

The Thinking Salesman Letter

April 1, 2011

Hello Everybody,

The purpose of this bi-monthly newsletter is to present the pros & cons of distribution systems from the Mfrs', Distributors' and Reps' point of views. It is based on our forty years plus experience in setting up distribution networks across North and Latin America as salesman, sales mgr., independent rep and consultant.

We hope you enjoy it. If you wish to have names added or removed, please email us at info@TheThinkingSalesman.com

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Former CSI (Vermont chapter) & CDT
CPMR (Indiana U., 2003)
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Distribution 101

A few more thoughts on distribution before we move to "Sales calls 101" in the next issue.

Manufacturers who take on the distribution of products other than their own. **We've never seen it work!!!** A Mfr's first, foremost and absolute focus is on keeping the factory busy. Selling a product that does not keep the factory busy is just not on their radar.

Private label. This is where a Mfr. (usually a low cost one) manufactures a product under a brand name they do not own or control.

Relationships based strictly on price i.e. transactional (vs. synergistic) relationships are usually short lived. If you are not a low cost producer who keeps cutting costs, leave this to "offshore Co."

We had a Principal who tried "Private labeling". Every 6 months the customer was berating them for lower prices and additional shipping concessions. It was a WIN/LOSE situation, it couldn't and didn't last.

Big Boxes. Good relationships take place among "more or less equals". That's why we kept our Clients (small and medium size businesses) away from the Big Boxes.

The stories we heard about the Big Boxes, from imposing profit margins on their suppliers to forcing insane return policies are enough to scare anybody, especially small or medium businesses.

To paraphrase a former Canadian PM *"it's a bit like a mouse going to bed with an elephant; the elephant may be very nice and cuddly but when it rolls in its sleep..."*

If you are a small or medium Mfr. stay with smaller and medium chains/customers.

Government programs:

For a while, well intentioned bureaucrats, on both sides of the border, pushed Mfrs to use Reps on the basis that "Reps don't cost anything". Mfrs jumped into this "most sophisticated method of going to market" ill prepared and in most cases failed miserably.

A Client who had used a government program to "recruit" Reps called us in because things were not working out with their Rep network. We asked "How much did the government charge you for this information? He answered "Nothing..." We retorted "You got your money's worth"

Years ago, we worked for a European Mfr of windows. Our instructions were "Never accept government help or subsidies; they end up costing more than they're worth". This old advice is still valid.

Relationship Between Mfrs & Reps (VI)

The rep agreement (VII)

Commissions. II

Split commissions. In construction, sometime an order is generated from a specification in one territory, ordered by a contractor in another territory and installed in a third territory. For instance, the specification is written in New York City, the contractor (who orders) is in Maryland and the project (where the order is shipped) is in Georgia. Three different Reps in three different territories are involved.

We have seen split among territories as follows:

- Specification originates, 40% of the commission
 - Order originates, 35% of the commission
 - Where the order shipped: 25% of the commission
- However, beware. Top notch Reps -those who understand the work and costs involved- refuse to work on split commissions. One told us, too often

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the cost of properly marketing the Principal and/or covering the Rep's end of the deal on a split commission is uneconomical. Another one told us they do not handle development work unless they are protected wherever the order is processed and/or shipped. **Manufacturers must understand there are costs to promotion, marketing and sales and address them frankly with their Reps.**

Overage.

This is where a Rep sells an order for more than the Principal had quoted. The difference is split between the Mfr & the Rep.

This form of remuneration goes against our grain. It does not encourage Reps to openly discuss market conditions with their Principals and encourage them to push their Mfrs to "low ball" so they can later on "jack up the prices" and collect overage.

Finally, it means the Mfrs send their quotations only to the Reps instead of both the customer and the Reps. Overage is better suited for brokers.

Now, when a Rep advises his Principal to increase prices (successfully) we strongly believe he/she should be compensated for that extra.

Imagination & commissions:

Use some imagination! You want new accounts? Offer bonuses such as say a 2% increase in commissions for 12 months on new accounts. A line is not moving as well as you would like? Offer to the Reps "better half" gift certificates towards furniture or a cruise. The "significant other" will be pushing your Reps for you...

Finally, sales mgrs, when you visit a territory invite the Rep and his/her better half for dinner. As Reg Mason of Donn Products, our first boss explained, "You will have an ally in your Rep's bed"

Note to Canadian Mfrs. The GST (Goods & Services Tax) and for the lucky ones who have their PST (Provincial Sales Tax) harmonized, commissions are subject to these wonderful taxes.

Note to Reps on both sides of the border: We have heard Canadian and US tax authorities are very efficient at informing each other of commissions paid across the border.

Our "Two Cents" Worth

Governments have one role to play in the economy: Set standards for the private sector and enforce them.

Except for some public utilities, governments should not get involved in the manufacturing or delivery of goods and services. The private sector **-if properly regulated- will do it better, quicker and more efficiently.**

Furthermore, when governments get involved in the manufacturing and/or delivery of goods and services they put themselves in conflict of interest by being both regulator and "regulatee" and they surreptitiously introduce to that industry high costs, bureaucratic inefficiencies and incompetence and thereby ruining the industry.

Until Governments do a better job at what they're supposed to do, i.e. regulating the least they could do is butt out of the private sector.

Thought:

One of the primary faults with American [and Canadian] management is that over the years it has lost its zest for adventure, for taking risk, for doing something never done before.

Harold Geneen, past Chairman ITT

Next issue, April 15, 2011,

Sales 101, Sales Calls

Relationship, mfrs & reps:

Rep agreements VIII: Termination, Confidentiality

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