

Questions . . . Manufacturers ask about Representatives

Why do so many manufacturers use representatives?

Two major reasons: more sales, less cost

- **What is a manufacturers representative?**

A manufacturers representative is a business entity working in a defined territory, selling related but non-competing products for more than one manufacturer or principal. Income is generated from commissions on sales in the territory. A representative does not take legal title or physical possession of the merchandise to be sold, which generally is shipped directly to the customer from the manufacturer.

- **To what extent do manufacturers currently use representatives?**

According to a recent report issued by the Research Institute of America, since the mid-1970s more than 50 percent of all U.S. manufacturers (and up to 80 percent in some fields, such as electronics) have used representatives exclusively or in conjunction with direct sales forces.

- **How do they achieve more sales?**

Through multiple-line selling the process of carrying more than one product line to market both the effectiveness and the cost-effectiveness of the basic selling function are increased. Because they sell multiple lines, representatives are exposed to more customers within the territory than factory sales people. Multiple-line selling thus creates a broader, better defined customer base, and with more complete coverage, resulting in deeper market penetration and increased sales.

- **What other benefits does this system offer?**

The use of representatives brings the manufacturer an established marketing network and territory saturation that accrue from a representative's knowledge of and experience in the territory. It allows entering new markets quickly, efficiently and effectively ... particularly important in a volatile industry like electronics. While one branch of the industry is maturing, standardizing, turning to more routine distribution methods, a new segment of the industry is coming to life, seeking a sales organization with technical knowledge and marketing savvy to create a need for its products. Representatives supply an immediate available sales force whose members are highly trained and knowledgeable of the market. It develops a broader, more stable source of market feedback. Because representatives sell a number of lines in a territory and to customers they know well, they provide a more reliable source for market intelligence. Their customers feel confident in discussing changes and opportunities in the marketplace with them, as well as airing criticisms, praise and suggestions they'd be reluctant to share with factory personnel. It establishes a highly motivated sales force. Representatives operate their businesses on commissions only. Their motivation is understandably higher than that of factory personnel who know a set income is guaranteed them regardless of their sales volume.

- **How do they achieve less cost?**

The manufacturers' representative system eliminates the manufacturer's expenses in maintaining sales offices. From commissions, the representative maintains a staff and office operation. Representatives hire and train their own sales people. They pay their own taxes, insurance, retirement benefits, travel, entertainment, trade show and secretarial expenses. The system establishes predictable costs of selling. Commissions are paid only after orders are shipped. It reduces marketing costs. When they sell through representatives, manufacturers reap the benefits of extra services - all at no cost beyond the commissions - such as regional sales management and sales analysis; credit reporting; product detailing; application engineering; and promotion and merchandising. In addition, reps often provide local warehousing and stocking service, if required, at far lower cost than a factory warehouse.

- **Why don't all manufacturers sell through manufacturers' representatives?**

Many manufacturers who do not yet sell through representatives generally have misconceptions about

the representative system, about direct factory sales forces, or both. In general they trade off the many advantages accruing from using manufacturers' representatives for the "security blanket" of 100 percent control of sales force time.

• **How many lines should a representative handle?**

Representatives carry the number of lines necessary to provide a solid product portfolio for their particular market and to assure a profitable business. The synergistic effect of multiple-line selling by representatives is what benefits manufacturers most ... it helps the customer to buy related products from a single sales organization. While a representative is selling one line, contact and rapport is being established with a customer for other lines.

• **Will my rep create business for me ... or just collect orders?**

If advertising and promotion alone could create all the necessary sales effort, then neither manufacturers' representatives nor direct factory sales forces would ever have been needed. But because every principal has his own ideas about what constitutes adequate support, and because reps rely solely on commissions, they cannot depend on their principals to provide the only sales stimulus. They must, and do, create their own programs, designed specifically for their regions and the customers within them.

• **How much commission dollar does the rep actually keep?**

Approximately 60 percent of every commission dollar a rep firm receives is paid out in direct salaries and compensation. The employment of personnel is the manufacturers' representative's primary overhead investment. In addition, overhead in today's rep firm also includes all the extra administrative services now being performed for manufacturers, as well as expenses for communications equipment, travel and participation in sales meetings, trade shows and conventions. Unlike a distribution or manufacturing firm that can reduce or eliminate the purchase of supplies, materials and other items that compose the cost of sales, the manufacturers' representative's major cost cannot be curtailed so readily. People can't be fired every time a dip in sales occurs.

• **Is it true that reps make too much money?**

Some representatives earn more than others ... sometimes, in fact, more than the sales managers who hire them. As self-employed business people, they assume the risks of ownership in striving to achieve its rewards. They pride themselves on their professionalism. They cannot be successful without making their principals successful in the process.

• **Where does a manufacturer obtain more information on specific representatives?**

Sources of information regarding representatives within individual industries and industry segments include trade associations; trade periodicals and directories; other "compatible" manufacturers; purchasing agents; and specialized recruitment firms. In the electronics industries, ERA maintains two widely recognized and useful resources for manufacturers seeking representation : the Locator, a territory-by-territory directory of electronics industry manufacturers' representatives, identifying the market interest, size and special services performed; and Lines Available/Hot Lines Services to bring principals and prospective representatives together. Information about both resources is available from the ERA office or at the ERA exhibit to be found at virtually all major electronics industry trade shows.

• **What is ERA?**

The Electronics Representatives Association (ERA) is an organization of qualified sales/marketing firms representing manufacturers of all types of electronics products. Members belong to one or more of the following product groups: Communications; Components; Computer; Consumer Electronics; Electronic Systems Integration; Instrumentation & Sensors; Materials, Assembly & Production (MAP); RF/Micro-wave; and Semiconductors.

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