

It is critical to view sales as an investment, not an expense

As the memories of EDS 2016 fade, our industry now looks to the second half of the year hoping for a much needed business uptick.

As reported at EDS the second half of 2015 was less than fantastic, and that was followed by what has been a mediocre first half to 2016. There is noticeable pressure on manufacturers, distributors and representatives to improve their top and bottom lines. Also forecasted at EDS was a better second half which would be very welcome.

When times are hard the manufacturers cut people and capacity. The distributors cut people and inventory levels. And representatives are hard pressed to cut people as most of the dead weight has been cut over the last few flat years. In addition, some manufacturers have assigned representatives an increased role in their customer service, which has actually caused some representatives to add more people. Plus, there are more reporting requirements which are putting more demands on the representative firms' staffs. Lastly, as representatives do not stock anything, inventory reduction is obviously not an option.

Because between 65 and 70 percent of monthly expenses typically are tied up in payroll and payroll taxes, and as most of us really can't make additional cuts, the squeeze is on.

Commission payments have been under considerable pressure as well. This is due to a variety of factors, among them average selling price erosion and commission splits. These factors, coupled with an industry that has been flat to slightly down over the past four or five years, have caused the number of representative companies to greatly diminish over this time period.

As a past president of the Southern California ERA Chapter, I remember when at one

time we had well over 200 member representative companies. Today that number is well under 100. To make matters worse, a large number of these remaining companies are very small and do not have the sheer number of sales and support people to adequately handle large lines if they become available.

If you factor in line conflicts caused by mergers and acquisitions, the number of viable representative companies in any major market has been reduced to a precious few. This is and will be a big problem for manufacturers and distributors going forward. Most manufacturers in these financial times cannot afford a direct sales force and all of the expenses associated with that option.

Distribution is also adversely affected by a lack of representatives as they need the local representatives for their resources, training, technical support, and efficiencies

in presenting multiple shared suppliers to a mutual customer. Also, without the local representatives, the manufacturers' monthly sales reports would most likely cease.

I know I am "preaching to the choir," but I believe it is time to do the unthinkable and that is to begin asking for pay raises. Your employees ask for raises; your building rent is increasing; your health insurance continues to go up; and the cost of doing business increases every year. The only item that seems to remain somewhat constant is commission. I know that some of our principals have instituted special plans for increased commission rates on special or new products, and this is definitely a welcome incentive. However, in some cases this might not be enough.

It is critical that our manufacturers look at sales as an investment and not as an expense. Like any wise investment, if done properly, the dividends will help us all grow stronger and prosper.



by Dan Parks, CPMR
West Electronic Sales
ERA President
e: dan@westelec.com

Commission payments have been under considerable pressure ... This is due to a variety of factors, among them average selling price erosion and commission splits.