

Wal-Mart Gold

Lesson Fourteen Transcript



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Joe: This is Section 14, selling to non-mass market retailers and how to setup national distribution using reps.

Michael: Can you explain some of the different types of sales reps for different distribution channels?

Joe: Sure. Pretty much each distribution channel has its own reps. For example, if you were selling grocery stores, in a grocery store you have the food section and the non-food section and they have different reps and wholesalers selling to food and non-food in the grocery store. In the gift and stationery industry, you have gift reps, so each channel of trade has a different group of reps for that channel of trade. It can be difficult. How do you find reps? How do you setup a rep network? Once you get into a given channel of trade and you look to see how many reps there are available, you're going to see there are hundreds of them and how are you going to know who is any good because these people are sales people, so they all say they're the best.

Michael: How are you going to find them once you get into a channel? How are you going to see a list of reps?

Joe: You can get the list of reps from trade magazines and look at the trade association trade publications and everything for each channel of trade and you'll find plenty of sources for reps. The issue isn't finding them, the issue is picking them. Between trade associations and trade magazines, it's usually not very difficult to find. A lot of the reps even have -- of course, nowadays, they have websites and you can find website in a lot of industries that are designed to connect the manufacturers and the reps. So, along that line, it's not that hard.

But the problem is, is to find the right reps. And I have a couple of techniques that I've used that work pretty well for that. The first thing, if you look at the retailers in your channel and look at some of the better ones, one thing you can try, which works sometimes and not sometimes, is to ask the buyer which of the reps that call on them do they think are the best. Now, technically they're not supposed to tell you that, but sometimes you can find out. There's nothing better than to be using the reps that the buyer likes the best. That's going to certainly help you get into that group of stores.

Another thing you can do, most manufacturers' catalogs will have on the catalog it self who their reps are. They're thinking from the point of view of a store sees a catalog, they know who to contact to order, but it's great market research. You could say here's this company and here are their 15 rep firms they use to cover the country and here's their name and address right on the back of the catalog. So, how easy is that. The rep won't take your line if you're competitive with something they already have, but find some companies that are in your market that are established dominant companies and start with their catalog and try to use the same reps they do.

A few things also about reps. When you come to the point where you're going to make an agreement with them, there are a few points I want make sure everybody gets about agreements with reps. A rep will normally try to get more than they should, and I don't mean commission percent, I mean territory. They'll probably ask you for all channels of trade, for example. And I've never done that. I've setup reps in the grocery industry, I've had reps for the drug industry, reps for the gift and stationery industry, and maybe also for the promotional products, ad specialty premium industry, and a different rep for hardware. So, each channel of trade can be a different rep and don't let a rep tell you they handle every channel of trade because nobody does. If you're doing a rep in the gift and stationery industry and they say they handle grocery, then you want to see what grocery accounts they have because odds are they don't.

Michael: Why wouldn't you want to give them the whole thing?

Joe: If you want to get sales, you want to have reps who have relationships with the buyers of the stores you want to get in. And reps specialize by channel of trade. Gift reps specialize in the gift industry, grocery ones in grocery. So, because each specializes in their own area, you can have as many as ten different reps in the same geographical area all never bumping into each other because they're in different channels of trade.

The other side of this thing is the geographical territory. There again, you want to take a look at what they actually cover. In the gift and stationery industry that I've had a lot of experience in, there are about 13 territories that cover the country. So, if somebody wants more than one of those, odds are they probably don't do a very good job. That'll change by industry. Each industry has their own, so to speak, territories.

But an agreement with a rep, aside from specifying the commission, which is obvious, it needs to specify -- on the case of commissions, you should not have to pay commissions on returns or any returned good or bad debts. You also don't want to pay commissions on sales outside the channel of trade. Most reps are going to want an exclusive on their territory, which means if you get an order from someone in that channel of trade in their territory, they still get a commission even though they didn't cause the sale. That's okay because they're managing that for you. The biggest thing to have after all of this is you want to make sure that you have a clause in there that you can terminate them on 30 day notice for any reason. So, if they're not performing, you can get rid of them. You don't want to have to have it be by cause because then you could get into a fight about and so on. If you just put it in there that either party can terminate on 30 days notice, that's best.

Michael: When you set it up, do you give them a quota that they have to meet, performance wise?

Joe: You can do quotas, but it's probably not going to work very well if you're a new company. If you're a new company or a new product, the rep probably would not accept you if you try to put quotas on them. What you're going to want to do, another thing about reps, reps frequently don't sell anything, which seems to be a contradiction in terms. These are sales reps. That's what they do. They're supposed to sell. Well, here's the reality of it. They don't. What they do is they take orders and I'll explain that from the point of view of the rep.

Let's say the rep has an account that's a major account, 50 stores or something and he has a relationship with that buyer and that buyer is buying 15 of his different lines. You come along. You have a new product. Now, he doesn't want to go into that buyer and push your line because what if it doesn't sell. That will hurt his relationship with that buy and could hurt his relationship with the other 15 companies he has in that retailer. So, the point of view of a rep is if the buyer asks what's new, they'll show your product, here's what new, but they won't have an opinion on it if it's any good or not. So, it's not their fault if it doesn't sell. This is not what you envision a salesperson would be doing, but this is the real world.

What happened with us in the sticker market is we did a lot of advertising and promotion and press releases to the retailers, especially when we had sell through information that we could document, we had the retailers asking reps if they carried our products. And when that happens, if you have the 300-rep network we had, those 300 people can take an incredible amount of orders if all their customers are asking about your line. So, what you've done is you've created pull through from the retailer themselves asking the reps, so the sales happen then.

The other way a rep will actually sell for you is if he puts your product in a half a dozen of his accounts because the accounts ask for it or because they showed them something new and he said I'll try it. And if the results are it sold really well for all six of those, they'll start mentioning it then because now his risk is less. He sees that it sells in his own accounts. He has seen that his own accounts have had good luck with it, so now he doesn't feel that it's a risky thing to mention your product upfront to another one of his accounts.

So, what that all means is if you're a new product and new to the market and don't have any track record, what you want to do with any given rep is see if you can make sure you can get into a few accounts, even if you have to help them get in there, and then prove the sell through so that that rep can see the sell through and then he'll be okay with bringing it up to their other customers.

Michael: When can you not use a rep?

Joe: The main time you can't use a rep is in mass market. Wal-Mart, Target, and the big mass-market chains don't want to be talking to reps. There was lawsuits about this a number of years ago because there was a restraint of trade thing, but even though you can legally do it, the retailer realizes the rep gets paid a commission.

They want the lowest price. They don't want to pay commission to a rep. And so, when you're dealing with a Wal-Mart or Target, they want to talk to the principle of the company who can make a decision about price right on the spot and they don't want anyone in the middle taking a piece. They want you to be able to give them the best price.

On other thing about how to get reps that worked really well for me. When we were in the gift and stationery market, like I said, 13 to 14 rep organizations covers the country, but that means in those organizations you have about 300 individual people who are carrying your line out in the field. When I first got into the market, I didn't know anything about it. I vaguely knew what a rep was, but I didn't have a clue. So, I signed up a couple of reps. I had one in Ohio and one other somewhere else, but the guy in Ohio also had five stores, Hallmark stores. It turned out he started doing really well. And so, when I found a rep who was doing well with my line, I actually got this particular individual who had five stores, over a period of time, I eventually got him to be my VP of Sales. But at the beginning what I did is I had an arrangement with him. He, like a lot of reps, had been in the industry for 30 years. He knew everybody. He's on a first name basis with -- it's always a small group of people, really, when you get down to it. So, I set it up with him where he'd get a small override with the intent of him running that market for me, that channel and distribution. And he was able to get on the phone on a weekend and setup, just by calling his buds around the country, within three days we had a national rep network because he called up all his friends and got them to take our line. So, it was pretty much overnight we had the best reps in all the territories. So, that's a technique you can use. If you get one rep who is really excited about your line and doing well with it, you can have that person for a small fee organize and manage all the rest of the reps. I had that guy managing the other reps. I didn't do it. He did.

Michael: What did you pay him to manage that and handle all that?

Joe: Well, in the gift industry, a typical commission is 15% to 20%. So, we paid our reps 20% because we wanted to have motivation for them to sell and we'd give this guy an extra 2% override. So, it wasn't a big deal. In the particular product line we had, we had great margins, so the 20% commission to the reps and the 2% override was fine.

Michael: How about supporting your reps? What are some things you would recommend you do to support your reps and keep them happy?

Joe: This is a real critical point because if one of your reps calls with a question and you don't get back to them, they're not going to present your line anymore. You've got to give them support. And if you're in multiple distribution channels, which everybody is going to want to be, you need to have somebody who is in charge of rep communications in each market and some of the markets and the way the reps operate can be so different that one person, if they don't know, for

example, in the promotional products industry, that whole industry is totally different than this gift/stationery or retail store industry that you need separate people. What you need to be able to do is you need to be able to have in-house people who can answer any rep's question, get back to them immediately if not answer them on the phone, and provide them with all the sales support materials they need, like literature and samples and so on and order forms and everything else. It's critically important at the beginning of a new relationship that you have professional materials to give them and you can give them that follow up because almost every rep organization will have a lot of questions at the beginning. And if they can't get answers, they'll just forget about you.

Michael: What should I give my reps? What kind of tools are they going to need to represent my product?

Joe: You're going to have some variability by industry here, but in the gift and stationery industry, pretty much in any industry, you're going to need to have literature with product photos and if you're providing displays or merchandising aids, you want to show those, and you want to answer all the questions they'll have such as how does it ship, what does it weigh, what are the dimensions and all of that. They have a thing called case cube, which is how many cubic inches is it so they can allocate warehouse space for bigger chains. They all have set industry specifications. In the grocery market, it's really quite different, so you want to get samples of some of what other people are doing. But they have things called survey forms that have a vertical part on the side that tears off, which is sometimes how the stores order at an individual store level.

So, that's the basic product information. Then you need order forms, which tell about what all the choices are, the displays, the merchandisers, how many of each product is sold in assortments, is it sold separately. You want three-part order form where the rep gets a copy, the retailer gets a copy, and you get a copy. That's the basic; the order form and your product sheets showing your pricing and all the specs of your product along with picture of it.

What I like to add to that, I like to add to that any publicity releases or magazine or articles about the product. And I also like to add statistics and proven sell through information because retail buyers see products from everyone under the sun. You want to give them a reason to pick you over who they have now and instead of just asking them to believe you, you need to provide them with facts. And if you can provide them with sell through information showing them how much profit per square foot per month they can make with your product, showing them how that's better than the average product in your category, now you're giving them a reason to give you a test. If you don't do that and you're just hoping that you can do it with your charm or your charisma, it may not work.

Michael: Would you say the 80/20 rule works along the lines of having reps? If you have 10 reps, 2 of them are going to product 80% of the volume and 8 are going to product 20%?

Joe: For sure. Definitely. I had one rep for the stickers that was in New England, which is a tiny territory and usually there isn't much of anything there, but this particular guy. He had multiple people in his organization. But this particular guy called on a bunch of major chains that were out there, which is not typical for gift reps. But he got us in a bunch of chains and that one guy accounted for maybe 25% of our sales out of 300 reps. I mean he was like far and above everybody else. So, that does happen. But the 80/20 rule is definitely there and the ones at the bottom of the barrel, you need to always be weeding them out and get rid of them and try to get somebody better.

Michael: How often should I be paying my reps their commissions? What's standard or is it different within different industries?

Joe: It's pretty typically everywhere. You pay them once a month. That's another thing, you want to make sure you do promptly. Nothing can disenchant a rep more than not getting paid. You want to get them paid right away. Our policy with a new rep is we send them their first commission check like FedEx or something so they get it really quickly. On occasion we've done something that if somebody got a huge order, we might send them a check right then. Now, granted this can mess up your accounting and bookkeeping and everything, but anything you can do to increase and incentify the reps, the better. In another business I've had where we weren't selling to retail stores in the promotional products industry, there we paid commissions when we got the sales. If somebody sent us an order and there was enough commission, we'd send them a check the next day because that made a huge difference in their motivation. There's a limit to how much of that you can do. As you get bigger, it gets impractical to try to do that.

Michael: When selling independents, should I be using my reps for collecting overdue receivables or should I keep that all in-house?

Joe: You should be using your reps and it'll take care of itself. If you setup your rep agreements properly -- and this is a real important thing -- if you don't have past due accounts subtracted from their commissions, then they have no incentive to collect and they have no incentive to not sell a bad account. So, what we did is we said if an account gets 90 days past due, your commission is bye-bye even if we collect it later because we had to deal with late pay. So, within the thing you're going to do, if you're going to make your reps do collections for you, which I think is a great idea because they're the ones whose commissions matter, then what you want to make sure you do is you make sure you give a report that lets them know who's late so they can do something about it in time to collect.

In summary for Section 14, there are a lot of things you can do to get reps, but it's important to use some of the techniques we talked about to get the best ones you can right upfront and to structure those agreements properly.

The next section, Section 15, we're going to be talking about preparing for the sales call on a mass-merchant buyer.

Michael: This is the end of Section 14. Please continue to Section 15.