

# BACK TO BASICS: Why Contracts can be a Rep Agency's Most Valuable Asset

BY BARBARA KRAMER

Successful sales reps talk about adding value. Reps provide service and expertise that help their customers operate more efficiently, and reps identify new customers and sales opportunities that help their principals grow. But reps are often so focused on getting the sale and running the day-to-day operations of their businesses that they don't have the time to stop and think about how to add value to their own businesses — how to create a business that is as successful and saleable as possible.

**R**ep agencies don't carry inventory and have limited tangible assets. So what are the assets of your company and how do you protect them and increase their value? The most valuable assets of a rep agency are its relationships. The three most significant types of relationships are these:

- The relationships with your principals.
- The relationships with your customers.
- The relationships with the other members of your sales force.

Contracts are rarely sexy. They don't place a seven-figure order or give you a high five when you land one. But they are essential to protecting your agency's relationships. If the relationships are the most valuable assets of a rep agency, the contract establishes the value of those assets. Over two decades of representing hundreds of sales agencies, my most successful clients are the ones who spend the most time considering and negotiating their contracts. Their meticulous attention to understand-

# Contract

- B. Member survey. Contractor will design a survey of the survey, sending it out to the membership base.
- C. Contractor will design a "community based" survey, sending it out to the membership base.
- D. Contractor will travel to sebring for the leaders and conduct interviews. Contractor giving Client a written report on how it is doing.
- 1). the survey findings. Client's audience.
- 2). the management training needs of Client. In writing job descriptions and teach Client responsibilities.
- 3). Client's fundraising needs and Client is willing to do to raise it more individual fundraising.



A close-up photograph of a hand holding a blue ballpoint pen, signing a document. The pen is positioned over a signature line, and the ink is visible as it writes. The background shows the document with the word 'Contract' at the top and several numbered items (B, C, D, 1, 2, 3) describing a survey and training process.

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ing and protecting their relationships goes straight to their bottom line, making their companies more profitable, and more saleable.

## Principal Relationships

The most important relationship a rep agency has is certainly with its principals. They write the commission checks. In a perfect world, principals would be thrilled to write larger and larger checks, recognizing that bigger commissions reflect higher sales and better performance. In reality, every experienced rep knows of situations where a principal begrudged the large checks and viewed the rep as overpaid. In extreme situations, reps have spent months and years developing a sale, only to have the customer become a house account or commission rates cut just as the rep's hard work should have finally started paying. Contracts that protect commission streams also benefit principals by incentivizing a rep to work on substantial projects that take a long time to bear fruit.

The antidote to commission or territory cuts and terminations is to solidify the relationship before the relationship starts. Reps sometimes think that they will try to negotiate a better contract after they prove themselves to a principal, but that negotiation is almost impossible once you have invested your time and resources working for a principal. To quote many a grandmother: Why would the manufacturer buy the cow when it's already getting the milk for free?

Along with the provisions governing territory, commissions, termination, and the duration of your contracts, your contracts should contain language that prevents the principal from appropriating your hard-earned relationships with your customers and your sales force. In exchange, you can agree to be terminated if you fail to perform in accordance with the contract. Significant contracts can contain buyout and change of control provisions that will increase your business's value in the event the principal is sold. Again, these types of provisions can incentivize a rep to significantly grow sales and not to begin seeking alternate lines when a sale of a principal seems imminent. In addition, greater sales mean that the principal is worth more.

## Customer Relationships

In many industries, it is worthwhile to work to enter into long-term written supply contracts with your customers that, with the right language in your contract with your principal, will ensure you a stream of ongoing commissions. Contracts with your principals and members of your own sales force can help you preserve the goodwill that you have developed with your customers, by including language that prevents those relationships from being taken away without good cause. In addition, while not technically a contract, if you are working to develop long-term orders or customers, particularly if you are working

toward a very substantial sale, it is important to document, both within your organization, and through communication with your principal, the role you play in procuring the order. Of course, going back to your rep agreements with your principals, it is critical that those agreements protect your commissions for these types of long term projects.

## Sales Force Relationships

If your organization employs the services of salespeople, either as employees or as independent contractors (the decision whether to use one or the other is one you should always discuss with a lawyer or accountant), you are entrusting your relationships with both your principals and customers to your salespeople. Just as you expect your principals to treat you and compensate you fairly, you should do the same with your own salespeople, and the compensation structure should be carefully documented. Rep agencies often make mistakes that could require them to owe more commissions to members of their own sales forces than intended. One of the most devastating things that can happen to a rep agency is to have a key member of your team hired away by a competitor, or worse, your own principal. Most states permit the use of reasonable non-compete covenants and non-solicitation provisions to protect your business against this type of poaching.

You will probably want to retire some day and may hope to fund part

of that retirement through the sale of your agency. One of the best ways to successfully sell a rep agency is to sell to a key employee who has been groomed to take over the business. Though there is significant variation among industries and businesses, agencies are often sold for a multiplier of one to two times annual commissions, payable over three to five years. Some owners begin giving their key employees a shared interest in the overall success of the company, through bonuses or phantom stock plans. These types of programs can help grow your business, and must be embodied in contracts.

Most agencies have very little in the way of tangible assets, but significant capital in the form of relationships developed and nurtured over years. Contracts can be used strategically as part of your overall

business plan to protect that capital. Just as you would lock up a valuable piece of machinery to protect it from theft, your contracts can serve as the security system to protect your company's most valuable assets. ☞



**Barbara Kramer** is a partner in Kramer & Kramer, LLP, with offices in Michigan and Pennsylvania. She has represented hundreds of manufacturers' representatives in contract negotiations, commission and termination disputes, and business transactions. Barbara advises MANA members, providing an initial free consultation, and serves as general counsel to trade associations of sales representatives and distributors. Barbara graduated from Columbia University and received her law degree from Georgetown University. Barbara can be reached at (734) 821-1055 or (800) 451-7455 or e-mail: [bkramer@kramerandkramer.com](mailto:bkramer@kramerandkramer.com).