MANA
MANUFACTURERS' AGENTS NATIONAL ASSOCIATION

The Sales Force

by Charles M. Cohon
CEO and President
Manufacturers' Agents National Association
www.MANAonline.org

"If you have a stake in the success of a sales force, read this book."

Robert J. Calvin
University of Chicago Graduate School of Business
Adjunct Professor of Marketing and Entrepreneurship and author of
Sales Management, the McGraw-Hill Executive MBA series

"*The Sales Force* is a compelling new look at the dynamics between sales forces and the companies that use them."

Brigitte Madrian, Associate Professor of Business and Public Policy
Wharton School of the University of Pennsylvania

"This book is a refreshing change of pace and very entertaining way to share a solid and 'right on' perspective of the the industrial sales business today. It's really all about 'field sales' and your way of describing how it really works is terrific, especially the how and why of outsourcing field sales to professional firms. Congratulations and, on behalf of all your readers, thanks!"

Raymond J. Hall, CEO and Executive Vice President
Electronics Representatives Association

"The author shows how to use total quality management, metrics and measurements to improve sales force productivity. He does this by telling an entertaining story of a high performing salesperson's journey from sales to management."

Robert J. Calvin, University of Chicago Graduate School of Business
Adjunct Professor of Marketing and Entrepreneurship and author of
Sales Management, the McGraw-Hill Executive MBA series

"This is a refreshing and informative read for anyone whose livelihood is tied to products sold in the business-to-business marketplace where face-to-face contact with the customer is still absolutely essential."

Joe Miller, President/CEO, Manufacturers' Agents National Association

"In an entertaining and statistically valid fashion Charley Cohon makes the case for Independent Manufacturers' Representatives as an economically viable and high performance sales force. This book is a must read for every business owner and sales manager who has struggled with sales force management and needs to find a better way. Look no further — *The Sales Force* has the answers and the facts to back them up."

Henry P. Bergson, President
National Electrical Manufacturers' Representatives Association

"The Sales Force is an intriguing look at how the lessons learned on the plant floor illustrate key techniques sales managers can use to create a high-performance sales team and includes a toolbox of strategies that allows sales executives to weigh objectively the costs and benefits of an in-house sales force against its outsourced equivalent."

Dr. Marilyn Friesen, Executive Vice President
Manufacturers' Representatives Educational Research Foundation

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FOREWORD

MANA member Charles Cohon makes an excellent case for widespread use of manufacturers' representatives in this book. This should come as no surprise as he is a second-generation "rep" himself and, given his education and background, one would expect an eloquent testimonial to the benefits of outsourcing the sales force.

Beyond the obvious, though, Cohon's advanced education is demonstrated both by his writing style and ability to weave fact with fiction, and by his extensive use of statistical analysis to make his points. After digesting "The Sales Force," one comes away with a feeling that these under-publicized, small sales agencies are indeed cost-effective, and that their owners are truly businesspeople in sales, not salespeople in business.

The last decade of the 20th century saw a movement by both major corporations and small- to medium-sized businesses (SMMs) toward focusing on core strengths. Outsourcing other functions where expertise was lacking became popular, even in huge companies. Interestingly, outsourcing the sales force has always been popular with SMMs who could not afford the cost of a direct industrial sales employee in each territory. (Some argue that cost is $150,000 to $200,000 per year today). However, it was only after many Fortune 1000 companies squeezed out all of the other costs from their supply chains and manufacturing processes that this significant bottom-line enhancement was embraced. Now these large companies are realizing the same benefits that their smaller brethren have enjoyed for more than 100 years.

I highly recommend this book not only to those who have been skeptics about the advantages of using an outsourced professional sales force, but also to those who currently utilize them. It's my experience as a manufacturing manager that we often need to remind ourselves why we made a good decision, particularly when someone else in the company is pushing to fix a system that is not broken.

This is a refreshing and informative read for anyone whose livelihood is tied to products sold in the business-to-business marketplace where face-to-face contact with the customer is still absolutely essential.

Joe Miller
Ex-President/CEO
Manufacturers' Agents National Association (MANA)
Lake Forest, California

“When all else fails, try something counterintuitive.”

Newall, A., J. Shaw and H. Simon,”The Processes of Creative Thinking.” (1962). In H. Gruber, G. Terrell and M. Wertheimer (Eds.), *Comtemporary Approaches to Creative Thinking,* (New York: Atherton Press).

CHAPTER I

Somewhere, somebody just made a big sale. Was it skill or was it luck?

Any time an order is awarded, the winning salesperson credits success to ability. The loser blames a host of plausible reasons and claims the loss was unavoidable. The winner calls the loser's reasons excuses. The loser claims a bad break and calls the winner lucky.

How does a sales manager reward the skillful and punish the incompetent without also rewarding the lucky and punishing the unlucky? The answer lies in the work of W. Edwards Deming.

In the 1950's, Deming introduced statistical precision to plant operations, and his work is the seed from which today's greatest factory productivity systems have grown. Today's managers apply Deming's principles to power productivity in departments from customer service to accounting — to every group except outside sales.

The likely reason is a fundamental Deming principle that conflicts with traditional sales management. Deming proves that the cause for flaws in manufactured goods lies most often with a factory's procedures, machinery or raw materials rather than with a worker's error. Traditional management of salespeople whose activities outside the office cannot be directly monitored requires that salespeople believe that they alone are responsible for their wins and losses. This lets the lure of commissions combine with the specter of disgrace and unemployment as substitutes for the watchful eye management keeps on workers who stay on site.

Salesman Jim Anderson believes what traditional sales managers want him to believe. We join him as events that introduced him to Deming begin to unfold.

"Edgeworth just got fired!"

Jim Anderson jerked to attention, pushing aside a month's worth of blank call report forms he'd been trying to force himself to complete. Bernie Feldman, the most recently hired of Bigglie Products' salespeople, stood in front of Jim's desk, clearly agitated.

"Another sales manager gone? When did this happen?" Jim asked.

"Just now. I was sitting in his office, and he was telling me how my numbers were not growing fast enough. Then Jeannie from the personnel department walked in with a security guard and two empty cardboard boxes. She handed him a termination letter and the boxes, and left in less than two minutes. He started putting his stuff in the boxes and I just walked out. It was like watching a car wreck." Bernie held out his right hand. "Look at me. I'm still shaking."

Jim wasn't shaking. As Bigglie's most senior salesperson, Jim had daydreamed about becoming Bigglie's sales manager the last time the position was open, but he hadn't done anything to pursue the opportunity. He would not make the same mistake twice.

Bernie continued to talk about Edgeworth, but Jim had mostly tuned him out. Instead, he began thinking about what he would have to do to get Bigglie president David Buchanan to look at an inside candidate for the position. Even though it would make Jim Bigglie's fourth sales manager in 36 months, Jim realized that snagging the position wouldn't put him at any greater risk than he already faced. By now, he'd lasted longer than most in Bigglie's revolving door environment and even a brief stint as sales manager would look good on his résumé. Plus, he'd recently learned that two of his biggest accounts were planing to move their manufacturing to Asia in the next six months, so Jim had expected to be fired soon anyway once his numbers plummeted.

Of course, six months would be too generous an estimate if word about those account relocations leaked to his co-workers. Bigglie's sales force knew that, when a salesperson's numbers went down, termination was imminent, putting his or her accounts up for grabs. The first sign of weakness from Jim would trigger a feeding frenzy for his remaining accounts, making them almost impossible to protect, so it was critical not to let the scent of blood get into the water. Pirating coworkers' customers was a survival skill at Bigglie — those who wouldn't participate missed too many plum accounts to keep their numbers strong, and soon were gobbled up by those who would. Jim joined in when he had to, but as reluctantly as a member of the Donner party being summoned to dinner. He hated to watch a colleague founder and he felt cheated of the sense of accomplishment that came from closing an account that had never before bought from Bigglie.

Jim knew that sales experience alone was not enough to get him considered as a candidate to become sales manager. He remembered hearing Bigglie President Buchanan say, "The sales manager is not supposed to be a salesman," each of the last three times he'd introduced a new sales manager to the sales force. "A sales manager's job is to make heroes, not be one."[1]

The trick would be to get Buchanan's attention in a management context instead of for sales reasons. He had an idea he'd been holding for a rainy day, so he gathered his notes and asked Buchanan's secretary for the first available appointment. She gave him a half-hour slot at 8 a.m. the following Tuesday.

[1] Robert Calvin, *Sales Management,* (New York: The McGraw-Hill Executive MBA Series, 2001) p. 5.

CHAPTER 2

Jim planted himself outside Buchanan's office by 7:30 Tuesday morning. Buchanan waved him in and motioned to a chair. The two exchanged only brief pleasantries before the meeting began in earnest. "Mr. Buchanan," Jim began, "as you know, we have been using voice mail pretty much the same way other companies do. People call in looking for their salesperson, and we send them to voice mail. We did take the step of giving the salespeople pagers so they'll know they have a voice mail message waiting, but they still have to phone in and collect the message before they can call the customer back."

"Hold up, Jim," Buchanan interrupted. "If you are looking for a new phone system, forget it. I know our system is a little old, but I am not going to drop ten or twenty grand to save the salespeople a couple of phone calls."

Jim knew that Buchanan never replaced anything that wasn't broken, so he was prepared for that interruption. "Actually, Mr. Buchanan, I just wanted to suggest a new way of using the system we already own to let us give our customers better service."

Buchanan leaned forward in his chair. Getting more service out of his existing equipment was one of his passions. "Sorry Jim, go ahead."

"As our system stands, every time a customer calls for a salesperson who isn't in the office, there are two delays. The first delay is the time it takes for the salesperson to call in and pick up the message. The second delay is the time it takes for the salesperson to call the customer back. All too often, we get their voice mail, so we end up playing phone tag. All of those delays hurt our service, and we also run the risk that the customer will get impatient and call another vendor while he's waiting to hear from us."

Buchanan thought he knew where Jim was going, and interrupted. "Jim, we already tried having our customers call the salespeople's mobile phones directly, but it was a disaster. Every time we made a change in territorial boundaries, or promoted a salesperson, or fired a salesperson, we also needed to change the phone number that salesperson's customers used to reach our company. We never managed to notify all of our salespeople's customers of the new numbers and the ones we did reach didn't always bother to change their records. When we realized that salespeople with their own cell phones kept their numbers when they left the company, we knew we needed to have our customers call our main number. Most of them prefer it anyway, because it's toll-free. Thanks for your idea, but having customers call the salespeople's cell phones isn't practical." Buchanan stood and held out his hand.

"Whoa, Mr. Buchanan, that isn't where I'm going at all. If I can get just a few more minutes of your time I really think I can help us do a better job taking care of our customers." Buchanan sat down, and Jim continued.

"Almost every phone system sold in the last 15 years, including ours, has a 'switchhook' or 'flash' function and speed dial. Our local phone company charges $5 a month per line for call forwarding. Here is what I have in mind. When a customer calls in for a salesperson who is out, we can offer to transfer the call to the salesperson's cellular phone. One tap on the 'switchhook' button on our existing phones activates the phone company's call forwarding feature and gives us a second dial tone. One tap on the speed dial button programmed for that salesperson's cell phone number and the call is forwarded to that cell phone. Then the office drops out of the call and the customer is connected to the salesperson's cell phone.

"If the salesperson is able to take the call at that time, the customer gets to speak with him immediately. No calling in for voice mail, no calling back the customer, no phone tag. If the salesperson isn't available, the message goes into the cell phone's voice mail. The next time the salesperson turns on his cell phone, it gives him the 'message waiting' beep and he knows to pick up the call. The $5 per line cost for call forwarding is a lot less than we spend on the pagers, so we give the customers better service and save the company some money." Jim sat back in his chair and waited for a reaction.

Buchanan sat quietly in his chair for a full 60 seconds. Clearly, he was absorbing what Jim just told him. Suddenly, he grinned, and then he looked at Jim with a different sort of expression on his face. "Jim, that is truly executive thinking. I am very impressed, and quite frankly, I never dreamed you would come in here with a fully formed and well-articulated plan to save the company money. If this works the way you say it will, you'll be claiming a major 'attaboy.' Let's get this in place and talk again early next week."

CHAPTER 3

Jim had hoped that Buchanan's enthusiasm for his call-forwarding idea would catapult him into contention for Edgeworth's old job, but if that was Buchanan's intent, he was keeping his cards pretty close to his vest. The only hint Jim got that Buchanan was thinking of him as a manager was when Buchanan tapped him to stand in for Edgeworth at a meeting of Bigglie's distributor council.

Bigglie's product was a flange popular with machinery manufacturers. Bigglie's salespeople called directly on the decision-makers at very large machinery companies, but it was not cost-effective for those salespeople to visit medium-sized or small firms. Bigglie solved that problem by selling bulk quantities of flanges to distributors who would then take title to the product and keep it in stock. Those resellers offered a wide enough range of products to allow them to add a mark-up to their cost and profitably serve machine builders that Bigglie could not. A large distributor's sales volume could rival that of any of Bigglie's largest direct Original Equipment Manufacturer (OEM) accounts, so Bigglie highly valued those distributor relationships. In some cases, Bigglie's salespeople were called upon to assist the distributors' salespeople at medium-sized accounts.

The council was held out to all Bigglie distributors as evidence of Bigglie's concern with meeting its distributors' needs. Bigglie paid all the travel, lodging and meal costs associated with annually bringing a representative from each of its top 10 distributors to Bigglie's facility. The group discussed Bigglie's performance over the past year and gave Bigglie's management recommendations for improvements to Bigglie's products and programs. Buchanan's comments made it clear, however, that he saw the council primarily as window-dressing and an opportunity to wine, dine and entertain Bigglie's top distributors.

"Jim, one of Edgeworth's jobs was to be Bigglie's official 'host' for our visiting distributors next week," Buchanan explained. "All of our senior management are already scheduled out of town, so I am going to have you step in and keep our distributors entertained and pass their gripes up the chain of command.

“I guess I should give you a little background on how the council got started. A couple of years ago I almost got into a shouting match with Enrique Gonzales, who owns the largest distributorship of Bigglie products in the country. I’ve known Enrique for years, so I was pretty surprised when he called me to complain about our distributor program. Mistake number one was telling him that if he knew how we could do a better job to jump on a plane and tell us face to face.

“Enrique told me he’d do me one better. He already had met most of our larger distributors’ management at trade shows and had served on distributor councils for other manufacturers, so he said he would take the responsibility for setting up a distributor council for Bigglie. Mistake number two was not turning him down fast enough, so instead of one distributor complaining over the phone, I ended up with 10 distributors sitting in our conference room complaining all at once. And yes, I am sticking you with this because I don’t want to sit and listen to them. Actually, it probably won’t be too bad. Enrique has agreed to have the council meet privately and present a consolidated set of recommendations to a company representative. This year, that representative is you.

“Because they’re traveling here from all over the country, they straggle in over the course of Wednesday afternoon. All you have to do Wednesday is pick them up at the airport, get them to their hotel and take them out to dinner. On Wednesday they won’t have had the chance to meet yet, so it’s pretty much a social dinner. Last year our sales manager kept them out pretty late and I think the group was too hung over to complain very loudly about anything. The more of a bar tab you can run up with the group Wednesday, the less aggravation they will be able to give us Thursday, so be a generous host.

“On Thursday, Enrique, or someone from his company, takes full responsibility for the meeting. The group sets its own agenda and meets privately in our conference room, so you aren’t involved until 4 p.m. when they are ready to present their recommendations. Your job is to listen politely, nod your head at the right times and give me the Reader’s Digest™ version when I get back.”

Jim took it all in with dismay. He had been looking forward to standing in as Edgeworth’s replacement, but not if all he would be doing would be running interference so Buchanan wouldn’t have to listen to complaints that he didn’t want to hear. Maybe it was not a coincidence, he thought, that all of the senior managers were out of town the week of the distributor council.

CHAPTER 4

Although the distributors hadn't been shy about enjoying some of the most expensive steaks Jim had ever turned in on his expense account, that dinner was the quietest customer outing Jim ever had hosted. He wouldn't be able to rely on hangovers to keep the group docile tomorrow. Jim decided that the credit (or blame) would fall on Maria Gonzales, Enrique's daughter and heir-apparent as Enrique transitioned toward retirement. Gently alternating between nagging and cajoling, she herded the group back to the hotel early. Apparently she and Enrique had their own agenda and wanted to insure that the group was up to the task of formally recommending it.

Interrupted only by the arrival of box lunches at noon, the council worked straight through until 4 p.m., when Jim arrived to receive the group's recommendations. Maria had been chosen to present the group's findings and was standing next to the overhead projector when he walked into the conference room. Jim sat down in the front row, but Maria made no move to turn on the projector.

"Jim, first let me say on behalf of the group that we appreciate Bigglie's bringing us here. I realize that you were called in at the last minute because you lost your sales manager, but we are concerned that no one from the management team could break away to meet with us. We have two issues that bubbled to the top, and we are relying on you to get management's ear with these."

"Well, Maria," Jim said, letting a little irritation creep into his voice, "I am sure the management team would have been here if it had been possible. All I can do is my best, and we'll just have to hope that it is enough." He thought to himself, "It's bad enough that my career has stalled on the low end of the organization chart without also having my nose rubbed in it in front of our 10 largest distributors. What a charming way to cap off another fun day at the office."

"Jim, we have two issues: minimum billing and salespeople's compensation. Minimum billing is a no-brainer, so let's start there. Bigglie implemented $100 minimum billing last year." Jim knew the company line on this, so he was ready to reply.

"Maria, it costs us $25 to issue an invoice. So right away a $100 order turns into $75. Throw in our cost for product and packaging, and we are losing money even on a $100 order. Management has done the calculations — if we could throw every $100 order out the window instead of filling it, we'd make a lot more money. So taking orders under $100 is out of the question."

Maria smiled. "So, now that you stopped filling orders under $100, who were you able to fire to save money because you no longer accept all of those unprofitable orders?"[2]

"We didn't fire anyone, Maria," Jim replied. "That wasn't the idea."

"I'm just trying to figure out how you saved money," Maria explained. "If you didn't fire anyone, apparently you were able to take some computer hardware off line and sell it off, then? Is that how you saved money?"

Jim stopped to think. He wasn't wired tightly into the goings-on in the computer department, but he didn't think any equipment had been unplugged. Plus, how much does used computer equipment sell for? She could see that her points were sinking in, so Maria paused before continuing. "I know that this is going to be hard to swallow, but if you take a close look you will find that minimum billing actually is costing Bigglie money."

"Costing us money?" Jim unconsciously rolled his eyes before he could catch himself and regain his professional poker face. "Maria, even though I can't point to where minimum billing shows up as savings on the bottom line, I don't see how minimum billing can *cost* us money."

"The key is to remember that you are dealing with distributors who purchase your product every week, or perhaps every couple of days," Maria said. "If you were making a one-time transaction with a customer you would never deal with again, you absolutely would have to cover all your costs and make a profit on every invoice. But let's take a look at the two possible scenarios that can occur when one of your distributors goes 'stock out' on an item and wants to place a $50 order. To make the example simple, let's say that this distributor normally gives you a $1,000 order once a week and that there is only one 'stock out' this year.

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[2] A tip of the hat to Eliyahu M. Goldratt's *The Goal: A Process of Continuing Improvement* (Great Barrington, MA: The North River Press) p. 28 where a similar point was made regarding the "savings" achieved by factory automation that did not replace any employees or any other equipment.

“The first possibility is that the distributor goes ahead and buys another $50 worth of product that he would have bought later in the month anyway. So for one week this year, your customer buys that special $50 item plus another $50 item that he would have bought next week anyway. The order next week is $950 instead of $1,000.” She turned on the projector, and a neat though hand-drawn chart filled the screen. “Let’s look at this on a chart and see what the difference is to Bigglie.

Orders the Distributor Wanted to Place				**Orders Forced by Minimum Billing**			
	Number of Orders	Value of Order	Extended		Number of Orders	Value of Order	Extended
	1	$50	$50		1	$100	$100
	52	$1,000	$52,000		1	$950	$950
					51	$1,000	$51,000
Totals	**53**		**$52,050**	**Totals**	**53**		**$52,050**

“With or without minimum billing, you process 53 invoices totaling $52,050,” Maria continued. “What is the point of inconveniencing your distributors just so you can process exactly the same number of invoices with the same total dollar value you would have handled anyway? And this is the best-case scenario. Let’s stop and take a look at what happens if the distributor makes a bad guess on which part to buy to gross the order up to $100.

“Normally our orders are based on some fairly sophisticated replenishment software, but when we are rushing to add $50 worth of material, it is more likely somebody will choose incorrectly and buy something that ends up as $50 worth of dead stock. Every year your distributors have stock rotation privileges equal to 5% of total sales. You forced us to buy $50 outside our normal purchasing routine, creating a mistake we otherwise wouldn’t have made. When we return this $50 in dead stock forced on us by minimum billing, Bigglie has to do incoming receiving and inspection on this part, and return it to stock. All the costs Bigglie has to eat to take this part back are the result of your minimum billing policy, and you also are putting a part with a six to 12 month-old date code back on your shelf."

Maria paused again to give Jim a chance to absorb her argument. As the silence continued, Maria forced herself to stay quiet, remembering that allowing an extended silence often will work to a negotiator's advantage.

"Maria, this really flies in the face of normal practice, but I can't see any flaws in your argument. I am going to have to give this a little more thought to be sure I haven't missed anything, but it sounds pretty convincing to me."

Maria stood and handed Jim two sheets of paper. "Here is a copy of the chart and the bullet points. If you think of anything that would prevent you from making this case to management, I really would appreciate the opportunity to discuss any concerns that come up."

"Fair enough, Maria. Now you said you had an issue with salespeople's compensation..." Jim's voice trailed off as he sat down.

"This one is a little trickier. We have a problem but not a solution. We're hoping that, if we can explain what's been going on, Bigglie can figure out how to deal with it. Bigglie has compensated salespeople several different ways in the last few years. In each case, your people have done what the system has told them to do, and it hasn't been good for your distributors or for Bigglie.

"Bigglie's first compensation system paid each Bigglie salesperson based on what each one sold directly to large customers. Almost as an afterthought, each of your distributors was assigned to a particular Bigglie salesperson, and that salesperson received commission based on whatever his or her assigned distributors purchased. When my distributorship sold a flange to customer A, I replenished my stock and my Bigglie salesman Sam got paid based on what I bought from Bigglie. If customer A bought from a distributor assigned to Bigglie salesperson Lois instead, that distributor replenished its stock and Lois got credit for a sale to that distributor. So, Sam tried to steer customers to me, and Lois tried to steer customers to her assigned distributors. Even worse, Lois got her distributor special discounts so they could steal my customers, and Sam reciprocated with even deeper discounts. So a $4 flange became a $3.50 flange, and then a $3.10 flange, and then a $2.90 flange. Pretty soon Sam started pressuring me to slash my profit margin to take customers away from Lois' distributor, and Lois undoubtedly was doing the same to her distributors. This puts both prices and profit margins on Bigglie products into a death spiral, so we didn't have much incentive to promote Bigglie flanges any more.

"Your next sales manager put all distributor sales into a pool," Maria continued, "so each of your salespeople shared the credit when any of your distributors sold a Bigglie product. It sounded good at first, but it didn't take long for your salespeople to figure out that when an order was referred to a distributor, the commission was shared with nine other salespeople. When an order bypassed the distributor and went right to Bigglie, they received all of the commission. Bigglie salespeople started stealing your distributors' customers, because a $1,000 sale to a distributor meant sales commission on what amounts to a $100 sale, but a $1,000 direct sale meant commission on $1,000. With your salespeople stealing our customers, we couldn't rely on them to help us any more, and Bigglie ended up filling directly many small orders that a distributor should have been servicing, because that was the way your people could maximize commissions."

Maria paused for a sip of water before continuing. "I have talked to friends who live more in the electronics world than the flange world, and they have a different way to deal with these problems, but I don't care for it much. They call Bigglie's current system a Point Of Purchase commission system, or P.O.P.[3] because it is based on a distributor's *purchases*.

"Their system is called Point Of Sale or P.O.S. because it is based on what the distributors sell. The electronic distributors supply the manufacturers with a monthly report of everything they sold and to whom it was sold. The manufacturer pays its salespeople based on the distributor's report of where the distributor sold product instead of what the distributor buys. If Bigglie used this system and Sam has worked on a medium-sized OEM customer that ultimately ends up buying from me, Sam gets paid. If that customer buys from a different distributor, Sam still gets paid, because that distributor reports the sale that was made to Sam's customer. This breaks the linkage between Sam and any one distributor. Any distributor selling to Sam's customer can get Sam's support because Sam gets paid no

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[3] Charles M. Cohon, "The Positives of POS Data," *Electrical Wholesaling,* January 2000, p. 23-24.

matter which distributor services the account. And Lois can't steal Sam's customers by offering a lower price, because all of Sam's customers are tied to Sam by the distributor's P.O.S. report.

"This solves some of the problems, but there are some aspects of this kind of reporting that make the hair on the back of my neck stand up. And I will apologize up front for what I'm about to say, but the distributor council doesn't help you if it isn't candid. With your revolving door for salespeople and sales managers, we would be very reluctant to give you a report of everything we sell and to whom we sell it. I mean, let's face it, some of your salespeople and at least one of your sales managers have ended up with flange companies or distributors I have to compete with every day. I can't risk giving you detailed information about my customers if salespeople and sales managers can walk out your door with that kind of information about my business. So, what I am telling you is: We have identified the problem and three solutions that don't work. The ball is in your court, Jim."

Jim was uneasy. He felt that he could make a pretty good presentation to David Buchanan on minimum billing, but going to Buchanan with a problem that didn't include a solution worried him. "Duly noted, Maria," he replied. "I will see what I can do."

CHAPTER 5

Jim had never before made a major presentation directly to Bigglie's president, so when the time came for his private meeting with David Buchanan and Harold Katz, Bigglie's most senior VP, he was both excited and nervous. Katz's formal title was VP of Operations and Manufacturing, but he'd been pinch-hitting some of the sales manager's administrative responsibilities during the search for Edgeworth's replacement. Those duties required Katz to be familiar with the distributor council's concerns, so he sat in on Jim's presentation.

David Buchanan puffed up a little bit as Jim related the distributor council's comments about minimum billing. "Jim, this is very good stuff. I am a numbers kind of guy, and when somebody can lay out a situation clearly in black and white like this, I am the first one to jump on board."

Buchanan's tone made Jim wonder if Buchanan was more pleased with the opportunity to improve Bigglie's policies or with the opportunity to announce he was a "numbers kind of guy." It was a small meeting, just three men seated facing each other across Buchanan's desk, but Buchanan's voice had boomed as though he were addressing a packed auditorium. Buchanan relished his reputation as a tough manager, and Jim was sure being a "numbers kind of guy" was one way Buchanan chose to reinforce that image.

"Thanks for standing in for us at the council, Jim. I'll send out a letter that waives minimum billing for distributors with annual purchases of at least $50,000. As far as that compensation thing goes, you've come to me with a problem but not a solution. When you and Harold can come back to me with a solution instead of just a problem, we will have something to talk about — and make sure you bounce your ideas past Enrique and Maria Gonzales before you bring them back to me. No point in wasting my time on something the distributor council won't buy into. If you can't come up with a brainstorm you can sell to the council and to me, send them a bedbug[4] letter and we'll see if the problem fades away by next year's council."

Jim floated out of the meeting. "When you and Harold can come back to me with a solution" sounded a lot to Jim like he had been elevated toward Harold's level, where a sales manager would expect to be. Harold broke into Jim's reverie. "Jim, why don't you stop by my office tomorrow morning and let's kick around this compensation thing around a little bit. Say 8:30?"

The next morning Jim stuck his head through Harold's doorway at 8:25. He had walked past the office of the VP of manufacturing and operations before, but he never had been inside. The office sat out on the plant floor, a prefabricated 20' x 20' structure with enough sound proofing so Harold could conduct a conversation, but not so much that he would miss any change in the dull roar of sounds that accompanied Bigglie's production processes. One April 1st, the shop foremen decided to find out just how well Harold tuned in to the sounds of the plant, and arranged to silence all of the production processes at 10:30. They had intended to time how long it took Harold to notice, but he had burst out of his office so quickly that they didn't even get a chance to look at their watches. The consensus was that his door had swung open before 10:31.

As Jim settled into a well-worn chair in the spartan office, he noticed the walls were covered with charts labeled "Productivity" or "Quality" and subtitled with various production processes like "Rouselle Press #2" or "NISSEI Molding Press #3." The only non-statistical posting looked like it might be one of the faxed joke lists that the salespeople often circulated in the office. Looking closer, he saw the title was "W. Edwards Deming's 14 points[5]."

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[4] Perhaps an urban legend, "bedbug" letters are said to date back to the era of overnight railroad Pullman cars and an apocryphal story of a dissatisfied customer who wrote a letter to the railroad to complain about bedbugs in his Pullman car sleeper bed. The letter he received by return mail was apparently a heartfelt apology, with a detailed list of steps that would be taken to insure that the problem never recurred. The customer was very encouraged by the railroad's concerned reply, until he noticed his original letter had been inadvertently included in the same envelope as the railroad's reply. Paper-clipped to his letter was a piece of notepaper, with these words scribbled on it: "Send this guy the bedbug letter."

[5] W. Edwards Deming, *Out of the Crisis* (Cambridge, MA: Massachusetts Institute of Technology, Center for Advanced Engineering Study, 1982) p. 23-24.

1. Create constancy of purpose toward improvement of product and service, with the aim to become competitive and to stay in business, and to provide jobs.
2. Adopt the new philosophy. We are in a new economic age. Western management must awaken to the challenge, must learn their responsibilities, and take on leadership for change.
3. Cease dependence on inspection to achieve quality. Eliminate the need for inspection on a mass basis by building quality into the product in the first place.
4. End the practice of awarding business on the basis of price tag. Instead, minimize total cost. Move toward a single supplier for any one item, on a long-term relationship of loyalty and trust.
5. Improve constantly and forever the system of production and service, to improve quality and productivity, and thus constantly decrease costs.
6. Institute training on the job.
7. Institute leadership (see Point 12 and Ch. 8). The aim of supervision should be to help people and machines and gadgets to do a better job. Supervision of management is in need of overhaul as well as supervision of production workers.
8. Drive out fear, so that everyone may work effectively for the company (see Ch. 3).
9. Break down barriers between departments. People in research, design, sales, and production must work as a team, to foresee problems of production and in use that may be encountered with the product or service.
10. Eliminate slogans, exhortations, and targets for the work force asking for zero defects and new levels of productivity. Such exhortations only create adversarial relationships, as the bulk of the causes of low quality and low productivity belong to the system and thus lie beyond the power of the work force.
    a. Eliminate work standards (quotas) on the factory floor. Substitute leadership.
    b. Eliminate management by objective. Eliminate management by numbers, numerical goals. Substitute leadership.
11. Remove barriers that rob the hourly worker of his right to pride of workmanship. The responsibility of supervisors must be changed from sheer numbers to quality.

12. Remove barriers that rob people in management and in engineering of their right to pride of workmanship. This means, *inter alia,* abolishment of the annual merit rating and of management by objective (see Ch. 3).
13. Institute a vigorous program of education and self-improvement.
14. Put everybody in the company to work to accomplish the transformation. The transformation is everybody's job.

Harold caught Jim's eye as Jim scanned down the list. "Sorry, Harold. I thought it might be a joke list." Harold winced a little, and then he carefully measured his response.

"Jim, that is about the most unfunny list in the history of manufacturing. Are you at all familiar with how Japan went from a defeated country with almost no infrastructure or manufacturing facilities at the end of World War II to achieve the status of a world economic superpower?" Jim shrugged, a little embarrassed at the vigor of Harold's rebuke.

"Japan had absolutely hit bottom," Harold continued. "Quite frankly, maybe if they hadn't hit bottom they wouldn't have been so open to new ideas, but the guy who put them on the right track in 1950 was W. Edwards Deming[6]. The statistical processes and philosophy that Deming ultimately collected into these 14 points is what turned Japan into what it is today." Harold pulled out the thumb tacks that had secured Deming's "14 Points" to the corkboard wall and handed the sheet across the desk. Jim looked them over, still unsettled by Harold's passionate reproach.

"Harold, I don't know much about manufacturing, and I know that's your specialty, but when I look at this list in a sales context, I can see some problems. Look here at number eight: 'drive out fear.' I mean, every sales manager I've ever worked for has tried to keep the salespeople a little scared about their jobs to keep them on their toes. And number 10 is a problem too. Every company uses 'slogans, exhortations and targets' to drive the sales force harder. And if you'll forgive me, number 11 is a no-brainer too. How can you have a sales force that doesn't have quotas? If they didn't have quotas, they would

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[6] Hobart Rowen, "Japan's Secret: W. Edwards Deming," *The Washington Post,* December 23, 1993 (from a reprint at http://www.deming.org/theman/articles/articles_japanssecret.html)

just coast. Again, I wouldn't try to tell you how to run your factory, but this stuff does not apply to an outside sales force."

Harold reddened as Jim spoke, but his reply was remarkably controlled. "Jim, I'll tell you what. I have been applying statistics and Deming's principles to our shop operations for a long time, but doing it is a whole different skill set from explaining it and teaching it." He reached behind him and pulled a slim volume from his bookshelf. "Why don't you give me a little time to revisit the fundamentals so I can do a decent job of making my point the next time we get together? How does the same time next week sound to you?"

Jim bristled slightly at the stress Harold put on the word "fundamentals," as though Harold had to "dumb the topic down" enough for Jim to understand it, but he knew better than to show his irritation.

"OK, Harold, I guess I could do that..." Jim's voice trailed off, undermining his efforts to avoid revealing that he was agreeing under duress.

Harold noticed, and wondered if he was up to the task of convincing a 45-something salesman to buy into Deming's 14 points and statistical thinking, but he stood firm. "I appreciate that, Jim. I am sure that it will be a very productive meeting."

CHAPTER 6

When Harold arrived in the conference room carrying a coffeecake, Jim was relieved. The mood as their last meeting ended had seemed a bit tense, but the pastry told Jim that Harold either hadn't noticed or wasn't carrying a grudge. Harold set the coffeecake on the conference table, and before he even sat down, began slicing it with a plastic knife.

Harold dropped into a chair at the head of the table and they exchanged pleasantries for a couple of minutes. Then Harold carefully set on the table a sheaf of hand-written notes so thick that Jim could tell the meeting probably would last all morning. Harold began to speak.

"Jim, when it comes to applying statistics to business problems, most of the books I've read and the experience I've had apply them to operations and manufacturing issues, so the only examples I have readily available to explain this topic are from operations and manufacturing. I promise you we'll get to how this fits with our sales force compensation problems, but please bear with me even if it looks like I am headed off on a tangent during the first part of this discussion."

Jim's nod gave assent, so Harold continued. "What I want to talk about today is the difference between results that are a part of a system and results that are an indication of a special case. What I mean by a system is a group whose members cannot be distinguished from each other by their results." Jim shifted uncomfortably in his chair, and a quizzical look passed over his face. Harold noticed and decided to illustrate his point with a simple example.

"To explain what I mean by a system, let's take a typical example from the shop. Say I have three workers in the shop drilling holes. On Monday, George drills 290 holes, Dominique drills 300 holes and Sam drills 310. Is Sam a better driller than George?"

Jim nodded, "Sure."

Harold shook his head slightly, "Actually, we really don't know. When you think about it, each of the three is pretty close. When results are this close, we say that George, Dominique and Sam are part of a system. On any given day we could expect George to be number one, number two or number three. Same for Dominique and same for Sam. If the differences among them are so small that they can only be attributed to random variables outside George's, Dominique's or Sam's control, they are not far enough apart for the variances to be considered significant numbers. So when you look at the group and say that the numbers for George, Dominique and Sam don't give us any indication that one is outperforming the others, you are saying that George, Dominique and Sam are inside the system."

At this point, Jim interrupted Harold. "Maybe so, but shouldn't we pay Sam the most, at least for Monday. After all, he made the most holes."

"We could," said Harold, "but let's look at what we would be rewarding. Why are we paying Sam more? Did he work smarter than George and Dominique? Did he work harder? If we maintain that all three are within a system and that the one who drills the most holes does so for reasons completely beyond his or her control, then we are saying that something other than brains or effort made Sam number one on Monday.

"Maybe Sam got freshly sharpened drills that morning and the others didn't. Maybe Sam got material that was just slightly softer and easier to drill than the others. Or maybe that day when George ran out of material to drill and went to the storeroom for more, he saw Sam was running low and brought enough for Sam too. If the three are part of a system, we are saying that the difference in their efforts and effectiveness is insignificant statistically and the value of their labor is indistinguishable to the company.

"If we make the mistake of rewarding an outcome even when the contributions effectively were equal, the payoff becomes a lottery," continued Harold, "And what would happen if we did? George, Sam and Dominique would fight over the sharpest drills and the softest material. And would George ever take the time to see if Sam needed more raw material? No way." The wheels were starting to turn for Jim, and he found himself nodding in agreement.

"Now that you mention it, I've seen stuff like this happen with the outside salespeople," Jim offered. "Except in sales if three salespeople each turned in an order to the manager, one for $290, one for $300 and one for $310, the one who sold $310 is the hero and the one who sold $290 is the goat. And, of course, because we pay our salespeople on commission, whoever sells the most takes home the most pay. And you're right, salespeople do fight over the 'sharpest drills' and 'softest material,' and they don't give each other any kind of help. Even so, with outside salespeople you have to pay them on commission or they'd spend their afternoons at the movies instead of selling," Jim said emphatically. "You're lucky that your shop workers have to be on the shop floor where they can't hide instead of driving around in company cars."

"You make sales management sound like dropping a food pellet to a mouse so it will run a maze," countered Harold as he reined in the more critical comments that came to mind. "But let's come back to the sales issues a little later. Now that we've discussed employees who are within a system, we need to discuss the employees whose outcomes aren't within the system. These are called 'special cases.' Star employees who dramatically outperform the average employee are 'special cases,' but the employees who are very far below the average are 'special cases' too. 'Special case' just means that the employee's output is so far above or below average that it gives us statistical proof that the individual's skill, work ethic or abilities are the source of the difference.

"I will keep the statistics and math to a minimum, but a certain amount is unavoidable," admitted Harold. "I absolutely will guarantee that once you get through this little bit of math, you will be very glad that you did." He opened Scherkenbach's book[7] and said, "I am going to refer to this book to keep my explanation on track, but I will need to alter the examples a bit. The book is based on examples that track employees' mistakes. Tracking employees' successes illustrates special cases just as well as tracking their mistakes, and will translate better

Figure 1

Worker	Daily Output
1	430
2	285
3	345
4	320
5	405
6	450
7	445
8	490
9	395

[7] William W. Scherkenbach, *The Deming Route to Quality and Productivity: Road Maps and Road Blocks* (Rockville, MD: Mercury Press, 1988) p. 62-69

Figure 2

Salesperson	Annual Sales (1000's)
1	430
2	285
3	345
4	320
5	405
6	450
7	445
8	490
9	395

when you go to work on sales problems because in a sales environment you concentrate on number of wins just like we look at the quantity of goods we manufacture. Let's look at the output of nine workers in the factory." (Figure 1.)

"Wait a minute," said Jim. "As long as we're looking at a sales problem, couldn't we call these nine salespeople and call the output their annual sales?" (Figure 2.)

"OK, Jim," Harold said, "let's go ahead and do it that way, but we should do a little more than just change the headings. In the plant, we look at a daily cycle, because any one manufacturing employee's input into our product can easily be completed in a day. I know that you salespeople don't go from sales lead to closed sale in a day, so a one-day cycle would be too short."

"Darned right," Jim piped up. "When we receive a sales lead, we spend quite a bit of time trying to convince the engineer that our parts are superior. Once that is done, we have to wait to sell our flanges until the engineer's next project goes from drawing board to manufacturing. With everything we have to go through, our sales cycle is about a year."

"Then a year is the period that is statistically significant," Harold replied, "so we will use annual sales in our example.

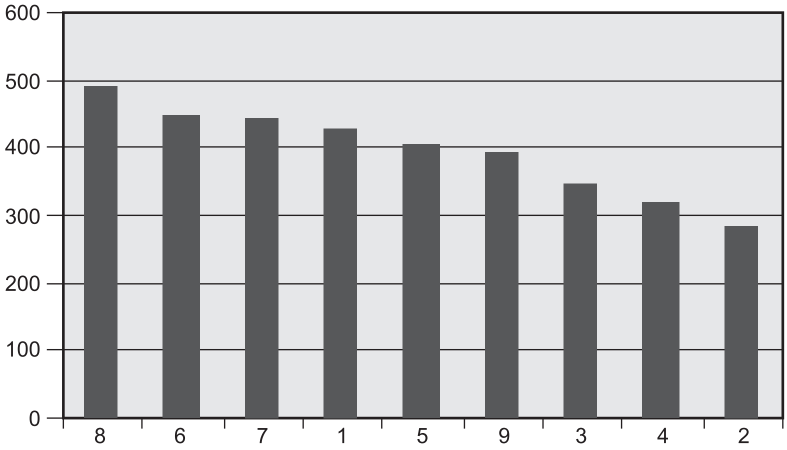
"Now that we've got their annual sales, the next logical step is to rank the salespeople," said Harold. (Figure 3.)

Figure 3

Rank	Salesperson	Annual Sales (1000's)
1	8	490
2	6	450
3	7	445
4	1	430
5	5	405
6	9	395
7	3	345
8	4	320
9	2	285

Figure 4

Sales In $1000's By Salesperson



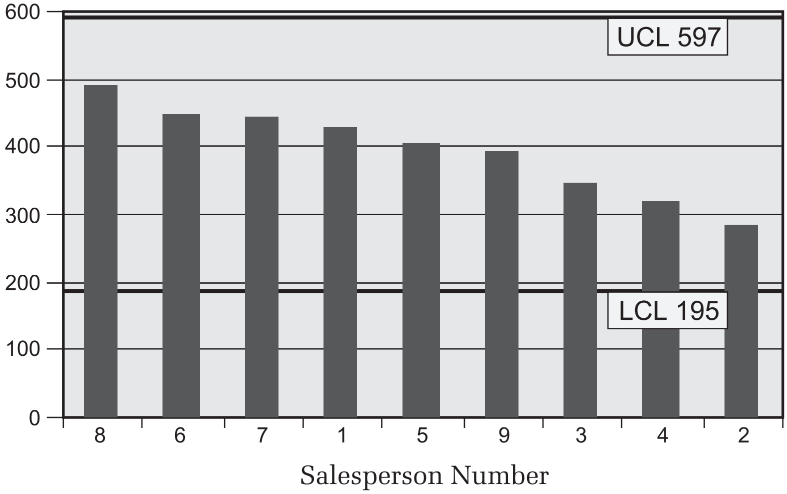
"As Scherkenbach points out, looking at the data graphically makes it much more understandable than a table, so let's do that next. (Figure 4.)

"Clearly, salesperson #2 has committed the unforgivable sin of coming in dead last," Harold continued. "As a matter of fact, salespeople #9, #3, #4 and #2 all are in the bottom half of the sales force, and probably would be removed by a tough manager. Scherkenbach points out the error of this typical evaluation: 'We knew from the start that one of the nine employees would be in the top 11% and one would be in the bottom 11% (1/9 = 11.11%). We knew that before we gathered any data. What we need to know is whether or not the top or bottom 11% are part of the system, and if they are not, and thus in need of different treatment.' (63)

"Here is where the math and statistics come in, but I am going to hold it to a minimum. A standard way statisticians measure how far one number of a group of numbers deviates from the average of the group is called a standard deviation. This is a very important concept, because the standard deviation lets us figure out which workers are within the system and which are special cases. A spreadsheet program like Excel™ will calculate standard deviations for you from the formula =STDEV(First Cell:Last Cell).

Figure 5

Sales In $1000's By Salesperson



"In our example, the standard deviation is 67. Statistical rules tell us that any results within three standard deviations of the average are within the system rather than a special case. By that I mean you start by multiplying the standard deviation by three. In this example, three times the standard deviation is three times 67, or 201. Any result that is within 201 of the average is a part of the system, not a special case. The average in our example is 396. Subtracting 201 from 396 gives us a lower limit of 195 and adding 201 to 396 gives us an upper limit of 597. The number 195 is referred to as a Lower Control Limit (LCL) and 597 is called an Upper Control Limit (UCL).

"What the graph tells us is that the results of all of the salespeople are between the LCL and UCL. That means that the differences in their results are attributed to factors other than the individuals' performance," explained Harold.

"I just can't accept that, Harold," said Jim. "You are trying to tell me that there is no difference between a salesperson who sells $285,000 and a salesperson who sells $490,000."

"Not to split hairs, Jim," said Harold, "but that is not exactly what I said. There can be all kinds of differences between them, but what I am trying to get across is that when you take a statistical look at these nine results, the numbers do not provide any statistical evidence that any one salesperson did a better job than the others.

"The salesperson who sold $490,000 'got the sharper drills' and the one who sold $285,000 got 'material that was harder to drill,'" continued Harold. "All kinds of factors influence sales. For instance, sometimes we have stock when your customer calls, and sometimes we don't. Sometimes our best customer service person answers your customer's call and sometimes our worst one answers. Sometimes the differences between our products and our competitors' products work for you, sometimes they work against you. Sometimes a customer wants a product with a UL label, and sometimes the customer wants a product that carries the European equivalent of UL approval. These are things that are part of the system, and the salesperson has little or no influence over them."

Jim could have accepted that argument if the range of numbers had not been so great. "Are you are saying if we took this set of numbers back into the factory, you would treat someone who produced 285 pieces a day the same way you would treat someone who built 490 pieces a day?"

"Absolutely," said Harold, "and any factory run with statistical precision anywhere in the world would do the same thing."

"So," Jim countered, "if Deming's statistical systems say that anything from 285 to 490 pieces is OK and Deming is such a big deal in Japan, how come I hear so much about the consistency of Japanese manufacturing concerns?"

Harold tented his fingers in front of his face, resting the tip of his nose on his index fingers as he gave Jim's question some thought. "Actually, Jim, you're right. A range of 285 pieces to 490 pieces is not OK. I am not saying that it is. What I am saying is that, statistically, any output between 195 and 597 is a part of the system and when the outputs are in that range they do not provide any evidence of the quality of work of any individual worker.

"The system we are using in our example exists due to a variety of factors that are within the control of management but are outside the control of any individual worker. For example, if we always had stock, the numbers would cluster closer together. If we didn't run out of literature, the numbers would cluster closer together. If every one of our customer service reps was well-trained, polite and super-responsive, the numbers would cluster closer together. If we answered every call by the third ring instead of dumping calls into voice mail during peak periods, the numbers would cluster closer together.

“Management can do the things that have to be done to make the standard deviation smaller and to move the average higher, but there is nothing one single salesperson can do about those things. As long as the salesperson works in an environment where so many variables outside his or her control determine the outcome, I will repeat that, yes, there is no reason to treat any salesperson differently from any other as long as both have sales between $195,000 and $597,000.”

“Look, Harold, I appreciate what you are telling me, but this is exactly the opposite of everything I’ve ever heard about sales. Frankly, I’m pretty sure there is a hole in that argument somewhere if I knew enough math to figure it out.”

Harold put his elbows on the table and rubbed his temples before replying. “Jim, I’ve been using control charts like this to run my manufacturing operations for 25 years and I have to tell you I absolutely stake my reputation on the science of statistics and the importance of identifying which outputs are part of systems and which are special cases. And, now that you bring it up, I realize that nobody ever went broke underestimating the American people’s lack of understanding of probability distributions and statistics.”

Jim bristled at Harold’s suggestion that his intuition was inferior to Harold’s statistical background. “Harold, what exactly do you mean by that?”

“I remember that you went to Las Vegas last year,” Harold explained. “Do you remember the vast scale of the buildings and how much new construction was going on?” Jim nodded. “Where do you think all the money came from? From tourists. Casinos that are very sophisticated about probability distributions and statistics took that money from tourists who were not. The casinos can’t tell you what will happen on the next roll of the dice, but they damn well can tell you exactly what will happen when the dice are rolled a million times.”

“Harold, I am going to be very direct with you. If I knew more about math I might completely buy into your argument or I might come up with a brilliant rebuttal to prove you’re all wet. As far as I can follow your arguments, I can’t find any holes in what you said, but my gut tells me there is a hole in there somewhere that I just can't put my finger on. Honestly, no matter how much math you throw at me, the best you're ever going to do is to get me to accept your logic intellectually without really believing it in my gut."

"Point well taken, Jim," said Harold. "Let me see what I can come up with and I'll get back to you. Let's get together the same time next week and we'll see if I can't come up with an example that is a little less academic and a little more real-world."

CHAPTER 7

People eating lunch in Bigglie's break room tended to spread out one per table until all of the tables were full. By the time Henry Buchanan walked in to wait for his brother David to be ready to go to lunch no empty tables were left, so he had to sit with somebody. Henry recognized Jim from the company's Christmas party, and gestured to a seat at Jim's table, "OK if I join you?"

"Sure, have a seat," Jim replied. A little P.R. with the boss' brother couldn't hurt, he thought. "I'm Jim Anderson. We met at the Christmas party. You're Henry, right?"

"You salespeople are really good with names," Henry replied.

Jim warmed to the compliment. "Thanks, Henry. It's an important part of the job. You do something in insurance, don't you?"

"I'm an actuary," said Henry. "My job is to decide when two things have an equal value." Jim's eyebrows furrowed, which Henry interpreted as a signal for explanation. "Let's say my insurance company has three envelopes in a hat. We offer to sell you and two other people the right to pull out a single envelope and keep the contents. Nobody gets to open his or her envelope until all three of you have made a selection. One envelope has $40,000 in it, one has $50,000 and the last one has $60,000. As an actuary, my job is to determine what to charge each of you for an envelope. In this case, pulling all three envelopes from the hat would get you $150,000, so the actuarially fair price for an envelope is $50,000. An insurance company adds its profit to that actuarially fair price, so we might charge $51,000 per envelope and make a $3,000 profit."

Jim nodded his understanding, so Henry continued. "What I do is use statistics to evaluate complicated combinations of hats and envelopes. For life insurance, let's take a group of 100 people. If the characteristics of this group tell me that I can expect one of them to die this year, and the policies I'm selling pay $100,000 to the surviving spouse, I would have to charge $1,000 per policy to break even. Give me a group of 100 people, and I can give you a fairly good estimate of how many are going to die this year."

There was something about Henry's description that made Jim flash back to Harold's comments about statistics. Normally, Jim would have found a way to change the topic, but there was a common thread nagging at him, so he let Henry continue.

"In a group of 1,000 we can predict mortality rates much more accurately than we could in the group of 100, and in a sample of a million people we have outstanding accuracy. Of course, I can't tell you which people in a group of a million will die, but we get so close to the actual number, it can seem a little creepy."

A tiny voice told Jim that something about Henry's comments was important, but he'd heard enough about statistics for one lunch hour and was grateful when David Buchanan's voice came over the paging system to summon his brother to lunch. Jim remembered that Harold had mentioned Las Vegas as evidence of the power of statistics. "Well," thought Jim, "maybe it's just another example how businesses that understand statistics make big money," but he felt as though some larger truth was lurking there, just beyond his reach. Returning his attention to his lunch, he decided that he didn't mind when statistics lessons appeared unexpectedly, as long as they arrived in small bites.

CHAPTER 8

A week to consider Harold's position hadn't brought Jim any closer to accepting it. In fact, the carefully organized arguments Harold made last Wednesday had gotten jumbled in Jim's head, and Jim wasn't really sure why he had considered letting Harold's logic overrule his instincts. On his way to see Harold he resolved to stand behind his instincts more firmly. As he walked into Harold's office, Jim saw Harold had a big smile on his face and a curious collection of items on his desk — three miniature wooden oars that looked like oversized ping pong paddles and a dishpan-sized open-top container of white and red marbles.

Jim walked over to the desk and hefted one of the paddles. "So, Harold, am I in for a spanking?"

Harold chuckled. "Well, Jim, I don't think there is any reason to give you a spanking, but I may just spank some of your old assumptions about sales quotas with that real-world example you asked for last week."

Jim noticed a matrix of five rows and 10 columns of marble-sized dimples on the paddles. "Harold, what do you have in mind, exactly?"

"I am borrowing this right from W. Edwards Deming," said Harold. "He was famous for using paddles and marbles to illustrate his ideas, and I am going to adapt Deming's example (346–354) somewhat to illustrate my point. You were having trouble accepting that salespeople who worked equally hard and were equally smart could have significantly different results. This will show that when you eliminate the effects of skill and hard work from the situation you still can get results that are just as far apart as the results we discussed last week."

"What is this supposed to prove, Harold?"

"If I can show you that we can get very different results even when the effort and skill are exactly and precisely the same, then you should be able to genuinely embrace statistical thinking instead of just feeling that I bullied you into agreeing because you didn't know enough math to fight back."

"OK, what do we have here and what do you have in mind?" Jim asked.

“What we have here are 5,000 very well-mixed marbles — 2,500 white and 2,500 red. Let’s say when you draw a white marble, it means none of the things that prevent a sale from happening occurred, and in that case the salesperson always gets the sale. Drawing a red marble means something got in the salesperson’s way and the sale wasn’t possible — the customer service person was rude, or we were out of stock or we couldn’t match the competitors’ price.

Figure 1

Hamilton’s First Week										
1	0	0	1	1	1	1	0	0	0	5
1	0	1	0	0	0	0	1	0	1	4
1	1	1	1	0	0	1	0	1	0	6
1	1	1	0	1	0	0	0	0	0	4
0	1	0	1	0	0	1	0	1	1	5
										24
Jackson’s First Week										
0	1	0	0	0	1	1	1	0	0	4
0	1	0	1	1	1	1	0	0	0	5
0	1	0	0	0	0	0	0	0	1	2
1	1	0	0	1	0	1	1	0	0	5
1	1	0	1	0	1	0	1	1	0	6
										22
Franklin’s First Week										
1	0	0	1	1	0	0	1	0	0	4
1	0	0	0	1	1	1	1	1	0	6
1	0	1	0	1	1	1	0	1	1	7
0	1	1	0	1	0	0	1	0	0	4
1	0	1	1	1	0	0	1	1	1	7
										28

First Week Recap	
Hamilton	24
Jackson	22
Franklin	28

Figure 2

Hamilton’s Second Week										
0	1	0	1	0	1	0	0	0	0	3
0	1	1	0	1	0	0	1	1	1	6
0	0	1	0	0	1	0	0	0	0	2
1	1	0	1	0	0	0	1	0	1	5
0	1	0	0	0	0	0	1	1	0	3
										19
Jackson’s Second Week										
1	0	1	0	0	1	1	1	0	0	5
0	1	0	1	0	1	0	0	0	1	4
1	1	0	0	0	1	0	1	1	1	6
1	0	1	1	1	1	0	1	1	0	7
0	1	0	1	1	0	0	1	0	1	5
										27
Franklin’s Second Week										
0	0	1	0	1	0	0	0	0	0	2
0	0	0	0	1	0	0	1	0	0	2
1	1	1	1	1	0	1	1	0	0	7
1	1	0	0	0	1	1	0	1	0	5
1	1	1	1	0	0	0	1	1	0	6
										22

Second Week Recap	
Hamilton	19
Jackson	27
Franklin	22

"Each salesperson dips a paddle into the pile and draws out 50 marbles. We already have stipulated that all the salespeople are equally hard-working and smart, and the 50 dimples represent the 50 calls that are the most a salesperson can make in a given week. So let's do an experiment and we'll see how well they perform. To give everyone an exactly equal chance, we return the marbles to the bin and remix them after each pull, so each salesperson has exactly the same chance to pull out white marbles. And as long as it's my experiment, I'm going to name the salespeople Hamilton, Jackson and Franklin, and the sales manager Grant. You get to dip the paddles to choose the marbles, and I'll keep score — one for white and zero for red. So let's see how our sales force did on their first week, shall we?"

Figure 3

Hamilton's Third Week										
1	0	0	1	1	0	0	1	0	0	4
1	1	0	0	0	1	1	0	0	1	5
0	0	0	0	0	0	1	1	1	1	4
0	1	1	1	1	1	0	1	1	0	7
1	1	1	1	1	1	0	0	0	1	7
										27
Jackson's Third Week										
0	1	1	1	0	1	0	1	0	0	5
0	0	0	1	0	1	1	1	0	1	5
0	1	1	1	1	0	0	0	0	0	4
0	0	1	0	0	1	1	1	0	1	5
0	1	0	0	0	0	1	0	1	0	3
										22
Franklin's Third Week										
0	0	0	0	0	1	1	1	0	0	3
1	0	1	0	0	1	0	1	1	1	6
0	1	1	1	1	1	0	1	0	1	7
0	1	1	1	1	0	0	1	0	0	5
0	1	1	0	0	0	0	1	1	1	5
										26

Third Week Recap	
Hamilton	27
Jackson	22
Franklin	26

Jim dipped the marbles from the bin, and Harold recorded the results on a chart. (Figure 1.)

"Grant interprets these numbers without understanding statistics," says Harold. "In Grant's words: 'Looks like Hamilton didn't quite hit his target and Jackson is in a bit of trouble, but it's bonus time for Franklin!'"

Jim stirred the marbles from his first pick back into the bin, and then dipped each paddle into the marbles again. Harold charted the results again. (Figure 2.)

"How would Grant read these numbers?" asked Harold. "Probably like this: 'We weren't hard enough on Hamilton when he came up short at 24 sales last week, and it shows in the miserable 19 that he turned in this week. Jackson, on the other hand, really responded to the chewing out we gave him. He's the star of the week at 27. Franklin is a disappointment at 22. He must have spent the bonus from Week One on beer.'"

They did a third repetition of the experiment. (Figure 3.) "Grant is ready with his evaluation at the end of week three," continued Harold.

Figure 4

Hamilton's Fourth Week										
1	0	1	1	0	1	0	0	0	1	5
0	0	1	0	0	0	1	1	0	1	4
0	1	0	0	0	1	1	0	1	1	5
1	1	0	0	0	0	0	1	1	1	5
0	1	1	0	0	0	0	0	0	0	2
										21
Jackson's Fourth Week										
1	0	1	1	0	1	1	0	1	0	6
1	0	0	0	0	0	1	0	1	1	4
1	1	1	1	0	1	1	1	1	0	8
0	1	1	0	0	1	0	0	1	1	5
0	1	0	1	0	0	0	1	0	0	3
										26
Franklin's Fourth Week										
1	0	1	0	0	1	1	0	1	0	5
0	0	0	0	0	0	1	0	1	1	3
1	0	0	1	0	1	0	0	0	1	4
1	0	1	1	0	1	1	1	0	0	6
0	1	0	0	1	1	0	0	0	0	3
										21

Fourth Week Recap	
Hamilton	21
Jackson	26
Franklin	21

Figure 5

Hamilton's Fifth Week										
1	0	1	1	0	0	0	0	0	1	4
1	1	1	1	0	0	0	1	1	1	7
1	1	0	0	1	1	0	1	0	1	6
0	1	1	0	1	1	0	1	1	0	6
1	1	1	1	1	1	1	1	1	1	10
										33
Jackson's Fifth Week										
0	1	0	0	0	0	0	0	1	0	2
1	0	1	1	1	0	0	1	1	0	6
0	1	1	1	1	1	0	0	1	0	6
1	1	0	1	0	0	1	0	1	0	5
0	1	1	0	1	0	1	1	1	0	6
										25
Franklin's Fifth Week										
1	0	1	0	1	1	0	0	1	1	6
1	1	0	0	0	1	0	1	0	0	4
0	1	0	0	0	1	1	1	0	1	5
1	1	1	0	0	0	0	1	1	0	5
1	0	0	1	1	1	0	1	0	1	6
										26

Fifth Week Recap	
Hamilton	33
Jackson	25
Franklin	26

"Grant is ready with his evaluation at the end of week three," continued Harold.

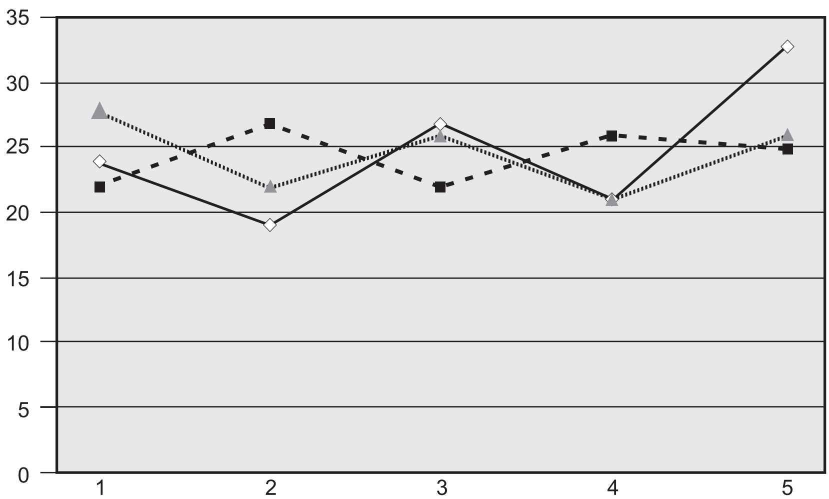
"This just shows what Hamilton can accomplish when he puts his mind to it," says Grant. "We spent a lot of time with him after the abysmal 19 sales he made last week, and it really paid off. We shouldn't have neglected Jackson, as we can see that the lack of nagging resulted in his dropping down to 22 units. Franklin apparently is getting the idea — at least he is over 50%."

Once again, they recycled the marbles and created a new chart.

"Grant is disappointed with week four," said Harold. "'Hamilton and Franklin are both a problem at 21,' says Grant, 'which is only 84% of the 25 that they should be getting based on 50% white marbles.'" (Figure 4.)

Harold charted the final repetition. (Figure 5.) "Grant is ready to crow now," said Harold. "'Thanks to my tireless sales management,' gloats Grant, 'Hamilton set a new company record at 33 sales in one week, Jackson is at least at 50% and Franklin is over 50%. Based on

Figure 6



Hamilton	24	19	27	21	33
Jackson	22	27	22	26	25
Franklin	28	22	26	21	26

these outstanding results, my skills as a sales manager are clearly documented. This would be a good time to chart the results (Figure 6), revise my résumé to reflect my success as a manager and submit it to other companies.'"

Harold grinned at Jim. "So Jim, here we sit with results that came from your dipping paddles into a pan of marbles, but we see exactly the same kind of differences in sales numbers that Bigglie uses to assign rewards and punishments every month. If we can't use these numbers to tell that the 'Hamilton' paddle somehow is more talented or harder working than the other two paddles, why do we use similar numbers to reward and punish real-life salespeople?" asked Harold. "Yet on a commission basis, Hamilton is paid more, but doesn't know why or how to continue his success. Franklin and Jackson get less than Hamilton, but, compared to Hamilton, have they done any more or any less for the company? They make less than Hamilton but can't figure out what to do to follow Hamilton's example.

"How does it benefit the company to have each salesperson confused about what they need to do to succeed? Have you ever heard what happens when you randomly reward and punish lab animals in such a way that they can't figure out how to get the reward or avoid the punishment? They go nuts. It can't be any healthier for our salespeople."

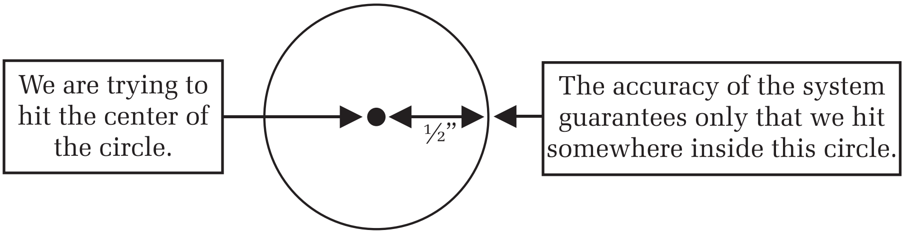
CHAPTER 9

Jim had welcomed the opportunity to adjourn their meeting for lunch. Harold's arguments all had been logical and Jim could find no flaws in Harold's reasoning, but Jim could not bring himself to abandon the natural intuition that a commission system was necessary to drive a sales force. By the time the two men returned to Harold's office, the break had given Jim enough time to put his finger on what was bothering him.

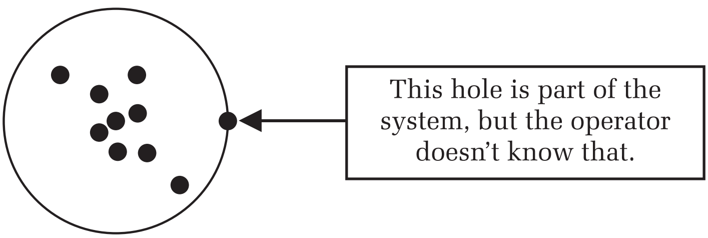
"We've always managed our sales forces with rewards and fear, Harold. Carrots and sticks. You proved that for all salespeople whose results are within the system, the relative differences in their results do not give us any evidence of a difference in their contribution. From the standpoint of fairness, it may bother us that salespeople who make the same contribution can end up with very different sales commissions, but life isn't always fair. You are missing the significance of a point you made yourself — salespeople don't understand statistics. It may sound manipulative, but as long as the salespeople *think* that their commissions are a result of their efforts, they will keep trying. Salespeople chase commissions like greyhounds chase a mechanical rabbit. Without the prospect of a reward, why would the salesperson chase orders?"

"Jim, I see your point, but let's take a closer look. What you're really saying is we want the salespeople to give the company the greatest effort possible. We want them to try *really* hard. After we award one of our random rewards, the person who received it works *really* hard to do the same thing again, and the people who see the award being assigned work *really* hard to emulate that person's activities. But remember, the award was assigned based on a random event. A salesperson who tries to earn a repeat award by doing the things that seemed to trigger the winning results isn't likely to get the same outcome a second time. Other salespeople who try to copy the winner can't find the winning formula either, because there isn't one.

"I think I can illustrate what is happening here by taking another example from the plant," said Harold. "We're drilling holes again. The goal is to drill the hole in a particular spot. Variables in the material, machinery and operators form a system in which any result where the hole is within one half-inch of the target is within the system. To illustrate this system, I can draw a circle with the target at its center and a radius of one half-inch. Of course, the diameter of the circle is twice the radius, or one inch. Let's take a look at the system:

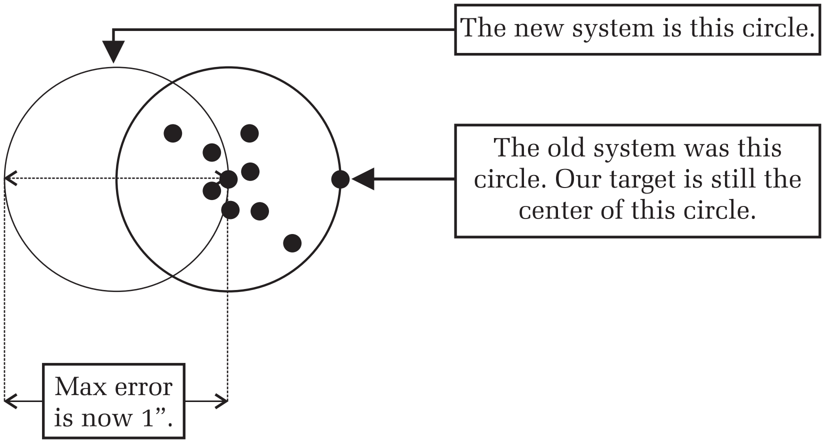


"We're chugging along with a reasonable distribution of holes, and then the operator sees that we have drilled a hole a half inch to the right of the center:

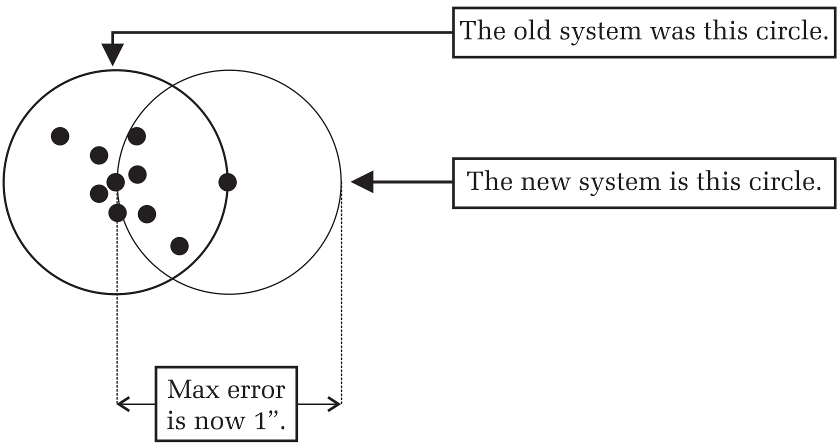


"The operator doesn't know about variances or distributions, all he knows is that the hole he just drilled is one half-inch to the right of the spot he was trying to hit. If the machine drilled a hole one half-inch to the right of the desired spot, intuition tells him to move the drill head one half-inch to the left.[8] After all, if the drill head had been one half-inch to the left when the last hole was drilled, that hole would have been right on target. When the operator moves the drill head, he moves the whole system a half-inch to the left:

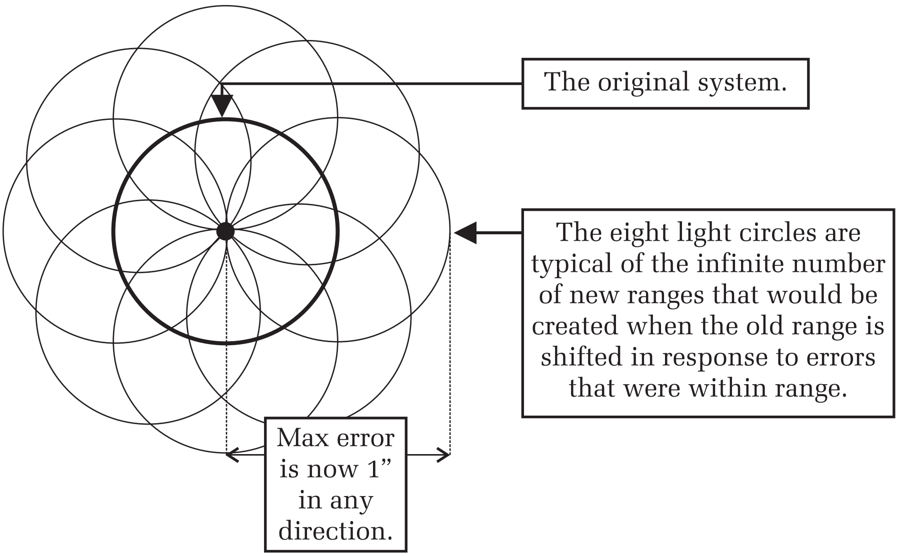
[8] Harold knows that the fixtures securing the workpiece rather than the drill head are what would be adjusted, but ignores that fact to avoid bogging down his explanation.



“After that change, the only time we hit the original target exactly is when we are at the point of the new system farthest to the right. If we hit the point farthest to the left in the new system, we are one inch to the left of the target, a much greater error than we could have made if we had left the system alone. Eventually, we will hit that point one inch to the left of the target, and the operator will curse the inaccurate machinery with which management forces him to work. They are lucky to have such a clever machinist operating the machine, he decides, so he moves the drill head one inch to the right:

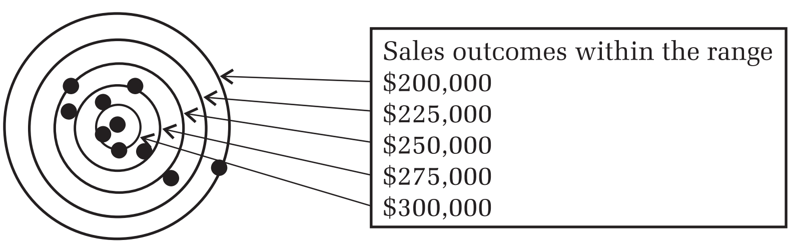


"Of course, the errors don't occur just to the left and right. Each time a hole is created at the outer edge of the system, the operator compensates by moving the system a half-inch in the opposite direction. Over time, a hole is drilled at every possible point at the perimeter of the original system, so the operator's range of corrections looks like this:



"The areas of the circles describing the old and new ranges are worth noting. In the old system, the range was a circle with a radius of one half inch, so the area of the circle is πR^2, roughly 0.79 square inches. The new circle with a one-inch radius encloses an area of 3.1 inches; so doubling the radius means the area that describes all of the potential outcomes is four times larger.

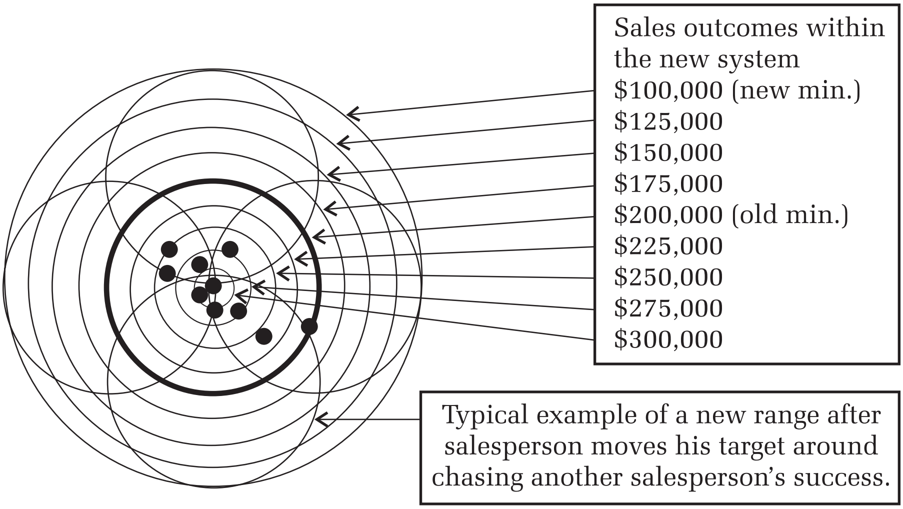
"How does this apply to a salesperson? Let's look at a group of salespeople's outcomes and find out:



“In this example, any outcome from $200,000 to $300,000 in annual sales is within the system. As we already discussed, differences in results within the system do not give us any evidence of differences in the efforts or skills of the employee. Fairness would dictate that employees who contribute the same level of effort and skill receive the same compensation, and statistics tell us that nothing in these sales figures identifies a difference in the salespeople’s contributions. But you said it earlier — life is not fair. It’s inevitable that the $200,000 commissioned salesperson will try to emulate the $300,000 salesperson’s success because the $300,000 salesperson received 50% more income. We just need to know if it hurts the company when a commissioned salesperson compensates in the same intuitive fashion as our drill operator,” Harold said.

“To get the answer we have to remember that there is no statistical evidence that the $300,000 salesperson’s skills or efforts did anything to contribute to the difference between his results and the $200,000 salesperson’s results. So there is no reason to think that whatever characteristics the $200,000 salesperson chooses to copy from the $300,000 salesperson were in any way responsible for the differences in their outcomes. When the $200,000 salesperson decides to concentrate on the food service industry because the $300,000 salesperson concentrates there, he may be ignoring the fact that the $300,000 salesperson’s territory includes more food service companies than his territory. Perhaps the $300,000 salesperson spends more time taking customers golfing. The $200,000 salesperson might do the same, but he will be chasing one random attribute from a salesperson whose apparent advantage actually falls within the same system as his own. This is no different from the drill operator who adjusted his machinery when a hole fell one half inch from the target. When a salesperson makes random alterations to his system, he will experience the same effect as the drill operator did — outcomes that range farther from the target than they did before the adjustment. (See diagram on the following page.)

“The area of our new circle is four times the area of the old circle. If we were shooting arrows at this target, three out of four spots where our arrow can land are worse than our situation before we started moving the center of our system,” Harold finished.



"Harold, I have a big problem," Jim said. "Frankly it's not with your logic, it's with how this would impact me. I want to be the new sales manager, but from what you're telling me, it sounds like there really isn't a sales manager job left. A major part of most sales managers' jobs is riding the salespeople who have lower sales, but if they are within the system then it isn't their fault and there is nothing for me to fix. The sales manager is supposed to reward top performers, but if the top performers are within the system, they haven't done anything to justify a reward. Sales managers are responsible for tweaking the compensation system, but you're telling me that moving the targets around increases the size of the system and means we'll end up farther from the targets than we would have otherwise. And, normally, the sales manager takes responsibility to direct salespeople to change the mix of accounts on which they call, but you're saying that increases the size of the system too. So if there is a job for a sales manager, what is it exactly?"

Harold smiled. Jim seemed to really understand and embrace the concepts Harold had been explaining. "Jim, let's look at this in terms of the marbles and paddles. We want to pull out more white marbles. How can the sales manager make that happen when the paddles are all within the system? The traditional answer is to push the salespeople to make more calls; in other words, to make the paddles bigger so there can be more dimples to hold marbles. More dimples mean more white marbles — but of course also more red marbles. This is a productive use of the sales manager's time only if the salespeople are not already working as hard as they could be — in other words, if you hired lazy salespeople, you will need to spend your time trying to force them to put in a full day's work. Let's rephrase this — you did such a bad job of hiring these salespeople that now it is a daily struggle to get them to do their jobs. If you had hired salespeople with a good work ethic, they already would be putting in a full day. Any possible incremental gain you could get from whipping them is overwhelmed by the reduced effort you probably will get when they will come to resent your badgering. A sales manager who can't identify candidates with a good work ethic ought to be fired and replaced with someone who can," Harold said.

"This doesn't sound like very good job security for the sales manager," Jim said. "It sounds like once the sales manager has hired bright, hard-working salespeople, his job is done."

"Not at all," Harold replied. "What the sales manager needs to work on is the system. In our paddle example, if we already are drawing the maximum number of marbles, and we want more of the white marbles, how does the sales manager accomplish this? By eliminating red marbles! Red marbles are things that kill a sale, or prevent repeat orders or create returns. For example, a sales manager needs to monitor the customer service department's responsiveness in providing answers to customers' inquiries. Are there problem areas — red marbles — to be addressed? For example, has customer service been supplied with tools like cross-references that enable them to supply our equivalents to another manufacturer's part while the customer still is on the line? Are price and availability information easily accessible? Do we promptly acknowledge orders and provide our customers with tracking numbers? Are we open during the normal business hours of all of our customers, regardless of their time zone? Do our customer service reps remember to thank customers for their orders, and maintain a friendly and helpful demeanor? Are we packaging our products so they aren't damaged in transit? If we don't at least match our competitors in all of these areas, we have an avoidably large number of red marbles, and the salespeople will draw fewer white marbles as a result.

"In the example of shooting arrows at a target, we see another illustration of the sales manager's job," said Harold. "Any time we fire an arrow at a target that represents a system, the arrow lands somewhere on that target. Exactly where it hits the target will vary based on the characteristics of the system, but we want to shoot as many arrows as possible. We don't accomplish this by dumping a pile of straight and crooked arrows next to the salesperson and forcing him to search for a straight arrow before every shot. This is what we do when we dump a stack of unqualified sales leads on an outside salesperson. The sales manager can establish a system where staff people qualify leads before the salesperson ever sees them. If you hand the salesperson a quiver of straight arrows before he steps up to shoot, he will get off more shots and naturally will succeed more frequently.

"Another way the sales manager can help is to be sure that outside salespeople are outside selling while clerical tasks are given to clerks. If salespeople can't rely on the clerical staff to get quotes completed in a timely and accurate fashion, the sales manager needs to intervene. The sales manager naturally takes the point position on implementing sales force automation and sales force training. And, of course, by making joint calls on key accounts with the salespeople, the sales manager learns about common customer needs that cross salespeople's territorial borders, the kind of marketing information that is critical to planning new Bigglie product offerings. There is plenty for a sales manager to do," Harold concluded.

"I'm getting it now," said Jim. "I'll add to that marble analogy. The sales manager's job of removing red marbles from the bin is very different from one way sales managers often spend their time: bouncing salespeople from objective to objective. Something like, 'let's concentrate on machine tools this week,' then 'let's concentrate on conveyors next week.' Or maybe, 'let's focus on new accounts this month' and then 'let's focus on current accounts,' followed by 'let's focus on big accounts' and then 'let's focus on small accounts.'

"Re-tasking the sales force looks good on the sales manager's reports to upper management," Jim continued, " but it isn't adding productivity — it's just moving salespeople around from one marble bin to the next. And we've seen what happens when variability is added to the dynamics of a sales force — sales results go down. Maybe upper management brings this on itself. If they want to see something new and dramatic in the sales manager's strategy report every month, the sales manager will learn to accommodate them, so nobody concentrates on pulling out the red marbles," Jim said.

"And that reminds me," Jim added, "there is one special red marble that drives me nuts: running out of sales literature. The sales manager should remind management of the waste created when a sales call that consumes $500 worth of a salesperson's time is undermined by the lack of $20 worth of support material.

"But it's even worse than that. Once the salesperson survives one literature drought, he becomes a literature hoarder. When materials become available again, he'll take three or four boxes to stash in his garage as back up for next time we run out of literature. If we come out with updated literature before the supply in his garage is used, his stash gets heaved into a dumpster. With each salesperson hoarding three or four cases of literature, a big piece of our printing budget may end up in a landfill — all because the salespeople don't trust their company to keep literature in stock. Fixing that problem won't make a very exciting bullet point for the sales manager to kick upstairs to top management, but all the money that was saved by keeping literature readily available will go right to the bottom line," Jim concluded.

Harold nodded. "The biggest challenge for a sales manager is that careful hiring, removing obstacles and listening for new opportunities is not sexy or dramatic. It's hard for a sales manager to look the CEO in the eye and say, 'This month I carefully avoided hastily hiring the wrong guy, worked to eliminate a bottleneck in customer service and went on sales calls with 10 of our salespeople.' 'Yes,' says the unenlightened CEO, 'but what did you accomplish?'

"Compare that with telling the CEO, 'I fired two salespeople because their numbers were down, created a new compensation plan that will really fire up the sales force, and gave American Express gift checks to our top performing salespeople.' 'Way to go, Bob,' says the CEO, 'Good job of managing!' It's going to take some work to convince upper management that doing the things that are in the company's best interest won't make for a dynamic report, but if we want white marbles to replace the red ones, then in the long run somebody has to do the unglamorous heavy lifting."

Harold paused. "We've gotten a little bit off target talking about the sales manager's responsibilities. What we are supposed to be doing is coming up with a solution to the compensation problems that came from the distributor council. I think we've pretty well established that a salaried sales force would answer those concerns, but Buchanan told us not to bring him a solution unless we get buy-in from the distributor council. You know the Gonzales' pretty well and I don't know them at all. I'm going to leave that step to you. If they think this is the solution, then we can present it to Buchanan."

"OK, Harold, but I don't feel like I could make as statistically compelling an argument as you did. If you'll get the PowerPoint™ presentation ready, I'll go and present it to Enrique and Maria," Jim said.

"Done," replied Harold.

CHAPTER 10

Jim felt well prepared for his visit to see Enrique and Maria Gonzales. Maria met him in the lobby and walked him to the distributorship's conference room. "Jim, we appreciate your coming back to discuss how Bigglie's compensation plan affects your distributors," she said as they made their way through the bustling inside sales department toward the meeting room. Enrique joined them just as they were sitting down.

Thanks to Harold's PowerPoint™ presentation, the discussion went very smoothly. Once it was over they sat quietly for a moment, until Enrique broke the silence. "Jim, I understand how a salaried sales force addresses *our* concerns about salespeople fighting over customers and territories, and eliminates the need for Bigglie salespeople to compete with each other on price for the same piece of business, but I don't see how it works for Bigglie. Salespeople are competitive by nature. They want the big salaries, the perks and the recognition. How can Bigglie be successful without performance pay?"

Before Jim could start, Maria broke in. "Father, I can see it. Performance pay makes sense where the salesperson's performance is very closely aligned with results — where all of the other variables are closely controlled and the sales cycle is short. The most obvious example would be beer vendors at the ballpark. The more the vendor hustles, the more beers he can sell."

"A hot day is probably even more important, daughter," commented Enrique.

"True, father, but I'd bet the heat has more impact on how many vendors show up. If the right number of vendors show up based on the temperature, the top seller for that day probably is the one who worked the hardest. Maybe a door-to-door encyclopedia salesman would be a better example. He makes the call and either closes or he doesn't. It's the shortest possible sales cycle, and the skills of the salesperson, how hard he works and how well he picks neighborhoods full of children are the things that make the difference."

Jim knew enough to let Maria keep making his argument for him, and sat by while the father and daughter discussed the topic.

“Daughter, we are in agreement that beer vendors and encyclopedia salespeople should be on commission. I will even grant you that a waiter or waitress controls the customer experience to a great degree, and that tips are a variable pay like commission. But what happens when Bigglie puts the salespeople on salary? The top salespeople who make big commissions will leave, and the bottom will stay and enjoy the salary.”

“Father, I think you missed Jim’s point. The top salespeople and the bottom salespeople, if they are within the system, are not top and bottom because of their skills, they are top and bottom due to variances beyond their control.”

Jim let the two family members keep talking. At the end, Jim wasn’t sure if Maria had convinced her father or had just worn him down, but it was clear he was ready to defer to her. When he was sure they were through with their discussion, Jim spoke.

“Enrique, Maria, this is the only solution we could come up with to address the distributor council’s concerns. If you can support it, I’ll go back and propose it to David Buchanan. If you don’t feel you can get behind it, we’ll go back to the drawing board, but I don’t have an alternate ‘Plan B’ at this time.”

“I can’t speak for the council without discussing this with them,” Maria said, “but I’ll schedule a conference call with the group as soon as possible and I will recommend that they support the plan.”

CHAPTER 11

Even though Maria was calling to tell Jim that the distributor council would support his plan, Jim was disappointed with their lukewarm endorsement.

"Jim," Maria said, "we have agreed that if Bigglie used a salaried sales force our concerns would be addressed, but the members still worry that you will have trouble policing 'free riders' who will take the salary but coast through their jobs. The bottom line is that we agree with your logic enough to support testing the proposal at Bigglie, but I would be lying to you if I said we found your arguments so compelling that we are going to try salaried salespeople ourselves."

The ball was back in Jim's court, but without the distributor backing he'd expected. "If Buchanan reacts like the distributors," Jim thought, "my chances to become sales manager are zero," so he scheduled a meeting with Harold to rework the material.

"I thought we had a killer presentation," Jim told Harold, "but the distributors just gave it a yawn. Where did we go wrong?"

"I don't understand it either," Harold replied. "No offense intended, Jim, but could there be anything about the way you gave it that could be responsible?"

"It seemed to go pretty smoothly, but I suppose anything is possible." Jim answered. "Why don't I give the presentation to you right now. You be the audience and tell me honestly how it sounds." Jim repeated the presentation he'd given to the Gonzales, then dropped into the chair next to the projector and looked at Harold expectantly.

"I see one big problem," said Harold, "and it doesn't have anything to do with your presentation skills. We claim that the traditional ways sales numbers are used to assign rewards and punishment are flawed, but we only get as far as 'Don't do what you've been doing.' If the old ways to assess a salesperson's effectiveness are wrong, what is the right way? Buchanan hates problems that don't include solutions and he is a fanatic about having measures for everything."

"Good point," Jim said. "I've heard him many times say 'The things that get measured are the things that get done.'"

"I've heard him say that too," replied Harold. "I keep wanting to correct him, because that's not the way the world really works. The truth is that the things that get measured are the things that get distorted."

Jim paused. "Excuse me — I don't think I follow that."

"Have you ever noticed how things change in a room when the boss walks in? People drop what they're doing, quickly try to figure out what the boss would like to see them doing and do that instead. I call this the Heisenberg principle of management."

"Heisenberg?"

"Heisenberg was a physicist who came up with a revolutionary theory in 1927. Until then, it was widely accepted that you could measure both the velocity and position of an electron." Harold pulled an old newspaper clipping from his desk, unfolded it in front of him and smoothed out the wrinkles. "Here's an explanation I particularly like. '…it is mechanically and therefore logically impossible for anyone ever to know at any given moment the velocity and position of an electron — two fundamental properties of any particle — because, roughly speaking, if you shine enough light on an electron to see it, the light itself will alter the electron's velocity. Assuming there is some kind of bedrock material, it is in a profound way not *anschaulich,* as Heisenberg put it — not seeable.'"[9]

Harold sat back in his chair and continued. "Sometimes this can be a good thing. If we have an employee who seems to be slacking, it may help to reorganize the work area so he or she is close to the foreman. Shirking right under the foreman's nose is not an option, so in this case Heisenberg makes the problem go away.

"Heisenberg also can work against productivity. If we shine a light on some aspect of a salesperson's behavior, the salesperson knows what management is scrutinizing and gives that part of his or her job higher priority than it had before. We already have discussed what happens when we make random changes into a system — adding variability undermines the outcomes. Shining a light on some portion of the salesperson's activities increases the salesperson's focus on that area. They adjust their priorities to their perception of our metrics, so if we pick the wrong metrics or they perceive our

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[9] Daniel Menacker, "The Radical Thinker," *The New York Times Magazine,* Oct. 17, 1999, p. 96.

metrics incorrectly, we introduce new variability into our system that reduces their effectiveness."

"I've been guilty of that," Jim acknowledged. "When the company makes a push on getting new accounts, I pretty much ignore our current customers. I just work on improving my new account numbers, because that's the number Buchanan uses to decide if you're a hero or a zero.

"It also means that the reports I submit sometimes are not completely accurate. Like the time I had to sneak into the dentist during normal business hours because I'd chipped a tooth. I know what Buchanan would say — 'Why can't you find a dentist who has evening appointments?' Hey, I was in pain and I took the appointment I could get, but I wasn't going to submit a call report that would guarantee a reprimand. I just reported the calls before and after the dentist as 45 minutes longer than they were and 'poof' my dental visit disappeared. Frankly, by the time I get around to writing my reports, it's always a month after the fact. By then, I couldn't remember where I'd gone, so it isn't much of a stretch for me to write the reports based on where I thought the boss wanted me to go."

"You've proven my point," said Harold. "Ham-fisted measurements either send our salespeople into unproductive tasks or encourage them to lie about where they've been. We need to offer some alternative measurements that are subtle and unobtrusive, so they won't add variability into our systems or encourage cheating.

"The only way salespeople ever will tell us they took time for a dental emergency is if they are comfortable they can make that report without reproach," Harold continued. "Maybe the manager would prefer the salespeople seek dental care on the weekends, but that can't be enforced on salespeople making outside sales calls beyond our direct scrutiny. The sales manager has two choices. The first is to graciously accept occasional personal errands as part of an honest account of the salesperson's day. The second is to insist on 100% business use of the day, which won't eliminate errands from the salespeople's days, just from their reports."

"I can see where honest call reports completed on a very timely basis would be a good start on those alternate measurements we need to find," Jim agreed, "but there are more things we can do. The sales manager can join the salespeople for a day of calls and see firsthand how the customers react to them. Answering the phone in customer service and talking to the customers about their salesperson would be a good measurement. And, of course, there has to be some sort of relationship between a salesperson's tenure at the company and his or her effectiveness. Someone who has spent five years learning our products and systems usually will be better equipped to take care of our customers than a novice.

"We could measure things like how many quotes are generated or how many samples are given away," Jim continued, "but we have to be careful that the salespeople don't know we are looking at those things. If they did know, they would start sending out unnecessary quotes and samples just to pad their numbers," Jim concluded.

"Talk about a change in our corporate culture," Harold replied. "Can you imagine Buchanan responding to a call report with a gentle suggestion instead of an edict? This definitely is going to take Buchanan a while to get used to, and then he has to last long enough at it so that the salespeople no longer feel the need to hide their activities.

"This is going to be a job to sell to Buchanan," Harold said, "because we aren't collecting the kind of hard data and hard numbers that he loves. We're proposing qualitative evaluations, so our sales manager is going to have to render a professional opinion based on experience and expertise, and then stand behind it."

Once recommendations on how to measure the salespeople's effectiveness were added to the presentation, Jim felt better about taking it to Buchanan. He was even more enthusiastic when Harold volunteered to take the podium for the statistical parts of the presentation.

After the PowerPoint™ slides had been rewritten, Jim's confidence started to build again, so on Wednesday he asked Buchanan for an appointment to present his findings.

"I'm interested in hearing your opinions, Jim," Buchanan had said. "Why don't we schedule it for Friday first thing."

"Thanks, David. Harold and I feel we've got a really useful story to tell."

"Oh, will Harold be presenting as well?" asked David. "You know Jim, my Friday might be a little bit tight. Let me get back to you in a day or two." Jim puzzled over the reason for Buchanan's quick change of heart, but didn't discover the cause until he stopped by

Harold's office Friday afternoon. Harold was emptying the contents of his desk drawers into a cardboard carton under the watchful eye of a security guard.

"I've been riffed, Jim," said Harold. "As in *R*eduction *I*n *F*orce. Buchanan won't talk to me, but the H.R. people tell me that a smooth-running plant like ours doesn't need a high-powered, high-priced plant manager. They think they can let one of the foremen coordinate things in the plant and they won't need me. I wonder how they think the plant got to be so smooth-running in the first place, and who kept it that way," Harold said resentfully. "I guess if I'd left myself some fires to put out I'd still have a job putting out fires. My bad luck to be very efficient in a place where you're only valuable if you're fixing something that's broken. No points get scored for keeping things from getting broken in the first place."

Back at his desk, Jim checked his voice mail and things went from bad to worse. Buchanan's voice mail started, "Jim, I would like to see that presentation Monday, but you're going to need to do it solo. Oh, and our new sales manager is starting Monday so I'm asking him to sit in on your presentation. Give me a call back ASAP to confirm that you got this message and that you'll be all set up and ready to go in the conference room at 8:30 Monday morning. Oh, and would you mind picking up the doughnuts?"

Jim felt like his feet had been kicked out from underneath him. His friend and mentor was not going to be there to help him at the meeting and the job Jim had been pursuing already had been filled. How could it get any worse?

Jim got the answer to that question on Monday at the beginning of the meeting when David introduced Ernie Brocaw, the new sales manager. Brocaw had managed the sales force of a fastener distributor, and was confident that his experience would transfer well to the flange industry.

"I grew our sales of nuts, bolts and screws by 20% last year," Ernie told Jim when David introduced them. "The way I see it, flange salespeople are pretty much like the fastener salespeople I was managing, so I think we can get the same growth at Bigglie that I got at my old company."

When Ernie started to drone on about fasteners, Buchanan interrupted him. "Ernie, Jim has been working on addressing our distributor council's concern that our sales force compensation program adversely impacts the way we interact with distributors. Jim, why don't you show us what you've come up with?"

Jim noticed that Buchanan had bypassed Harold's contribution and that now this report had become completely Jim's. Even though Jim had taken Harold's name off the presentation, the style was so clearly Harold's that Jim wondered if Buchanan was uncomfortable looking at Harold's handiwork the day after Harold's ouster.

Jim had planned to let Harold handle the statistical points and to cover the more qualitative slides himself, but Harold's presentation was so well laid-out that Jim made it through the whole presentation without faltering.

Buchanan let Jim finish without any major interruptions, but clearly he was not pleased with what he'd just seen. "Jim, I can see you did a lot of work on this and it's all very interesting, but you're missing the main point. When salespeople leave the office, the only reason they go out and see customers is because, if they didn't, then they wouldn't earn any money and they wouldn't make their quota. A commissioned salesman has to go out and call on customers or he doesn't eat. A salaried salesman would just go to the movies, or go home." Jim knew that commissioned salespeople did those exact same things, especially when their bosses frustrated them, but he bit his tongue. It would not help his case to tell Buchanan that he and his fellow salespeople often dealt with real or perceived injustices by taking unauthorized afternoons off.

Brocaw had remained silent to be sure he knew his new boss' position before making any comments on the presentation. Once Buchanan had rejected Jim's ideas, Ernie chimed in and took an identical position. "Jim, after you've got more experience you'll realize that one of the sales manager's main jobs is to prevent 'free riders' from taking advantage of company programs. The reason we grew so well at my old mechanical fastener company is because I structured compensation to encourage growth. We paid a reasonable commission on sales up to last year's level, and a higher percentage on sales over the previous year, so the salespeople knew that they had to beat their previous year to make any real money. Variable pay is the key to success managing salespeople. Plus they had specific objectives and goals, and gave me weekly reports on key accounts. That's how you whip a sales force into shape. A salesman who is allowed to feel secure in his job and his income gets complacent."

Buchanan smiled broadly at Brocaw's comments. "That's why I hired you, Ernie. You understand how to keep the sales force jumping. Look, Jim, I appreciate the effort you put into this but there is no way I am paying a salary to a salesman. Ernie, you contact the Gonzales' and let them know we appreciate their concerns and will give them every due consideration, and that we will look forward to seeing them again at the next distributor council. Jim, now that Ernie is on board we won't need to take you away from your customers with distributor council business any longer. You can turn over your notes to Ernie and devote yourself 100% to making sales calls."

CHAPTER 12

"I'm swirling in the bowl," thought Jim as he drove home that night. "I spent a bunch of time with Harold working on distributor council issues, which means when Ernie goes through the salespeople's call reports he's going to see that for the last two months I've made the fewest sales calls of any Bigglie salesperson. Plus I just gave a presentation that our company president and new sales manager hated. Add to that the fact that I undoubtedly stepped on Brocaw's toes when I made recommendations on compensation issues that are the sales manager's responsibility. Buchanan probably associates me with Harold because of the work Harold and I did together and obviously has a problem facing people he has fired, so he is probably uncomfortable being around me. Oh, and to top it off, two of my largest customers have moved away so my numbers for the last two months have dropped off."

Ordinarily Jim tried not to take problems home and he rarely brought up business at the dinner table. He told himself that he preferred to leave that stress at the office. A more impartial observer might have suggested that Jim found his wife Ruth's position as a Fortune 500 VP of human resources a little intimidating, and felt the small-company problems that made up his day only would serve to underscore how much less than Ruth he had accomplished. That observer also might have noted that Jim's reluctance deprived him of a superb resource, because Ruth Anderson was one of the smartest people Jim ever had met. In the past 10 years since they'd graduated from college, she'd thrived in corporate America, earned an M.B.A. and obviously was on the fast track for further advancement. Now that Jim had hit bottom, however, he knew he must let her know that he'd put his job at risk. Dinner that night was emotional as Jim laid out the events of the past two months. He even gave Ruth a hard copy of the PowerPoint™ presentation he'd made to Buchanan and Brocaw.

Ruth wisely bypassed commenting on the strategic errors that had put Jim in this position, concentrating instead on helping her husband to evaluate his current situation. "Honey, your arguments are very strong and I think you are right. The problem is that you demolished the logic Buchanan used when he created the current sales force structure, and you did it in front of his new sales manager, so you are not going to be on Buchanan's or Brocaw's good side. As a matter of fact, there's a quote in a book that all the managers in my department have been reading that says, 'Many managers want things to change, but only if they need not themselves do very much very differently.'[10] What you are talking about doing is very rational and very forward-thinking, but that kind of change in a corporate culture would be very difficult to accomplish, even with the complete support of management. This may fall into the category of you were completely right, and as a result of being completely right, you are completely out of luck."

Jim picked up the book and riffled through the pages, noting that Ruth had highlighted about 50 passages. "I'm done with that book now, honey," Ruth said. "If you want to read it you can take your time."

The next morning, just as Jim expected, he was called into Ernie's office. "Jim, your numbers and call history are pretty sorry looking. I'm going to need a plan from you by the end of the week to show me how you are going to turn this around."

Jim thought to himself, "I won't turn anything around if I spend a week working on a sales plan," but only said, "I've got a full week of sales appointments already made — any chance I could get a little more time?"

"Jim, there is nothing more important to your continued employment than convincing me that you can turn this situation around. If I were you I would cancel those appointments and do an outstanding job on that report. Quite frankly, I can see how a guy with such poor numbers would have been pushing for salary instead of commission, but there isn't going to be any free riding here — so get on it."

Jim heard the words, which he translated to mean, "I have already decided to fire you, but I need to document that I gave you a reasonable chance to bring your numbers back up before I can let you go." Jim cancelled his appointments, spent part of the week working on the report and the rest looking for a new job.

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[10] Jeffrey Pfeffer, *The Human Equation, Building Profits by Putting People First* (Boston, MA: Harvard Business School Press, 1998) p. 104.

CHAPTER 13

Even though he'd spent most of the week writing reports for Brocaw and polishing his résumé, Jim had found time to finish Ruth's copy of Pfeffer's book. Although it was not sales-specific, the book supported Jim's position. He also spent a lot of time playing and replaying in his head the presentation he and Harold had made to Buchanan, wondering how it could have been made more convincing.

Jim thought some of Pfeffer's points might have made his points more credible, but decided the biggest problem he faced selling his ideas to Buchanan was that probably no company president would accept in just one sitting a proposal to turn their company topsy-turvy. After all, Jim too had rejected Harold's concepts the first time that Jim had heard them.

Enough time had passed that the points he'd tried to make with Buchanan should have started to sink in, thought Jim. If that were true, the time would be ripe for Jim to revisit the topic with Buchanan. Jim decided to write him an e-mail, cite some of Pfeffer's points, and see if Buchanan could be swayed.

Dear David,

I realize that our last meeting did not go well and I take the blame for failing to make my arguments sufficiently convincing — but I still hope you will give them some consideration.

Many of the gaps in my logic are topics that are well covered in Jeffrey Pfeffer's "The Human Equation: Building Profits by Putting People First." While your son was attending Stanford he may even have attended classes held by this respected academic, who is the Thomas D. Dee Professor of Organizational Behavior at the Stanford Graduate School of Business.

It was Pfeffer's book that made me realize that I'd asked for a complete transformation in management's mindset overnight without considering the barriers to rapid management change.

In Pfeffer's words (16), "It is often easier and substantially more seductive to manage something — a strategy — that is analyzable and can be reasonably readily changed, as contrasted with dealing with the day-to-day details of operations and implementation. Those problems are less glamorous, less interesting, but more importantly, much harder to solve." Problems that fall into the category of "less glamorous, less interesting (and)...much harder to solve" cannot be ignored simply because they are less attractive, says Pfeffer (17). "Managers are always well advised to solve the real problem — not the one they would prefer to solve or are able to solve."

Solving the "real problem" requires us to accept an answer that takes us in a direction that intuition would not. Sir Arthur Conan Doyle, writing for Sherlock Holmes said it best: "When all of the other possibilities have been exhausted, whatever remains, no matter how far fetched, is the solution[11]." As hard as it is to accept, when all the salespeople's sales numbers are part of a system, there is no statistical difference in the values of their contributions to sales. Different compensation for the same contribution is a proven recipe for disaster, and "all the other possibilities have been exhausted," so the only remaining choice is salary.

Pfeffer identifies another fundamental flaw in incentive/commission systems that I had missed (124): "One occasionally hears that incentives or surveillance and control (or some combination of the two) can substitute for trust by affecting the environment in such a way that people do the right thing. But this view is naïve, for incentives and controls work only for behaviors that can be specified in advance." The behaviors we need from a successful salesperson — reacting to and even anticipating customers' needs — are ones we cannot specify in advance or realistically measure upon completion. Can we say George scored nine on being proactive but Sam only scored 7.5?

The book also points out that managers often give more priority to insuring that their courses of action are justifiable than that they are correct. A commission system legitimizes decisions about sales force compensation because it is tied to a reproducible number. A manager who instead makes compensation judgments based on knowledge that is tacit, implicit or understood,

[11] A. Conan Doyle, "The Sign of the Four," *Lippincott's Magazine*, Feb. 1890. Available online at http://www.bakerstreet221b.de/canon/2-sign.htm.

but that is not easily explained, takes a career gamble. Why risk a job-threatening confrontation with superiors over a decision that was clearly dictated by experience, but for which a documented rationale cannot be supplied?

As Pfeffer (143) puts it: "…if expert knowledge has some component — probably a substantial component — of tacit knowledge, it will be impossible for those with the expertise to present the real basis of their judgments and decisions when called upon to do so. How can you describe to others insights and intuitions based on judgment and expertise? What is likely to occur is simply this: When those with expertise are called on to explain their decision processes or to account for their decisions, they are likely to rely not on the tacit knowledge and judgment, which cannot be articulated, but rather on those factors and evidence available and accessible to all."

Sales figures are an example of information that can be made "available and accessible to all." Assessments of a customer's satisfaction, while more important, are qualitative. Does George rate 9.5 on anticipating customers' needs and Sam 8.5? Who says so? Why do they say so? It is so much easier for managers to justify their decisions based on the last cell of a spreadsheet, even when those numbers lack statistical significance. Pfeffer calls that (149) "a confusion between 'math' and 'management.'"

A straight commission system also costs Bigglie more in salary than it probably would pay otherwise. Let's take the example of an open sales position. Our candidate has living expenses that require he seek a $50,000 per year position. Instead, we offer him a job that has a commission range of $40,000 to $60,000.

With all of the outcomes from $40,000 to $60,000 equally likely, your brother the insurance actuary would call this actuarially equivalent to a $50,000 salary, but simple logic shows most applicants would choose a $50,000 salary over our variable offer. Suppose most applicants were willing risk takers and $40,000 to $60,000 in variable pay were preferable to a $50,000 salary. It would be easy enough for a person enjoying a $50,000 salary to convert it to a variable salary of $40,000 to $60,000. Just take $10,000 to Las Vegas and (ignoring the fact that roulette wheels are not exactly 50% red and 50% black) bet on red. Las Vegas gives people with fixed salaries the opportunity to convert to variable outcomes, but only a small percentage choose that option. To most people, $50,000 is more desirable than the $40,000 to $60,000 variable option.

This should not come as a surprise. Most people have monthly responsibilities to pay mortgages, rents, car loans and credit card bills. Without a consistent paycheck, they run the risk of not being able to meet those commitments.

If our compensation offer is a percentage of sales even though fixed salary is more desirable to our applicant, there are just two ways this salesperson will accept our offer. The first possibility is that the salesperson will accept our $40,000 to $60,000 variable plan but will remain unsatisfied and continue to look for more desirable terms of employment elsewhere. The second is that we will have to increase the upside potential of the commission plan to the point where the salesperson views it as equal in value to a $50,000 salary. For some candidates, this might be $40,000 to $70,000 and for others $45,000 to $65,000.

In either case, Bigglie must expect that the privilege of maintaining a variable pay system will come at a cost. In the first case, we pay more recruiting costs as we hire employees who accept our offer but leave as soon as they find the job they really wanted. In the second, the variable wages we pay are actuarially higher than the salary the candidate demanded. For example, if we offer a range of $45,000 to $65,000 and all numbers are equally probable, we are paying the actuarial equivalent of $55,000. Because we were not willing to guarantee a $50,000 salary, Bigglie has put itself into a situation where actuarially it can expect to pay $5,000 more in wages than it would have otherwise.

Let's look at a group of 10 such salespeople who are performing within a system. We vary their wages from $45,000 to $65,000 based on their sales. When we tie compensation to sales even though all the salespeople fall in a range where none of their results show a statistically significant difference in their quality of work, the only benefit Bigglie receives from a variable compensation system is the right to match our employees' pay to our sales. When sales are low, we have the privilege of paying less salary to offset lower profits. What we are paying for, effectively, is low sales insurance — the right to offset a sales slump with lower wages. In this example, the actuarial cost per salesperson per year is $5,000. So here we are, a half billion-dollar company, buying low sales insurance from each of our salespeople, with the insurance premiums taking the form of salary ranges actuarially higher than the salary that otherwise would have been demanded.

Finally, from an ethical standpoint, tying compensation to sales implies that salespeople control sales outcomes. For salespeople within a system, statistics prove that to be wrong, so suggesting to our salespeople that their commissions are proportional to their efforts and effectiveness is at best misleading. How can we be successful if our relationship with each salesperson is based on a lie?

Ruth Anderson sat quietly after reading the memo her husband had asked her to review. When Jim came into the den, Ruth measured her words carefully. "Darling, I can't disagree with any of your points. I'm wondering, though, how well Buchanan takes constructive criticism. I can't help thinking about the movie we saw on our honeymoon — remember *Jerry Maguire?"*

Jim thought back to the theater they'd ducked into when a surprise thunderstorm had caught them unexpectedly while they were exploring San Francisco's tourist attractions. Tom Cruise's character, Jerry Maguire, was a sports agent who woke up in the middle of the night, wrote a compelling memo about the inhumane way sports agents treat their clients and distributed it to all of his coworkers. The reward for that honesty and candor had been termination within in a matter of days.

"So, what you're telling me," Jim said, "is that this e-mail is not going to change Buchanan. More than anything else, it's an elaborate suicide note for my career at Bigglie, isn't it?" Ruth nodded.

Jim shrugged. "Well, I won't send it but I'm going to keep it. Someday, I am going to work at a place where this kind of thinking will be welcome."

CHAPTER 14

After Harold was fired, Jim hadn't kept in touch. He'd rationalized that putting out fires and writing reports while under Brocaw's microscope left no time to reach out to an ex-coworker. Another comfortable excuse was Bigglie's policy against contact with competitors — and Harold's expertise would likely land him a job with a competitor in short order. Jim never acknowledged the primary reason he'd shunned Harold — Buchanan's efforts to erase all traces of Harold from the company were obvious, and Jim didn't want to do anything that might cause Buchanan to link his name even more closely to Harold's. That linkage became even more of a liability the day Harold started work at Troothe Industries, a minor Bigglie competitor. It seemed to Jim that from that day forward, he was never able to get Buchanan to look him directly in the eye.

With Buchanan giving Jim the cold shoulder and Brocaw working on the formalities needed for Jim's termination, networking to search for a new job became Jim's top priority. All too soon, Jim reached the point where he'd exhausted all of his other connections, and the only person left for him to call was Harold. Jim broke away from his sales calls to use his home phone so Harold's number wouldn't turn up on his cell phone bill.

If Harold had felt neglected, it wasn't apparent when he took Jim's call. "You should look in on me, Jim. I really like my new job. Come on out next week and I'll buy you lunch."

"You know, I'd like to get together, Harold, but why don't we meet at a restaurant instead of my picking you up at the plant. You know how things are at Bigglie and I'd like to keep my visit low profile."

"Sure thing, 007," Harold kidded him. "How about Thursday at Carlucci's, say 11:30?" Sneaking around made Jim uncomfortable, but he felt he had no choice. His Bigglie sales were down 40 percent this month, which would undoubtedly accelerate Brocaw's efforts toward Jim's termination, so all he risked if he was caught meeting with Harold was being fired a month or two ahead of schedule.

Harold was all smiles when Jim walked into the restaurant. "Great to see you, Jim. How are things back at the Bigglie?"

Jim smiled at the way Harold pronounced Bigglie. It no longer rhymed with "Wrigley," it was instead, "Bigg Lie." Jim allowed himself a moment to enjoy the precision with which this alteration genuinely described the company, and then he shared his situation very candidly.

"I'm sorry to hear that," Harold said, "but actually the timing might be good. You see, when I came to Troothe, the place was a manufacturing disaster. It was so bad I almost didn't take the job — until I realized that all of the problems I saw at Troothe were the same ones I'd already seen and solved at Bigglie. Knowing that all those problems were fixable, the only thing holding me back from taking the job was getting a guarantee that I'd have enough autonomy to implement my solutions.

"By the time I came on board, Joe Troothe, our president and owner, had already hit bottom and admitted that his way had been a miserable failure, so he was ready to turn over control of his plant to a real operations guy like me. Because I had his complete support, in a matter of months I improved our lead times from 16 weeks to six weeks, and we'll be at four weeks before the end of this quarter. Before the end of the year we'll have product flowing through the plant, from order entry to out the door, in under a week."

Jim was more interested in networking than in Harold's success, but he listened politely. "Funny you should bring up lead time, Harold. With you gone, the lead times you had so finely tuned at Bigglie have gone from two days to two weeks."

"Not completely surprising, Jim," said Harold. "Anyway, one of the other things that happened when we hit bottom was that all of our salespeople quit. I can't blame them — it's hard to convince customers to buy products from a company known for leaky flanges and late deliveries. And based on Troothe's performance, the salespeople knew that even when they secured an order, they still might not get paid for it, because nobody pays commissions on orders that are cancelled or returned.

"We are much better than we used to be. We've moved from being a third class flange manufacturing operation up to being second class and we're working toward becoming first class — but it's going to be a big job to regain our credibility.

"Joe Troothe accepts that our reputation will stymie any attempt we make to hire a decent salesperson on a commission basis. I showed him a copy of the presentation you and I worked on back at Bigglie, and he bought into the concept of a salaried sales force. We have to start small, which means we can only fund one salaried salesperson to cover the entire U.S. In my opinion, that one person will be getting the chance of a lifetime. If he or she can turn things around in the sales department the way we've done in production, he'd also be a shoo-in to be sales manager when business picks up and we're able to hire additional salespeople."

Harold's enthusiasm was contagious, but Jim still did not find selling for Troothe to be an inviting prospect. "Harold, if this conversation is going the way I think it's going, I have to tell you Troothe's reputation would make it very scary for me to go to work there. Plus, let's face it; everybody in the industry knows that people who took jobs selling for Troothe did so only after they'd first been rejected by every other flange company. Salespeople who have worked at Troothe in the past are now considered damaged goods in this industry and no other flange manufacturer will hire them. If you guys backslide and your new salesperson gets caught in the rip tide, he or she probably won't ever work at a flange company again."

"I understand where you're coming from, Jim," said Harold, "but that's Troothe pre-Harold and pre-Deming. I am now the number two man at Troothe and Joe Troothe supports me 100 percent. Take that support combined with my plant operation skills, add the right salesperson, and this company's sales could explode."

Jim sat quietly for a minute. His future at Bigglie looked bleak and he'd already exhausted all his other options. "Harold, I guess we could talk about it."

"Great, Jim! Why don't you take a detour past the plant on your way back to work and I'll show you the operation?"

As they toured the Troothe's manufacturing plant, Jim noticed equipment similar to Bigglie's, but older. Yet Harold's touch was obvious. Overhead signs labeled the work cells, fresh paint covered the walls, and the housekeeping was immaculate. One of Harold's trademarks was a spotless shop. He claimed that tidiness paid for itself in fewer accidents and improved morale. Despite the well-worn equipment, the shop's appearance compared very favorably with the current state of Bigglie's plant, where maintenance no longer enjoyed the high priority it had received when Harold was in charge.

Much of the fresh paint job had been papered over with the same kinds of control charts Harold had in his office at Bigglie. "I moved the charts out into the plant so everyone can see how we're doing," said Harold. "Keeping them in my office for my own convenience at Bigglie was a mistake." The only other posting was an oversized reproduction of Deming's 14 points.

When Harold routed the tour into Joe Troothe's office, Joe invited Jim to sit. Jim hesitated before settling uneasily into one of the chairs facing Joe's desk, wishing he could leave. Lunch with Harold was an infraction of Bigglie's rules but there had been almost no chance he would be caught. The plant tour seemed only slightly more risky — they had entered through a rear door and the likelihood that someone working in the plant would recognize him seemed remote. Joe Troothe's office was the kind of place that a vendor common to both companies might notice him, and if word got back to Brocaw, Jim would be fired on the spot.

Joe took a seat behind his desk and sat back comfortably. "Your friend Harold truly rescued us from the brink of disaster," Joe said. "That presentation you two worked on was really a wake-up call for me. You probably remember the slide that said: 'The president of a company that hires chemists won't try to do chemistry without appropriate experience, but most presidents of companies that hire salespeople are quite comfortable making sweeping pronouncements on sales topics regardless of their expertise.' When I saw that slide, I saw myself, and I knew I needed a major attitude adjustment."

Noting Jim's discomfort, Joe cut his comments short. "Jim, I suspect you weren't planning to spend a lot of time here today so I won't keep you, but I hope we'll talk again." Grateful to be dismissed, Jim shook Joe's hand and bolted for the parking lot. He'd gone farther than he'd planned, and worried that in his eagerness to explore the opportunity at Troothe he might have moved his Bigglie termination date from imminent to immediate.

CHAPTER 15

It took only a few more weeks for Brocaw to gather enough supporting documentation to fire Jim. During that interval, Jim had continued without effect to scour the flange industry for employment opportunities. When the ax fell, Jim found himself facing two unpleasant alternatives — unemployment or working for a company that was known as the worst supplier in the flange business. When he told Ruth he still was resisting going to work for Troothe, her reply was uncharacteristically blunt.

"Honey, you said that you don't want to go to work for Troothe because you think it will end your career in the flange industry. You have already spent months contacting Bigglie's other competitors without even getting an interview. I think the time has come to face a hard fact — if you want to stay in the industry, then the job at Troothe is your only option. You need to make a choice — take the job at Troothe or expand your job search outside the flange industry."

Jim started to object, but stopped himself. Ruth was right. Every other company in the flange industry already had rejected him, so the career in the flange industry he'd deluded himself into believing he was protecting already was gone. At least if he took the job at Troothe he'd still be selling products that would allow him to use his experience to best advantage, so he decided he should take the job while it still was available.

Harold and Jim found themselves working together again, but it seemed their paths to Troothe were from opposite directions. Harold built Bigglie into such a smooth-running operation that he had worked himself out of a job. Jim's demise was a mixture of his past association with persona non grata Harold, the ego-ruffling presentation he'd made to top management and the fact that his numbers plummeted when two of his largest customers moved production to Asia. On closer inspection, the reasons Harold and Jim were no longer at Bigglie really converged under the heading of management focus on short term results — saving money in Harold's case and cutting costs in Jim's.

Jim's new job was grueling. Troothe's reputation made it almost impossible to get appointments with new prospects and Troothe's few remaining customers monopolized phone calls or visits with stories of missed delivery promises and frequent product failures. The constant rejection and abuse from the few customers willing to buy from the company with the worst reputation in the flange industry made it hard for Jim to force himself to show up for work each morning.

Two things helped to compensate for the problems Jim faced — working with Harold and Joe Troothe's surprising receptiveness to Harold's and Jim's recommendations. Joe admitted that before Harold rescued Troothe from imminent disaster Joe had dismissed new ideas as unthinkingly as Buchanan, and he gave Harold all the credit for his new open-minded attitude. "Harold told me about that Deming guy," Joe told Jim, "and how U.S. companies that were too fat and happy to take a look at the hard issues rejected Deming's ideas. Deming didn't get a fair hearing until he went where the managers literally had all of the fight beaten out of them, to a place like post-war Japan. I was in almost the same condition when Harold first came to see me. What Harold has accomplished in a matter of months made me a believer.

"Harold brought me a plaque that hangs in my office: 'Rocks roll down a ten thousand foot mountain, and they cannot be stopped — this is because of the mountain, not the rocks.'[12] I read that to mean that it is top management's responsibility to be accountable for the successes or failures of the company. This is particularly true when we talk about the sales force. We set the parameters within which the sales force operates, so we have to step up and take the blame for any unfavorable outcomes our parameters fostered. Shame on us if we point fingers at the sales force instead. Of course, it's a little premature to talk about being within a system while we have only one salesperson. A system starts with looking at the average of the salespeople's outputs, and it's not like we can take the average of one salesperson."

Jim's first year at Troothe passed with agonizing slowness, but by the time it ended Harold's transformation of the manufacturing facility was complete and Jim often went an entire month without

[12] Thomas Cleary's translation of Sun Tzu, *The Art of War* (Boston, MA: Shambhala Publications, 1988) p. 99.

hearing even a single customer complaint about a late shipment. Both men took pride in Troothe's climb from being the worst flange company in the U.S. to a spot in the middle. Over the same period, Bigglie had fallen a little because even Harold's robust systems required periodic tune-ups that the workers Harold had left behind were not trained to accomplish. Nonetheless, Jim was surprised to get a phone call from June Calloway, Bigglie's most senior salesperson.

"Hey Jim, I see you guys are making some progress over there. You've been giving us a run for our money at accounts you couldn't even have touched a year ago."

"We're trying, June." Jim was a struggling to think why June would be calling.

"Look, Jim, I'm wondering how that salaried sales force idea you were trying to peddle over here was working out ..." June's voice trailed off.

"Well, June, we have only one salesman, so it's not like we've put it to the test at a multi-salesperson office, but it seems to be going well."

"You see, Jim, it's just that my biggest customer is moving production to China. Honestly, I didn't follow the math you were talking about when you were here, but I did agree that the differences in the salespeople's numbers were as much luck as anything else. I see so much fluctuation in my monthly numbers — was I a genius in May and an idiot in July? That's what the numbers said. I was talking to Bernie Feldman last week and he made a great comment about the way management structures compensation at Bigglie: 'You can't own a job here, you can only rent.'"

June's overture to Jim was just the beginning. Over time, Troothe had its pick of Bigglie's sales force. At first, it seemed that it was simply the security of a regular salary that attracted salespeople like June to Troothe, but soon other unanticipated benefits came to light. One important change was the extra care management took before hiring a new salesperson. Years later in a company newsletter, Joe Troothe would elaborate on that point: "In the old days we didn't put much time into screening sales candidates. If they made enough commission to be willing to stay, fine, and if they didn't, there was always fresh meat to throw in the grinder. With the investment we now make in a salesperson's salary, we are very particular about the people we hire.

"It's funny, but the same salary system that makes us extra picky about who we hire also gets us much higher quality applicants than we used to see. It almost sounds like circular logic: Because we offer salary we have to be choosier, and because we offer salary we get to be choosier.

"Another thing that has changed here is management's attitude toward the salespeople. We used to feel that any time a salesperson fouled up we had carte blanche to jump all over him or her — the sales force was a punching bag we used to vent the day's frustrations. Now that we make a significant up-front investment in our salespeople, we are much more concerned about their happiness. In the old days, any petty infraction might trigger a reprimand, but now it would be expensive to undermine the enthusiasm of our high-priced sales talent. It forces management to be a lot more professional in dealing with our salespeople. Of course, with the quality of salespeople we're hiring today, there aren't nearly as many problems as we saw in the old 'churn them and burn them' days."

With the economy strong, Troothe and Bigglie continued to jockey for position in the flange market. Troothe's sales force continued to improve at Bigglie's expense, but so slowly that Harold and Jim sometimes needed to remind each other of the strengths of their management system.

As it turned out, it was at a meeting called by Joe Troothe during a slump in the economy that the salaried sales force concept's underlying strength began to reveal itself. Joe Troothe scheduled a management meeting for first thing one Monday morning. Harold and Jim arrived early, and Joe Troothe closed the door behind them. "We need to talk about what we are going to do with our salaried sales force," said Joe Troothe. "Here's the problem as I see it. I am aware that our sales force carries tremendous Troothe-specific product and customer knowledge, and that many of our customers like the idea of dealing with the same salesperson year after year. I also know there is a great dynamic in the group — our salespeople sincerely seem to like helping each other. I truly value these things, but bottom line is that we've already cut back hours in the plant and office as much as possible, and I still don't have enough money coming in to continue to pay our salespeople what they have been getting."

Jim knew enough about the company sales and profits to have prepared a possible solution. "Joe, the sales force knows we're in financial trouble, and every day we fail to face up to it leaves a cloud hanging over the department. We don't want our salespeople guessing about our plans because the rumors that float around in a company during bad times always are worse than the facts. But we have put too much time and money into building this team to let them slip through our fingers without a fight. Back at Bigglie, a tough manager was somebody who was willing to drop the ax on salespeople any time sales fell, regardless of the cause. You've probably heard me say it before, but if the willingness to inflict pain in others qualifies somebody as tough, then the ultimate role model for 'tough' would be Jeffrey Dahmer. Firing people whose knowledge is vital to the company's long-term success isn't tough — it's just short sighted.

"We've all agreed in the past that a tough manager is someone who is willing to take responsibility, suck it up and take the most pain himself to inspire others to follow," Jim continued. "The time has come for us to literally put our money where our mouths are. I am willing to put my own pay on the line if others will join me. I make no guarantees, but I don't think money is the only reason our sales force is here. The sense I get from the salespeople is that they have never before worked at a company like Troothe and they'd do almost anything to keep the team and the company intact. I believe they would be willing to share the company's pain if they felt their share of any sacrifice was a fair one. We have been drilling it into the sales force that management is responsible for the system, and the natural extension of that point is that the higher up we go on the organization chart, the greater the responsibility and the greater the cuts. So let me ask you: How much do you want to keep the sales force together?"

"Well, what do you think it would take?" Joe asked.

"I'll lay all my cards on the table," said Jim. "My wife has a good job, and I'm not hurting financially. I guess I would be willing to take a major cut if it would demonstrate to the sales force that our crisis is genuine and that cuts in the salespeople's salaries are the only way to avoid laying off some salespeople.

"There's more to this plan than just hanging on through a tough economy, of course," Jim continued. "Holding the sales department together through this dry spell means that once the economy starts to pick up, Troothe will have experienced salespeople ready to pounce on the opportunities that come during a turnaround. Joe, if we assume that the economy will rebound eventually, that is when you will see the real benefits of this plan."

Joe took a minute to think before speaking. "Jim, based on what you are telling me, it sounds like our best bet to keep the sales force intact would be for me to stop taking a paycheck. In one sense, it would be like throwing myself on a grenade for my platoon, but I guess I would be protecting the long-term viability of my company by taking a leadership position right now. I see your point about what makes a tough manager. The managers who go through a department with a meat cleaver, cutting the fat, the meat and the bone are not really tough. If anything, they lack the courage to put themselves at risk for a business in which they believe. So let's assume that I don't take any pay at all — no, wait a minute, I'd lose my medical insurance if I wasn't a paid employee. OK, assume I'm working for minimum wage and medical insurance only. How much of a cut would the rest of management take, and where do we go from there?"

"I was hoping you'd go in that direction, Joe," Jim said. "If you do that, I'll take a 50% pay cut."

"That sounds fair to me too, at least for a while," Harold said, "but with the erratic way orders are coming in, how do we calculate what we can offer the salespeople?" No one had a quick answer to that question, so the men sat quietly for a while.

Finally, Joe spoke. "Harold, I guess the answer is that although I am willing to work pretty much for free for a while, I have to draw the line at reaching into my pocket and paying for the privilege of working here. So the most we can put into the sales force payroll is whatever comes in above expenses in a given month."

Jim nodded. "I think the sales force understands our business enough to respect the sacrifice the management team is making, and I believe they will be willing to let their pay float based on what comes in. It sounds a little like a commission plan, but we're on a war footing here, and if we can keep them earning 70% to 80% of their old salaries while we're at 50% or a lot less, I don't think anyone will bolt. Some of it will be loyalty, some of it will be respect for our taking bigger cuts than they are taking and some of it will be the fact that the job market is terrible and they are not going to be deluged with offers from other companies."

Harold had a question. "Do we tell people that the money they are giving up is just gone, or are we offering some sort of payback in the future?"

"Interesting question, Harold," Joe said. "I see what you are saying, but where would we get the money for a payback? Right now, our sales are a disaster. When the economy improves, we gradually will be able to move people back toward the salaries they had in the past, but all along the way, we'll be paying out everything that comes in. If we use all the company's income to try to keep salaries close to where they were, we can't expect a suitcase of money is going to fall from the sky so we can pay back to the salespeople the income they are foregoing. If we had a real windfall, I'd be happy to share it, but what we are talking about is letting the employees split up what comes in for as long as this emergency lasts — assuming the economy does not get dramatically worse. So we need to make it clear to the salespeople that just as I'm not going to get back the difference between my normal salary and the minimum wage, and that you and Jim are waving goodbye forever to the 50% you've agreed to forego, then whatever the sales force gives up is their contribution to keeping the team together."

Joe presented the situation and his solution to the sales force on Thursday of that same week, allowing ample time for questions during the meeting and for private conversations afterward. He was a little surprised, and maybe even a little disappointed, when no one quit. If anyone had left, it would have taken pressure off the company's finances. June came around later to ask about time off to compensate for lost wages, but backed away from that request when she realized that her coworkers were grateful just to have avoided layoffs and hadn't even considered working less. After all, Joe Troothe had taken a huge pay cut and he was working more hours than ever — and they all knew having the sales force work fewer hours would not fix their problems. The solution was more sales.

Even while the economy was at its lowest ebb, Troothe's sales force kept busy. Although customers were not purchasing much, engineers and buyers had ample time to discuss Troothe's products' advantages over Bigglie's, and there were no Bigglie salespeople around to offer rebuttal. When the economy rebounded, Troothe's sales force had taken away most of Bigglie's customers, leaving Bigglie flatfooted because no Bigglie salespeople had visited the accounts for as much as a year.

Jim and Harold’s greatest reward came the following year, when they sat in on the meeting finalizing Bigglie’s sale to Troothe, and watching Joe Troothe send Buchanan packing. “If Deming could have seen this day,” thought Jim, “I think he would have smiled.”

CHAPTER 16

Jim Anderson felt smug. His salaried sales force program had been in place at Troothe Industries for the last four years, and the most recent refinement he'd made on his sales force management technique seemed like the final, finishing touch on a system that almost ran itself. It gave him an almost real-time account of his sales force's activities each workday with such accuracy that many sales forces would have fought its implementation, knowing it would expose personal activities that occasionally, but unavoidably, encroached into their workdays. However, the trusting relationship Jim had built with his sales force made Jim's promise that infrequent personal errands during the workday would not be held against them sufficient to dispel any knee-jerk resistance the salespeople might have mounted to a system that identified their activities in such detail.

The new system relied on each salesperson to start each sales call by using his or her cell phone to speed-dial a special voice mail box dedicated to that salesperson's call reports and simply announce the name of the account and his or her odometer reading. As they left the account, they called the number again and left the details of that sales call — who they saw, what they talked about, what collateral material needed to be mailed or "to do" action items. They even used the system to let Jim know if an occasional personal emergency interrupted their normal sales calls — proof positive that they accepted Jim's word that those situations would not trigger a reprimand. With the salespeople supplying this level of detail, the office staff had everything they needed to close the loop on each sales call. First, a clerk transcribed the salespeople's verbal reports into a word processing document. An inside salesperson took that file, completed the action items and pasted the results into Troothe Industries' sales force automation software. Each salesperson's Personal Digital Assistant hardware (PDA) received these updates via wireless synchronization, providing confirmation that each action item had been completed. The comprehensiveness of each salesperson's reports also meant that the office staff had enough detail to take responsibility for filling out each salesperson's expense reports.

Freeing the salespeople from the chore of monthly expense reporting had not been the original goal of the system, but this byproduct of the new procedures was the sales force's favorite.

To let him keep tabs on the sales force's activities, Jim received both a printed copy of the word processing file and an electronic copy of the voice mails, giving him the choice of reading the transcriptions at his desk or listening to the actual voice mail messages while he traveled. He got the first hint that something was wrong with his salaried sales system while listening to call reports phoned in by June Calloway, the first salesperson he'd hired when he came to Troothe Industries.

"I just left Jill at Fenway Industries. She wants us to check to see if we can improve the schedule date on her open order 763012 and she reminded me that as soon as our catalog is back in print she needs two copies for the engineers that started at Fenway three months ago." June's reports continued to play from the speakers in Jim's car, but he abruptly stopped the recording and replayed that last section: "...as soon as our catalog is back in print..." he heard her say.

"Why are we out of catalogs, and how long has the catalog shelf been empty?" Jim wondered. He promised himself that he'd investigate first thing the next morning.

CHAPTER 17

It wasn't June's weekly scheduled office day that morning, but Jim reached her easily in her car. "June, I was just listening to the call report you phoned in after your visit to Fenway a couple of days ago. You mentioned something about Jill reminding you that she'd wanted some catalogs and we need to get them out as soon as they're back in print. Have you been having trouble getting catalogs?"

"Gee, Jim, I figured you must have known about that. Sure, we're out of catalogs. Jill asked me for those catalogs the first week those two new engineers started at Fenway, which was about three months ago. I've been in contact with those engineers and I've explained that until it's back in print they can look at our catalog on the web. They seem to be OK with that." June's tone became slightly defensive as she continued. "And any time they complain that it's too hard to find the information they need on our web site, the inside sales department is really good about e-mailing a file to the customer."

Jim was mad at himself for not knowing Troothe's master catalog was out of print. "June, let me be sure I understand. Our master catalog has been out of print for three months? What has the sales force been using to make presentations to new prospects?" Jill couldn't know that Jim was mad only at himself, so the irritation in his voice, though controlled, put her even more on the defensive.

"We've been doing the best we can with what we have available," she said. "We refer customers to our web site for information, print out web site pages to give to customers and photocopy our personal copies of the last catalog. It may not be ideal, but we're doing the best..." Jim interrupted, "Right, you're doing the best with what we've given you to work with. June, didn't it occur to you to tell me you didn't have the sales tools you need?"

June's voice started to sound a bit shaky. "Honestly Jim, I was just doing what I thought you wanted me to do." Jim realized that he'd been taking out his frustration on June, and that she probably was driving while they spoke, so he carefully backpedaled.

"I'm not blaming you, June. If we aren't giving you the correct sales tools, it's not your fault. It's management's responsibility to keep you supplied with catalogs. I'm just surprised to hear that we're out of catalogs, and frankly I'm a little embarrassed to discover that for a whole quarter we've been sending our sales force out without adequate tools. This is an issue for management to take up with the marketing department, not the sales force. If I sounded irritated, please don't think I'm mad at you, because I'm not."

The conversation continued for a few minutes, just long enough for Jim to do everything he could so June wouldn't think that she was in trouble with her boss. When the call was over, Jim bounded out of his chair. His strides were unusually brisk as he walked/ran to the marketing department and stuck his head into the open doorway of the marketing manager's office. "Rick, have you got a second?"

"Sit down, Jim. What can I do for you?"

Jim paused. He didn't want to start the conversation confrontationally, so he took a deep breath and made an effort to keep his tone light. "Rick, I understand we're out of master catalogs. Can you give me an update on that?"

Rick's tone made it clear that the lack of catalogs didn't bother him. "Oh, right. Well, we're expecting to release the new WR72 flange any time now and it didn't make sense to reprint our master catalog without it, so we haven't gone to press yet. I'd guess we should be ready to release the WR72 within a month, and we should be able to get catalogs printed within four weeks of the official release." Jim found Rick's nonchalance maddening. Before losing his temper with Rick the way he'd lost it with June, however, Jim quickly excused himself and returned to his office. Fortunately, his waste basket was pliable rubber and was empty, so with the door closed no one heard the swift kick he gave it or the muffled thump it made as it hit the cinderblock wall of his office.

CHAPTER 18

Jim was rummaging through the janitor's closet, looking for something he could use to remove the big black mark the rubber wastebasket had left on his office wall, when it dawned on him why he'd been so frustrated. June had just been doing her job the best way she knew how. So was Rick, Jim admitted to himself grudgingly. The reason Jim had reacted to strongly to the problem was that it had revealed a weakness in the salaried sales force system of which he'd been so proud — a weakness that hadn't existed in the commission system he'd left behind at Bigglie Products, his previous employer. Back at Bigglie, if the catalog supply had run out, the commissioned salespeople would have complained vigorously to management. Sometimes management felt the salespeople were too quick to complain, but there was never any risk that a problem affecting customers would go unnoticed by management. When finished goods inventory was low, phone queues in customer service too long or product quality below their competitor's levels, complaints from the sales force often were management's first notification that customers were not getting what they needed from Bigglie.

Jim was sure the reason Bigglie salespeople's complaints were so forceful was not that they cared more than Troothe's salespeople, it was just that when Bigglie's performance faltered the salespeople's commission plunged — Bigglie paid no commission on lost sales even when management ineptitude was completely responsible for the loss. The intensity with which Bigglie's commissioned sales force brought customer concerns to management's attention was driven strictly by economics, Jim reasoned. Bigglie's sales force had an overriding financial interest in keeping its customers happy and would not hesitate to challenge Bigglie executives when its commission income was threatened by management fumbles.

After picking up a bottle of cleaning solution and some paper towels, he put his hand on the doorknob to leave the janitor's closet, but stopped momentarily, lost in thought. "There were just too many problems with a commissioned sales force for us to go back down that road again," Jim reflected to himself. "Even though I have identified a problem with the salaried sales force system, there has to be a way to fix it without abandoning it completely. It seems crazy that this problem stems from the fact that we don't penalize our sales force for sales lost for reasons outside their control. We treat them fairly, so they don't complain, but if they don't complain, management isn't triggered to make corrective actions. I'm going to have to sit down with Harold and talk this one out."

Once he'd gotten the mark off his wall, Jim took a walk out to the factory floor. Harold was an operations guy at heart, and insisted on working in a glass-walled structure "close to where the real work is being done." Jim found Harold busy but willing to make time for his old friend, so he accepted Harold's invitation to sit down and explain the new problem he'd identified.

After Jim detailed the problem, Harold sat quietly for a minute, considering his response. "Jim, let me put this in another context to see if I understand the problem. Before weather satellites, sailors used barometers to read the changes in barometric pressure that were precursors of a thunderstorm. That is, they had an early warning system. You'd come to expect complaints from the sales force to provide a similar alert if management got sloppy, giving us a chance to correct our mistakes before customer dissatisfaction escalated to the point where we started to lose sales. If our salaried sales force isn't providing us with that early warning system, perhaps it's because it doesn't have a financial incentive to tell us when we're fouling up, and you're concerned that without complaints from the sales force we risk being blindsided. Is that pretty much it?"

"That's it, Harold, but what are we going to do about it?"

"I'm assuming," Harold replied, "that you're not proposing that we go back to paying our sales force on a commission basis. The problem that you're describing — that our sales force is too compliant to management's dictates — is not nearly as bad as the problems created by compensating salespeople using a commission system. I admit that you've identified a useful 'checks and balances' element of the commission system that we don't now enjoy, but overall I'm sure we're better off now than we were at Bigglie."

Jim nodded. "I don't disagree, but there is a glaring, fundamental flaw in our system. I don't feel comfortable just leaving it at 'of two flawed systems available, we picked the one with the fewest flaws.'"

"Fair enough, Jim," Harold replied. "You need a barometer, an early warning system, to fix this problem. There isn't any law that says the warning has to come from the sales force. What about somewhere else in the sales channel? I've heard you refer to the distributors that buy our products in bulk and resell them in smaller quantities as 'channel partners.' We don't pay them a commission like a sales force, but they have a real financial stake in how well we meet customer expectations that isn't too unlike the stake of a commissioned sales force. If our direct sales force isn't being critical enough to suit you, could you organize our distributor network to provide the feedback you need?"

"Harold, I think you are on to something there. I am going to pay a visit on Maria Gonzales to discuss that."

CHAPTER 19

Maria Gonzales was a welcoming and gracious host. She ushered Jim into her conference room, invited him to help himself from the coffee pot and sat down to hear his concerns. Maria always had been very direct with her advice and suggestions, so Jim didn't pull any punches when he detailed the flaw in their salaried sales force system and asked her if she and Troothe's other distributors could provide the feedback Troothe needed. True to form, Maria's reply was frank.

"Jim, I never have been bashful about letting your company know when it's not performing to market standards, and I'm happy to continue to do so. Based on our current arrangement with Troothe, however, I don't know if you can expect me to supply the kind of vigorous, sustained feedback you are describing. Let me be blunt. You've been out of catalogs for three months, and I've complained to my salesman from your company several times. I have my own business to run and my own commissioned sales force that is not going to stop making sales calls while they wait for Troothe to reprint its catalog. My salespeople may feel that Troothe is our emotional favorite among the brands of flanges we have available to sell, but if they can't get a Troothe catalog and their customers ask for a flange catalog, they'll give their customers whatever flange catalog they can get."

Marie paused for a sip of coffee before continuing. "We may prefer selling Troothe flanges to selling brand X, but if the only catalog we can get is brand X, then that's the catalog we pass out to customers. Please don't take this the wrong way — we're more than happy to give you feedback, but once we've let Troothe know how we feel several times, we move on and sell the brand of flanges that gives us the tools and products we need to be able to do our jobs. I guess what I'm saying is that we always will provide you with feedback, but we'd take the position that we do so as a professional courtesy, not as a responsibility. After we've shared our opinions we have to go ahead and conduct our own business — we can't take responsibility for nagging you until you get things right."

Jim knew he could rely on Maria to be painfully direct, which was why her opinions were so valuable. "That's not what I was hoping to hear," he said, "but I certainly can see your position. For you, the path of least resistance is to sell whichever brand of flanges makes your offering most attractive to your customers, and if I remember correctly, you are franchised to sell three different brands. So the only way we could count on you to make your feelings known with real force and tenacity is if you only had one brand of flanges to sell." Maria nodded, and Jim continued. "Let's talk about that for a minute, if you don't mind. I guess I'm wondering why you have three different brands of flanges, and what it would take for you to handle only Troothe's flanges?"

Maria's forehead wrinkled briefly as she considered her reply. "I suppose one reason is that even though flanges are pretty much interchangeable, some of our customers have developed a preference for your product and some prefer other brands. If we have access to most of the major brands our customers want to buy, we can avoid the time-consuming chore of convincing those customers to change their brand loyalty. Another benefit is that there are some oddball, low-volume items that only one flange manufacturer offers, so if we didn't have access to each of those manufacturer's products there would be some customer requirements we couldn't serve. To be fair, those come up so infrequently that we probably could source those from another distributor if we had to — so that's not the major reason to be franchised for multiple brands. It could be the major reason is that this is the way it's always been done between flange manufacturers and flange distributors. I'd say my trading area is about a 100-mile radius from my office. You have five franchised Troothe distributors in that area. Distributors have multiple lines of flanges, and manufacturers have multiple distributors in the trading area. I'm not sure if that's a good thing or a bad thing, it's just the way things always have been in our industry. If you really were serious about getting the kind of vigorous feedback you're talking about, it would have to be from a distributor that sold only your brand and was captive to your performance. I'm not necessarily proposing it or even saying I'd do it, but the only way we'd even be able to have a discussion about dropping our competing lines of flanges would be if we were the only Troothe distributor in our trading area. It seems to me that even discussing that topic would be an exercise in futility — I can't imagine you'd offer to drop four franchised distributors in exchange for having me drop two competing lines of flanges, would you?" Maria's tone left Jim thinking that she might very well be interested.

"Maria, that would be a whole new topic of conversation. I really appreciate the time you set aside for me today, and I'll continue to look into this subject and let you know what I come up with."

In the car on the way back to the office, Jim wondered if an exclusive distribution agreement with Maria's company would get him the feedback he sought. He also wondered if the reason exclusive distribution in the flange industry hadn't been done before was because no one had thought of it, or because there was some pitfall he'd missed. As he drove, he phoned Harold to discuss the topic, but neither of the two men could make a strong argument for or against an exclusive distribution program. Finally, Harold brought the conversation to a close. "Jim, I don't see any huge problems, but of course we're only looking at this issue from the manufacturer's side. Why don't you visit our purchasing manager and find out what kind of experience he's had as a customer of exclusive distributors, and then we can take this up again in a day or two?"

As he drove, Jim became more and more excited about establishing a stronger bond with distributors through exclusive territorial arrangements. When he arrived back at the plant, he made a beeline for the purchasing manager's office. He knocked on the doorframe, stepped inside the office and said, "Pete, can I ask you a question?"

When Jim told Pete about his plan, Pete grimaced and then replied, "Jim, that would be a disaster." With a shrug to acknowledge Jim's surprised look, Pete continued. "You know that some customers prefer to receive complete flange kits so we supply some accessory pieces in a box with our flanges. Acme makes a high quality line of accessories, and for years we'd buy their parts through local Acme distributors. Some of our customers specified that they'd only accept Acme accessories, so between that customer preference and the good job Acme distributors did for us, we put nothing but Acme accessories into our kits."

"Acme went to exclusive distribution about two years ago. When there were several distributors competing for our business, we were getting a fair deal. With only one source of Acme accessories, prices went up immediately and continued to creep up a little bit every time we ordered. We complained to the distributor and to Acme, but it didn't do any good, so the first thing we did was to move all of our discretionary business to another vendor. We had to pass the price increases along to customers who still specified Acme accessories, and our sales force is actively working to convince the stragglers to accept non-Acme accessories. Between what Acme lost in our discretionary business and the customers we've converted to non-Acme accessories, our business with Acme is down at least 75% and it's still falling. I'm sure that the distributor makes great profit margins on the Acme parts we still buy, but if I have my way we'll be 100% non-Acme in the next 12 months."

Jim's jaw had dropped open in disbelief as Pete told him the story about Acme. The two men were good friends, so Pete felt comfortable saying, "OK Jim, you can close your mouth now. Sorry to take the steam out of your idea, but if you don't want our customers to hate us the way I hate Acme, don't even think about exclusive distribution."

Jim was crestfallen. He'd been so enthusiastic about the exclusive distribution idea that it was difficult to have it shot down so quickly. When he got back to his desk, he called Harold to bring him up to date. "Ouch," said Harold. "I see Pete's point, but I don't know where we are going to go from here. If distribution isn't our answer, I don't see any way to fix that problem within our existing sales channel. If we have exhausted all of our options within the current structure, then the solution would have to be something new, different and innovative. Why don't we schedule a brainstorming session next week — and it probably wouldn't hurt to get some input from outside the company. Your wife is a pretty highly placed executive — why don't you see if you can schedule a time when she's available and the three of us can sit down uninterrupted for a couple of hours?"

CHAPTER 20

Ruth Anderson's schedule during the workweek was hectic, so the three agreed to meet in Troothe's conference room on a Saturday morning. Harold had arrived early with pastries from his favorite bakery, and he had covered the walls of the conference room with large sheets of plain white paper so that the ideas they generated could be captured easily. Jim had brought his wife up to date on the problem they wanted to solve, so as soon as the three had shared initial pleasantries, they were ready to start.

Harold stood up. He had a thick marker in his right hand to record the group's comments. He uncapped it but said nothing, which Ruth took as a signal to start.

"If I understand the problem, it really boils down to how the current salaried sales force system is structured to make a tradeoff between cooperation and greed," she said. "Jim's salaried sales force is structured to maximize cooperation among members of the sales force, and it's been very successful in accomplishing that goal. As a byproduct, however, it's also made the sales force very accepting of any but the most egregious errors made by management — they're so obliging that when management fouls up they quietly do the best they can with the cards management deals to them."

Jim nodded, and added, "That's right. Our goal today is to find a way to create some useful tension between the sales force and management without disturbing the level of cooperation the members of our sales force now extend to each other."

Harold said, "I know it's a little early to recap, but let me see if I can condense this into a bullet point or two that I can write on these sheets. We're balancing greed against cooperation, and it sounds like we need to incorporate elements of both into a successful system." Harold wrote the word "Greed" on the first sheet, underlined it and then wrote underneath it, "Commission-based" and "Incentive for strong feedback." On the next sheet he wrote "Cooperation," underlined it and wrote beneath it, "Salary-based," "Salespeople work together" and "Feedback missing."

Harold capped the marker and looked at the two sheets, folding his arms across his chest. "There is something about our headings that's bothering me," he said. "When we use the headings 'cooperation' and 'greed' it looks like we're comparing cooperation, which is something good, against greed, which is something bad. The whole reason we're having this conversation is because we've decided that for the health of the company we need to encourage some greed. I think the negative connotation of the word greed is going to make it hard to have an objective discussion."

Jim and Ruth nodded, then Ruth said, "We're probably better off to use 'competition' instead of 'greed' as the opposite of cooperation. There isn't anything inherently negative about the word competition — Troothe competes every day with other companies, and free market economies have their basis in competition."

Harold crossed out the word "Greed" and wrote "Competition" at the top of that page before continuing. "So we're looking for a way to balance cooperation and competition. Jim, the sales force currently operates at a very high level of cooperation. How much of that cooperation are you willing to give up to get the feedback you need?" Harold moved to a blank sheet and drew a line with arrows at each end.

-10 Competition 0 Cooperation +10

"Let's say there is a continuum with -10 as pure competition and +10 as pure cooperation," Harold continued. "Where would you say our salespeople would fall on this line right now?"

"They're pretty enthusiastic about helping each other," Jim said. "I'd have to put them about +8 or +9."

"Then the question I have to ask you," Harold said, "is are you willing to move toward +5 or even zero and give up some of that enthusiasm to get the feedback you want? Can we move back in the direction of competition with some sort of hybrid salary plus commission system? Are you willing to go to a point where, although our people still work together, they do so unenthusiasti-cally, or even reluctantly?"

Jim shook his head. "I don't think there is such a thing as cooperation at the point of a gun."

Harold interrupted, "I remember a quote from Dwight Eisenhower:

‘You do not lead by hitting people over the head — that’s assault, not leadership.’”

Jim picked up his thought where he’d left off. “The whole point of cooperation is that our salespeople come up with innovative, creative ways to collaborate — even volunteering to help each other. Without their enthusiasm we’d lose that creativity. The many ways our sales force has invented to work together were created because they chose to look for ways to be team players. This has been a huge benefit to Troothe. I am not prepared to sacrifice that to get the feedback I want. What I’d like to see us come up with is a way to get salaried employees to selectively behave like entrepreneurs or commissioned employees. I want our sales force to become vocal advocates for our customers while still engaging in high-level cooperative activities among themselves. How do we get employees to behave like entrepreneurs, but in one aspect of their job only? To use an example, let’s consider our own salesperson June Calloway who works for us on a salaried basis. How can we get her to complain like she would have as a commissioned salesperson back at Bigglie while continuing to cooperate enthusiastically with her coworkers on a salaried basis here?”

“That’s a thorny question, Jim,” said Ruth. “I don’t know if you can pull an employee in two directions like that and somehow have them act like a Troothe salaried employee most of the time, except in the one case where you want them to behave as a Bigglie commissioned employee. My instinct tells me it’d be like trying to set a thermostat for ‘hot, yet cold.’ If you try to get hot and cold at the same time you end up with lukewarm, which probably is not an acceptable alternative in this situation.”

“I’m not saying it can’t be done,” Ruth continued, “but I think we should consider that ‘hot, yet cold’ may not be a possibility and brainstorm other alternatives to get you the feedback you want. Why don’t we do some real brainstorming about the sales channel in general instead of sticking strictly to the problem you’ve identified? Let’s talk about everything you think you might want from the sales force that you’re not getting, and see where that takes us.”

“Fair enough,” Jim replied. “Harold, let’s start my wish list on a new sheet and write ‘Feedback’ at the top.”

Harold complied, and said, “I’m going to add the word ‘commission system’ in parenthesis underneath, because in every conversation we've had so far, commission has been the key element in getting the feedback you want."

Jim agreed. "Harold, as long as we're talking about things we want, you may as well write 'more sales' on the same page. And there's something else on my wish list — surge capacity." Harold added that note while Jim explained, "When we roll out a new item, we do it with the same sized sales force we run with all year even though we really want to touch all of our customers with information about the new products in a hurry. Surge capacity would let us get more feet on the street talking about this new product while it was very new, but let our sales force revert to its normal size when the rollout is complete."

This seemed like a tall order, and it stopped the conversation for a while. Finally Ruth spoke. "For you to get surge capacity, you're probably talking about utilizing some outside company that would provide that service not just to Troothe, but to other manufacturers as well. Wait a minute, I think I can show you what I mean." On her way to the conference room, Ruth had noticed an employee's Yahtzee™ game sitting on one of the lunch tables. She retrieved it, and took the dice out of the box.

"Let's say that in one month out of six we're introducing a new product so we need extra feet on the street. To keep the math simple, let's also say that the distribution of new product releases is random — in other words, every month we have a one in six chance of launching a new product regardless of whether or not we did a release the preceding month. In months when a new product isn't released, a more modestly sized sales force is sufficient to support our efforts. A way to model this situation is to roll one die. If it comes up six, we have a new product to roll out and need extra sales help. Any other number is a normal month, without the need for extra headcount."

Harold picked up on Ruth's point almost immediately. "So, if two manufacturers were sharing this surge capacity system, then we're rolling two dice, one for each manufacturer. If the first die comes up six, the first manufacturer needs surge capacity that month. If the second die comes up six, the second manufacturer needs surge capacity that month. And the chances of both coming up six the same roll, or the same month, are only one in 36. So, if two manufacturers shared their surge capacity, we would expect that on average only once in every 36 months would they both want to use that surge capacity during the same month."

"That solves Troothe's surge capacity problem," agreed Ruth, "but that business model it isn't going to be an attractive niche for some third-party company to fill. Let's take a look at the math and see what would happen to a company that started up to provide surge capacity to companies like ours, but only had two clients. Statistically speaking, if you throw two dice there are 36 possible outcomes. In 25 of those outcomes there is no six, in 10 of those outcomes there is one six, and in one of those outcomes there are two sixes. So over time, we'd expect the surge capacity supplier to have no work to do 25 months out of 36, exactly the right amount of work to do 10 months out of 36 and too much work to do one month out of 36." Harold and Jim both nodded, interested to see where Ruth's argument was going.

"For this to make sense for the surge capacity supplier," Ruth continued, "that supplier needs more clients. Just to illustrate, let's take a look at the business model if we keep our other assumptions the same and increase the surge capacity company's client roster to 12 manufacturers. Basic statistics tell us that the anticipated utilization of that outsourced surge capacity company's services would be a binomial distribution." Ruth picked up one of the markers and wrote on one the blank pages:

$$P_x(x) = \frac{n!}{x!(n-x)!} p^x(1-p)^{n-x}$$

Uncomfortable with math, Jim groaned theatrically when he saw the equation, but Ruth was intent on finishing her thought. "So, for example, the probability that the surge capacity supplier would have no products to introduce in any given month would be:

$$P_x(x) = \frac{12!}{0!(12)!} (1/6)^0(5/6)^{12}$$

When Ruth paused, Jim spoke up. "Honey, you know me well enough to know that I am not going to follow the math, and I'm afraid if we get into this too deeply we'll bog down this brainstorming session. Could we set this aside and come back to it?"

Ruth was steadfast. "Jim, there's something valuable here that has a bearing on our discussion. Let's take a 20 minute break and let me borrow the computer in your office to set up an Excel™ spreadsheet, and I promise I'll come back with something right on point for this conversation."

"I wouldn't mind a break, myself," Harold said. "Let's get back together in 20 minutes or so."

Jim was reluctant to lose the conversation's momentum, but grudgingly agreed to the break. When they resumed, Ruth had written a table on one of the sheets of paper hung on the wall.

Number of Rollouts	Probability	Satisfaction Rate
0	11.2%	11.2%
1	26.9%	38.1%
2	29.6%	67.7%
3	19.7%	87.4%
4	8.9%	96.3%
5	2.8%	99.1%
6	0.7%	99.8%
7	0.1%	99.9%
8	0.0%	100%
9	0.0%	100%
10	0.0%	100%
11	0.0%	100%
12	0.0%	100%

Once they'd settled back into their seats, Ruth picked up where she'd left off. "We spoke about how it would be valuable for a manufacturer to have an outside vendor to provide surge capacity when a new product is rolled out," she said, "but we'd identified that providing this service would not be an attractive business model for a provider with only one or two clients. I'm suggesting we look at what it would take for that business model to work successfully so we can make the case to some outside company that it should start providing the service of which we'd like to take advantage. Based on what I found when I worked out this chart, I think the numbers look much better when that company's client roster is larger — like the 12-client roster upon which I based this table.

"The most obvious benefit is that if a manufacturer like Troothe staffed adequately to handle a rollout but averaged only one rollout every six months, then the staff hired for rollouts would have no work to do five months out of six, or 83.3% of the time. Our outsourced rollout company with 12 clients will see months with no rollouts only 11.2% of the time, which is a real improvement in staff utilization.

"Now, let's take a closer look at the chart. The first column is the number of clients that have scheduled a rollout in any given month. With 12 clients, it is possible that in January, for example, none of the clients would schedule a roll out, or one would, or two would or any number up to all 12 clients could schedule a rollout. The second column is the statistical likelihood that the number of rollouts in any given month would be the number in the first column. For example, the probability that exactly one company would have a rollout in any given month is 26.9%.

"The final column is a little trickier. It indicates the likelihood that all of the company's clients' requirements would be satisfied in any given month if the company staffed at that level. For example, if the company staffed adequately for one rollout, it would satisfy all of its clients' needs in months where either zero or one rollout were needed, or 11.2%+26.9%=38.1% of the time. If they staffed for two simultaneous rollouts, they'd satisfy their customers any months where there were zero, one, or two rollouts, or 11.2%+26.9%+29.6=67.7% of the time. A company staffed to handle three simultaneous rollouts would satisfy its 12 customers demands 11.2%+26.9%+29.6+19.7%=87.4% of the time.

"Of course, we're attributing accuracy of 0.1% to an example based on assumptions that easily could be 50% off, but it does illustrate the fundamentally sound economics of having one company provide the sales surge capacity for a larger group of companies. As a matter of fact, one of the things that would make the economics even better than our example is that our assumptions describe a model in which all of the rollouts start on the first day of a month and end on the last day of the month. It is just as likely, though, that one manufacturer would roll out on the first of the month and another on the 15th of the month, so the overlap of those two rollouts would be only two weeks, which adds even more diversity to the system and would tend to smooth out the results even more.

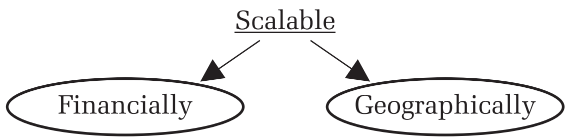
"I realize I've taken us a little bit off the track as far as our brainstorming session goes, but I see a few other benefits in this model

I'd like to mention before we go on. One is that as the number of rollouts for which you staff increases, you get added flexibility. For example, if you're staffed for three rollouts and four hit at once, you could give each client ¾ of your staff and still maintain a pretty satisfactory service level.

"Another is that we've described surge capacity in terms of new product rollouts, but there are other ways this company could provide surge capacity to a manufacturer. Maybe Troothe had a new advertising campaign that created an unusually high number of inquiries from new customers, and we wanted to reply to each of them more quickly than our normal staffing could allow, or we'd just returned from a trade show and wanted to contact all of the visitors to our booth more quickly than our employees could manage. I'll bet there are even more cases where having a versatile outsourced group that served the needs of 12 manufacturers like us easily could shift between serving our needs and the needs of its other clients.

"And finally," said Ruth, "we also should consider the opposite of surge capacity. Let's call it sag capacity. Say you've hit a dry spell, whether it's a snag in production, a big order that overwhelmed plant capacity, a strike or a shortage of raw material, but regardless of the reason, you can't take on other new orders for a while. Right now, you pay your sales force a fixed salary regardless of sales, and when the company's income takes a dip you have to make a choice. Keep them on staff even though there's very little for them to do or lay them off and face the expense of locating and training replacements when things pick up. And remember what happened the last time Bigglie had a layoff? You snapped up the salesperson they laid off and had the benefit of all the account knowledge he brought with him. Sag capacity would let you put your sales force in 'suspended animation' when they weren't needed, and yet they'd be ready to pick up right back where they left off when you were ready to start booking new orders again. If our outsourced surge capacity supplier had 12 clients and one went off line for a while, it could avoid layoffs by diverting its attention to the other 11 and then resuming service to client 12 with little loss of momentum when that client went back on line."

Harold wrote "Sag Capacity" under "Surge Capacity" on the sheet, and had a new point. "Whatever this system is, it should be scalable." Jim looked puzzled. "By that I mean, if you come up with an arrangement that works for one person or a handful but falls apart when you try to use it over a larger system, then it isn't scalable. I can see two issues of scalability, financial and geographic. On the financial side, if we create a system that works while we have sales of $10,000,000 but will fall apart when our sales hit $100,000,000, then it isn't scalable financially. And we need to be geographically scalable too, so it will work all across the country." Harold wrote the word "scalable" on the sheet, with arrows leading to "financially" and "geographically."



"As long as you brought up finances," said Ruth, "let's discuss that for a minute. Jim, getting the feedback you want probably is going to have some sort of cost associated with it. You've been talking about some sort of a commission-based system that doesn't involve the current sales force, which means you will end up paying some percentage of sales to somebody. To implement this system you're going to have to fund it, so you'll need money in your sales budget to pay for it."

"You're right," Jim admitted. "I don't think we're going to get an enthusiastic response from our company if we try to sell the idea that it needs to pay a percentage of sales just to get feedback for the purpose of identifying management's shortcomings. Let's go back to the second point on my wish list — more sales. If we come up with a system that pays for itself by generating additional sales and, as an extra added bonus, provides me with that feedback, that system probably would be doable."

Harold wrote, "Pay for itself" under the word "Financially."

"What about 'Geographically?'" Harold asked. "Shouldn't we talk about that too?"

"You know, I had a conversation about that with Maria Gonzales," said Jim. "She made the point that the only way to get vigorous feedback was in some sort of an exclusive relationship. We would have to have a partner who didn't sell competing products so they couldn't just move their business to a different source during hard times, and we would need to give that same partner some sort of an exclusive trading area in exchange for forgoing alternate sources. So we're looking at a commission-based system with an exclusive trading area. And if it's commission-based, then it'd be a different arrangement from the one we have with our distributors." Jim recounted the story Pete had told him about Acme's exclusive distribution program, and added, "Whatever we come up with, we have to avoid the problems Pete experienced with Acme."

The morning had sped by. Ruth seemed ready to wrap up for the day. "Harold, I think now is the time to recap. We are looking for some sort of a commission-based system in which Troothe issues invoices, has the ultimate control over selling prices and allows some kind of exclusive trading area. It would have to allow us to increase sales, get feedback, provide surge and sag capacity and it has to work over a broad range of geographies and sales ranges."

Harold wanted to add one more comment, "Ruth, that's a good summary of what we want, but I think we should get some input on how our customers might react to this sort of system. Jim, why don't you discuss what we're considering with Pete in purchasing on Monday to see how he would react if one of his vendors came up with a scheme like this?"

CHAPTER 21

Jim caught Pete in the company break room Monday morning just as he was pouring his first cup of coffee. Jim and Pete sat down at one of the tables, and Pete sipped his coffee while Jim laid out the results of the meeting he'd had with Harold and Ruth on Saturday. Jim continued to explain the program, but was puzzled by the small smile on Pete's face that grew into a wide grin, and finally a chuckle. "Jim, I would not have any trouble dealing with a vendor who worked that way — many of our best vendors use that system already. As a matter of fact," said Pete, glancing at his watch, "if we keep talking much longer I'm going to be late for my first meeting, which is with a salesman who works for one of our vendors on exactly that basis. So why don't we put this conversation on hold, and I'll bring him by to see you after our meeting."

Jim was a little bit disappointed that the idea he, Ruth and Harold had labored to create was not an original one, but he was excited to hear that some sort of workable system already existed, saving him the burden of creating one from scratch. He thanked Jim, refilled his own coffee cup and went back to his office.

About 45 minutes later, Pete walked into Jim's office with a visitor in tow. "Jim, this is George Harbison. George works for a company that is organized on the basis you were discussing. I've got to run, but George, I'd appreciate it if you could give Jim a little time to explain how your company operates."

George shook Jim's hand and settled into the chair next to Jim's desk. "So, Jim, how can I help you?"

"I was talking to Pete earlier today about creating a system that would involve having people sell our product on a commission basis in some sort of exclusive territory, and he said your company does that and you probably could give me some insight into how it works."

"Do I understand correctly, Jim, that you're not necessarily talking about hiring my company to perform that service for you — you're just interested in learning how the system works?"

"Exactly," said Jim. "Could you just tell me what already exists in terms of structures like the one I described, so I won't need to reinvent the wheel?"

"Happy to help a good customer, Jim. Let me give you an overview," George said. "I work for a company that operates as an outsourced sales force for manufacturers. The most common terms to describe this function are manufacturers' representative, manufacturers' rep and manufacturers' agent, but most people just refer to companies in this line of work as reps or agents. One of the things to bear in mind is that we are manufacturers' reps with an 's apostrophe' at the end, not 'apostrophe s.' This means we represent a number of manufacturers rather than just one. And the term 'agent' really is a misnomer, because a true agent would have legal authority to bind the company it represented into contracts with third parties, which is a power manufacturers' agents or reps don't have. Instead, we represent a group of non-competing manufacturers that make products that tend to be used by the same sort of customers. For example, salespeople from my company call on Troothe and other companies that use manufacturing processes similar to the ones you use. By focusing on selling to companies that use similar manufacturing processes, we identify a market for a group of products used in those processes and provide our services as sales representatives to companies that want to reach that market. As a result of my past efforts, several of the companies we represent currently sell products to Troothe, and based on the meeting I had today with Pete in purchasing and your engineering department, it looks like I'll be adding one more of the manufacturers I represent to your vendor list soon."

"I think I understand the concept," said Jim, "but could you tell me how you are different from a salesperson who works as a direct factory employee, and how you are paid?"

"In terms of the kind of people who work for reps, there really isn't a lot of difference between the salespeople working for my company and most salespeople working directly for a manufacturer," George replied. "I can say that with some authority because I worked directly for a manufacturer before I took this job with a rep company, and I'd say at least half of the other salespeople at the rep company where I work have worked for a factory, too. Each of the manufacturers we represent pays the rep company I work for a percentage of sales in our assigned territory, which is the northern half of the state."

Jim noticed George was stealing quick glances at his watch, and didn't want to tie up George too long, so he stood to let George know it would be OK to close the conversation. "I'm sure that you've got appointments, George, so I won't keep you, but I would like to get into this topic more deeply sometime soon."

George nodded. "I just work for the rep company, but if you really want to get into the nuts and bolts of how a rep company works, why don't I have my boss give you a call?"

That idea appealed to Jim. "Good thinking, George. Would you have him give me a call and we'll set something up?" George took Jim's card and promised that Jim would hear from George's boss soon.

CHAPTER 22

Fred Richardson owned the rep company where George worked, and his call to Jim was prompt. Jim had asked Fred to drop by Jim's office to discuss the rep system, but Fred had another suggestion. "If you want to learn about reps," Fred said, "I'd suggest that you come visit our office. After all," Fred joked, "when Jane Goodall wanted to study chimpanzees, she watched them in their natural habitat. I think you'd learn more about us if you saw our operation than if I just described it. Why don't you come by our office for lunch on Tuesday?"

Jim wasn't quite sure what to expect when he arrived at the rep company, and he wasn't quite sure what to make of what he saw. The office was about 2,000 square feet in a well-kept office building, and looked no different from any office he'd seen at Bigglie, Troothe or any of the customers he visited. A busy inside salesperson was the first person he saw as he entered. She acknowledged him with a nod and a quick wave, but she was so deeply immersed in a telephone conversation with a customer that she couldn't break away immediately. Seconds later a man jumped up from one of the dozen desks in the open office space and walked up to greet him.

"Hi, I'm Fred Richardson. Are you Jim?"

"Hi, Fred, nice to meet you." Jim noticed that many of the desks were unoccupied. "Looks a little bit empty in here today."

"It's always like that, Jim," Fred replied. "Half of those desks belong to our outside salespeople, and each one of them is in the office no more than one day a week. I want them in front of decision makers in our clients' offices, not sitting at a desk here in our office."

The office tour was short. Fred showed Jim the room where samples and sales literature were neatly organized and the area where the firm kept its state-of-the-art computer server and the firewall protecting their high speed Internet connection. Fred demonstrated their sales force automation software, impressing Jim with the high degree of integration between the office staff's desktop units and the personal digital assistants (PDA's) deployed with the field sales force. Finally, Fred ushered Jim into a sunny, well-appointed conference room. One of the walls was almost completely covered with sales awards, trophies and plaques from companies the firm represented.

"I really appreciate your time today, Fred. The whole concept of a manufacturers' rep is new to me, and I was hoping that your explanation could start on the most fundamental level. What is it, how does it work, why does it work, that kind of thing."

"Fair enough, Jim. I can't tell you authoritatively how the first manufacturers' representative company came to be, but it's probably fair to assume it was launched to allow several small manufacturers of complementary but non-competing products to share the cost of a salesperson. It's likely that those companies saw this arrangement as a temporary measure as they worked to grow large enough to afford a sales force that wouldn't have to be shared. This would be the same sort of situation that might motivate three companies to pool their funds to purchase a building they could share, with each manufacturer anticipating growth that eventually would allow it to purchase a building it would use exclusively.

"Some of the manufacturers who made this sort of arrangement went on to hire their own sales forces, but others discovered that there were some unanticipated economies and efficiencies in the manufacturers' representative system that they couldn't duplicate with their own sales forces.

"The most important of these benefits has come to be known as synergy. There are many examples of synergy in the manufacturers' representative system, but I'll just pick two to give you an idea of what I mean.

"One example is that a manufacturer fielding a sales force of reps offers its customers the efficiency and convenience of a single meeting with a single salesperson who can discuss multiple product lines. So, the customer has just one visitor to discuss perhaps three different manufacturers' products instead of three separate meetings with three different salespeople.

"Another is the level of familiarity a rep will have with a particular account. A salesperson who represents multiple manufacturers will be called for meetings whenever issues about any of those manufacturers become important, so he visits the customer more frequently and meets more people in more departments than a salesperson who is the customer's contact for only a single manufacturer. These frequent visits can create an intimate knowledge of the customer's production processes and special requirements, making the salesperson a more valuable resource to the customer and providing encouragement for mutual respect and friendship between the rep and the customer's employees."

"So the manufacturers' rep system probably developed as a way to share salespeople," said Jim, "and it was only long after it had been in use that the synergy of this system became apparent."

"Exactly," Fred replied, "but that's just why the system is attractive to manufacturers. If you're concerned about the caliber of people you'd draw into the talent pool of manufacturers' representatives, you'd probably want to know why the system is attractive to salespeople. After all, if it was much less appealing to work as a rep than as a direct employee of a manufacturer, then you'd find yourself in a situation where everybody tried to get jobs with the manufacturer, and the dregs who couldn't find work with manufacturers ended up as reps. This definitely is not the case.

"One of the main draws of working as a manufacturers' rep is autonomy. In fact, that's often why new rep companies embrace the risk and hardship that entrepreneurs routinely face during their start-up period. We want to be our own boss, at least to some degree. Whether or not the average rep has read Milton, they agree with him: 'Better to reign in hell than serve in heaven.'[13]

"The rep system's financial model also makes a lot of sense to someone with a long-term perspective, for at least a couple of reasons," Fred continued. "The first one is pretty straightforward. When you work for a traditional manufacturer, your fortunes ebb and flow with that company's success. It's like having your money in the stock market, but you only own one company's stock. If it does well, you do well, but your holdings aren't diversified.

"As a manufacturers' rep, you really are working for a group of companies in your product line portfolio. As economists would say, when the results of these companies are not correlated, and your income is dependent on the group instead of one company, your income is much more stable than it would be working for just one manufacturer. If one manufacturer goes out on strike, or its factory

[13] John Milton, *Paradise Lost Book i. Line 261* (1665).

burns down, or its product becomes obsolete, your income goes down only to the degree that it comes from that one manufacturer, while your gains from successes with other companies can more than offset that loss.

"This diversification works to the manufacturer's benefit, too. If you have one super-star salesperson working exclusively for you, that person can quit unexpectedly or make unreasonable demands. On the other hand, if you have five super-stars at one rep company, each giving you some percentage of their time, then if one leaves the others can fill in. Another benefit to the manufacturer from the reps' diversification is that if your plant goes on strike you can ask the rep company to divert its efforts to other principals during that period and come back on line when the strike ends. Compare this with the financial drain of a large salaried direct sales force during a strike. You don't want the sales force to bring in new orders, but getting new orders is the first bullet point in their job description, so during a strike there's little or nothing for them to do. Then you have to decide whether or not to lay off salespeople, knowing that if you let salespeople go, your competitors who aren't on strike will snap them up and capitalize not only on your inability to ship but also on your ex-salespeople's knowledge and contacts."

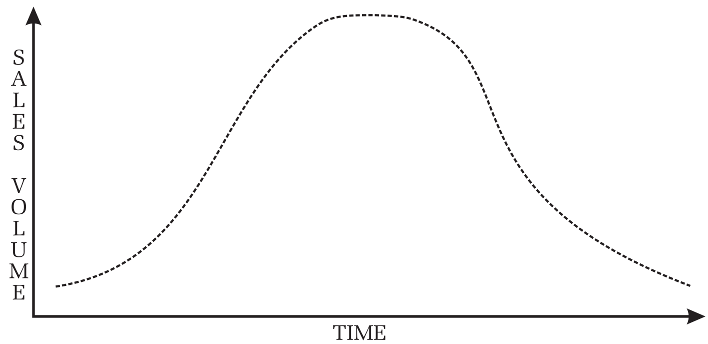
Jim nodded. "We had considered some of those points, but this is really helpful."

"I'm glad to be helpful, but there is one bitter pill to swallow when you get your rep force up to full strength. Eventually, some of your existing employees will want to participate as reps instead of direct employees. They'll see how the reps operate, interact with them on a regular basis, and some of them will find the idea of autonomy to be very seductive. It's just a case of market forces operating to draw resources to the places where they can be utilized and rewarded best — and in some cases those resources will be your own employees drawn to the rep side of the business. It may be painful to have these people outside your direction and control, but if they will do more for you as an independent manufacturers' rep than as an employee, then you should be glad to get the extra results."

Jim didn't like the idea that he might lose a salesperson or two to the rep system, but he bit his tongue. He'd been such a strong proponent of letting market forces operate that he'd have to accept this bitter pill.

“Fred, I have to admit there are some attractive features you may be able to offer your employees that we can’t at the factory. Anything else before you let me buy you some lunch?”

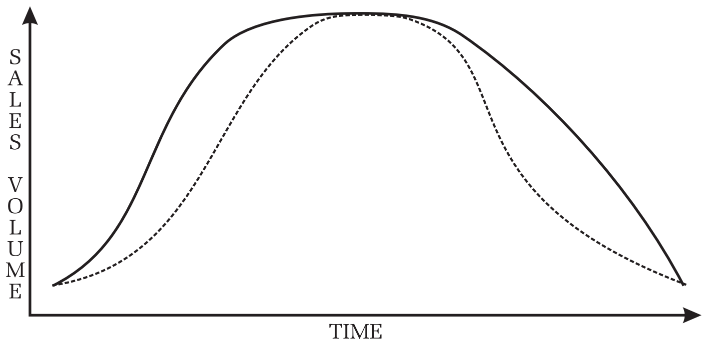
“Just one thing,” said Fred, who had warmed to the topic of promoting the rep system. He pulled out a legal pad and made a quick sketch.



“I think you’ve probably had the same experience as the rest of us,” Fred continued. “In your relationship with a customer, you usually start off with very low sales, work hard to build that business to a good level, hold it at that level as long as you can, and eventually it tapers off. Even to a customer your company has served for years, sales will taper off eventually, if for no other reason than perhaps you discontinue one model and convince them to accept the new one. When you do, the old model follows this curve and the new one picks up where the old one left off.”

Jim nodded, but was puzzled, not seeing where Fred was going. Fred grabbed a thick marker off his desk and drew another curve on the graph.

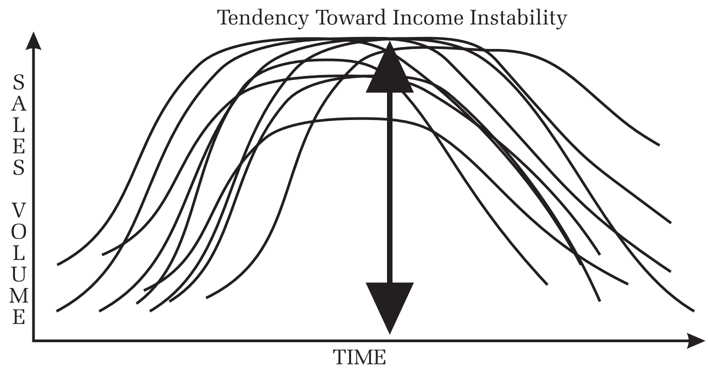
With great enthusiasm, Fred explained the second curve. “Some of the ways the rep can increase his income are to make the early part of the curve ramp up more quickly, or hold the curve at its highest point for a longer period of time, or make the end of the



curve slope down more gradually. After all, a rep's income is directly proportional to sales, and in this graph the total sales are equal to the area under the curve, so the rep's total income as a percentage of those sales is proportional to the area under that curve.

"The neat thing about the rep system," Fred continued, "is that we have many customers, so we have many curves. We spend a lot of time developing new customers, investing time and money at the low end of the curve, because we know we'll reap the benefits later on. In a lot of ways, it's the inverse of standard practice in corporate America, where they live and die by quarterly results. That's one element of what makes the rep business attractive — the opportunity to enjoy a long-term payoff. So let's look at this same graph (top of opposite page) with lots of customers plotted on it.

"Here, the curves all have different peaks, stay at their peaks for different lengths of time and have different slopes going up and down. It's the very fact that these slopes are randomly distributed that helps make the rep business model attractive. It's the sort of distribution stock analysts refer to as uncorrelated — while some go up, others go down, and others remain flat. Many fund managers try to choose a portfolio of stocks with uncorrelated results in order to achieve a more stable rate of return. For the same reason, a portfolio of customers whose purchases all are at different stages of their life cycle (starting, going up, holding at the top, going down) will allow a rep's income to be more stable. And the beauty of this system is that in any given month, the sum of the distances between

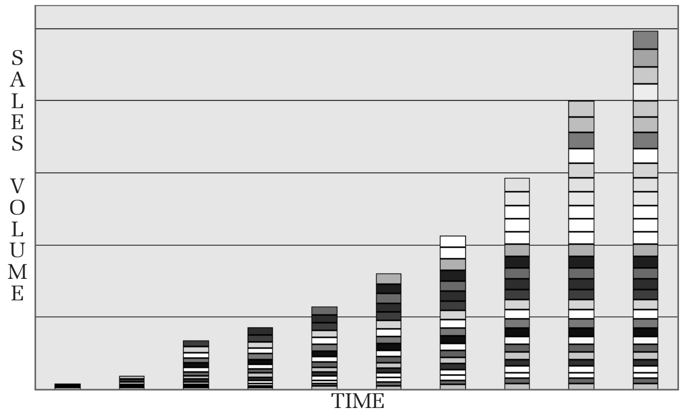


each curve and the X axis represents the total sales achieved by the rep company. Again, with commission a direct percentage of sales, multiplying each of those distances times the commission rate calculates total commission revenue for that period. Especially appealing to the rep is the fact that income can be increased by:

1. Adding a curve to the graph,
2. Making a curve slope up more quickly,
3. Holding a curve at the top longer or
4. Making a curve's eventual fall a more gradual slope.

"It's the opposite of what you see at public companies, where it is almost standard practice to steal from next quarter's sales to make this quarter's forecast. The rep makes an up-front effort with the expectation that future rewards will follow. The effect of a rep's continuing effort in his or her territory is best illustrated by a histogram. First, let's go back to the curves I drew a few minutes ago. The rep's income at any point in time is just the sum of all the distances from every curve to the X axis. Translating that information into a histogram, you can see that the rep's income tends to grow over time, and the business he or she achieves has enough diversity that no one customer or principal can put the rep company's survival at risk.

"I realize that I had a lot to say," Fred apologized, "but before we go down to lunch, I'd like to share a great quote I found that has



a bearing on this. Some of the folks who work in manufacturing feel that their companies are so big and reps are so small that the reps have nothing to offer. To such a person I'd quote Sun Tzu: 'He who understands how to use both large and small forces will be victorious.'"[14]

[14] SunTzu, *The Art of War,* Samuel B. Griffith translation (London: Oxford University Press) p. 82.

CHAPTER 23

After meeting with Fred Richardson, Jim was eager take the next step toward working with manufacturers' representatives, so he looked in on Harold to bring him up to date and discuss how he should proceed. After Jim reported his findings, he said, "I think the next step is to talk to some reps so I can gather the information I'll need to build a case for Joe Troothe that the rep system would pay for itself in increased sales while getting us the feedback we need."

Harold agreed, commenting, "No harm in talking to some of them. By the way, how exactly do you go about finding suitable rep companies?"

Jim shifted uncomfortably in his chair. "Good question. Wait, I've got it. Our competitors have web sites. If I go to their web sites, maybe I can find a listing of their reps, perhaps even including their e-mail addresses. Then I can send out an e-mail to the whole group inviting them to apply to represent us. This is going to be great."

Jim was successful in locating the names of 32 companies representing various competitors, but that was where his success ended. His broadcast e-mail netted only three responses, and all were polite but firm in their reply — "We appreciate your interest, but we already represent a competing line so we could not be candidates to represent your products."

Later, Harold and Jim puzzled over Jim's unsuccessful e-mail campaign. "I don't get it, Jim," Harold said. "We're a good company — why wouldn't these reps jump at the chance to talk to us?"

Jim nodded. "I'm stuck, too. If you and I can't figure this out, where do we go for help?"

Neither man spoke for about a minute. Harold tented his fingers, and then offered an idea. "You never had a conversation with any of the companies you tried to recruit, did you, Jim?"

"No. I was waiting for them to call me in reply to my e-mail, and no one ever did."

"Why not a pick one of the companies that declined politely and give them a call to find out why they declined?" Harold asked.

Jim smacked himself in the forehead with the palm of his right hand. "Of course. I was so sure there would be a stampede to represent a great company like ours that I thought I'd wait for the reps to contact us. Looks like I need to be a little more proactive."

Jim's first call the next morning caught rep company owner Sue Elliot in her office at 7:45 a.m. "Hi, Sue, this is Jim Anderson from Troothe Products. You were kind enough to give me a very polite reply to my recent e-mail. I was hoping to speak to you about that briefly."

"Hi, Jim. As I said, I appreciate your interest in our company, but we have a long-standing relationship with one of your competitors, so we really couldn't talk to you about making a change at this time."

"I understand, Sue, and I appreciate your candor. I was just hoping to speak with you for a few minutes anyway."

"Well, Jim, if I can't offer my company's services to you as a representative, what exactly can I do for you today?"

"I'm new to the whole concept of manufacturers' reps, Sue, and I'm not having any luck finding reps willing to speak with me. You saw the e-mail I sent. I was hoping you could tell me why I got only three replies from 32 e-mails, and all three of those were polite 'no thanks.'"

"Jim, I don't know where to start. How thick-skinned are you? If you don't mind a really blunt critique, I can give you a few minutes, but I'm not sure you would like what I have to say."

"Please, if you would be brutal I would really appreciate it."

"OK. First, the bulk e-mail you sent was addressed to 32 rep companies, including my own. It was pretty obvious you were just throwing the e-mail up against the wall to see if anything would stick. My company is well established and has a great reputation, so we get 20 to 30 e-mails from companies looking for reps every month. One of the first screening processes we apply to determine which companies we consider as potential principals is whether the company sending the e-mail appears to have done enough research to identify that my company would be a good choice for their short list of potential reps. The bulk e-mail you sent to us made it pretty obvious you had not done any research before the e-mail went out.

"I don't think we've ever received a viable inquiry from a prospective principal that started as an e-mail," she continued. "Manufacturers that have done the research to find us and identify that we are one of the premier reps in this territory generally pick up the phone and call us. The other problem with your e-mail is that it was pretty clear you were attempting to recruit from a competing manufacturer's rep list, which is one of the worst lists from which you could have started. We and most other manufacturers' reps, usually have long-standing relationships with our principals — and a lot of times we're personal friends with key executives of the companies we represent. To convince a rep to switch from an existing principal to your company, you're going to need an extremely compelling argument. And there's also a question of professionalism involved. Grabbing a list of other manufacturers' reps off their web sites is not all that different from taking a company directory from one of your competitors and making a blanket solicitation of all its employees. How would you react if one of your competitors sent individual invitations to everyone who works at Troothe to come to work for them? It's more than bad manners, it also shows you're not very discriminating about who you solicit — if you work for a competitor, you're automatically in contention. And what does it tell you about the character of the respondent if they're ready to jump ship on the strength of an e-mail and a follow-up phone call?"

Jim was taken aback by the directness of Sue's comments, but it was information he felt he needed, so when she asked if she should continue, Jim said, "If there's anything more I should hear, please go right ahead."

"I've sold flanges for a while, so I've got friends in this industry. Before I replied to your e-mail, I had a friendly chat with a distributor we have in common. I was told that you have a good company, but your catalog is out of print. If you did hire me as a rep, would you expect me to go out on sales calls and paint a word picture of your product?"

Discovering his catalog woes were common knowledge with his competitors made Jim wince. "Sue, you sure kept your promise to be direct. If we speak again I may ask you to sugar-coat things for me a bit," Jim joked.

"I'm a little surprised at how well you take criticism," Sue replied. "It sounds like you are sincerely interested in learning about the rep system, but that your lack of experience is tripping you up. Frankly, I don't want to help you compete with me, but our rep associations make the point that when a manufacturer moves from a direct sales force to reps it increases the pool of principals available to all of us, so I'll give you a couple of pointers before I get back to work."

"First, you need to learn more about the rep system before you contact any more reps. For general information your best resource would be www.manaonline.org. You need to be able speak intelligently to potential reps on topics like the terms of your rep agreement, and how you handle commission splits and point of sale. And get your catalog printed. The first thing any rep will want to see is the collateral material and sales tools you have available, and at this point your cupboard is bare."

"I promise to do my homework before I contact any more reps," Jim said. "But how do I find the right reps?"

"The best resource you have to find appropriate reps is asking your existing customers. Of course, you'll want to ask the distributors, but the OEMs (Original Equipment Manufacturers) should be consulted as well. Not just the purchasing agents — in a lot of cases they are buying the brand that's specified by engineering, so you want to ask the engineers what reps are influential with them. Remember, when you try to get reps to switch principals, you start with two strikes against you, so your best bet is to look for reps who sell products that are complementary to flanges, but don't already represent a flange manufacturer. I'll even tell you how to find that kind of rep. There is a list of my lines on my web site. Go to the web sites of other manufacturers on my line card and look at their rep list. Then visit their reps' web sites, look for the ones that don't have a line of flanges, and pick up the phone and call them. No more e-mails.

"Now, before I get back to work I'll give you one last bit of advice. Start slowly. No matter how much you think you can learn about the rep system from the outside looking in, there are nuances you only can learn by working with reps. If you start with one or two reps you'll only make those mistakes with one or two reps. Start with 20 reps, and you'll make those mistakes with all 20. And, you'll have to get buy-in from Troothe's existing employees — it'd be easy for a few committed foot-draggers to sabotage the whole process. Don't forget what Machiavelli said about change: '...he who introduces it makes enemies of those who derived advantage from the old order and finds but lukewarm defenders among those who stand to gain from the new one.'"[15]

"Wow," said Jim. "That's a lot to absorb, but it makes sense. I really do appreciate your help, Sue."

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[15] Nicollo Machiavelli, *The Prince,* Daniel Donno translation (New York: Bantam Dell, 2003) p. 31.

CHAPTER 24

Jim brought Harold up to speed, and the two decided the next step would be to propose to Joe Troothe that a rep company be hired in one territory. Joe agreed, with one qualification: "If you have to pay commission to get incremental business, fine, but don't give away any commission on our existing sales." Taking Sue Elliot's advice, Jim picked a relatively remote territory with only a few customers so the inevitable miscues made as they hired and worked with their first rep company would not impact major accounts. The new rep territory would be in an area where June Calloway had sales responsibility, but because she was on salary the new rep wouldn't affect her income, and so her misgivings with the new concept were easily overcome when Jim agreed that her authority over current customers would be not be undermined by the new rep. With that stipulation, she grudgingly accepted the on-site assistance in a territory she couldn't visit often.

Jim's search for appropriate companies to be considered as candidates to become Troothe's first rep company started with calls to purchasing agents at Troothe's major customers in that territory, but he didn't get the sort of reply he'd expected. The purchasing agents were leery of having Troothe add a rep, worried that the rep's commission would lead to a price increase. "Don't give us a rep," was the common theme, "give us price reductions instead."

The response from engineers at his key accounts was exactly the opposite. The engineers regularly worked with reps, and pointed out that without an on-site presence, Troothe was missing out on being designed into new applications. "What happens," explained one engineer "is that the manufacturers who have a local sales presence and are 'in our face' regularly are the ones we use for new designs. It's so much easier to get selection assistance and the occasional sample from someone who can drop by on short notice and sit across the conference table than to arrange to bring in a person from a remote factory. We don't necessarily design your flanges out of our existing designs, but as we introduce our new products, chances are they're built with a flange from a manufacturer who has a local rep."

Local distributors offered referrals to area reps, and their message was similar to the one Jim got from the engineers. Explained one distributor, “Local reps provide manufacturers with a daily presence in the territory, and often will set up sessions in our office where the rep can share his product knowledge and provide training to our inside and outside salespeople. The frequent contact we have with local rep companies gives them a preferred status over people who try to serve us from a remote location. It’s only natural that when a new opportunity presents itself that our first call tends to be to a rep salesperson we regularly see face-to-face. Plus, local reps are available on short notice to be our on-site technical resource when our outside sales force schedules a sales call that will require specialized expertise. I’ve also noticed that manufacturers with local reps get most of the new design-ins, and, as distributors, we look for the manufacturer and his rep to take primary responsibility for demand creation. Sure, we participate, but no distributor wants to do all the heavy lifting in the design-in process when we know that the purchasing department will solicit quotes from three distributors before placing an order. We can’t accept the cost of carrying the ball with engineering when all the purchasing department looks at when the order is awarded is the lowest price. We get rewarded with orders for maintaining logistical expertise — price and delivery — so we aren’t going to take the point position on demand creation — either the rep or the factory will have to take the lead in that area.”

Another distributor who recommended potential rep candidates added a different perspective. “One of the really valuable functions a local rep can perform is to police special pricing. We’re honest guys, but not every distributor is as forthright as we are. Some of them will try creative storytelling to convince the factory that they need special pricing when all they’re doing is trying to take the same manufacturer’s business away from a competing distributor who’s paying normal distributor price. Being in the territory, a rep can sniff out prevarications more effectively than someone who only knows what they’ve been told over the phone by a distributor 1,500 miles away. It makes it easier for us to maintain our high ethical standards when a local rep is around to slap the hands of distributors who try to pull a fast one.”

With such a positive response from engineers and distributors, Jim wondered if the knee-jerk reaction he'd received from purchasing agents was triggered by the way he asked the question, so he decided to try again with a different group of purchasing agents. This time, instead of asking if going to reps was a good idea, he asked which reps did the best job of serving the purchasing agents' requirements. The change in the replies he received was dramatic. Each of the purchasing agents waxed eloquently about one or two reps who did a fantastic job taking care of that purchasing agent's needs. This made it clear that for those purchasing agents the rep added important value to the transactions the rep touched, and that the immediate protestations made by the first group of purchasing agents probably was just concern that the rep's commission would be added to future quotations the purchasing agent would receive.

With a number of rep referrals in hand, Jim remembered Sue Elliot's advice on how to use one rep's web site line card to help locate potential reps in other territories. He visited her site again, made note of her lines and visited the web sites of those manufacturers to find their reps in the territory Jim hoped to use as his test site. Of the six reps he'd identified as candidates in that territory, two had a line in common with Sue, and one was the rep in that territory for two of the lines Sue represented in her area.

On a whim, he called Sue to ask her about those three rep companies. Again, Sue was candid — "One of these guys is new, so I don't know him, and I've only sat in the same sales meetings with the second, so I don't know him either, but I sat on a rep council with the third guy and he's great."

"Rep council?" queried Jim.

"Now, Jim," Sue teased, "did you go to the manaonline.org web site like I told you to?"

"Not yet, but I planned to before I started interviewing."

"If you want to be successful recruiting reps, you'd better know the nomenclature," Sue replied. "A rep council is like a distributor council, except it's usually more focused on the manufacturer's long-term strategic plans, while distributor councils are more likely to concentrate on day-to-day tactical and logistical issues. Now for goodness sakes, go do your homework before you start interviewing!"

Jim made that effort, but perhaps not as completely as he should have. He invited the six candidates to visit the factory for a preliminary interview, but all of their replies in one way or another echoed the sentiment of Fred Richardson's comment that Jane Goodall learned about chimpanzees by visiting them in their own environment. Without the zoological reference, each suggested that the only way Jim could get enough information about a rep company to choose it as a long-term rep partner would be to meet its people and see its operation. At least subconsciously, Jim acknowledged that he had been trying to shortcut the rep selection process, thinking that he'd hire whichever company looked best, and if that company turned out to be a bad choice, he'd switch to another until he found one that was successful. None of these reps wanted to make the investment in starting up with a new line under those circumstances — one commented that he didn't interview with principals who don't visit the rep's office. "Some guys want to interview six reps in one day so they do it in their hotel room or at an airport. If you don't make the investment in time and effort to visit each rep, you aren't taking the rep search process seriously. And if you don't have that investment in the choice you made, you won't have a personal stake in making your choice work. If I'm offered the line, I'll want to visit the factory, but if you hire me based on an hour and half interview in an airport lounge, you won't have made a personal commitment to our mutual success — and I won't waste my time trying to enter into a long-term partnership with a company that manages its reps like a game of musical chairs."

Having decided he'd need to visit the territory to conduct his rep search, Jim started with preliminary phone interviews to winnow his choices down to a manageable number. He didn't want reps to decide whether or not to interview for the line based on the commission Troothe would end up paying on existing business, so he was coy when reps asked about Troothe's current sales volume. One rep dropped out when Jim insisted that two large accounts, which were 50% of that area's sales, would not be included in the new rep's territory. Another politely declined to be interviewed, but added, "I can't devote the time to be a guinea pig for a company that's never worked with reps. The first rep company hired always ends up regretting that it didn't let some other rep break in the new principal."

When the phone interviews were completed, he had three rep companies left that he'd need to see in person. The first one he visited upon his arrival in the territory was a partnership of two men. Their company had a reputation for achieving solid sales growth, but Jim immediately noticed that their office was quite disorganized. Sales leads and trade publications were stacked all over the conference table, and the two had to push them to one side to make room for Jim to sit. "So, tell us about your company, Jim," started one of the partners. It was clear that they were aware that Troothe made flanges, but knew little more about the company.

As Jim explained Troothe's products' uses and applications, the two men showed more and more interest in the subject. They mentioned specific OEMs they'd secured as customers and Jim saw potential in some of the opportunities they suggested. This group was not as impressive as Fred Richardson's company, and Jim sensed that their obvious sales skills probably would be overshadowed by their lack of business skills. "These are salesmen in business," thought Jim, "not businessmen in sales."[16]

The second rep company Jim saw was a one-man operation. Jim interviewed him in the office the rep kept in his home. It was clean and well-organized, but apparently not heavily used, because this rep traveled his territory four days a week and conducted most of his business with his cell phone and laptop computer. He was a bright, aggressive young salesman that Jim would have loved to hire as a sales trainee. With enthusiasm and energy that seemed more than enough to compensate for his lack of seasoning, this candidate had prepared for the interview with a thorough review of Troothe's web site and had asked a distributor friend for comments about Troothe's position in the flange market. He hadn't been a rep long enough to have as many contacts as the first company, but, unlike the first company, he didn't balk at allowing Troothe to retain the two house accounts Joe Troothe wanted to exclude from the rep agreement. If it had been necessary for Jim to make his selection from the first two companies he visited, the second one would have gotten the nod.

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[16] Adopted from a December 1, 2000 letter on the topic of reps written by Helen Degli-Angeli, CPMR and former Vice President, Manufacturers' Agents National Association, to *Gift & Decorative Accessories Magazine* "The professional sales representatives of today are not salesmen in business, but businessmen in sales."

The third rep company, Hannover Marketing, appeared to be every bit as professional as Fred Richardson's group. It fielded four outside salespeople. The owner still handled a few accounts personally, and Hannover had several people on staff to handle customer service. William Carl, the owner, used a laptop, projector and PowerPoint™ to present his company to Jim. Jim was flattered to see that the presentation was not a generic "this is our company" piece — it was specific to Troothe, right down to including Troothe's logo on the title page. "You don't need to take notes," said William. "When we're done I'll give you a hard copy of the presentation." William's four salespeople also sat in on the meeting. It was clear that the group had visited every page of Troothe's web site and had researched flange usage among Hannover's customers. William pointedly asked about Troothe's separate offerings in residential, commercial, industrial and hospital-grade flanges, and his salespeople casually dropped the names of local engineers the salespeople regularly visited to promote products from Hannover's principals.

Jim's presentation about Troothe was professionally produced and impressive, but having seen William's presentation, he wished he'd thought to add the name of William's company to the title page. With both the presentations and ensuing conversation completed, William said, "As long as this is your first experience with reps, I also have some material on the general topic of reps that I thought might be of interest to you. Do you have a little more free time today?" Jim nodded his assent. "Then let's get these salespeople back on the street," William continued, "and you and I can have that conversation on our own."

As they left, Jim thanked each of the salespeople for their participation, which William noted with appreciation. "OK, William, I'm all yours."

William cleared his throat. "I'm going to make a guess here, Jim, that when you started contacting reps and told them that Troothe was considering working with reps for the first time, not everyone you spoke with was enthusiastic about being the test case for your company."

"You're right about that, William. One of the reps was very specific that he didn't want to be our guinea pig, but that he'd be willing to talk with us after we'd used reps for a while. Honestly, that was pretty much a turn-off to me — I don't think I'd ever call that guy back again."

"I can understand your frustration, Jim. At the same time, from a rep's perspective, it's pretty common that most of us in this industry have had a bad experience with a manufacturer who didn't understand how to work with reps. Some got involved with reps half-heartedly, had misconceptions about how reps work or had unrealistic expectations about how quickly a rep could turn around a territory. I take a different perspective. You're new to reps, so you don't have any bad habits to break. I look at this as an opportunity for you and me to sit down with a clean sheet of paper, go over the most common problems that derail a manufacturer starting to use reps, and agree in advance how those issues will be handled. If we can be sure that we both understand each other and agree on goals and expectations, this can be a win-win-win[17] situation."

Jim looked puzzled. "Win-win-win?"

"Absolutely. I'm getting a little bit ahead of myself here, but if my rep company wins and Troothe wins, we're only part way to our goal. The customer has to win, too. All three companies, mine, yours and the customer's, are stakeholders in our relationship and there has to be something in it for everybody."

"I see your point," Jim said. "But you said you were getting ahead of yourself. Where did you plan to start?"

"The first thing I need to do," William continued, "is to dispel the almost universal assumption on the part of manufacturers that I'm taking the commission check you send to my company and putting it in my pocket. Both of our companies are privately held, and I don't think either of us is prepared to share detailed financial statements with the other. But I have a 'typical' rep company budget prepared by the Manufacturers' Agents National Association that illustrates my point." William picked up a file folder that had been left in easy reach and took from it a sheet of paper titled "Typical Rep Company Three Year Budget."

"We're looking at the typical budget of a growing manufacturers' rep company," said William. "Admittedly, as with most small privately-held corporations, we try not to show too much profit,

[17] Laurence Kaufman, *Fortune,* November 8, 1999, p. S4.

but as you can see, the profit ranges from three cents on each dollar of income to a negative number. Now, of course, I'm taking out a salary, but it's not the kind of salary that makes anybody rich."

"I see that, William, but aren't you trying to increase your salary?"

"I want to make a decent living, sure, but just like the rep in this example from MANA, when my commission income goes up, a lot of it goes to budgeting for and then hiring additional salespeople. I'm focused on making my company grow, and much of a rep's growth comes from having a high-powered sales organization that will attract large, important lines. This means that my own personal salary turns out to be a yo-yo. As I'm working toward adding a salesperson, I'm making more and saving it because when I add new salespeople, I have to 'carry' them for a while as they learn our lines and customers. As a small, privately-held corporation, I can take the long-term perspective. My goal is to build a successful rep agency and be able to sell it to my employees at my retirement. So I'm not making a big salary — instead I'm investing in building the ultimate sales value my company will have 20 or 30 years from now. For that reason, my principals enjoy a high level of service as my continued investment in growing my company translates into continued improvement in the number and quality of the sales force I field on their behalf."

Jim found the logic appealing. "I see what you're saying — we're getting the benefits of your company's growing head count without paying the full price up front because you're not living quarter to quarter as many public corporations do."

"That's it, absolutely," said William. "There are a few points on this budget that probably merit closer attention. You'll notice that the budgeted profits actually go down. That's because this rep company is adding salespeople aggressively, in each case probably a little bit before they really could afford to, and most of the expenses of a rep company are directly proportional to the number of salespeople. If you look closely at this budget, you'll see that salaries, payroll tax, employee health insurance, incentive compensation, auto expense, business insurance, telephone, travel and entertainment, office supplies, postage, promotion, employee education, taxes, trade shows and miscellaneous all go up pretty much directly in proportion to the number of salespeople. The only costs that are relatively stable are rent, outside services, office equipment,

Typical Rep Company Three Year Budget[18]
Courtesy of MANA (Manufacturers' Agents National Association)

Sources of Revenue	**Year One**	**Year Two**	**Year Three**
Commission	$650,000	$725,000	$850,000
Fee For Services	$120,000	$156,000	$180,000
Less Allow For Lost Lines	-$30,000	-$30,000	-$30,000
Total Revenues	$740,000	$851,000	$1,000,000
Expenses			
Salaries	$390,000	$473,200	$562,432
Payroll Tax	$31,200	$37,856	$44,995
Employee Health Insurance	$38,952	$54,533	$71,672
Incentive Comp.	$31,200	$37,856	$44,995
Auto Expense	$43,200	$55,500	$69,300
Rent	$36,000	$36,000	$36,000
Outside Services	$18,000	$18,900	$19,845
Business Office Insurance	$12,000	$13,800	$15,870
Telephone	$15,000	$18,000	$21,000
Travel and Entertainment	$36,000	$47,250	$59,535
Computers and Software	$15,000	$2,000	$4,000
Office Equipment	$2,000	$2,000	$2,000
Office Supplies	$2,400	$3,600	$4,800
Postage	$2,400	$3,600	$4,800
Promotion	$12,000	$15,000	$18,000
Dues and Sub	$1,500	$1,800	$1,800
Legal Fees	$2,000	$2,000	$2,000
Accounting Fees	$3,000	$3,000	$3,000
Computer Support	$1,800	$2,400	$2,400
Employee Education	$6,000	$7,000	$8,000
Taxes and Fees	$1,000	$1,000	$1,500
Trade Shows	$6,000	$7,000	$8,000
Web Site	$3,000	$2,000	$2,000
Misc	$3,600	$4,500	$6,000
Total Expenses	$713,252	$849,795	$1,013,943

(Chart continues on next page)

Typical Rep Company Three Year Budget (Continued from previous page)			
	Year One	Year Two	Year Three
Profit			
Total Revenues	$740,000	$851,000	$1,000,000
Total Expenses	$713,252	$849,795	$1,013,943
Profit	$26,748	$1,205	-$13,943
Budget Assumptions			
Number of Employees	6	7	8
Number of Outside Salespeople	4	5	6
Auto Expense			
Annual Mileage/Salesperson	30,000	30,000	30,000
Mileage Allowance (IRS)	$0.36	$0.36	$0.36
Monthly Health Ins. Premium	$750	$788	$827
Average Salary/Employee	$65,000	$67,600	$70,304

dues and subscriptions, legal fees, accounting fees and computer support, which are relatively small line items compared with the ones that go up in direct proportion to the number of salespeople. Oh, and of course, computers and software and web site go down because the first year is the up-front costs and subsequent years are maintenance."

"I'm starting to feel like I'm getting a good grasp of the rep business model," Jim said, "and I appreciate your taking the time to explain all of this to me. It's going to help me a lot when I have to go back to Joe Troothe and help him to get more 'warm and fuzzy' about reps."

William didn't let his disappointment show on his face. He'd hoped that Troothe's owner had already bought into the concept of reps, but he kept that thought to himself.

[18] Source: Joe Miller, Ex-President/CEO, MANA (Manufacturers' Agents National Association) Effective Negotiating With Principals Seminar, 2003.

Calculating The Cost of a Sales Call[19]		
Number of salespeople	4	
Calls per week, each	14	
Total calls per year	2800	Based on 50 weeks per year
Cost per call	$255	Total calls divided by total expenses

"There's just one more point from the MANA specimen budget I'd like to cover," said William. "It has to do with calculating this typical rep's average cost per sales call." William turned the typical budget report to its second page to reveal the table above.

"Each of the four salespeople for this typical rep," William continued, "makes 14 sales calls per week, 50 weeks per year, so the total number of sales calls made by this rep company each year is 2,800. Take the company's total budgeted expenses, divide by 2,800, and you find that the rep company's cost per sales call is about $255. Something not on the chart is the fact that during the time a customer will give us to make a sales call, we usually can discuss two or three lines — call it 2½ as an average. If we can discuss 2½ product lines per call and the cost per call is $255, it's pretty clear that the cost per call per product line discussed is about $100. So as we work to maximize our effectiveness, it's at least in the back of our minds that, as we choose which line to discuss during a particular sales call, we're trying to pick a line that will bring us a return of at least as much as it cost us to make the call. And when we choose to promote a new product line at an account instead of one from a principal we've represented for many years, it's because we expect an eventual payback based on that decision."

"William, this has been an eye opener. May I take a copy of those figures with me to show Joe Troothe? There's just one other topic I'd hoped to ask you about today, surge capacity and sag capacity." Jim explained how he, Harold and Ruth had defined those terms and their hope that a rep company could provide those functions.

When Jim finished his explanation, William nodded. "I've never heard it described quite that way," he said, "but that's pretty much

[19] Source: Joe Miller, ibid.

standard operating procedure with most reps. One of the reasons we're so popular with engineers is that almost every time we visit we have some new product to show them. In additional to being a resource that assists engineers to apply existing products, reps are the conduits through which engineers most often find out about new products, so they rely on us as one of the most important ways they can keep up-to-date on new technology. There's the surge capacity you described for new product rollouts, and it's what reps do every day. The sag capacity you described is built into the rep business model as well. When one of our principals has a production problem, we will work to assist existing customers get the shipments they need, but we understand the last thing that manufacturer wants at that moment is a new customer who only will be disappointed with that principal's performance. In those circumstances, we do just what you suggested — work on getting new orders for principals who can ship product. If the manufacturer that can't ship doesn't take too long and the problems don't occur too often, we can pretty much pick up where we left off once the problem is resolved."

"I really appreciate all the time you've given me today," Jim said, "but I'm going to have to get back to the airport now. Based on what you've shown me about your company and the rep industry in general, I'm glad to tell you I'm going to recommend to Joe Troothe that we sign you up as our first rep."

"I appreciate that, Jim," William replied. "If that happens, I'd like to tour the factory, learn about your capabilities and meet Joe Troothe." To himself, William thought, "I'd better be sure that Joe Troothe is committed to reps before making any agreements with Troothe. I don't want to be a dalliance that gets abandoned the first time we hit a rough patch."

CHAPTER 25

Jim had no trouble convincing Joe Troothe to hire Hannover Marketing. "After all," Joe said, "if they don't sell anything, it doesn't cost me anything, because I'm not giving them our two big accounts in the area. Right, Jim?"

"I didn't promise him anything," Jim replied, but the budgets and costs William had shown him made Jim wonder how much effort he could get from William's company without allowing it the commission income from Troothe's existing customers.

Jim called William to let him know his company had been selected, and William was enthusiastic about representing Troothe. They agreed on a date for William's visit. William asked to see Troothe's rep agreement, and Jim had to admit he'd neglected to have one prepared. William suggested Jim use MANA's agreement as a foundation and that Jim, Joe and their attorney "tweak" it to fit their needs. "If there isn't an agreement for us to sign, we can't really start representing you, so why don't we push back my visit until you have the agreement ready?" Jim suggested that the contract would take only a few weeks to prepare and that William go ahead and start without it. William countered with an offer to start talking to customers to find out their flange requirements, but was unwilling to make a formal announcement without a signed agreement.

"Jim, I'm sure you've had the unfortunate experience of counting on a deal that seemed like it was all sewed up," William explained, "and then at the last minute something happened to derail it. I can't broadcast our agreement to my customers without having a signed contract in hand."

With Joe, Jim and their attorney all participating in writing the agreement, it actually took six weeks to prepare. Jim hoped the delay hadn't cost him the initial enthusiasm William had shown for representing Troothe, but when Jim called William to let him know the agreement was ready and to schedule William's visit to Troothe, William was eager to get started. The earliest their schedules meshed was six weeks later. Jim had hoped to begin more quickly, and kicked himself for not starting on the rep agreement earlier as Sue Elliot had suggested. As the conversation wound down to a close, William added, "Oh, by the way, Jim, could you go ahead and send me a copy of the agreement you came up with? As a part of my preparation for the visit, I'd like to familiarize myself with the document so I can ask any questions I have while I'm there."

Jim agreed to e-mail the document and blocked off the date of William's visit on his calendar. The agreement excluded Troothe's two big accounts. Jim was uneasy about sending it to William, but Joe Troothe had been specific that he didn't want to give up any existing accounts to the new rep. William asked about the totals in the territory, and Jim said, "it's $250,000 but once you exclude the two house accounts, it's more like $50,000." Jim had shared the figures on the two house accounts hoping William would see the potential of the line. Jim's comment had that effect on William, but it also stiffened his resolve to get Troothe to reconsider its position on house accounts.

The plant visit would be a long day for William, but by taking the first flight out and returning on the day's last flight he could accomplish it in one day. Jim picked him up at the airport. As they walked into the lobby, Jim realized he hadn't asked the receptionist to add William's name to the welcome board in the company's lobby. "That's really just for visiting customers," Jim thought to himself, "but it would have been a nice touch." If William noticed, there was no indication that it bothered him.

Jim took personal charge of William's plant tour, introducing him to key Troothe employees in sales, customer service and engineering. Perhaps subconsciously, Jim had arranged a quick introduction to Joe Troothe in the morning but pushed back the longer meeting with Joe until the end of the day because Joe's adamant position on retaining the house accounts might turn out to be a sticking point. Jim hoped to sell William on his company so convincingly that William would willingly forgo the house accounts.

Jim invited Harold to join William and him for lunch, and the conversation was so positive that Jim started to think that William might be pliable on the issue of house accounts. When Jim and William sat down to discuss the agreement after lunch, however, it became clear that William would not easily accede to Troothe's plans to maintain house accounts in the territory. William had forced himself to resist the temptation to try to resolve that issue over the phone before he committed to the time and cost of visiting Troothe, knowing that it was easy to get a "no" over the phone, but a "yes" usually required a face-to-face meeting.

"Jim, my whole office is excited at the prospect of introducing Troothe products to our customers, and we think we can do an excellent job for you. As you'd expect, though, there are some elements of the agreement I'd like to discuss with you before we go forward."

"We did our best to make a fair agreement," Jim replied, "but if there is something you'd like to discuss, we're willing to listen."

"First, I have to tell you that none of the other principals we represent have any house accounts," William started, but then Jim interrupted.

"You know, William, Joe Troothe has been pretty specific with me on that topic. If we're going to discuss it, why don't I see if I can get him in here to hear what you have to say." Jim left to find Joe Troothe and bring him into the meeting. When he returned with Joe in tow, William started again.

"Hi, Joe. I was just telling Jim how excited our whole office is about introducing Troothe products to our customers, and that I would like to discuss the sales agreement."

Joe was not unfriendly, but his tone was brusque. "Jim said you had a problem with house accounts. I don't see any need to pay a sales commission on business you did nothing to earn, but go ahead and tell me what's on your mind."

William could see he had his work cut out for him, but he forced himself to keep his tone friendly and non-argumentative. "Joe, I have to tell you that none of the other manufacturers we represent have house accounts."

"Good for them, but I don't see why we should pay you for an account we earned on our own."

"Did Jim share the MANA typical rep budget that I gave him on his last visit?" William asked, pulling a copy from his brief case.

Joe looked at the document. "Right. I've seen this. We went over it after Jim visited you."

"Great. As you can see, the bottom line is that it costs a typical rep company about $255 to make a sale call. During the sales call, most customers will give us enough time to discuss two or three of the manufacturers we represent — call it 2½ as an average. If the call costs us $255 to make and we discuss, on average, 2½ manufacturers per call, our cost per manufacturer discussed per call works out to about $100. Now I am willing to make an investment in developing Troothe's business because I plan to have a long and successful relationship with you, but our company has to consider the fact that every time we make a call on Troothe's behalf, we are forgoing the opportunity to use that time to discuss another principals' products. I think you know that each of our four salespeople will make more than two calls per week on Troothe's behalf. So if we do the math based on a minimum on two sales calls for Troothe per salesperson per week, $100 cost per call times four salespeople times two calls per week times 50 weeks per year, this works out to $40,000 worth of sales calls at my cost. I am not trying to recover the full cost of my sales calls, but without those house accounts the residual business in the territory would leave me over $30,000 in the hole if I take on your line." Joe's body language softened slightly, but he said nothing, so William added "Joe, why don't we discuss something else and come back to this point."

Joe nodded. "Another thing that's pretty standard is to include the rep in the manufacturer's product liability insurance," William continued.

"I don't see why I should be buying your insurance," said Joe.

"It really isn't possible for a rep company to buy liability insurance," said William. "For such a small company as ours, it's almost impossible for the insurance companies to rate us, so they just jack the premiums out of sight. More importantly, if and when a product liability issue surfaces, it's important for the manufacturer and the rep to be represented by the same lawyers and insurance carrier. As you know, when a product liability lawsuit comes up, everybody gets sued. It's not uncommon for the plaintiff to figure out that the rep never took title to the material, really isn't a part of the supply chain and offer him a deal to drop the suit in exchange for full cooperation against the manufacturer. We don't want our interests and yours to be divided. We think it's best for both of us to be linked in this situation if it ever should occur. For that reason, many insurance carriers will include a rep as an added named insured for no charge or for a nominal charge."

“If it’s nominal,” said Joe, “I don’t see a problem. Anything else?”

“I didn’t see a ‘Life of Part/Life of Program’ clause in the agreement, and I’d like to see it added,” William replied.

“What is that?” Jim asked. He felt the discussion between William and Joe was not going well, and he was hoping to interject himself as a mediator.

“Most reps and manufacturers refer to it as a LOP/LOP clause,” said William, “and it’s pretty standard in industries with long design cycles. It’s designed to give reps who spend a long period of time working on a sale reassurance that an unforeseen termination of the rep agreement won’t prevent the rep from receiving compensation for that long effort. Let’s take as an example a new opportunity to sell Troothe products that my company identifies, and for the sake of this discussion let’s say we identified it on January 1st. We invest a tremendous amount of time and energy working with this prospective customer, and by November the customer completes the design with a Troothe flange as a component in his product, so the sale is a foregone conclusion. In December we get a prototype order, which ships a month later in January. The prototypes work well, and we get a production order two months later, in March. Production quantities ship in May, which is 17 months after we started the process. The next month something happens, and our contract is terminated. It wouldn’t have to be our fault — maybe your company is so successful that you get a cash offer you can’t refuse from a Fortune 500 company. After 17 months of work we get commission on 30 days of production. This wouldn’t be fair to my company or my employees, so we always include a LOP/LOP clause in every new contract we sign.”

“Isn’t that the risk you take when you become a rep — a 30 day cancellation term is what’s supposed to keep you sharp, isn’t it?” said Joe. William started to reply, but Joe interrupted his response. “And besides that, if you were terminated and we hired a new rep, that new rep would expect to enjoy the commission on our existing business just like you’re asking to enjoy our existing business, so that would mean we couldn’t pay our new rep for the account if we were paying you.”

“Actually, paying us would help you when it comes time to hire your next rep,” William said. “One of the things a potential rep is going to look at as he or she considers your line is how you treated the rep that was terminated. They assume that if and when the time comes to terminate them, they'll be treated the same way you treated the last rep you terminated. Of course, they'll want a Life of Part/ Life of Product clause, too, and they'll consider your performance on our LOP/LOP as an indication on how you'll perform on theirs."

Jim spoke up. "This is a new concept to us, William. I think we'll have to discuss this among ourselves after the meeting. Was that pretty much it?" Jim's voice trailed off, hinting that Jim hoped William didn't have anything further to discuss on the agreement.

"The only other thing I'd hoped to see in the contract is MANA's clause that extends termination terms based on service," replied William. "After some period of time, the termination period becomes more than 30 days, but that's not a deal breaker," he said, implying that he placed more weight on the other contract issues he'd raised.

"There is one more informational document I'd like to share with you," William said. "It's another MANA document, but I've adjusted it to better fit the situation where a manufacturer is considering adding reps for the first time." William handed copies of the document to Joe and Jim.

"The major assumption I'm making," said William, "is that the reason a manufacturer is looking at hiring a manufacturers' rep is that he or she is running his or her factory at less than full capacity. A manufacturer whose factory is running at full capacity usually has other problems that take priority over trying to add new sales, so these figures are based on a situation where a manufacturer is interested in reps as a way to make use of some of their excess manufacturing capacity."

"I'm with you there," said Joe, his interest piqued by the idea that a rep could fill his excess capacity. "We could easily fit new orders into our existing production schedule, and I sure wouldn't mind running a second shift if orders could justify it."

"Then let's look at this document," said William. "This is how a typical manufacturer might break down the costs and benefits to his or her company of a million dollars of incremental business that a rep brought in." Joe seemed to perk up when William said "a million dollars." "At least I've got his attention," William thought to himself.

"Based on the manufacturer's worksheet, there is a $100,000 profit," said William.

Typical Manufacturer's Cost Estimate For $1,000,000 Incremental Business[20]		
Direct Labor	**$150,000**	10,000 man hours @ $15.00 per hour
Overhead		
Fixed Overhead	$100,000	Includes fringe benefits on direct labor and salary and fringe benefits for indirect and salaried employees.
Variable Overhead	$150,000	
Total Overhead	**$250,000**	
Outside Costs		
Raw Material	$250,000	
Outside Processing	$50,000	
Total Outside Costs	**$300,000**	
Selling, General and Administrative (SG&A) Costs		
In-house Sales Costs	$50,000	Estimating, Inside Sales and Marketing Costs
G&A Expense	$50,000	Top Mgt, HR, Eng, Acctg, Ins, Legal, etc.
Rep Commission	$100,000	10% Sales Commission
Total SG&A	**$200,000**	
Total Cost	**$900,000**	$150,000+$250,000+$300,000 +$200,000
Invoiced to Customers	**$1,000,000**	
Contribution to Profit	**$100,000**	$1,000,000 invoiced amount –$900,000 total cost

Joe interrupted before William could continue. "This looks pretty generous to the rep, if you ask me. You're making $100,000 and the manufacturer is making $100,000. Why should the rep make as much as the manufacturer?"

William was patient. "Remember the spreadsheet we looked at together earlier. The manufacturer is making $100,000 *net* profit. The

[20] Source: Joe Miller, Ex-President/CEO, Manufacturers' Agents National Association.

rep receives a $100,000 *gross* commission, but that isn't $100,000 in profit. The rep company makes about three cents profit on each dollar of commission, so what we're talking about is $3,000 profit for the rep company against the manufacturer's $100,000 profit, which doesn't seem out of line."

"OK, I see your point," Joe admitted.

"The good news to the manufacturer," William continued, "is that his contribution margin from this business is a lot more than $100,000."

Joe's forehead wrinkled, and Jim cocked his head to one side. Joe relied on accountants to handle the books, and it had been a long time since Jim had been in an accounting class.

"Let's look at this spreadsheet again," William said. "The contribution margin of this order is just a way to measure the difference to the manufacturer's bottom line between taking the order and not taking the order. So what we do is compare what the manufacturer's financials would look like if the order was taken with what they would look like if the order was not taken. The difference is the contribution margin."

"Is that different from the estimated profit?" Joe asked.

"Absolutely. Let's go over the statement line by line," William replied.

"I don't see why, but go ahead," Joe allowed.

"Starting with line one," said William, "direct labor is a cost that is a direct result of the new business, so it stays on the estimate. Fixed overhead, on the other hand, is something the manufacturer has to pay whether he takes the new order or not. As a fixed or sunk cost, if the manufacturer didn't take this order, he or she still would have to pay this $100,000 — it would just be spread over the rest of that manufacturer's orders. So, say you were doing 19 other $1,000,000 projects and your total fixed overhead was $2,000,000. You'd spread that fixed cost over those 19 jobs at $2,000,000 / 19 = $105,263.16. Now you're spreading that fixed overhead over 20 jobs and your fixed overhead is $100,000 per job, but that $2,000,000 in fixed costs is a sunk cost that you'd committed to spend even if you only did one project that year. Taking this job didn't add any new fixed costs, it just lets you spread the accounting for those fixed costs over a larger base of orders, so I'm going to strike through the $100,000 fixed cost on this estimate and write n/a for 'not applicable.'

“Now, variable overhead, material cost and outside processing all are attributable to the new business. In-house sales costs and general and administrative costs are just like the fixed overhead: they are sunk costs that were already committed whether or not this new job was written, so I am going to strike through those dollar

Typical Manufacturer’s Cost Estimate For $1,000,000 Incremental Business[21]		
New Direct Labor	**$150,000**	10,000 man hours @ $15.00 per hour
New Overhead		
New Fixed Overhead	n/a	Includes fringe benefits on direct labor and salary and fringe benefits for indirect and salaried employees.
New Variable Overhead	$150,000	
Total New Overhead	**$150,000**	
New Outside Costs		
New Raw Material	$250,000	
New Outside Processing	$50,000	
Total New Outside Costs	**$300,000**	
New Selling, General and Administrative (SG&A) Costs		
New In-house Sales Costs	n/a	Estimating, Inside Sales and Marketing Costs
New G&A Expense	n/a	Top Mgt, HR, Eng, Acctg, Ins, Legal, etc.
New Rep Commission	$100,000	10% Sales Commission
Total New SG&A	**$100,000**	
Total New Cost	**$700,000**	$150,000+$150,000 +$300,000+$100,000
Invoiced to Customers	**$1,000,000**	
Contribution to Profit	**$300,000**	$1,000,000 invoiced amount –$700,000 total new cost

[21] Source: Joe Miller, ibid.

amounts as well, and write 'n/a' in those spots. Rep commission is attributable to the sale, so it stays in. Now let's look at the new totals. I've put together the same document on the basis of those changes, and I've added the word 'new' to remind us that we're talking about new added costs only, with existing fixed costs excluded."

"As you can see, a rep who brings in incremental business that lets you more fully utilize your plant's capacity can have a dramatic effect on your bottom line profits. And the beauty of this system is that once you develop some experience with my company and how to work with reps effectively, you can expand your rep network nationwide, or at least to as many sales territories as it will take to get your factory fully loaded, so you can add that second shift you want, and maybe even a third one."

Jim watched Joe's body language change as William made his case for incremental business. It looked like the carrot William had dangled in front of Joe might be enough to overcome some of Joe's objections.

"William, if you really feel strongly about the changes you asked for, I don't think we can sign the agreement today, but I'm willing to discuss those points with Jim and my attorney and get back to you with what we'll be able to do for you. Jim, do you have good notes about William's points?"

Jim nodded, and added, "I'm going to need to get William back to the airport, but when we get there I'll go over my notes with him to make sure they're complete."

Joe stood up and held out his hand. "William, I enjoyed meeting you and I have to tell you that you really did give me some things to think about."

They arrived at the airport with a little time to spare, which gave the two men time to recap the requests William had made. Jim hated the thought that if the deal fell through, the time he'd spent working to find a rep company like William's would go to waste, and told William that he really hoped that the two companies would be able to reach an accommodation. "I really want this to work," said Jim. "I will do everything I can to get you as many of the points you requested as possible, but I hope that you'll be willing to bend a little. When I've gotten Joe as far as I can, I'll let you know how I did, and all I can hope for is that it'll be good enough."

"I won't be unreasonable," William replied. "I think if you do your best and I do my best, we'll find an acceptable middle ground. I just hope that you can express to Joe the value that we're bringing to your company. Please be sure he understands that we don't expect to get rich from your line, but we'll need some revenue coming in or we won't have the resources we'll need to make this territory grow."

CHAPTER 26

Jim's meeting with Joe Troothe the next day did not start on a positive note. "You want me to pay sales commission to a rep company for sales we already have? Jim, are you nuts?"

Jim had seen Joe's budding enthusiasm for the rep concept when William explained the contribution that incremental business could make to Troothe's bottom line, so he was surprised that Joe had become so negative overnight. Apparently the need to give up some sales commission seed money to get the process going was so troublesome to Joe that the benefits of incremental business had faded from memory.[22]

A reminder from Jim of those bottom line effects brought Joe back up to a point where he seemed to at least be on the fence, but Jim could tell that getting Joe to soften his position further would be no small task. Jim's next argument was a little bit of help in changing Joe's mind. "I've got to be honest with you, Joe. If we could hire William's company for free, I don't think we'd take good advantage of his services." Joe shot Jim a quizzical look, so Jim continued. "I'll give you an example. Three kinds of sales leads come into our office. One source is trade shows, a second is responses to advertising we place in the trade press and the last is responses forwarded to us by trade publications that have published our news releases for free. When we pass these leads along to the sales force, what kind of marching orders do we give them?"

"As you know, Jim, when we get leads from a trade show, we require the sales force to follow up and file written reports immediately," said Joe. "After all, when we spend $10,000 to be in a trade show, and another couple of thousand on transportation, hotels and meals, we'd better be able to tell that we got our money's worth. At the end of the show it's easy to do some quick accounting — if we have 100 leads and we spent $12,000 total, then each lead cost us $120, and we can't waste a $120 lead. Leads from advertising we buy

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[22] Professor Matthew Bothner, "Losses Loom Larger than Gains" (April 5, 2003). Lecture presented in Strategy and Structure. University of Chicago, Chicago IL.

in trade publications trickle in more slowly, so we can't calculate the cost per lead as quickly, but we know it's a significant amount, so we still require written responses to those leads to be sure we get our money's worth. Leads from news releases don't cost us anything, so we ask the salespeople to follow up, but we don't make it a formal process, because we don't have to justify the cost." Joe paused. "Oh, I think I see your point. I guess it's human nature to assign more value to things we pay for." Jim stayed silent, letting Joe make his point for him.

"So I guess what you're saying is that if we got inquiries from a rep and we weren't paying him anything, those inquiries would fall to the bottom of the pile while we handled inquiries that were generated by the direct sales force that we're paying for," Joe admitted. "OK, maybe you're right. We may have a tendency to abuse a resource we get for free. You have me thinking at least, but I'm still not ready to jump into the rep concept with both feet. You've still got some convincing to do." Joe smiled, remembering his initial resistance to Jim's salaried sales force concept, and how he'd come to respect Jim's instincts. "He hasn't led me down the wrong path yet," thought Joe, "but I need to know his level of commitment before I let him run with this."

Jim's reply was direct. "We do marketing experiments all of the time — running advertising in different publications, varying the trade shows where we exhibit, offering special promotions and sales contests to our distributors. I have to admit that for Troothe this change would be an experiment. We haven't used a rep in the past and I can't guarantee that adding them will pan out, but it really isn't any different from taking a booth in a national trade show we haven't used before. It's an experiment, but I really think it's a worthwhile one. Our competitors are using reps, and I think it's important for us to go through the exercise, understand the process and give it a fair shot."

Joe thought for a minute before replying. "OK, maybe a rep would give us a different level of marketing we don't currently enjoy. And maybe you can compare that to trying a new national trade show. But I can try out a new national trade show for $12,000. Paying William the commission on our two big accounts in the territory would cost twice that — and I'd rather take a flier on two new national shows than one new rep."

"I see your point," Jim replied. "Two national trade shows probably would bring in a total of 250 sales leads, which typically translates to 25 quote requests. Based on our current hit rate, that would be five new customers. So to be equal in value to two national trade shows, the rep would have to bring in 25 viable quote requests and close five of them as customers. I think that would be doable, but I agree it's not a lock."

"And let's not forget that you had one smaller rep interested in taking on the line and that he didn't balk at excluding our house accounts," Joe reminded Jim. "Let me bounce this off you. I am not going to roll the dice on spending the equivalent of two national trade shows on William's company, but I could live with the equivalent of one trade show. Call William and see if you can talk him out of taking commission on the house accounts. If you have to, you can settle on half commission on the house accounts for the first year, with the understanding that we are going to be expecting a lot of activity from him if we're paying commission on existing business, so we're going to put him under the microscope. And, if we do end up paying commission on our existing business, we will want him to understand that we will expect to get our money's worth. Spending that money on a trade show would bring in at least a dozen viable requests for proposal and three solid new customers, so that's what I'm expecting from William if this goes forward. But, Jim, don't give him those numbers. I don't want him coasting if we accidentally set too low a goal and he hits it early on."

After an extended conversation, William agreed to accept reduced commission on existing accounts for the first year, but William was adamant that if Troothe was sufficiently satisfied with William's company's performance, full commission would start in the second year.

Joe was pleased that Jim had been able to bring William on board, but he wanted something more. "Jim, this isn't a very scientific test we're doing. We hired William's company and met him halfway on the house accounts, but I'm wondering how his company's performance would compare with a one-man rep company that wouldn't demand commission on house accounts, or maybe in a territory where we didn't have any big accounts so house accounts wouldn't be an issue. So what I want you to do is pick a territory that seems to be comparable to William's and find a rep there who won't require any up-front funds from us — somebody whose work would be 100% speculative. I want to know what the difference is."

The territory Jim found didn't have any significant business, and he quickly learned that Joe's admonition to find a one-person rep company was unnecessary. With no residual business to fund a rep's initial activities, one-person companies were the only ones that expressed interest when Jim called. The process went quickly. With no residual business on the table, the reps seemed amenable to signing Troothe's standard agreement without alteration. Jim found several candidates, settled on what he considered to be the best of the group and had a signed contract in hand within a week.

With the quick negotiations, William's company had only a six-week head start over the one-person rep. Six months later, Jim had enough experience with both companies to give Joe an informed opinion on the relative performance of the two reps.

"In six months we've already picked up more than 25 quote requests from William's company," said Jim. "Based on the close relationships William and his sales force have with those customers, I think our hit rate is going to be about 33%. Comparing that with the 20% rate we achieve with our direct sales force, I attribute the difference to the fact that the salespeople at William's company are native to the area and customers who would not offer a second look to our factory-based direct salespeople are extending that courtesy to our local reps. Just based on what's currently in the hopper, I'm expecting to close on nine of these by the end of this year. Now, they'll probably close around month 11 or 12 of William's contact, so he won't be getting any commission on these accounts any time soon, but the results we're getting make me feel pretty good about the commission dollars we spent on them."

"How about our 'one-man band'?" asked Joe. "He didn't cost us anything up front."

"I'd say we're getting a reasonable amount of effort and results from him," said Jim, "when you consider that he's been working pretty much for free so far. Under those circumstances, all we have a right to expect is that he'd help us pick the 'low hanging fruit' and I think we may get one or two orders out of him in the next year or so. What it boils down to is that if we're looking for in-depth, comprehensive coverage, we can't get it for free. And, of course, when we're not paying that rep for any residual business, we can't demand very much from him, so he isn't as responsive to our questions as William's company. Neither Troothe nor the rep who received no residuals has made much of a financial investment in the relationship, and I think it shows in the casual way each of us treats it. If we get something out of him, fine, and if we don't, it didn't cost us anything. Overall, when you consider the cost of my time, it's probably better for us to spend a little money to get a rep who is going to attack more than the lowest of the low hanging fruit. The rep we aren't paying is going to let more things get past him, but we really can't fault him for that. One thing our customer service people notice is that a rep who isn't focused on our products is more expensive to support, because we haven't paid him enough to learn our product line well or even to visit the plant. After all, how can we ask him to buy a plane ticket that will cost as much as three or four months' commission? It was a reasonable experiment," Jim concluded, "but I think in the future I'm going to be sure both Troothe and the rep company make financial commitments to each other before we sign any new rep agreements."

CHAPTER 27

Several years had passed since Troothe hired William Carl's company as its first rep. The changes Troothe had made in its operation seemed gradual as they occurred, but, in retrospect, looked more dramatic. Troothe employees who had been its direct sales force had made a transition from having day-to-day direct account responsibility to being regional managers charged with supporting and providing oversight for Troothe's national network of manufacturers' reps. The head count of Troothe's sales force had dropped as several of Troothe's salespeople chose to start or join rep companies. Only one of the salespeople had been so adamantly opposed to the changes that he refused to become either a regional manager or a rep, fighting to maintain his status as a direct front-line Troothe salesperson. With the national rep network in place, that position ceased to exist, and having made a firm stand that no other position would be acceptable, he left the company. "That was unfortunate," Jim thought, "but when an employee absolutely refused to participate in our new structure, what else could we have done?"

One other thing that had happened in the years since Troothe started using reps was that Jim and the regional managers had taken full responsibility for managing the rep network, allowing Harold to concentrate his attention on plant operations. With retirement imminent, Harold realized he hadn't been kept up-to-speed on the rep system's progress at Troothe, so he asked Jim to give him an update before Harold left for San Diego.

"Sometimes I have to chuckle when I think that our whole rep network can trace its roots to the fact that several years ago we ran out of catalogs," said Jim. "It's been a great experience, Harold. I can see why our competitors have worked with reps for years — there are all kinds of hidden benefits."

"Such as…" Harold asked.

"What I've found," Jim said, "is that reps occupy a valuable gray area between manufacturer and customer. They have an allegiance to the manufacturer, because we're the ones that sign the commission checks, but also to the customer, because it's the customer's orders that determine the size of that check, and in a lot of cases the same customer buys from many of that rep's principals, so they won't let one marginally performing principal jeopardize their business for all their other principals at that account. So I guess I'm saying that reps are neither fish nor fowl. When they go to see customers, they go as our representatives, and when they make contact with us, they do so as the customers' representatives. The other thing I've discovered is I think reps are the thyroids of the sales process."

Harold gave Jim a quizzical look. "Thyroids?"

Jim smiled. "I'm stretching, I know, but hear me out. When there is some sort of nuclear fallout, radioactive isotopes that were released end up concentrated in local residents' thyroids. So thyroids are the place you check if you're looking for evidence of fallout. Again, it's a stretch, but I'm suggesting that problems in commerce tend to concentrate in the reps. When a rep has the same problem reported by two or three customers, the rep is more vigorous in his or her complaints than the customers. The customers usually don't know about each other's problems, but the reps know that several of their customers are experiencing the same problem and that this problem will affect their own income, so if there is a systemic problem, reps complain earlier and more vigorously than most customers. Or maybe it would be fairer to call them the canary in the coal mine."

"Now you're talking my language," said Harold. "I remember that before there were gas analyzers in coal mines, miners used a caged canary to check for dangerous gasses. Because of the canaries' sensitive respiratory systems, they keeled over long before the gas reached a concentration that would incapacitate a human, which gave people time to escape asphyxiation. The early warning system that reps provide is a lot like the canary in a coal mine, with the reps giving manufacturers enough advance notice to fix a bad business practice before customers start to defect *en masse*."

"There are some other attractive elements of the business model," said Jim, "Philosophically, it appeals to my own feeling that free market economies optimize results because resources tend to flow to the location where they best will be used, what an economist would refer to as 'optimal allocation.'[23] If we share a rep with 11

[23] Wharton Professors Erin Anderson and Len Lodish, http://knowledge.wharton.upenn.edu/articles.cfm?catid=4&articleid=502&homepage=yes.

other principals, but we outperform that rep's other principals, the rep gets greater future return from promoting our products than from promoting other products — and we've earned mindshare from that rep disproportionately high relative to the current commissions we pay. A manufacturer that is doing a great job gets more resources — in other words, if we're outperforming most of the manufacturers in our industry we'll be rewarded with extra time from our reps. The flip side of that isn't all bad. If we have some insurmountable but temporary problem that interrupts our ability to ship, we don't necessarily lose our sales force right away. The rep can divert his sales resources to manufacturers who are shipping satisfactorily, and if we get back on line in a reasonable period of time we can pretty much pick up where we left off.

"It hasn't been easy to assemble a national rep network," Jim continued, "but the important things usually are not easy. I'll tell you this — knowing what I know now about reps, I would not want to be a manufacturer that fields its own direct sales force but has to compete with companies that use reps. And the flip side of that is I think reps give us a competitive advantage against manufacturers who still have direct sales forces."

Harold could see Jim was passionate about the topic, so he settled back in his chair to hear what else Jim had to say. "It's attractive not just to us as the manufacturer; it's good for the rep as well. You know how we all try to diversify our stock holdings to limit our portfolio's risk. Reps accomplish this same diversity in the income of their own companies by representing a variety of manufacturers. Those principals cluster in the same type of industry, to be sure, but lack of close correlation among the fortunes of those manufacturers usually achieves a pretty good diversity.

"The other thing that impressed me was reps' business ethics," Jim continued. "Back when I first started looking for reps, I started by contacting our competitors' reps, and the ones whom I reached were uniformly polite, but pretty much shut down any conversation about switching to a competing line as soon as I explained the reason for my call. Reps seem to be pretty loyal to their principals. I hope our own sales employees would be that dismissive when headhunters call to try to steal them away."

"What's next?" asked Harold.

"I'm going to start that rep council," Jim replied. "Our reps have been exposed to the best practices of a wide range of companies in our industry and they have a financial interest in our success. I'm going to tap into that knowledge and make Troothe the best company it possibly can be."

"It sounds like you're on the right track," answered Harold, "but it also sounds like you have a long way to go. I'm half sorry to be retiring — I think it's going to be an interesting ride."

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