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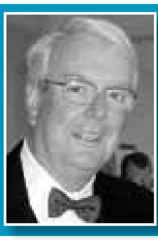
PIONEERING PAYS OFF BIG FOR MANUFACTURERS AND REPS

EDITORIAL | JACK FOSTER

PIONEERING A NEW LINE CAN BE RISKY BUSINESS FOR REP FIRMS. A CONTRIBUTING RISK FACTOR IS THE REALITY THAT IT CAN TAKE A LOT LONGER TO REAP THE REWARDS OF NEW BUSINESS WHEN NAVIGATING THROUGH UNCHARTED WATERS. HOWEVER, AS WE LEARN FROM THE EXPERIENCES OF SOME SEASONED REPS, PIONEERING OFTEN REWARDS THE FAITHFUL WITH SOME RATHER GENEROUS PAYOFFS.



JACK FOSTER

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It was just 12 months ago that **Agency Sales Magazine** took aim at the subject of shared territory development fees. That article and the follow up, which appeared in the April issue, was hardly the end of the discussion.

Comments contributed earlier this year on the newly instituted MANA blog indicate that reps, principals and consultants alike have lost none of their fire when it comes to this subject. Based on the posted comments, it appears that more and more reps are requiring new or prospective principals to pay a fee for the rep to conduct marketing and sales efforts in territories where these principals have historically had no business.

The case for such territory development fees was well stated by MANA board member **Mack Sorrells**, **Mack W. Sorrells Co., Inc.**, Rockwall, Texas, when he maintained, "The fundamental problem is that principals do not understand that today's reps are no longer just salespeople paid a commission for the sales that they generate. Rep agencies of today are businesses and they must be run as businesses — for a profit."

He emphasized that, just as for-profit businesses do, rep agencies need a monthly flow of commission income from which to deduct the cost of providing the selling services in order to survive and thrive. In addition, each agency's for-profit performance is measured on each individual product line and for each individual sales professional in the agency.

Sorrells continued by adding that agencies are cash — not accrual — businesses. They cannot pay bills or borrow money on "what might be," or on their market potential or commissions due. He emphasized that "Pioneering has an even higher cost than the existing lines that reps have had for years. With gas prices skyrocketing, pioneering new lines will be more and more a thing of the past unless such efforts are paid for by fees or retainers."

With Sorrells' comments serving as a starting point for the discussion, reps — and principals for that matter — must keep in mind that pioneering a line, or "missionary work" as it has traditionally been referred to, can be risky while requiring a sizeable investment in terms of a rep's time and money.

For years, reps have been reluctant to take on lines where there was no existing business in their territory. As time passes, however, reps change, as do their philosophies. So too is it with this approach to missionary work. More and more independent reps have settled on a scenario whereby manufacturers can share in the risk of developing new business, while at the same time allowing business relationships to develop and mature. As the introduction to the MANAblog explained, "A recent MANA survey indicated that in some segments, as many as 25 percent of the reps are receiving some sort of additional compensation for developing new markets. This replaces the commission-only compensation plan with a 'shared territory development fee,' which remains in place for a fixed period of time while the new business is developing. Once the fixed period is up, compensation converts to commissions only."

As a rep approaches a situation where he'll be taking on "pioneering" products, there are any number of variables that have to be considered. **MANA** President and CEO, **Bryan Shirley,** made some comments based on his own extensive experience. "I'm guessing that many reps are considering how much residual income there will be, as well as how many sales dollars and how much commission there is in the territory? If these are your initial questions to the manufacturers, your approach to the business could very well be flawed. My experience in watching truly great reps interview for a line is that you pose these questions last. Before you even consider those questions, there is so much to learn about the manufacturer, their products, their people, policies, plants and factories, customers in the territory, the flow of new products, sales support, computer systems, etc." He cautions that reps should not be "greedy" and start with the "how much sales are in the territory?" approach.

Promote Up-Front Fees

Offering some historical perspective on the subject of shared fees, **Joe Miller**, former President and CEO of **MANA**, recalls that "Six or seven years ago when MANA first started to promote up-front territory development fees, some industry stalwarts argued against that approach. They took the position that offering higher commissions, e.g., 10 percent in an industry that normally

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garners a 5 percent commission, for a period of time was the way to go.

"The problem with the higher rate of commission approach is that 10 percent of nothing is still nothing. Many products take quite a bit of time to even get end-user approval to bid. It might take as long as one or two years for some capital equipment sales cases to close.

"Even with good rep due diligence, it's often hard to know if a principal who is new to the territory will adequately support the rep for the time necessary in order to succeed. When they (the principal) pay a monthly stipend, they feel they have an investment to protect and those quotations and engineering designs tend to come out of the factory a lot faster than for the rep who agreed to work on straight commission.

"As for the manufacturer who maintains, 'You are already calling on these customers, so your cost to add a line is zero,' I would say, 'Dream on.'"

Concurring with the thought that reps ought to be paid for their pioneering efforts is **Paul Pease**, **The Pease Group**, Hermosa Beach, California. According to Pease, who has conducted several MANA seminars and is a regular contributor to **Agency Sales Magazine**, "Given the uncertainty of what might happen as the result of mergers/acquisitions or a change in management (hence management channel philosophy) it is critical that reps get paid for their pioneering/development work. The challenge is that this moves the rep — and their information-gathering activities — into an area of marketing and performance measures that are not based on orders. Consequently, the rep must be culturally adept in pioneering work as well as in reporting the progress on that pioneering work in terms other than sales — to the satisfaction of the line's management that something positive is happening for their investment."

In-the-Field Examples

Several reps have obviously listened to the words of advice from others when it comes to negotiating up-front pay-

ments from principals looking to develop new business in virgin territories. The following are some of their accounts.

"To determine an equitable cost share (for rep and principal), items to be discussed and/or learned include:

- Geographic size of territory (This is especially important with today's travel costs.).
- Similarity of target accounts to present customers (Will you need to cultivate an entirely new customer list just for the new line?).
- Synergy with existing lines.
- Marketing efforts/lead generation, etc., to which the manufacturer will make a commitment.
- Manufacturer's current market share.
- Manufacturer's goals and what they expect from the rep.

"There are more details to be considered, but the more the rep is expected to do and the more the cost share is shifted to the rep, the more dollars there must be on the table for the rep. Personally, unless there is at least a few thousand dollars up front *monthly*, the effort is probably not worth your time. The rep has to consider, in addition, just how much time he can really devote to this new line."

"I'm in the process of starting a rep agency with foreign principals. The subject of a first-year business development retainer always gets a discussion going. The ones that say they 'only pay commissions on success' and don't support their reps in any way, are usually the same ones who tell me that they have been trying for years but have never actually found success in the U.S. market. The conclusion I draw from that is that they should keep looking — and it will take time and effort — until they find those who are actually willing to invest with them as a partner in growing the business. The others are not taking the rep *or* the market seriously."

"If any manufacturer is not currently conducting business in our territory, we provide them with a letter that requests a 'monthly territory development fee' for 'x' number of dollars, over 'x' amount of time. This has proven to be extremely effective in routing out the good, the bad and the ugly."

"I have been asking for and receiving retainers *or* existing customers for several years. Let's face it, we do run a business and we need to make a profit. When this idea is presented professionally, it is usually understood — we sell for a living and if we can't sell this concept to principals, then we are in real trouble. We are still the best bargain out there. Just look at the total cost of a full-time salesman and the expense to travel. Stand firm and remember — you don't have to take *every* line that is offered — just the ones that you think will work out in the long run."

An Alternate Approach

Taking a somewhat different approach, another rep noted that he's had considerable success taking on pioneering efforts — but in the *absence* of a shared fee.

According to the rep, "Pioneering has been successful for me without a retainer or sizeable residual; however, I've only considered a line when certain criteria are met. For instance, the product must be something that I can introduce into more than 50 percent of my current customers; or, it offers a value-add, or niche and is not a 'me-too' product. An additional consideration that I keep in mind is, if I don't currently represent this style of product, would I virtually be inviting my competitors in to fill my prospect's void?

"When such criteria are met, it results in efficient use of sales time with little or no additional cost to my sales efforts. Even so, there's still no guarantee that I'll take on the line or be very successful with it. However, the risk-to-reward is usually more favorable to the rep."

It's clear that there's no shortage of views on the subject of taking on pioneering efforts. Some of the additional comments offered by reps are detailed below:

"We feel a new principal should offer something up front in the contract, just as we will. Otherwise, as we invest a great deal of time and money into the line, we become the one with the investment and the one with the most to lose. We feel the new principal should have an investment also. How we do this remains a puzzle. One thing for sure, we will not take on a new line without visiting the factory and meeting the CEO. Once we do that, we'll address the subject of the initial investment by both parties."

"I've just started my own agency after being in the industry for close to three decades. Oddly enough, I'm looking for those lines that actually *require* pioneering effort. First and foremost, this provides me with a great opportunity to grow my principal's business and offer customers something they currently may not be aware of. Down the road, I

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can call the business that I bring to the table truly my own. I’m proud to be able to service my principals and customers in this manner. Having said that, I’m careful that any product line I take on will fit into my portfolio and be something I know my customers can use.”

....

“In my view, pioneering a line is usually done with reluctance but also with a desire of being responsible for introducing an innovative product to the marketplace. Demanding a retainer for pioneering in our industry is unheard of, however, it *is* something that we need to discuss with new principals as nothing ventured, nothing gained.”

....

“Pioneering a line that is truly unique and revolutionary in some way is one of the great joys of being a rep. Being in on the ground floor of something that sweeps through an industry is more fun than just about anything else we do. But pioneering a ‘me-too’ product into an already competitive field and offering the customer no reason to buy and with no great stories to tell — I’d rather have my teeth pulled.”

....

Finally, take note of this rep’s comments as he seems to combine a number of the approaches already offered:

“We’ve been in business for 19 years. During that time, I’ve had the opportunity to represent lines with established business, as well as taking on lines with absolutely no business. Personally, I think there has to be a balance as to how we conduct business. Only repping lines with existing business will certainly pay the bills, but usually a lot more is expected from these lines and great pressure goes with them.

“If we do our homework on lines that need to be pioneered, then we have the opportunity to get in on the ground floor and prove our value to our principals as well as our customers. Personally, I like being able to introduce a great new product. However, a lot of evaluation needs to take place before we accept the responsibility of the new product line.

“I also like the feeling I get when successfully introducing the ‘new’ product. It certainly boosts my confidence and helps me to be recognized as the professional that I want to be known as. Having said that though, we must be careful; pioneering *any* product has become very expensive. We must do all that we can to make sure the benefit is worth the cost. Either a higher beginning commission or a market development fee would work best.”