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GUIDELINES
for Developing New Markets with Independent Sales Representatives

For Manufacturers Without Market Presence: How to Attract and Fairly Compensate Independent Sales Representatives for Pioneering Your "Missionary" Lines

Adapted from the White Paper for "Manufacturers Without Market Presence" developed by the Electronics Representatives Association (ERA) and the Manufacturers Agents National Association (MANA)

A manufacturer with a new product line, and no market presence, will frequently turn to outsourced professional field sales representative agencies for assistance with market development and product promotion. They know that outsourcing their marketing to an established outside sales force will help them to gain entry into the marketplace.

However, in recent years, manufacturers seeking these independent sales representatives to introduce or pioneer their new product, or “missionary” lines, have met with *decreasing* interest among reps, and an overall lack of sales success. While it has become more and more difficult for manufacturers to find and retain qualified representatives for their missionary lines, many reps would take on these lines if they did not have to bear the full risks and sizeable costs of the pioneering effort.

This white paper addresses the issue of pioneering missionary lines. The specific sections and the topics to be covered are:

1) The performance and cost benefits for manufacturers that outsource their field sales to professional independent representative agencies
2) Why representatives elect to pioneer lines
3) The issues, risks and costs for representatives pioneering a line
4) Co-investing for Success: How manufacturers can attract and fairly compensate pioneering representatives
5) The manufacturers’ return on investment when utilizing representatives to pioneer lines.
6)

Definitions of Terms Used in This White Paper

To Pioneer: *To develop business for a product line that has no existing identity and/or sales in a territory or market.*

Missionary Line: *A product line that has no existing identity or business within a territory or market.*

THE PERFORMANCE AND COST BENEFITS FOR MANUFACTURERS WHO OUTSOURCE THEIR FIELD SALES TO INDEPENDENT REPRESENTATIVE AGENCIES

Countless companies of all sizes and across all industries utilize independent representative agencies to market and sell their products. Outsourcing the field sales function has been common for years among large, well-known corporations (including 3M, Lutron, Motorola, Wiremold, and Honeywell), and the trend continues to expand. Like many start-up and smaller companies, mega-corporations understand the benefits of going to market with independent manufacturers’ representatives—even when they have adequate resources to fund their own direct sales structure.

These manufacturers choose an outsourced field sales force, (i.e., a firm operating in one or more specific geographic territories, selling the products of multiple, non-competing manufacturers), because they recognize the following tangible benefits:

- Lower overall sales costs (compared to a direct sales force)
- Immediate market access, broader market access and deeper market penetration

- A highly experienced, multi-skilled sales force
- Strong, long established customer relationships that result in better market intelligence and forecasting
- Partnering with representatives that are vested in the manufacturer's success
- An increased visibility and importance for their products due to the association with a multi-line representative

ESTIMATED ANNUAL COSTS: DIRECT FIELD SALES EMPLOYEE

A recent MANA study indicates that the total annual cost of a direct field sales employee with a base salary of $60,000, is about $160,000!

The estimated typical costs are:

▪ Fixed Salary	$ 60,000
▪ Variable Incentive Compensation	$ 15,000
▪ Payroll Taxes and 401k Contribution	$ 10,000
▪ Paid Vacation, Insurance and Workers' Compensation	$ 14,000
▪ Company Automobile	$ 10,000
▪ Travel and Entertainment	$ 18,000
▪ Postage and Office Supplies	$ 6,000
▪ Computer and Communications Equipment	$ 8,000
▪ Inside Sales Support	$ 3,000
▪ Recruiting, Hiring and Training Expense*	$ 16,000
**based on employee turnover once every 2 years*	
TOTAL	$160,000

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Many large, well-established companies prefer to invest their capital on growth, research and development, rather than on funding a direct sales force. For start-up companies or other manufacturers with missionary lines, there is usually no decision making required. They cannot afford steep sales costs and many will turn to reps. So, why would representatives partner with these manufacturers?

WHY REPRESENTATIVES ELECT TO PIONEER LINES

Most representative agencies are looking for new lines to grow their business and increase the product and service value to their customers. Ideally, they want to represent well organized, established manufacturers with good levels of business momentum in their territories. However, this is not always possible because the manufacturers they may want to represent already have successful relationships with other rep agencies

Independent representatives pursue missionary lines as part of their overall business plan for several reasons:

- First, reps may take on a missionary line because they have identified a product or service that their major customers need. A representative firm's greatest value to a principal is its relationships with key personnel at major accounts in his or her territory. In most cases, the rep has an excellent understanding of the customer's needs and where there may be opportunities to introduce a new supplier/product.

- Second, a representative firm may determine that a missionary line has a new or mature technology that fits well with the rest of its line card. A rep's value to its *principals* lies in its relationships with customers. In turn, the firm's value to its *customers* lies in its ability to offer a group of complimentary lines that address their needs. It is very important that a representative firm be able to introduce leading-edge products to the marketplace. The most efficient way to do this is by "pulling through" these products with better known, compatible lines.

- Third, to address the overall decline in business in the recession of the early 2000s, many representative agencies have expanded into new markets and accounts. In order to do so effectively, these firms have determined they need additional products and/or a different product mix. They often look to missionary lines as a way to reach these new markets and accounts.

THE BASICS OF PIONEERING A LINE

Regardless of the products or markets, most representatives perform a number of basic tasks when pioneering a line. These can include:

- Identifying and evaluating target markets, accounts, customers and customers' requirements
- Identifying revenue and value-added opportunities
- Identifying customers' key decision makers
- Analyzing the competition at target customers
- Anticipating customers' reactions to the new line
- Identifying the type of support required to build and increase sales at the target accounts over a specific time period

THE ISSUES, RISKS AND COSTS OF PIONEERING A LINE

THE ISSUES

When pioneering lines to existing customers, the biggest challenge that representatives face is the prevailing strategy of customers limiting their vendor lines in order to leverage their business with fewer, carefully selected suppliers. The customer's goal is a closer control of cost, quality and service. Representatives cannot introduce new principals to their key engineering and/or purchasing contacts and immediately expect to capture a competitor's existing business, or to address new design projects.

Since the recession and business downturn of 2001, many companies have reduced their engineering staffs. Thus, there are far fewer component, quality and supplier engineers. This results in alternate sourcing efforts that tend to focus on commodities where problems exist, as opposed to an ongoing assessment of the whole supply base. In addition, customers screen any new potential vendor to ensure it meets price, technology, quality, service and financial criteria. Although a new and/or unknown supplier (in the form of a missionary line) may meet some of these criteria (usually technology or price), it may be difficult to meet all the parameters.

The result of all these factors is that capturing new business for a relatively unknown manufacturer is time-consuming for the representative, and replacing well-known, established competitors is difficult and risky.

THE RISKS

Manufacturers of any size certainly take great risks when developing a new product, technology or application, and/or when pursuing a new marketplace or sales region. When a representative agency takes on a missionary line, it is also accepting significant risk in three specific ways:

1) Under traditional representative-manufacturer agreements, there is no expense reimbursement, and reps do not receive a commission until product is sold. In missionary situations, a manufacturer could terminate the rep, even though they have invested heavily in line pioneering, before there is sufficient time for market development (or in some cases, marketplace product rejection). Low or no sales means a low or negative return on investment for the representative.

2) In today's volatile markets, representatives must safeguard their most precious assets – their selling time in front of customers and their intellectual property. They must be sure they are maximizing their selling time and "mind share" on behalf of the principals whose commissions support their firms. Reducing existing principals' selling time or mind share in order to pioneer another line is not cost effective. Representatives that share their intellectual property with principals (e.g., customer lists, sales histories and account information) may jeopardize their own future. Sometimes reps that have turned over their intellectual property have faced a manufacturer that switches to a direct sales force. These risks are very real, and smart representatives will simply not put their firms in such jeopardy without some guaranteed return and/or protection.

3) Frequently, missionary lines are developed by entrepreneurs. As the product matures and gains market acceptance, it is often targeted by larger conglomerates and purchased. These conglomerates may already have existing representation or may use direct field sales. This results in negative return on the pioneering effort invested by the representative.

THE COSTS

According to *Sales and Marketing Magazine*, the cost of one sales call is approximately $350, and it continues to climb. The causes of the continual rise in costs include:

- Higher salaries for experienced salespeople
- Increased expenses for workers' compensation and fringe benefits
- The shifting of more administrative work to field sales personnel by manufacturers and/or due to customer staff downsizing
- Voicemail screening, which makes it more difficult to get appointments
- Higher auto related expenses
- Longer sales calls required for consultative selling and problem solving.

It is not uncommon for a representative to make 10 or more sales calls to bring in a new customer. In some cases, it can take as long as two years for a rep to earn the first commission on a missionary line. Even though the representative can spread the high cost of a sales call across multiple manufacturers, the agency is still investing significant dollars on behalf of a missionary line. Additional costs, for example, for training inside and outside sales staff on the new line, and updating the agency's printed materials and web site, increase the representative's investment. Many reps have "right sized" their operations for their existing principals, and frequently there is no excess capacity or income to finance missionary work.

National Electrical Manufacturers Representatives Association
28 Deer Street, Suite 302 ● Portsmouth, NH 03801
Tel (914) 524-8650 Fax (603) 319-1667
nemra@nemra.org www.nemra.org

CO-INVESTING FOR SUCCESS: HOW MANUFACTURERS CAN ATTRACT AND FAIRLY COMPENSATE PIONEERING REPRESENTATIVES

Considering the issues, risks and costs involved in pioneering a line under the terms of traditional straight commission agreements, it is no surprise that many manufacturers with missionary lines are encountering little interest among representatives and a lack of sales success. As it becomes clear that there really is no effective way to take a new product to market without significant cost, *shared investment plans* are becoming more commonplace.

THE TRADITIONAL STRAIGHT COMMISSION MODEL

In the traditional straight commission model, the manufacturer incurs minimal field sales costs until the representative makes a sale. However, when a line or manufacturer is unknown, the return on the product development and marketing costs can be seriously limited if the rep field sales force is required to sell the product only on a "best effort" basis. The representative faces a constantly recurring decision of where to spend resources. As missionary lines are a financial risk for reps, many times they will only make sales calls for a new principal or line when time permits. The result for these lines are either delayed sales, or sales lost to competition. Either situation results in the loss of potential revenue.

The true cost of the straight commission approach is the cost of lost sales. If a potential market for the product does truly exist, the cost of lost opportunities can substantially exceed those of a shared investment plan, and can result in a significantly lower return on the manufacturer's investment in product development and marketing.

THE SHARED INVESTMENT PLAN MODEL

In a shared investment plan, the manufacturer gains the full professional services and market intelligence of an established representative agency with experienced salespeople who know the territory, the market and the customers.

If a manufacturer accepts the overall premise that a shared investment plan will produce immediate and higher sales—and a resulting higher return on investment—the representative will undertake the tasks that contribute to the investment. Although every situation varies, there are certain tasks that most representatives consider "the basics" for successfully pioneering a line (see Page 4). These fundamental activities comprise the manufacturer's *immediate* ROI. There may be additional services that a representative could provide, and both parties must agree upon the rep's role and responsibilities at the outset of the marketing partnership.

A shared investment plan provides for a manufacturer and independent representative to share the costs of pioneering a line. It enables a manufacturer to penetrate new markets, usually with multiple salespeople from the representative agency working in a single territory, all at a fraction of the cost of fielding just one direct salesperson. It also reduces the risks and costs for the rep agency.

When manufacturers and representatives share the costs equitably, everyone wins. The results are that manufacturers gain an efficient and motivated sales force, and can launch their line and/or increase their sales and profitability with new customers. The representative agency receives fair pay for its time and services. For this model to work efficiently and effectively, the manufacturer must pay for its share of the costs when they occur, versus paying straight commissions only on new business sales.

NOTE: Even for manufacturers with existing business in a territory, paying a share of the "up-front" costs incurred by a newly appointed representative is actually part of the straight commission model. In effect, the commissions on residual business help defray the new rep's expenses for investing resources and time to create demand for the new principal's products among the rep's customer base. Therefore, those so-called "traditional" models are also shared investment plans. The main differences are that, for missionary lines, the representative's investment is greater, and there is no residual business to help defray the costs.

THE RETURN ON INVESTMENT

For missionary lines, manufacturers and representatives can share the investment in pioneering the line by choosing one, or a combination, of the following options:

1) The manufacturer pays the representative a market development fee for a specified duration, or until commission income reaches a specified level. This type of fee can cover whatever specific services the rep and manufacturer spell out in their agreement.

2) The representative provides the manufacturer with a menu of various services available at specified fees, with the manufacturer choosing a customized package of services the rep is to perform.

3) The manufacturer pays the representative a minimum commission per month while also agreeing to a specified minimum contractual time period, and an extended post termination commission clause.

4) The manufacturer pays an increased rate of commission for an agreed upon time during the startup period.

5) The manufacturer agrees to compensate the representative for commissions due or specified cost reimbursement in the event the manufacturer sells to an outside company.

Note: For any method or combination listed above to be successful, it is vital that the representative receives a reasonable cash flow to offset the pioneering costs. A motivating commission program that rewards success should augment this.

Product development and marketing costs associated with the introduction of a new product or entry into a new market are generally the same, regardless of the field sales model employed. These costs can include market research; marketing plan development; product positioning; sales forecasting; sample development and/or product applications; development of Web-based product data; creation of an advertising and promotion program; and inside and outside sales training. The impact of product introduction or new market entry costs can vary widely, based upon the choice of how to outsource the field sales function.

CONCLUSION

Pioneering lines can be a profitable venture for both representatives and manufacturers. As long as both parties understand the risk/reward scenario and create an agreement that fairly compensates the rep for the risk and effort required, the result will be a win-win scenario for all involved.