



**How The Customer Benefits
When Vendors Outsource Field Sales
To Manufacturers' Representatives**

**A White Paper from the
Manufacturers Representatives Educational Research
Foundation**



The pressure is constant. Increase profits. Build shareholder equity. Bring more value to customers by eliminating unnecessary costs.

And the responses are similar. The leading companies in corporate America, and especially those at the leading edge of technology, have embraced a number of new management philosophies that are producing results.

Focus on core competencies. Reduce the number of vendors, and forge strategic alliances with those that remain. Capitalize on new technology, both to improve the product and to streamline the operation. Manage the supply chain tighter to extend the enterprise.

The mantras are similar. The differences come in the way companies go about implementing their new strategies. Venturing into uncharted territories presents the opportunity to conquer new worlds...or to get lost in a jungle of unforeseen difficulties.

From time to time, one approach to heightening competitiveness adopted by some corporate strategists has involved suggesting the removal of the manufacturers' representative as a factor in the supply chain. This is often justified in terms of concerns about confidentiality, security, faster response time, and automated communications direct to the warehouse or the factory floor. But the primary reason (however phrased) is the erroneous belief that the rep commission is a redundant cost; remove the commission and a percentage can be removed from the price.

Sensible though this might sound, it is essentially based on an unclear understanding of the true function of the manufacturers' representative – field sales – as well as on the assumption that the representative is a channel intermediary, a middleman. A distributor buys and resells at a profit, and is in effect paid by the customer for the logistical function he provides. A representative is paid by the vendor, not by the customer, for providing the vendor's field sales presence. The vendor has made a strategic decision to outsource the field sales activity to professionals whose core competencies are sales, marketing and customer support. The vendor has determined that using manufacturers' representatives is the most cost-effective way to serve the customer. Eliminating the representative does not eliminate the functions that the rep provides; so either service is likely to be reduced, or the vendor's actual and hidden costs are likely to be increased.

As the association serving the professional field sales function in the your industry, we believe it is important that sophisticated procurement and materials management executives understand two key issues:

1. The benefits that you as a customer derive when your account is serviced by multiple-line field sales professionals rather than single-line factory employees
2. The benefits that the vendors with whom you have strategic alliances derive through their decisions to outsource their field sales



Benefits to the customer

Your benefits begin with the stability of the relationships your own employees have developed with many of the manufacturers' representatives with whom they work. The average time a factory sales representative spends in a given territory, before he moves to another territory, the home office, or even another company, is 22 months. The manufacturers' representative is territory-based. Paid by commissions, he or she expects neither raises, promotions, nor transfers. This creates a commitment to the locality, and the customers in that locality, that puts the customer first.

Putting the customer first works to your benefit on many levels. The representative can advocate for your interests, going as high into his principals' hierarchies as necessary, whether to get you a policy exception, a special allocation, or a better price. The factory salesperson can't go over his boss's head. The representative has a better understanding of your corporate culture, and probably of his principals' cultures as well.

But even more important, the representative, through the product synergies in his portfolio, is trained and conditioned to consultative selling and a solutions approach. The multiple-line sales call is not only more efficient in terms of time, it is more efficient in terms of focussing on a number of the component areas of *your* product, and the ways those components fit together.

Moreover, the multiple-line representative brings a broader perspective, and a broader "call path" within the customer's organization. He can often go where the purchasing manager can't, in his task of introducing new product and technology solutions to the customer's marketing and engineering communities. The rep thus becomes a knowledgeable and articulate lobbyist to key influences, even those that the internal staff may be unaware of. Whether the rep is acting as a proactive expediter, a reliable early warning analyst, or supplying "checks and balances" to the customer's MRP system, he's building relationships premised on the need for win-win outcomes. At his most selfish, the rep has to think not just of the interests of one line, but of his whole portfolio. That's the customer's best guarantee that the rep will place the customer's interest first!

Not welcoming manufacturers' representatives has another built-in hazard: it limits choices, and hinders the introduction of innovative new technology from the small and start-up companies for whom the rep route is the only viable sales strategy.



Benefits to the vendor

Your vendors – the representatives' principals – have chosen to outsource their field sales as part of their own value proposition. Asking them to abandon or curtail their strategic decision in effect forces them into using second-best sales methods.

Why did these vendors make the decision they did? In part, of course, to bring you the benefits described above. But their real reason, of course, starts with basic economics: they have no direct sales expense until there is a sale. During the often lengthy gestation period for a new project, the representative is financing the nurturing, the consultation, the negotiation – the whole process. And if the project is abandoned, he's earned nothing – except, hopefully, the chance to work with you on your next project.

The vendor derives additional economic benefits as well. Representatives take care of their own expenses, for offices, cars, travel, employee recruiting, training and benefits. Their multiple lines allow them to spread costs, which typically results in technology investments, as for sales automation software, more advanced than those of the companies they represent.



Today's business trends underscore the rep advantage

As we pointed out earlier, there is a major corporate focus today on core competencies, and the inseparable corollary is outsourcing, including functions as disparate as security, logistics, manufacturing, even engineering. This has led to continued justification of outsourcing sales at companies that have grown large enough to consider fielding captive sales forces. Enormous companies that even five years ago would not have considered the use of manufacturers' representatives are now creating new sales paradigms, with direct sales forces covering the core customer constituencies, while niche markets are outsourced to specialists in those niches – reps.

Another major focus in many industries has been vendor reduction and the development of strategic alliances. Keep one manufacturers' representative out of your lobby, and you may need chairs for five, six, even ten vendor salespeople. Why reduce the number of vendors and then increase the number of vendor contacts?

An anomaly in many of the companies we have seen study the question of whether manufacturers' representatives bring value is their own strategic decision to outsource a variety of functions – sometimes even sales. It's paradoxical to see a “household name” company barring reps with one hand and fielding them with another.

Clearly we as an association for the outsourced field sales function believe that our members, as well as their non-member colleagues, create a win-win-win situation – the customer wins, the vendor wins, the rep wins. We equally believe that the effort to squeeze out the rep creates a lose-lose-lose situation.

Fortunately, when the lose-lose-lose occurs, it's inevitably for the short term. It's been instituted often, and we have yet to see a situation where it continues. Companies can make their own rules, but they can't over-rule the way free markets operate. The manufacturers' representative function – field sales – is time-proven to be needed; or it wouldn't have survived to date. As the misconceptions about the role and function of the rep are erased, whether through clearer communication or through bitter experience, many in the corporate world have recognized that outsourcing field sales is a better-than-ever response to the competitive pressures facing today's top executives – buyers and sellers alike.

