



Globalization And The Rep

Is it right for you?

- When the final session of MRERF's CPMR 301 level educational program at Arizona State was opened for discussion earlier this year, the hot topic was the flight of U.S. manufacturers to China and how that trend ultimately will impact the independent rep.
- During breaks at several of MANA's local networking chapters over the last several months, reps have recounted how the competitive landscape has been altered by the influx of foreign manufacturers.
- E-mails and phone conversations flowing between MANA members and the association headquarters and *Agency Sales* magazine inevitably include the subject of the rep and how globalization affects the profession.

If there's one aspect of the rep's role in today's marketplace that has changed more than any other, it is the specter of globalization, what it means to the rep and what the rep of tomorrow will look like.

To explore the subject of globalization from business, moral, ethical and logistical aspects, *Agency Sales* contacted a number of reps — some that are actively involved in global business ventures, others that have decided to take a pass. Whatever the opinions, the fact remains that globalization and international trade have reared their heads in front of the independent manufacturers' representative. Now it's up to each rep to make the best — or the worst — of the situation.

Since the majority of the reps we were in touch with enthusiastically accept globalization as a challenge and an opportunity, let's start with them.

One rep who is looking to learn all he can about business around the world and is operating on a global stage is Ted McSherry, Manufacturers Marketing Corp., Glendale, Colorado. This MANA member rep firm imports to and exports from Asia a variety of products including castings, plastics and machining.

Working in a Global Economy

"The simple fact is that today we're operating within the framework of a global economy," says McSherry. "If anyone listens to the news — both the good and the bad — what happens in one part of the world impacts us here. I believe that anyone is mistaken to think that we have to take

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Ted McSherry



steps to protect the United States from developing nations. If we fail to assist developing nations, or if we think someone else will do it in our place, even greater problems will be created. In the end I subscribe to the view that you should hug your enemies tighter than you hug your friends."

When it comes to supplying manufacturers with a workforce, McSherry believes the United States can hardly be expected to compete with the likes of China, Mexico or Romania. "In addition, we can't control what Motorola, Dell or other companies do as far as outsourcing. There's nothing we can do to stop them. All of those countries have low — paid workers, and that's an area where we can't compete."

There is an area where the United States can compete, and that's where we should concentrate our efforts, he maintains. "What we're good at is our ingenuity and our educated workforce. What we should do is stay on top of our developing technology. That's an area where we lead the world. If we can maintain that

advantage, we can continue to grow and occupy our position as a world power."

The extent to which Manufacturers Marketing Corp is involved in international business is detailed by McSherry when he says "I have four U.S.-based principals that I rep in Asia. We ship to Japan, the Philippines and Singapore. I export close to \$6–\$8 million annually and import approximately \$2 million. The products I import are consumer products, not very technical, and they are products that most anyone could manufacture. They're very labor intensive — again that's an area where we can't compete."

If that's where he is today, McSherry sees even greater international growth in the future. "All signs point in a positive direction for us," he says. "If we hadn't opened an office in Asia in 1999, our business would be half of what it is today. I liken the situation of international business with that of a train. You had better be there on time to get on. If you're not, you'll be missing out on a great opportunity."



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Todd Bassett

Trade With Europe

Lest we think the words “international” and “globalization” mean only trade in Asia, consider the experience of Todd Bassett, Fi-Tech, Richmond, Virginia. Bassett is quick to point out the positives and negatives of working with overseas principals. “On the positive side, with our European partners we’ve been able to obtain exclusive contracts and an increased level of autonomy when it comes to marketing products.”

He adds that “European firms have a long history of working through reps/agents. They know how to use them, and they’ve had great success marketing their products worldwide through reps. Our experience has been that most principals make a long-term commitment to the market (they don’t jump around from one rep to another). We are able to get a two-year commitment on the front end of our contracts. We feel that we need this amount of time in order to introduce the principals and their product to the market and achieve initial results.

“Another advantage I’d cite is that the lines of responsibility and lines of communication between

our operation and that of our principals are clearer and easier to define. Since they are not physically in our market, I find that there is no ‘looking over our shoulder’ all the time.”

Where there are positives, there are going to be negatives, however. “I’d cite five areas primarily as those that would be negative:

- “Different working hours — Because of time differences, you may only have a few hours during the normal business day to communicate with your principals.
- “Communication — While most of the time European companies have excellent English speaking sales and engineering groups, you do have to be careful when it comes to using slang and wordy correspondence. In customer meetings, it’s critical to pay attention that the principal clearly understands what is being discussed and agreed upon.
- “Geographical distance — Because of the distance between firms here in the United States and a company in Europe, it can be difficult to rapidly respond to customer inquiries and requests. In addition, Europeans have many more holidays than we do. As a result, you need to be prepared.

“Because of the distance, reps and their principals may need to invest in local inventory for spare parts. Overnight delivery companies provide excellent service from Europe. That has helped close the distance gap.

- “Customer Service — Not all European firms have the same high U.S. standard for customer service (e.g., reacting quickly to customer needs), but that is improving.
- “Culture/Business Mentality — Because there are differences in this area between the United States and Europe, this can be a positive, but only if you understand the subtle and not-so-subtle differences from one country to the next. If the rep doesn’t appreciate these differences, it can lead to communication and relationship issues.”

After weighing the positives and negatives, however, Bassett never hesitates in his view that the effort to build business and relationship bridges between the United States and Europe is well worth the effort. “In at least two areas — margins and customer service — our efforts in working with European manufacturers have been very beneficial,” he explains. “Our margins and commission rates are higher because we are asked to do more by our European principals.” Among the extra services Fi-Tech performs are spare parts inventory, local marketing/advertising, trade shows, travel overseas and the requirement that they cover a larger territory.

Then there’s the aspect of providing value add to customers. “We are able to bring technologically advanced, reliable suppliers of machinery and components to our customers. These are products they might not normally have

access to. What we've been able to do is to act as a local supplier to our customers. In addition to having access to these European manufacturers, they also have a local contact (Fi-Tech), local supply of parts, and there is no need for the customer to communicate overseas or pay for goods in foreign currencies."

While Bassett and Fi-Tech are firmly entrenched in their efforts with European principals, he's well aware that other reps have other opinions on dealing with offshore suppliers. In response to those that have decided to follow a different business model Bassett says: "There are a lot of external factors that affect our businesses. We have to remain flexible and adjust our business plans to changes in our operating environment. With the world getting smaller and international trade becoming more important to the United States market, we need to explore opportunities to work with overseas principals. One may look at new lines to complement existing lines or use overseas suppliers to broaden their industry focus. But in the end, Fi-Tech is providing technically advanced equipment to U.S. industry so that they can remain competitive and that manufacturing jobs can remain in the United States."

If that's his view of the present, what does Bassett see for the future? "For reps working in the international arena, the future

looks positive. They have already taken steps to understand this opportunity, and as a result, they are ahead of the game. The United States government has made a commitment to international trade through the various trade agreements, so this is not a short-term trend. Reps working internationally already understand that rep firms need to continually evolve to offer customers and principals more improved products and services."

Following the Six D's

The number of reps involved in international agreements with offshore manufacturers dictate that Bassett is hardly alone in his opinions. One rep in particular offers some guidance when looking offshore. "If you decide to partner with someone in another country," cautions Joe Petruziello, Point One International, Olmsted Falls, Ohio, "I suggest you follow what I call the 'six d's' — due diligence, due diligence, due diligence."

With that as a starting point, Petruziello, who has a branch in Taiwan, understands that whether a rep decides to operate on a global stage or not, "It's an individual decision — everyone has his own politics in this area. But what we've got to do as businessmen is to look at what's right for us, our companies and the people who work for us."



"I'd advise anyone to move forward with caution. Make sure you do the research."

Joe Petruziello

"From our standpoint, there are plenty of opportunities there for foreign principals and for our customers here in the United States. But having said that, I'd advise anyone to move forward with caution. Make sure you do the research. Then there's a terrific commitment in terms of time, resources and money. You can't approach such a venture in a half-baked manner."

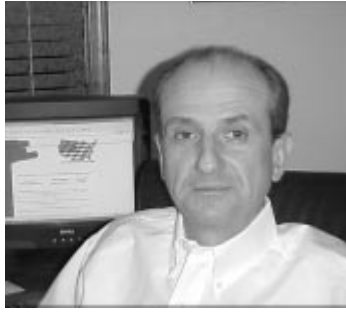
He adds that perhaps the greatest challenge he's faced has been the investment of time needed to get things moving. "I've heard this from others, and I agree that the time it takes to get up and moving is so substantial that it can very frustrating. Added to that, many of the plans you make never reach fruition. But for every step you take, you should look at it as the beginning of constructing a building. You learn from everything you do, and ultimately your efforts will pay off."

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Al Johengen

Benefits To Customers

Jim Tallerico heads a company called Europarts USA Inc. (www.europartsusa.com), headquartered near Buffalo in Orchard Park, New York. He is the North American sales agent for a European parts brokerage agency. "Basically, I'm 'repping' him in the United States, and I'm looking for reps to help me."



From that perspective, he has a number of thoughts concerning working with foreign manufacturers, the majority of which are European, although he does represent a group of Asian OEM manufacturers.

Tallerico, who brings a background in electrical distribution to his current position, maintains that he has encountered little or no inconvenience dealing with European principals. "I haven't found any negatives working with them primarily because my European counterpart speaks German, French and English fluently. He also handles the majority of the contact with the European manufacturers. Receivables, payables and currency fluctuation have been U.S. formatted for seamless processing."

As to how working with foreign manufacturers has helped the ultimate end-user customer, he points to improved pricing and reduced delivery times. "We make use of FedEx from Germany and ship directly to our customers' door. When ordering spare or repair parts, many U.S. companies are unaware of where to find these European manufactured parts. After they exhaust their normal supply chain, they turn to the web and try to find them online. That's where we come in. Our webmaster has done a great job in getting us listed number one and two on all web search engines resulting in inquiries and orders from all over the world."

While many reps have already successfully carved their niche in the international arena, Tallerico is well aware of the reluctance others have to dealing with other than U.S. suppliers. He says that "They can resist all they want until they have to close their agency doors. This is truly a world economy now and to hold onto 20th century business beliefs is delaying the inevitable. We could also debate the buying and investing of foreign companies in the United States which has changed the way business is done and where jobs have been relocated. Personally, I was the regional marketing and sales manager for Rexel Electric, an electrical distribution business. Ownership transferred hands from a local owner to a Canadian firm to a French firm during my term of employment. Sales had been dropping off in dramatic fashion on a yearly basis beginning in 1995. Manufacturing was and still is dropping at an alarming rate, and most of the parts that are on OEM machines are now produced in Europe and China. Manufacturing and business ownership has turned to the global marketplace. This is the hand we have been dealt. In business, historically, it has always proven that those that are able to innovate and adapt will flourish. That is what entrepreneurship is all about. I like to view it as an opportunity to make new inroads using technology that in the past would have been unheard of."

Looking Back at a Correct Decision

When Al Johengen, Johengen Sales Inc., Auburn, New York, looks back seven years at his decision to begin working internationally, he knows he made the right decision. "Everyone is an individual, and they have to make the decisions that are right for them. I live and work in just one of the 50 states. But from my perspective, I know if I didn't do what I did seven years ago, our agency certainly wouldn't be as strong as it is today."

In addition to the survival and the growth that his agency has enjoyed over that period of time, Johengen adds that there have been other benefits. "Every year our experience is better than the last. Plus, the people we deal with have become close friends. They come over to the United States, and they bring their families and friends with them. We've enjoyed wonderful relations. We don't have, nor do we feel we need any contracts. There are no call reports to send them, nor do we feel we have to be concerned about being terminated. The bottom line is that the Asian manufacturers treat their reps the way we wished we were treated by many U.S. manufacturers."

Having said that, however, he admits that he's well aware of the opinions other reps have of making the commitment to conduct business internationally.

- Loss of U.S. jobs — "There's no getting around the globalization trend that we're in the midst of. It simply isn't going to go away. If the move isn't from the United States to China, then it's going to be to India, Bangladesh or Ethiopia. It used to be a fact that only

the big companies wanted to get involved internationally. Now, the majority of companies located in New York State want to at least dabble in international business. The trend is going to grow unless U.S. manufacturers do something to make themselves more competitive.

“However I don’t necessarily believe that the loss of manufacturing jobs is permanent. It’s only as permanent as the performance overseas. The first time there’s a problem with performance overseas, we’ll see the jobs moving back here.”

- Quality concerns — “Thankfully, quality of product has never been a concern for us. Our trading partner has a workforce of four quality engineers in Taiwan. At the beginning of every job and prior to every shipment they thoroughly check all parts. If the shipment passes inspection, they buy the parts. If there’s any rejection, it’s done right at the plant. In seven years, not a single product has been rejected in the United States. There’s a price to pay for this extra care, but it’s much less expensive than dealing with problems you can face when you purchase products from someone you don’t know in China.”

The Search for a Level Playing Field

In contrast to the views already presented, Dave LaFleur, LaFleur & Associates., LLC, Sarasota, Florida, is looking for a level playing field when working internationally. He maintains we hardly have that, especially when the subject turns to working with principals in China.

“Free trade is great, but it has to be conducted on a level play-

ing field,” he maintains. “We’ve lost 29% of our manufacturing base in this country, and ultimately, that situation is going to come back and hurt us. A large part of what we’ve lost has been to China, and that’s been done because the Chinese currency is valued artificially lower in relation to the U.S. dollar. I take issue with any relationship such as this that takes advantage of our substantial economy to benefit themselves.”

He adds that since there’s not much aerospace manufacturing available in China, working with Chinese principals is hardly an option for him, “but if that option was available, I think I’d look to Europe before doing anything with China.”

LaFleur adds that “perhaps capitalism is a great tool to achieve freedom for people. And having said that I have nothing against China. The fact remains, however, that I don’t want to rep a foreign company that refuses to play on the same field that other companies have agreed upon.”

Answering What’s Best for Us

LaFleur’s opinions hardly exist

in a vacuum. Harry Abramson, Electronic Salesmasters, Inc., Beachwood, Ohio, maintains that “We in the United States revel in low prices. Low prices, however, are accompanied by unemployment. At this point in time we have more than 12 million people seeking employment. Sure, globalization is inevitable, and we don’t want to fight the free market world economy. At the same time we’ve got to answer the question ‘Is what we do internationally good for our companies and good for us personally?’”

He goes on to agree with LaFleur’s point regarding unfair competition from China. “I feel that the World Trade Organization (WTO) is remiss in allowing China to enter the world market without certain caveats. Of course, the number-one concern that stands out like a sore thumb is the floating ‘yuan’ (the Chinese monetary unit). The yuan is artificially suppressed, thereby allowing China to be more competitive in the world market. Many economists agree that if the yuan was allowed to float, it would increase the price of Chinese goods by up to 40%.” (That sounds a bit like the level playing field LaFleur is seeking.)

Free trade is great, but it has to be conducted on a level playing field.”

Dave LaFleur



There's more than just a floating yuan that gets Abramson's attention, however. He takes a view of globalization and how it affects the rep from a number of vantage points:

- Economic — "Look at our trade deficits — they are unacceptable and deplorable. Let me refer to a laissez faire attitude toward business. That's what has made this country strong. What put us in a position of world dominance was the Industrial Revolution and everything that followed it. One thing that has developed in this country is our strong middle class. Other countries of the world have an absence of the middle class. Our middle class is made up of blue collar workers in factories and mills, and that's what we're losing today. If things continue as they are, how is this huge blue collar population going to afford to educate their children?"
- Moral — "When it comes to morals I think it gets down to whether I want to see the Third World countries elevate their standard of living. Do I? Absolutely positively! I want them to be better educated and better medicated. Do I want to see that kind of growth at the cost of our citizens, many of whom are out of work already? No, I don't want that! What I do want is for both things to happen. I want everyone healthy and stable. But right now that's happening at the expense of our efforts in developing Third World nations. China has been widely successful during our recessionary period. I am in favor



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Harry Abramsom

of Third World development, but China is no longer a Third World country in my opinion."

- Political — "The current administration has been friendly toward big business, as opposed to being friendly to manufacturing — and there's a big difference. Big business wants lower fixed overhead and cost of manufacturing. As a result, you have manufacturers moving their operations overseas. The government has not tried to quell the export of jobs because the companies now have an opportunity to enjoy greater profits than they have in a long time. This is a short-term view. How can we achieve any type of economic recovery in the face of joblessness?"

After all is said and done, what is a rep to do? In Abramson's opinion "My major concern is the economic welfare of the 14 families who work for me. They've got to keep bread on the table. Sure, I'd rather be selling only goods

manufactured here in the United States, but I don't see that as being feasible. In addition, if I'm going to have a full line card, the bottom line is that I have no choice but to sell some goods manufactured in China."

In the end Abramson says "It all comes down to what's good for you, your business and for the United States. But along with that is the fact that the rep has to make wise decisions in what he does. At the same time the rep continues to work as a salesman in business, he must work to be a businessman in sales. It's incumbent upon us to reengineer our companies in a manner that best fits the new business model. That can be done by fighting the battle with fewer and fewer accounts, but also selling to different types of accounts. I'll have to make a transition and strategically place myself in a more stable product environment if I want to succeed." □

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