



PTRA RESEARCH BULLETIN

FOR PTR A MEMBERS



Selecting the Right Representative or Principal Partners

A PRIMER FOR SALES AGENTS AND MANUFACTURERS

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POWER-MOTION TECHNOLOGY REPRESENTATIVES ASSOCIATION

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An all-too-familiar scenario...

Widget Manufacturing Company switched from a direct sales force to a network of manufacturers' reps. They did so because they liked the idea of outsourcing the sales function to an agency with established relationships with the desired customer base, where the rep firm has developed and maintained a reputation as a trusted problem solver by presenting the customers with multiple, complementary and synergistic lines.

Sam Sailsmanageur, Widget's director of sales, has been tasked with locating and signing up reps.

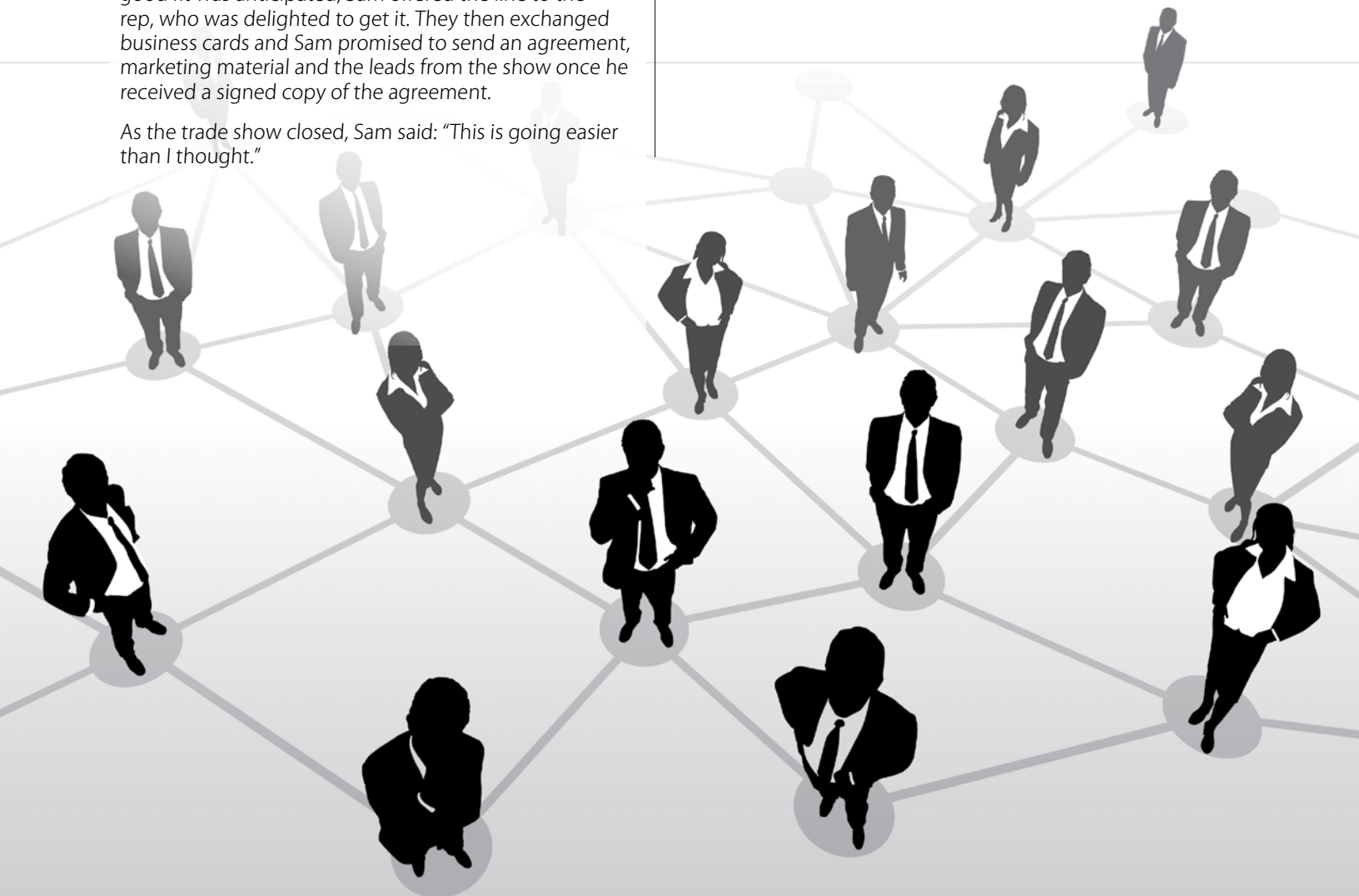
His first step was to take advantage of a trade show that Widget was attending. He thought this would be the ideal place to locate reps. One of the items he added to the list of booth materials was a sign saying "Manufacturers' Reps Wanted!" that could be prominently displayed on the table right up in the front of the booth.

Predictably, at the trade show, several reps from different territories that were interested in the line approached him. Informally, he spent 20 to 30 minutes with each rep over a cup of coffee in the nearby food court in order to learn a little more about each agency and to inform them about the Widget products. Whenever a good fit was anticipated, Sam offered the line to the rep, who was delighted to get it. They then exchanged business cards and Sam promised to send an agreement, marketing material and the leads from the show once he received a signed copy of the agreement.

As the trade show closed, Sam said: "This is going easier than I thought."

Selecting the Right Representative or Principal Partners

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What's it Like in the Real World

Finding the perfect fit right out of the box is not an easy task. The fact is, you can't have a successful long-term rep-principal relationship if the two parties are not right for each other. So why is it so many reps and manufacturers try to create relationships that don't stand a chance of succeeding? In **Understanding the Outsourced Sales Professional**, consultant Harry Novick, who worked with MANA for many years, reported that he found as many as 30 percent had no business working with each other and should never have formed a relationship in the first place. Another 40 percent were marginal.

Establishing a rep-principal relationship is much like interviewing for a job. While it's not something you do on a regular basis, it's a skill that must be practiced over and over. A rep may interview prospective principals every few years or so; maybe a sales manager looks over a few prospective reps during the same period.

If the selection is not done correctly, however, it can prove extremely expensive — in terms of direct costs and lost opportunity costs — not to mention the time and effort lost. When you learn six months out that you made the wrong choice and start adding those costs, (particularly the lost opportunities), the numbers can be staggering.

We are going to guide you through the process so that in six months both of you — the rep and the principal — are going to be convinced the choice was really the right one.

If you are expecting the process to be a quick one, let's dash those expectations immediately. You wouldn't rush the selection of a key executive for your firm. The same should be said for creating the correct rep-principal relationship. This is going to take some time, but look at it as an investment that results in big returns for both parties.

Back to the Story...

After six months, it dawns on Sam — not to mention his boss — that something went wrong. He followed up and sent agreements. All the reps had signed them. A shipment that included the marketing material and leads that came from the trade show was sent, but since then nothing much has happened. He'd made some follow-up phone calls and was assured by the reps that they were working on prospects, and he could expect some RFQs to start showing up sometime in the near future. Eventually some did come in, but neither in the quantities nor from the types of customers he expected. His boss was starting to look over his shoulder and comment concerning the lack of meaningful business.

Sam needed help. He could point to a track record as a successful manager when he dealt with direct salespeople, but he found out in a hurry that these independent reps were a whole new ballgame. They didn't respond the same way employees did. How do you motivate someone when you have no control over him or her?

What did Sam need to do differently, and why didn't his first efforts produce results? Where could he go to find answers? He did what most of you reading this report have done — he joined PTRA. Here's how he learned the right way to select the best reps.

Signs Pointing to Success

Let's look at some of the reasons why relationships between reps and principals succeed. To begin, both parties must have mutual ob-

jectives. Those objectives are manifested in customers to be served, sales volumes to be achieved, and how business is conducted.

Relationships only succeed when both parties complete their homework prior to agreeing to work with each other. They develop a deeper understanding of what the other is about, what the value system is and what the expectations of each other are. From the beginning, a sincere commitment is essential for both parties to understand what is important to the other, how the business functions and whatever steps are necessary to find a common platform of performance.

The most important element for mutual success is the existence of a rep-friendly culture throughout the principal's place of business — starting at the top. If there are those in the organization, particularly in executive positions, who believe a direct sales force is the only way to go, be very careful!

The rep-principal relationship of today is based on more of a partnership relationship than just a few years ago. You will find that those reps and principals who work together in this fashion will:

- Meet on a regular basis to review what's happened in the territory.
- Create a strategy for the next year.
- Assign mutual action plans that drive both businesses toward common objectives.

In the process, realistic and clearly stated expectations for one another are established which eliminate potential doom in the relationship.

And finally, a fair and balanced written contract must be negotiated.

If all those elements are in place and if both parties hold up their end of the bargain, a high degree of trust between them is developed. Without that, there is little chance of success to result for either party.

Danger Signs Pointing to Failure

Since we've looked at reasons why relationships succeed, let's look at the other side of the coin — why they fail.

Probably the greatest single reason for relationships to fail is lack of regular and open communication on the part of one or both parties. Communication can come in many ways: through phone conversations, emails, copies of correspondence, or all of these. Lack of communication grows from lack of trust, an essential part of a successful relationship. Lack of communication also creates lack of trust.

Sometimes relationships work well for a while and then fail because the mutual objectives that once were part of the relationship are no longer mutual. Today change is prevalent, and often, one of the partners in the relationship finds it necessary to make changes that result in conflicting objectives. The sooner this eventuality is recognized and addressed, the better for both. Even though the relationship may be over, in these cases the people involved can still walk away as friends.

Relationships also fail because the manufacturer doesn't support the rep, or there is a lack of effort on the part of the rep to work the territory for the principal.

This results when there was a poor selection process.

The Cost of Poor Selection

Making the wrong selection is costly. If the relationship is not working to expectations, there are a number of incurred costs that are not bringing return on the investment.

Direct costs — The rep will travel to the principal's place of business for training, and that's a direct cost. In turn, the manufacturer may travel to the territory to help the rep get going, and that's also a direct cost. There's the cost of shipping literature and samples, and printing new line cards and business cards. By the time all is said and done, both sides spend more than a few dollars.

Indirect costs — These are most dramatically exhibited by a lack of sales and revenue. How much profit is lost if the rep isn't booking orders? In those territories where there is no existing business, it will take more time before the orders start to flow. If the rep isn't working the territory, however, when a change is made, the new rep still has to go through the same period of getting the business going. **There's no way to recoup this lost revenue.**

For the rep, the potential for disaster in selecting the wrong principal is as great. The success of a rep firm is based on its ability to develop a reputation among its customers as a trusted problem solver, not a problem creator. Start repping a principal that's not responsive to RFQs, maybe is late in shipping orders or ships defective products, and that hard-earned reputation can start going down the drain, taking future business along with it. Some principals add insult to injury by then being late in paying earned commissions — another cost to the rep.

You should get the message by now that making the wrong choice is very expensive.

You should also get the message it's going to take time. Why is it we never have the time to do the job right the first time, but we always have the time to do it over again?

Finding Reps, Finding Lines

Before selecting the best sales partner, you need to create a list of prospects. Where do manufacturers go to find reps, and where do reps go to find manufacturers? Some resources are:

FOR THE MANUFACTURER

Trade associations. Your industry trade or rep association will have either directories of rep members or advertising in periodicals you can use. If you are a PTRA member, use our Online Locator to search for reps or place a Lines Available ad on the PTRA website and in the FOCUS newsletter. Or better yet, participate in the RepMix principal/rep interview program at the next PTRA national conference.

Your customers. They can tell you what reps call on them that they especially trust.

Reps in other territories. They'll know reps that handle complementary products as they meet each other at annual sales meetings.

Talk to other manufacturers of complementary products. They can recommend good reps that carry products synergistic with yours. Some even have their rep lists on their websites.

Trade shows. If you exhibit in trade shows, put up a sign announcing that that you are looking for representation.

Distributors. They work closely with a wide range of reps, and they know who the best ones are.

Consultants. If you don't have the time or lack the confidence to locate manufacturers' reps on your own, consider retaining a consultant who specializes in this field. While they cost more, the return on the investment can be substantial once you have the rep force in place, and they are bringing in the level of business that's expected in the territory.

FOR THE REP

Trade associations. Your industry or rep trade association is a source where you can prospect for lines. MANA, for example, has an online directory listing their manufacturer members where reps can search for potential principals. The PTRA Online Locator is often the first place a principal goes to find prospective reps. Your listing in the Locator ensures that you won't be left out of the search.

Fellow reps in your territory. If they know what kind of lines you're looking for, they can alert you when they hear of a manufacturer looking for a rep in the territory.

Reps in other territories. Contact those reps you met at your principals' sales meetings or rep councils; maybe some know companies looking for reps in your territory.

Your customers. They can tell you what other products or services they need and may even know a manufacturer who doesn't have any local sales force.

Trade shows. Attend an industry trade show and walk the aisles. If you see an interesting product line, talk to the sales manager.

Picking the Right Rep

Now that you've created a list of prospective agents, what's the process for picking the ones that will be right for your company? What information do you need from the rep, and how do you get it?

Before initiating a dialogue, be aware that selection is a two-way process. While you are evaluating the rep, the rep is evaluating you. The rep's evaluation of a prospective principal is a two-step process:

- 1- Does this company make a product or provide a service that is helpful to my customer base?
- 2- Does the company have the potential to be a long-term supportive sales partner? Our very strong recommendation is to also read the section of this special report entitled "Picking the Right Principal." It details what reps look for in the business relationship.

It's **not** just about your great product!

What's the best way to start the dialogue with a prospective rep? Don't send them an email. Emails are a great way to communicate with those we know, but it's a terrible way to communicate with strangers.

What works in most cases is a phone call. Chances are you may have trouble catching the rep on the first call. Mondays and Fridays work best because that's when the reps are more likely to be in their offices. Don't be surprised if you have to make five or six calls before making a connection. Be persistent: there's a lot at stake here.

Another strategy that works well is to send a letter with literature describing the product. Make sure you use high quality stationery, that the letter is addressed to the individual (Please, no "Dear Representative" letters!) and that the name is spelled correctly.

If you exercise this option, don't waste time in your letter touting your great product line – your literature will do that for you (and if doesn't, you ought to redo it so it does). Use the letter to sell your company and why you will be a great business partner. Let them know you will be calling them and do make every attempt to make contact — don't rely on them to call back.

Approach the first conversation as if it is a sales call. If you work it right, as the process progresses, the relationship changes from you being the seller and the rep the buyer to one of an interdependent partnership with mutual objectives.

It is very important that you enter the discussion prepared and focused — don't just wing it and expect the process to yield results without some effort on your part. Have a list of well-thought-out questions ready to discuss with the rep. Keep an open mind, and remember, it is most important to understand how the agency works and what support you, as a manufacturer, can provide to yield the best results for both parties. It is a two-way street, and one without the other does not constitute a valued equation. Demonstrating this interest to the rep will surely reinforce their interest in working with you for the long term.

Some manufacturers tell us they prepare a questionnaire to send to the prospective rep with the questions they would like answered.

A Checklist of What to Learn About the Rep

- Who their customers are
- Length of time in business
- Number of synergistic, complementary lines
- Territory
- Size of firm
 - Office(s)
 - Feet on the street
 - Inside sales
 - Tenure of employees
 - Support staff
- Business plan
 - New business opportunities
 - Invest in growth
- Succession plan
- Website
- Business structure
- Additional services provided
- Reporting systems
- Communication policy
- Forecasting
- Market research
- Education level
- Technological competence
- Communication/Technology (CRM system)
- Contractual requirements
- Response time
- What their sales philosophy is
- Lead follow-up program
- Compensation for salespeople
- Local trade show participation
- Training
- Perseverance
- How quickly the rep makes things happen
- Joint sales calls
- Expectations

- Good chemistry
- Association memberships
- CPMR, CSP or other certification
- Sales management (How are salespeople managed?)
- Financially stable
- Professionalism
- How the rep defines success with principals
- Eagerness to work the line
- Knowledge (product/market)
- How many lines they have lost and why
- What would cause a rep to lose interest in a line
- How the rep measures progress or success
- Presentation/demeanor
- Why they think they will be successful with your line
- Integrity, honesty and trust

And finally, and most important, get references!

- From other principals
- From two or three customers

Picking the Right Principal

There are two major concerns for the rep:

- 1· Is the product or service the prospective principal provides something that's needed by your customer base?
- 2· If so, is there the potential to create a long-term mutually profitable relationship with this company?

The long-term survival of your rep firm depends on your reputation as a trusted problem solver. Those customers who buy from you depend on your company to screen out suppliers who may cause problems rather than supply solutions.

You cannot afford the risk of establishing a relationship with a company that may produce a nice-appearing product but in turn:

- × Ships product behind schedule.
- × Ships products that have quality issues.
- × Is not responsive to customers' needs.

Not only does this damage your hard-earned reputation, it also detracts from selling time as you meet with customers, not for the purpose of getting more business, but for damage control and putting out fires.

Before you sign on the dotted line, get to know the principal really well. There must be mutual trust and open communication from the beginning.

Below is a checklist of the issues you will want to learn from a prospective principal.

Some reps tell us they prepare a questionnaire to send to the prospective principal with the questions they would like answered.

A Checklist of What to Learn About the Principal

- Synergistic products
- Length of time in business
- Annual sales volume
- Rep-friendly culture
- Existing rep network
- Tenure of other reps
- Reputation
- Product quality

- ☑ Quality systems
- ☑ On-time delivery
- ☑ Timely commission payments
- ☑ RFQ response time
- ☑ Customer service
- ☑ Financial stability
- ☑ Low management turnover
- ☑ Proposed contract
- ☑ Open communication
- ☑ Exclusive territory
- ☑ Existing business or shared territory development costs
- ☑ Commission structure (Pay upon shipment or receipt of payment?)
- ☑ Rep council
- ☑ Joint sales calls
- ☑ House accounts
- ☑ Product liability co-insurance and indemnification
- ☑ Training program
- ☑ Trade association membership
- ☑ Marketing/sales program
- ☑ Pre-qualify leads
- ☑ Website
- ☑ Lead generation program
- ☑ Sales support structure
- ☑ Manufacturer's capability and certification
- ☑ Invest in R&D and new product development
- ☑ Provide product and application knowledge
- ☑ Knowledge of competition
- ☑ Knowledge of markets
- ☑ Relationships with key distributors
- ☑ Vulnerability to foreign competition
- ☑ Honesty and integrity

And finally, and most important, get references (as they should do with you)!

- ☑ From other reps
- ☑ From distributors
- ☑ From two or three customers
- ☑ Bank references
- ☑ Credit check

Other Considerations

The Factory Visit. Reps and principals should avoid signing an agreement without the rep having visited the principal's factory. When the rep firm is large enough to have a staffed office, the sales manager should visit the rep's place of business.

Get introductions to all personnel at the factory to put a face to a name for future dealings with each other.

There are a wealth of things the rep can learn during such visits. For example, the company literature he received has a picture of a well-landscaped and freshly painted manufacturing plant. A visit may show peeling paint and dying landscaping overrun with weeds. Entering the building may bring to light low employee morale and other red-flag signals.

Most important, you may find that while the sales manager is a rep-friendly person, the CEO or general manager may have a strong distrust of reps or a bias towards using a direct sales force. Under those circumstances, the odds of this relationship working are slim indeed.

Post-Agreement Discussions. As the discussions progress and it appears likely the end result will be the establishment of a relationship, it's worthwhile to start discussing additional issues:

- ✓ How is product training to be handled?
- ✓ How about sending out some press releases announcing the establishment of the relationship?
- ✓ How soon after signing the agreement can a visit by the factory person be planned to get the ball rolling?

Now that you've learned the process, you have an understanding of why it can't happen in a short period of time, and why it's important that the job be done correctly the first time so you don't have to do it again.

If you are a PTRAs member, don't forget one of your benefits is the opportunity to consult with our seasoned in-house experts. Call us if you have any questions on the material in this special report or want to discuss ideas or your own experiences for improving the selection process.



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