

REQUIREMENTS OF SELLING PROCESS

A comparative cost analysis

| | Outsourced Sales Force | | Captive Sales Force | |
|---|------------------------|----------|--------------------------------------|------------|
| <u>Recruiting & Selecting</u> | | \$ Comm. | | \$ Expense |
| Ads | Covered by Commission | | allocated to HR department costs | |
| Recruiting fees | Covered by Commission | | allocated to HR department costs | |
| Testing | Covered by Commission | | allocated to HR department costs | |
| Reference checking | Covered by Commission | | allocated to HR department costs | |
| Interview time | Covered by Commission | | allocated to HR department costs | |
| Interview travel | Covered by Commission | | allocated to HR department costs | |
| Training | Covered by Commission | | allocated to HR department costs | |
| <u>Compensation Costs</u> | | | | |
| Salaries/commissions/bonuses | Covered by Commission | | allocated to cost of sales | |
| FICA/FUTA | Covered by Commission | | allocated to cost of sales | |
| State/miscellaneous tax | Covered by Commission | | allocated to cost of sales | |
| Insurance & 401K benefits | Covered by Commission | | allocated to cost of sales | |
| Medicare, | Covered by Commission | | allocated to cost of sales | |
| Benefit maintenance, reporting & compliance | Covered by Commission | | allocated to cost of sales | |
| <u>Government Requirements</u> | | | | |
| State/local tax/laws | Covered by Commission | | allocated to G/A costs | |
| Workers comp | Covered by Commission | | distributed by department | |
| <u>After Hire</u> | | | | |
| Travel & entertainment | Covered by Commission | | allocated by expense report | |
| Auto expense | Covered by Commission | | allocated by expense report | |
| Customer promos | Covered by Commission | | allocated by expense report | |
| Recurrent training | Covered by Commission | | allocated to sales or training costs | |
| Product training | Shared with principal | | allocated to sales or training costs | |
| Accounting expense | Covered by Commission | | allocated to G/A costs | |
| Dues & subscriptions | Covered by Commission | | allocated to G/A costs | |
| Employee relocation expense | Covered by Commission | | allocated to HR department costs | |
| Employee replacement expense | Covered by Commission | | allocated to HR department costs | |
| Legal expense for HR responsibilities | Covered by Commission | | allocated to HR department costs | |

Facilities

| | | |
|------------------------|-----------------------|-------------------------------------|
| Rent | Covered by Commission | allocated to G/A costs |
| Furniture/fixtures | Covered by Commission | allocated to G/A costs |
| Computers/technology | Covered by Commission | allocated by department or IT costs |
| Communications expense | Covered by Commission | allocated to G/A costs |
| Administrative support | Covered by Commission | allocated to G/A costs |
| Postage | Covered by Commission | allocated to G/A costs |
| Office supplies | Covered by Commission | allocated to G/A costs |
| Utilities | Covered by Commission | allocated to G/A costs |
| Maintenance | Covered by Commission | allocated to G/A costs |
| Business insurance | Covered by Commission | allocated to G/A costs |

Marketing

| | | |
|-----------------------|-----------------------|------------------------------|
| Account forecasting | Covered by Commission | allocated to cost of sales |
| Market share data | Covered by Commission | allocated to marketing costs |
| Distributor TAM | Covered by Commission | allocated to marketing costs |
| Competitive awareness | Covered by Commission | allocated to marketing costs |
| Sales meetings | Covered by Commission | allocated to cost of sales |
| Rep councils | Covered by Commission | N/A |

Account Investment

| | | |
|--|-------------------------------------|---|
| Opening new markets & customers | Covered by Commission | allocated to marketing costs |
| New product development & introduction | Covered by Commission | allocated to marketing/R&D costs |
| Routine distributor & customer training | Covered by Commission | allocated to customer service |
| <i>Interest on investment dollars</i> | <i>Covered by Commission</i> | <i>allocated to investment costs</i> |

Total Sales Process Costs

Additional Services

| | | |
|--------------------|-----------|---------------------------------------|
| Warehousing | fee based | allocated to warehousing costs |
| Customer service | fee based | allocated to customer service dept. |
| Engineering design | fee based | allocated to R&D or engineering dept. |

The Best Kept Secret: Financing the Cost of Sales

by Bob Trinkle

Imagine starting a new enterprise, developing a new product or penetrating a new customer and finding an investor who is willing to finance the entire sales cost at no expense until the product (or service) is produced and shipped to the customer. No principal payment and no interest charge is ever due for financing this start up phase ... no matter how long it takes. The considerable money saved can be invested in other endeavors. In fact, the borrower only pays the investor *after* the borrower has performed and then they only pay a percentage of the amount of the product / service actually sold and paid for. No other expenses. That's not a wild idea. It happens every day for the outsourced sales force". At a minimum we're talking months and sometimes years and the cycle never ends. The process has no time limit.

People often debate the cost of a captive sales organization versus an outsourced field sales organization. Most argue without any hard cold facts. Prejudices and emotions come to the surface some of the time. But, who can argue that starting any business endeavor costs money? Somebody has to fork up the bucks to finance or fund the sales effort. Banks may be more hospitable to some but, they're never free of cost to anyone. Today, investors want quick returns on their investment.

The average expense of an outside sales person for a Rep firm in the business of industrial selling is ~ \$ 230,000 per year for large firms. Around 60 % (+/- 5%) of that amount is spent on all of the 40+ support functions and expenses of the salesperson in the field. Trust me; this dollar figure is less than the cost borne by manufacturers who support a captive sales force. Understandably, they can't account for nor retrieve all of the 40+ sales costs from their many departments. Their numbers may be buried but, they're still there.

A great advantage of the Rep function is its financing of sales for its principals. It takes time to cultivate a customer. It may take considerably longer to become an approved supplier for a customer in the developmental phase of a product. Considering that the time between product concept / design and its beginning of production ordering is measured in months and that manufacturing time is added on to that, someone has invested a considerable amount of money up front with no guarantee of an equitable return on that investment. Add more time for the actual payment of commissions on to that already prolonged time frame.

On October 30, 2001, Susan Mulcahy, Vice President of Research and Business Development for Cahners Electronic Group (parent company of Electronic News) addressed a NEDA Conference and declared that the average time to market in North America from design to production is seven months. Significantly, that is the shortest time to production in the world. That's not really news to most sales professionals. What is news is the remarkable fact that according to the Cahners study, only 53% of these design considerations actually go into production. WOW! Therefore on 47% of designs, some sales type (and all of their related support / expenses) has invested a bunch of their company's money on a project that will never generate a single dollar of revenue for the folks back at the home office.

Reps do that every day and it doesn't cost their principals a dime. Reps will declare that their salespeople invest more than 40 % of their time on new designs. Some Reps located in what is known as "design centers" will argue that a much larger percentage of their time is invested on new designs. Put a pencil to it! Nationwide, the outsourced sales force is financing a considerable amount of the industry's sales effort ... and they only get paid if and after they perform. When the CEO, COO or CFO addresses their stockholders, they could mention that they have a cost free method of financing sales that charges no interest or principal. Then they get paid a percentage of sales only after the cash rolls in. No financial jujitsu here. Easy to understand and no hidden costs. That's a great deal!