



Manufacturers' Agents Association for the Foodservice Industry

# BEST PRACTICES: FOR NEW TERRITORIES AND NEW LINES

*Published as a service by:*

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## Why Manufacturers Need to Invest in Territory Development:

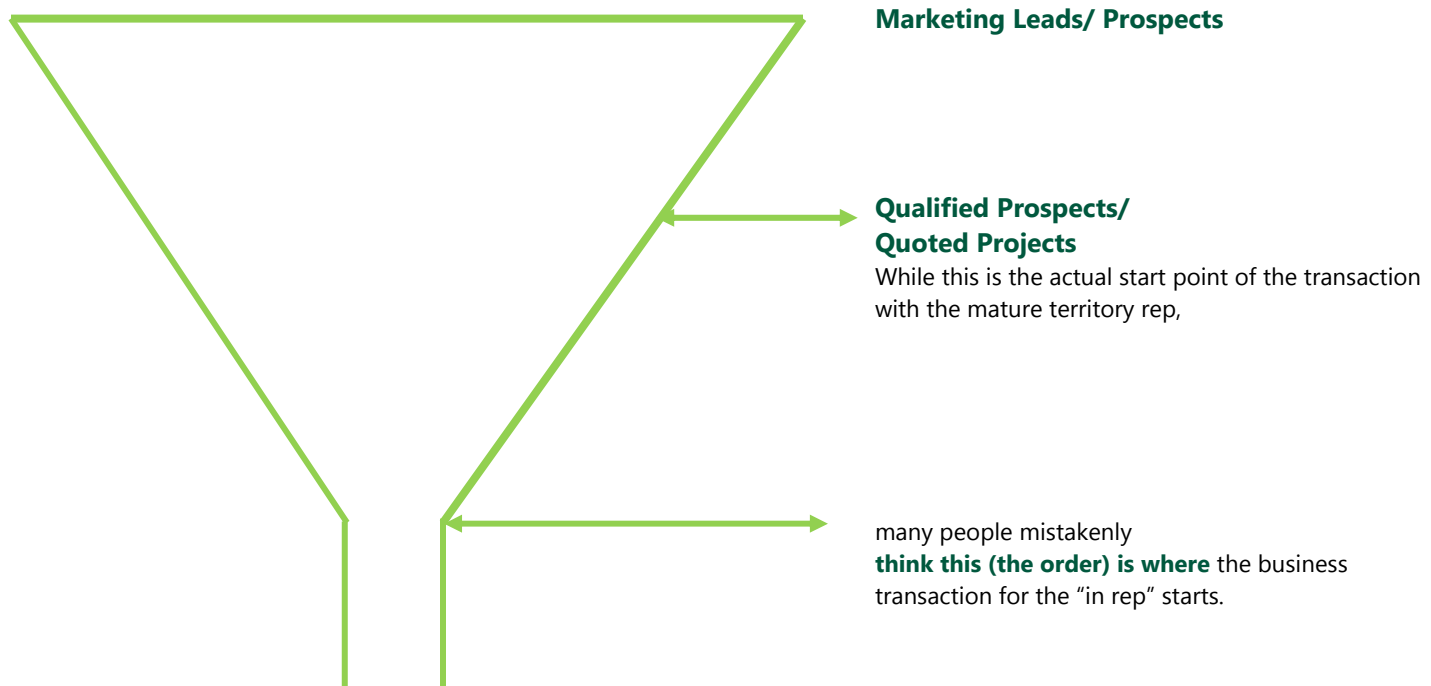
Why should a manufacturer invest in the territory development? The manufacturer is competing with lines that are already providing a revenue stream for the sales agency. The only thing a sales agent is paid for is time. As astute businesspeople, agents are constantly looking at getting the most value per unit time with their lines. There is no such thing as an "easy" sale- if it were easy, there would be no need for salespeople. Therefore, there is no such thing as a sale that does not take time- they all take time. So, when the new manufacturer wants in, they will take part of the agent's time. They'd better be prepared to pay for it.

Another pertinent point for investing in territory development is respect for the other lines that already invested in building the territory. These mature territory lines are currently paying the bill for the agency's time as well as continuing territory market development. A few years ago, there was an interesting dialogue in a MANA chat-room among manufacturers regarding territory development. One manufacturer was complaining that they did not want to invest in the development of a territory they felt the agent was already earning money in. The vice-president of another manufacturer remarked, "I see- you want to take our hard-earned time, efforts, and commissions being paid out to our agents and feel you deserve a free-ride on our marketing and customer coat-tails? And you're going to expect some of our agents' time as well?!! I don't think so." That comment came from the vice-president of a small company in the bearing business- \$1.2 billion Timken.

### Why Invest: It is not easy to introduce a new product to existing accounts

Some manufacturers and even a few representatives believe that introducing a new product to a well-established representative account is a slam-dunk deal. In today's business climate, nobody gets a product past the buyer's desk on word of mouth: every product procured goes through a scrutiny process that may take several months, if not years depending on the sales cycle.

### Sales Funnel Diagram



The diagram shows that it still takes time for the "in" representative to get to the order part of the process. It just takes less time than it would for the manufacturer starting the relationship from scratch without the representative.

## Overcoming the Obstacles to Territory Development:

While the scenarios mentioned previously provide insights as to why representatives are apprehensive about engaging in a business relationship, this does not mean starting a territory from scratch through representatives is an impossible milestone. As with any new business proposal- especially when the manufacturer is in the unenviable position of creating the need in the mind of the prospect (sales agent, in this case)- it takes a little more preparation, effort, and patience. Basically, the manufacturer must:

1. **Establish the value** the line brings to the agency.
2. **Define tasks** the agency needs to perform for the manufacturer.

By focusing all efforts in creating the business relationship to address these issues, the manufacturer increases their likeliness of successfully engaging in a mutually profitable business relationship with the sales agency in developing the territory. Let's take them one at a time.

## Establish the Value the Manufacturer Brings to the Agency:

What is the overall value of the line to the prospective agency? The value any line brings to an agency is how much more \$/unit time the line provides to the agency. That's an important point: how much more- not equal- \$/unit time. There are several areas where the manufacturer can help the agency improve the agency's \$/ unit time:

Increase the \$ part of the equation by:

- Increasing commissions.
  - Increasing the sales for existing customers of the agency. The more customers (through synergy) that the prospective product can be sold to, the more value.
  - Increase sales of all lines through opportunities and entries the new product brings to other territory prospects the agency has not penetrated.
- Decrease the unit time factor through:
  - Responsiveness on the front-end of sales transactions.
  - Reduced/ compressed reporting requirements.
  - After-sale customer service care and responsiveness.
  - Accurate and punctual commissions tracking and payment.
  - Eliminating or reducing significantly any time the agency has to spend on activities that take away from prospecting, qualifying, quoting, and closing orders.

Without question, one way for the manufacturer to get on the radar screen of the prospective agency is to have a higher commission rate than is currently paid. Commission rates paid to representatives are well below the cost to hire a factory direct person, so there is room to move the rate upward without a competitive cost loss for the manufacturer.

However, just increasing the commission rates alone do not guarantee the manufacturer will attract many representative firms. There are two other key factors that come into play. Both have to do with agency business growth strategy. One is the increased sales potential at current accounts of the representative agency. The other is a bit more foggy to predict, but a key factor for the representative agency: increased sales potential of all the agency's lines through new business opportunities for the agency. These two factors give the product line leverage value for the agency. The more significant the leverage value, the higher on the prospective agency's radar screen the manufacturer climbs.

The leverage value is arrived at from two sources. One source is the agency's current customer base, from which the agency will have to evaluate the short-term leverage value of the line. The second is a longer-term leverage value- the unique new business opportunities identified by the manufacturer (you) in the agency's territory through your research resources.

### Agency Task Definition:

The value a manufacturer adds to an agency line card is based strictly on sales activities- getting orders. What about other activities the manufacturer needs the field sales agency to do in the territory? Defining the tasks an agency is going to perform in the territory has several benefits:

- Gives clarity to the manufacturer as to what they need the field sales agency to do.
- Provides a good, clean negotiating starting point.
- Impresses prospective agencies.
- Gives a clear understanding of what the manufacturer expects of the agency besides soliciting orders.

The following chart will help the manufacturer define the territory tasks the representative is to do. Each of the underlined portions of the chart are job tasks that can either be done by a full-time employee or an outsourced company that specializes in that particular activity. Each of these job tasks performed by the sales agency increases the value of the agency, hence its compensation.

### Pay a Retainer:

With external business factors increasing the turnover rate of principals (manufacturers), representatives are looking for immediate financial investment to prospect a new territory in the form of a retainer. When developing the cost justification for investing in territory development, the manufacturer should ask themselves four questions:

1. How much business is being missed without territory representation?
2. What would it cost- time AND money- to cover the territory direct?
3. How much more business can the independent sales agent add to the top line?
4. What is it going to take to attract a quality sales agency?

If the total \$'s in #4 above are higher than 1,2, or 3, there isn't much hope. Which means once 1, 2, or 3 are calculated, then the only thing that matters going forward is figuring out what it takes (#4) to attract a good sales agency.

How much retainer over what length of time is very subjective, and varies case-by-case. The manufacturer has two options to look at approaching a sales agency:

1. A *replacement strategy* for one or more of the agency's poorer performing lines. The territory investment in the form of a retainer will have to be at least equal to the current income levels of the line(s) being replaced, with a clear potential of territory commissions exceeding those of the current line(s).
2. A *growth strategy* by adding to the existing line card, which somewhere along the goals and objectives will include more lines, revenues, customers, markets, and people for the agency.

Either case requires looking at revenues (commissions to the agency) gained in the near-term and long-term. In the **near term**:

- How quickly can the sales of the product reasonably ramp up at the sales agency's current customer base?
- Based on what market or competitor information?
- Why would a customer convert? What is their conversion button?
- How hot is the conversion button for the customer? In other words, are the target customers looking for a change, or does the change have to be influenced over time by the agency?

## What Tasks is the Agency to Do?

### Marketing/ Lead Generation

#### Lead Follow Up

- Send Literature
- Phone call qualification
- Sales call qualification

#### Sales Calls

- Set up call
- Make call
- Follow up call
- Technical qualification/ application
- Quote
- Get order
- Lost order feedback from customer  
Lost order report

#### Order Entry

- Receive physical P.O.
- Check pricing, delivery, payment terms, product qty
- Enter order
- Acknowledge order and delivery date

### Customer Service

- Contact customer regarding differences in quote and P.O.
- Contact customer regarding differences between P.O. and acknowledged order.
- Contact customer when delivery date can't be met due to Work-in-Process delay.

### Shipping / Invoicing

- Ship
- Invoice

### Collecting

- Check payable to
- Late payment call
- Late payment follow up
- Late payment enforcement

### After sale support

- System start-up
- Spare parts stock/order
- Service training
- Service support
- Warranty support

**Long term:**

- What longer term projects/ major target accounts/ or major markets are high opportunity targets the agency and the new line can focus on through mutual efforts?
- How long is the sales cycle for these projects?
- What **time and money** resources will be required for this project? Time and money equates to one thing: Added personnel- by the manufacturer or by the agency with funding from the manufacturer.

The key to driving territory development activity is to set measurable activities and milestones. The best way to measure sales activity is to break up key elements of the sales process into dynamic ratios- # of actions per unit time. Measuring these ratios and meeting agreed accumulative totals gives a good feel that the retainer fees being paid are worth it for both the manufacturer and the sales agency. An example chart follows.

Activity	Total	Target Date	Target Rate	Fees Paid
<b>New Leads Generated</b>	25	Jan 31	10/week	\$4,000/ mo
	80	Feb 28	20/ week	retainer
	200	Mar 31	30/ week	
<b>Leads Qualified</b>	5	Jan 31	2/ week	\$4,000/ mo
	16	Feb 28	4/ week	
	40	Mar 31	6/ week	
<b>Design/ Spec Wins</b>	15	Mar 31	\$45k/ month	\$4,000/ mo
<b>Quotes/ Proposals</b>	15	May 31	\$60k/ month	\$4,000/ mo
<b>Orders</b>	15-20	Jun 30	\$20-30k/ mo.	\$4,000/ mo retainer plus commission (until Sep 30; then straight commission)

- Car expenses.
- Additional travel- hotel, meals, etc.
- Entertainment costs
- Phone
- Office expenses (working out of a home is NOT a \$0 expense)
- Medical insurance (presuming the salesperson is the bread-winner, and typically the bread-winner is chartered with this expense somewhere- whether it is paid by the sales agency or the salesperson, it is an out-of-pocket expense that does not go into anyone's bank account) Another thing to consider is that the average annual budget for a salesperson is \$150,000. This includes salary, bonus, expenses, benefits, and training. Assuming 200 days worked per year then the cost is \$750 per day per salesperson. Looking at it another way, that is \$12,500 per month.

So, for the manufacturer to be on anyone's radar screen the potential in the representative's pocket should be at least to pay for getting one body out the door. \$3,000 per month is \$60,000 per year in sales at 5% commission (not suggesting this- just a number). The larger the agency, the larger the number, because they start to look at commission \$'s in terms of people- from \$3,000 to \$10,000 or so per person per month.

**Prepare to invest in territory growth.** There are several ways to do this.

- **Factory direct territory start-up person.** This is similar to what many restaurant chains do- they send in a "start-up crew" for 6 to 12 months. The team creates the inertia for the restaurant to grow on its own after they leave. A Territory Development person could:
  - Create and qualify new leads.
  - Train Agency employees.
  - Conduct product/service seminars for prospective customers.
  - Make joint calls with Agency salespeople.
  - Be a voice for the territory at the factory.
- Help **fund a new employee** for the Outsourced Sales Agency  
This can be done in the \$2,500- to \$5,000 per month range, for six to 12 months. The employee is trained by the manufacturer and sent into the territory with the primary task of being a product territory development specialist for the manufacturer's products, but working for the Agency.
- Pay a **Fee-for-Service Retainer**: Field Salespeople are typically paid a commission or a base plus bonus. However, job functions such as marketing and long-term market development are paid as salaried positions in the business world. This figure depends on:
  - The market potential.
  - The gestation period of the market to generate business.
  - The amount of time (personnel hours) required to develop the market.
- Negotiate **Attractive Contract Terms**
  - **Longer post-termination clause.** This is an attractive option for an Independent Agency, knowing that the front-end development work is paid off in fairly equal terms of back-end pay.
  - **Higher commissions for growth.** This not only rewards for the first year, but keeps on rewarding in the future.
  - **Pay on shipment.** The value here is this helps the independent sales agency's cashflow.

Retainer values can range from \$1,500/ month to \$6,000/ month.

Examples gleaned from representatives and manufacturers include:

- \$5,000 per month for twelve months for a one-person agency carrying three lines. After one year, commissions were running over \$6,500 per month and the agency added another salesperson.
- \$1,500 per month for three months for a four-person agency carrying seven lines. The ramp-up took longer than expected, but because the agency and manufacturer communicated on developments regularly, they were able to mutually agree to keep the retainer going for eight months. At that time the agency was generating \$3,500 per month in commissions and had penetrated two new key accounts.
- \$6,000 per month for two years. Payoff was a territory generating \$12,000 per month in commissions for the sales agency by the end of the third year.
- \$40,000 per year for three years (\$120,000 total) to fund a new market development specialist (hired by the sales agency) for a new principal. The agency funded \$50,000 per year for the position. Payoff: Two years later the market was penetrated as a new market for both the manufacturer and the agency. This was a unique case where the manufacturer did not have any opportunity in the target sales agency's markets, but saw possibilities in a target market with the agency's lines.
- A roofing supply manufacturer used a market development specialist to help develop the territory market for the representative firm. The specialist was a voice in the field for the factory, helped with local seminars, and primed the sales pump by setting up a distribution network. After three months, the territory was generating enough commissions for the local sales agency to take over. The market development specialist moved on to the next territory and repeated the process.

#### Summary:

Hiring a Manufacturers Representative for territory development has significant advantages to the manufacturer. They include:

- Quicker market access through established customer contacts.
- "Coat-tail" utilization of the agency's other lines' marketing efforts.
- A territory/ account/ geography experienced professional.
- After investing in the front-end retainer, the manufacturer gets a highly motivated (performance-based pay via commission) sales partner.

Manufacturers with zero territory income, but significant territory potential, should look at the task of engaging a quality independent sales agency as an opportunity. By doing some front-end homework on the potential business in the territory and negotiating a cost effective, yet representative-friendly contract, the manufacturer can actively compete with existing lines at quality agencies.