Increased Costs Place More PRESSURE On Reps

By Jack Foster

The economy has forced manufacturers to cut costs, but that doesn't mean reps have to suffer. Use this situation to make yourself more valuable to your principals, potentially earning you more money in the long run.

From the first day any of us spent in high school physics, we can remember the teacher telling us that for every action there is a reaction. Those words were never as true as they are today regarding relations between manufacturers and their independent reps.

The subject of actions and reactions now rears its head as a direct result of the following scenario: the less-than-desirable economic environment has caused nearly every manufacturer to trim costs. In the course of cutting costs, personnel levels have been reduced, and for those individuals who are left, this means fewer bodies remain to do more work. Reps can attest to the fact that downstream, where they reside, they are feeling the pain from those manufacturer cutbacks. Their manufacturers are asking them to do more in terms of marketing and other services. At the same time, the manufacturer is asking (many times requiring) the rep to do more, while the rep is not seeing any change in his commission.

Returning to the subject of actions and reactions, the manufacturer's actions are resulting in reps grinning and bearing it or carefully considering whether or not this is a line they still want to represent. Acknowledging this dynamic in the marketplace, two rep profession observers – one an educator and the other a consultant – offer their thoughts on the situation.

There are a number of variables at play that contribute to this growing trend, maintains John Schlacter, professor of marketing at Arizona State University, Tempe, AZ. "I can recall a study conducted by MRERF

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a couple of years ago that went a long way to describe this trend. If I recall properly, rep respondents to the survey indicated that they were being asked by their manufacturers to perform 5% to 70% more administrative kinds of duties than previously. And none of those duties/ responsibilities involved selling.”

If that survey pointed to the existence of this trend, Schlacter, a consulting associate with Management Horizons, Inc., notes there are a few contributors adding to its endurance and growth. “We continue to see consolidation among manufacturers, and with that comes layoffs of manufacturer personnel. Then you have more e-commerce and auction activity, both leading to a sense of commoditization among various product lines. As this commoditization continues, the manufacturer tends to take the rep out of the picture. Add to this that there is more global competition, and the scene is set for pressure to be placed on the rep.”

The Price of a Poor Economy

A fairly predictable result of these activities, according to the professor, is that “We begin to see what has been called the disintermediation of the independent manufacturers’ rep. But underlying everything, however, is the [poorly] performing economy, and as long as the economy continues under [this] pressure, we’ll see reps under pressure.”

Agreeing with Schlacter is consultant Frank Foster of Frank Foster & Associates, Toronto, Ontario. “What we’re seeing today didn’t happen all of a sudden. There was no big boom and suddenly it was here. Rather it was an evolutionary process. Manufacturers began pushing their reps to do more, and reps in turn put more pressure on their distributors. Gradually we [found] ourselves where we are today.”

Foster, who teaches the MERERF CSP program and works with for-profit and not-for-profit organizations to develop performance improvement programs, refers to the action/reaction analogy: “I can very quickly recall the action/ reaction when reps started to push back. Their reaction was something along of lines of ‘We really love you and enjoy working with you, however, we can’t continue to conduct business with you under these circumstances. We’re looking at the cost of our sales. The bottom line is that you just don’t pay us enough to do everything you want us to do. As a result, we’ve determined that our time is much better spent working on other lines. ‘

“ . . .The rep wound up terminating the manufacturer. The manufacturer [was] forced to rely on his direct sales force, and I’m positive their cost of sales in both markets is at least double what it was before.” Foster believes that the manufacturer probably followed this path somewhat as an experiment in both markets. “I’m confident that once they analyze what they’ve done and what their cost of business is, that they will move back to reps.”

Desperation Results in Pressure

If Foster suggests the manufacturer has been forced to follow this path, then Schlacter feels it’s a sense of desperation that has pushed the manufacturer into his current position. “I don’t think manufacturers are doing this because they’re unsympathetic to the plight of their reps or they necessarily feel this is the best course of action,” he says. “Rather they’re desperate, and they feel they have no other choice. They’re simply reacting to the sense of desperation that is present up and down the channel. Look at it this way: the manufacturer has been forced to cut corners all he can internally. His feeling is that others can cut corners, and at least there will be some sense of continuity. What’s happening – and it’s beginning to happen with some regularity – is that the rep who feels he’s in a position to do so, is beginning to push

back. And, if he's successful in his efforts, he's going to be able to move the manufacturer off his position."

Schlacter, who is an instructor in the MRERF CPMR program, notes, "In our seminars we have encountered many reps who have pushed back at their manufacturers and have been able to get monthly retainers for various adjunct… activities that are being required. What they've done is to unbundle what they offer manufacturers and charge a fee for additional services. They've been able to do this primarily because of their relationships with customers. They've actually taken advantage of a trend and allowed these extra services to become a profit center for them."

Working Their Leverage

The word leverage – and a popular television show by the same name – enters the conversation as Schlacter describes what the thinking rep ought to be doing to gain an advantage amidst this growing trend of manufacturers offloading services to reps. The weekly television show *Leverage* recounts the efforts of a group of five con men (three men and two woman) who leverage their individual strengths

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in order to right wrongs and gain some form of vengeance for victims. "That's exactly the way it should be with reps," maintains Schlacter. "It's all about the rep recognizing and using his power in the marketplace to maximize his advantage.

"If the rep is going to leverage himself in this manner, he's got to do it through his expert power – not through economic power or control, but [by] being able to know more than anyone else in the channel. If the rep can make himself indispensable and gain control of relationships, then he'll survive this trend very well."

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Relationship Management

Delving a bit more deeply into the importance of channel relationship management, Schlacter explains, "There's a fine balance here for the rep. To serve as a true linchpin in the channel, the rep must show that he's able to bring the customer and the manufacturer together in the strategic planning process."

The marketing professor cited the example of one rep who brings customers and manufacturers together in the seminars that she hosts. "During these sessions, they share information and actually have a meeting of the minds. That's using your leverage and everybody profits from the process."

In another example, he points to a rep that has reinvented himself as a trainer and consultant. "He teaches people how to become better salespeople and how to provide added services. That's an example of someone who has truly taken advantage of this trend."

Schlacter emphasizes how important it is for the rep to make sure he does the right things in the face of added pressure from their manufacturers. "If the manufacturer says he wants you to do more for him, there's no sense in getting all huffy with him and even calling his bluff. What the rep should do is be very careful about considering alternatives or contingencies that might occur. At the same time, perhaps there's [a] manufacturer's business that you don't really want. This might be the perfect time to terminate a manufacturer. The key here is to identify those manufacturers that are critical to your success and those who are marginal. As you consider the marginal ones, you might determine you'll lose absolutely nothing by calling their bluff. But before you do so, make sure you do your homework."

At this point, Schlacter recalled one very large rep firm that did exactly that – terminated some of its principals. "But here's the kicker: while they reduced the number of

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their principals by 30– 40%, they dramatically increased their revenue . . . by ridding themselves of those principals that were actually costing them money and time to serve. Then they turned around and used that time, money and those resources that they saved to better serve their profitable principals. The end result [was] that they made out like bandits."

Walking Away from Business

Foster is just as quick to point out examples of rep firms that have not been scared to walk away from business. "Don't be afraid to have this very important conversation with your manufacturers. Perhaps the message is 'Unless you pay me more for the additional services that you are now requiring, we can't continue together.' Ultimately what we'll see is more unbundling of services, and reps will let their manufacturers know what each additional service is going to cost them."

Underlying any and all advice he might offer to reps, Schlacter stresses the importance of the rep firm becoming more professional, better-educated and better communicators. "I'm positive that there's a huge upside for the rep in the face of this continuing and growing trend. The rep can do what no in-house sales force could ever do. He can rep a complete portfolio of products to customers that saves those customers time, money and effort. That's the message he's got to constantly communicate to principals."

Schlacter concludes, "As long as we suffer through tough economic times, we're going to have situations such as we've been discussing. To deny that fact is to just put your head in the sand. When you identify the trend and see it coming, you've got to become the expert and identify the way to make yourself indispensable. Find the best way to 'leverage' (there's that word again) your expertise with both manufacturers and customers. Use that expertise to gain control of the channel and the relationships. If you can get to the point where you can unbundle your services, charge for services or can wrest a retainer for services from the manufacturer, then things will be going your way. Remember, as long as you provide value, you can charge for that value."