THE PERFORMANCE BAR HAS BEEN RAISED

by Tom Wichert

"It's a dog eat dog world out there, and some days I feel like I'm wearing milk bone underwear" — a popular saying by the famous character Norm from the NBC sitcom Cheers — describes how many sales representatives feel today.

Selling organizations and sales strategies/models have been challenged and under attack for years. When times are good, you are great. When times are not so good, well, the proverbial finger always seems to find its way to point to you.

During the 2016 ERA conference held in Austin, one topic addressed was the challenges facing the sales representatives model as we see it today. The big questions: What is the logic behind these pressures forcing component manufacturers to reduce their "cost of sales" to remain competitive in the North American market? What is the analogy behind the forces that are driving these reductions in cost pressures? How are sales representatives a key component of a manufacturer's "cost of sales?" Finally, staying relevant — why sales representatives must constantly innovate their selling approach?

Peeling back the onion, one has to look at the declining average selling prices (ASP) over the past 15 years, benchmarked against their actual cost. Comparing standard manufacturer suggested resale pricing (MSRP), the ASP shows a decline of about 65 percent, versus a unit cost decline of only 40 percent. The difference comes out of a component manufacturer's profit. Ouch!

Driving this ASP reduction are the usual forces: globalization of pricing through the philosophy of "the world is flat." Responsible parties include distributors, customers, and contract manufacturers all looking to leverage the best price across geographic regions. Additional forces include "everything is cheaper built in Asia," Walmart's popular message of "Everyday Low Price," disruptive technologies and even the Asian culture.

SG&A (Sales General Administration) is a key component of any publicly traded companies' income statement. Essentially, it is made up of sales, marketing, finance and the general administration (president and executives). The sales representative commissions fall under sales (above the line). When profit is squeezed through the forces above and companies cannot reduce their product costs in line with price declines, they resort to looking at other areas on their income statement where costs can be reduced.

SG&A is one area that has received a great deal of attention. For most publicly traded companies in the component industry, SG&A has been on a steady decline for the past 20-plus years. SG&A enjoyed some of its highs in the mid-80s, averaging 25 percent to 38 percent, where today it can range from as low as 8 percent to as high as 25 percent. The decline in SG&A directly translates to higher visibility and tighter control on sales representative commissions.

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About Tom Wichert

Tom Wichert, vice president of sales at TDK-Lambda Americas, has extensive experience in managing a complex multi-tiered sales channel, as well as executive experience in international and domestic sales. Tom specializes in strategic relationships, business plan and new product development. He enjoys managing and mentoring people to perform to the best of their abilities. Tom has an MBA in Marketing from Hofstra University and a B.S.E.E. from West Virginia University.

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Foreign philosophies

As the world "flattens" globally, some of these global philosophies from outside North America come with them. One example is the Japanese culture. Historically, the Japanese culture places a much higher value on "engineers" over "salespeople." As more Asian companies sell into the North American market, they bring these philosophies with them. The result: a silent "Asian force" subjectively driving more pressure for a lower cost of sales (SG&A).

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So, when the sales representative model is viewed as the "glass half empty," their sales model looks doomed. However, when taking a second look at the "vast" geographic area of North America, it is just the contrary! The North American market has many intrinsic benefits that accent the natural strengths of the sales representative model. It is a country deeply rooted with many different cultures and values. It is similar to Europe, just that the USA is a "United" group of States in America. The region is comprised of many small to mid-size customers. Local relationships are considered a "value."

Following the survival of the fittest philosophy, challenging (or changing) aspects of your business will be the "new normal."

In contrast to Europe, the North American market is a distribution "friendly" environment. From a design-in perspective, it is one of the most competitive and largest electronic component markets in the world, driven by a myriad of competitive choices — price, service and technology.

To see the natural strengths of this sales representative model, you have to review the history. When you hear firms talk of their history, they usually reflect on a mom and pop type business — where dad was the lead salesperson, sons and daughters entered the business as outside sales. Mom ran inside sales and finance. Their approach to the market was a one-size-fits-all. However, over time, the sales representative model has evolved into skilled professionals, where survival of the fittest and now specialization have become the critical elements for success.

Taking a deeper look, the sales representative is a free cost of sales until something is sold! Income is directly tied to sales performance. Other benefits include but are not limited to:

- More "feet on street" — pooled income allows for more coverage than one principal could afford;
- Synergistic selling — line card plus multifaceted resource;
- Great "other" reasons to be inside account;
- Relationships plus knowledge of customers in territory;
- Strong "linkage" to manufacturers' distribution strategy;
- Local market intelligence — voice to manufacturer.

One customer actually described a sales representative as a field application engineer ... with a personality.

So, why all the fuss? Candidly, each time improvements are made, the performance bar seems to get raised. As an owner of a sales representative firm, one needs to constantly ask himseslf or herself, "Am I continuously innovating my selling approach? What is the life blood of my organization?" One representative owner described, "Design wins are everything ... eat, sleep and breathe them."

If this fits your firm's primary sales objective, is your sales organization structured to maximize this strategy? Is your organization adapting to recent trends like the migration of design activity moving to contract manufacturers as original design manufacturers (ODMs)? Is a key function of your outside sales team to build executive level (CEO, directors) relationships to enhance your value to your principals? Have you thought through the value of commodity versus design intensive lines? Most importantly, do you have an internal and an external strategy connecting with the millennials (sales mentor programs)? As their position of power grows, so does influence.

Impact of technology

Pushing the sales representative challenge further, would one consider his or her sales organizations mining of data to gain knowledge good, fair or poor? The fast pace of technology is disrupting traditional industries, markets and customers, whereas new industries and/or markets are emerging as fast as old ones fade. The ability to transition reams of data into information is another critical success factor. This encompasses taking facts, numbers, texts to patterns, associations or relationships to predict future trends and

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behavior. An illustrated example would be a customer that purchases 85 percent on a direct basis and 15 percent through Digi-key or Mouser.

The Digi-Key or Mouser purchases are small and mostly newer products. One might be able to make the correlation that these distributors offer an inroad to that particular customer's engineering. Thus, predicted behavior is that newer products with promotions through these distributors will yield more design wins and direct business longer term. This new era of "Digital Age Hunting" is essential for the survival of the fittest strategy. I am reminded of a message from Scott Klososky, keynoter at the recent ERA conference, where he said, "In the past five to seven years alone, technology has shifted from being a utility to a weapon inside organizations ... not being able to understand this historic shift ... is fatal."

It seems every year the challenges to our business model increase. Business and economic cycles will go up and down. Following the survival of the fittest philosophy, challenging (or changing) aspects of your business will be the "new normal." These may include the way the outside sales team is compensated.

Is the Charlie Sheen Wall Street all or nothing strategy of the 80s the best approach, or is a pay forward strategy (guarantee plus commission) more appropriate for the younger generation entering our sales force? Is your inside sales organization bringing your principals the value they desire, or is your firm just hanging onto outdated hierarchies? With the friendly North American environment to distribution, is your distribution strategy pragmatic (donuts or design wins)? The evolution of the sales representative model has developed over the years from "order-takers," to "design experts," to "solution providers." It is time to seek the next level of sales transition to a "consultant — trusted adviser."

Sales representatives must continuously look to break, challenge and innovate their sales model. Complacency, following the "if it ain't broke, don't fix it" philosophy, is a dangerous strategy that could make your firm either the Blockbuster Video of the representative world or an obsolete component collecting dust on a shelf. The environment has never been stronger for the survival-of-the-fittest strategy. Innovation comes from a certain defiance of the norm. ■