

Magnetics Magazine
Spontaneous Thought
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Thanks to the many readers who have responded to my last two articles on cooperation in the permanent magnet industry. I hope that the comments may turn into an industry wide conversation and finally into some positive and constructive action.

I should also mark with sadness the passing of two distinguished consultants to the industry, Port Wheeler on October 14, 2005 and Dr. Fred Jones on November 13, 2005. Both were significant forces over their long careers that spanned several decades, and of course Port was the first writer of this column. Port was famous for his vision and constantly reminded us of its importance in business. Fred was famous for saying "There comes a time in every project when it becomes necessary to shoot the engineers and begin producing profits." Each in their own way, Port as a marketer and Fred as a metallurgical process guru, had a hand in each of the permanent magnet materials in use today and left a unique mark on our industry.

In this column I want to discuss commission sales as it applies to selling permanent magnets. Some people think that it is a brilliant idea and others, including me, think it is a recipe for low prices, low profits and frustration.

If your e-mail inbox is anything like mine, you have been the recipient of many notes like the following,

Dear Sir,

We have learned about your company through the internet. Please allow us to introduce our company to you. We make magnets of the highest quality.

We seek opportunities for cooperation. Please contact us.

Regards,

Magnet Company

If you bother to reply to one of these notes, you will discover the sender wants to find sales agents in North America who will bring in lots of inquiries and work on commission. Reading the press releases shows that occasionally someone accepts one of these positions as an agent, although I have to question the wisdom of such a move.

First, unlike some of the common things sold on commission such as shoes or automobiles, the sales cycle for magnets can be very long, tedious and uncertain. Unless you are taking over established business, you face the prospect of enduring many months or years as a project moves from the design stage to full production.

Second, most of the actual work in selling permanent magnets takes place in the early stages of the sales cycle, long before any significant payoff can be expected. During this time, a potential customer may need assistance with technical questions, design assistance, prototypes, measurement and magnetizing issues. Potentially, one could spend a lot of time and effort in this stage with zero remuneration.

Third, after all the work in the early stage, there is a significant risk of no payoff for the agent. For any number of reasons, the project can be cancelled or put on hold, a decision out of the control of the agent. A competitor could steal the business at any point in the cycle, or the agent's company may ultimately refuse to pay the commission. In these situations, the agent may have limited recourse. But usually there is little remedy, other than starting over again to work with a new potential customer and/or supplier.

Fourth, the reason the magnet company wants to pay its agents on commission is so they will be motivated to make a sale, with payment due *after* the sale. In business theory, commission sales are a variation of McGregor's theory X, whose basic premise is that people will only work when they have a financial incentive to do so. In this case, the commission is the one and only incentive for the agent. Unfortunately, just at the critical moment when the sale is being made, the agent and his company suddenly have different and conflicting goals. The company wants the sale, but only at a good price, meaning profitable business, and may be willing to walk away from unattractive business. However, the agent wants the sale *at any price*, otherwise there is no commission. Given a chance to make the sale at a lower price, the agent will almost invariably take it, even when selling at a loss is not in the best interest of the company. Any good buyer will be sure there is at least one opportunity to offer the business at a lower price somewhere in the sales cycle, once the buyer senses the agent may work on commission. Lower prices are an inevitable consequence of commissioned sales agents.

Yet this practice goes on in spite of the damage that it does, since the connection between cause and effect is not obvious. The magnet company likes the idea of paying for only results and the agent may be an eternal optimist, in spite of the realities of the situation. For this industry, it is a dreadful way to do business.

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Spontaneous Materials