PIONEERING REVISITED

EDITORIAL | JACK FOSTER

Call it a shared territory development or a pioneering fee, or just a plain old retainer, the subject we first addressed in the December issue of **Agency Sales Magazine** won't go away. Two MANA members in particular were quick to offer their thoughts on the views originally expressed by the rep and the consultant in that issue of the magazine. (ASM, DECEMBER 2007, P.8)

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First out of the blocks was **Kurt Kroemer**, CEP Sales Inc., Zionsville, Indiana, who maintains that he basically agreed with the points made by the rep, **Bob Johnson**, CPMR, The Growth Partnership Company, Green Village, New Jersey, and understood the views of the consultant, **Gary Giallonardo**, president, Industrial Visions Company, Troy, Michigan.

He explained, “I take both points of view on the subject and add my own twist to the outcome. From my perspective and based on my firm’s more than 25 years in the territory, we have an extensive knowledge base of companies, customers, contacts and what is purchased in our territory. Our time in the territory translates to current business for our principals, who, in turn, have rewarded us with loyalty and consistent commission income. Because the rep has a history of working with customers in the territory, he knows where the business is and he can develop it very quickly for the principal. A new principal gets the use of this knowledge base — for faster than normal sales results.”

He continues that when his agency takes on a new principal, “for us that decision is usually based on need. Over time, we hear of specific product needs from our customers. We then gather together these leads for a possible discussion with a new principal. So, most often, it is a synergistic product line that we want to add to sell to specific customers. With these leads, there is not a lot of prospecting required on our part. We know which accounts to bring the new product to for fastest sales.”

Back-End Protection

Here’s where Kroemer veers away from requesting a retainer or pioneering fee. “As a result, instead of a retainer or shared development costs, what I want more than anything else is commission protection on the other end, i.e., termination. The way I look at it, if I am going to give a new principal my 25-plus years of territorial experience and quickly grow his business, what I want is to not be terminated as easily as allowed by a 30-, 60- or 90-day notice. No, I want a minimum of 12 months of the commissions generated from my accounts — after termination.”

Kroemer rationalizes his approach this way: “The thought process is simple. If over time I do not generate sales, the principal really will not have much commission to pay for the 12-month period. However, if I quickly generate sales, my efforts should be protected. Keep in mind that normally it is not the original contract signers of a company who cancel contracts. It ends up being a takeover company or a set of new managers. The back-end contract protection offers a safety net for termination, which I feel is the biggest risk to representatives. Twelve months can barely cover the time needed to make up for terminated commission.”

The million-dollar question obviously is how does this approach work with principals? According to Kroemer, “If this is something we talk about from the very beginning, the principal may not agree, and then he brings out his rep contract. If that’s what happens, we’ll negotiate. But the bottom line is if I’m not getting a feeling of security from day one, then I’m really going to question whether it’s a good match for the two of us.”

Facing Realities of Today’s World

If Kroemer can boast of a quarter century of experience in his territory, **Gary Yantis** adds 10 years to that as he notes, “As a rep of 35 years (and a MANA member for most of those), I’ve watched the industry go through many changes. None of those changes are as major as the change of the last 20 years from when many reps were one- or two-person rep firms and the cost of a sales call was relatively low.”

Yantis, Chairman/CEO of Midtec Associates, Inc., Kansas City, Missouri, continues, “Today, most principals, even ones with no territory ‘residual,’ expect the services of much larger rep firms with services that extend well beyond basic sales calls. I share the views expressed in the December issue of the two reps on shared territorial development fees even though I wish this were not today’s reality. A week does not go by that I don’t have this conversation with a principal. Wanting to be polite, rather than just saying ‘no thanks,’ I carefully and politely take the time to explain what **Charley Cohon** and **Bob Johnson** stated in that issue.

“Several years ago, I finally stopped asking for shared startup expense partnerships. The (often younger) sales manager or regional sales manager often understands today’s reality and presents it to a higher-up (i.e., to the owner or president of the company). But his or her boss would *always* veto the idea as they remember the days many years ago when reps eagerly sought *any* line to represent. There were more ‘good reps’ than ‘good lines.’ Most reps were eager to spend their time, effort and money as missionaries. But no more. Today, a rep who does much pioneering is soon out of business. That quiet and mysterious huge principal paying the bills of the rep firm but expecting little in return no longer exists if any ever did. Major principals today expect a larger share of time than their commission justifies. A rep who has extra selling time today is just as mythical. Or, as I say, out of business. So I stopped asking, but I still explain the reason why I am saying ‘no thanks.’”

Paying for Performance

Yantis isn’t done yet. He continues by posing a question to the consultant who was interviewed in that issue of ASM: “Is Mr. Giallonardo willing to be paid for finding a new rep based on the rep’s future sales and nothing else? He would correctly re-

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spond, 'I have no control over the rep being successful or not.' Well, the rep is taking a gamble too. Then he might add, 'I'm making a special effort for this one company and that costs me extra money.' Not so if you choose your clients carefully and either are finding reps for multiple clients into the same industry or are seeking reps in multiple territories (commonly the case).

"Remember that reps survive on the averages (some lines sell well and some don't). Why not the consultant as well? Actually, there are several 'rep finder' consultants who do exactly that. They take their pay as a percentage of the rep's sales, nothing else. MANA Director Craig Lindsay said it best in his editorial in that same issue **(ASM, DECEMBER 2007, P.7)** when he wrote, '...if I spend time on your line to make no income, I am taking away time from another manufacturer that is already paying me.' Why not the consultant as well?

"Perhaps Mr. Giallonardo specializes in companies whose products are 'commodity' and 'sold on price.' If that's the case, I do agree with him. An extra line of that type costs a rep very little to carry. Their reps simply leave a price sheet with buyers they already call on then later pick up orders that might occur."

The Cost of Developing Business

Yantis points out that in the high-tech electronics industry in which he works, "We estimate that we spend, on average, $15,000 in ramp-up expenses (training, factory visits, distributor visits, many sales calls and so on) and, going on, it costs us, on average, $2,000 a month to have a line on our line card. Adding the name of an unknown (in my territory) company to my line card is of no benefit to me. In fact, if I have too many such unknown companies on my line card, competitors and customers alike may wonder if my business is in trouble not being able to attract major, well-known principals.

"Personally, I believe shared startup expense partnerships are coming, but not until the current generation of regional sales managers and sales managers, who mostly do understand today's reality, move into upper management and say 'yes' when their replacements ask approval to pay a 'retainer' to gain the services of a major, well-known rep firm with a proven track record and in-depth knowledge of a territory.

"Until then, 'the dance' will continue with 'no-territory-residual' companies frustrated finding only one-person rep firms with little experience or market knowledge to hire. And they will become even more frustrated having to find replacements as some of their startup reps run out of money and close.

Editor's Note: Obviously, we struck a chord with this discussion of shared territorial development fees — and we don't think this is the end of the discussion. If you have an opinion in agreement or disagreement with what appears here, we'd love to hear from you. So that we might follow up on this subject, please forward any comments, thoughts or opinions to **jfoster@manaonline.org**.

IN FAVOR OF SHARED DEVELOPMENT FEES

While some of the comments in this issue of **Agency Sales** focus on reps gaining back-end protection when it comes to conducting pioneering work for principals, the importance of the shared territory development fee is still uppermost in the minds of many reps. For instance consider the views of the two MANA members that follow.

According to **Roger Ralston, Tri-State Components, Inc., Newnan, Georgia,** "We have some principals that work with us and pay a territory development fee. And with those companies, once the need for such a fee has been communicated and accepted, the result has been very positive.

Ralston, who serves as MANA's District 3 director, explains, "I make sure to address the subject at the very beginning of our relationship. I put it all down on paper in a proposal. If the principal is one that doesn't have a presence or any activity in the territory and they're looking for us to serve as their sales and marketing arm, then I'll be sure to raise the subject of such a fee. I explain that this is something we're looking to have in place for just six months to a year. At the end of the agreed-upon period of time, we'll review our activities, provide them with a report and then we decide whether it's opportune for both of us to move forward. On the other hand, if we determine the market doesn't exist for their offering, then we'll cease the agreement."

Ralston continues that when he broaches the subject of such fees, "Manufacturers are generally patient, understanding and willing to be communicated with."

Ralston, just as so many other reps who introduce the subject of retainers to principals, has heard typical responses such as, "Well you already call on those customers anyway. What's the big deal with just introducing our products during the course of your normal sales call?"

"It's not quite so easy," he responds. "Many of the companies I'm talking about are involved in niche markets. Those markets don't necessarily fall into the same category of customers we normally call upon. We have to conduct research ahead of time and determine what customers are potentials for such niche-market products. That takes an investment on our part. In our favor is the fact our agency already has a footprint in the territory and we have four people who know where the business is."

In the end, however, Ralston notes, "I'm not afraid to walk away from something. When that happens, I offer the manufacturer information concerning other rep firms that I know about that might be able to assist them."

Historical Is Nothing But History

Regular readers of **Agency Sales** will recall that **Joe Cook,** president, **Eastern Technologies, Inc. (ETI), Raleigh, North Carolina,** was the subject of an article on this subject six years ago.

As he revisits the subject, one of the first things he bristles at is the notion that so many manufacturers have that reps only get paid when they sell something. "When a manufacturer says to me that historically reps work on a commission basis only and they receive payment only when the sale is made, my response is: 'Historically is just that; history.' Look at so many other processes that we engage in today that are no longer as they used to be. Is dealing with the automotive industry different today than it used to be? How about the medical industry? Or, how about the fact reps didn't used to have written contracts with their principals? Everything has changed, and so has the subject of retainers or territory development fees."

When it comes to such fees, Cook is adamant that it's up to the rep to introduce the subject professionally and immediately with prospective principals. "The rep must be preemptive in his effort to educate and communicate with a principal. Here's what we do at ETI. Before we even sit down for that first lunch with a prospective principal, we've sent an informational package to them explaining that because so many changes have occurred in the industry, business between the manufacturer and the rep has to be conducted in a different manner. It's all about being prepared."

Cook adds that it has occurred that principals will balk at such arrangements and "If that's the case, it's not a problem. Then we don't move forward together. But the whole message here is that the situation is addressed right up front. There's no yelling at each other or discussions that delay the process."

He adds, however, that the manufacturer with no existing business in the territory is faced with the prospect of attempting to develop business with his own direct sales force. Then he's faced with the expense for supporting such a staff — all with no guarantee of success.

Editor's Note: In addition to the comments on pioneering and shared territory development fees that are included in this issue of **Agency Sales**, readers are reminded that the subject has been addressed several times in past issues. Please refer to July 2002, p.6, and December of that same year, p.15. In addition, Joe Cook will contribute an article later this year that will serve as an update on what he has been doing with his agency.