

Working with Manufacturers' Representatives in North America

Introduction

In North America, many manufacturers (Principals) have elected to use Manufacturers' Representatives (Reps) as an alternative to a direct sales force. Reps work under contract to be the exclusive representative for each Principal for a specific geographic region (the Territory). One of the many benefits of working with Reps is the instant access to their established sales and marketing organization with an existing customer base and minimal upfront costs. To get the most benefits from working with a network of Reps in North America it is helpful to understand of how they operate, their expectations, and their responsibilities. An effective engagement with a Rep should result in improved level of service to customers as well significant benefits for Principals including growth in market share, sales performance and brand recognition.

What Does a Rep do?

The Rep offers the Principal a focused staff with long standing relationships in their Territory. With a limited linecard of synergetic non-overlapping products, the Rep exclusively promotes each Principal's products and services both directly to the target customers and through franchised distributors (if any) supporting them with training and joint customer visits (buddy calls). Reps also promote each Principals products more broadly through a variety of marketing activities including participation in table shows and other regional trade shows as well as through the circulation of electronic and printed collateral such as linecards and newsletters. In many cases, the Rep functions also include responsibilities for application engineering, marketing feedback, quality assurance, and credit/collections. Typically, the Rep's sole compensation for these functions is the commissions that they are paid by each Principal for all sales and designs originating in the territory. This commission should cover all local direct and franchised distributor sales activities. It should also include the split/shared commissions for sales that result elsewhere based on activities originating in the contractual territory. Sometimes additional percentage points or a fixed bonus is paid for additional services or superior performance (see sidebar). Key advantages to using Reps include:

1. Paying Reps only when there are shipments – no up-front costs for startups
2. Immediate access to Rep's existing customer base and distributor relationships
3. Instant established sales network with logistics in place through their existing channel relationships.
4. Synergetic sales with other Principals

The Rep makes the up-front investment in time and resources to pursue each opportunity in the anticipation of sharing the benefits of their success as sales and shipments increase.

Additional / Alternative Compensation

Reward/Finders Fee –for reference design wins, other new business that falls outside contractual responsibility.

Sales Incentives – for promotion of focus products some Principals offer a couple additional percentage points.

Stipends – Supplemental fixed monthly payment typically for missionary lines (with no sales).

Rep Operations

Manufacturers’ Reps come in all shapes and sizes – from the single person rep firm to the multi-region super-reps. Each is run uniquely, but all drive toward the common goal of increasing sales through promotion of each Principal’s products and services. A Rep’s operations are flexible enough to adapt to the market conditions. Each Principal has the opportunity to select a Rep that matches their culture. Many Principals benefit from the entrepreneurial aspect that Reps use in their approach to the market. The Rep is trained by the Principals and supplied literature and other collateral needed to promote their products in the Territory. Access to pricelists, corporate presentations, sales portals, and other tools help to facilitate the success of the Rep. Lead follow up and samples are also key tools to developing their Territory. Periodic visits from regional managers and other factory personnel are welcome as long as they are scheduled in advance to allow the staff to arrange customer visits.

Sub-Reps

Like most modern businesses, outsourcing has become a part of many Rep Firms business models through use of third party logistic tools, administrative support and even account management. When it makes sense, a Rep Firm may bring in additional sales resources to cover special accounts or additional sub-regions. These resources are often referred to as Subcontracted Reps or Sub-Reps. This solution has become more popular with some Rep firms where Principals want to limit the number of Rep organizations that they work with by getting the Rep to take on additional territory. The Sub-Rep arrangement allows the Rep firm to expand into neighboring regions without the cost of hiring a dedicated salesperson. Again, the Rep Firm gets instant relationships that the Sub-Rep brings. Eventually, some of the Sub-Rep arrangement will turn into a merger.

Rep Expectations

To successfully promote the Principals products, the Rep will expect support in several key areas. These include:

1. Website that clearly shows
 - a. The products being promoted with either full or abbreviated data
 - b. Section showing contact information for each Rep Firm (and Franchised Distributors)
 - c. New products and/or articles

2. Literature, selector guides and/or flyers – should also be available both in PDF format and hardcopy

Are All Sales Reps the Same?

Many industry experts use the term **Sales Rep** loosely. It can mean any of the following:

1. Manufacturers' Representative account manager
2. Distributor account manager
3. Independent sales person
4. Inside sales person
5. Direct sales person

The responsibilities of each of these types of sales reps are different; however, used as a general term, this can lead to some confusion. For instance, Principals from Asia or Europe who are not familiar with North American Reps may think that a Rep and a Distributor are the same.

3. Periodic training through one of the following methods:
 - a. Webinars
 - b. Remote location / Factory location training (Note - traditionally, the Rep pays for transportation and the Principals pay for food and lodging)
4. Franchised Distributors (where applicable)
 - a. Point of Sales (POS) Reports should be provide (electronic format preferred)
 - b. Copies of quotations
 - c. Interchange of any existing design registration info
 - d. The Rep and Principal should coordinate on special pricing especially when there may be more than one Distributor pursuing business at the same account.

Rep Responsibilities

Generation of new opportunities is a key responsibility of the Rep. At the same time, the Rep is tasked with managing existing opportunities – both direct and through franchised distributors. The Rep is also charged with managing the Distribution Channel including lead follow up, buddy calls, and training.

Periodic reporting is available on request as is marketing Feedback. Another key responsibility is tracking multi-regional opportunities. This must be achieved working closely with the Principal, any distributors who might be involved and their counterparts in other Territories that are involved.

The Rep must maintain the training of its sales staff both on the Principals' offerings and on the Rep's sales tools. Another responsibility is assisting with Regional marketing efforts, trade shows, etc.

What are the Alternatives to Reps?

Direct Sales

A direct sales force offers the principal potentially the most focused and best trained sales force for their own product range. Direct sales are completely integrated within the Principal and work solely by the Principal's internal guidelines. There is also sometimes more willingness for a distributor to work with a direct person versus a Rep as a Rep might have a line that competes with the distributor in other areas.

One drawback with the Direct Sales model is that they are usually stretched very thin, often covering very large regions. This can either severely limit or dilute the effort of the Direct Sales person. Additionally, Direct Sales persons have a fixed cost regardless of the level of sales whereas reps are “free” when there are no sales. It is very common when Principals transition to using Reps that they often make their Direct Sales staff the regional managers for the Reps and Distributors.

Stockists – The European approach

In Europe, Stockists/Agents or stocking distributors are thought of as performing a similar function to Reps with the exception that they also have a distribution aspect to their business. Similar to Reps, Stockists participate in the promotion and design-in of their Principals’ product but may eventually transition from factory commissions to reseller margins if their customer is interested in the distribution services that they can provide. When a piece of business transitions to distribution mode, the Rep commission usually ceases for that business. Some Stockists are experiencing difficulty with the distribution segment of their businesses due to competition from the larger Global distributors whose presence has recently grown in Europe. The Global distributors are largely service oriented and due to economies of scale can operate at much lower margins. This puts the Stockists at a competitive disadvantage.

What Are Distributors and How Do They Work With Reps?

Distributors

In many cases, customers are unable to predict their short and long term component needs. For standard (catalog) products, the distribution channel plays a key role in the supply chain. The vast majority of Principals are no longer holding inventory. They produce to demand. One of the key roles that Distributors play is to purchase frequently used styles of components from the Principals which they, in turn, resell to end customers. A Distributor buys and resells. Their main profit is the margin that they make from each transaction. Recently however, profitability especially on commodity products has been declining due to market pressures. In addition, ASP (Average Selling Price) erosion continues as well as the continued need to “split sales/commissions” with an out of territory partner. To compensate, many distributors have introduced several complementary services including consignment, application support, consolidated billing and even manufacturing assistance to augment this profit. It is important to note that Distributors typically follow a non-exclusive model - often carrying multiple manufacturers for each product type.

With franchised distributors, a formal franchise agreement is signed to assure a regulated mutually beneficial relationship between the Principal and the Distributor. Providing a franchising agreement assures that products will be handled and tracked per ISO policies. This franchise agreement typically includes support for warranties on components sold to end customers, improved pricing and rotation rights in exchange for sales transparency through POS (Point of Sale) Reporting.

Local/Regional Distributors

Small to medium sized local and regional distributors are franchised by Principals who are looking for more focused distributor services. Typically, these distributors have fewer lines than the national distributors and many have specific expertise or niches on which they focus. While most local and regional distributors focus on business in their surrounding geographic regions in which they have branches, they are typically not restricted by state borders and are able to sell to anywhere in the world. Fewer lines often mean that they are carrying fewer of a Principal's competitors. This can make a Principal feel more secure since there is less chance that competitive info will be leaked to a competitor. On the other hand, smaller distributors tend to need to operate at higher margins and can be at a disadvantage when competing with national and global distributors. Also, the smaller distributors may be at a slight disadvantage if they do not have locations in Mexico, Canada or the far-east. Sometimes however, the internet and global communications have reduced the importance of this factor.

National/Global Distributors

Global/National franchised distributors such as Arrow, Avnet, Future, TTI, Heilind and WPG provide a host of services including one-stop-shop, consignment, VPAs, consolidated billing and extended terms to key customers. They can carry hundreds of lines. Their primary focus is on their key top lines. Due to the breadth of their linecards, their support for the remainder of the linecard tends to be more select and fulfillment oriented. They are constantly trying to find ways to improve their coverage for lower tier Principals. In some cases, the larger distributors have grown to a level where they collectively represent 50% or more of some Principal's total sales. Strong account control is often realized due to low pricing, multi-location service, broad linecard and extended terms. Management of relationships with these large distributors often requires that the Principal have a dedicated national distribution manager.

Independent Distributors

Another category of distributors is the "Independent" distributor who buy and resell product from a variety of Principals without a formal franchise agreement. Many of these independent distributors focus on sourcing hard to find items, sometimes reselling from "Grey Market" sources. Without a formal franchise agreement, customers purchasing through these Independents are exposed to risks including counterfeiting and quality issues. This type of distributor is sometimes known a "Kitter". They often purchase complete production kits based on an OEM's Bill Of Materials (BOM). In some cases, they are thought of as an extension of an OEM's purchasing department. Some of these Kitters are "Small Disadvantaged Businesses" and get allotments of business to fulfill for their customers based on government agency sourcing guidelines. Another class of Independent Reseller is the broker or exporter.

Selling to these non-franchised distributors can impact the success of the traditional sales channel. If the Independent distributor is offered discounted pricing without visibility of their end customers, this can result in pricing confusion at an account being serviced in another region by a Rep or franchised distributor. Sometimes, however, sales to an independent distributor is the only route because they may have very high degree of account control that they demonstrate with certain key customers of interest.

This usually results in a loss of commission for the corresponding manufacturers rep covering these customers as channel visibility for sales through Independent Distributors is extremely limited.

The Rep / Distributor Relationship

So how do Reps and franchised distributors work together effectively in North America? The Rep promotes the Principals products to end customers both directly and through the franchised Distributors (buddy calls, training, QBRs, etc.). The distributors are required to provide monthly POS reports which include information for each customer that they sell to - Customer name, part number, date, quantity, resale price and end customer if their customer is a contract manufacturer. The distributor should be providing both the zip code for their customer (which may be a Contract Manufacturer or a reseller) and the end customer. The Rep uses this information to manage business through these Distributors. This information is also used to compensate each rep for distributor sales in their respective territories. There are a few Principals who elect to pay the Rep for POI (Point of Invoice) for a distributor's sales. The usually elect this alternative if they are new to using distributors or do not have the necessary infrastructure to handle POS processing for North America. Some work in a hybrid model paying POI only on smaller local distributor business while paying on POS for the national distributors. Regardless of preference, it is strongly suggested that the POS reports should still be collected on a monthly basis to allow the principal and rep to manage those accounts being serviced. This teaming arrangement between the rep and franchised distributors has the following benefits:

1. More feet on the street - the distributors' field sales teams allow the rep to manage and cover a broader range of customers. Rep/Principal and distributors can benefit mutually from the each other's existing customer relationships.
2. Distributors benefit from the local support of a focused Rep sales team for the principals that they have in common.
3. Principals get the benefit of distributor channel management including:
 - a. Knowledge of which distributor is strongest at a specific customer
 - b. Management of registration programs
 - c. Pricing management between competing distributors at a specific account
4. Quality - distributors get immediate local guidance from the Rep for any corrective actions / remedies required when quality issues arise.
5. The Rep advocates at the distributors for the Principal to get more mind share (since distributors carry their competitors' products too.)
6. The Rep follows up with the Distributor on new opportunities and helps to determine the customer type (OEM, a CM or a Reseller) and assure that the proper strategy is pursued for that type.
7. POS Benefits:
 - a. Helps track distributor performance with sales of key products at target accounts
 - b. Sales history avoids conflicts with direct rep efforts, other competing distributors
 - c. Assist with forecasts, stocking requirements
 - d. Avoids price erosion / Prevents artificial competition

- e. Allows Principal/Rep to manage business across multiple regions including split commissions
- f. Able to manage year to year repeat business more effectively

Also, Distributors offer customers a variety of supply chain programs [bonded inventory, on-site stores, EDI, etc. as well as improved/extended terms, and other services. Some customers like to take advantage of these services and will not buy direct. For this reason, Reps and Principals like to team with Distributors where they have created strategic alliances.

Contracts

To set the stage for successful partnering with a Manufacturers' Rep firm, a traditional contract which outlines the support and expectations that the Principal and Rep will need to meet. Additional terms for house accounts, termination clauses and commission rates and territory boundaries need to be covered. Guidelines for standard Rep contracts can be found at www.era.org.

Conclusions

Working with Reps can lead to great increases in sales, profits, market share and growth in name brand recognition. Dynamic Rep firms have succeeded in numerous industries to show high long term value in the services they provide. The success of each Rep contract does depend on how well the contract is written and implemented. If the Principal successfully motivates the Rep by providing an attractive agreement with strong mutual benefits, then the stage is set for success. If either party does not make good on their commitment to the agreement, then the contract will be allowed to end either through termination or non-renewal and each will seek other Reps and Principals to team with. This system has been working for over 100 years, however, it is ever changing due to many influences including technology and globalization. Manufacturers' Reps have continued to evolve with each change and continue to be an effective approach to the market.

About the author: *Steve Alford* is the president of **Superior Technical Solutions Corp**, a manufacturers' representative company based in the northeast region of the United States. His experience includes 10+ years in design, manufacturing and project management of electronics products for a broad range of applications. Following this, Steve spent 4 years as a Field Applications Engineer for a distributor and for the last 18 years as a manufacturers' rep. He is also the president of the Metro NY chapter of the ERA.