

Compensation Guidelines

For Manufacturers and
Their Independent Representatives

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I. Introduction

The Mission Of These Guidelines Is To Identify And define those elements of the manufacturer and independent manufacturer representative's relationship and compensation mix so that a series of appropriate guidelines and recommendations could be developed which would encourage, motivate and promote a mutually profitable partnership.

These guidelines are presented as a starting point in helping create mutually profitable compensation programs. In today's new operating environment where specialized user applications and sales support are at a premium, the independent manufacturers' representative has become a value-added component in the marketplace. No longer is it just enough to sell products. Representatives must undertake constant factory administered product training, provide pre- and post-sales support, warehouse products, support sophisticated computer systems, and provide marketing services.

The independent manufacturers' representative must manage the interface between the manufacturer and the specifier, distributor, contractor and end user. Increasing income for both the manufacturer and the independent representative creates a significant win/win scenario which is the key to a long term and mutually profitable partnership. As the relationship between manufacturers and their independent representatives matures, new and innovative ways should be found to benefit and compensate both parties.

II. Purpose

These guidelines are presented as a tool to be evaluated and where feasible utilized by manufacturers and independent manufacturers' representatives to design, implement and measure effective compensation

and incentive programs. It is the purpose of these guidelines to explore the entire compensation relationship of sales, marketing and services performed by the independent representative in pursuit of the manufacturer's goals and objectives.

III. How Manufacturers and Representatives Mutually Benefit



When compensation is appropriate the representative will build his agency with additional higher quality personnel, at a reduced turnover rate. By strengthening the representative, the manufacturer will strengthen himself, substantially increase market penetration and achieve greater levels of profitability. As more functions move closer to the customer, manufacturers will benefit by being able to convert more fixed costs to variable costs. A well designed compensation program will mutually meet manufacturer's goals of:

- ✓ Increased Income
- ✓ Market Expansion
- ✓ Improved Market Share
- ✓ Market Knowledge
- ✓ Agency Management
- ✓ Sales Force Continuity

The availability of computer generated commission statements makes it possible to compensate representatives differently based on a variety of factors.

And provide the resources for representatives to accomplish their objectives of:

- ✓ Increased Income
- ✓ Market Expansion
- ✓ Improved Market Share
- ✓ Market Knowledge and Influence
- ✓ Management Skills Development
- ✓ Agency Continuity

IV. Overview

When determining an appropriate commission-compensation program it is necessary to define the elements or tasks which make up the total work performed. Historically, the independent representative's task has been loosely described as "sales." On closer inspection this task is made up sales, marketing and service functions. The traditional sales function is typically rewarded with a base commission level and may be increased with incentives for growth, price realization, product mix, market penetration, etc., allowing for compensation at different levels of performance and different rates. It is important to note that all representatives need not be paid or compensated alike. The availability of computer generated commission statements makes it possible to compensate representatives differently based on a variety of factors.

Services are those functions within the sales/marketing mix which can be selected by the manufacturer to be

performed by the independent representative or provided directly by the manufacturer. When these services are provided by the representative, the representative should be compensated. At the same time, a manufacturer should not be required to pay for services that are not used just because the independent representative happens to offer them. The written contract between the manufacturer and the independent representative should delineate all services included in the compensation mix.

V. Sales and Marketing Considerations

A wide variety of sales and marketing functions are provided by independent representatives. Manufacturers should consider their utilization of these functions in developing the level of a compensation program. The following lists many of these sales and marketing functions:

- ✓ Administer Programs
- ✓ Advertising
- ✓ Attend and Work Trade Shows
- ✓ Attend National and Regional Sales Meetings
- ✓ Attend Rep Councils
- ✓ Budgets
- ✓ Business Plans
- ✓ Buying Group Show Participation
- ✓ CAD Drawings
- ✓ Check Accuracy of Purchase Orders
- ✓ Chefs
- ✓ Collections for Manufacturers

- ✓ Commission Tracking & Reconciliation
- ✓ Coordinate Hotel Rooms for Senior Managers
- ✓ Coordinate Installations
- ✓ Coordinating Service Calls
- ✓ Coordination of Shop Drawings
- ✓ Customer Service/Expediting
- ✓ Damage Control
- ✓ Database Management
- ✓ Dealer Sales Training
- ✓ Deliver Samples
- ✓ Demonstrations
- ✓ Design
- ✓ Detailed Marketing Forecasts
- ✓ Direct Mail
- ✓ Discount Negotiation
- ✓ Distribute Catalogues
- ✓ Distributor Inventory Control
- ✓ Drawings/Printings
- ✓ Educate Dealers
- ✓ End User Calls
- ✓ Entertain
- ✓ Factory Customer Service Training
- ✓ Factory Dedicated Computer System
- ✓ Factory Visits - Additional Expenses
- ✓ Field Measurements
- ✓ Forecasting
- ✓ Formal Consulting
- ✓ Freight Damage/Inspection in the Field
- ✓ Freight Estimates
- ✓ Human Resources/Business Administration
- ✓ Incentive Program Management
- ✓ Jobsite Management
- ✓ Joint Calls
- ✓ Lead Follow Up
- ✓ Lead Fulfillment
- ✓ Lead Qualifying
- ✓ Liquor and Food Coordinator for Meetings, etc.
- ✓ Literature Fulfillment
- ✓ Mailers - Postage
- ✓ Mailings or UPSing Catalogues
- ✓ Manage Customer Service Transfer
- ✓ Manage Service Issues
- ✓ Market Feedback
- ✓ Market Research
- ✓ Marketing/Communications
- ✓ Merchandising
- ✓ Monthly Reports
- ✓ New Product Promotions/Introductions
- ✓ Newsletters
- ✓ Order Entry
- ✓ Order Handling
- ✓ Order Processing
- ✓ Order Tracking
- ✓ Parts Ordering
- ✓ Prepare Business Plans
- ✓ Prepare Flyers
- ✓ Present Programs
- ✓ Price Administration
- ✓ Price Increases
- ✓ Print Price Lists
- ✓ Product Specification
- ✓ Project Manager for Dealers
- ✓ Quotations
- ✓ Rebate Management
- ✓ Reporting
- ✓ Sales
- ✓ Sales Flyers
- ✓ Sales Forecasting
- ✓ Sales Manager Territory Visits
- ✓ Sales Meetings
- ✓ Sales Planning
- ✓ Sales Promotions
- ✓ Sales Reports
- ✓ Sample Accounts
- ✓ Selling
- ✓ Service Dispatch
- ✓ Shipping/Tracking
- ✓ Shop Drawing Review
- ✓ Showroom
- ✓ Spec Tracking
- ✓ Special Mailings
- ✓ Spiffs
- ✓ Start Up's - Re Start Up's
- ✓ Stocking

- ✓ Telemarketing
- ✓ Test and Trial Equipment
- ✓ Test Kitchens
- ✓ Trade Show Costs
- ✓ Train Regionals
- ✓ Training Sales Managers
- ✓ Travel Coordination for Sales Managers
- ✓ Update Catalogues
- ✓ Update Price Lists
- ✓ Update Profit and Loss
- ✓ Warehousing
- ✓ Warranty Service

VI. Compensation and Current Objectives

Compensation programs frequently encourage independent representatives to accomplish mutually agreed upon goals. It is imperative for the representative/manufacturer to develop commission programs that are in concert with their current goals and objectives. Steps for developing an effective, mutually agreed upon compensation program:

1. Determine what services constitute the basic sales function which is compensated by the base commission.
2. Determine what additional services are needed and develop a fee schedule or added compensation rate.
3. Develop objectives: assign a weight to each (i.e. profits, volume, market penetration).
4. Define and weigh the tasks necessary to accomplish the objectives. Who performs them? Manufacturer or representative.
5. Determine what new tools or services are required to implement the program.
6. Define an empirical measurement for each objective. Set goals and benchmarks.
7. Create a reward structure to be paid as goals are met or exceeded.

8. Monitor market and redefine program elements as goals are met or as market objectives shift.
9. Keep program growing and make it beneficial to both manufacturer and representative.

VII. Measure Results for Effectiveness

It is appropriate to compensate independent representatives based on a variety of factors. Consideration of at least the following four:

1. Gross Volume
2. Price Realization
3. Market Penetration (Share)
4. Services Performed

Any of these factors alone can be used, or any combination in order to support, recognize and differentiate between adequate and outstanding independent representative performance and production.

VIII. Methods of Compensation

- ✓ Commission
- ✓ Performance Incentives
- ✓ Warehouse Allowance
- ✓ Promotion Allowance
- ✓ Special Service Allowance
- ✓ Consulting Fee
- ✓ Extended Contracts
- ✓ Office Equipment Allowance
- ✓ Factory "800" Lines
- ✓ On-site Product Specialist
- ✓ Forms Allowance

IX. Legal Considerations

Independent representatives are in fact independent contractors; compensation programs can and should be tailored to the individual firm. There is no legal requirement that all programs be the same.