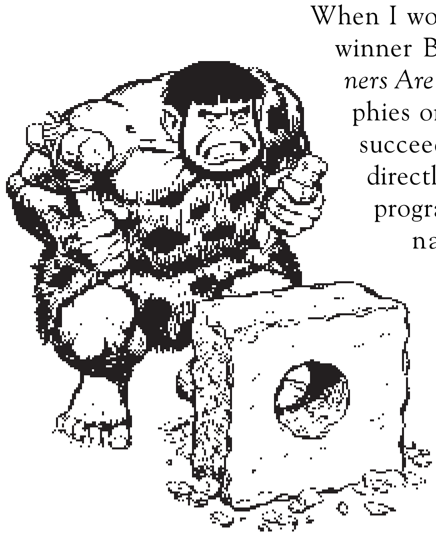
Evolution Or Extinction: Which Way Is Your Agency Headed?

by **PAUL PEASE**

The first MANA seminar I attended was in 1986 in Anaheim, California. I remember some comments from veteran agents in the audience. One comment that stood out was, "Don't get too successful. You'll be replaced by a factory-direct person." So the fear of turnover was just as prevalent then as it is today. What's the difference between then and now? The pace of change (turnover) is much quicker. Why?

Globalization, technology, mergers, acquisitions and changing markets are forcing agents to reinvent their line cards, their market strategy, and their business thinking. This is a challenge for many agents. When I worked with three-time Indy 500 winner Bobby Unser on the book *Winners Are Driven*, he had several philosophies on what made him (and others) succeed. Many of these things apply directly to the Evolution or Extinction program, the half-day MANA seminar where I presented agency owners information on how to survive in the 21st century. The following are some of Unser's philosophies:



- "My job wasn't to make everybody happy. My job was to get the team focused on making the car go faster."
- "The race teams that are best prepared with a plan for the race are the most likely to win."
- "The plan changes as soon as the race starts. Although the plan does change as soon as the race starts, the teams that plan well are adapting from a proactive standpoint. The teams that don't plan are entirely reactive."
- "The prepared race teams that adapt the quickest during the race are the ones that win the race."

With an ever-increasing demand for independent sales representatives, the salesperson should be in the driver's seat when negotiating with principals not only for the line, but for a commission rate commensurate to what they bring to the table for the manufacturer. However, the trend of commissions has been anything but upward over the last 10 years for two reasons:

- Manufacturers' representatives have failed to adapt to the changing business environment.
- They have not sold or reminded (through actions, communication and documentation) the manufacturers of the value the outsourced field sales professional brings to the manufacturer and customer.

A major point in these programs is for the agents to re-evaluate their principals, customers and markets for sustained financial growth. Some attendees at the Evolution or Extinction program were apprehensive about this. This is understandable, especially when you consider agents are much more loyal to their principals and markets than the other way around. We all like the comfort and security that a long-term relationship brings to the table. We all like to have that "silver bullet" principal, customer or market that "lasts forever." But in this business climate there are no silver bullets and nothing lasts forever — and loyalty as a business strategy for agencies spells disaster.

During the workshops, agent attendees provided great input, suggestions and words of wisdom regarding change and how to adapt their businesses. Some of the key points follow.

Why Change Markets, Customers or Principals?

- Look at change as opportunity — both change directed by the agency and change from external factors. This was a very interesting dynamic in the programs. More often than not, groups had people simultaneously dreading change as a harbinger of bad things to come as well as those who openly embraced it as opportunity. It wasn't a coincidence that the people who look at change (principals, markets, customers) as opportunity also have growing, thriving agencies.
- Become proactive by focusing on the business objectives of the agency rather than reactive when principals and customers focus on their business objectives at the expense of the agency.
- Agents only get paid for their time. As a part of their business improvement process, they must seek ways to increase their value, i.e., pay/unit time. This can only be accomplished by continuously selling their value as a principal-to-customer business facilitator. They also must seek ways to increase the value of their business.
- With globalization, technology, mergers, acquisitions and market changes, agency line cards are constantly changing. Therefore, agents must — as an aspect of normal business operations — be seeking and establishing relationships with new principals and new markets.

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Recipe for Success — Attributes of Representative-Friendly Principals

- ***Selling through outsourced field sales professionals.*** This is a directive from the top of the manufacturer. When it comes from the top, it doesn't have to be sold down the ladder.
- ***Timely and accurate commission statements.*** As trivial as this seems, it is incredibly significant because it establishes a relationship of trust and keeps the relationship (not just the agent's time) a valued one. Also, it reduces the stress and time it takes for the agency to pay someone to chase commission checks and discrepancies.
- ***Increasing commission rates after achieving an agreed bogey.*** More is more.
- ***Qualified leads from advertising and show participation.*** This actually applies to direct field salespeople as much as independent agents. But in the case of a manufacturers' representative, the principals that provide pre-qualified time earn significant mind-share. Also, pre-qualified leads shorten the sales cycle, and manufacturers get immediate feedback (by qualifying leads themselves) on the quality of their advertising or marketing dollar.
- ***Mutual employee development.*** Several manufacturers are helping recruit and train employees for their independent representative agencies. The catch is the trained employee is a product specialist for that manufacturer's product line for at least one year.
- ***Constantly creating new products.*** It is no coincidence that every time I asked the audience which of their principals were constantly introducing new products, that those principals were the agency's top-producing line.
- ***Responsiveness.*** Principals who return e-mails and phone calls punctually with an answer are refreshing, and very successful.

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• ***Investing in territory growth through retainers or factory-direct market support personnel.***

Red-Flag Issues Questioning a Continuing Representative-Principal Relationship

• Agents fear getting an order because that's when the problems start.
• A constant battle to get paid — either accurately or punctually.
• Commissions get cut on repeat business after one year under the naïve assumption that in today's intensely competitive world, it doesn't cost much to keep existing customers. The flip side of this is if it is that much harder to get new customers than it is to keep existing ones, why not pay the representative a consultative retainer fee for the years it takes to land the big ones?
• A sliding scale commission for lower prices, but not an escalating commission scale for selling at a higher price.
• A certain percentage of your time is demanded at the expense of your other principals without investing financially for taking those principals' time.
• Constant reports that take away from selling time while the reports themselves are either not used, or used as a means to pound people for results.
• No new product development.
• No investment in new systems, capital equipment or automation.
• Little or no customer-service culture or attempt to create a customer-service culture.

Some attendees expressed concern that the fair business approach advocated in these workshops with principals would come off as too confrontational, and that the "market" just couldn't support challenging reduced commission pressures. Their manufacturers claim that everyone must share in the economic downturn. But that is why an agent is paid a commission: so that when the economy does enter a recession, the cost of an outside sales force fluctuates with the economic barometer. The cost of paying an independent agent is already about one-half to one-fourth less than a direct salesperson (Cherry Connectors Study, Keystone Conference), without taking into effect the additional cost advantage of using independent agents during a downturn. Therefore, there is no need in an economic downturn to reduce the commission rate whatsoever. If a principal is forced to reduce commissions to remain financially stable, there is a bigger problem than the reduced commission check to the representative. And if the "market" won't accept the value of the independent representative, then the representative should find a market that does.

Sometimes you have to add by subtracting. By eliminating a market or principal, you can focus more time on your good principals and growing markets. This also sends notice to the industry (customers and principals) that your business and line card is a reflection of your desire to adapt and grow as a business. You reduce the stress of trying to float with a sinking market or waste time managing a poor principal relationship. All of this results in better performance for the worthy principals in valuable markets and higher income per time spent for the representative.

ABOUT THE AUTHOR:

Paul Pease was the facilitator of the (20) MANA Evolution or Extinction Chapter Workshops conducted February through April of this year. Pease is a sales trainer and consultant, specializing in rep-principal sales and relationships. He is a 20-year rep veteran and MANA member. Paul's business emphasis is profitable revenue growth through customized programs. He is an instructor for the UCLA Business Extension Custom Corporate Programs. Paul has published two business books, Words to Action *and* Building a Small Blue Chip Business, *and was the selected co-author with Indianapolis 500 racing legend Bobby Unser on the business and career success book* Winners Are Driven. *He may be contacted via his web site, www.Speakpease.com, or toll-free at (877) 220-7900.*