ERA WHITE PAPER

The Solution to Cost-Effective Sales Coverage is Hiding in Plain Sight

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INTRODUCTION

This year has brought a set of economic forces that are projected to linger into 2023 and possibly beyond. Inflationary pressures, interest rate increases, supply chain issues and geopolitical disruption – the downside references are piling up. Yet, according to the latest information from the U.S. Bureau of Labor Statistics, there are over 11 million job openings in the U.S. Included in this number are more than 400,000 open field sales positions in the industrial business-to-business category. Although the magnitude of these statistics is staggering, to all those manufacturers who are trying to support the post-pandemic growth and hire capable field sales personnel, the statistics do not begin to reflect the challenges they face. Even when qualified sales candidates can be secured, recruiting, onboarding and training can cost up to 40 percent of the employee's salary. Productivity of new salespeople varies, but can often take months. Another factor to consider, especially in today's employment market, is retention (the great resignation continues). Will that salesperson be around long enough for the employer to get a long-term return on their investment?

The manufacturers' sales rep model has and continues to thrive as a go-to market strategy for multiple industries. It provides an ideal sales coverage solution both from a cost and growth perspective. The fact that manufacturers' sales representatives have people in place, ready to cover the territory as residing consultive experts, is a strong and compelling reason for companies to consider or reconsider using manufacturers' representatives. As costs escalate for fixed expense sales employees, manufacturers' representatives remain ready, willing and able to perform, all at a variable expense.

Inflation is proven to function as a tax long after companies have calculated their historic cost of sales. In the rep model, commissions increase as the revenues increase. Contrast that to the fact that salaries, health benefits and all costs related to direct employee compensation overall continue to increase at historical rates. The manufacturers' rep sales model enables organizations to buffer inflationary pressure and better predict sales costs.

Let's compare the fixed versus variable cost element and then look at the growth benefits the manufacturers' rep model provides its principals.

FINANCING THE COST OF SALES

For example, consider a hypothetical manufacturer, a small to mid-level organization ($50 to $100 million annual revenue) that uses a direct factory sales approach. Here is an estimated cost of supporting a direct salesperson:

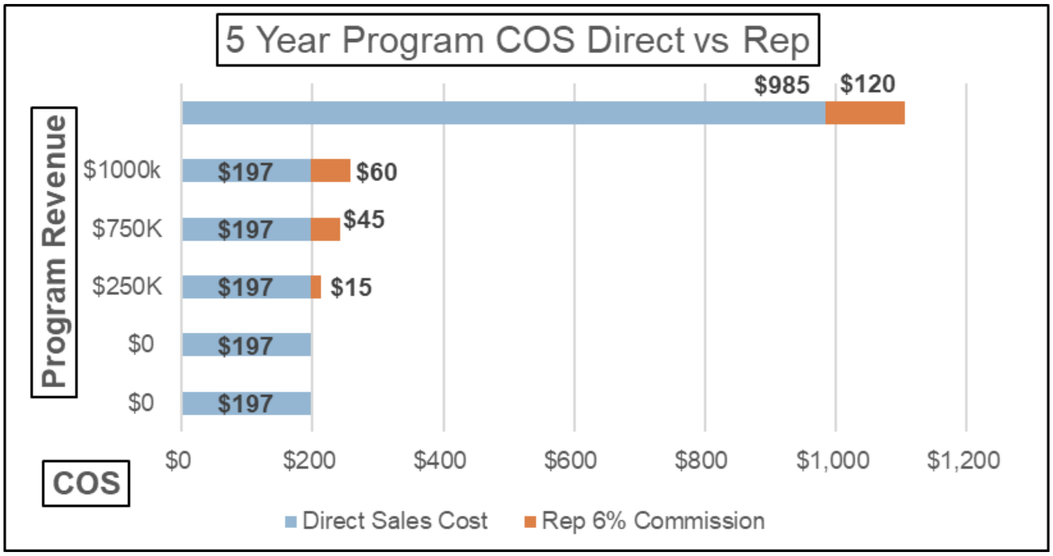
• Average direct field sales salary + commission	$130,000
• FICA, FUTA, State unemp. tax, etc.	$10,000
• Company vehicle/fuel/ins./mileage allowance	$10,000
• Health insurance (typical family of 4)	$17,000
• Supplies, equipment and support	$ 5,000
• T&E	$25,000
Total cost per direct salesperson	**$197,000**

As noted earlier, if this were a newly hired salesperson the cost of recruiting, onboarding and training could easily add an additional $40,000 to the first-year total.

There has been much discussion around travel and expense spending in the post-pandemic era. Although sales teams may do more virtual activity with potential customers, larger deals often require more personal engagement. Also, even if actual travel is scaled back, the cost of travel, airlines, hotels, meals and fuel have skyrocketed, driving the net spend higher.

When determining ROI of a factory direct sales force, manufacturers should also consider sales cycle. Does the product require a lengthy qualification process before any revenue is generated? How much time must the sales team invest to turn an opportunity into a sale? What is the cost outlay to support this opportunity before the revenue is realized? Manufacturers' reps only get paid on shipments so essentially, they are funding the cost of the business development on behalf of their principals.

The following graph is an example of a five-year $2 million program ramping up in year three.

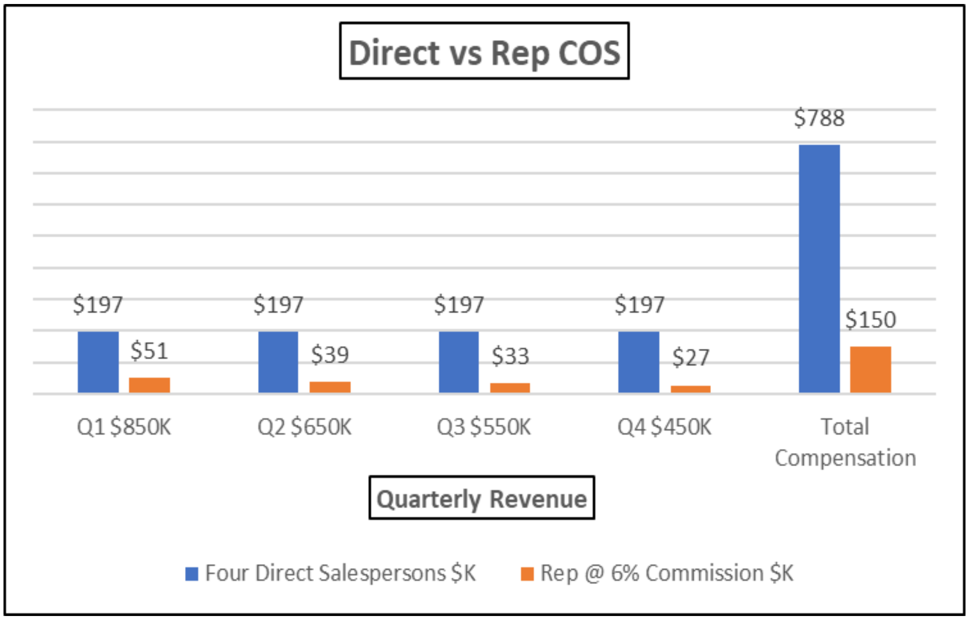


The manufacturer with a direct salesperson invests $394,000 in the first two years of the program until it begins to generate revenue in year three, nearly $1 million in COS for the program life. Contrast that to a rep model where commissions only begin in year three and are $120,000 for the life of the program. And as stated earlier, the rep model finances the opportunity development.

Another important question is, how many direct salespersons will an organization need to provide adequate territory coverage? What is the proper balance between person to person and virtual customer interaction?

Obviously, the number of salespeople will vary by industry, target market and product but for discussion purposes, let's review an example of a very logistically challenged territory. Southern California is a strong market, estimated at somewhere between 18 to 22 percent of the U.S. total S.A.M. for electronics components. Southern California has four major regions: San Diego, Orange County, Los Angeles and Inland Empire. The dynamic of traffic, distance, (not to mention the present cost of fuel) and the need to reach the Northern border of the designated region from San Luis Obispo to 75 miles south of the California Border, makes it a very tough challenge for suppliers to deploy a direct salesforce. To adequately cover the area, a manufacturer really should ideally have four outside sales representatives.

Expanding on this example, let's assume this is a $2.5 million sales territory that requires four salespeople to adequately support it. Revenue is hardly ever linear, so the chart below reflects that variability and the cost of four direct factory salesperson coverage compared to a manufacturers' rep organization that has at least four people covering the entire region:



The direct model reflects an annual cost of $788,000 for four salespersons based on an average fully loaded cost of $197,000 per salesperson per year.

The representative model, based on a six percent commission rate, would equal $150,000 for the year. The only way the $150,000 COS increases is with sales growth.

The assumptions made regarding the territory can vary and the cost of direct sales could differ by company. The manufacturers' rep commission rate could be higher but the gap between costs for a direct sales force versus a representative model is dramatic. The variance between direct sales costs and commission paid may intersect where sales revenues are very high. However, even at that point, salaries are going up fast and the cost of health insurance and other employee costs are right behind. The commission payment to a manufacturers' rep remains a variable cost directly aligned with sales revenue.

Some organizations allocate commissions paid to a direct cost category so true selling expenses such as cell phone charges, recruiting, training, payroll taxes, etc., are seen as general and administrative (G&A) expenses. Although they may end up somewhere else on the balance sheet, these costs are all absorbed by the manufacturers' rep organization.

Here is a summary of how a manufacturers' rep organization is built today, and some of the key attributes and growth benefits they provide their principals while generating a significant ROI on commission dollars paid.

A PROFILE OF TODAY'S MANUFACTURERS' REP ORGANIZATIONS

- Trained and certified technical sales professionals with limited turnover
- Well-financed businesses with a long-term focus
- Strategic, complimentary product lines tailored to support their customer base and market
- Focus is on design development and a "pipeline of opportunities" for sustained growth
- Invested in technology (remote selling tools, digital marketing, data analytics, AI)
- Positioned as "trusted advisors" to the customer
- Solid internal customer support (local customer service)

KEY ATTRIBUTES AND GROWTH BENEFITS OF THE MANUFACTURERS' REP MODEL

- Access to customers – multiple complementary products mean more customer value and more reasons for them to engage with a rep who can provide many of their product and support needs
- Long and close business relationships with local customers and channel partners

- Expanded coverage model across specified territory or customer base with multiple salespeople
- Engagement with customers at all functions (senior management, engineering, procurement, manufacturing)
- Lead generation and follow-up that creates new opportunities
- Local market expertise, actively addressing market and customer activity and transitions
- Results-focused and commission-driven

Some common questions from companies who have not used manufacturers' reps in the past are, "What control do we have of the sales activity and what level of advocacy will I get for my product when the rep has multiple lines to sell?" The positive answer to both questions lies in the essence of what it takes to have a successful manufacturers' rep organization.

Let's address the control question by referring to it as influence. In addition to the importance of the commission to the rep's organization, there is a key strategic importance to each line they represent. A principal's position in a rep's product and technology portfolio is critical in the rep's territory business strategy; it makes the rep's overall product line mix that much more important to that rep's customers. This inherently gives the manufacturer strong influence with that rep firm. Think of the manufacturers' reps' product lines as a jigsaw puzzle – one missing piece and you cannot complete the picture. Each line is key to that strategy. This is also ensuring advocacy; the reps will work to sell every line to every customer. In some cases, one line may lead and another follow, but the synergistic nature of the rep's lines allow for advocacy and opportunity for each line.

With all its financial and growth benefits, the manufacturers' rep model may not be right for every organization. If a manufacturer is providing a specific and unique technology to a singular market or specific customers, then the direct sales approach may be more appropriate.

Consider the manufacturers' rep sales model if you are building a new or expanding sales team in a territory, and you do not have a substantial current revenue stream – or if your organization's products or technology serves multiple markets in a broad geography with multiple customers. A limited direct sales team would be challenged to locate and address the multiple outsourced design companies supporting the manufacturers in many areas. Through the complementary line engagement and intimate territory knowledge, manufacturers' reps have access to resources and information to present all of their principals' products and generate major opportunities.

As organizations review their "go to market" strategy for 2023 and beyond, the financial and growth benefits of the manufacturers' rep model provide a compelling argument for consideration. It is a way for a manufacturer to invest in selling resources without the burden and limited flexibility of the direct sales model. Customers are all doing more with less resources, and the manufacturers' rep provides the customer with multiple solutions, local engagement and support in an expedient manner, making the customer more productive. Customers recognize and appreciate that support. Manufacturers want to have the opportunity to optimize customer engagement and consequently grow revenue through its sales organization in the most cost-effective manner. Manufacturers' reps meet this objective and are positioned and ready to make this happen now.

ABOUT THE AUTHORS

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