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THE TRIPPLE WHAMMY: Splits, M&A's & Commission Cuts

Manufacturer 's reps have written and called me asking that I write an article about their financial plight, so here it is. The reality of the situation is that reps are hurting because they are an easy target for reducing the cost of sales despite the fact that they are a fixed cost of sales and represent the worlds best bargain. Read on and learn why.

It's an understatement to say that we are living in crazy times. Our country's economy appears to be in a state of turmoil. Instead of people robbing banks, banks are robbing people. I'm talking about honest, hard-working folks. Meanwhile, numerous banks are declaring huge profits and state that year-end bonuses are forthcoming. All this is happening while a dreaded "F" word runs rampant, Foreclosures! Lest we forget, we the taxpayers, bailed them out for the purpose of stimulating our economy.

Rep friends are telling me that commission cuts have forced them to lay-off valued employees resulting in compromised account coverage. Or, they are desperately seeking additional lines to offset commission losses. Oh yes, they are applying for lines-of-credit as well, because they have to.

Why Are Reps in Trouble

It all started 25+ years ago with a rash of mergers and acquisitions. This eliminated hundreds of viable rep lines from the landscape. In more recent times, companies like Honeywell and Laird acquired dozens of small companies, but thankfully maintained and embraced the rep model. Many reps were hurt, but the survivors have thrived.

Admittedly, there was anticipated fallout. Those left standing are clearly the best and the brightest.

What Happened Next?

Approximately 20 years ago, outsourcing became fashionable. It didn't cripple the U.S. economy because it was domestic. Contract manufacturers sprung up throughout the country, particularly in the Southeast. However, reps lost huge chunks of commissions due to poor design-win tracking by principals, or even worse, they had lines that refused or were ill-equipped to track. Many Northern based reps cried that they were sending "bluebirds" (commission dollars), to their Southern brethren. Some of the largest CEM's were made house accounts at the whim of greedy principals, while certain CEM's campaigned to eliminate reps for the ill-founded reason that they don't add value. Thankfully, that went nowhere because dedicated, clear thinking principals saw the light. The rep community applauds their supportive stance.

Outsourcing Goes East

What happened next took the U.S. electronics manufacturing base to its knees. About 10 years ago, outsourcing and off-shoring to China became the

rage. It was politely titled "Globalization." Was it good? Not in my opinion, but it was fantastic for stockholders. Factories were closed, employees furloughed, taxes saved and "high-fiving" was commonplace in boardrooms. We all know that for every action there is an equal and opposite reaction, and if you haven't guessed it by now, it resulted in the staggering loss of 2.4 million jobs to China, AND still counting.

Commission Rate Cutting

So what else is new? When profits dwindle, it's an easy out for some manufacturers to cut their reps' commissions due to bad business. Aren't those reps hurting enough already? Reps value those principals who maintain commissions through good times and bad. Enough said.

The Rep Effect

The monumental loss of so many jobs has had a huge impact on the rep community. Today, less than one third of electronic reps are in business as there were in 2000. Is the bleeding over? I hope so, but first we have to create new jobs and balance and put the brakes on a run-away trade deficit. Correcting the imbalance of trade is another monster

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challenge, but I doubt that it's doable without factory workers. Only then will reps and their distributor partners have a significant number of viable accounts to call on and make things happen.

Reality

Yes, our overall economy is a wreck, but don't be confused when you hear that one business sector is booming. Keep in mind that hot product or technology was just outsourced to China or India, helping them more than us.

We can't lose sight that U.S. unemployment is almost 10% and still growing. Some believe that anything that stops or even slows globalization will be harmful. I disagree! Our workers have suffered enough! It's time to invest in training Americans, especially our valued middle class, before it's too late. It's time to stop lining the pockets of workers abroad and start caring about our own workers. They deserve it!

Summary

With the demise of the automotive, aircraft, furniture, textile, toy, consumer electronics and computer industries . . . and the fall of the dollar, we are hurting. I guess that's a legitimate reason that people are shopping for the cheapest product. However, I'm proud to say that at my company, Electronic Salesmasters Inc., we still practice SOQNOP, and, that means "Selling on quality, not on price."

MAY WE ALL BE PARTNERS
IN PROFIT.

