



FOR IMMEDIATE RELEASE

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How Reps Serve the Power Buyer — and Why Efforts to Squeeze out the Rep Are Doomed to Failure

It happens from time to time. A top-level purchasing manager at a prominent company will announce a new policy: “From now on,” we hear or read, “we will deal only with the factory; no more third parties” (their euphemism for their suppliers’ outsourced professional field sales [manufacturers’] reps).

These efforts by “power buyers” to eliminate reps from the sales channel are misguided and self-defeating. In encouraging (or demanding) “direct relationships,” such companies cite a number of justifications — but the real reason is money. They argue that the rep commission is a redundant cost (take it away and shave a percentage off the price). Wrong!

Let’s look at some frequent non-price “justifications” for squeezing out the rep. Power buyers express concerns regarding confidentiality, even in the face of non-disclosure agreements routinely signed by reps (for terms as long as 10 years). They cite the need for fast communications, even in the face of instant computer links between buyer, field sales office (the rep) and factory. They call attention to the automation of communications, ordering direct to the factory floor, as if that negates the need for after-the-sale service.

These arguments are spurious, based on the misconception that the rep is a middleman or a “channel intermediary.” The rep is not a middleman, who buys and resells at a profit. The rep firm is a differently compensated extension of the manufacturer — a professional sales organization, responding to the manufacturer’s strategic decision to outsource field sales, an activity that must go on regardless of the pressures applied by individual misinformed customers. Outsourcing allows the manufacturer to focus on core competencies, such as design and manufacturing, while rep firms focus on their core competencies — sales, marketing and customer support. Bringing the sales and service activities “in-house” doesn’t make these activities, or the costs connected with them, go away. If anything, it tends to increase them.

Leaving aside the ethics of the power buyer trying to dictate how suppliers bring their goods to market, the real fallacy is the belief that the elimination of the rep will lower costs without impacting service.

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To demonstrate what the power buyer loses when the rep is out of the picture, let's look at the way one rep firm serves one customer. In our hypothetical instance, the customer is located in a geographically secondary market, but the rep has opened a branch facility in that city, with two people inside and two people outside, specifically devoted to serving the customer. These are all highly trained personnel, not only in the products they sell, but also in the technology and in sales. (The rep firm insists that each salesperson undergo 120 hours per year of product technology and professional sales training.) In fact, three of the four salespeople have been concentrating exclusively on this customer for eight years or more! Rep firm personnel have visited the customer's plants all over the globe to gain greater insight on the customer's operations and needs. How many individual vendors have the resources to staff and support this kind and caliber of sales team for a single customer? It's only possible because the rep's overhead is spread among several lines.

Many of the services provided by the rep are theoretically parallel to those provided by the factory-direct salesperson. But factory-direct salespeople are bound by their own companies' tables of organization and bureaucracy, and they can't be as forceful an advocate for the customer's needs, taking their case to the highest level if necessary. The multiple-line rep brings a broader perspective and broader "call path" within the customer's organization. The rep often goes where the purchasing manager can't, in the task of introducing new product and technical solutions to the customer's marketing and engineering communities. The rep thus becomes a knowledgeable and articulate lobbyist to key influences, even those that internal staff may be unaware of. The rep may be acting as a proactive expeditor, a reliable early warning analyst, or supplying "checks and balances" to the customer's MRP systems, all as part of building an ongoing relationship premised on the need for win-win-win outcomes.

After all, the rep is not bound to a single principal, but rather to the territory and therefore to the customer. At their most selfish, reps have to think not just of the interests of one line, but of an entire portfolio. That's the customer's best guarantee that the rep will place the customer's interests first!

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Today's rep firm (certainly that firm that's handling the sophisticated lines important to the power buyer) is professionally managed, well-equipped with state-of-the-art computer and telecommunications equipment, well-staffed with technically trained sales professionals, many of whom are degreed engineers, and networked to the highest management levels of both principals and customers. The rep brings the customer local presence, combined with degrees of continuity, intimacy, competency and resources, but especially of advocacy, that the factory-direct salesperson just can't match.

Thus, the effort to squeeze out the rep creates a lose-lose-lose situation. If vendors succumb to the pressure, they have to absorb costs that were formerly borne by the rep and adapt to a field sales strategy not of their choosing. They lose. The reps who are barred from an account are denied the income from selling to and servicing that account. They lose. The customer who turns away reps gives up the relationships, the advocacy, the hands-on service that those reps have supplied. Not welcoming reps 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. So the customer loses, too.

In fact, the whole economy would lose if power buyers destroyed the rep system. By stifling free enterprise and open competition, the results down the road would likely be higher prices, not lower.

Fortunately, when the lose-lose-lose occurs, it's inevitably for the short term. As often as it is instituted, it essentially never continues. Reps are again (or still) welcomed at huge companies who have made very public proclamations that they would only deal direct. When companies try to make their own rules, they soon find they can't overrule the way free markets operate. The rep function — field sales — is time-proven to be needed, or it wouldn't have survived.

As the misconceptions about the role and function of the rep are erased, whether through clearer communication or through bitter experience, the corporate world continues to recognize that outsourcing field sales is a better-than-ever response to the competitive pressures facing today's top executives — buyers and sellers alike.

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