The Sales Agent Versus the Company Sales Force: Some Issues and Insights

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Abstract

The decision whether to use a sales agent rather than an internal sales force is a complex one. Three criteria are involved, viz.; economics, strategy and control.

The cost of using one's own sales force generally means that small firms are more apt to use an agent, but even large firms find at times the use of sales agents to be an economic advantage, for example where the product is relatively unimportant to the main business or in territories where the company presence is not well established and the cost to do so is not warranted.

Strategic reasons for using an agent include such issues as; the nature of the market (how well established a sales agent might be in a particular territory); sales force turnover disrupts buyer/seller relationships (sales agents tend to have a more lasting relationship with their clients); and company issues such as lack of technical expertise and the nature of the product itself (seasonality for example).

The need to control the sales force effort is a major factor in the decision to use a sales agent. Where tight control is desired an in-house sales force is the preferred choice since agents, by their vary nature, are independent business people and are

thus less amenable to control. Control of the sales activity is traded-off in favor of the strategic or economic advantages of the sales agent.

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Introduction

Sales agents are independent representatives who contract with a manufacturer to sell their products on a commission basis. They take neither ownership nor physical possession of the goods. In recent years there has been a growing tendency to use sales agents rather than the direct sales force to perform the personal selling function. According to a survey conducted by the National Association of Manufacturers over 60% of its member companies employed independent sales agents to sell some or all of their products (Agency Sales 2001).

Purpose of the Study

Relatively little research has been conducted on the general issue of when to employ a company sales force versus an agent. The purpose of this present study is to identify those factors which are important in the decision to use or not to use a sales agent in a given circumstance.

Managerial Issues

The decision whether or not to use an agent to cover a particular product market is a complex one and generally involves the consideration of three managerial choice issues related to the personal selling task: (1) economic (2) strategic, and(3) control (Churchill, Ford, and Walker 1985), as presented in Figure 1.

Economic Criteria

Costs

On average, direct sales people are paid around $84,000 a year (Sales and Marketing Management 2001). Additionally, firms pay for selling expenses, social security, taxes and other fringe benefits such as vacations, medical coverage, training costs, and turnover. Agents receive none of the foregoing and they are responsible for all of their own expenses and benefits. They are paid only a commission (ranging from 5% to 15%) on their sales, depending on the industry. This can mean a substantial savings to their principals, when sales volumes or other factors do not favor using a direct sales force. In fact, the smaller the company the more likely it is to use an agent, mainly due to cost-effectiveness (Novick 1988).

Despite the limitations of using agents, the primary one being the loss of direct control of the sales effort, the lower cost often makes it an attractive option (Powers 1991).

Efficiency

Using an agent can be a very efficient way to accomplish the personal selling function. Good agents are extremely conscious of time because, without the guarantee of a steady income, they know they must produce sales to survive.

A typical agent represents eight to 10 lines (Agency Sales 2000). These products are generally complementary and provide selling synergies. When an agent represents two or more compatible products from different manufacturers during a single sales call, the manufacturers, the customer, and the agent all benefit (DuBois and Grace 1987). Selling costs are spread across all products. This is especially true when there are frequent calls on the same customers, many small orders, or when customers are geographically scattered.

Sales agents can provide coverage of territories, or of secondary products, that would not otherwise be economically viable using a direct sales force. These benefits are particularly relevant for smaller manufacturers.

There are other synergies to be realized for both the customer and agent. For the customer, the agent can act like a "multiple- lines buying service" to help purchasing managers to more effectively use their buying time. From the agent's point of view, being able to offer a broader line of products that provide a range of solutions to customer problems, makes him less dependent on any one manufacturer.

Using agents can give a manufacturer better overall flexibility of the sales function along with greater market responsiveness versus using a direct sales force. Most agents have a thorough understanding of their territory, established relationships with customers, technical knowledge, and experience with how their market functions (Agency Sales 2000). Agents can provide rapid coverage for new product introduction, or be used to replace a direct sales force in territories with reduced product demand due to seasonal or competitive factors.

Strategic Criteria

The decision to use agents rather than an in-house sales force has both control and strategic implications. Control of the selling function is a fundamental requirement for successful sales organizations. The traditional answer to the need for control of the sales function is to use a direct sales force (Anderson 1985). However, an in-house sales force does not guarantee efficiency, responsiveness, or satisfaction, especially when the sales force is large.

Some manufacturers feel that the markets they are in and the nature of their industry have a bearing on the choice between an in-house sales force and a sales agent. So, for strategic reasons even some large firms elect to use agents. A number of factors influence the decision:

- The Nature of the Market
- Sales force factors
- Company and industry factors
- The Nature of the Product

The Nature of the Market

The use of agents can often provide quicker penetration or better coverage of a marketplace than a direct sales force. This is primarily because of the agents' contacts and experience in an industry (Churchill, Ford, and Walker 1985). Quick initial sales will be due to the fact that agents will already be selling complementary or related products, know which companies to call on, and whom to contact within those companies. Agents may also be preferred when the demand is uneven (Coleman 1983) or customers want local representation (Novick 1988). Agents are often held in high regard within their industries (Powers 1991; Washburn 1983). They have long experience with their products and their customers. They can provide assurance to their customers that they are buying from manufacturers with strong business reputations (Coleman 1983). Along with many additional factors such as technical support, established relationships, and responsiveness, customers may prefer to deal with an agent rather than directly with a manufacturer.

Sales Force Factors

The use of direct sales people has some distinct drawbacks. One of these is sales force turnover. Rapid turnover disrupts the continuity in the relationship between a manufacturer and its customers and tends to undermine customer confidence. Turnover also costs time and money. Large corporations must face the fact that they will invest up to two or more years and from $50,000-$100,000 in training new sales people only to lose them to other firms.

Agents on the other hand, tend to be much more stable. They have financial and other ties to their territory making it unlikely that they would leave it. Another major benefit of using an agent is the long-term (usually 10-15 years) relationship to, and experience with, his customer base, and trading area. Additionally, the agent's operations are usually located in the sales territory.

Company and Industry Factors

Factors specific to a company or industry can influence the choice of a direct or an indirect sales force. Typically, many small companies lack technical sales competence, and as a result will tend to use agents (Agency Sales 2000). In some cases the product in question may only be a side line, or require a sales flexibility that a company lacks. For these, the agent may be ideal. Other companies may use a direct sales force because management has decided that a direct sales force best meets the goals of the company (cf., Chernow 1979).

Nature of Product

Certain characteristics of the product may affect the choice of whether to employ a direct or indirect sales force. Many products are seasonal in nature (e.g., clothes, gifts, vacation travel) and as such require a sales force which can fluctuate with demand. Agents can meet this need by providing a sales force that can be added or deleted as needed. If the product is of low unit value, standard, well-accepted, ordered in small quantities and/or frequently re-ordered, an agent may be the best choice (Anderson 1985). The same applies when the product is new and has no established demand, or the product is infrequently purchased (Powers 1991).

The technical complexity of the product may also affect the choice. Small companies often lack the resources to sell highly technical products in the field and so they must rely on specialized agencies (Haas 1982). However, the use of such agencies is limited by their availability. In certain product areas, demand outruns supply thus making agents that are available expensive and/or more difficult to manage. Many firms use their own sales force rather than agents because they do not believe the latter have the expertise to sell the product.

THE CONTROL ISSUE

By its nature, selling is accomplished within an agency relationship which exists between the sales people and the firm. An agency relationship exists whenever one party (the principal) relies on another party (the agent) to undertake some action on the principal's behalf (Bergen, Dutta, and Walker 1992). This relationship is present whether a direct or indirect Sales Force is employed (Figure 2).

The agency relationship influences every aspect of sales management from the initial decision to use personal selling to the day-to-day management of the sales force. However, recognition of the influence of agency is even more important when agents are used to supplement or substitute for a company sales force. Clearly they are acting on behalf of the principal but they are also very much concerned with their own businesses as well. Divided loyalties, as well as other considerations, make it difficult for methods of controlling an in-house sales force to work effectively with independent agents. Unlike a typical Management-Sales Force relationship, manufacturers and agents bilaterally govern their exchange and shoulder mutual responsibility for the outcome. Thus, in some relationships, agents could effectively act as employers and manufacturers as employees. This could occur if the agent agency were relatively large and well established compared to the manufacturer, especially if there were many possible suppliers of products or ready substitutes. Under these circumstances, agents might control access to customers and so determine which manufacturer would meet the customer's needs. A similar situation occurs when a relatively small manufacturer deals with a large well-established retailer or distributor.

The desire and the ability to control the sales force are important determinants of whether to use a direct or independent agent sales force. Selling through an agent is more complex than selling through a direct sales force, and many manufacturers fail wholly, or in part, in their use of agents (Novick 1988). The key is to understand the needs of the agent and developing an effective system of control which is mutually acceptable to both the manufacturer and the agent.

There are really two types of control that are germane to the choice of a sales force - behavior control and output control (Figure 3).

Behavior Control

Behavior control presumes that if the proper procedures are followed by the salesperson, sales will result (cf., Ouchi 1977). Behavior control focuses on the process used to sell products such as sales calls, sales reports, and effective communications with customers.

The principal advantage of behavior control is the high degree of hands-on-management it affords the sales manager. The sales manager directs the behaviors of the sales force based upon his view of how the selling process should be conducted. This works favorably for well understood, standardized products and markets. It can also allow the selling process to be better integrated into a long-term business strategy. A longer-term orientation yields many benefits including: 1) enhanced ability to plan or forecast for future sales of new or present products, 2) enhanced customer relations because more time may be spent building and maintaining such relationships, 3) easier management of the sales force since they are not paid solely on sales but upon their selling behaviors (e.g., working with customers, maintaining records for the principal, etc.) and 4) a better trained sales force (Anderson and Oliver 1987).

The disadvantages of behavior-based control include: (1) the complexity and subjectivity of evaluating sales people due to biases, ignorance, halo effects, and lack of credibility of the evaluation process; (2) the difficulty of dealing with longer time horizons; and (3) the amount of data analysis involved (cf. Anderson and Oliver 1987; Churchill, Ford and Walker 1985; Eisenhardt 1989).

Output Control

Output control focuses on the final sale - it is not important how the sales goal is reached, just that it is. The main advantage of output control is that it is simple to set up and administer. Output control encourages strong individual motivation because poor producers receive little or no compensation (Anderson and Oliver 1987). Another advantage is that the selling process does not have to be well understood by the manufacturer. This can be helpful in complex and uncertain selling situations.

The difficulty of trying to use either behavior or output-based control with agents is that they are, of course, not part of the organization and not subject to its rules and regulations. Agents can choose whether or not to follow the dictates of the manufacturer. Their relationship as agents, not employees, introduces a new aspect into the issue of control and makes the application of traditional control methods suspect.

Conclusion

Decisions to engage agents as an alternative to a firm's own sales force are not as cut and dried as they might appear. Whether the firm is small, medium or large the same considerations are involved, although the weighting of the decision criteria will differ.

While it is true that small firms are more likely to use agents than larger firms for obvious financial reasons, the increasing use of agents by even very large concerns suggests that economics is not the driving force behind the decision. Although always a factor, the cost of using an outside sales force becomes less relevant as firms grow in revenues.

Regardless of how large the manufacturer is the issue of control of the sales effort eventually has to be addressed. Where tight control of the sales force is wanted, for whatever reason, then an agent is not a viable option. By their very nature agents are difficult to control. On the other hand, if a firm can live with a fairly loose arrangement in selling its products then the agent often is a better overall proposition than having an internal sales team. Control of the sales activity is traded-off in favor of strategic or economic advantages.

The increasing use of the sales agent suggests that something is happening to the way that business is being conducted in the United States. It would seem that a fertile new area of research is presenting itself.

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FIGURE 1
SALES FORCE CHOICE CRITERIA

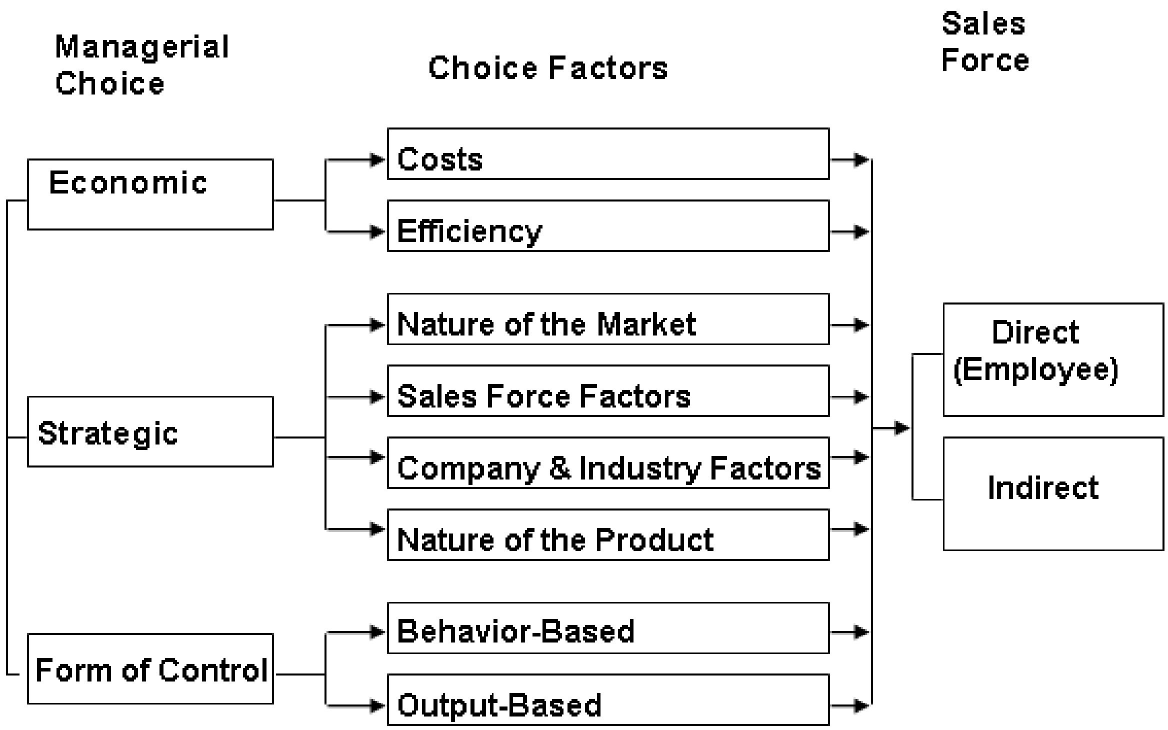

FIGURE 2
AGENCY VIEW OF SALES FORCE MANAGEMENT

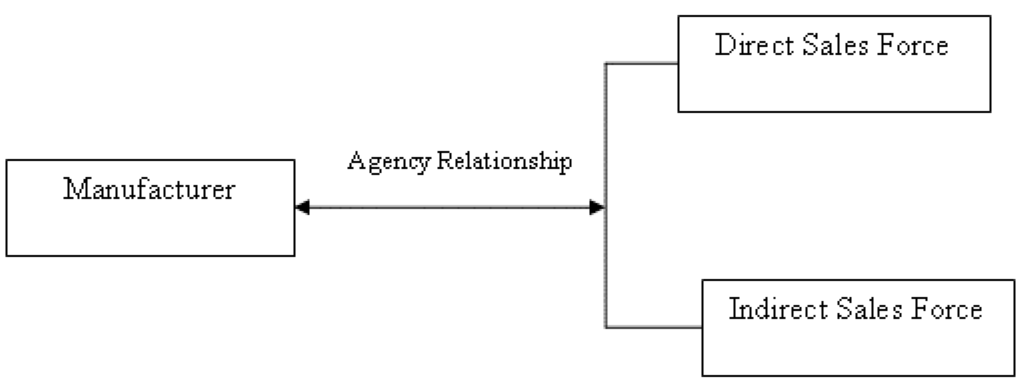

FIGURE 3
TRADITIONAL SALES FORCE CONTROL MODEL