
Who Owns The Buyer Relationship — Rep Firm Or Rep Firm's Salesperson?



The Answer May Surprise You!

by CHARLES M. COHON

Most reps know the Manufacturers' Representatives Educational Research Foundation (MRERF) from its work managing the highly-regarded Certified Professional Manufacturers' Representative (CPMR) program, but MRERF also plays a major role in encouraging academic research on the rep system of selling. One highly respected academic who has done significant research on reps is Dr. Robert W. Palmatier, visiting professor at Northwestern University's Kellogg School of Management. Before earning his Ph.D. degree in marketing from the University of Missouri, Palmatier interacted frequently with reps as president and CEO of C&K Components, the second largest U.S. manufacturer of electronic switches.

Palmatier recently allowed Charles M. Cohon, CPMR, MRERF's vice president of research and special projects to preview a paper being readied for publication in an academic journal, and to synopsise it for *Agency Sales*. Cohon is president of rep firm Prime Devices Corporation and is best known to *Agency*



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Sales magazine readers as the author of MANA's book, *The Sales Force*.

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When rep firms invest in activities intended to build strong relationships with buyers, it isn't just to increase current business. These Relationship Marketing (RM) activities build solid, long-term relationships between the buyer and the rep firm and the buyer and the rep firm's salesperson as a way to drive future business, and, perhaps more important, to help rep firms secure new principals and keep current principals happy. Yet, even though the rep firm usually funds the RM activities that build those crucial relationships, the effect of those activities is that the salesperson bonds more closely with the buyer, according to research recently completed by Palmatier.

RM activities that enhance relationships with buyers can increase revenue for both the rep firm and salesperson, says Palmatier, who notes that there are three ways these increases can be measured:

1. **Customer Share:** The percentage of a buyer's business that has been captured and is now available to the rep firm.
2. **Price Premium:** The percentage above the lowest available price that a buyer is willing to pay in order to deal with a particular salesperson or rep firm.
3. **Sales Growth:** The willingness of a buyer to increase the volume of purchases made from a particular rep firm or salesperson.

RM's potential to increase rep firm revenues makes it important for rep firm owners to manage RM investments wisely, says Palmatier, and part of managing those investments is knowing how much of their RM investment goes toward building buyer/rep firm relationships and how much goes to building buyer/salesperson relationships. Maximizing the buyer/rep firm relationship is an important aspect of managing RM investments, he continues, because the buyers who bond only to the rep firm's salesperson often don't remain customers when their favorite salesperson leaves the rep firm. To achieve strong buyer/rep firm relationships, rep firm owners must overcome a built-in advantage rep salespeople enjoy over rep firms when it comes to bonding with buyers,

says Palmatier, an advantage based on the fundamental nature of human psychology.

It's basic human nature, he explains, for buyers to expect a relationship with another person like the salesperson to be more predictable than a relationship with a group like the rep firm. A buyer whose livelihood depends on the professional execution of purchase orders, therefore, will tend to be more comfortable assuming that an individual salesperson can be relied upon to perform consistently than assuming the same predictability for an entire group like a rep firm. Rightly or wrongly, the buyer will expect that the salesperson can be relied upon to act the way the salesperson has acted in the past. A buyer is less willing to rely on a group such as a rep firm to act consistently because the response from a group is subject to the individual natures of the members of that group, which are not known to the buyer and may vary significantly from member to member.

Psychological research also tells us that when an individual (such as a buyer) develops a relationship with another individual (such as a salesperson) and forms an opinion about how that salesperson will behave, that opinion tends to remain in force even if the salesperson acts in a way the buyer had not predicted. In other words, once the buyer decides that John is reliable, the buyer will tend to discount instances where John was not reliable as unusual exceptions and continue to feel that John is reliable until the evidence of John's unreliability becomes overwhelming. When a group such as a rep firm lets the buyer down, the buyer will much more quickly decide that the group is unreliable and stop trusting that group. It is easier, therefore, for John than for his rep company to receive "the benefit of the doubt" from a buyer.

Because buyers naturally find it easier to trust an individual salesperson than to trust an entire rep organization, building relationships between the salesperson and buyer is the easiest way to implement an RM initiative, but this is a shortcut that carries with it the risk that the relationship between the buyer and the rep firm will not survive the departure of that salesperson from the rep firm. The easiest path to RM success and achieving increased business and reduced price sensitivity, therefore, may not create a long-term benefit to the rep firm.

Building a relationship between the buyer and the rep firm can be expensive and time-consuming, but it can be done and is probably worth the cost, suggests Palmatier. This can be as simple as implementing

consistent, buyer-friendly policies — a practice that helps the buyer bond with the rep firm in two ways.

- First, it reduces the buyer's sense that certain tasks only can be accomplished through the buyer's relationship with an individual salesperson, eliminating one reason buyers shun interactions with rep firms in favor of dealing with their individual salesperson.
- Second, once the buyer believes that everyone at the rep firm will respond to the buyer's needs with equal professionalism, the buyer will begin to accept the rep firm as a consistent, coherent entity that is as predictable as the individual salesperson and will extend to the rep firm the same attributes that were assigned to the individual salesperson. A plausible but unexplored corollary to Palmatier's research might be that because rep firms usually are smaller than principals, that a five-person rep firm could have a better chance of being cohesive and therefore developing buyer strong relationships than a 500-person principal could develop.

Rep firm owners can better manage their RM when they recognize that there are three types of RM: social RM, structural RM, and financial RM, explains Palmatier. Social RM activities are designed to personalize a relationship and rely on social activities such as entertainment at lunch, dinner or sporting events, or individualized communication in the form of personal phone calls and e-mails. The bonding benefits of social RM tend to flow toward the salesperson rather than the rep firm, says Palmatier. For example, the salesperson takes the buyer to a sporting event and the buyer thanks the salesperson for the outing even though the rep firm actually funded the event. The buyer's natural tendency to want to reciprocate for the event therefore ends up as a favor extended to the salesperson rather than to the rep firm.

Rep firm owners can manage their social RM investments to better achieve bonds between the buyer

and the rep firm by shifting RM investments from individual outings for a salesperson and a buyer to rep firm outings where the rep firm entertains a group of buyers. For example, when a buyer attends an outing in the rep firm's skybox that is attended by a group of salespeople and a group of buyers, the rep firm is more likely to be perceived as the event's sponsor and will benefit from the event's bonding effect with the buyer.

Structural RM activities involve providing the buyer with special value-added services, such as parts kitting, Vendor Managed Inventory (VMI), Electronic Data Interchange (EDI) or in-house stores. Just as it is natural for the buyer to assign credit for social RM to the salesperson, it is natural for the buyer to assume that the rep firm plays the primary role in the implementation and ongoing execution of these structural activities. This, notes Palmatier, gives rep firm owners incentive to invest in structural RM activities, because these activities tend to build buyer/rep firm relationships that will continue even when the buyer's favorite salesperson leaves the rep firm.

Financial RM activities involve discounts, free shipping, rebates or other special terms. Credit in the buyer's mind for these activities can flow to a great degree to whoever claims it, explains Palmatier, so rep firm owners who rely on those activities to build buyer/rep firm relationships must actively manage the presentation of these benefits. Consider the example of a salesperson who offers the buyer a special discount but advises that he had to fight with his rep firm's management or bypass his rep firm's standard selling policies to secure it. Not only does the salesperson get all of the RM benefits that flow from this discount, but also the rep firm sees its relationship with this buyer deteriorate because the salesperson told the buyer that without the salesperson's intervention, the rep firm would have withheld the discount. For this reason, it is crucial for rep firm owners to play a role in presenting financial RM to buyers so buyers know financial RM is the result of the value the rep firm places on its relationship with the buyer rather than being a favor granted at the whim of the salesperson.

This discussion of ways to enhance the bond between the buyer and the rep firm should not be interpreted as a suggestion to undermine the bond between the salesperson and the rep firm, Palmatier hastens to add, it is simply a warning to be sure that the salesperson does not totally dominate the rep firm's relationship with the buyer. In fact, research shows that a positive relationship between a sales-

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person and a buyer actually spills over positively into the buyer's impression of that salesperson's rep firm, so the rep firm owner's goal should be to enhance the buyer's bonds with the rep firm without undermining the buyer's relationship with the rep firm's salespeople. Interestingly, the same research shows that the spillover effect that benefits a rep firm when a buyer bonds with a salesperson will not benefit a salesperson who works for a rep firm the buyer favors. Individual salespeople still must earn a buyer's trust based on their individual performance, according to the research, even when the buyer's opinion of that salesperson's rep firm is positive.

Palmatier also notes the importance of tailoring the rep firm's RM investments to each of its customers' situations. For example, if a customer has high buyer turnover or if it frequently rotates its buyers into different commodities, RM investments made to build social relationships with individual buyers are unlikely to significantly increase rep firm revenue in

the short time each buyer has to interact with the rep firm. In that situation, structural RM and financial RM are a rep firm's best investments, because those activities can anchor the customer/rep firm relationship even when (or perhaps especially when) individual buyers' tenure is fleeting.

In conclusion, Palmatier notes that because rep firms usually are strictly sales and marketing entities, careful scrutiny of RM activities by rep firm owners is crucial to a rep firm's success. And, as purely sales and marketing firms, rep firms also offer academics an opportunity to study sales and marketing in an environment where those activities are naturally isolated from the other activities that would occur in a manufacturing firm, making rep firms ideal laboratories for sales and marketing research. □

Dr. Palmatier may be reached at Argo Consulting Group, Inc., at rpalmatier@argocg.com. Charles Cohon may be reached at ccohon@primedevices.com.

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One Spectrum Pointe, Suite 150, Lake Forest, CA 92630-2283 • Phone: (949) 859-4040 • Toll-free: (877) 626-2776 • Fax: (949) 855-2973
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