

GMC Instruction: How to deal with potential distributors and agents?

1. Anatomy of a Manufacturer's Agent

GMC helps to identify, develops and supports distribution networks made up of agents, distributors, wholesalers, etc. for manufacturers of equipment for the engineering and process industry in Europe.

Some of our clients have difficulties grasping the fundamental role of an agent. They made unrealistic demands, they did not realize that they have to get involved or did not provide the agent with the proper support. This Anatomy had been prepared to help them better understand the fundamental role of a commissioned agent and his *modus operandi*. All comments are welcomed and all will be answered. For simplicity purposes all references are in the masculine form.

1.1. What is a Manufacturer's Agent?

- He is a fiercely independent entrepreneur remunerated by commissions on sales.
- He is an alternative to a direct sales force (made up of employees).
- Because of his remuneration system he gravitates around products that generate larger sales volumes.
- Manufacturers of specialty or small volume items must find agents whose product lines complete their line or pay a higher rate of commission to compensate for the low volume.
- He divides his time between "revenue producing events" and "non-revenue producing events". Product /manufacturer that generate too many "non-revenue producing events" are soon set aside.

1.2. What is a Manufacturer's Agent not?

- He does not take title to the merchandise. He is not a distributor. Many take title to the merchandise but it is important to realize

that when they do so they act as a distributor, not as an agent and they will propose separate fee arrangements for such activities

- He is not your employee. He is not your marketing director or sales manager who will present you with elaborate market studies or marketing plans. Many can do it but this is not a normal activity of an agent

1.3. Two Fundamental Types

- **Product oriented**

He represents 5 or 6 lines covering the different markets his product address (ex.: material handling and recycling markets). He shies away from specialty items.

- **Market oriented**

He concentrates on one type of market such as architectural lighting. He tends to handle smaller lines and seeks non-competitive products that will meet his customer's needs. You will find more of this type in low-density territories

Note: Most agents are a mixture of these two types.

1.4. What You Can Expect?

- Introduce your product to his customers, distribute and keep catalogues up-to-date, ask for the order.
- Participate, along with the manufacturer, in exhibitions, make joint calls, refer complex technical questions to his principal (manufacturers), follow-up leads (his and those generated by your advertising).
- Report difficulties in selling your product or negative perceptions of your company.
- Recommend advertising or promotion media.
- Participate in establishing budgets and objectives.

We have experienced that these last three points are discussed better in person.

Note: Many agents offer services such as mailings, warehousing, outside inventory control, collection, complaint handling, market studies, etc. but these are not an agent's typical responsibilities. A manufacturer should ask -and note- what other services the agent can provide.

See [Guidelines for an Interview with a Manufacturer's Agent](#).

1.5. What You Should Not Expect

- Long-term promotion, missionary work. Agents can be involved but long-term promotion and missionary work is the responsibility of the manufacturers. Many agents will take on this type of work but not under normal commission arrangements and at that point they act as a consultant rather than as an agent.
- Cover up for a manufacturer's repeated errors (late deliveries, bad workmanship, etc.)
- Written and regular reports:
 - a. It is not his nature and remember he is not your employee.
 - b. If an agent writes regular reports to his principals (manufacturers), the Income Tax Department considers him an employee, therefore the commission is treated as a salary. The manufacturer must treat the commission as a salary and withhold and remit the normal payroll deductions. This underlines the importance of a written agreement between the agent and the manufacturer.
- That orders will happen without follow-ups, joint visits and support on the part of the manufacturer. Therefore the importance of regular and well planned meetings.

1.6. How to loose an Agent

- Do not offer support such as advertising programs, exhibitions that will generate leads).
- Contact his customer "behind his back".
- Do not keep him informed of request coming from his territory.
- Establish house accounts in his territory.
- Pay commissions late.
- Too many quality, delivery problems.

For more information on manufacturer's agents, how to identify, approach and support them, do not hesitate to contact us.

2. Guidelines for an Interview with a Manufacturer's Agent

Finding agents who fit well with the clients is not an easy task; it requires experience, planning and diplomacy.

GMC's process involves three basic phases; the fourth is at the client's discretion:

1. Establish -with the client- a [profile of the ideal agent](#).
2. Prepare a [list of potential agents](#) who should be approached.
3. [Telephone pre-screening](#).
4. [Face to face interview](#).

2.1. Profile of Ideal Agent

The profile of the "ideal agent" will vary from one manufacturer to another. However you can start by asking yourself the following basic questions:

- Which geographic territory do you wish to cover?
- Which channel(s) of distribution is/are best suited for your product?

- If there is more than one channel of distribution, which one(s) should you concentrate on? And can a single agent cover them all effectively?
- What type of non-competitive lines should the agent handle? This is especially important if your line is a smaller volume or "secondary" line.
- How many sales people are required to handle the territory effectively?
- What other non-sales function do you expect your agent to handle (see "[Anatomy of a Manufacturer's Agent](#)").

2.2. List of Agents to Contact

GMC, has spent 30 years in the field in Europe identifying, developing and supporting agents and distributors and he has, in the process, developed his own database and "in the field" contacts so essential for good and up to date intelligence of distribution networks. If you need down to heart experience we will be glad to help you.

2.3. Pre-screening

Use the profile for a pre-screening telephone interview. You will save, yourself and the agents, a lot of time.

If, at the end of the conversation there is mutual interest ask the agent to fax you his line card, ask him if you can verify his references and send him your current promotional material (Make sure it is well presented).

Some clients prefer to appoint the agent and "see how things will turn out" before setting a meeting. Just remember nothing replaces a face to face meeting to get to know each other and get things going on the right foot.

2.4. Meeting

Avoid close ended questions (questions that can be answered by a simple yes or no) and listen. What is not said or how it is said reveals a lot.

2.5. Agency / Growth pattern

- Which manufacturers do you represent? For how long?
- How long have you been established?

- Describe growth pattern?
- How many salespeople on the road? Full time or sub-agents?
- What is your sales volume? (divide this by the number of men on the road.)

2.6. Territory: (geographical and markets)

- What geographical areas do you cover? How often?
- Describe your territory. Is it the same for all lines? Would you be willing to consider adjustments?
- Describe the market(s), channels of distribution, you serve within the territory?

2.7. Customers:

- Describe your typical customer.
- How many customers do you have?
- Who are your key accounts?

2.8. Marketing/Sales

- What other lines do you have that are most compatible with ours?
- Why would you take our line?
- What do you know about the competition (product, pricing, terms, strong/weak points)?
- How would you go about introducing our product?
- How do you feel about joint visits (with factory personnel) to your customers?

- Do you participate in exhibitions? Which ones? What is your contribution?
- Do you participate in joint advertising programs?

2.9. Agency's controls:

- What would you consider to be the potential sales volume of our line in your territory?
- What do you consider is the minimum sales volume you need to justify representing us?
- What commission percentage would you expect from us?
- Do you work with overage? How do you split it?
- Do you participate/contribute in fixing sales budgets, objectives with your principals?
- How do you keep abreast, identify new projects/potential orders?
- How do you monitor your sales performance with each principal?
- What reporting systems do you have with your principals?
- How do you feel about principals contacting the customer directly to clarify orders, f/u on quotes etc.

2.10. Finalize by:

- Going over your standard representation agreement with the agent.
- Going over "other services" you might expect from your agent (warehousing, mailing, etc)

2.11. References:

- Bank,
- Principals
- Customers:

2.12. How to Leave Things

- If you are interviewing other agents, say so. Be up front.
- If you do not feel a match is possible say it right there; respect the agent, do not lose his time. If you feel there is a possibility say so, establish what the next step should be and who should take it and when. Leave extra copies of your literature, price list(s), samples.
- Watch for enquiries from the agent following your meeting. An interested and aggressive agent will talk to his key customers and will call you with questions. If there is not even a question from the agent or the territory after the 1st or 2nd month you should cancel the agent and look for another one.

One last word. Prior to signing an agreement, set, with the agent, clear and measurable objectives and monitor along those lines. To introduce a new line or a new manufacturer -even for the most experienced salesperson- takes time.

3. QUESTIONS AN AGENT SHOULD ASK A PROSPECTIVE PRINCIPAL

- Subjects such as territory, markets, commission rate, representative and company's responsibilities, whether the agreement should be on a unique or exclusive basis, etc., are part of the [Representation Agreement between a Manufacturer and an Agent](#)

3.1. THE COMPANY:

Basics:

- Full legal name
- (a) mailing and (b) shipping addresses
- telephone and fax numbers, e-mail, and toll-free numbers (do they cover your market area?)

Names of:

- owners and officers (President, VP, Secretary, and Treasurer)
- the person you will be reporting to.

History/Approach:

- Brief company and territory history. Any recent change of ownership or method of distribution? Why?
- What is the company's main impetus: quality, leading edge technology, service or price?
- How long has the company been using manufacturer's Reps? In which territories?
- Does any company employ salespersons? Why? Did they replace agents?
- What do you expect from your Reps?

Marketing:

- Product(s), territory and market(s)
- Product(s), line(s) being discussed? Which lines are excluded? Why?
- Define territory and markets that are being discussed.
- Any current business in the territory? What role are you expected to play with the established accounts? Any "house accounts"?
- Describe the ideal customer.
- Market(s) to target? Why? Secondary? Why? Any others?

- Channel of distribution to target? Why? Secondary? Why? Any others?
- Customer(s) to target? Why? Secondary? Why? Any others?
- What is the key to success in other territories?
- What are your expectations/sales targets for the territory in question?
- Any past problems to avoid?

Product's position within the market place, in relation to:

- Price(s), service, quality, and technology
- Share of the market: (a) across the board? and (b) in your territory?
- Who are the main competitors? Why?

- What differentiates you from the competition? Quality, deliveries, prices or technology?

Support programs:

- Binders, brochures, specifications, shop drawings, and samples. Is supply limited? Any cost?
- Advertising: what, where and when? Any joint advertising programs? Details.
- Exhibitions: which ones? Who does what? Lead F/U program?
- Direct mailing? Telephone marketing?
- Web site: how extensive? Is it kept to date? How do you promote it?
- Training of (a) Reps and (b) Distributors.
- Advertising leads: how are they handled?

Processing of orders:

- Hours of operation?
- What information is required to open an account? Any form available? How long does it normally take to open an account?
- What is required to process an order? Written Purchase Order? Shop drawings? Any deposit required for special orders?

- Usual lead time? What is your record? Reputation?
- Do you send order acknowledgements?
- Do you advise the customer once the order is shipped? How?
- Any quirks to watch for? Annual plant shut down, long credit approvals, etc.?

Products:

- Are both standard and custom products available?
- Are all required test reports available? From a recognized independent laboratory?
- Is the line as complete as those of competitors are?
- Are new products or improvements being planned?

- Any particular problems or applications to watch for?
- Review of prices (in € ?), discounts, transportation terms? At which level should the Rep or Distributor contact the factory for special pricing?
- Review of payment terms and return policy for standard and special orders.
- Installation procedures? Do you provide an installation manual/instructions? Anything an installer should be aware of?
- Service procedure (if applicable). Are there user's manual?
- Warranty: how long? Any exceptions?

REPRESENTATIVE RELATIONS:

- Who is your usual/main contact? Is his home telephone number available?
- Who are the contacts for order processing, shipping, promotional material, and commission related questions?
- How are the representatives trained?
- Do you make dual visits/calls with Reps?
- How do you keep Reps informed of activities in their territories? Copy of invoices, sales summaries?
- How are complaints resolved? Are Reps involved?
- Collection: are Reps involved, kept informed?

Portiersveld 17 B-3980 Tessenderlo Belgium

Fax : +32 13 35 55 49 Tel : +32 13 35 55 45

GSM: + 32 475 72 74 24

luc@gmcint.com

www.gmcint.com

- When there are direct contacts between the factory and the customer, how do you keep Reps informed?

COMPENSATION:

- Go over [Representation Agreement between a Manufacturer and an Agent](#) on this site. It covers the territory (if the agreement is on a unique or exclusive basis), commission rate (when commissions are paid), the way uncollectible accounts are handled, etc.
- Determine when an uncorrectable account becomes an uncollectible one; it will affect your commission.

- Discuss how sales budgets are fixed. Are Reps involved in the decision process? Anything in mind for the territory in question?
- How will existing business be handled?

- If appropriate, you might want to discuss the way the company handles established territories when they become available.
- Do not rush into signing a Rep Agreement. Get a few brochures, the opinions of your main customers, and ask other agents how things are going with that principal.

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