ERA White Paper

An Introduction to Manufacturers' Sales Reps



Building a Mutually Successful Foundation for Growth

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INTRODUCTION

A consideration for most manufacturers is how to get customer access and reach to impact positive sales growth. What is the optimal approach with sales resources to get the highest customer penetration in the most efficient way? Ours is a global economy and despite some trade barriers that exist between nations, the technologies, and products of the dominant and developing countries are positioning to find success across oceans and borders. It is a complex task to reach customers that are located anywhere in the world, and it is generally cost challenging to have all markets adequately covered effectively.

Selecting the most effective way to go to market is truly dependent on the complexity of the product and the customer application. In all cases, the manufacturer wants the most efficient use of the sales resources and the flexibility to pivot its position as the customer needs and or location changes.

In the industrial electronics industry, the products can range from a commodity to complex and the sales models will vary accordingly, dictated by the challenges of customer access and the demands of the selling cycle. Options are a direct sales model, an e-commerce model, distribution, manufacturers reps, or some combination of all four. Many companies are realizing that a direct sales model is costly and not able to reach all the potential customers for its products. An exclusively e-commerce model may work for a commodity but may fall short if local technical support is required to design in a specific product or technology. Distributors, although strong on logistics, may not have the level of technical skills to support the design effort. With the right manufacturers' rep, the goal of reaching a broader range of potential customers, providing fast local technical support and being able to respond quickly to customer and market changes, all with a variable cost of sales, is becoming the preferred go to market strategy.

The representative model started in the US due to a high amount of customer geographical dispersion and the inherent challenges with working micro-cultures across the states. The model has now been adopted worldwide.

With this focus on manufacturers' reps from companies in and outside of North America, that may be new to or are getting reacquainted with the rep sales model, comes the opportunity for ERA to assist companies recently engaged in or considering the rep model build a foundation for mutual and sustainable growth.



PROBLEM STATEMENT

In some situations, companies looking to use a rep model do so with a limited understanding of how a Rep organization functions. The level and scope of resources required by a Rep firm and the type of support the manufacturer needs to provide to optimize the Rep sales effort are vital factors to success. This is where the term “independent manufacturers’ rep” can lead to misinterpretation of the role of the rep. Certainly, from a business structure perspective the rep firm is an independent legal entity, but success is **co-dependent** based on the timing and quality of support it gets from its principal.

This limited understanding can be the case with manufacturers from either in or outside of the U.S. In the U.S., companies new to reps — or those that have traditionally used reps but where reorganizations and/or changes in leadership occur — could benefit from a refreshed understanding of the rep model. For offshore companies, rep model “differentiation” is important to recognize. Sales rep organizations in countries outside North America often carry local inventory for their principal’s customers and although they have a field sales team, the product inventory position is one that is not consistent with most industrial electronics reps in North America. Even though this appears to be the singular distinction between the two rep models, the contractual, compensation and support approaches can be quite different.

Reps continue to refine their product line offerings to better align with the market dynamics and the evolving customer design and purchasing needs. Adding additional principals are increasingly limited to those strategically complementary manufacturers that recognize the investment the rep makes in the product line and the responsibility to support the sales effort to ensure success. If a company new to manufacturers’ reps is considering moving to this sales model it is important to understand how the model works and how they can best support and manage it, to achieve the expected growth



Why Manufacturers' Reps?

Before we look at rep selection and support, why does an organization choose to use manufacturers' reps? *It is also important to note that reps, historically, have been quick to evolve in support of their customers' needs. Never has this been more relevant than during the pandemic. Most rep organizations have rapidly adjusted their selling approach to adjust to the demands of the current and ongoing business environment.*

Key Attributes of the Manufacturers' Rep

- Long and close business relationships with local customers
- Expanded coverage model across a specified territory or customer base with multiple salespeople
- Experienced technical sales professionals with limited turnover
- Invested in technology (remote selling tools, digital marketing, data analytics, AI)
- Engage with customers at all functions (engineering, procurement, manufacturing)
- Has local inside sales, customer and technical support

Growth Benefits

Access to customers is a major benefit, multiple products mean more customer value and more reasons to engage with a rep who can provide most of the customers' product and support needs.

- Complementary product lines and technical sales resources drive demand creation
- Works with customers on multiple products providing the principals' products optimum visibility
- Multiple sales personnel, optimum territory coverage
- Lead generation and follow up creates new opportunities
- Local market experts, actively address market and customer activity and transitions
- Results-focused and commission-driven

Financial Benefits

A simple variable cost model, all overhead assumed by Rep (HR, travel, insurance, legal, etc.)

The choice to use manufacturers' reps was for all the right reason, now what is the best approach to ensure the right rep organization is selected?

Rep Selection

Although all manufacturers' reps essentially have a similar basic structure, they by no means should be considered "generalist." Reps all have a market and strategic focus which drives their product line synergy, personnel, resources and capabilities. Obviously, this needs to properly align with the manufacturers' objectives to ensure long term success. I note this as most reps will quickly reject potential lines that are not a good match. If you as a manufacturer reach out and get a "not interested" response, do not get discouraged on the model, it may mean you need to better refine your search. As a manufacturer, when the search begins for the "right" rep firm for the business, the selection criterion to evaluate candidates besides tenure, reinvestment and historical performance should include the following:

Market and or Key Account Focus – Does this reps coverage strategy focus on the key markets, customers, and applications that the business is targeting? For example, a rep may list the medical market as one that is a focus, but this is a broad category, so the need to define the segment. Do they call on the medical engineers who design the applications that are most appropriate for your product? Does their geographic footprint position this rep to reach these targets?

Product Line Compatibility – When looking at the other product lines a potential rep supports, it is important to take a higher-level look at how these products are compatible with yours. In the applications, what are the other products or technologies that do or could surround your product either physically or functionally? Create a "key application matrix" that you can use as a guide in evaluating each of the reps' other lines to best ensure a match that will allow you to capitalize on the total solution sell.

Skills and Capabilities – Are there any specific or unique personnel skills or process capabilities required to support and sell your products? How do the people and resources of the manufacturers' rep firm align with those traits? For example, your products selling focus is on program managers and engineers in the aerospace market. These individuals require the salesperson to not only have a working knowledge of the product but also to understand the guidelines around the process and regulatory issues specific to this market. Does this rep firm have that?

Customer Support Capabilities – Does your business require, or could it benefit from allowing, the rep to support you customers with local "inside" technical support or general customer service activities? Does your business generate potential sales leads from its direct marketing or some other source, and can the reps provide the next level efforts needed to support your initial qualification? If your answer is yes to both questions, then look to the rep's capabilities in these areas as a match criterion.

Mindshare – How important will the line be to the rep's overall business strategy, both in the short and long term? Obviously, the income a new line generates is important but how it aligns with the rep's overall strategy is also a major factor. In some cases, a line may be important for specific customers or a developing market, this can also be a compelling consideration for a rep.

Mindshare also can be related to how a manufacturer supports and rewards their rep's selling efforts. Areas that can be managed to ensure the manufacturer sees the ROI they expect while still getting the appropriate mind share from the rep organization, will be addressed next.

Working Together

A recent study conducted by NEMRA in conjunction with the Alexander Group (AGI) indicated that reps see enablement and support as the most critical area to strengthen the relationship and pave the path to success. Performance-based compensation and C-Suite commitment and engagement round out the top three.[1] These are the foundation for a mutually successful rep/principal relationship. The following are the building blocks on that foundation:

Sales Representative Agreement – The first step in formalizing the manufacturer's relationship with the rep. This agreement is obviously intended and required to ensure the working relationship has all appropriate legal issues addressed. It also includes exhibits reflecting compensation and territory guidelines and any exclusions. A section of the agreement that is vitally important is the one on termination payout and timing. No one goes into a relationship expecting it to end but with M&A and manufacturers' leadership changes, reps need some formal level of assurance that the commitment, resources and resulting business they have created will be compensated for some extended period of time if the manufacturer decides to end the relationship. **ERA has a suggested Sales Rep Agreement that is well balanced in its consideration of the manufacturer's requirements and supportive of the reps needs. It is suggested that agreement be considered, a member's link is footnoted.[2]**

Onboarding/Training – Introducing the new rep firm to the manufacturer's business is vital and not just from a product training perspective. Many manufacturers bring in the new rep for training and just focus on the products but there is much more that needs to be shared. The onboarding process should essentially replicate, in spirit, how a manufacturer would bring on any new employee. How does your support process work, who are the key stakeholders in providing information and support, when and where should I escalate? Every aspect of the manufacturer's organization that relates to opportunity and customer support needs to be part of the training. Allow the new rep to assist in developing the training agenda. The rep should be able to meet the team he will be working with, and the team needs to clearly understand the role of the rep. Allow the rep to provide an overview of their business to ensure complete alignment with the manufacturer's support team. This is particularly important when the manufacturer's internal team had historically worked with a direct sales model. Understanding how a rep organization works will help the manufacturer's team to better support the rep selling model.

Sales Management – How important is having the right person as the rep sales manager? Harvard Business Review conducted a survey of sales reps and the results were telling. Nearly 70 percent of reps who exceeded their revenue plans rated their sales managers as either excellent or above average.[3] With manufacturers' reps, the best sales managers are those who can provide the proper strategic leadership and all the support needed to allow the reps to meet their objectives. They act as advocates for the reps

[1] Maximizing the Manufacturer-Independent Sales Rep Relationship NEMRA/AGI Article 2016
[2] https://era.org/era-publications/era-contract-evaluation-guidelines/era-sales-rep-agreement
[3] The Seven Attributes of the most Effective Sales Leaders- Harvard Business Review by S.W. Martin Sept. 11, 2015

within the organization. Territory travel has a specific objective to optimize the time of the rep and the customer. Sales managers are, and should be, performance-driven, their role is to make sure the sales team achieves results and meets expectations, how do they do that? The best sales managers are available, provide coaching when needed, communicate regularly and honestly with the reps. They focus on leadership and let the reps do the selling. This builds the trust and commitment required to work as a team for the shared growth goals.

Goals and Performance Metrics – Manufacturers typically measure the results of their sales reps on two levels, performance and behavior; performance to specific metrics such as sales goals, YOY growth, orders etc., and behavior measurements are around the predictive indicators of growth such as new business creation and wins, new customer acquisition or new product introduction activity. The important thing is to make sure that what is being measured is limited to the critical few and the goals are directly aligned with the strategic objectives of the business. This enables the reps to maintain focus on what is most important to the principal's business and not get caught up in trying to manage so many metrics that selling time is diminished. As with any objectives, establishing the goals should not be done independent of the reps, their input makes the process equitable and easier for all to manage. It appears basic, but it is also important that the sales manager has the same goals as the reps under their watch. For example, the business asks the reps to design in products that ship to other countries but the resulting revenue falls under the sales manager outside of region. It is more likely the reps sales manager will advocate for capturing that revenue for the design reps if their goals also include that offshore revenue.

Rep Productivity – "Managing workforce productivity involves accepting responsibility for optimizing the ROI (return on investment) for sales expense, just as other functions do for their activities."[4] One of primary objectives of going to market with manufacturers reps is that they are results focused and commission driven, if they do not sell, they do not get paid, it is as simple as that. It is therefore important that the principal stays keenly focused on any demands they make on the rep's time. This is not to say that specific reporting and activities are not needed, quite the contrary it is imperative that communications from the field in support of the rep's performance are effectively and regularly shared with the principal. As with goals and objectives, however, it is suggested they only are relegated to the critical few and the process to provide this information is time managed appropriately.

Compensation – Manufacturers, especially the CFOs, are supporters of the commissioned-based variable cost of sales that is associated with the manufacturers' rep model, as they should be. Multiple factors come into to play when determining what is a fair and appropriate compensation for the work the reps perform. Factors like selling cycle time and level of complexity are important. Rather than restate the overview of how to best compensate manufacturers' reps here, I would refer the reader to the article published in the **Spring 2020 issue of the ERA Magazine, *The Representor*, which details specific**

[4] Dario Priolo-Richardson Enablement Training

approaches a manufacturer should consider when developing their rep compensation plan. A link is footnoted.[5]

Communications – The most effective and productive manufacturer/rep relationships are marked by active and honest communications. When communicating with reps the manufacturer should replicate the same approach used when communicating with direct employees, any information that can or will impact the rep's ability to sell needs to be shared. In most cases, the sales rep agreement includes an NDA so even certain proprietary information may be discretely shared. Communication obviously needs to be a two-way process and one of the best ways to formalize that process is through a rep council. When properly conducted, it provides an excellent forum for generating actions for both the principal and the rep that, collectively, will lead to optimizing the productivity of the manufacturers' rep channel. **A member's link to the ERA Rep Council Guidelines is footnoted.[6]**

[5] https://era.org/era-publications/representor-archive-2020/representor-spring-2020-cover-story
[6] https://era.org/era-publications/era-contract-evaluation-guidelines/guidelines-for-establishing-and-benefiting-from-rep-councils/



CONCLUSION AND KEY TAKEAWAYS

The choice to use manufacturers' reps as the primary go-to-market strategy is based on the opportunity to expand sales coverage regionally and to introduce the manufacturers' products to a broader range of customers, all in the most cost-effective manner. The manufacturers' return on that investment is directly related to the productivity of the reps. A similar return on investment of the principal is calculated by the rep. In both cases, the variables of the equation, time and revenue, are similar. How much time are both spending on activities that, ultimately, do not contribute to sales and what is the cost associated with these non-productive activities? When a manufacturer views how they manage, engage and compensate their reps from a productivity perspective and respond accordingly, it will ultimately result in a more solid long-term relationship. A relationship that will achieve the growth objectives of both the principal and their manufacturers' reps.

Key Takeaways

- Customer reach and access can be extremely challenging. With multiple line selling, reps have many reasons to engage with customers.
- Manufacturers' rep organizations can and have evolved rapidly in support of the current "social distancing" selling environment.
- The overall cumulative attributes of the rep model have significant growth and financial benefits
- The criterion for rep selection process is aligned with the manufacturer's product and market strategy.
- Productivity should be the reference manufacturers use to gauge rep reporting requirements.
- Compensation should be based on selling cycle time and complexity of sale.
- Two-way active communication is critical to the successful manufacturer/rep relationship.

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About the Author



ERA Consultant Cesare Giammarco has been in the field of sales and sales management since 1971, with 35 of those years in the electronics component industry. In those 35 years, he has instituted, managed and integrated manufacturers' reps globally into multiple organizations.

Starting in 1984 with Elmwood Sensors, a privately-owned global manufacturer of temperature sensing products, he led successful integration of the rep sales model through four acquisitions of this business, culminating with Honeywell Sensing and Controls in 2002. He retired from Honeywell in 2015 as North American sales director. Since then he has worked as an independent consultant for global manufacturers assisting in instituting and supporting manufacturers' reps as their primary sales channel.

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