

Principles *of* Decision

***A Collective Effort of Partnership
Guidelines from the Manufacturers'
Agents for the Food Service Industry
(MAFSI) and The North American
Association of Food Equipment
Manufacturers (NAFEM)***

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DISCLAIMER

The information contained in Principles of Decision is a collective attempt by the joint leadership of MAFSI and NAFEM to help define and augment the complex partnerships between independent manufacturers' representatives and the manufacturers they represent.

These strategies are meant to serve as helpful guidelines and concepts to think about in various decision affecting this partnership. They are not intended as legal advice, therefore it is important to consult your association headquarters and/or experienced legal counsel regarding the applicability of any guideline or point of information contained herein.



2402 Mt. Vernon Road, Suite 100
Dunwoody, GA 30338
770.698.8994 Phone
770.698.8403 Fax
info@mafsi.org
www.mafsi.org

161 N. Clark, Ste. 2020
Chicago, IL 60601
312.821.0201 Phone
312.527.6658 Fax
info@nafem.org
www.nafem.org

Introduction

THE POWER OF TRUST IN RELATIONSHIPS

The food service equipment, supply and furniture industry was founded on core business values of integrity, responsibility, opportunity and trust. The industry's growth was based on these ethics and the ever driving entrepreneurial spirit to satisfy the customer and for partners to mutually succeed. Many, if not all, manufacturer's used, and still use today, a professional field force of independent manufacturers' representatives to professionally represent, sell and market their products.

Not so long ago, utilizing independent manufacturers' representatives rather than factory employees was understood as an alternative method of engaging and compensating the field sales force a company needed to identify, sell to, communicate with and provide service to its customer base. Today, this is not the case. There is confusion, especially among the dominate buyers and financial analysts, as to what the sales, marketing and service efforts of the supplier are all about. There is confusion between the essential sales process itself and the various optional methods a supplier can use in fulfilling the sales function and the needs of the customer.

Why the confusion? Basically, two things. First, the factory and representative partner have done a poor job unilaterally and bilaterally communicating their value to the buyer and accountants. Second, the balance of power has shifted. Thanks to the rise of super chains, buying groups and a consolidating wave of mergers and acquisitions, a relative handful of customers now control an enormous amount of business. Manufacturers that had dominated their customers are now finding the customer now holds the upper hand. The customer is trying to control the supplier's sales and marketing function acting in the name of cost savings, but without an accurate understanding of their actions.

When customers incorrectly perceive the representative function as a channel intermediary, as an added cost, and try to decrease the cost of the product by forcing the supplier to eliminate the representative, they are not only interfering in the operations of the supplier firms, but they are most likely forcing increases in the supplier's operating costs.

This shift raises some important questions. Although powerful companies can, and often do, use their strength to wring concessions from their vulnerable counterparts, is the use of fear or intimidation the most effective way to manage such relationships? Or does trust produce greater benefits? And if trust is more beneficial to both sides, what policies and procedures can help it grow?

Researchers have found that although exploiting power may be advantageous in the short run, it tends to be self-defeating in the long term for two main reasons: exploiting power to extract unfair concessions can come back to haunt you if your position of power changes, and when companies systematically exploit their advantage, their victims will seek ways to resist.

What is the nature of trust and how can it be defined? Some people use dependability to define it; say, if partners are reliable and honor their word. But honesty and dependability do not always promote trust. A partner that promises to punish you and follows through is honest and dependable but is not a partner in which you place your trust. What really distinguishes trusting from distrusting relationships is the ability of the parties to believe that each is truly interested in the other's welfare and then neither will act without first considering the action's impact on the other.

What are the benefits and limits of trust. Simple research has shown that trusting parties are more committed to the relationship; parties are less likely to make relationship changes; and both parties perform at higher levels of commitment, sales and mutual profitability. Trust brings other benefits as well. It creates a reservoir of goodwill that helps preserve the relationship when, as inevitably happens, one party engages in an act that its partner considers destructive. The

growth of multiple channels of distribution systems has made such situations much more common.

Trust helps relationships realize their full potential. When both sides trust each other, they are able to share confidential information, invest in understanding each other's business and customize their information systems or dedicate people and resources to serve each other better.

Can a company have its cake and eat it too? Can a company build trust while seeking to retain or increase its leverage or power over a partner? No. Rather, trust requires companies to relinquish their independence and become more dependent on each other.

How can we create trust when parties are of unequal size and "weight?" To build trust in an unequal relationship, the more powerful party must treat the less party fairly and with respect. Moving from the power game to the trust game is not easy, but it is based on the actual and perceived meaning of fairness.

Fairness encompasses two types of justice: *distributive justice*, how the pie is shared or how the benefits and burdens are divided between partners; and *procedural justice*, the perceived fairness of the more powerful party's process for managing the relationship.

Research shows that systems of procedural justice are more important to building trust since the more powerful party's system of procedural justice more accurately reflects the powerful party's real attitudes toward the less powerful party. Equitable procedural systems of justice are built on the following six principals:

- Frank, honest, bilateral communication and a genuine desire to learn as much about their partner's business.
- Impartiality - the more powerful party deals with partners equitably. Although it is impossible to treat all partners identically, it is important to give partners equitable opportunities.
- Refutability - the less powerful party can appeal the more powerful party's policies and procedures. Representative Councils should be used in this way, too.
- Explanation - the more powerful party provides its partners with a clear and coherent rationale for its decisions and policies. Although those in power often feel that they have the right to make decisions without explaining them, that attitude is detrimental to building trust.
- Familiarity - the powerful party understands or is aware of the local conditions under which its partners operate.
- Courtesy - treating a partner with respect is crucial for building personal chemistry that is the foundation of successful relationships.

Many companies that want to move from conventional relationships to partnerships based on trust find they do not yet possess the capabilities necessary to make the transition. It is not enough to start calling or visiting the partners. The culture, people, management systems and attitude the trust game requires are fundamentally different from those used in the power game. Past practices must be unlearned before the new approach to managing relationships can be adopted.

Companies that want to develop trust pay greater attention to partner selection. They select partners who bring distinctive competencies but similar values. As who the partner is becomes more important, traditional methods of selecting partners becomes less appropriate.

For relationships to bloom and achieve their full potential, they must be flexible and informal. Long, detailed, legalized contracts are inconsistent with building relationships based on trust, and they simply get in the way. Companies that base their relationships on trust have minimal contracts.

Companies should encourage employees assigned to a partner(s) to learn their business and work together with the partner to discover mutually beneficial opportunities. Companies often find they have to reorganize to cross-functional teams to achieve this type of focus. The team functions as consultants to the partners

Companies that play the power game often prefer their employees not to develop personal relationships with their counterparts, fearing such ties will weaken the resolve to push hard for the best possible situation. Companies that play the trust game encourage personal ties with their partners. Because they know it takes a long time to build and maintain a relationship based on trust, many of these companies minimize employee turnover. Of course, employee turnover is inevitable. One advantage of dedicating a cross-functional team to a partner is that the relationship is less dependent on any one employee.

The trust game also has implications for the type of people that a company recruits to work with partners and how those people are managed. Joint conferences and trade shows like the MAFSI Marketing Conference and Sales Managers Forum and NAFEM Trade Show, can help breakdown the barriers between partners.

By developing trust, partners can exploit their complementary skills to reduce transaction costs, adapt quickly to marketplace changes and develop more creative solutions to meet the customer's needs. Success in rapidly changing environments will go to those who learn the true value of relationships.

The guidelines you are about to review are the result of many hours of collaborative work from MAFSI and NAFEM volunteers and staff in meeting today's marketplace realities. Without the power of trust this project never would have been completed. In the spirit in which these guidelines are being provided, use them with equal passion in the marketplace in augmenting your partnerships with the manufacturer and/or sales agency personnel.