

Keynote rouses crowd

Who's to blame when sales reps don't perform to full potential?

ASHEVILLE, NC—June 8, 2006 -- In what could best be described as a rousing keynote presentation at the recent IMDA Annual Conference and Manufacturers Forum, Robert Nadeau of the Industrial Performance Group presented his outspoken perspective on why sales reps often fail to perform at peak levels. As he did so, some members criticized him for failing to understand the nuances of medical specialty distribution. Others, however, bought into what he said – namely, that salespeople often under-achieve because of the dysfunctional systems in which they operate.

Peak-performing sales reps spend as much as 85 percent of their time on revenue-generating activities, including prospecting for new business, trying to get more business from existing customers, and making sure that products are properly implemented, said Nadeau. Such reps spend the remaining 15 percent of their time on non-revenue-generating activities, including travel, general sales administration, report-writing, etc.

But in reality, few salespeople are peak performers, he said. They don't do enough prospecting. Rather, they spend too much time dealing with problems, expediting orders, sifting through information associated with the resolution of a problem, etc. Common problems include inaccurate quotes, or purchase orders and invoices that cannot be reconciled. Others are delivery delays or mistakes, picking errors, short ships, damage, etc.

Some sales reps are content being problem-solvers, but most would prefer to be peak performers, maintained Nadeau. But they can't, because of barriers presented by their own companies, including:

- Lack of direction. Management fails to clarify how much time reps should spend prospecting for new business vs. maintaining existing accounts.
- Too little or too much information. Today's sales rep carries as much electronic equipment as a 1960s astronaut, said Nadeau. But more often than not, that equipment fails to give them the information needed to serve the customer.
- Outdated skills. The typical rep receives plenty of product training throughout the year, but very little training on how to identify and articulate their value to the customer. "If you don't give your reps that skill, when a customer asks for a lower price, they will get hammered," said Nadeau.

In his defense, Nadeau had attempted in the months before the Conference to survey IMDA members about their particular businesses, so he could incorporate their perspectives into his presentation. But response was light, forcing him to rely exclusively on general industry research compiled by his company.

Failure to align goals

That research indicates that many supply-chain problems and mistakes occur because manufacturers and distributors fail to work in tandem, said Nadeau. In a study of 750 manufacturers and 500 distributors, his firm found that 67 percent said their working relationships lacked clear and common goals. "They had quotas and sales expectations, but no goal statement that defined, 'Why are we in business together?'" he said.

Typically, distributors and manufacturers fail to define their respective roles and responsibilities. Consequently, in most cases, they act in their own self-interest. "The chances are slim that what they do is mutually beneficial," said Nadeau. Eighty percent of the manufacturers and 90 percent of the distributors surveyed said that this lack of alignment was negatively affecting their businesses.

The bottom line? "If you have never defined the purpose of your working relationship with your trading partner, or set specific goals, you haven't defined who needs to do what to accomplish goals, and that constitutes ambiguity," said Nadeau.

One key area of ambiguity – and one which raised the blood pressure of several IMDA members – is this: "Who exactly is the customer?" Some attendees were clearly irritated when Nadeau suggested that the distributor is not the manufacturer's customer, but rather, that the distributor and manufacturer share a mutual customer – the hospital. (Some discussion ensued – without resolution -- as to whether that mutual customer was the clinician or the patient.)

The value proposition

More discussion – and disagreement – ensued when Nadeau proposed the following five parameters customers use to define value:

- **Products.** Are the products you sell commodities or not? Are they highly configurable and customizable, or are they fairly straightforward?
- **Access.** How easy is it for the customer to get the product itself, as well as information about the product? If a customer calls for information and doesn't get a response for several weeks, access is low.
- **Price.** How are you pricing your products and services? Are you offering the "everyday low price?" If not, can you justify why your prices are higher?
- **Experience.** How are your customers treated before, during and after the sale? Keep in mind that the primary reason for customer migration is a bad experience. "Customers don't leave for nickels," said Nadeau. "It's because somebody dissed them. They had a problem and nobody took care of them."
- **Service.** Service constitutes everything a seller bundles with the product that helps reduce the customer's overall cost, or that makes the customer's environment healthier and safer, or that improves their productivity.

IMDA members need to find out where they are on the scale in relation to all these parameters, and then price their products and services accordingly, said Nadeau. "Where people get into trouble is that they try to be all things to all people," he said. "Then they wonder why they're not making money."

Changes brewing?

Panel addresses how IMDA members can react to impending changes in their relationships with manufacturers

Has one of your manufacturers presented you with a Parker pen and pencil set lately? If so, it might be time for you to start seriously scouting a new line. That was one IMDA member's facetious advice during the panel discussion on "Is a Buyout Looming?" at the recent IMDA Conference.

Chaired by Shawn Walker of Bay State Anesthesia, the panel featured Jeff Srydiuk of Vitaid, Mike Harbinak of Vital Care Products, and IMDA legal counsel Mitchell Kramer.

Avoiding catastrophe

Although some business relationships last indefinitely, many do not, particularly for specialty sales and marketing companies. As products mature, they become commodities and may no longer fit in the IMDA members' product mix. Conversely, the manufacturers of such devices may look for other outlets, such as general-line distributors, or they may choose to go direct. In many cases, manufacturers of innovative devices have one goal in mind: to sell their company.

For all these reasons, the time to start thinking about the end of your relationship with a manufacturer is at the beginning. The panel members offered these tips:

- Make sure your contract contains a provision stating that you can only be terminated for cause.
- Include in the contract a provision stating that the distributor must be compensated if the manufacturer is acquired or merges with another company. (Some IMDA members negotiate to acquire stock in the companies they represent.)
- Don't sign a contract that says you can be terminated with minimal notice (30 days, for example).
- Don't sign a contract that forbids you from representing a competing product line should the relationship be terminated.
- Include non-compete clauses in your employees' contracts, stating they cannot go to work for any company you have represented for one year after they have left your employ.

Another word of advice: Keep the lines of communication open from Day One. Schedule annual visits to your manufacturers' corporate headquarters. Schedule meetings with their executive teams "so you know where their heads are, and to look them in the eye and determine if you have a friend or if you have to make other arrangements," advised Harbinak.

Beware quotas

IMDA members should tread very carefully if the manufacturer wants to incorporate a quota in the contract. The reason is that "failure to meet quota" sometimes serves as an excuse to terminate the relationship, when the real reason may have more to do with the fact that the company hired a new sales manager who has a point to make.

The distributor is usually in a better position to predict how a particular product will perform in the market than the manufacturer, according to the panel members. So be assertive, they said. And if the manufacturer presses for a quota, insist that none be set until after the product has been on the market for awhile.

Warning signs

Aside from the Parker pen, the panelists offered these warning signs that your manufacturer may be about to cut off its relationship with your company:

- You start getting letters criticizing your performance.
- You get a letter asking for the contact information of your customers.
- You are asked to hire a specialist to manage the manufacturer's product line. (That person may very well become the sales manager for the product when the manufacturer takes the line direct.)

What to do

If the writing is on the wall, the specialty sales and marketing company still has some options. "Even if you can delay [termination] for a year or two, it's in your best interest to do so," said Harbinak. The IMDA member might suggest a change in its relationship with the manufacturer, to that of a manufacturer's rep rather than a stocking distributor.

Once the manufacturer has served notice, the IMDA member should seek legal counsel to make sure protocol is being followed, said the panel members. They also suggested that the owner of the specialty sales and marketing company immediately assemble his or her management team to discuss such questions as, Will personnel changes be needed? Are replacement lines available? It's inevitable that everyone in the company will first and foremost try to assess the effect of the termination on their own job. The owner will simply have to deal with that fact.

"If you keep a cool head, relax and think about it, in a year you'll be better off than when you were terminated, because you're good at what you do," said Kramer. "At least that's what I've seen."

Acting as a master distributor

Acting as a master distributor can help you build your business, take advantage of excess capacity, strengthen your relationships with other IMDA members, and take you to exotic locations for sales meetings, such as Paris or Thailand. It can also be a lot of work.

In a panel on "Acting as a Master Distributor," three IMDA members talked about their experiences: Jim Herrmann, Med Alliance Group, which acts as a master distributor for Peters Surgical, a French manufacturer of specialty sutures for mitral valve replacement and other applications; Jim Brandt, whose company, Bemes Inc, acts as master distributor for Sentec, a Swiss manufacturer of patient monitors; and Walter Martin, Care Medical, which acts as master distributor for Silverlon, a manufacturer of antimicrobial dressings.

Seizing an opportunity

Prior to getting involved with Med Alliance, Peters Surgical approached the U.S. market slowly and deliberately, said Herrmann. An accomplished French surgeon would travel several times a year to this country and give presentations to small groups of U.S. surgeons on the application of the company's suture in mitral valve replacement. Med Alliance Group stepped up the pace, however, making followup phone calls and visits. "We saw the business grow," said Herrmann. "Now we're adding an inside person, we've added significant independent reps around the country, and we think our business will double this year because of the extra effort."

Bemes found Sentec about 2 1/2 years ago. One of the company's customers had just been approached by the company to serve as a consultant while the company ushered the product through the Food and Drug Administration. Brandt approached the company and discovered it was reluctant to set up relationships with multiple distributors in this country. "So I sold them on the concept of using one master distributor," he said. "Bemes is about 30 years old. We knew we could identify key players in the United States, frankly, through IMDA. Most of our distributors are IMDA members."

Meanwhile, Care Medical fell into its role as master distributor for Silverlon by chance, said Martin. The person whom the company had hired to find distributors suffered a massive stroke. Convinced of the product's effectiveness, Martin and CVC's Richard Manley took over the role, even bringing the product to the IMDA Manufacturers Forum. Ultimately, Care Medical became the de facto master distributor. The manufacturer

experienced some internal management difficulties, but has worked most of them out, said Martin. Recently, the company won a national contract and, at press time, was awaiting word on a second.

The upside and downside

Acting as a master distributor can help specialty sales and marketing organizations make use of any excess capacity (e.g., warehouse space, people) they may have following loss of a line, said the panel members. What's more, representing non-U.S. companies in this country provides a buffer for IMDA members who are weary of losing U.S. manufacturers to acquisition or merger.

Said Herrmann, "The relationship [with Peters Surgical] is great. I believe relationships with companies in Europe who have been around for a while are quite stable. There's not as much changing channels of distribution as we see in the United States."

Brandt added that acting as a master distributor represents a big opportunity for IMDA members. "It allows a small regional company to participate on a national scale," he said. "As we partner with other regional companies, we learn more about their markets and opportunities. Down the road, I can see them doing the same thing [that is, acting as master distributors]. Our network will grow and grow, and we can all take advantage of the national exposure."

But, as with any business venture, acting as a master distributor can be rough sailing at times. Much has to do with the nature and internal workings of the manufacturer itself. "The downside has been an underestimation on my part of the amount of time and resources it requires to support and do the back office work" for the manufacturer, said Martin.

Considerations

Some questions to answer before committing to acting as a master distributor:

- Who will pay the import fees (if it's a foreign manufacturer)?
- Who will pay for your attendance at national clinical shows?
- Who will pay for national advertising, brochures, etc.?