

## The Economic Benefit of Working with Reps

Although the practice of partnering with independent manufacturers representatives pre-dates their tenure with Cherry Electrical Products, Bob Terwall and Jim Hartranft combined can boast more than 60 years experience working with an out-sourced sales force. As a result, the president and director of sales respectively for the Waukegan, Ill.-based manufacturer don't have to mince words when talking about the rep experience.



"This company, which recently celebrated its 50<sup>th</sup> anniversary, has been 'repping' from the get go," explains Terwall. "We've used reps from the very beginning and seen the company grow to \$350 million sales annually—with \$165 million in North America." According to Hartranft, "We've challenged our use of reps on an on-going basis and last year we conducted a zero-based budget comparing the use of independent reps to a direct sales force. While I expected there would be an economic benefit to staying with reps, I was surprised at the size of that benefit."

It was that benefit as described by Terwall during last years' Keystone Conference that got the attention of the close to 300 reps in attendance. According to Terwall, "We determined that across 16 territories it would cost us two to four times more to sell with a direct sales force vs. what it costs us with manufacturers representatives. We're convinced that if we built our direct sales organization from the ground up, the \$2.6 million we currently pay in reps' commissions would cost us a total of \$5.7 million for a direct sales force."

While that's a major reason why Cherry Electrical Products works with reps, the question remains, why would a rep firm want to work with Cherry? Quick to answer that question is Terwall who says, "The Cherry Electrical Products name has more value than the company itself. Our reputation among customers and reps is one that is honorable and honest. Our reps know we won't play games with them, we'll pay them on time, treat them as employees and always tell the truth."

While both men emphasize that their rep sales force is stable, they explain that over the course of the last 13 years, Cherry Electrical Products has changed their representation in about half of their territories. "These changes evolved," explains Terwall, "for a number of reasons including:

- "Some agencies went out of business. As a result, we naturally had to replace them.
- "As so often happens with manufacturers and reps, they grow apart and a change is needed."

When either of these two events happened, according to Hartranft, "We first went to our existing rep sales force and asked them for recommendations to fill vacancies. Our feeling is that those reps we currently conduct business with know our needs, desires and wants. In addition, we also search the Electronic Representatives Association (ERA) Directory. Once potential reps are located, our philosophy is one that we'll go and interview as many reps as show an interest in 'repping' us. One caveat we do have, however, is that we're not looking for one-man agencies. We're looking for reps that cover a broad enough territory that can really make a difference for us."

With that as background for the company's philosophy when it comes to choosing and working with reps, both men went on to describe their views of the rep experience, including how agencies should reinvent themselves if they want to be successful in the 21<sup>st</sup> century.

### Is there anything about working with reps that surprises you?

"Despite the fact we've got more than 60 years experience working with reps," explains Terwall, "I'm still surprised when the field sales organization fails to take ownership when it comes to the

direction of new product sales. Instead of asserting themselves in the field, too often their message to the manufacturers is, 'You build it and we'll sell it.' To be truly successful, they've got to do a lot more than that."

### **What is the best thing about working with reps?**

"Managing the relationship with reps is much easier than with a direct sales force," maintains Hartranft. "There is no administration needed on our part with reps. They get themselves up and out every day to make sales calls. We don't have to have any concern regarding what they do on a daily basis. Even with our own direct sales office, we have to provide direction—not so with reps. We hire reps that are good solid businessmen and they know how to run their businesses."

While Terwall agrees with his fellow executive, he adds that he's intrigued by the concept of having "a sales force that is composed of entrepreneurs—individuals who are risk-reward people. They're not afraid to take risks in the performance of their jobs. If they were, they wouldn't be in the business in the first place. I like that kind of person doing business for me."

### **What is the worst thing about working with reps?**

The performance of some reps during the recent economic downturn got Hartranft's attention—and not in a positive way. "We had two of our reps working full time with one of our major customers. When the customer stopped buying during the down economy, they became virtually paralyzed. Instead of doing anything about it, they continued their normal practice of calling on the customer five times a week. My suggestion would be to find new customers. Keep in touch with that customer but instead of daily visits, cut it back to once a week and devote time to finding new business."

The above points hint at some of the steps that rep firms ought to be considering if they want to reinvent themselves to better serve principals and customers. To expand on those points, Terwall refers to the presentation he made at the MANA/NEMRA/ERA Keystone Conference. He discusses several of the changes that rep firms ought to be considering if they want to reinvent themselves in order to better serve principals and customers. Several of those changes follow.

- Challenge everything you do—especially stuff you've always done. You'll be surprised at some of the activities you can do without.  
"When I was previewing my presentation prior to the Keystone meeting," explains Terwall, "I began to draw from my own experience. I considered what I used to do and then thought about which practices I could forgo in order to survive. For instance, what about reports that we spend so much time on but really aren't needed? Or, what about the Monday morning sales meeting we've conducted ever since grandpa was around. At the same time, there were some practices I was convinced we couldn't live without. But I was wrong. We're doing fine without doing what we used to."

Hartranft then offers an example of rep firms that might have separate branch offices located in their territory. "Think for a moment about what you really need," he advises. "You've got an office located somewhere that no one—neither customer nor principal—ever visits. Could the job be done just as well by the rep working out of his home?"

- Stop doing what isn't generating adequate returns.  
"I advise this in the context of some reps hanging onto lines longer than they should," says Terwall. "When trackability or traceability of orders is suspect, and the rep may not be paid for his efforts, eliminate the line." Both men recommend the practice of conducting line profitability studies to determine whether a line is really worth the effort a rep is investing in it.
- Add value to what you do.

Among the value-add functions Terwall encourages are: delivering expanded services; developing and nurturing relationships; acting as a marriage broker between the principal and the needs of the customer; providing support in the areas of quality, planning & logistics and customer service.

Terwall maintains that the concept of "adding value" is made up of two components. "First," he says, "You add value through efficient coverage of your accounts. You must provide better coverage than the principal will be able to provide with a direct force. Second, is the breadth and depth of coverage. The rep must do more than the traditional milk run when he calls on purchasing. Instead, he must call on engineering and all the other departments that contribute to purchasing decisions."

As if that isn't enough, both manufacturing executives add that if the rep seeks to reinvent himself or raise the bar of his professional performance, there is more to be done. "I think that in general the rep has to get better at a variety of functions including marketing, evaluating new product potential, and quality support," maintains Terwall.

Hartranft concludes by saying that "the rep model of today probably won't be valid in three years. The rep must be aware that the world is changing and then he's got to be able to answer the question 'What's my role in this new world?' If that means not calling on the same customers as he has traditionally done, then that's a decision that must be made.

"The bottom line is that in our opinion there are no bad reps. The bad reps are those that are out of business. Good reps have made the necessary changes in order to be successful."