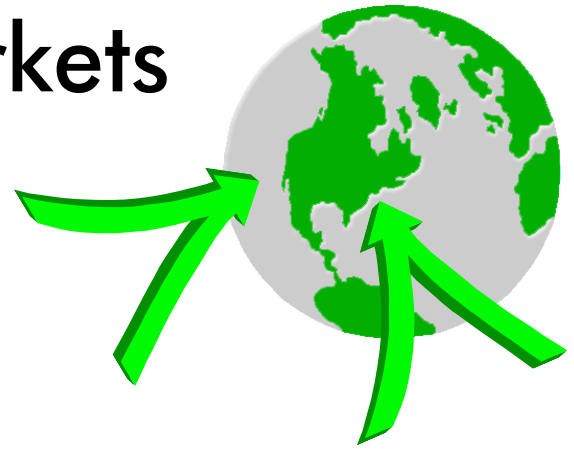


# Developing New Markets with Professional Field Sales Reps



## An ERA-MANA White Paper for Manufacturers without Market Presence: Guidelines to Attract and Fairly Compensate Professional Field Sales Representatives to “Pioneer” Your “Missionary” Line

*If you are a manufacturer with a new product line, with no established presence in a sales territory and/or who requires market development for any reason, this white paper has been developed specifically for you by the Electronics Representatives Association (ERA), in cooperation with the Manufacturers’ Agents National Association (MANA).*

In recent years, manufacturers seeking outsourced professional field sales representative (rep) firms to introduce or “pioneer” their lines (which are often called “missionary” lines) in new territories and/or markets have met with *decreasing* interest among reps and an overall lack of sales success. However, while it has become more and more difficult for manufacturers to find and retain qualified reps for their missionary lines, many reps have said they would take on these lines if they were not expected to bear the full risks and sizeable costs of the pioneering effort.

This is the dilemma addressed by this white paper. The specific sections and the topics to be covered are:

- I. Why manufacturers outsource their field sales to professional rep firms — the performance and cost benefits;
- II. Why reps elect to pioneer lines;
- III. The issues, risks and costs for reps when pioneering a line;
- IV. Co-investing for success — how manufacturers can attract and fairly compensate pioneering reps; and
- V. The ROI manufacturers can expect from pioneering reps.

### 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.

### I. Why manufacturers outsource their field sales function to professional rep firms

Countless companies of all sizes and across all industries utilize rep firms to market and sell their products. Outsourcing the field sales function has been common for years among large, well-known corporations (including 3M, Intel, Sony, Hitachi, Texas Instruments, Motorola, Samsung, Honeywell, Murata), and the trend continues to expand. Like many start-up and smaller companies, these mega-corporations understand the benefits of going to market with manufacturers’ reps — even when they have adequate resources to fund their own captive sales structure.

They continue to choose the more effective and cost-efficient outsourced field sales rep model (i.e., a firm operating in one or more specific geographic territories, selling the products of multiple, non-competing manufacturers) because they recognize the tangible benefits, including:

- lower overall sales costs (compared to a directly-employed, captive sales force);
- immediate market access and broader, deeper penetration;
- a highly-experienced, multi-skilled sales force;
- strong, long-established customer relationships that result in better market intelligence and forecasting; and
- having a partner vested in the manufacturer’s success.

Focusing just on the cost issue, it is obvious why so many manufacturers outsource their field sales function to professional reps. To hire and manage their own sales teams, it can easily cost \$160,000 (or more!) per salesperson per year. (*See box on p.2.*)

As noted previously, even very large, well-established companies prefer to invest their capital in other ways — e.g., on growth, research and development — rather than on funding an



## Estimated Annual Cost: 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 & 401k Contribution	10,000
• Paid Vacation, Insurance & Workers' Compensation	14,000
• Company Automobile	10,000
• Travel and Entertainment	18,000
• Postage & Office Supplies	6,000
• Computer & Communications Equipment	8,000
• Inside Sales Support	3,000
• Recruiting, Hiring & Training Expense *	16,000
<b>TOTAL</b>	<b>\$160,000</b>

\* Based on employee turnover once every two years

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in-house 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 so, almost universally, they turn to reps. But why do reps turn to them?

## II. Why reps elect to pioneer missionary lines

Most rep firms are looking for new lines to grow their business and increase their value to their customers. Ideally, they want to represent well-recognized, established companies with some level of business or "momentum," in their territories. However, this is not always possible because the lines they may want to sell already have successful relationships with other rep firms.

Reps may therefore pursue missionary lines as part of their overall business plan for several reasons:

- First and foremost, reps may take on a missionary line because they have identified opportunities for a product or service at their major customers. A rep's greatest value to his principals is his relationships with key personnel at the major accounts in his territory. In most cases, the rep has an excellent understanding of the needs of those customers and where there may be opportunities to introduce a new supplier.
- Second, a rep may have determined that a missionary line has a new or mature technology that fits well with the rest of his line card. Just as one of the rep's values to his principals is in his relationships with customers, one of his values to his customers is his ability to offer them a group of complimentary lines that address their needs. It is particularly exciting for a rep to be able to introduce leading-edge products to the marketplace, and the most efficient way to do so is as a "pull through," with better-known, compatible lines.
- Third, to address the overall decline in business in the recession of the early 2000s, many reps have looked to expand into

new markets. In order to do so, these expansion-minded firms have determined they need additional or a different mix of products to effectively sell to these new accounts. They often look to missionary lines as a way to reach these new markets.

## III. The issues, risks and costs of pioneering a line

### *The issues*

The biggest challenge reps face in pioneering lines to their existing accounts is the almost universal strategy of customers limiting their vendor bases in order to leverage their business with fewer, carefully selected suppliers. The goal, of course, is closer control — of cost, quality and service. The days are long gone when reps could introduce new principals to their key engineering and/or purchasing contacts at an account and expect to *immediately* have an opportunity to capture a competitor's existing business or to address new design projects.

Since the recession and business downturn of 2001, many companies have cut their engineering staffs, and there are far fewer component, quality and supplier engineers. The result is that alternate sourcing efforts tend to focus on commodities where there are problems as opposed to an ongoing effort to assess the whole supply base. In addition, any new potential vendor is extensively screened 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 dilemma is further compounded by the global nature of business, particularly with the largest potential customers. To effectively support this globalization, manufacturers must have sales, service and technical resources to pursue corporate supply base decisions as well as individual program vendor selections that are often spread out over several facilities in different parts of the country or the world. Moreover, of critical importance to the rep, principals must be able to support and track the sale of their products around the globe. Small manufacturers often have limited ability to meet these wide-ranging needs.

The end result of all these factors is that capturing new business for a relatively unknown manufacturer is tremendously time-consuming for the rep, and replacing well-known, established competitors is a difficult and high-risk proposition.

### *The risks*

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

1) Under traditional rep-manufacturer agreements, there is no expense reimbursement, and reps receive no commission until product is actually sold. In such situations, many reps have invested heavily in pioneering lines only to be terminated before sufficient time has been allowed for market development or when it is obvious the marketplace is rejecting the product. Low or no sales mean low or negative ROI for the reps.

2) Also under traditional agreements, reps often build pioneer lines into successful, profitable ventures and then are terminated by the principal (in favor of factory-direct sales personnel or other reps) as soon as the line begins earning significant income and before the pioneering reps can recoup their investments.

3) In today's volatile markets, reps 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 simply dangerous. Sharing their intellectual property (e.g., customer lists, sales histories and information on key contacts) with principals is also very risky. Unfortunately, reps have encountered unethical principals who have gained access to the reps' confidential information and then terminated their agreements. All too often, the reps then have seen their intellectual property turned over to a direct sales force. These risks are very real, and smart reps will simply not put their firms in such jeopardy without some guaranteed return and/or protection.

### **The costs**

The cost of a sales call continues to climb and is now estimated to be more than \$350. The causes of the continual rise are many, including: higher salaries for experienced salespeople; increased expenses for workers' compensation and fringe benefits; the shifting of more administrative work to field sales personnel; customer staff downsizing; voicemail screening which makes it more difficult to get appointments; higher auto expenses; and the longer time per sales call required for consultative selling and problem-solving for customers.

It is not uncommon for 10 or more sales calls to be required to bring in a new customer, and, in some cases, it can take as long as two years for a rep to earn the first commission on a missionary line. So even though a rep can spread the high cost of a sales call across multiple manufacturers on his line card, the rep firm still is investing significant dollars on behalf of a missionary line every time that line is presented to a potential customer. Costs for training salespeople and inside staff on the new line and for updating the rep firm's printed materials and Web site also increase the rep's investment.

### **IV. Co-investing for success: how manufacturers can attract and fairly compensate pioneering reps**

Considering the issues, risks and costs involved in pioneering a line under the terms of traditional straight commission agreements, it is no surprise that manufacturers with missionary lines are encountering little interest among reps and a lack of sales success. As it becomes more obvious that there really is "no free lunch" in taking product to market, *shared investment plans* are becoming more commonplace.

**A shared investment plan provides for a manufacturer and rep to share the costs of pioneering a line.** It enables a manufacturer to penetrate new markets, usually with multiple rep firm salespeople working one territory, all at a fraction of the cost of fielding just one directly-employed salesperson. It also reduces

the risks and costs for the professional field sales rep.

**When the cost is shared equitably, everyone wins.** The customer gains an efficient and motivated salesperson; the manufacturer launches its line and/or increases its sales and profitability with new customers; and the rep is fairly paid for his time and services. For this model to work efficiently and effectively, the manufacturer must expect to pay for its share of the costs at the time the expense is incurred (versus paying straight commissions only on new business).

**NOTE:** *Even for manufacturers with existing business in a territory, paying a share of the "up-front" costs incurred by a newly-appointed rep is actually part of the straight commission model. In effect, the commissions on residual business help defray the new rep firm's expenses for investing resources and time to create demand for the new principal's products among the rep's customer base. So those so-called "traditional" models are really shared investment plans. The main difference is that, for missionary lines, the rep's investment is greater.*

For missionary lines, manufacturers and reps can share the investment in pioneering the line by choosing one or a combination of these options.

- 1) The manufacturer pays the rep firm 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 rep firm 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 rep a minimum commission per month while also agreeing to a specified minimum contractual time period and an extended post-termination commission payment clause.

**It is vital to the mutual success of the rep and manufacturer that, no matter which method or combination of methods is used to achieve a reasonable cash flow to the rep firm during the pioneering effort, it should always be augmented by a motivating commission program that rewards success.**

### **V. What ROI can a manufacturer expect?**

For manufacturers, 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. Such costs can include: market research; target customer identification; sales forecasting; development of samples and product and/or applications literature; development

of Web-based product data; creation of an advertising and promotion program; competitive analysis; pricing research; inside and outside sales training. Where the product introduction or new market entry costs can be significantly impacted is in the choice of how to outsource the field sales function.

### ***The traditional straight commission model***

In the traditional straight commission model, the manufacturer incurs minimal field sales costs until sales are actually made. 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. As previously noted in “The risks,” the rep salesperson faces a constantly-recurring decision of where to spend his resources and usually will make sales calls for a new principal only when time permits, after he has met the needs and expectations of his existing principals who are sustaining his business. The result for the missionary line is either delayed sales or sales lost to competition. Either situation results in the loss of potential revenue.

Therefore, the true cost of this approach is the cost of lost sales. If there is truly a market for the product, 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 existing intellectual property of an established rep firm with experienced salespeople who know the territory, the market and the customers — all at a fraction of the cost of just one direct salesperson.

If a manufacturer accepts the overall premise that a shared investment plan will produce more immediate and higher sales, and a resulting higher return on investment, what specifically should be expected from the rep in return for contributing to the market development costs? Although every situation varies, there are certain tasks that most reps consider the basics for successfully pioneering a line. These fundamental activities comprise the manufacturer’s *immediate ROI*. (See the sidebar box in the adjacent column.)

### **The Basics of Pioneering a Line**

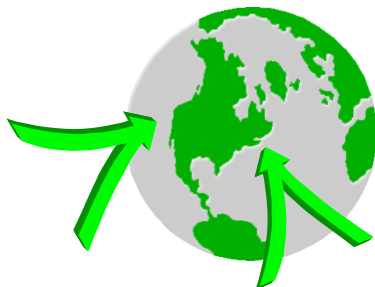
Regardless of the products or markets, most reps perform a number of basic tasks when pioneering a line. These can include:

- 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; and
- Identifying the type of support required to build and increase sales at the target accounts over a specific time period.

There may also be additional services that a manufacturer and rep specify in their contract. Then, add the assurance (call it “peace-of-mind”) that a manufacturer gains knowing that its new product or market entry is being handled by a highly motivated, experienced, customer-savvy sales force. The result should be an effective, successful rep-manufacturer partnership. ■

### **Special thanks ...**

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