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# Capital Equipment Reps Exchange Strategies During Conference

Time-tested strategies reps have employed to secure big-ticket lines were described for attendees at MANA's first CAPSIG (Capital Equipment Special Interest Group) conference in Louisville, Kentucky. A panel of reps experienced in representing capital equipment manufacturers outlined several of the steps they've taken to effectively meet the needs of their principals and customers as they attract, manage and retain those lines that are so critical to their success.



*Conference attendees take notes on what strategies they can use to locate capital goods product lines.*

“We tend to focus in three areas when we’re seeking new lines,” explained one of the panel’s participants. “The first thing we do is take a look at the lines we presently represent and identify any holes in the coverage on our line card. Our next step is to upgrade that which we currently carry. For instance, we’re always seeking a line that is viewed as number one or two in the market. If the line we presently carry is seen as lower than that, we focus on moving up. It’s not unusual for us to take a three or a four as long as we’re confident and have a plan to move it up to a one or two. Finally, we look at expansion. We’ll consider ways to extend our product offering to open us up to a customer base that’s new.”

With those thoughts in mind, members of the panel agreed that an effective strategy for locating potential capital goods product lines includes:

- Attendance at trade shows — “I’ve got a full schedule of regional and national trade shows that I attend annually. An important part of my attendance is to seek out potential manufacturers that would fill our needs.”

- Following up on networking opportunities — “One of the major benefits of membership in an association such as MANA is the contacts you make. Whenever we learn of possible opportunities in our territory from other reps, we always follow up and make the appropriate contacts.”

- Establishing financial stability — “Once an opportunity in the form of a capital goods manufacturer is identified, the first thing we do is conduct a D&B study of them. We’ll also ask for a list of their current manufacturers’ representatives in an effort to learn how they are to conduct business with. We’ll also make an effort to contact some of their current customers to get a fix on their service level. And finally, I’ll obtain a couple of their rep agreements and ask my attorney to comment on them.”

- Two additional points that all three reps on the panel emphasized were important to them at the beginning of any search for a new line were that they be the exclusive rep for the line and that there be no house accounts. “Having exclusivity for us is key. The last thing we want is to have other reps competing with us on the same product lines. On the matter of house accounts, they’re a negative for at least a couple of reasons. First, if you aren’t covering those accounts, you’re not getting the income stream. At the same time, if the rep isn’t allowed to cover all the customers in the territory, he’s hardly exclusive and he’s not learning and representing the product line to its full potential.”

While it’s imperative for the prospective principal to appear as the right fit for the rep, the reps on this



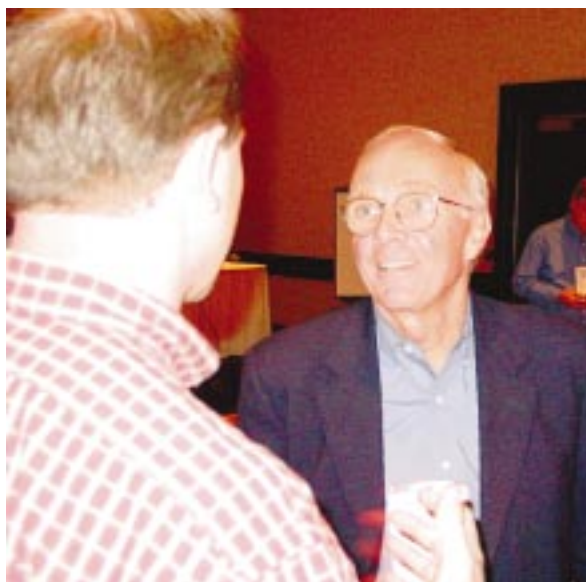
*Left to right: Richard Sinclair, Don Swibes and Rodger Burgess lead a panel discussion on representing foreign principals.*



*Jay Ownby, standing, moderates the panel discussion on “Securing Big-Ticket Lines — and Keeping Them.” Panel, left to right: Rob Northrop, Carl Janson and Roger Parrish.*



*MANA was represented at the CAPSIG Conference by President/CEO Joe Miller (left). Also participating in the program was Jay Ownby, CAPSIG Executive Director.*



*Bill Fitch trades stories with a fellow conference attendee.*



*Left to right: Don Swibes, Doug Kammerer and Bryant Callaghan conduct a panel discussion on managing cash flow.*



*Left to right: Jay Ownby moderated a panel discussion called, "What Do I Look for in Appointing the Ideal Capital Equipment Rep?" Joe Anders, Mike Kilkinney and Dick Paulson made up the panel.*



*The panel discussion on how to sell when purchasing is a committee decision was led by (left to right) Chris Bass, Chris Ramsey and Marty Grimes.*

panel agreed that there were steps a prospective rep must take if he is going to attract the attention of the manufacturer. High on the list of attributes the rep must exhibit to a potential principal are:

- Communicating the rep's value — Almost universally, manufacturers of capital goods products grossly underestimate the cost of going to market with a direct sales force. It's important for the rep to communicate to the principal that in addition to being more economical, the independent rep business model allows the manufacturer much more exposure to potential customers. This is due primarily to the rep's synergistic approach to the market.

- Another important point in the rep's favor is that managing and maintaining a direct sales force can prove to be very challenging. "It's hardly unusual for the manufacturer to regularly lose his top sales performers. Those top-performing salespeople tend to demand promotions or move on to become reps themselves. As a result, the manufacturer can be left with the lower-performing people who tend to stay on."

- Product knowledge — "In addition to showing the principal that we know more than he does about his market in our territory, we make every effort to learn as much as we can about not only his product line, but that of his competitors. This comes down to our willingness to maximize our investment in training and education."

- Relationships — The independent rep has the ability to easily demonstrate his relationships in the territory. According to one of the panelists, "I'll regularly take my principal out in the field with me and show him that I know everyone who has a voice in the buying decision. No direct salesperson can make the contacts a rep can."

- Communication — The panelists all voiced the opinion of how important it is for the rep to visit with his principals at least annually. "That's how you cement your relationships and ensure that you're kept in the communication loop."

In a final matter of importance — negotiating contracts — the panel emphasized how critical it is to negotiate prior to signing a contract. According to one rep in attendance at the conference, "We were presented with what we considered a 'terrible' contract by a multi-national company. When I let them know I was more than willing to walk away, they came back asking what they could do to make the relationship work because they were really impressed with our agency. We were able to reach an agreement and have been able to work very well together."

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The critical point in the discussion of contracts was, "If you don't ask, you won't get." And, as one panel member said, "Just by showing a willingness to 'walk,' we were able to negotiate away house accounts and gain a more favorable termination agreement."

Participants in this panel were Carl Janson, Riordan Metals; Rob Northrup, Plastiquip; and Roger Parrish, Pneutech Engineering.

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### Proper Cash-Flow Management

If acquiring big-ticket lines is important for the capital goods rep, once those lines take up residence on the line card, the rep had better have a plan in place to insure adequate cash flow. Another three-rep panel tackled that subject with an emphasis on the need to obtain progress payments from manufacturers and the implementation of shared territorial development costs.

The concern for progress payments was spelled out this way: "When it takes a year for a project to work its way through the pipeline, the rep may have started a year ahead of time before he even gets the order. Then there's the lead time for manufacturing the product(s). The rep can easily find himself in a situation where he's facing three years of time, money and effort invested, and he still hasn't received a check."

Members of the panel reported mixed results in asking for and receiving such payments, but the point was made: "If you don't ask, you don't get."

One of the panelists described his experience this way: "From the beginning to when the customer receives products on power station projects, it's not unusual to experience a five-year stretch of time. We've had some luck in that as equipment is delivered, we'll receive commissions on the power gen-

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eration equipment from the manufacturer. In the pharmaceutical industry that we also work with, generally they don't want to pay any progress payments. And until just a few years ago, they wouldn't even pay any commission until 100 percent of the payment was made to them by the customer.

"We've found, however, that with most of the work we do we've had some luck negotiating progress payments with the principal because they truly see us as a benefit to the company."

It was also mentioned that if you have a reputation for being the top rep in the territory, "often you have better luck getting something resolved even before you begin working on a project." Another of the panelists offered that the area of progress payments was "a bit easier to negotiate than others. The fact is you can economically justify what you're asking for. We've found that the manufacturers actually listen to our arguments because what we say makes sense. Then we follow up by asking that he put such payments in writing."

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### Shared Territory Development Costs

With the admonition that such payments "help flush out the time-wasters," the panel reported mixed results in the area of gaining shared territory development costs. One rep reported, "When I asked one of my principals to financially share in my pioneering efforts, they said 'no.' As a result, I decided they weren't a good match for us."

Another rep described his dealings with a foreign manufacturer this way: "We were negotiating with a company that was anxious to make an impact in the United States. They currently had no sales here and looked to make some progress vs. a manufacturer that already had a presence in the market. Their approach to us was, 'We'll support you with all the literature and product samples you need, plus you'll have this

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wonderful product line to sell.' They were surprised when we asked for a shared territory development payment. Their response was, 'I don't think upper management will go for it.' What this showed me was that they don't understand the market here and expect us to spend our own time and money to develop the territory. This is an area where I feel we have to be strong in our efforts to communicate to manufacturers."

Once again, the point was made, "Such payments are a good screening method. I'm sure that a lot of people who say they can't get them have never asked for them."

The cash-flow panelists were Bryant Callaghan, Tri-State Marketing; Doug Kammerer, Kammerer Sales; and Don Swibes, Swico.

### **Reps Share Concerns**

While the subjects of attracting big-ticket lines and improving cash flow occupied a good deal of time during the three-day conference in Louisville, a number of additional subjects were covered during the various rep meetings.

At the outset of the conference, the lot of the independent manufacturers' representative who sells capital goods was described as "a pretty lonely job." Much of that loneliness, however, was dissipated for the attendees at this first MANA-sponsored conference. Reps in attendance quickly found that they were hardly alone in their ongoing efforts to professionally represent their principals' products to customers constantly in need of solutions to unique problems.

Groundwork was laid for what was to come during the three-day event when Joe Miller, MANA's president/CEO, described the many similarities and differences that capital goods reps experience vs. their peers in selling into other market segments. According to Miller, "Eighty percent of what capital goods reps experience in their businesses is very much the

same as other reps. It's that other 20 percent, however, that's so important. That percentage is very critical as it reflects your specific knowledge concerning products and systems. And, that specific knowledge contributes more than half to the success of your business."

Among the many critical areas that capital goods reps experience that their colleagues may not are:

- **Long lead times and sales cycles** — "Taken together these two issues can usually result in cash flow concerns. For some reps it can take a good two years to fill the pipeline so the rep can feel comfortable that he's going to make it — financially."

- **Contract issues** — "Given the long lead times, the standard 30-day cancellation contract simply isn't going to cut it."

- **Different selling skills** — "Since capital equipment goods are generally sold to end-users, the needed selling techniques are different than what they might be in other industries. Sales are made to committees, not necessarily to the individual who ultimately makes the buying decision."

- **Risk** — "The profit for the rep involved in the sale of capital goods should be proportionate to the risk. Unfortunately, that's not always the case. Some of the commission structures I see are lower than in some of the commodity product segments. It seems that some manufacturers think that if an order comes in over a certain dollar level, the rep didn't do that much work to get the order. As a result, the rep is a lot more vulnerable when he runs into orders with those big numbers."

- **Global competition** — "The impact of globalization is felt everywhere. As a result, the rep is feeling pressure on margins and realizes he's got to improve his productivity."

To meet and navigate their way through these and other challenges, Miller emphasized how important it is for the rep to "polish his consultative sales skills while not giving away expertise for free. Make sure you make use of economic justifications for what you do for your customers. Be smarter than ever before

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while negotiating contracts with principals. And finally, stay less expensive than a direct sales force by improving your productivity by focusing on super-synergistic lines.”

While Miller may have laid the groundwork for many of the concerns reps encounter in the capital goods arena, several panel discussions and presentations — including the two already mentioned — that followed dealt with the day-to-day concerns that reps must be aware of.

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### What Makes a Good Rep

Chief among those concerns were the attributes that a rep wishing to compete in the capital goods market must possess in order to be successful. A three-man panel considered what it is that makes the rep attractive in the eyes of a manufacturer.

Most of the reps’ selling points will hardly come as a surprise to agency personnel already involved in capital goods sales — or any sales for that matter. High on the list of attributes mentioned were carrying synergistic, non-competitive lines; the ability to diagnose issues in the field; existence of engineers on staff; lengthy employee and line tenure; possess an understanding of the sales cycle; and are professionally run.

Perhaps the views of the panelists were best summed up by one manufacturer who offered, “We don’t want or need sales call reports. Our sales are all ‘belly-to-belly,’ so when something happens in the territory we want the rep to let us know about it as quickly as possible. We also want reps who show a willingness to plan together with us.”

The panel members discussing “What Do I Look for in Appointing the Ideal Capital Equipment Rep?” were: Joe Anders, Infrared Solutions; Mike Kilkenny, Taylor Forge; and Richard Paulsen, Rotex.

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### Planning for the Future

Agencies in all market segments eventually have to address the subject of succession planning — and capital goods reps are no exception. According to Bill Fitch, Component Management, Inc., “Service businesses are difficult to sell because the goodwill they possess is so closely connected to the company owner.

Fitch, who spoke on “Succession Planning,” emphasized that “rep firms are even more difficult to sell for that very reason. Rep firms almost never sell for cash. Their profitability is a moving target, and

there is a concentration of income in just one or more people that make up the agency.”

In order to plan for an orderly exit from the business, Fitch urged his listeners to plan ahead. “Before you do anything, you have to decide when and how you want to leave the business. The beauty of what we do for a living is that we can stay as long as we want — assuming that we’re still productive. But as you plan for the future, you must decide how much money you want/need when you leave. Are you going to have three houses? A large yacht that you’re going to move up and down in the Caribbean? If so, then you’re going to need more money than most of us. But whatever your needs are, you must plan.”

Among the key thoughts an agency owner must entertain are:

- If your goal is to sell to an agency insider or a family member, future cash flow may be more important than the current value of the agency.
- If the buyer is to be an outsider, you should craft an agreement for the highest possible value.
- If the buyer is to be an insider, establish the lowest defensible value (to the IRS) because there are other ways to address how you get your money out.

A major consideration Fitch emphasized was that whatever succession plan is executed, “It should be a win-win situation for the buyer and the seller. When you leave the agency you want to ensure that the money will be coming to you. And, as you plan, be sure the prospective buyer is a long-term buyer who is well known to customers, your principals and to the agency’s current employees.”

The various presentations that have already been profiled here hardly indicate the breadth and depth of the content of the three-day CAPSIG conference. Also included on the agenda were:

- How to sell when selection and purchasing is a committee decision.
- Tips for representing foreign principals.
- The importance of consultative selling.
- Legal concerns.
- A variety of networking opportunities for reps in attendance. □

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