you may want to sound out your major customers as well as your prospective customers as to their acceptance of reps. One way to get around any such problem is to train your manufacturers' rep as thoroughly as possible in the technical capabilities of your shop so that customer questions can always be answered satisfactorily and to also provide your rep with the name of someone in your organization who can quickly respond to extremely technical customer questions.

And finally, terminating a rep may possibly cost you business. When a manufacturers' rep is terminated, that

leaves him with a void in his line, which he may be tempted to fill by taking on another job shop...possibly a strong competitor of yours. Remember that reps, particularly those with above average ability, frequently establish close relationships with buyers ... so if you lose your rep, you may also lose this close relationship with a customer.

After you have very carefully weighed the pros and cons objectively concerning the suitability of manufacturers' reps for your particular company, and assuming that your analysis points toward their utilization, you will want to pay the same careful attention to selecting the right rep for your shop.

WHERE TO FIND MANUFACTURERS' REPS

How do you find a rep? There are a number of sources that you can tap in helping you find a potential manufacturers' rep for your company.

One excellent way to find a potential rep is simply to ask your current customers for suggestions. No one knows better than the customer himself which reps make professional sales calls and effective presentations, who don't waste time and who follow up on requests and commitments. Buyers see too many job shop sales people who do not have those basic qualifications, so it is to their advantage to recommend reps who do have them.

Ask your prospective customers too - those companies that you are counting on your rep to call on. If buyers from those customer markets you wish to penetrate recommend or have good things to say about a rep, chances are he's welcome there. If a rep's name is mentioned by several prospective customers, his stature in that area is clearly considerable.

Also, contact people you may know in allied companies - companies whose products or services are similar, but not in competition with yours. You may uncover a rep for one of these allied companies who is calling on the same customers you wish to cover and who would be interested in adding your shop's capabilities to his line.

If you are currently utilizing reps in certain areas, ask them to recommend names of reps they may know who are working in other geographical areas you wish to cover. Reps frequently meet with other good reps at conventions, seminars, etc. If your current rep is sold on your company, he'll be interested in helping you solve your marketing problems in other areas.

The Manufacturers' Agents National Association (MANA) is the national trade association representing the manufacturers' rep industry. They publish a monthly magazine in which both reps and manufacturers place ads. In addition, they also publish an annual directory listing their nearly 7,000 members. Reps are listed alphabetically, by territory, and by product line.

There are also a number of specialized recruitment firms that, for a fee, will find and screen a rep for you. However, be careful - their services are generally fairly expensive and we have not seen them to be especially successful in the job shop industry. If you decide to use a specialized recruitment firm, make sure you get a money-back guarantee in the event you are not satisfied with their results.

After you've tapped one or more of these sources for reps, your next step will be to contact some of the potential reps that

you've found and determine their interest in representing your company ... and also to arrange interviews with those that are interested.

HOW TO RATE A MANUFACTURERS' REP IN TERMS OF YOUR BUSINESS

Remember, if you're really serious about using a manufacturers' rep to augment your marketing efforts, then one of the most important decisions facing you is the choice of the right rep to market your company. Because, the right selection will be crucial to the success of your sales, it is imperative that your choice of representation be based on comprehensive information that can be obtained only through careful screening and in-depth personal interview.

However, this is where the process breaks down for too many shop owners. They fail to account for a couple of facts and they give up too soon. It's often a problem getting the attention of a good rep.

Manufacturers' reps are usually very conscious of their time. They are seldom in their offices during normal business hours. They are either making sales calls or traveling between sales calls. You have to understand that returning calls or reading mail from prospective principals, such as yourself, often has a low priority. Calls from their customers and current principals come first.

How then can you make initial contact with a prospective rep? A combination of phone calls and mail seems to work best. Send the prospective rep enough information about your company to help him decide if he wants to meet with you - general information about your shop's products or services, shop facilities, current customers and anticipated markets. And get it there quickly .. send it by Express Mail or Federal Express.

Allow about seven to ten days after mailing your introductory letter and then follow up with a telephone call to the rep. Don't be surprised if it takes you a number of phone calls to finally reach him. And don't forget that your goal at this stage is not to sell the rep on working for your shop but just to get him to agree to meet with you.

Don't be discouraged when you get turn-downs ... they are going to happen. Some reps might simply not have time to take on a new principal. Or perhaps your shop's capabilities do not fit in with his current line or may even compete with one of his established clients. In any case, even after a turndown, it is still appropriate for you to ask that rep if he could recommend another rep who would be interested in talking with you. Sooner or later you will hit pay dirt.

Once you have identified, through the initial screening process, several potential manufacturers' reps who might be interested in establishing a relationship with you, your next step will be to arrange for an in-depth, in-person interview with each of the rep candidates. Remember, you are trying to construct a long-lasting partnership for profit with the rep that you select. Take your time and be very careful when evaluating and selecting your rep. If you pick the wrong rep, he can significantly retard your sales efforts in a particular market or territory. So, for that reason, take your time and be just as selective as you are when hiring any other key individual for your company.

A good manufacturers' rep will want to know as much about you and your company as you want to know about him. The rep can no more afford a mismatch than you. Therefore, you should be prepared to answer his questions about your shop's capacities and capabilities with the same openness and honesty that you expect from him. This kind of dialogue will help both parties avoid misunderstandings later on, strengthen the alliance, and greatly increase its chances for success. So try to anticipate and prepare for those questions that a good rep will almost certainly ask. Let's examine some of the questions that a rep will want answered if he is to agree to represent your company.

- Do you adhere to promised delivery schedules as well as your competitors?
- What is your present and forecast financial health?
- Why are you deciding to utilize a rep? Have you used reps before?
- If you've used reps before, do you have a good record for on-time payment of commissions?
- Have you had to terminate a rep in the past? Why?
- What specific market (or markets) do you want to penetrate? Are your products and/or services competitive in this/these markets in terms of price and quality.

During your initial discussions with manufacturers' rep candidates, they will also want to know about some, or all of these areas:

- Your shop's production capacity and your ability to expand and grow, your plans for new equipment, etc.
- Your current annual sales in total as well as your sales projections for the territory or market under discussion.
- Current market and customers - what they are buying from your shop and in what volume.
- Your intended commission rate and when and how it will be paid.
- Your current method of marketing your shop's capabilities; if you're using other reps, who they are and what are their territories.
- Nature of the intended territory,, how you will handle current customers already in the territory.
- The kind of sales support you intend to make available to help your rep; product training, sample parts, advertising, brochures, etc.
- Terms of your written contract.
- Services you expect from your rep. Just selling, or do you expect written reports on sales calls, sales forecasting, market surveys, credit information, etc.?

And remember, any potential rep worth his salt will certainly want to see your shop facilities, meet your staff and talk with your key people. Don't make a deal with a rep until he actually visits your shop and understands your operation. All of this information will help the rep evaluate you as a potential principal in terms of these four major criteria:

1. Your company's reputation and financial health.
2. The compatibility of your products and services with the rep's current business.

3. The projected profitability of your products and services.
4. The rep's ability to utilize his present customer contacts and sales call pattern when selling for you.

At the interview stage, reps are not overly concerned with the terms of the agreement, or contract, they might eventually sign with you. That will come later if a mutual interest is sparked. What is important, at this stage, is that you come up with a thoughtful and carefully planned presentation which will tell them what they need to know about your company and your objectives as candidly as possible.

Well, that pretty much covers the kinds of things a manufacturers' rep will want to consider before he will agree to represent your company. But how about the other side - what should you know and investigate about any potential rep for your company?

Obviously, a number of the questions we just covered can be turned around and directed at reps themselves. You should certainly be concerned about your prospective rep's integrity, reliability, financial health, and his general reputation with his current principals.

Remember, manufacturers' reps are good, personable sales people, so even if a prospective rep is thoroughly convincing during a personal interview, you will most definitely want to check his references.

Financial references can usually be best checked by your own banker who can elicit more candor from other bankers than you could.

However, you are better able yourself to check your prospective rep's customer references as well as his current principals.

You will want to call several of the customers whom your prospective rep currently calls on. Ask them to confirm the information the rep has given you concerning orders and volume. Also ask the rep's current customers about:

- The quality of service provided by the rep; sale & professionalism.
- Follow-up on requests for information, commitments, etc.
- The rep's knowledge of the customer's operations, needs and problems.
- Frequency of sales calls. You should ask the rep's current principals about:
- The rep's claimed volume of sales as well as level of effort.
- His completeness of information provided in support of RFQs and orders.
- The promptness in which the rep follows up on leads and inquiries.

However, the key question that you will want to discuss with any potential manufacturers' rep is, "How much time will you spend representing my company?" To adequately ascertain the answer to that key concern, you should thoroughly prove four key factors.

FACTOR NUMBER ONE: COMPATIBLE LINES

Obtain a complete list of the rep's current principals and their products and services. Check carefully whether or not the rep's present line contains products or services that are compatible with yours. The rep's current principals should be closely related to your capabilities but should not conflict or compete with them. If your shop's products and services are sufficiently related to the rep's current principals, then his calls on behalf of his other principals may generate opportunities for you.

You might also want to determine how closely your own products and services relate to the rep's two or three top income-producing principals. If your shop's capabilities relate strongly to his main principals, you can rest assured that you will be getting strong coverage from your manufacturers' rep.

FACTOR, NUMBER TWO: TRACK RECORD

What has been the rep's gross sales volume in the territory or market for each of the past five years? What has been the sales volume for those lines most closely related to yours? The answers to these questions will give you a rough idea as to the rep's performance as well as an indication of the buying power in that territory or market for your shop's products or services.

Ask the prospective rep how long he has represented each of his current principals. This will not only indicate the rep's stability, but it will also tell you when he took on his most recent principal. If he took them on just recently, he might be so busy generating momentum for them that your shop may not get immediate coverage and attention.

FACTOR NUMBER THREE: COMPATIBLE TERRITORIES

Get an appropriately scaled map on which the prospective rep's current territory is clearly delineated. Does it correspond to the area in which you require coverage? Also, ask the rep what he considers to be his primary and secondary markets in the territory. Again, do those markets correspond to your sales objectives?

Also, if you plan to give your rep something less than an exclusive right to sell in a territory...for instance, you may wish to retain a current, already developed customer as a house account ... be sure to bring that up and make sure the rep understands the arrangement.

FACTOR NUMBER FOUR: COMPATIBLE SALES CALL PATTERNS.

The established sales call pattern of your prospective rep, regarding both companies called on as well as individuals called on within those companies, should be such that it provides potential for the sale of your shop's products or services. This means that not only should your rep be calling on the same levels in the customer ladder that are appropriate for your company but that the technical knowledge needed to sell your shop's capabilities is not substantially different than

that required by others in the rep's line. To be sure, your rep should either be representing other non-competing companies in the metalworking industry or have a reasonably good technical grasp of your shop's products and services.

But even after these four factors have been considered, you still have to take one additional factor into consideration...that intangible thing called "chemistry." Is it there? Do you have that gut feeling that you and the prospective rep can work amicably together and achieve your marketing objectives?

HOW TO NEGOTIATE AN EQUITABLE CONTRACT

Once you have decided that a particular manufacturers' rep is right for your company, your next step will be to put together some kind of agreement between you and your rep. And the question is ... should you have a written contract or will a simple handshake be good enough? In the contract tooling and machining industry, agreements between shop owners and reps have varied from the informality of oral statements followed by a handshake to formal written contracts drafted by the shop owner's attorney. However, in the past several years, a strong trend has developed toward written contracts.

There are many good reasons for putting your agreement in writing and the most important ones do not necessarily pertain to "making it legal." A written contract provides an automatic, tangible and complete review of your preliminary verbal discussions. Any inadvertent and bona fide misunderstandings or misinterpretations can be identified and resolved during the process of reducing the oral understanding to writing.

A written contract between you and your rep is "referable" whereas oral agreements, or handshakes, may become fuzzy as memories fade. As a result, an issue between you and your rep that might easily be resolved by reference to a written document may, under an oral agreement, escalate into a court battle. And if court action does ever result, disputes are generally far more easily resolved when written contracts are available, in contrast to the "your word against my word" situation that can develop in the context of verbal agreements.

Also, it's a lot easier to spot and note problem areas on the written contract as they develop during the rep's performance ... problem areas that can be taken up prior to renewal or negotiation of a succeeding agreement.

True, if you should be unfortunate enough to deal with an unprincipled rep, a written contract may be no more protection than a verbal one. A rep can obey the letter of the contract but violate its spirit. And there is always the argument that if there is good faith on both sides, "there is no need for legal mumbo-jumbo." Still, disputes can arise even when the parties to a contract are men of principle and good faith.

When this happens, the existence of a written contract is clearly advantageous...both to you and your rep.

But whether you tie down the terms of your arrangement with your rep in a letter agreement or a full-blown formal contract, don't try to go it alone. The advice and guidance of competent legal counsel is indispensable. Your lawyer should not only be involved in the actual drafting of the agreement but he should also be consulted early in your exploration of

the pros and cons of using a manufacturers' sales rep for your company.

No question! Negotiating and drafting a contract can be a headache. But that's no reason for you to avoid it. A written agreement between you and your manufacturers' rep may prevent a far more crippling migraine in the future.

HOW TO MAINTAIN A MUTUALLY BENEFICIAL RELATIONSHIP

Once you've reached an agreement with your new rep, it's important that you get started in helping him become a knowledgeable and productive member of your sales staff - and it's very important that you start off on the right foot. Regardless of whether your rep force consists of one person in one territory or 15 to 20 reps covering the entire country, a profitable relationship can be sustained only through continuous effort, support and vigilance on your part.

This is especially so during the first several months of representation and you can take a number of steps to maximize the chances of a profitable, long-term relationship with your new rep.

First of all, your new rep should be welcomed as a member of your team. The new rep must visit your shop and familiarize himself with your capabilities, equipment and unique features. He should also be introduced to your key personnel ... and spend time talking at length to those individuals with whom he will have future contact. Before your rep's visit, his role and importance in your organization should be explained to your employees so that they will understand his role and accept him as a valuable potential contributor to the success of the company.

If your rep will be calling on some of your current customers, make sure that you arrange for an appropriate introduction - either in person or by letter.

You also have to make sure that your new rep receives enough training from you so that he thoroughly understands your shop's capabilities and he can effectively communicate and sell your products or services to those customers he'll be calling on. This doesn't mean a course in your own personal sales theory or a series of pep talks. But your new rep will appreciate no-nonsense sessions informing him of your shop's capabilities, specific strengths and weaknesses, technical details, new equipment or expansion plans, or any sales approaches that you have found to be effective in the past.

And, of course, you'll want to provide your new rep with a

full supply of sales brochures, facilities lists, customer testimonial letters, or any other appropriate sales literature or material.

Don't overlook the fact that a rep's relationship with a new principal, such as yourself, changes once he's signed, trained and on his own. It would be a real mistake for you to simply let your new rep shift for himself while you simply wait for the quotes to come rolling in. Don't forget that the first 12 to 18 months with your new rep is critical to your long-term success.

Continuity of communication between you and your rep is vitally important ... and there will always be plenty to discuss:

- Customer lead and inquiry status
- Progress converting quotes to orders
- Order status
- Current efforts with key customers or prospects
- Significant new orders and new customers
- New applications or markets
- New sales aids or literature
- Annual update sessions in your shop

The bottom line is that frequent personal communication between you and your rep is absolutely critical if the relationship is going to work and make money for your company.

Selling through manufacturers' reps may not always be the way to go for all contract tooling and machining companies. However, for some job shops it may be just what the doctor ordered to expand their customer base.

The choice is yours. But keep in mind...our industry is changing. Our customer base is continuing to shift. As some of our old traditional customers fall off and have less work available, new industry markets will continually emerge demanding new marketing and sales strategies on our part.

If you are continuing to grow and prosper, you'll have to somehow reach these new customers. And communicate to them your company's willingness and capability to work with them and help them achieve their manufacturing goals.

The U.S. contract tooling and manufacturing market is huge. The customers are there. The jobs are there. But only for those NTMA member companies who are truly aggressive and innovative in their marketing efforts.

This BMA was reviewed by NTMA's Marketing Department Staff.