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# FULL SERVICE: Gas Stations, Car Washes, Rep Agencies

by JOE MILLER



Everybody at least as old as I am, raise your hand! If your hand's up, you're old enough to remember service stations. For all of you young executives, that was where we used buy gas for our cars.

There were service stations on every corner, and when you pulled in, the attendant came running out to make the sale. He would ask if you wanted regular or premium and then begin filling your gas tank while you sat in the driver's seat and watched as he washed your windshield, checked under the hood and, if you asked, adjusted your tire pressure.

We used to call them service stations because service came with every gas sale. Today, we call them gas stations because gas is all you get — and to get it, you have to pump it yourself. On the rare occasion that you can find a full-service gas station, you will pay a higher price to cover the extra service functions you desire.

Years ago, when you went for a car wash (maybe at a service station), they did a complete job. You dropped your car off, it was cleaned and vacuumed inside, washed and waxed, and the tires looked new. Someone took pride in doing a great job and no one expected a tip for giving you the full-service job you expected.

Today, a standard car wash is a four-minute ride through an automated rain tunnel that only knocks about 80% of the dirt off of the exterior. To get a full-service wash today, you will pay a price that is the sum of a number of individual services, not counting the expected tip. At both gas stations and car washes today, everyone pays extra for the additional services that you might desire to get full-service. You can still get full-service, but it comes at a price.

Over the past 30 or 40 years, just the opposite has been happening in our industry's rep agen-

cies. Today, some rep agencies provide more (service), but for less (revenue). When plumbing manufacturers first began to outsource their field sales to rep agencies on a wider scale, a rep agency was typically a one-or two-person organization using an office in the salesperson's home as a base of operation. Overhead was comparatively low.

The characteristic, standard, same old sales commission that still is common today was based on this low overhead. Yesterday, a rep was a person or two, paid to make the sale — and 90 percent of their time was spent with the wholesaler. Today, the same market has 10 wholesalers and 200 secondary market influences or secondary customers that the rep is expected to touch.

A rep agency is a sophisticated business with significant investment in sales staffs, secondary market coverage, facilities and equipment, computer/informa-

tion systems, job-tracking data, insurance, etc. — and they provide more services than ever before. Reps have changed their business models and grown their organizations in order to meet the demands of the market and the manufacturers who employ them.

Unlike service stations (price higher, service gone), reps today are still providing full service, as well as additional service functions — and generally for the same or lower percentage commissions. Reasonable compensation to support this increased field sales effort is required if manufacturers want to retain experienced, effective sales personnel.

One of the biggest management challenges reps face is their inability to raise prices (commission revenue) in order to cover increasing costs. The recent spike in gas prices does not appear to be a spike anymore. As costs continue to rise — and given the other significant investment necessary to compete today — reps are in a rather dicey business position. Good reps are businesspeople in sales, not just salespeople in business, and they'd better be sound business managers to meet all the challenges they face.

Following are a few of the business challenges reps face in the 21st century:

- Foreign competition's threat to

domestic manufacturing and the declining price points associated with a wide variety of import products.

- Retail/big box growth continues to chip away sales volume (and commissions) on business that, in many cases, was introduced and promoted by reps.

- Reductions/delays in commissions as a result of rebates at many levels.

- Commission deductions for a number of other cost issues unrelated to sales that were not previously applied against the gross selling price.

- Inability to recover costs of additional services the rep deems necessary to the overall performance of his obligations to the manufacturer and other channel partners.

- Time pressures/time management issues at all levels in the chain associated with someone else's and/or conflicting agendas.

- Significant start-up/re-investment costs to maintain the infrastructure necessary to meet the demands of the market and a variety of competitive challenges — this is why the number of rep firms continues to shrink even in light of increasing demand for their services.

- The smaller the firm and the smaller the market opportunity, the higher the rates for health, other insurances and other costs as a percentage of sales.

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- The rising costs of qualified personnel and technical support impact the rep's bottom line.

- Risk of economic recession and/or price deflation represents a constant threat to rep sales dollar volume on which revenue is based.

The fact that an ever-increasing number of manufacturers in our industry have moved to a manufacturers' representative structure is probably an indicator of the overall efficiency and cost effectiveness of this structure. Another is the fact that, in many areas, reps struggle to provide these additional services at the same — or lower — commission percentages as they received a few years ago when the entire selling process was much less complex.

Obviously, technology has had a major role in changing the role of the rep. Yesterday, the focus was on selling products, obtaining the order from the wholesale distributor and forwarding it to the manufacturer for shipment. Today, the rep is involved in a much wider array of service functions: demand creation (in a variety of secondary calls on specifying engineers, architects, plumbing and mechanical contractors, builders, etc.), order entry, warranty service, training, expediting, problem resolution,

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writing specifications, quotations, job takeoffs, credit and collections, etc. The number of services demanded by the market and the increasing complexity of complete market coverage are two of the biggest challenges reps face.

While a traditional commission rate might be fair for most territories, for reps who only call on wholesalers' activities such as warehousing, secondary demand-creation calls, order entry, warranty service and other regional marketing activities may require extra compensation in order to allow the rep firm an adequate return on its investment.

Unfortunately, many rep firms — in an attempt to please their principal manufacturers — have not pushed back when these functions have been transferred from the factory to the field. This can ultimately be to the detriment of the entire chain, as the rep, bearing the increased costs without commensurate compensation, is

forced to cut corners. Then distributor service, product promotion, etc., will suffer. In some cases, rep firms have gone out of business attempting to be all things to their principals, without “making waves” and requesting adequate compensation. This desire to please may be the explanation for the number of rep firms shrinking. Agencies are going out of business or owners retiring faster than younger people can overcome the increased barriers to entry into the business.

Let's look at the situation this way. A manufacturer eliminates \$250,000 in salaries, fringes and overhead by transferring his entire order entry department to his field reps. Granted, the rep may be able to do the work less expensively if he/she invests in the required software, saves steps, has a lower wage scale/cost of living, etc. But the manufacturer cannot expect to put the entire \$250,000 on his bottom line. That cost — or maybe 80% of it — still is burdening the supply chain. This fact needs to be recognized and the rep should be compensated adequately for that work.

The spirit of this article is to bring attention to the fact that a number of rep agencies battle to provide all the service required by some manufacturers and/or the market at prevailing commission structures and factory policy. Rep profitability is dependent on too many factors to mention here — but too many of these factors are beyond the rep's control. Many manufacturers compensate their reps fairly, sincerely value their efforts and work very closely to ensure that their reps have access to all the resources necessary for success. I applaud their commitment to rewarding reps appro-

priately for the job they do for their companies.

To those manufacturers who do not, I encourage you to rethink your commission structures and the number of services your reps perform conscientiously on your behalf. If you do not compensate fairly, your line is a drain on the time and resources of the agency, and it impacts the rep's performance for those manufacturers who do compensate fairly. When you lowball the compensation, it ultimately does a disservice to your company and to the entire supply chain.

Rep agencies aren't always in the driver's seat when negotiating what comes with a traditional rate of commission. They are “pleasers,” a special group of businesspeople in sales who are willing to do whatever it takes to keep their principals and customers happy.

Like the place I used to buy my gas a few years ago, the best “full-service” rep agencies out there still do a complete job. If you employ one of them as your outsourced field sales representative, and they train your customers, help specify your products and solve your problems, please reward them appropriately for their services.

Remember, if you use a direct sales force, you would pay more for the superior, top-performing salesperson than you would for a trainee or an average performer. Superior, top-performing reps that manage full-service agencies and still grow the top and bottom lines in the territory deserve superior compensation, too! □

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