

Frequently Asked Questions on Independent Sales Reps

<http://www.rephunter.net/FAQIndependentSalesReps.pdf>

Q: What is a manufacturers' representative?

A: A manufacturers' representative is an independent business comprised of sales, marketing and customer service professionals acting as an independent proprietor, partnership or corporation representing two or more related but non-competitive products or services in a well defined and exclusive territory, and compensated primarily on a commission basis for goods shipped or services billed from the principal or manufacturer represented.

Q: What is an independent sales representative?

A: An independent sales representative is the same as a manufacturer's rep. The term "manufacturer's rep" is essentially an older version of the term dating from the time when manufacturers were a much larger portion of the marketplace. The term "independent sales rep" has broader application as it applies to all principals and not just manufacturers. However, in this document, the term "manufacturer's rep" will be primarily be used.

Q: To what extent do manufacturers currently use manufacturers' representatives?

A: According to a recent report issued by the Research Institute of America: since the mid-1970s, more than 50 percent of all U.S. manufacturers (and up to 80 percent in some fields, such as electronics, pharmaceuticals, medical, clothing, and jewelry) have used representatives exclusively or in conjunction with direct sales forces.

Q: How do they achieve more sales?

A: Through multiple-line selling -- the process of carrying more than one product line to market -- both the effectiveness and the efficiency of the basic selling function are increased. Because they sell multiple lines, representatives are exposed to more customers within the territory than factory salespeople. Multiple-line selling thus creates a broader, better-defined customer base, resulting in deeper market penetration and increased sales.

Q: What other benefits does this system offer?

A: The use of representatives brings the manufacturer an established marketing network and territory saturation that accrues from a representative's knowledge of and experience in the territory. It allows entering new markets quickly, efficiently and effectively -- particularly important in a volatile industry like electronics. While one branch of the industry is maturing, standardizing, turning to more routine distribution methods, a new segment of the industry is coming to life, seeking a sales organization with technical knowledge and marketing savvy to create a need for its products. Representatives are an immediately available sales force for manufacturers looking to get their product line to market, quickly and effectively. Because representatives sell a number of lines in a territory and to customers they know well, they provide a more reliable source for market intelligence. Their customers feel confident in discussing changes and opportunities in the marketplace with them, as well as airing criticisms, praise and suggestions they would be reluctant to share with factory personnel. It establishes a highly motivated sales force. Representatives operate their businesses on commissions only. Their motivation is understandably higher than that of factory personnel who know a set income is guaranteed them regardless of their sales volume.

Q: Besides sales, what other functions does a manufacturers' representative perform?

A: The manufacturers' representative also supplies other valuable services such as credit reports, market research and market development information, sales analysis, new product development, customer service, demonstration, product quoting, product/sales training, and current product improvements. Additionally, many representatives provide showroom displays in the major markets.

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Q: Why would a manufacturer use an outsourced field sales force rather than direct sales?

A: Through multiple line selling both the effectiveness and cost-effectiveness of the basic selling function are increased. Multiple-line selling creates a synergistic effect, with a broader, better-defined customer base, and with more comprehensive coverage, resulting in deeper market penetration and increased sales. The manufacturers' representative also receives only a commission, and only for their results. Therefore, manufacturers who want to lower and stabilize sales expenses relative to the actual flow of orders can turn to manufacturers' representatives to augment their sales and marketing function. Manufacturers' representatives ultimately save the customer money because factories that market their products through outsourced field sales can operate more efficiently, which ultimately may be passed on to the customer in the form of a lower-priced product. The manufacturers' representative also saves the manufacturer and customer money by selling non-competitive lines of several factories that are synergistic in nature. In effect they reduce the cost of selling since single visits can provide sales coverage for many products and ultimately save the customer's precious time. It would be staggering to think of the cost to manufacturers, and ultimately the cost of their product, if all manufacturers in the U.S. today used a factory direct sales force to sell their products in the many different territories.

Q: How does a manufacturers' representative get paid?

A: Typically, the manufacturers' representative receives credit for all sales within the territory, and receives a commission for these sales through a mutually agreed upon written contract of varying length with the manufacturer. Reps are paid only after the sale is made. As part of the sales operation the representative maintains a sales and marketing business, compensates sales and administrative personnel, and assumes responsibility for all business and sales operating expenses including employee benefits, taxes, advertising, auto, travel, technology, insurance costs, office equipment, etc. A true evaluation of the alternative, a factory-direct-salaried salesperson, which may appear as a total cost of a \$80,000-a-year can actually be closer to \$160,000-185,000 when commission, employee benefits, auto, travel and expenses, holidays, administrative support and all other costs are computed. Manufacturers' representatives also eliminate the "soft costs" of personnel (i.e. phone service) and minimize a manufacturer's legal exposure. Representatives pay for the costs to select, train, compensate, discipline and terminate their own employees, reducing the legal exposure of manufacturers. Each outside sales professional is backed up by an inside support person.

Q: Does the manufacturers' representative add cost to the ultimate price of the product?

A: No, representatives can actually save the customer money because in many instances they may be the low-cost alternative to factory direct salespeople who are compensated with more than just a commission. A representative is a form of outsourcing the sales function. Just as many companies are outsourcing their manufacturing and accounting, representatives are an outsourcing of the selling department. Manufacturers' representatives are simply a substitution for a direct sales force; nothing more, nothing less -- and all manufacturers must have a sales force. A true channel intermediary is one who, like a dealer or distributor, takes title to a product, marks it up and resells it as a service. The service, which may well be an added value, is worth "x" and does add cost to the product. However, the manufacturers' representative does not mark up the price.

Q: Can manufacturers' representatives serve as distributors?

A: The industry currently defines distribution as a manufacturer's product channel to the end user. The manufacturers' representative is not part of the channel, such as a distributor, unless the manufacturers' representative takes title of the products and resells to the customer, which may occasionally be dictated by some manufacturers. Ultimately representatives will market in the way the manufacturer deems appropriate.

Q: What are some of the advantages of selling through manufacturers' representatives?

A:

- * Sale of one product can "trigger" sales of other products. Multiple-line selling creates a synergistic effect, with a broader, better defined customer base, and with more complete coverage, resulting in deeper market penetration and increased sales.
- * Sales costs are known. Representatives are paid based on results.
- * Provide manufacturers immediate access to a well-educated sales team highly invested in industry programs such as CPMR and CSR.
- * Representatives have local acceptance. They are familiar in the sales territory and trusted by the customers. They are permanent residents of their community and not transferred from territory to territory. Therefore they have a more vested interest in their products and customers than factory direct salespeople do.
- * Provide quick response to customer problems due to representative agency location. Representatives provide the "high touch" balance through consultation on merchandising and product selection for the locale. Many buyers may also feel that it is easier to get in touch with the representative if he is local, should a problem arise.
- * Provide local market continuity for the manufacturer and end user/customer with business and succession planning.
- * Provide quick entry into the market because the relationship between manufacturers' representatives and the buyer is often stronger than among company-employed salespeople because the representative knows not only those responsible for purchasing but also other decision-makers within the customer management team.
- * Provide more complete coverage in specific geographic areas and market because of their familiarity with local preferences. Representatives are quick to identify where new products can be sold where a direct sales force, in contrast, may take months or years to acquire similar knowledge.
- * Provide more objective evaluation and customer feedback of new products or ideas for improving existing products as they represent more than one line and do not work for the manufacturer.
- * Provide information and knowledge to dealers and end users through product know-how, product training, field and test demonstrations and consultative selling.
- * Provide market research that cannot be provided from a mass survey or book.
- * Alert manufacturer to new trends specific to their territory that might affect their product.

Q: Why do so many manufacturers use representatives?

A: Two major reasons: more sales, less cost.

Q: How do they achieve less cost?

A: The manufacturers' representative system eliminates the manufacturer's expenses in maintaining sales offices. From commissions, the representative maintains a staff and office operation. Representatives hire and train their own sales people. They pay their own taxes, insurance, retirement benefits, travel, entertainment, trade show and secretarial expenses. The system establishes predictable costs of selling. Commissions are paid only after orders are shipped. It reduces marketing costs. When they sell through representatives, manufacturers reap the benefits of extra services -- all at no cost beyond the commissions -- such as regional sales management and sales analysis, credit reporting, product detailing, application engineering, and promotion and merchandising. In addition, reps often provide local warehousing and stocking service, if required, at far lower cost.

Q: Why don't all manufacturers sell through manufacturers' representatives?

A: Many manufacturers who do not yet sell through representatives generally have misconceptions about the representative system, about direct factory sales forces, or both. In general, they trade off the many advantages accruing from using manufacturers' representatives for the "security blanket" of 100 percent control of sales force time.

Q: How many lines should a representative handle?

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A: Representatives carry the number of lines necessary to provide a solid product portfolio for their particular market and to assure a profitable business. The synergistic effect of multiple-line selling by representatives is what benefits manufacturers most -- it helps the customer to buy related products from a single sales organization. While a representative is selling one line, contact and rapport is being established with a customer for other lines.

Q: Will my rep create business for me -- or just collect orders?

A: If advertising and promotion alone could create all the necessary sales effort, then neither manufacturers' representatives nor direct factory sales forces would ever have been needed. But because every manufacturer has their own ideas about what constitutes adequate support, and because reps rely solely on commissions, they cannot depend on their manufacturers to provide the only sales stimulus. They must, and do, create their own programs designed specifically for their regions and the customers within them.

Q: How much of the commission dollar does the agency actually keep?

A: Approximately 60 percent of every commission dollar a rep firm receives is paid out in direct salaries and compensation. The employment of personnel is the manufacturers' representative's primary overhead investment. Overhead in today's rep firm also includes all the extra administrative services now being performed for manufacturers, as well as expenses for communications equipment, travel and participation in sales meetings, trade shows and conventions. Unlike a distribution or manufacturing firm that can reduce or eliminate the purchase of supplies, materials and other items that compose the cost of sales, the manufacturers' representative's major cost cannot be curtailed so readily. People can't be fired every time a dip in sales occurs.

Q: Is it true that reps make too much money?

A: Some representatives earn more than others -- sometimes, in fact, more than the sales managers who hire them. As self-employed business people, they assume the risks of ownership in striving to achieve its rewards. They pride themselves on their professionalism. They cannot be successful without making their manufacturers successful in the process.

This article is based upon the work of United Sales Association, 6740 East Hampden Avenue, Suite 306, Denver, CO 80224.

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