
Market Needs Determine Move To Buy/Sell

When we last visited the subject of why manufacturers' representatives buy/sell products, the overriding reason cited in a series of interviews was the effect that activity can have on the agency's bottom line. Nothing has changed since that article appeared in the January 2005 issue of *Agency Sales*. However, contacts with additional reps who are engaged in the practice shed more light on the subject and emphasize the need for a lot of work to be done up front before making a strategic move in that direction.

Consider the words of a number of manufacturers' representatives as they recount their thinking on the subject and as they emphasize the need to:

- Exercise due diligence — especially when importing product.
- Ensure that an infrastructure is

in place to complete needed work.

- Gauge the needs of customers and the desires of principals to assist in meeting those needs.

The importance of due diligence is emphasized by John McNellis, who provided input for the article that appeared in the aforementioned January issue of *Agency Sales*. McNellis, who heads

McReps, Inc., Oconomowoc, Wisconsin, and serves as MANA's district 5 director, maintains that "since you've added a totally different entity to your agency, you're incurring greater risks. At the same time, however, those risks are accompanied by greater rewards. But just as anything you do with your company, whether it's hiring a new employee or looking for new ways to add value to your business, performing due diligence is highly important."

As part of that due diligence, the rep will learn about his financial and time investments, and the software needs to serve the channel he's involved with. "Once the channel is determined," he explains, "then you need to allocate appropriate personnel to those functions that will support your effort."



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Get Totally Involved

“If you’re going to get wet, go swimming.” That’s the advice Pete Lewnes offers reps in the context of a discussion on the subject of buy/sell.

According to Lewnes, Preferred Sales, Inc., Hermitage, Pennsylvania, “We see some agents who say they’re into buy/sell, but all they’ve got is a little warehouse or they’re working out of a small garage. They’re not catching the real spirit of buy/sell. If you’re going to do it, do it well. Determine the needs of your market, hire top-notch personnel, and secure the proper financing and the required facility. Eventually you should capitalize your business and there may be a pay-back. Like so many other business decisions, this is one that is high-risk, but could be high-reward.”

Lewnes states that his agency has been involved in the buy/sell process for many years. “As a young rep, however, it was never my intent to be involved in buy/sell. I’ll admit that my dream was to occupy a sixth-floor office in a high rise with nice carpeting, overlook the river, and wear a three-piece suit all day. I envi-

sioned no inventory, and certainly no receivables. Fortunately or unfortunately, business takes you where it takes you — as a survivor, you go where you must. It took us to buy/sell. Although we’re still much more of a commission agency than a buy/sell firm, we did make a commitment to buy/sell and have developed a very strong buy/sell organization. As a result, we’re a much more stable firm than we would be otherwise. The combination of both allows us to be flexible and elastic in any business climate.

“Having said that, it’s not for everyone. One of the realities for an agent who is considering buy/sell resides in the capitalization of the buy/sell organization. It’s a daunting task to go from ground zero and put inventory in stock. Most agents new to buy/sell don’t realize you pay for inventory with after-tax dollars. Then you go out 30 days on financing your receivables, which can stretch out for 45 to 60 days. And then, all of a sudden you’re faced with having to pay for inventory and you haven’t made a penny yet. Welcome to the buy/sell world!”

While being involved with buy/sell has worked well for him

and his agency, Lewnes offers these words to other reps: “Don’t get involved in buy/sell just because it seems like others are doing it. Before you do anything, make sure you can add value to the marketplace and your customers. Never forget your principals and your customers are truly your greatest assets. Doing what is in their best interests will always take you in the right direction.”

Thinking Out of the Box

Here’s how Steve Goldman, president and CEO, Image Associates, a division of Image Electronics, Inc., Westlake Village, California, describes his move to buy/sell and what some of the results have been. Writing in the March 2005 issue of ERA’s Southern California Chapter newsletter, Goldman notes “The American people voted our U.S. President in for a second term, interest rates remain (for the time being) at record lows, and domestic manufacturing seems to be picking back up. Keeping in mind what all of those reading this have in common, let me focus on the latter.

“I have been speaking to many



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reps over the past couple of months, and the majority have seen a nice turn of events recently. As for my company, our YTD sales have a trend to greatly beat our year 2000, a year that nearly all of us had seen as our last very prosperous period. The idea I'm leaning toward is looking forward and perhaps concentrating on a different sales formula than what we have used in the past.

“One thing that has held fairly constant over the past 20 years is commission rates. I would guess average commission is in the 4–6 percent rate for component reps, and at times slightly higher for fabrication reps. What can we do as a business owner to increase sales *and* increase the sales revenue of our outside sales staff?”

In answer to that question, Goldman explains how he nego-

tiated a change with one of his Asian product lines whereby he “became the point of sale.” In addition, he received distributor pricing to increase his sales potential. “Our existing customers have remained as they were with us acting as the rep; however, if we feel a new potential customer is a better fit (financially for us) with our company acting as the distributor, that is how we approach them. This turns our 5 percent commission sale into a range common to other distributors, while our customer is often obtaining an exceptional price. We try to avoid taking possession of the material. Our company sends a purchase order to our supplier along with a packing list and our custom shipping labels. It is a ‘blind ship,’ meaning the customer receives the product as though it left *our* back door.

“There is no question that in a blind ship arrangement, one must have a loyal and trusting relationship with the supplier. Since this has become so successful for us, last year we added a second commodity. For this next endeavor, we went to one of our good customers we knew buys many commodities themselves off-shore. We asked them if there was any one commodity they have had difficulty with, whether it is quality, delivery or service related. We got the answer and went looking for it ourselves. Using the Internet, we found an Asian source that by luck had their U.S. distributor located in California. Long story short, we had the product quoted and marked up accordingly (having a target price is helpful), obtained product samples, and had our customer approve them. Within five weeks of asking the initial ques-

tion of our customer, we had a nice-sized purchase order with an attractive gross profit. With greater sales dollar potential comes greater risk. I would only advise this approach with customers you know have strong financial standings and pay their bills on time.

“I believe we all need to start thinking outside the box. The sales representative business model is changing, so staying stagnant is a recipe for failure. Here's a thought: How long would a high-tech OEM exist if they only had one product and were not prepared by R&D for a succeeding one? As representatives and distributors, I believe a similar approach now holds true for our business. Perhaps another less extreme method of change is simply improving your customer service. That, in itself, goes a long way.”

In a follow-up interview with *Agency Sales*, Goldman explains, “Plain and simple, the main reason to engage in buy/sell is gross profit. Acting as an independent rep, the commission on some commodity products is 5 percent. If I can buy and then resell, I can earn 25–30 percent. Naturally the main attraction is profit margin, but with that increased profit margin comes greater risk. Once you take financial ownership of the material that you source, you take a risk whether or not you get paid by your customer. We attempt to keep our risk to a minimum, however, by carefully checking out our customers through other vendors in order to determine how they pay.”

Admitting that buy/sell has worked well for his agency, Goldman adds it's critical for reps anticipating such a move to “minimize their risk by carefully performing due diligence. Natu-

rally we have some customers that we know are familiar with working with reps. We've heard of their integrity and know that they'll pay."

In addition to completing all the up-front research when it comes to buy/sell, he also emphasizes the need for a rep firm to be up to speed when it comes to performing tasks it normally doesn't perform. "For instance, you're a marketing and sales company, and you know all that's involved with those functions. But, in order to buy/sell, you must be proficient when it comes to arranging shipments, preparing purchase orders, accounting, and all the follow-up. Since we're geared up to perform those and other tasks, it's not a big deal. In my view the rewards far outweigh the risks when it comes to buy/sell."

Controlling Your Destiny

Just like Goldman, Mike Parham likes the fact that engaging in buy/sell positively impacts his bottom line. "Here's why it's beneficial," he explains. "You're able to sell \$100,000 in a month and make 30 points on it. That's as opposed to selling \$100,000 as a commissioned rep and making just five points. That's a considerable difference and it gets — and keeps — our interest."

Parham, who heads Pepco Sales, Irving, Texas, adds that "what it's also done for us is to provide us with an opportunity to control our own destiny. We're the ones in charge of where we're going. We find products to buy/sell all over the world — whether its U.S. manufacturers who prefer that way of going to market, or products on the import side

that don't have a lot of U.S. distribution."

When it comes to locating products to buy/sell on the import side, he notes that his company's search can take him most anywhere. "Generally, when we conduct our quarterly SWOT (Strengths, Weaknesses, Opportunities, Threats) meetings, we make a determination of what is out there and available to us. Generally, coming out of the "Threat" portion of the discussion, we'll determine what we could do with a product if we could get it."

Returning to the due diligence

theme introduced at the beginning of this article, Parham cautions other reps to "not jump at every opportunity presented. You've got to determine what's right for you. Something might appear to be a good fit, but once you complete your homework, you may find it's not a good fit."

He also cautions that getting involved in buy/sell on the import side "takes a lot of cash. That's good for us because it serves as a barrier for entry by our competitors. But, here's a for-instance when finances become important. What if you're in a situation where you have 200 containers of



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product in transit, another 200 on order and 200 containers sitting in your warehouse? That's an awful lot that's tied up in flow. It's only the people who gear up properly who will survive."

He adds that whatever decisions are made, "it's all about serving your customers and supplying the marketplace. That's why you're there in the first place."

In closing, one of the most valuable tools Parham enjoys in his buy/sell activities is his membership in AIM/R and the networking opportunities that come with it. "It's amazing what you can learn from your fellow reps. Just today I was on the phone with two other AIM/R reps who buy/sell two different lines. It's common for us to share our experiences and learn what each other's obstacles were and what they did to overcome those obstacles. We're not competitors, we're friends, and we learn from each other."

Three Positive Reasons

Richard Goldsmith, Sunbelt Marketing, Lithia Springs, Georgia, maintains he negotiates a successful "triple play" when he's

involved with buy/sell. According to Goldsmith, also a member of AIM/R, "Among the benefits I see with buy/sell are:

- "First, you achieve a certain amount of security in your relationship with manufacturers when you go from being a rep to being one of their customers. Then there's the benefit when you move from being a commissioned rep to one of their largest customers.

- "Second, there's an impact in the relationship you have with your customers. You go from having to ask someone when they're going to be able to get products to the customers, to the point where you control all the logistics. You're able to let the customer know they will have the product the next day — you don't have to ask anyone else what they can do for the customers.

- "And third, given the commission-oriented world in which we work, we're able to generate sales reports by manufacturer for our salespeople in a much more timely manner. Since there's no delay, our salespeople know much more quickly exactly how much they've earned."

Lest there is any thought that nothing can go wrong when working the buy/sell equation, Goldsmith has words similar to other reps interviewed for this article when he cautions that "any rep considering buy/sell had better have the infrastructure and internal proficiency in place before making any move. Remember, you're performing more tasks than you did previously. You have to be sure your systems are in place. Also, make sure you are aware of the increased tasks you're taking on."

The Importance of Up-Front Work

As he ventures deeper and deeper into the waters of buy/sell, one Midwestern rep is asked if he's apprehensive to any extent concerning the effort. "Apprehensive?" he responds. "I'm apprehensive about losing my shirt. I'm convinced, however, that the effort is worthwhile."

Having given voice to any nervousness, he goes on to explain some of the up-front work he's completed that will provide him and his agency the best chance for success. "There's an incredible amount of work that has to be done beforehand. For instance, because of liability concerns, creating a separate company for your agency is an absolute must. Before you even write your first quote, you've got to establish the separate organization. Then there's a lot of detail work that needs to be completed."

If you're importing, which he is, you need:

- A broker — you've got to establish a working relationship with him.
- To develop relationships with

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Richard Goldsmith



overseas manufacturers. To that end, he explains he's traveled to China once each year for the last three years. "Two times I hooked up with MANA during the Study Missions there. I've been able to establish relations already but have to complete several more trips to really cement those relationships."

- To develop an understanding of tariff rates.
- A knowledge of containers, e.g., the size of containers you're dealing with.
- To know how products are going to be shipped — by weight or volume.
- To know what the impact of all you're doing will be on your bottom line.

Looking over all the work he's already completed, the rep emphasizes the importance of exercising due diligence. "Due diligence is your byword. I did what I consider to be a complicated spreadsheet that goes through and calculates all the work that has to be done. I've come to the conclusion that if you make a mistake, you may make less margin than you originally planned, or you may make

no margin at all — or, you can actually go into the hole. Add to the equation the fact that margins are getting slimmer from overseas all the time. Material costs in China are going crazy. Companies that were making 50 percent margin just a couple of years ago now may be in the range of 30 percent, 20 percent or even 10 percent."

Is it worth all the apprehension and work? In his view, the answer is yes. "There are two reasons to be attracted to buy/sell," he explains. "Obviously, the first is the margins. Second, and this may be the most important reason for me, is the ability to keep suppliers separate from my customers. Let me give you an example. On a tour in China, I was speaking with the manufacturer's sales manager and it was agreed that if I could establish a relationship with a large company's U.S. division, they would love that and would pay me commission. But, I was also told that if the U.S. company wanted to go direct, the Chinese manufacturer would have to do that. Long story short, when you're conducting business with companies who have the where-

withal to go direct, it might be a wasted effort."

In conclusion, the rep says the "biggest challenge involved in buy/sell resides in completing your up-front work, and working with customers — helping them understand the risks vs. the rewards." Another important consideration, perhaps the greatest concern, he maintains, is to have a quality system in place to check any parts involved in major orders. "Make sure of the quality of products before they're shipped. If you don't, you may find that you'll be paying for part, if not all of it. And finally, be sure to know your costs going in — that includes everything from:

- Freight costs.
- The cost of inventory.
- How long the products will be in inventory.
- What the customer expects in terms of service, and what it will cost."

The buy/sell decision is never a simple one. However, if you do your homework, buy/sell could be a key component in your agency's success. After all, if you weren't a risk taker, you wouldn't be an entrepreneur! □

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