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Direct Sales Employees vs. Independent Manufacturers' Representatives

By [Jerry Leth](#)

Manufacturers have a choice when it comes to selling their products or services. They can hire direct (W2) sales employees or outsource the sales function to independent manufacturers' representatives (1099 Independent Contractors). Which makes the most sense?



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Some people use economics to make the choice. Which alternative costs more?

When you hire a sales employee, you cover their basic compensation (salary, bonus), their health insurance plus all the withholding associated with the compensation (Social Security contributions, Medicare, etc.).

When you outsource the sales function to an independent manufacturers' representative, you only pay them a commission when they book orders for you. They cover all the business expenses from the commissions they earn.

Over the years, we have seen charts or presentations comparing costs between direct salespeople and manufacturers' representatives. They help those who use the numbers to make their decisions.

Having been in sales for decades, I recommend an alternative. Select the option based on the results each approach generates.

What I learned about sales over the years is that people buy from those they know and trust. As a salesperson, your purpose needs to be to help your customers solve their problems rather than getting them to buy from you. When they sense that is your purpose, they start trusting you and they buy from you. You must "walk the talk" and always maintain a high trust level by exceeding their expectations.

In the case of independent manufacturers' representatives, they help customers solve multiple problems. The factory-direct salesperson only helps the customer with the products from their employer. From the customer's perspective, a single meeting with the manufacturers' representative can address multiple issues. With the factory salesperson, only one. Customers prefer working with multi-line manufacturers' representatives.

Because of the high trust professional manufacturers' representatives create with customers, they significantly outsell direct salespeople. That may mean the commissions you send the manufacturers' representatives may significantly exceed what you would pay your direct salesperson, but the profits from the much higher sales bring a substantial return on the investment made through the commissions.

When you search for manufacturers' representatives to work with you, connect with those who have these high-trust customer relationships. Make sure you work with them as "Partners in Profits" so the results exceed your expectations and last a really long time.



Jerry Leth

Jerry Leth, MANA's vice-president and general manager, started as membership manager in August 2000. Previously, he owned and operated Letco Tech Sales, Inc., a MANA member, multi-line professional outsourced sales agency he founded in 1989. Before starting his own agency, he managed a network of manufacturers' reps as vice-president of sales and marketing for torque and tension equipment. Leth graduated from Stanford with a mechanical engineering degree. He started his career at Hills Brothers Coffee in San Francisco in engineering and production before embarking on a sales career.