



By Harry J. Abramson
Electronic Salesmasters Inc.

Perfect Commission Rate Considerations In the Eyes of a Rep

Seven years ago, I wrote an article entitled “Commission Rates & Consequences”. It not only caught the attention of manufacturers’ representatives, but their principals as well. It pains me to report that there was truth to reduced commission rate consequences. Clearly we have seen significant shrinkage within the rep community. Now I am taking the opportunity to update the article with the following credo in mind – PARTNERS IN PROFIT.

As I have previously stated, I am a disciple of Dr. Chester Karrass’ mantra, “In business, you don’t get what you deserve, you get what you negotiate.” This quotation was never more appropriate than in today’s price-sensitive marketplace. Seven years ago, the emphasis was on quality and the ability to ship as promised. Offshore outsourcing and Internet (Reverse) Auctions were not in vogue – now they are! Today it’s all about the lowest price available with far too few procurement people evaluating the “total cost of ownership”. Therein lies a huge difference. You will note that I said procurement people as opposed to purchasing professionals. The real pro takes into consideration the risk factors of unproven suppliers and grief factors of poor product performance, missed deliveries, line down and customer dissatisfaction. Since most of the world’s lowest prices originate from China, many Americans tend to forget the lost manufacturing jobs as we close our factories. Unfortunately, our skilled blue collar workers have to resort to lesser paying jobs in the service sectors.

Acquiescing

During this era of price pressure, many manufacturers are too quick to sell at reduced profit margins. Consequently, they ask their sales reps to do the same.

Many reps feel that they are presented with a “take it or leave it” proposition and they acquiesce and accept a lower commission rate. This is an area in which I feel reps are negatively predisposed. I believe that the professional salesperson/organization should quickly retort “What price do you need for me to earn full commission?” As I have often said, commission rate cuts and poison can both kill you in small doses – avoid this deadly practice at all costs.

Fewer Rep Firms

During the past seven years, the number of rep firms, especially in the electronics industry, has been shrinking in proportion to commission rates. This is exemplified by the rising number of rep firm mergers and acquisitions, not to mention those reps that have simply gone out of business. To support my contention, the Electronic Representatives Association (ERA) has approximately one-third the number of reps today that they had seven years ago – 1500+ in 1999 versus 500+ in 2006.

The Electronics Economy

There is no doubt that we have a shrinking TAM (total available market) and DTAM in North America. Reps and distributors have to sell more low cost components just to break even. Lower prices are only part of the problem,

because the crux of the problem also lies in higher expenses, i.e. health insurance, retirement funding, gas/energy prices, education, housing, wages, and a plethora of other items.

Stop the Insanity

Unfortunately, there are reps who will sell at a lower commission rate with the notion that they can take on more lines to offset their elevated expenses. However, it’s clear that the principals who appoint them rarely get the same results. Rep firms are not interchangeable parts, and it’s foolish to think that you can get the equal performance, or better, for less. Rep firms are not commodities because:

- People are different.
- Lines/synergy is different.
- Chemistry is different.
- Management is different.
- Abilities are different.

All rep firms have their own unique DNA.

Hypocrisy

I contend that there is a gross inequity when comparing the value between manufacturers’ representatives and other professionals. In today’s economy, when doctors and lawyers become more

See REP, continued to next page

*Harry J. Abramson is President of Electronic Salesmasters Inc., Beachwood, OH.
He can be contacted by e-mail at habramson@salesmasters.com*

REP, *continued from previous page*

proficient, they raise their rates/fees. When reps become more efficient (more sales), some principals lower our rates (sliding scale). Many a rep feels that this is the ultimate in hypocrisy. When a sales executive seeks out the best medical professional or lawyer, he fully expects to pay more because they are at the top of their field. But when it comes to seeking out the best available rep organization, these same sales execs try to get the best for less! Does this make sense to you?

Rep Disincentives

It's no revelation that commission rate cutting is a disincentive to all salespeople, especially if it is done unilaterally without explanation. It often affects the attitude of high achievers and can lead to grouching, grumbling, and possibly losing a great rep firm to a competitor. There are some salespeople who buy into "sliding scale commission rates" and "commission capped accounts". If they feel that this is in their best mutual interest, well and good. However, the true professional salesperson resists limiting his income. It is generally acknowledged that the greatest form of recognition is a reward of increased compensation.

How to Deal with Commission Rate Cutting

If you are confronted with a commission rate cut, how will you handle it? In my mind, the first thing to do is ask "WHY?" Was it done arbitrarily or do you have a desperate principal? If it's a matter of success or failure, a true partner in profit will be willing to take a temporary commission rate cut until there is a financial recovery. This is the kind of thing that should be put in writing and it's a great expression of rep loyalty. The perfect principal recognizes this good faith gesture and, ideally, it reinforces the strength of the relationship. Some principals have been known to repay their reps for the sacrifice they made during tough times – THAT'S LOYALTY.

Greed & Jealousy

If financial people are trying to reduce commission rates, it may be due to their lack of understanding and appreciation of the outsourced sales representative function. Not all Sales Managers will defend the rep sales force, nor will they explain their cost saving effective-

ness. The fact of the matter is that reps are the most economic way to go to market. This fact has been supported by some of the largest corporations in America, i.e. AMD, Atmel, IBM, Intel, TI, Tyco, Vishay, etc.

Fuzzy Thinking

What happens when a sales executive is mandated by his boss to increase profits? The shallow thinker may resort to cutting the commission rate and devalue his line to the rep force. Conversely, the bright, creative thinker develops new sales programs and incentives to help sell more products to more accounts. Which Sales Manager would you rather work for? Would that same Sales Manager think of reducing his own compensation to increase profits?

Low Commission Rate Consequences

How in the world can a sales executive complain that a rep has too many lines after reducing their reps' commission rates? The perfect rep aspires to be profitable with as few lines as possible. The only ways to offset the loss of income are to take on more principals, reduce his staff, or sell more. Unfortunately, selling more is easier said than done. When selling technology products, gestation periods can be as long as two years. Given a choice, most reps feel they can add a line as opposed to disengaging with loyal and valued employees.

Commission Splits

During this era of globalization and outsourcing, commission splits are dreaded, but commonplace. If you have a principal who can and will track them, you are very fortunate. This is a major concern of today's rep firms. Also, a "design win" does not guarantee that you will get the business unless it's considered to be a critical or a "do not substitute" component. All that it means is that the rep is now at the mercy of the principal's sales arm in China, India or some other low cost labor market country.

Rep Incentives

Reps appreciate those principals who incentivize them for sales of new products, sales to new accounts and sales over quota. These are the same lines who realize that, while prices are continuing to decline, incentives can provide an opportunity to recapture lost

revenue. Their reps are appreciative and strive to maintain price integrity and a full GPM (Gross Profit Margin) for their principals – another win-win for the "rep advocate" principal.

Rep Advocates

There are principals who obviously value their reps as professionals and the opposite is true. Reps value these principals for maintaining the integrity of fair commission rates. They realize that a financially healthy rep community will be a stable one. What a great attitude!

Thanks

Reps thank those principals who value their function and view them as professionals. Reps also appreciate those principals who teach them, train them and strategize business issues with them. Most of all, reps have a passion for those who respect them and strive to better understand their goals and aspirations. A special thanks to those principals who do everything in their power to compensate reps fairly. Fortunately for me, I am blessed to represent the best of the best. We truly are "partners in profit". ■