

# Split Commissions **Complicate** The Rep-Manufacturer **Relationship**



“A long time ago, in a galaxy far, far away....”

Those words should sound familiar. They are the words that introduced us to the first of what would grow to a total of six *Star Wars* movies. But the words ring true in another venue far away from planetary battlefields and strange looking aliens — a venue where the world of sales for manufacturers’ representatives was a lot simpler than it is today.

It used to be that sales and the compensation that evolved were very simple. Here’s how it worked:

- Reps called on the customers that they’d cultivated and nurtured for years.
- They made the sale.
- They received the expected commission from their principals.

Now, however, as they work in the throes of a changing, shrinking and more complicated world,

that’s not exactly how it works. As mergers and consolidations have changed the manufacturing landscape and manufacturing is completed on a worldwide vs. a national stage, calling on customers, making the sale and receiving compensation isn’t what it used to be.

Obviously, the times have changed and shifts in the marketplace have altered what was once a relatively tranquil business existence. Much of the resulting turmoil that some reps face today can be traced directly to the issue of the expected compensation that used to so automatically come their way.

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### Understanding the Compensation Question

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A number of manufacturers

and their reps have weighed in on this subject and they all agree that there are several questions that have to be asked and answered in order to gain a more complete understanding of the issue. For instance:

- How do current marketplace demands differ from how business was conducted in the past?
- What has happened to change the traditional sales/compensation business practice?
- What is it that the outsourced sales force is being paid to do by its principals?

To shed some light on the subject, here's a scenario that has been created by a number of manufacturers and reps. Stated in its simplest form: The rep who got the order, got the commission. There was an understandable quid pro quo for their efforts. Times have changed, and that's not necessarily the case anymore.

Consider for a moment the situation offered by one rep where the specifier and consulting engineers are not located where the product is going to be consumed. The specifying is completed at the designing locations. Distributor negotiations and/or servicing of customers who are installing the product may very well be in another far-distant location. Or, to be a little more specific, let's say the specifier is in Boston; a distributor may be in Kansas City; and the actual job location is in Seattle.

With the water already sufficiently muddied, it's necessary to get the answers to a number of questions, including:

- Who specified the part? Was it an "or equal" or a "no-equal" spec? If you're a top-flight salesman, you'll have made every ef-

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fort to get written into the spec that it's a "no-equal" spec. If you get that accomplished, it prevents anyone else from bidding anything but that specific product. Granted, it's much more difficult for the salesman to do that, but if he does, he should be rewarded (via his full commission).

- Where was the purchase order cut?
- Who services the account at the end-user level?
- Is there any after-sale service required, including training?
- Who is responsible for replacement parts?

And, the questions don't end there:

- What is it that the manufacturer is paying the rep to do? Is it to get the order? Specifying? Achieving gross margin? Servicing the account?
- Does the rep know that's what he's expected to do?
- Are the right people being paid to do the right things?
- Is the rep being properly motivated and compensated to do the job?

The key to coming up with workable answers to any and all of these questions resides in the ability to determine what fair compensation is for the service rendered. That's a question that always surfaces in discussions between reps and their manufacturers.

Manufacturers must be made aware of this trend and have a sensitivity to it. To head off problems, they must take a more active role in making sure their reps are motivated and properly compensated depending upon the service dictated for specific customers. Remember that the focus today is on improving the pull-through aspect of the marketplace, and that remains the job of the rep. In order for the rep to fill that role, however, he must be compensated and motivated. To achieve that goal, manufacturers must look at where the product is sold, who consumes it and who services the customers. Manufacturers also must realize that multi-territory sales efforts are more costly and that the commission rates may have to be increased in some cases in order to properly "incent" all reps that are involved in the sales process.

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### Dealing With the Problem

At one industry meeting, manufacturers and reps both clearly showed that they know they have to deal with this subject. Attendees were called upon to discuss the following questions:

- Why should I (the manufacturer) have to compensate the rep for an order he had nothing to do with getting?
- How is it possible to motivate reps to pay proper attention to national accounts? They always tell me that there's not much in it for them, and often the cost of making the call is greater than the commission.

- How do you determine (split) the commission when two or more reps have been involved with a sale?

The answers that the group came up with reflected an understanding of the seriousness of the subject and an appreciation for the need to motivate and compensate reps for their efforts. For instance, here's an answer that was forthcoming on the need to pay the rep when "...he had nothing to do with getting the order." "The rep must be paid because he's serving the customer on a continued basis. Furthermore, that payment makes up for all the times he's worked closely with the

customer but didn't get the order."

Or, how about the question involving servicing national accounts? "It's up to the principal to provide the proper motivation (i.e., compensation) for providing the type of representation the manufacturer needs with his national accounts."

In summation, it's only after the manufacturer and his reps discuss and agree upon the mutually accepted level of compensation that the rep will be properly motivated to provide the level of representation that the manufacturer deems necessary in the marketplace.

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