House accounts: Why and how to handle them fairly

by Robert G. Terwall
ERA Association President
e: rterwall@era.org

In my time writing this column, I've tried to avoid a bias that promotes the multiple-line selling solution as the be-all and end-all in every situation. I don't subscribe to that and would like to continue a "down the middle" treatment as I address the somewhat controversial and, it would appear to me, increasing use of house accounts. What I have to say here is equally applicable to representative relationships as it is to direct sales teams that have a compensation scheme tied to specific account assignments.

Many of my sales professional friends would like me to write here that there simply is no place for house accounts in a sales partnership, but I don't buy that. I believe they have a place, but the key is to arrive at house accounts in the proper way for all concerned.

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Rule one is no surprises

Recently, our friend Charlie Cohon of the Manufacturer's Agents National Association (MANA) wrote a piece on this topic and labeled house accounts the "pre-nup to sales agreements." I like that approach, and it takes me to my first point. That is, house accounts should be declared as early on in a relationship (marriage) as possible, and changes in the list of those accounts should be made infrequently, thoughtfully and with full participation (at least communication) with all parties concerned.

In the case of a representative contract, the house accounts list should be declared in the interviewing process so that both principal and rep can make an eyes-open decision based on the real, true economics of the relationship. The same is true if you go to market with a direct team and pay some part of compensation on specific account sales — that change in an account assignment to the "house" or to another sales associate has the same effect on those sales folks, be they rep or direct. So, rule one is no surprises, combined with thoughtful, eyes-open and communicative handling of house account changes.

How principals 'justify' house accounts

As I said, I believe there is a place in the market for house accounts, done properly, and there may be several reasons — some good, some not — to engage in the practice. In the end, the needs of the customer must be considered as well as those of the manufacturer/principal, and so those two things have a significant bearing on how any one account is handled. Let me address some of the reasons I've heard to assign accounts "to the house."

1) The customer is multi-location, likely multi-national, and a high degree of coordination across its many facilities is needed. This is one of the better reasons, although I can cite countless examples whereby multiple salespeople are involved across the various customer sites, and a coordinator (key account manager) runs the team. This can be very effective because it maintains the local involvement and cost effectiveness of that involvement (whether via reps or direct people) while bringing the necessary coordination appropriate to a large customer.

2) The customer is "strategic," technology road maps are co-developed, and so the number of players in the relationship must be limited. This is a bad reason, in my opinion. One attribute of a strong principal is an integrated sales force, rep or direct, that has participated in the development of the strategic plan and its resultant initiatives. To limit the sales force involvement in the case of strategic accounts points to a shallow relationship that I believe will limit results. One key limitation is that you will train salespeople to restrict the depth and breadth of the relationship with the customer such that they don't become "strategic" and get taken away from them.

3) Margins are thin and won't support a variable compensation to the sales entity, again whether rep or direct. I'd offer that this is a weak, although quite common, reason to go to a house account model as it presupposes the compensation scheme is non-negotiable. It isn't, and while changes in commission rates and/or variable compensation to direct folks should be done carefully and with all parties involved, good sales professionals can and should participate in these discussions to arrive at suitable plans to meet all needs, including the customer's.

4) The account has grown so big that it should be taken as a house account. This is the worst reason of all, a counter-productive incentive to keep accounts from growing to the point

(continued on page 24)

ASSOCIATION ROUND TABLE: House accounts

(continued from page 15)

where they are a target for going to the house. *See previous comments regarding the negotiable nature of commission rates and direct force compensation schemes.*

In the end, the job is to grow, likely by meeting and exceeding the customer's needs, and almost certainly one contributor to a growing account is that someone on the field sales team has done a good job. Why change horses? I've personally had a number of experiences whereby a good professional salesperson initiated the conversation around compensation rates in conjunction with a dramatic revenue boost at a customer, and that almost always yielded a continuance of the sales coverage and continued growth to the satisfaction of all parties.

Key questions for manufacturers

Finally, the deployment of house accounts fits in with many other factors in your marketplace and its impacts on your sales team. Do house accounts dominate the revenue in the territory, or are there lots of opportunities to be pursued? What is the design cycle for your products — weeks, years? That matters. What is the life cycle of the product — months, years? That matters too. For your reps, what is the "run-out" of compensation if a change is made, i.e., whether the sales firm will be retained for other than the house account or if a full parting of the ways is happening? These and other factors should all be considered in the practice of adding or discontinuing a house account for your sales force.

We at ERA would be happy to help interested parties, be they manufacturer or representative firm, with this evolving matter of house accounts and, as we hope you see here, bringing a thoughtful and fair approach for all. ■

LEGALLY SPEAKING: Avoiding pitfalls of liability

(continued from page 17)

Adhere to the corporate structure

The court will also look to see if the formalities of an organization are being followed. This includes regular corporate meetings with minutes, issuing stock, payment of dividends, filing all necessary annual reports and paying any franchise taxes, and keeping accurate corporate records. The incorporating attorney will be able to advise the organization on these requirements and the applicable laws in the state of incorporation.

Do not commingle corporate funds with personal funds

A very important way to protect an owner from individual liability is to completely separate corporate finances from personal finances. This may seem like a simple principle, but individual business owners often overlook routine transactions that may appear (or later be twisted by ambitious attorneys) to be commingling of funds. The simplest measure is to be certain that the organization has, in its own name, all of its own banking accounts necessary to run the business and does not pay for personal expenses from corporate accounts. This is the first place a suspecting plaintiff's attorney will look to see if you have commingled funds.

Be sure that all utility bills are in the name of the organization. This includes cell phones, although the occasional personal call on a company cell phone should not result in piercing the corporate veil. Also, be sure that all corporate vehicles and related insurance are in the name of the organization and that all premises used by the organization are either owned or leased by the organization and not by the individual shareholder. Also, if the organization has satellite offices, be sure that those leases are in the name of the organization and not the individual shareholder. Lastly, be sure that all loans or capital contributions to the organization are fully documented.

Final thoughts

The factors discussed above are not reviewed individually, but instead cumulatively, when the court decides to pierce the corporate veil. Moreover, the court reviews these factors only to decide the central question of whether the existence of the corporate identity perpetuates a fraud on creditors or would otherwise work a gross injustice to the law of limited corporate liability.

With these factors in mind, sole or multiple shareholders can control and dominate their organizations without the fear of individual liability. While no measure of protection can prevent owners of rep organizations from being named individually in the occasional lawsuit, these suggestions should assist your attorney in a swift and relatively painless dismissal. ■

Editor's Note: This article was published some years ago by ERA and has been updated by the co-authors to ensure its accuracy and relevancy today.