
Working Together To Enhance Profits

When consultant Tom O'Connor was asked if the results of a study he conducted for NEMRA might be extrapolated to assist reps serving industries other than electrical, he didn't hesitate for a second when he responded that it would be a safe and accurate exercise.

The results he was referring to include the fact that manufacturers' reps and their principals appreciate the role the other plays in the marketing channel. However — and here's where some concerns rise — the study notes, "A combination of required activities severely limit the ability of manufacturers' representatives' personnel to perform expected value-added 'selling' functions."

The study, entitled *Eliminating Wasteful Activities in the Representative and Manufacturer Sales & Marketing Channel*, was conducted by O'Connor and his consulting firm, the Farmington Consulting Group LLC, Farmington, Connecticut. It was undertaken for the electrical rep association and its manufacturers group (NMG). The study included phone interviews, focus groups and field visits to rep and manufacturer locations.

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Ultimately the goals of the study were to:

- Lead the industry — in this case the electrical industry — to a more efficient and productive manufacturers' representative-manufacturer relationship.
- Help eliminate cost in the channel.
- Improve bottom-line profitability for reps and manufacturers.

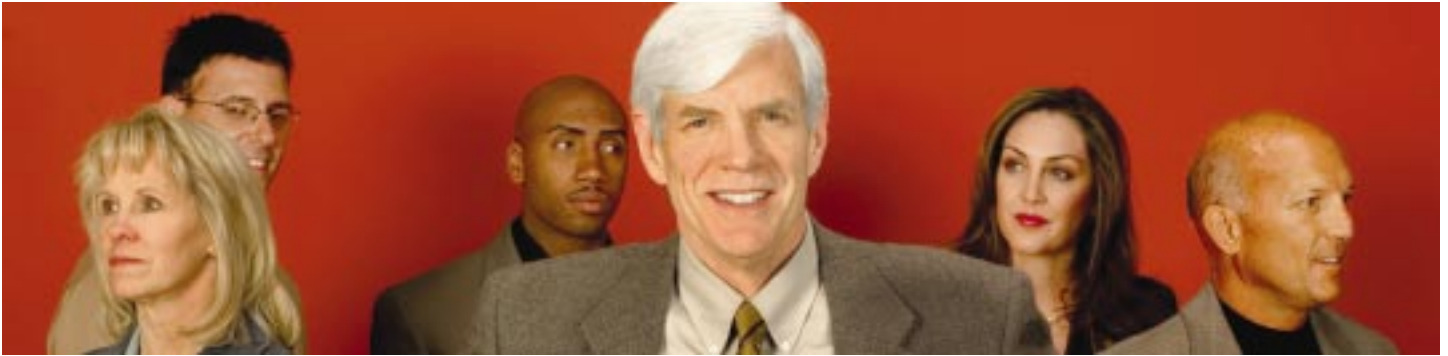
Details of the study have already been communicated via a white paper and more specific information — including the creation of task forces to combat wasteful activities — will be presented during NEMRA's Annual Conference (March 7–10) in New Orleans.

The timing of this report is ideal for the readers of *Agency Sales*, since this article will serve as an introduction to a subject that we will be addressing during the coming months — enhancing partners in profits: what the rep and the principal can/should do to maximize the performance of the other.

Improving Professionalism

In order to maximize the effectiveness of the relationship between manufacturers and their reps, each partner must strive to improve their own professionalism while seeking ways to make the other more efficient, hence the need to eliminate wasteful activities.

According to O'Connor, the scenario that unfolded that led to the introduction of many of these wasteful activities was one where manufacturers



sought to offload some of their administrative activities to the agencies that they had traditionally been going to market with. The consultant continued that in his and the study's view, an obvious result of this off-loading of tasks from the manufacturer to the rep was, "The rep was forced to make an adjustment. Among his adjustments were having to go out and hire additional administrative personnel to handle various activities. In order to pay for that additional personnel, they had to go out and sign more lines to represent."

When the consultant was asked if the manufacturers' off-loading of tasks ultimately resulted in him "shooting himself in the foot," he responded affirmatively. "By signing more lines and spending more time on administrative duties the rep has, in effect, reduced his selling time for his outside sales force and his customer service personnel. Sure, the manufacturer enjoyed the perceived advantage of removing some of his costs; at the same time, however, he's inhibited his own growth because he transferred those non-selling activities to his outsourced sales force."

Wasteful Activities

While we're not going to address all of the wasteful activities that were identified as a result of this study, several that apply across a range of industries include:

Systems Integration — This was named most often by reps and manufacturers as the top category

for which a solution was needed. In this area it was mentioned that it has become commonplace for data to be exchanged inefficiently between reps, their manufacturers and distributors. As a result, sales order entry personnel, customer service personnel and inside salespeople at both the rep and the manufacturer locations are forced to perform slow, labor-intensive, error-prone manual activities. In addition, manufacturers and some of their larger reps have put in place separate sales order entry personnel and customer service/inside sales personnel to perform those non-value-added sales order entry activities.

Further exacerbating an undesirable situation is the fact that reps' customer service/inside sales personnel universally complain that they are unable to perform value-added "selling" functions because they are being inundated with sales order entry, order status, expediting and RGA functions.

Sales Order Entry — The majority of purchase

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orders that are generated are communicated to reps via fax. The reps, in turn, either fax them to the manufacturer for the manufacturer to re-enter into their sales order entry system, or the rep re-enters the sales order directly into the manufacturer's sales order entry system. Reps receive purchase orders from distributors and other customers via telephone, postal mail, e-mail and flat file. In some instances, the manufacturer will direct their reps to both enter the sales orders into the business system and fax the sales orders.

According to the study, a major concern arises because sales orders must be re-keyed. The inevitable result is that this manual process increases operating costs and opens the door to shipping errors, invoicing errors and returned goods.

Lack of Standard Performance Measures — While the study we're referencing in this article is specific to the electrical industry, another issue that crosses over to other industries is the fact that often there is a lack of standard performance measures used to evaluate manufacturers and their reps. It is these performance measures that can be used to drive process efficiencies and reduce transaction costs. One quote from the study that mirrors the thoughts of many is: "There is not a good meeting of minds as to what manufacturers expect of reps. Expectations change from manufacturer to manufacturer."

Some reps cited the need for manufacturer evaluation performance metrics, but at the same time they believe some manufacturers would take this joint evaluation tool as an "insult."

Line Profitability Analysis — The study emphasized the need for manufacturers to acquire an understanding of their lines' profitability from their rep's perspective. This is a fact that veterans of MRERF's CPMR program can attest to. Many of the reps who participated in the study maintained that they perform line profitability analysis so that they can relate

a line's profitability to how much time the line demands per dollar earned and how well it fits with the rest of the agency's line list.

It's not unheard of for some reps to actually automate these analyses in an Excel format and conduct the analysis semiannually with all their people via e-mail.

It was interesting that when a number of manufacturers were informed that such a profitability analysis existed and, in fact, was performed by their reps, they were surprised and sought more information concerning the process.

On the other hand, according to O'Connor, "Some reps have been reluctant to share their line profitability analysis, and this is a strategic mistake. This thinking was echoed by one rep who said: 'We perform the line profitability analysis but are afraid to communicate it because it sets up a possible adversarial discussion and because we are afraid of losing lines.'"

In contrast, O'Connor maintains, "In order to maximize profit opportunities, manufacturers and their reps need to conduct and share line profitability analysis in order to become 'partners in profit,' not 'adversaries in profit.'"

More Concerns

If those subjects reared their heads as important concerns in the study, O'Connor maintains there are a few subjects that should be kept in mind now and in the future:

The Need for Professional Development — One NEMRA and two MRERF administered training certification programs received prominent mention in the study.

Considering MRERF first, the study cited the continued success of both the CPMR and the CSP programs as steps in the right direction to encourage reps to seek professional improvement.

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The highly praised three-year CPMR program is made up of a curriculum that includes building knowledge in creating shareholder value, thinking strategically, conducting online profitability analysis, understanding your manufacturer, negotiating skills, selling techniques, sales-management techniques, compensation packages, accounting and tax concerns, firm valuation and succession planning.

The Certified Sales Professional (CSP) program is comprised of a three-day seminar plus a certification testing program. As has been reported in *Agency Sales* in the past, participants in this program maintain they achieve high sales performance, set a training standard for new salespeople, increase their credibility with manufacturers and customers, differentiate themselves from their competition, and decrease personnel turnover.

Finally, the NEMRA Representatives Productivity Maximization (RPM) program is a day-and-a-half education program for manufacturers in the electrical industry.

The Proven Effectiveness of Channel Process Specialists — According to O'Connor, a major effort to eliminate waste in the relationship between manufacturer and rep was taken by one manufacturer that participated in the study. "The manufacturer cre-

ated a Channel Process Specialist position responsible for improving all 'critical to service' processes. The ultimate objective of this position is to acquire a highly cost-effective and efficient flow of commerce and communication between this manufacturer and their channel partners. This specialist will recommend improvements in all, but not limited to, the following areas:

- Sales reporting.
- Commission reporting.
- Marketing and sales communication.
- Web-based customer self-service officers.
- Electronic commerce communication."

The Growing Importance of Web Sites — O'Connor maintained that this remains an area to keep an eye on. "This isn't as high a priority as some might think," he maintained. "However, once there's a true 'call to action' (i.e., customer demand) there will be more movement." The true value of the web site remains its ability to allow business to be conducted seamlessly. Once this can be accomplished, it will assist in removing waste in the relationship."

This article hasn't reported on all the findings of the NEMRA study. Instead, our goal was to point out interest and movement in this area. There will be more to come in future issues of *Agency Sales*. □

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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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