Reps or agents or both: Managers' rationale behind how to organize the sales function

About the rationale of decision-makers in manufacturing companies of the Swedish prefabricated wooden house industry behind the organization of sales forces.
Abstract

Problem - Decision makers shape the structure of the sales function, but it is unclear how they go about it and why. The rationale for making certain decisions need to be analyzed in order to understand why different decision makers apply different sales strategies.

Topic - The Swedish prefabricated wooden house industry consists of many actors with no clear market leader. The sales force seems to mainly consists of external sales agents (manufacturers' representatives, also called reps), though some manufacturers also employ direct sales agents at the manufacturing company. Prefabricated wooden houses corresponded to 86% of all building permits requested during 2015.

Purpose - This thesis aims to explore decision-makers' rationale behind the organization of manufacturers' sales forces in the Swedish prefabricated wooden house industry.

Method - Semi-structures interviews with decision makers at manufacturing companies in the Swedish prefabricated wooden house industry have been conducted in order to fulfill the purpose of this study. The empirical findings are then analyzed based on theory that has been collected through partly inductive, partly deductive approaches.

Main results - Decision makers use different arguments to justify their strategies. Many different rationale applied translates into no clear pattern besides the one that there seems to be no clear pattern. Arguments for a rationale decision are given without analytical proof for an assumption. Some interviewees are in essence for an integrated sales force, though might also work with reps.

Key words - sales organization, wooden houses, prefab, house manufacturing, vertical integration, outsourcing, make or buy, sales process structure

Paper type - Bachelor's thesis

Acknowledgements

I wish to thank all interviewees who took time to answer questions and participate in discussions, as well as Anders Melander and David Andersson for providing the opportunity to participate in the majority of interviews organized, and for our discussions about the industry. The guidance of MaxMikael Wilde Björling as tutor of this thesis was much appreciated and contributed to a valuable learning experience for which I am grateful.

Jönköping, 05/22/2016

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1. Introduction

1.1. The Swedish wooden house industry

The Swedish wooden house industry consists of many smaller and medium-sized dispersed actors with no clear market leader. In 2015 there were 496 companies working within the wooden house industry, employing 4634 people. 6085 building permits were requested of which 86% were prefabricated wooden houses, ca. 10% were wooden houses built on site, and 4% were houses built of stone (SCB in Trä- och Möbelföretagen d, 2016, p. 2).

The wooden houses manufacturers that are members in "Trä- och Möbelföretagen" (TMF) stood for an order intake of 7000 single family homes during 2015 (Trä- och Möbelföretagen d, 2016, p. 2). In 2015, 12% more single family homes started construction compared to 2014. This number has been increasing annually since 2013, after reaching its lowest point in 2012 compared to the past 12 years (2004-2015) (Trä- och Möbelföretagen d, 2016, p. 1).

The export of prefabricated wooden houses decreased by 10% compared to the previous year (2014). A demand decrease in Norway and Japan seem to be the reason for that, with an increase in Denmark and the UK buffering the shrinkage (Trä- och Möbelföretagen d, 2016, p. 2).

The amount of building permissions for new buildings and the amount of started constructions in 2015 are highest since the Swedish real estate crisis 1993/94. Rising housing costs, low interest rates, a lower unemployment rate, and comparatively faster planning processes drive this development first and foremost. Qualified workers need to be found to keep up with growing potential, which could be a decisive factor for the continuation of growth in the industry (Trä- och Möbelföretagen d, 2016, p. 7). Even though it gets harder to find well located land to build on, which influences the building market in a negative way, other factors that influence the industry positively are currently stronger (e.g., good economy, improved bureaucracy, political support). A rise in prices of single-family homes was registered over the past few years and can be attributed to a good economy, supply exceeding demand, and easy access to loans. Generally, more single-family homes are getting build than the year before (Trä- och Möbelföretagen e, 2015).

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1 Trä- och Möbelföretagen (TMF) is an organization for employers and for the wood processing and furniture industries. It describes itself as “national trade and employers’ association” of the aforementioned industries in Sweden and aims to represent all companies within those industries and to create profitability and competitiveness for the long term (Trä- och Möbelföretagen a, n.d.). This includes wooden houses (Trä- och Möbelföretagen b, n.d.), which is why TMF is relevant for this thesis. In total, 80 out of ca. 700 members within TMF are wooden house manufacturers that manufacture different kinds of houses (Trä- och Möbelföretagen a, n.d., Trä- och Möbelföretagen c, n.d.). TMF’s members stand for ca. 80% of the industries’ turnovers and the people employed in these industries. The representation of just these industries is justified by its direct relationship with each other where more construction has a positive impact on the demand for furniture (Trä- och Möbelföretagen d, 2016, p. 1). TMF is citing different sources, like SCB, Svan Data AB, and Prognoscentret AB. In this paper TMF is referred to as main source, but efforts to acknowledge TMF’s sources (through the use of footnotes) are made, though these efforts should not be interpreted as a complete and detailed list.

2 Translates to “Wood and Furniture Companies”

3 Reference to SCB (Statistics Sweden) is made by TMF

4 TMF refers to itself, but also to SCB and Svan Data AB

5 TMF refers to SCB and Prognoscentret AB
TMF expects house prices, investments, and orders within the building and construction industry to rise further in the near future. The possibility of plummeting house prices has been and will continue to be a serious risk for the Swedish economy (Trä- och Möbelföretagen e, 2015).

1.1.1. Different building processes

This industry includes houses build on-site (lösvirke), as well as prefabricated houses (monteringsfärdiga hus), which are partly produced (to different degrees, varying by company) in (mostly) company-owned production facilities (plants) and assembled on location. The prefabrication process is also referred to as "prefab".

1.1.1.1. Prefabrication

The degree of prefabrication ranges from prefabricating wall elements that are then assembled on the constriction site, to producing whole modules that are partly furnished. An example for that would be when kitchen elements are already built into the modules that then are transported to the construction site.

The companies interviewed for this thesis focus mostly on the process of prefabricating wall- and roof elements. When asked, some would refer to it as the traditional/standard prefabrication process. A trend might be going towards shifting even more of the process towards prefabrication.

Advantages of the prefabrication process are shorter building times, the possibility to build all year around, and keeping building elements relatively dry compared to on-site construction projects, since the majority is prefabricated indoors and the assembly process on site is much shorter compared to on-site building (lösvirke). Also, there is a lower chance for rain to reach inner parts of the house, as the outer parts (walls, roof) can be assembled rather quickly.

A trend goes towards rising demand of turnkey houses (nyckelfärdiga hus) where the customer signs one contract with the manufacturer who agrees to take care of the whole production and assembly process, so that the customer has in the end nothing to do but to move in; to a fixed price at a predetermined date. This agreement is also referred to as totalentreprenad. Much more traditional ways of building a house are that the customer as building owner (byggherre) coordinates and purchases all the different services (delad entreprenad) necessary to complete the house, (e.g., buying the assembly kit from a prefab manufacturer, hiring construction workers to assemble the kit on site, hiring an electrician and a plumber to take care of their respective installations), or that the building owner purchases the assembly kit from a manufacturer and then contracts a construction company to take responsibility for the assembly of the kit and the completion of all other tasks (generalentreprenad) connected to building the house (see previous electrician/plumber example).

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6 Different manufacturers define totalentreprenad in different ways so that in the end actually not everything is included in the price.
1.1.2. The sales process

Broadly, the process can be described in the way that a prospect customer either contacts the manufacturer via their website or contacts a seller (direct agent or rep) directly. If the potential customer contacts the manufacturer, it is common for the manufacturer to send information material to the customer and a notification to the seller who is responsible for the corresponding sales territory. The seller will then contact the prospect. Once a house buyer has decided to buy from a specific manufacturer, detailed specifications regarding the house might be made with help of the seller who represents the middle-hand between customer and manufacturers’ architects. This is depending on whether or not the manufacturer allows for architectural changes. It is also possible that a customer might plan house projects with different companies simultaneously in order to compare the different options. Unrelated to whether or not the manufacturer offers architectural individualizations, at some point the seller will take the customer through the process of deciding between different options when it comes to what kind of windows/floors/doors/sinks/etc. to buy. Somewhere along the process a contract will be signed that states what the customer will be buying from the manufacturer. If the contract does not include a turn-key agreement, the seller might recommend craftsmen for different tasks to the customer. After the contract is signed customers might still be able to pressure sellers to change certain details in the agreement.

1.2. Outsourcing and vertical integration research on sales forces

Erin Anderson (2008) made a contribution in 1985 that describes the field as scarcely researched and suggests further research, while using transaction cost analysis as foundation, on which Anderson and Weitz (1986) base their framework published in the following year. In 2004, Anderson’s contribution was still the only empirical one directly researching the reasoning of whether or not to outsource sales (Krafft, Albers & Lal, 2004, p. 268). Her article was re-published in 2008 and Rapp (2009), as well as Mantrala, Albers, Caldieraro, Jensen, Joseph, Krafft, Narasimhan, Gopalakrishna, Zoltners, Lal & Lodish (2010) are hoping for more research in the field, to which Rapp (2009) contributed by developing a model that describes different aspects of the decision making process with the aim to reach further than transaction cost theory. Palmatier, Stern, and El-Ansary (2015) describe manufacturers’ representatives and agents as wholesalers but state that such do not sell “[...] to individual consumer end-users” (p. 5). This is not applicable to the context of this thesis because the selling of products to end-consumers is the exclusive focus of this paper. Manufacturers’ representatives and agents are therefore referred to as defined by Anderson (2008) and are assumed to be selling to end-customers. A subsumption of both under the term “wholesalers” is still recognized.

7 At some companies the customer might actually not buy from the manufacturer but from the seller because the manufacturer invoices the seller. This situation is not very clear to me.

8It is likely that Mantrala et al. (2010) were in the publishing process when Rapp (2009) was published, which is why it is not surprising that the authors do not acknowledge Rapp’s work.
The definition of a marketing channel given by Palmatier, Stern, and El-Ansary (2015),

“[…] a set of interdependent organizations involved in the process of making a product or service available for use or consumption” (p. 3),

suggests that all channel members should be concerned with the customer satisfaction of the end-customer, even though they might be selling to another player within the marketing channel (e.g., a supermarket) (Palmatier, Stern & El-Ansary, 2015, p. 3).

Marketing channels used as strategic assets “[…] can increase customer satisfaction, reduce distribution costs, minimize competitor rivalry, and ultimately result in superior financial performance” (Palmatier, Stern & El-Ansary, 2015, p. 3). Following the simplification reasoning proposed by Palmatier et al. (2015), the most relevant parts of each marketing channel are proposed to be manufacturers, intermediaries, and end-customers (also referred to as end-users) (p. 3). One manufacturer-based channel format is the “manufacturer direct” format described by Palmatier et al. (2015). When applying this format, the manufacturer ships directly to the customer while the selling is done through either direct agents or manufacturers’ representatives (Palmatier, Stern & El-Ansary, 2015, p. 26). Because the marketing channel can be understood as gatekeeper separating customer and manufacturer, experiences made along this channel directly influence, and might even determine, customer satisfaction (Palmatier, Stern & El-Ansary, 2015).

1.3. Problem
Manufacturers follow a certain sales strategy but the rationale behind it does not seem to be elaborated on very deeply. The question then arises how such an important business element has impact on companies and what can be done to improve sales concepts. The underlying matter of such is to understand the rationale behind the decisions made in this field, which ought to be plumbed first before challenging aspects that use unexplored assumptions and ways of reasoning as foundation. A parallel level to this is understanding the context in which the reasoning takes place, namely the Swedish prefabricated wooden house industry, which also needs to be explored and described for previously stated matter.9

1.4. Purpose
This thesis aims to explore decision-makers’ rationale behind the organization of manufacturers’ sales forces in the Swedish prefabricated wooden house industry.

1.5. Delimitation
This thesis delimits itself to the study of 8 companies within the Swedish prefabricated wooden house industry. The structuring of manufacturers’ sales forces focuses mainly on the choices between outsourcing and vertical integration.

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9 A research project lead by Prof. Anders Melander is an indication for the existence of an insufficient amount of research within the subject at stake.
1.6. Definitions

Value System
“[...] the set of inter-organisational links and relationships that are necessary to create a product or service” (Johnson, Whittington, Scholes, Angwin, Regnér, 2015, p. 60).

Value Chain
“[...] describes the categories of activities within an organisation which, together, create a product or service” (Johnson et al., 2015, p. 60).

Vertical integration
“[...] (a) firm is pondering a vertical integration question when a direct salesperson is considered as an alternative to a manufacturers’ [sic] representative (…)” (Anderson & Weitz, 1986, p. 3).

“[...] describes entering activities where the organization is its own supplier or customer” (Johnson et al., 2015, p. 137).

Backward Integration
A company’s “[...] development into activities concerned with the inputs into the company’s current business” (Johnson et al., 2015, p. 138).

Forward Integration
A company’s “[...] development into activities concerned with the outputs of a company’s current business” (Johnson et al., 2015, p. 138).

Outsourcing
“[...] the practice of using a supplier rather than in-house employees to perform a function” (Boardman Liu, Berger, Zeng & Gerstenfeld, 2008, p. 435).

Vertical Marketing System (VMS)
“A distribution channel structure in which producers, wholesalers, and retailers act as a unified system. One channel member owns the others, has contracts with them, or has so much power that they all have to cooperate” (Law, 2016).

Marketing Channel/Marketing Channel System
“[...] a set of interdependent organizations involved in the process of making a product or service available for use or consumption” (Palmatier, Stern, & El-Ansary, 2015, p. 3).

Marketing Channel Strategy
“[...] how to design and manage a channel structure to ensure that the overall channel system operates efficiently and effectively” (Palmatier, Stern, & El-Ansary, 2015, p. 1).

“The set of activities focused on designing and managing a marketing channel to enhance the firm’s sustainable competitive advantage and financial performance” (Palmatier, Stern, & El-Ansary, 2015, p. 3).

Manufacturer
“[...] the producer or originator of the product or service being sold” (Palmatier, Stern, & El-Ansary, 2015, p. 4).
Intermediary
“[...] any channel member other than the manufacturer or the end-user” (Palmatier, Stern, & El-Ansary, 2015, p. 5).

Manufacturer’s representative
“(…) an independent entity (agency). The “rep” (also called “manufacturers’ agent” or “outside agent”) covers all selling expenses and is generally compensated by a commission on sales. (…). Reps (…) do not take title to the goods they sell” (Haas, 1976, Diamond 1963, Risley 1972 in Anderson, 2008, p. 70).

“Going direct” (in sales force management)

Competitor Orientation
“[...] the ability and the will to identify, analyze, and respond to competitor’s actions” (Rapp, 2009, p. 414).

“[Competitor orientation] means that a seller understands the short-term strengths and weaknesses and long-term capabilities and strategies of both the key current and the key potential competitors” (Narver & Slater, 1990, pp. 21-22).

Customer Orientation
A firm’s focus “[...] on maintaining sufficient understanding of its target buyers in order to be able to create superior value for them continuously” (Rapp, 2009, p. 414).

“[...] the sufficient understanding on one’s target buyers to be able to create superior value for them continuously” (Narver & Slater, 1990, p. 21).

Learning Orientation
“[...] set of values that influence the degree to which an organization is satisfied with its theories in use, mental models, and dominant logics, which may or may not have their bases in the marketplace” (Baker & Sinkula, 1990).

Selling Orientation
Maximization of “[...] short-term sales at the possible expense of long-term relationships” (Rapp, 2009, p. 415).

“[...] sales orientation is based on the ideas that people will buy more goods and services if aggressive sales techniques are used and that high sales result in high profits. Not only are sales to the final buyer emphasized, but intermediaries are also encouraged to push manufacturers’ products more aggressively” (Lamb, Hair & McDaniel, 2011, pp. 4-5).

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10 Regarding the definition: I define the word “continuously” in this context as “unchanging level of satisfaction” which aims to describe the satisfaction of house buyers that is experienced during the buying and building process, as well as the living experience in the new home (i.e., including dissatisfaction through building errors that get discovered after an extended period of time spent in the house).

11 “[...] set of values that influence the degree to which an organization is satisfied with its theories in use (Argyris and Schön 1978), mental models (de Geus 1988), and dominant logics (Bettis and Prahalad 1995), which may or may not have their bases in the marketplace” (Baker & Sinkula, 1990).
Technological Orientation

“[...] the ability and the will to acquire substantial technological background and to use it in the development of new products (Gatignon & Xuereb, 1997)” (Rapp, 2009, p. 415).12

12 Gatignon & Xuereb, 1997, p. 78
2. Methodology

According to Saunders, Lewis, and Thornhill (2009) it is important to point out which research philosophy I follow in order to show you, the reader, which assumptions I make about the world. I seek to find meaning in the decision-makers’ rationale, which is an implication for me applying social constructionism where the assumption is made that it is necessary to understand the decision-makers’ context in which s/he takes action (Saunders et al., 2009, p. 111). I am also interested in why a company might value a certain option lower than another where clear mathematical reasoning cannot be applied and the decision-maker needs to rely on personal opinion or feelings, which is probably clarifying my previous statement about social constructionism further. In that regard my approach is very much subjectivist, but as Transaction Cost Theory is also part of this thesis, a certain degree of objectivism, where a pure “true/false” decision can be made, where the right decision can be made and is the only one acceptable, is also present. Subjectivism is applied in the sense that different decision-makers value different factors proposed by Rapp (2009) differently, and such differences are acknowledged by having a central part in this thesis.

2.1. Ontology

My “view of the nature of reality or being” (Saunders, Lewis & Thornhill, 2009, p. 119).

Saunders et al. (2009) describe an ongoing debate where objectivism and subjectivism oppose each other. To me it is much simpler, or more complicated, depending on how you look at it; I believe both is true. To use Smircich’s example given by Saunders et al. (2009) of whether or not a company has culture or is culture: While a document that describes the company culture might be viewed as proof of a company possessing its culture, the actual culture that can be experienced might deviate from the manifestation in the document, yet, might be influenced by the expectations expressed in the written document. I reject the thought of deciding for and against one theory because I believe both sides are needed to be able to create a complete understanding, not the least because both approaches are part of the discussion, which, to me, proves the necessity of their co-existence in itself. One might want to suggest the presence of a pragmatic influence in my reasoning because I reject the in-depth philosophical discussion altogether, which might very well be reasonable. In the following sections I present more specific answers for through which “glasses” I view the world.

2.2. Epistemology

My “view regarding what constitutes acceptable knowledge” (Saunders, Lewis and Thornhill, 2009, p. 119).

My opinion is that when simplification for the sake of theoreticalization reaches a level where theory becomes so abstract that comparison to real life seems unhelpful, theory loses its overall purpose. Because personal opinion and interpretation of reality is the foundation of the empirical data involved, the research philosophy of interpretivism seems to be followed. However, the practicality of directly comparing theory and empirical findings suggests a pragmatic mindset, though it is to underline that subjectivity plays a big role.
2.3. Axiology

*My “view of the role of values in research”* (Saunders, Lewis & Thornhill, 2009, p. 119).

I believe my values and my environment influence, if not even determine, who I am as a person, and therefore also my work. According to Saunders et al. (2009) this believe follows a realist philosophy. The interpretivist perspective seems also to be involved though, because during interviews I am part of the interviewees’ environment and therefore influence it.

2.4. Data Collection

*My approach to how to collect data.*

The data collection method was chosen following realism, as finding the best fit between data collection and purpose was central to the decision (Saunders, Lewis, & Thornhill, 2009). The result was a qualitative approach based on a small sample, as understanding the different factors involved in the decision-maker’s rationale and the motivation behind those factors are understood to be of essence for fulfilling the purpose of this thesis, interviews with decision-makers were seen as the only logical way to retrieve the information found necessary.
3. Frame of Reference

3.1. Vertical Integration and Outsourcing

3.1.1. Vertical Integration

To vertically integrate means to include an operation (or operations) from a stage of a company's value system in its value chain that is currently not included in its pool of operations (the value chain). Vertical dis-integration is then the exclusion of such an activity from the value chain, i.e. the operations directly handled by the company. One form in which vertical dis-integration occurs is outsourcing, which will be elaborated on in one of the following sections (Johnson et al., 2015).

Vertical integration can occur in two directions: Backward and forward, where backward integration describes internalization efforts of operations that lie before the business efforts undertaken by the company, but within the same value system. An example of backward integration would be a wooden houses manufacturer including a sawmill in its value chain in order to supply raw material (wood) to the prefabrication or construction process. Forward integration is characterized by including operations in the company that were previously performed by another entity after the company applied its part of the value system. A manufacturer that employs sales personnel to sell its products to end-users (compared to selling to retailers that then sell to end-customers) makes use of forward integration. Johnson et al. (2015) point out two risks that might offset the benefit of having access to multiple profits that might be expected from vertical integration at first glance: initial investment and the fact that rather unrelated capabilities might be needed in the fields newly integrated. With rising attention being paid to those risks, many companies dis-integrated during the past years (Johnson et al., 2015).

3.1.2. Outsourcing

Adding value to a company's business is the main concern for including activities in the value chain, but this might turn out to not be the case for certain operations. In such cases, outsourcing can be made use of, which is the externalization-process of company-internal activities to other companies, like for example subcontractors (Johnson et al., 2015, p. 139). Further, the authors point out that, while also being used in manufacturing, one can witness outsourcing efforts nowadays mostly in regard to services and name the availability of superior strategic capabilities to contractors (compared to the contracting company with other core competencies, in this case manufacturing) as reason for such efforts (Johnson et al., 2015, p. 139). Such superiority in certain tasks can be justified by the movement towards improvements regarding efficiency and lowering costs (McIvor, 2009, p. 45). It is a rather underlying (and therefore obvious) choice to define the business model and its boundaries of a firm, but outsourcing refers to activities that were once performed inside these boundaries. Activities being less relevant to the core business would be the main ones to be outsourced, though a trend towards outsourcing activities closer to a company's core business seems to be going on (McIvor, 2009, p. 45). This trend is criticized by Aron and Sing (2005) who believe that outsourcing “core processes” and “critical processes” are reasons for failure of externalizations and suggest that only “commodity processes” may be outsourced (p. 136). One benefit of outsourcing is lower vulnerability in regard to drops (or changes in general) in demand (McIvor, 2009, p. 45).
Anderson and Parker (2002) find that outsourcing decisions motivated by immediate lower costs can lead to higher costs in the long run, which they also refer to as the “outsourcing trap”. They also suggest that a partly integrated, partly outsourced structure could be superior to a non-hybrid one.\textsuperscript{13}

According to Palmatier, Stern, and El-Ansary (2015) the “buy-decision” (i.e., outsourcing) means at its most radical degree that all functions are completely outsourced, which creates a situation of complete independence between the manufacturer and its partner downstream the marketing channel. This means that, for example, no benefits through information sharing between the partners is realized. Further, it implies (which Palmatier et al. (2015) also directly point out) that the make-or-buy decision is made in a continuum of possible degrees/variations rather than in absolute choices between making and buying (p. 97). Whereas vertical integration can be realized through employing a direct sales force, a quasi-vertical integration system is applied by collaborating with a sales agency that derives “[...] more than 50 percent of its revenues from [...]” the manufacturer that it has an exclusive contract with; the buying-decision is used when a manufacturer works with manufacturers’ representatives (Palmatier et al., 2015, p. 98).

3.2. Real life sales people

Wernerfelt (1994) argues that justification for the existence of sales personnel (in contrast to, for example, online selling) can be found in horizontally differentiated markets, where the optimal choice to each consumer might deviate strongly from the choices of others, dependent on personal expectations, where sales staff will be able to identify individual circumstances in order to provide the most optimal offer based on the customer’s individual situation. Such might be difficult to do by the customer herself because of lack of information that might only be accessible to the salesperson. This can be amplified if products are complicated to understand and consumers lack experience. The customer may be able to trust the salesperson’s proposition because short-term opportunism by the seller may be refrained from if loss of reputation could be suffered. Such is most likely when future purchases are expected, but also possible when exchange of experiences between buyers is assumed to be possible and significant. A wide selection to choose from is an additional factor increasing complexity for the customer. Possibilities to monitor efforts of increasing future sales are described to be relevant to decrease opportunistic behavior, which might be dependent on how easy it is to differentiate between different agents’ actions (Wernerfelt, 1994).

\textsuperscript{13} Anderson and Parker make those statements referring to production
3.3. Cost consciousness and different rationale for and against vertical integration

3.3.1. Using reps as default mode

In 1985, Anderson (2008) describes the choice of a manufacturer to either employ a direct sales force or a representative, which she calls “rep-direct choice” (p. 70). She motivates her study, that aims to explore “the reasons for [...] the use of employee (“direct”) salespeople rather than manufacturers’ representatives (“reps”),” by pointing out the scarcity of empirical research within the field (p. 70). Her main finding is that the more complicated it is to evaluate a rep’s performance, the more likely the company to integrate the position to an employee whose actions are generally easier to observe. By applying transaction costs analysis, the initial situation is assumed to be one that treats “market contracting as the default option,” where market contracting refers to hiring a manufacturers’ representative, suggesting that outsourcing would be the logical default choice for a manufacturer (Anderson, 2008, p. 73). Transaction cost theory assumes that competitive market behavior will generally lead to more efficient outcomes than vertical integration (Williamson 1979, 1981b in Anderson, 2008).

3.3.2. Cost consciousness and a preference for vertical integration

According to Anderson and Weitz, this assumption seems not to be very useful in real life, as most suggestions seem to go in the other direction, which is the assumption to rather employ a sales force than contracting external agents due to better ability to control employees (Haas, 1976, Risley, 1972 in Anderson & Weitz, 1986). Usefulness for contracting representatives is acknowledged for small companies that do not possess the financial ability to vertically integrate the sales force, or either serve regions with low-sales potential, or aim to enter new markets. It is suggested, however, to make use of vertical integration as soon as financially feasible (Anderson & Weitz, 1986). This seems only to be true to a certain extent because

“(...) the sales function should be performed internally only by companies large enough to support the overhead, yet small enough to manage it well” (Shapiro, 1977 in Anderson & Weitz, 1986, p. 5),

which implies a broader context, including big corporations for other reasons than the reasoning provided for small companies.

3.3.2.1. Reasons for inefficient markets and influences on effectiveness

Building on this cost conscious perspective, it is the “absence of competitive markets,” which creates loss of value for customers (in this case the company that seeks to buy the services of a manufacturer’s representative) because low competition prevents external agents from offering better services (Anderson & Weitz, 1986, p. 6). This can be explained by opportunistic behavior of reps and a company’s inability to spot such behavior (Anderson & Weitz, 1986). Usually effective behavior of reps is “maximized by the control arising from the invisible hand of a highly competitive market” (Anderson & Weitz, 1986, p. 7).

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14 Anderson (2008) refers to Williamson, 1975, 1979, 1981a, b (p. 72)
Maximization of effectiveness may be disturbed by four factors that Anderson and Weitz (1986) identified: Less competitive markets, Environmental uncertainty, Difficulty to assess performance, and Free-riding.

Less competitive markets

Less competition might be met when company-specific capabilities are needed, what can be the case if it is challenging to replace an employee or external agent with a new prospect that is familiar with the industry, but not with the company itself (Anderson & Weitz, 1986, p. 9). Generally, high barriers to entry are factors that can reduce competition (Anderson & Weitz, 1986, p. 10).

Environmental uncertainty

Task definition becomes more difficult with increasing uncertainty in the environment for both, integrated and not integrated divisions. External agents may be useful when spontaneous agility of the company is of essence. Such positive effect does, however, not outweigh the efficiency achieved by integration when assuming that the market does not function competitively (Anderson & Weitz, 1986, p. 11).

Difficulty to assess performance

Vertical integration should be preferred over contracting external agents because of the following:

“When it is difficult to assess performance using output measures, the effectiveness of independent agents falls because it is difficult to determine how well activities were performed. The assessment problems can be minimized under vertical integration, since the employment contract legitimizes the employers’ authority to examine inputs [...]” (Anderson & Weitz, 1986, p. 11).

Free-riding

External Agents might free-ride on the reputation of a company by benefiting from the good reputation (increase of sales) but not living up to the standards that the reputation promises (Anderson & Weitz, 1986, p. 11).

Whereas lack of competition is impeding effective market functioning in itself that would otherwise lead to a “buy-decision” of companies, the latter three factors make vertical integration more favorable due to hindrance of free flow of information between a manufacturer’s representative and the company he agreed to represent (Anderson & Weitz, 1986, p. 10).
3.3.2.2. Controlling opportunistic behavior

Because “the classic method for controlling opportunistic behavior [...] is to vertically integrate and perform the activity within a bureaucratic structure” (p. 12), we look at four ways suggested by Anderson and Weitz (1986)\(^{15}\) that bureaucratic systems use to control opportunistic behavior:

- Reduction of possible gains through opportunism
- Directing behavior (through authority)
- Improve access to information for the sake of performance evaluation
- Apply incentive systems that focus on broader and more subtle compensation.

Taking such actions is possible because, in contrast to representatives, employees are not independent from employers and their authority to which employees agreed by signing their work contracts (Anderson & Weitz, 1986).

Another effective mean is the use of “organizational culture” to increase employee commitment, where socialization is used to align goals of employees as individuals with the goals of the company “[...] so that individuals are motivated to serve the organization” (p. 12). The company turns into a “clan” with the foundation of commitment and trust, which allows for reducing bureaucracy (Ouchi, 1981 in Anderson & Weitz, 1986, p. 12).

Vertical integration incurs costs nevertheless, which suggests to use external agents (through which money can be saved) unless the influencing factors described above lead to significant negative impact when use of outsourcing is made (Anderson & Weitz, 1986, p. 12). Cost savings can be achieved by working through representatives because of the low direct costs associated with them. Further, if the market works efficiently, direct sales agents might be less efficient because incentives to do so are not in place; the pressure on them is lower than on reps. This is also called Transaction Cost Approach, which can be defined as follows:

“The transaction cost approach proposes that, in general, greater efficiency is achieved when marketing activities [here: working with reps] are performed by independent agents rather than by vertically integrated firms” (Anderson & Weitz, 1986, p. 13).

Under such assumption, vertical integration becomes the deviation from the norm (Anderson & Weitz, 1986). The transaction cost approach also includes variations between make-or-buy decisions, depending on the product’s state in the product life cycle (Anderson & Weitz, 1986, p. 17).

\(^{15}\) Williamson, 1981a, 1979, 1975 in Anderson and Weitz, 1986
3.3.2.3. A Hybrid model

Anderson and Weitz (1986) acknowledge that not many situations might easily be identified as to either lead to a “make” or “buy” decision, which is why a hybrid model is proposed of which franchising is the most common example, where manufacturers have some authority but are not owners. Vertical market restraints, upon others, can also be applied in hybrid situations, which includes that manufacturers can, for example, restrict sales territories in order to create more feeling of “ownership” for external agents (Anderson & Weitz, 1986).

Commission-based contracts are the more efficient choice, compared to compensation through salaries, when low company-specific capabilities are required, little potential for free-riding and low environmental uncertainty exists, and sales potential is low (Anderson & Weitz, 1986, p. 16).
3.3.3. Other strategic factors influencing the make-or-buy decision

Rapp (2009) introduces a conceptional framework focusing on strategic orientations that ought to have impact on a company’s decision in regard to outsourcing of sales. While demanding more research in the field, he criticizes the fixation on transaction cost analysis and suggests a deeper examination of strategic factors in regard to the process (Rapp, 2009). In this spirit he develops seven orientations and two specific situational factors:

1) Brand  
2) Competitor  
3) Customer  
4) Learning  
5) Production  
6) Selling  
7) Technology  
- Selling-task complexity  

3.3.3.1. Brand orientation

Rapp (2009) proposes that brand-oriented companies would be less likely to outsource sales. In his proposition he establishes a negative relationship between brand focus and outsourcing intentions (pp. 413-414). He argues that firms with brand orientation “[…] seek to create customer value by offering high-quality products supported by good service at premium prices” (p. 414) and connects it to a company’s investments into brand equity, who would be less inclined to accept the risk of inaccurate representation through sales people that are “not directly associated with the firm […]” (Rapp, 2009, p. 414). Therefore, such firms would be more likely to employ a direct sales force with focus on appropriate representation of brand and firm.

3.3.3.2. Competitor orientation

Firms that position themselves with reference to their competitors might be reluctant to outsource sales out of fear of being unable to extract information about competitors and other sales/market intelligence from sales representatives. This implies that reps are less likely to share information than members of a direct sales force. Rapp’s (2009) preposition includes therefore a negative relation between outsourcing and competitor orientation. The implications to be discussed here include the assumption that a representative could not be easily persuaded to share information with the principal and the always also present assumption that the manufacturer accepts and believes in such assumption. Rapp (2009) also mentions that a representative could be motivated to actively withhold information from a principal when the rep’s portfolio would include offerings from multiple competitors.

3.3.3.3. Customer orientation

Rapp (2009) argues that, “[…] when a firm’s customers require high levels of salesperson expertise and may call for adaptations, the firm will be less likely to outsource its sales force” when firms “put customers first” because it is viewed as substantial necessity to satisfy customer needs (p. 414). Therefore a negative relationship between customer orientation and outsourcing is established.

3.3.3.4. Learning orientation

This aspect refers mainly to the same background as customer orientation, namely the direct and reliable connection with the external environment through a direct sales force.

16 Psychological distance to the manufacturer is named as reason.
Such holds significance for companies with learning orientation due to the possibility to recognize and address changes in the market before competitors do (Ross, 2009). Ross (2009) specifically refers to “working with key customers” (p. 415) and establishes a negative relationship between learning orientation and sales force outsourcing.

3.3.3.5. Production orientation

Getting offerings to the market in a fast and inexpensive manner in order to secure high market share is the aim of this strategy. As outsourcing the sales force is cheaper than employing a direct one, outsourcing and production orientation have a positive relationship. Contracting representatives is assumed to have a negative impact on customer satisfaction (Rapp, 2009).

3.3.3.6. Selling orientation

The strategy aims towards short-term selling because long-term relationships are not interesting and therefore customer satisfaction not goal oriented because more can be sold when customer satisfaction is neglected, i.e., positive relationship between outsourcing and selling orientation (Lamb, Hair, & McDaniel, 2011; Rapp, 2009).

3.3.3.7. Technological orientation

Radical product innovation leads to the need of employing a sales force big enough to satisfy demand, which might skyrocket from not existent to high demand. A sales force that can quickly be put into place when needed and not creating costs when demand is not realized explains the positive relationship between outsourcing and technological orientation.

3.3.3.8. Selling-task complexity and market turbulences

Although Rapp acknowledges that many different situational factors can occur, he restricts his explanations to one external and one firm-internal factor. The external factor is market turbulence, which assumes that the more turbulent the market is, the less likely it is to outsource because leaders will be able to give autonomy to direct sales agents while responding with strategic decision making to a fast changing environment (Rapp, 2009). However, flexibility of the sales force in turbulent situations can be a reason for outsourcing the sales force to be able to adjust its properties quickly (Rapp, 2009). Another way in which flexibility plays a role is described by Jones et al. (2005), who argue that sellers need to be willing to change in order to respond to new situations and not get stuck with existing sales models that might not fit the situation (p. 191). The internal factor addressed is “the complexity of the selling task” that increases the need for specific knowledge about the product that the prospect customer does not have (Rapp, 2009, p. 416). Buyers will demand more information about complex products, especially when they are of importance to them (i.e., financially big investments) (Moon & Armstrong, 1994). Direct sales agents are assumed to have more in-depth knowledge about products because reps are assumed to sell many different products from many different manufacturers. Further, companies producing very expensive products may feel more comfortable with working with direct sales agents (Rapp, 2009, p. 416).

17 Whether or not lower customer satisfaction is an actually result needs to be analyzed but exceeds the scope of this paper.
4. Method

4.1. Research Design

4.1.1. Background and Influences
To conduct research within the Swedish wooden house industry, particularly marketing and/or sales, was suggested by Prof. Anders Melander. I am personally interested in the construction and housing industry and decided to focus on the sales process of prefabricated wooden houses in Sweden. The prefab industry was decided by the proposal and I became interested in the relationship between manufacturers and sellers. The principal-agent relationship was the first thing that came to mind but I realized shortly after that the question of how to sell stands before all the through this decision occurring relationships.

I was skeptical about researching the prefabricated house industry because I was negatively biased about this particular way of building. I do not recall how I arrived at that opinion, but I assume it had to do with word-of-mouth and TV programs about houses. As soon as I started researching the industry and the more I learned about it and the construction process in itself, my opinion changed towards a positive perception.

4.1.2. Research Approach
Saunders et al. (2015) state that how people make sense of their social surroundings is "the strength of an inductive approach" (p. 126). As I am interested in the why of things, the personal perception of the world is a highly relevant factor. Further, Saunders et al. (2015) directly suggest the use of an inductive approach for research questions that are concerned with "understanding why something is happening" (p. 126). With not very much research at hand and my lack of knowledge (partly connected to lack of research available and my lack of experience), using a deductive approach and test hypotheses of already established theory does not seem to be the most useful strategy because of my inability to formulate reasonable ones and because of the restriction of possible findings that such an approach suggests (Saunders et al., 2015). This is strongly connected to the aim of collecting more information as implied by the purpose statement; an inductive approach can be more useful here, as it leaves room for different explanations whereas a deductive approach is fixated on the explanation connected to a hypothesis (Saunders et al., 2015).

It is important to point out that the approach used is not exclusively inductive, but rather a mix. This is grounded in the fact that I started with available research but then developed my theoretical base through influence of my empirical findings. My approach is therefore deductive in the sense that I started with theory, but inductive in the way that my aim is to be open with the interpretation of my empirical findings (i.e., not restricted to only view them from the perspective of a specific theory or under the light of a certain hypothesis) and my decision about how to structure this thesis evolved gradually with my learning experiences. This intention is restricted by time. Saunders et al. (2015) explain that inductive research might take place over an extended period of time, this is not the case for me because I am restricted to the same amount of time as every thesis author, but I believe that the same reasoning can be applied to my strategy, despite the lack of a longer time period, because my theoretical base was influenced by new impressions during the process.
It ought to be pointed out that timely restrictions impacted the applied research approach to the extent that changes to theory in the manner of an inductive approach were not feasible during the latter part of the writing process because interviews and writing deadline were rather close to each other so that findings made during later interviews could not be taken into consideration for the further adjustment of the frame of reference.

4.2. Data Collection

4.2.1. Primary Data

The empirical part of this study consists of primary data in the form of semi-structured interviews with industry- and company representatives. The focus for the discussion on the topic lies on the interviews conducted with company representatives with enough decision making power and authority to influence the make-or-buy decision making process at hand. The interviews lasted in between one and two hours. Interviews are used because it is believed that this form of data collection will be most suitable for fulfilling the purpose of this thesis. For the general description of the industry-specific situation and its developments, as well as foresights, interviews, phone conversations, and email exchanges with other actors knowledgeable of the industry were regarded as important as general information gained about the industry through aforementioned company representatives. Those individuals are regarded as knowledgeable of the industry because of their direct links to it (e.g., manufacturer’s representative, export manager of a manufacturer, industry developer). Some, though not all, conversations were audio-recorded.

Manufacturers were interviewed based on their availability to the overall research project lead by Anders Melander of which this paper is a part of. The choice of manufacturers interviewed is mainly based on accessibility. Most interviews were organized by David Andersson, a member of the research project, based on his connections to manufacturers due to participation in previous projects. The overall aim was to gain information about the industry through most accessible channels. An analysis following this information gathering aims to identify further questions or issues. Based on these outcomes, other, more directed interviews would be organized. Besides this, some of the interviews were conducted without having prior connections to the interviewees (i.e., manufacturers). Information about one company consists only of secondary data where Anders Melander conducted the interview and asked, upon others, questions that I had prepared. Notes were taken during the interview which were made accessible to me.

The interview questions asked were aimed to be as open-ended as possible in order to avoid suggestive behavior from my side and to invite the interviewee to answer freely, applying whatever angle preferred. Such seemed not always to be possible or goal-oriented, which is why more direct questions, and sometimes “yes-or-no” questions were asked as well. In such cases it was not uncommon for me to ask the interviewee to follow up on it with an example or further elaboration in order to create broader context and to reduce the risk of misunderstandings.

Even though questions were mostly asked without big variation, as they were pre-formulated, they were asked in different orders, with different topics being discussed before and the assumption that the starting situation for each interviewee was the same can certainly not be made.

The telephone conversation with the industry developer was structured rather loosely with the main purpose being to give me a first overview over the
industry and its structure, and for me to gain access at certain documentation published by the industry developer’s employer TMF - Trä & Möbelföretagen. In that regard, the industry developer answered rather basic questions with my aim to learn more about the industry as a quick-start.

The telephone conversation and several other encounters were handled in Swedish. Most interviews were conducted in Swedish with the exception of me sometimes asking spontaneous questions in English, which I was unable to translate to Swedish in the very moment. As I do not know Swedish so well, there is a chance that some loss of information took place when I was unable to read nuances in language and might have therefore missed some information that was meant to be read in between the lines. What follows is a list of the interviewers attending the different interviews. The names of the interviewees are not included for reasons of anonymity.

Company 1:  
Prof. Leona Achtenhagen (Jönköping University)  
David Andersson (Träcentrum)  
Florian Köhler (Bachelor Thesis)  
Prof. Anders Melander (Jönköping University)  
Max Odehammar (Bachelor Thesis)  
Andreas Ruus (Bachelor Thesis)

Company 2:  
Florian Köhler (Bachelor Thesis)

Company 3:  
Florian Köhler (Bachelor Thesis)  
Prof. Anders Melander (Jönköping University)  
Max Odehammar (Bachelor Thesis)  
Andreas Ruus (Bachelor Thesis)

Company 4:  
David Andersson (Träcentrum)  
Florian Köhler (Bachelor Thesis)  
Prof. Anders Melander (Jönköping University)

Company 5:  
Prof. Leona Achtenhagen (Jönköping University)  
Florian Köhler (Bachelor Thesis)  
Prof. Anders Melander (Jönköping University)

Company 6:  
David Andersson (Träcentrum)  
Florian Köhler (Bachelor Thesis)  
Prof. Anders Melander (Jönköping University)

Company 7:  
Prof. Anders Melander (Jönköping University)

Company 8:  
David Andersson (Träcentrum)  
Florian Köhler (Bachelor Thesis)  
Prof. Anders Melander (Jönköping University)\(^{18}\)

\(^{18}\) Company 8 has only been included in this study to the extent that findings analyzed are solely based on information presented under the header "Company 8" in the empirical findings out of time restrictions. However, the interview holds importance for future research.
4.2.2. Secondary Data

In order to find relevant peer reviewed academic articles, the website WEB OF SCIENCE was used as search engine. Access to it was granted through the university network. A particular focus was put on searches within the Social Science Citation Index (SSCI), though searches that were not adjusted to a certain index were conducted also. Once one or multiple search words were identified, searches would be specified to only consist of articles within the website’s categories of BUSINESS and MANAGEMENT, written in the English language. Further adjustments would then be made by specifying which journals to include in the search. Depending on the different searches, different journals were included. Journals were included in the search if they were listed on the “Top 50 list” (Journal Impact Factor) within BUSINESS or MANAGEMENT, or were significant to the topic due to their specific focus. When searches resulted in few results, further specification of search results was not always conducted as criteria to find relevant articles. Instead, the significance of articles was evaluated by their titles and (if the titles sounded promising) by their abstracts. Some of the search words used are: outsourc*, sale*, sales agent, (vertical) integrat*, make or buy, decision making (process). Articles were also found through cross-referencing, meaning a selected article could lead to other (and sometimes more) relevant readings by referring to those other works.

4.3. Data Analysis Approach

Empirical findings and theory presented in the frame of reference are compared to each other and contextualized with each other in the sense that their characteristics, regardless of confirming or contradicting kind, are presented in the analysis.

4.4. Trustworthiness

4.4.1. Reliability and Validity

According to Bryman and Bell (2007), reliability is concerned with the repeatability of a study, mainly when applying a quantitative approach. Regarding qualitative research with focus on context, the authors raise awareness of authors like Guba and Lincoln who directly address the, in their perspective, misconception of the existence of only one truth regardless of context, which motivates them to create alternative criteria for assessing a study (Bryman & Bell, 2007). My belief is that, if context matters as much as assumed, the replication of previous studies to the degree of 100% should be accepted to be impossible and focus should be shifted towards the possibility to understand each step taken without aiming to reproduce a study in real life but to understand the conducting researcher’s perspective in order to avoid misunderstandings in the interpretation of a study. Therefore I feel free to follow the criteria, as also presented by Bryman and Bell (2007), of LeCompte and Goetz because I believe them to contribute to an easier understanding, while my previous explanations should provide the context necessary to avoiding misunderstandings that would call for the use of other criteria. The criteria followed are external reliability (the replicability of a study), internal reliability (if research team members observe situations in the same way), internal validity (the degree to which empirical findings and theory developed by the researcher connect to each other), and external validity (the possibility to take findings out of their context and generalize them).
External reliability and internal reliability ought to be created through methodology and method presented in this thesis, though, as I do not have any research partners writing on this thesis, internal reliability is only applicable to the extent that internal reliability would need to be assumed to also address perceptions in a replication of this study (i.e., my descriptions about methodology and method enabling other researchers to align their way of perceiving information with mine in order to ensure the perception of situations in the way I perceived them). Internal validity should be achieved through the inductive elements used, though it needs to be acknowledged that time restraints not only impacted the amount of time spent on empirical explorations (i.e., how many interviews were conducted and for how long each interview lasted), but also lead to a more deductive spirit of the study during the latter part of its conduction. This leads to the question in how far my connections to theory (while acknowledging that no own theories have been developed) are valid and relevant, and do not solely serve as self-fulfilling prophecies with the purpose of presenting a complete work before the given deadline. These questions are raised because Bryman and Bell (2007) point to LeCompte and Goetz, who question the interplay between observations and theories developed by the observing researchers, and the impact of time on this connection. I believe there to be space in this thought to include all kinds of results (e.g., hypothesis testing) because time is not restricted to a certain research strategy and lock-in, when continuously working on one specific subject, may distort one’s perception regardless of the context. Due to the deviating findings of this study compared to previous research, external validity in its broadest sense is rejected in the conclusion of this thesis. However, findings are assumed to be true for the national industry at hand, even though not all companies in the industry were interviewed, which leaves space for doubt.

4.4.2. Scope

There are more articles that could have been discussed that do not necessarily focus on the make-or-buy decision of the sales force but the production process, which could have been used to draw parallels between production and sales. Also, a vast amount of research is based on Transaction Cost Theory, which exceeds the scope of this paper but can be consulted for further understanding of mentioned theory. On the other hand, a complete presentation of all theories that could be connected to the subject (e.g., offshoring strategies) is not what this thesis aims for. Many preceding and following layers of intellectual discussion (as partly addressed in the problem statement) are not included in this thesis. It is not the aim of this paper to present a complete answer but to pick up on previous research directly related to the purpose statement while gleaning information about the industry at hand.

4.4.3. Biased Literature Search

I wish to acknowledge that research done with certain expectations seems to always include a hint of “self-fulfilling prophecies” based on the fact that one will find the previous research one is looking for.
4.4.4. Limitations

One shortcoming of this research is that not all interviewees shared information about the compensation of sellers and I did not make sure to understand if the interviewees did not want to share this information or if they simply thought it was obvious and therefore did not elaborate on it. For the discussion of certain elements presented in the theoretical framework, a less anonymous approach would have been necessary to be applied to the empirical findings in order to make use of the information at hand to its fullest. With the choice to emphasize the interviewees’ anonymity it needs to be acknowledged that this is done on the expense of a more detailed analysis.
5. Empirical findings

Here the findings from interviews with 8 companies are presented. First, a short overview is provided, followed by specific company information about each manufacturer and examples discussed during the interviews.

The interviews lasted between ca. 60 and approximately 150 minutes. Most interviews were between 90 and 120 minutes long. Company 1, 3, 4, and 6 were represented by their respective CEOs, while at Company 2 the export manager, at Company 5 the sales manager, and at Company 7 the marketing manager answered questions, while at Company 8 the person holding the position as marketing- and sales manager participated in the interview. Two additional interviews were conducted with the sales manager and with a rep of Company 3. The interviews with Company 5 and the rep of Company 3 were conducted at Jönköping University while the others took place at the respective company headquarters.

5.1. Overview

The size of the companies represented in this study varies widely; whereas some companies sell around 50 houses per year, others sell 400 or more than 400 houses annually. The majority of manufacturers does business with private and commercial customers. Also, many of the interviewees are relatively new in their positions and/or come initially from other industries. Three of the interviewed companies work with more than one brand. Some manufacturers try to connect with different customer segments through diversification. The companies included in this study are selling to private customers either completely or partly through manufacturers’ representatives. The ones that are partly using reps are also using their own direct sales agents. Information about the size of the sales force is not available for every manufacturer, but included for the ones that provided information about it during the interviews.

5.1.1. Company 1

The business of the firm is to sell products to business-to-consumer (B2C) and business-to-business (B2B) customers. For the B2C segment the products consist of assembly kits of complete single-family homes. Different options to choose from are presented in the firm’s houses catalogue and a certain degree of individualization of these offerings is possible. 95% of the houses ordered are at least to some degree individualized and not straight out of the catalogue, which consists of 20 houses. Business in the B2C segment is exclusively conducted through external sales agents (manufacturers’ representatives). The company currently works with about 10 agents of which 4 deliver on a satisfying rate, which lies between 5-10 houses per year. Six of the representatives deliver ca. 1-2 houses annually. Those six sellers are kept until a better solution is found to at least get those 6-12 houses sold instead of not selling them. The B2B offerings contain assembly kits of single-family houses, pairs of semi-detached houses, and non-detached houses sold to residential property developers, but also customized orderings specified by the respective customer (e.g., partition wall elements). Those business relationships are attended to almost exclusively by the CEO himself.

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19 These developers assemble the houses on their property and then sell them to end-users.
The perceived main product of the company is a single-family house that is sold to a private customer who organizes the building process herself (delad entreprenad) or with a certain degree of support (generalentreprenad). In reality, less than 40% of the company's market corresponds to B2C interactions. Rather, 65%-70% of the turnover comes from sales of products to other businesses that build real estate for different purposes (B2B). The interviewee points out that it would be desirable to have a balance between B2C and B2B (“50/50”).

Private house builders are today less interested in building themselves, people want somebody else to do the job, so they can spend their time on other activities and the building process goes faster. Despite the realization that customers seek to let other people do the job, the company is not very interested in offering turnkey-solutions (nyckelfärdiga hus, totalentreprenad) because it binds up much capital and the risk to collaborate with a construction company that delivers low quality or might go bankrupt.

In regard to access of information it is sometimes hard for the company to properly assess situations described by reps. It got quite common that representatives would ask the company to share a discount with them in order to secure a contract with a customer. In such cases the manufacturer would pay 60% of the discount and the agent the remaining 40%. This works for the manufacturer as long as this is the decisive factor for closing the deal when a customer would otherwise have an incentive to sign with a competitor. The challenge here is that representatives are always interested in selling more and low prices are of course better than hire prices to do so, since they do not have any personal stake in the interests of the manufacturer in that sense. The CEO thinks that they are taken advantage of by the reps because he does not believe that his company is always more expensive when comparing prices of offers with comparable quality. The manufacturer tries to move away from financial discounts, but rather upgrade certain elements included in the offer (e.g., to stainless steel elements) without raising the price. About 50% of the agents understand that concept and need not to be reminded of it.

5.1.2. Company 2

The manufacturer mostly sells assembly kits to the prospect house owner. One difference to Company 1 is that houses of Company 2 are only allowed to be assembled by builders recognized and trained by the manufacturer in order to ensure good work. The company offers, similar to Company 1, different house models (in this case more than 30 different ones) in their catalogues. For the Swedish market around 60% of the orders are from the catalogue, the company also offers to create one’s individual house with the help of an architect.

5.1.3. Company 3

Company 3 has around 30 sellers of which two are direct sales agents and the rest are reps. The company’s ratio between B2C and B2B business is balanced (50/50). Their catalogue ought to provide customers with different options to choose from, but it is more common that it is used as source of inspiration for more personalized architectural ideas. The sales manager points out that the company is very production oriented. He also highlights that there is supposed to be a collaboration between seller and production manager during the building process so that both are involved and guide the customer through the process, but reality looks more like that the production manager takes over after the seller sold the house, who then leaves the process.
The CEO believes that a sellers personality is more important than the way she is compensated, but thinks that it would feel better if an employee signed a good deal than if this deal was made by a rep.

5.1.4. Company 4
The firm works with 12 reps and describes innovations within the industry as mainly customer driven. Sellers suggest different options to choose from to different customers, depending on the region and the seller's assumption about what kind of quality the customer is looking for. Sometimes headquarters sets prices too low, which then enables reps to sell a house for a higher price than anticipated and keep the addition money gained for themselves. The CEO thinks that there is nothing to do about it except setting the prices right from the beginning.

5.1.5. Company 5
The manufacturer works almost exclusively with direct sales agents of which they have around 33. However, benefits of reps are recognized and made use of for the exploration/development of new sales territories. Such benefits include the existing networks of manufacturers’ representatives. The sellers are not managing the building process, which is a challenge for the ones that have been in the industry for a long time and are used to working like that.

5.1.6. Company 6
Company 6 works with 18 sellers, which are almost exclusively reps. The CEO states that he would invest in buying land if he had additional money. According to him, customers that already own land on which they want to build have leverage over the manufacturing company.

5.1.7. Company 7
The idea is to work with a certain amount of different versions of houses to choose from where the customer then can choose between additional options to include in the offering (e.g., refrigerators from different price segments). Those additional options include the highest profit margins (this is not only true for Company 7). The company has around 17 house models to choose from and possesses detailed customer information, but the interviewee does not share too much detailed information about it. Construction workers hired to assemble houses for the manufacturer are not employed by the company but the construction companies have long-term contracts with the manufacturer.

5.1.8. Company 8
Company 8 works with 2-3 direct sales agents and 21 reps. 7 manufacturers stand for approximately 30% of the market share. It is pointed out that manufacturers have generally very little control over reps due to their legal independence. Manufacturers can for example not dictate how a rep should decorate his office (a rep inviting prospect customers to his office in the basement might for example not convey the image that is expected to be portrayed by the company). Turning to a franchise-system for manufacturers and house sellers is suggested as solution to this problem. Value is still seen in employing some direct agents because possible issues can be discovered in-house and manufacturers might be less tempted to put unreasonable amounts of responsibility and work onto sellers, but focus on keeping expectations regarding workload on a mutually beneficial level. It is also proposed that customers are looking less for self-realization in the architecture of their house but rather look for a place to live and raise their children.
At the same time younger generations become less keen on meeting sellers for sales meetings but instead appreciate to collect information themselves (e.g., online or at open house events).

5.2. Industry

While the CEOs of Company 3 and Company 5 say that manufacturers get carried away during booming periods and do not prepare for the next downturn, Company 7 criticizes prudent behavior and negative expectations instead of taking advantage of opportunities and describes the industry as being “traditional”. The industry currently finds itself in a phase of boom where finding reliable construction workers and the pace of how fast municipalities sell more land and hand out building permits are the biggest challenges for the industry. One interviewee names currently high demand and too few good students educating themselves within the field as reasons for the shortage of reliable builders. One company actively responds to the issue of having to work with unqualified construction workers by employing another construction system, which requires less work on site. A house manufacturer might be held responsible by customers for mistakes made during assembly, even if no turn-key solution was sold. It seems to be common that sellers recommend certain construction companies to the buyer. Some companies have adopted a policy where the construction companies they collaborate with receive training in the manufacturer’s building system. By law companies are required to provide a 10 year warranty on their assembly kits.

The manufacturers describe a trend going towards offering more turn-key solutions, which they explain by customers being less interested in managing the building process themselves. Some companies focus on selling turn-key solutions, while others have recognized the trend but are not really following it. Some manufacturers think of turn-key solutions as being more risky, more expensive to the customer, and less profitable to the manufacturer, while another values the control over the process that comes with it and having to deal with less reclamations. One interviewee states that the company does not make any profit on selling this service. Yet, he would always suggest to buy a turn-key solution to the customer. At the same time he does not mind if reps sell an alternative to the customer, which would be to involve the seller as project leader in the construction process.

5.3. Reps & Agents

Reps are self-employed but have exclusive contracts with a manufacturer, i.e., they are not allowed to sell houses of other manufacturers. This is true for reps of all companies interviewed, but the degree to which reps can execute other activities varies. For one company reps are only supposed to sell houses and need a specific allowance if they want to work with something else simultaneously, whereas another manufacturer might demand a rep to also act as project leader of the building process, and yet another manufacturer might not mind, but even appreciate, if a rep also owns a construction company and buys assembly kits from the manufacturer to then sell turn-key solutions to the customer. The terminology used in this regard is that occupations, which could create conflicts of interest are not allowed. The question is how each manufacturer defines those conflicts.

All reps are compensated through commission payments. The timespan between selling a house and receiving the corresponding commission payment can be described as averaging at around 12 months.

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20 According to one interviewee a recession within the industry takes place every seven years
Not all interviewees shared information about what this commission is based on, but it seems save to assume that a percentage of the price of the assembly kit is the industry standard. The percentages can be assumed to lie in between 8% and 15%, though, as pointed out already, job responsibilities differ from manufacturer to manufacturer. Two companies pointed out that they were actively working on moving from a turnover-based compensation to profit-based compensation where then selling products with the highest margins could be rewarded.

Whereas Company 4 thinks that new reps have quite malleable personalities, Company 5 is of the opinion that it is completely impossible to steer reps. Some interviewees argue that it would be less risky to work with reps because they do not need to get paid if they do not sell anything. Others think that such reasoning is inapplicable because reps would need to get paid during "bad times" as well because otherwise the manufacturers would not have anybody to sell their houses. Company 1 would like to have reps and agents, the CEO of Company 3 and the CEO of Company 7 (according to marketing manager) would appreciate only agents, while Company 5 actively aims for only working with agents, and Company 6 thinks one needs to decide for either agents or reps in order to avoid conflicts, whereas the marketing manager of Company 7 does not see distinct advantages of either.

The arguments for employing a direct sales force are that more loyalty would be achieved, sellers would feel less pressured to sell (because of their fixed salary) and would therefore focus more on satisfying customer needs. Direct sales agents are compensated through a combination of base-salary and commission. Also, follow-up on sales by sellers is expected to be done more easily because for reps it is assumed that after-purchase relationships are uninteresting as there is nothing more that could be sold to the customer. Further, a "we"/"us" -feeling is created in contrast to a "them and us" -feeling, where a seller who feels connected to the company (presumably a direct agent) is assumed to always present the company appropriately, whereas a rep might put his self-interest first.21

Company 1 believes that it is a challenge to get valid information from representatives and is convinced that they sometimes abuse their information advantage for personal gain.22

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21 Example: a rep might point a customer in the direction of the manufacturer if something goes wrong instead of taking direct responsibility to solve the problem.

Extended example: the manufacturer delivers an assembly kit, which is then assembled by a construction company recommended by the manufacturer’s representative. The construction company does an unsatisfying job and files for bankruptcy. The customer then complains and the bad quality to the manufacturer but the rep denies that s/he had recommended the construction company. Such then only reflects badly on the manufacturer even though the company did not have any doing in it.

22 In regard to access of information it is sometimes hard for the company to properly assess situations described by reps. It got quite common that representatives would ask the company to share a discount with them in order to secure a contract with a customer. In such cases the manufacturer would pay 60% of the discount and the agent the remaining 40%. This works for the manufacturer as long as this is the decisive factor for closing the deal when a customer would otherwise have an incentive to sign with a competitor. The challenge here is that representatives are always interested in selling more and low prices are of course better than hire prices to do so, since they do not have any personal stake in the interests of the manufacturer in that sense. The CEO thinks that they are taken advantage of by the reps because he does not think that his company is always more expensive when comparing prices of offers with comparable quality. The manufacturer tries to move away from financial discounts, but rather upgrade certain elements included in the offer (e.g., to stainless steel elements) without raising the price. About 50% of the agents understand that concept and need not to be reminded of it.
Company 4 and Company 7 do not have any issues with working with reps, while Company 6 describes a trade-off between competitiveness (reps) and feeling “too comfortable” to go the extra mile (direct agents) but points out that reps have a personal interest in sharing information about customers with the manufacturer in order to improve marketing performances.

Company 5 is of the opinion that it is completely impossible to steer reps and that they are exclusively concerned about their personal financial gain. Financial infeasibility is named as number one reason for why some companies do not use a direct sales force.

Company 3 gets many applications from reps of other manufacturers when looking for new sellers but actually wants to work with people coming from other industries, whereas Company 4 is only interested in sellers with a background within the industry and finds it hard to contract new sellers. In this case the job descriptions for sellers include different tasks for the two companies. At Company 3 the sellers are not project managers, whereas at Company 4 sellers are also involved in managing the construction process.

5.4. Sales

The sales process looks more or less similar for all manufacturers. Contact is initiated by a prospect customer showing interest through contacting the manufacturer in some way. The standard seems to be to fill out a form online on the manufacturer’s website. The manufacturer might then send the prospect information material and inform the seller in the respective sales territory about a new lead, who will then contact the prospect. Company 6 has initial contact with the prospect customer via a telephone conversation from its headquarters. All customers are met face-to-face where sellers provide guidance and gather information about the customer (e.g., budget size).

Company 1 and Company 3 point out that it is important to them that sellers sell a certain amount of houses per year. The sales manager of Company 3 points out that if too few houses are sold, it is hard for the seller to stay updated. For that reason some sellers are let go if their performance does not meet the manufacturer’s expectations, even though they do not generate additional costs. Company 4 points out that having more sellers, and with that more selling (here it is assumed that more sellers lead to more selling), creates higher administrative costs that might exceed the company’s capacity. Company 3 and Company 4 mentioned that their sellers do not have access to all information necessary to close deals and need to get in touch with company headquarters in order to retrieve mentioned information. Company 4 is working on providing a system that will allow sellers to work more independently and Company 3 describes how it is easier for direct agents to access information needed because of their inclusion in the company.

Companies are not well positioned in the sense that it is not clear what the differences between competitors are. In the eyes of the sales manager of Company 3, it is their responsibility to show the customer how they set themselves apart and that it is an indicator for doing a bad job if they lose customers to competitors that the manufacturer does not perceive as a direct competitor. The company needs to make sure the sellers have all information needed to portray the company appropriately. It is mentioned that sometimes decisions might be made at headquarters but will not be shared with sellers. Company 3 has defined its expectations towards the seller quite precisely but has trouble creating the foundation for those expectations, for example providing appropriate training for sellers and following up on the expectation the company communicates to them.
The majority of sales forces of the interviewed companies consist of male sellers. All the people interviewed were male as well. Different interviewees argue that this is historically influenced because the construction industry is/used to be an industry dominated by men.

As reason for why many sellers are also involved in the construction process, the CEO of Company 3 hypothesizes that sellers used to be, before the introduction of prefab manufacturing, independent business men that sold houses to customers and were, because of that, involved in the process. The sales manager of Company 3 is of the opinion that women do a better job than men most of the time and does not appreciate that also at his company the sales force consists of almost exclusively men. Company 1 assumes that previous crises made manufacturers more prudent when deciding whether to employ somebody or not, which then lead to the outsourcing of the sales force in order to shift the risk to the manufacturers’ representatives instead of having to bear the costs of employment and the risks connected to it themselves.

Company 1 is very eager to point out that customer satisfaction and the customer feeling safe are very important elements and other interviewees also underline the importance of "feeling safe" when making the probably biggest investment in one's life. Word of mouth seems to be understood as a very important marketing tool within the industry, supported by statements of many interviewees. Customer satisfaction is important in that regard and is addressed by several manufacturers making quality checks on the houses they build before the official quality check done by an independent entity. This way the companies have a higher chance to get everything right before the independent quality check.

According to two interviewees, companies are more willing to individualize to a greater extent, the lower overall demand is. During times of high demand, manufacturers would be more reluctant to accept requests of a higher degree of individualization if other orders complying with their standardized procedures are also available.

Some interviewees mentioned that prices for their products and services differ from region to region. However, according to Company 4, it can happen that the building process might be more expensive than what the house will be worth later on because of a disadvantageous location.
6. Analysis

How to look at organizing the sales function

The first question that comes to mind when looking at vertical integration and outsourcing is the one of how to define whether a certain element should be viewed as a core competence that contributes to the legitimization of the existence of the firm, or as an element not as important to such drastic extent. This means to identify if an element should be looked at as initially part of a company, which then allows a discussion about whether or not to outsource said element, or if it would be interpreted as initially external to the company’s value proposition, which in turn would allow for a discussion about whether or not to vertically integrate it. One could argue that backward integration does not restrict itself to the question of whether or not to own a sawmill and forest as manufacturer of prefab wooden houses, but also include in how far employing architects contributes to the core business of a manufacturer. Illustrated by this example, depending on how a company defines itself, value systems might appear to be rather different from each other. To not focus on this philosophical discussion for too long, let us look at it from the perspective of discussing different possibilities to structure the sales function (i.e., taking a step back), where vertical integration and outsourcing then become options of such possibilities. This is not always assumed, as will become clear in the following paragraph.

Applied sales force structures

As suggested by transaction cost theory, contracting manufacturers’ representatives seems to be the default choice for manufacturers in the industry at hand. However, the reasoning employed by transaction cost theory does not really become clear during the interviews. It seems rather like reps are worked with because this decision had been made before the interviewees became responsible for it, or an active choice is made to employ direct sales agents. This choice would still be based on the initial situation of working with reps and the decision to start working with direct agents; either completely or to a certain extent instead of keeping a homogenous group of reps. From this perspective (i.e., the sales process is treated as external element to a company’s value chain), forward integration is made use of by Company 2, 3, 5, 6, and 7. Although none of these companies work 100% exclusively with an integrated sales force, vertical integration is applied to different extent. The results are hybrid-structures, which vary by the ratio between representatives and direct agents and the tasks included in the job descriptions. Where Company 3 and Company 6 have a rather rep-heavy ratio with the minority of its sellers being employees of the company, Company 5 has an agent-heavy ratio, working almost exclusively with direct sales agents. For companies that expect reps to take responsibility of the building process (e.g., Company 4), one could argue that the project management function is outsourced, whereas companies that assign the selling and project management tasks to different positions might further vertically integrate if the project management function is attended to by a manufacturer’s employee. Another way to interpret hybrid-structures would be to look at what the factual operational differences between agents and reps are in daily business. The effort of Company 4 to make it easier for sellers to access relevant information can be understood as a way of blurring the lines between external and internal environment, because the reps get access to information that was originally only accessible by employees.
One can also argue that such lines are already blurred, at least from a customer perspective, because reps represent only one manufacturer and appear as “official” representative of the manufacturer, and not as the independent entity it is (i.e., a rep does not appear as the independent intermediary between customer and manufacturer which he is from a legal perspective). Quasi-vertical integration would be made use of if reps hire additional sellers that behave accordingly to the established contract between manufacturer and rep. Such was not mentioned during interviews.

The outsourcing trap

The question of whether or not some manufacturers fall victim to the “outsourcing trap” cannot be answered, but it can be hypothesized that the possibility exists for the companies that argue for outsourcing based on costs. None of the interviewed companies, however, apply such reasoning in a direct way. Company 1 and Company 4, who name financial infeasibility as reason for why they do not have direct sales forces, may name costs as a justifying factor, but rather from a perspective that the choice of employing a direct sales force does not exist instead of making an active decision to exclusively work with reps because of the initial lower cost involved. Incurring costs through working with reps instead of exclusively employing direct sellers seems to be also possible from a theoretical perspective even though manufacturers might work with direct sales agents simultaneously. However, as working with reps does not seem to have been an active choice made by any of the interviewees, understanding the rationale behind this decision is not possible by consulting the information at hand.

Even though Anderson and Parker (2002) talk about the outsourcing trap in regard to production, this finding might very well be applicable to the question of organizing the sales function discussed in this paper, based on the assumption that reduced customer satisfaction caused by external agents is harmful for the wellbeing of a company. A company might also be paralyzed by the outsourcing trap because it has less reason to act efficiently because its costs are lower due to an outsourced sales force, which in turn might create lower turnover because of lower customer satisfaction. The argument stated by Company 8 follows this line of thought, where detaching oneself (the manufacturer) from the sales function would lead to unfavorable outcomes because of the increased distance between manufacturer and sales function. Here factual costs generated through having to pay salaries are not the same as opportunity costs. Taken together, less capital might be available to vertically integrate if wanted to. In the same spirit of argumentation it might also be possible to assume that partial integration might be superior to complete integration and complete outsourcing since Anderson and Parker (2002) suggest that for production activities. This is also what Company 8 suggests in order to avoid described developments. Such could make sense specifically for different geographic areas, where the cost of vertical integration would enormously exceed the benefit of extended control over the sales force (e.g., low-sales territory), or as a transition phase during vertical integration; such strategy could spread total cost over an extended period of time and lower the amount of capital necessary to start the integration process.

23 See page 14.
Individualization

Prefab manufacturers are understood to operate in a horizontally differentiated market. This is especially apparent when thinking of the companies that allow for architectural changes or offer the production of completely individualized homes. Needs of and requests made by individuals are attended to in a segment that is usually not well known by customers as it is not common to buy houses on a regular basis. When taking a step back to look at the overall industry, one might come to the opposite conclusion because a single-family house is always a single-family house and has very similar general properties (i.e., it consists of exterior walls and a roof). Because this generalization is so broad, one might want to step closer again in order to see the differences. That none of the interviewed companies offers to buy a house without any personal face-to-face contact should be an indicator for the relevance of physical sales people in the industry. These take individual circumstances into account and guide the customer towards a feasible solution. Such guidance may involve the identification of how big the financial investment can be, or to start making suggestions for the quality standard the seller assumes to be relevant to the customer.

On the other hand, as suggested by Company 8, there might be a trend going in the opposite direction with focus on individualization of the sales process from a customer perspective, instead of offering individualized solutions to each customer, which means that younger generations might be more likely to emancipate themselves from sellers and gather information about the process themselves.

Customer Satisfaction and Brand Image

Multiple companies have underlined the importance of customer satisfaction and word-of-mouth marketing. However, much information shared about reps involved negative elements and a focus on low trustworthiness and short-term orientation. From that perspective it seems like one should not assume that reps focus on long-term reputation. The concept of word-of-mouth does not seem to be taken into consideration too much since future purchases are not necessarily expected from previous customers anyway. An explanation for such behavior could be that reps see themselves detached from the business and therefore not included in the judgement made by the customer. This could be a reason for why reps do not seem to worry about customers exchanging information with each other. The thought could be supported by the fact that manufacturers are commonly blamed to problems during the process, even if they are not responsible to the occurrence of these issues and reps point dissatisfied customers in the direction of the manufacturing company instead of trying to solve the problem.

Opposing opinions

Despite the argument of some authors that employing a direct sales force instead of working with reps is the default choice in “real life”, this is not true for the group of manufacturers involved in this study. The proposed reasoning that more control would lead to integration and is of major importance to the business’s operations is only supported by Company 1 and Company 5, with Company 5 being the only firm currently actively implementing the consequences of such reasoning. Company 1 does not possess the financial resources to follow the reasoning actively to its fullest, but shows ambition to do so to the degree perceived possible, while Company 4 states its financial restrictions as reasoning to not follow that thought at all. Other companies who also employ direct agents are not described as much invested into this line of reasoning by the representing interviewees.
While theory describes low-sales territories and entering new markets as motivational factor for outsourcing, Company 2 employs opposite reasoning where sellers manage to stay employed by the company in low-sales territories if they wish to do so. To the contrary, Company 5 is following the strategy suggested by theory for developing sales in new markets.

Asymmetric distribution of information and differing motivations
Company 1 and Company 5 confirm Anderson and Weitz’s (1986) statement that reps behave opportunistically. The example given by Company 1 where reps manage to lower prices in order to make it easier for them to sell is an example of where manufacturers are unable to control if the situation described by the seller corresponds entirely to reality. Information asymmetry with disadvantage for the manufacturer can also be found in the example given by Company 4 where reps manage to sell houses for higher prices than anticipated by the manufacturer. Both cases leave the company with costs, resulting in benefits for the representatives (less effort in the example of Company 1 and higher profit in the example of Company 4). But asymmetric distribution of information also works from the opposite direction, for example when Company 3 decides on changes but does not share this information with sellers who will then not be able to act accordingly.

Company 5 argues that reps are solely driven by their own incentive to earn money (dependent on output), for which reason it is not possible to steer them in any way because motivational factors to do so are missing. The control that an employer has over its employees focuses not solely on monetary incentives and output measures, instead it is more feasible to control input-output ratios of employees. How the difference between reps and agents manifests itself in reality when trying to compare input and output measures is a question unanswered.

In order to reduce opportunistic behavior, broader and more subtle compensation is recommended by literature, yet, Company 7 aims to employ a more profit-based compensation. However, the success-rates of either have not been compared, yet. Relevant to mention here is that Company 7 does not perceive any challenges concerning the behavior of its reps.

Using organizational culture as a mean to align sellers’ and manufacturers’ interests is a tool widely acknowledged by interviewees. Even though Company 4 does not work with employed sales personnel, the CEO points out that it is much easier to “shape” new sellers than it is to change perceptions of experienced ones. Many other interviewees, partly even ones that are not very interested in vertical integration, point out that a “we”-mentality instead of a “them and us” thinking between sellers and manufacturers would be appreciable. The CEO of Company 3 also shares his personal opinion when saying that it would “feel better” if a good deal was made by an employee instead of by an external seller. Reduction of bureaucracy can be seen in an environment of “togetherness” when comparing the access to information of direct sales agents and reps at Company 3.

24 Regarding situations described by sellers and perceived differently by manufacturers, one might wonder in how far different perceptions play a role where reps actually believe what they describe to the manufacturer or in how far the description of reality is “adjusted” to achieve collaboration from the manufacturer.
Contracting reps and market pressure

As building styles and offers differ from manufacturer to manufacturer, it is possible to argue that company specific knowledge is quite necessary for the sales process. Anderson and Weitz (1986) argue that less competitive markets can arise when it is hard to find representatives with knowledge about the company when such knowledge is needed, yet, Company 4 struggles to find representatives knowledgeable about the industry, while Company 3 receives many application from reps with industry specific knowledge but is actually interested in working with people from other industries. This shows that strategies differ drastically from manufacturer to manufacturer and that this particular proposition made by previous research might not necessarily be applicable to the industry discussed in this thesis. It should be noted that the struggle of Company 4 and the excessive interest in Company 3 can very well be related to the attractiveness of the respective manufacturer where then the factors that set both companies apart should be discussed. Whereas an entry barrier for reps interested in working for Company 4 can be the lack of industry-specific knowledge, a more generally applicable barrier to entry is the time it takes from selling the first house as a rep to receiving the corresponding commission payment. This challenge is acknowledged by manufacturers in different ways. Whereas Company 2 offers employment as direct sales agent in the beginning and incentivizes the switch to a 100% commission based contract once the seller established operations, other companies allow reps to invoice them monthly as some kind of substitution for receiving salary. Company 4 shared an example where the owner of a construction company switched occupations stepwise, i.e., working less with constructions and continuously more with selling.

While environmental uncertainty serves as reason for vertical integration in theory, manufacturers use the reasoning that it is too risky to pay salaries during economic downturns for justifying their choices to use reps instead of direct agents. It seems like demands on sellers made by manufacturers are not high enough to really understand how much competition is going on in the markets; it certainly does not appear as reps are under more pressure to satisfy manufacturers’ demands than to sell houses for their own financial benefit. On the other hand, that efficiency improvements might be possible through vertical integration does not seem to be understood/highly valued by all manufacturers either, which supports the notion that the competitiveness between reps might not be sufficiently analyzed, if at all.

Manufacturers’ rationale

Companies seem to argue on a rational level when justifying why external sales forces are used, yet, no measurable statistics are presented to back up a rationale that seems to be based on hands-on experience and gut feelings. No proof is provided that outsourcing leads to more cost effective operations. The companies following an outsourcing strategy seem to think of it as the obvious choice with no need to spend further time questioning it. Low direct costs are stated as main reason for how costs can be saved, which corresponds to suggestions made by previous research. Company 6 points out a trade-off between “too competitive” reps and “too comfortable” agents which can both be bad for business. Support in research can be found for the possibility that direct agents might be less efficient because incentives to work even harder might not be in place, or at least not as obvious as they are for reps who are pressured to always perform because non-performance will lead to personal financial crises.
Geographical distance
Sales territories are defined, which seems to be mainly justified by physical distances between cities in Sweden. The concept of creating personal responsibility (ownership) for a certain region is generally applicable, but I also do not see any possibility how one single seller could serve multiple geographically dispersed markets at the same time, especially because physical meetings are of the essence for most interactions with customers.

Brand orientation
As manufacturers distribute much importance to word-of-mouth marketing, one should be able to assume that much attention is paid to accurate representation of their brands as suggested by Rapp’s (2009) theory of brand orientation. Even though reps appear as direct representatives of respective manufacturers, which relativizes Rapp’s (2009) theory, at least some actions to ensure accurate representation could be assumed to be taken, but are not mentioned by interviewees. Company 3 even points out that measures of control are missing and expectations might not always be communicated by the manufacturer accurately, if at all. It is unclear how much companies actually worry about it. To Company 1 the issue seems to be very relevant and connected to the wish to work with a direct sales force. Other manufacturers may be aware of the challenges of inaccurate representation, but actions to address the issue are not mentioned to be of highest priority, while others are also simply satisfied with the work done.25

Competitor orientation
None of the interviewed manufacturers seem to be competitor oriented, even though some seem to have a very good idea about the market situation. Since reps are only working for one manufacturer, withholding information from manufacturers because they would also be serving other manufacturers is not an issue. But motivation to withhold information can be found for other reasons; not because of conflicts of interests between different customers of a rep but because of conflicts of interest between the rep and the manufacturer. This can be the case if a rep has the possibility to increase his profits by withholding information from the manufacturer (compare to examples provided by Company 1 and Company 4).

Customer orientation
Many interviewees point out the importance of customer satisfaction, but not all of them see a direct connection between customer satisfaction and using a direct sales force. Rapp (2009) argues that a customer oriented company would work with direct sales agents. Some interviewees do not think of it in that way because they do not agree that using reps is necessarily a bad strategy to achieve customer satisfaction. On the other hand the fact that even direct agents would be dispersed throughout the country might relativize strict differentiation strategies between reps and direct agents. For the CEO of Company 3 it is more important what kind of personality each individual has that sells houses for him than how these individuals are compensated because they will be selling by themselves with little control through the manufacturer due to the already mentioned physical distance between headquarters and sales offices.

25 This could be the case because interviewees only recently started working at their positions and that actions ought to be taken in the near future.
Learning orientation
From a learning perspective reps can also be understood to be competitors when not sharing information about changing market situations with the manufacturer for reasons of personal gain as in the case with Company 4 where reps might sell houses for higher prices and keep the additional profit when market situations allow for it instead of sharing this information with the manufacturer so prices can be adjusted. According to Company 6, learning can take place when sellers share customer information with manufacturers for marketing reasons. Such happens because sellers also benefit from improved marketing. Less attention is paid to key customers and the behavior of competing manufacturers as initially suggested by Ross (2009).

Production orientation
The sales manager of Company 3 mentions that the manufacturer is very production oriented. This seems to be applicable to the majority of participants in the industry and is supported by Company 7 describing the industry as “traditional”. When comparing the reasoning applied by interviewees and as already analyzed, focus seems to lie on low costs achieved through outsourcing sales, with no particular interest being expressed regarding what implications come with the application of this strategy (e.g., how or if customer satisfaction is affected in any way).

Selling orientation
The idea that more can be sold if customer satisfaction is not paid attention to, is mirrored in the problem that manufacturers have trouble motivating reps to follow-up on previous customers. This connects to the discussion about if reps are short-term oriented. Even though deals are most likely to be one-time investments, customer satisfaction is described to be paramount, as word-of-mouth reputation plays a big role in company choice. Company 7 follows up on sales but much focus of how customer satisfaction is achieved in real life was not a central element during the interviews.

Technological orientation
Technological innovation is not focused on within the Swedish prefab wooden house industry, but legal standards are met. Also, if it was part of a manufacturer’s core competencies, it is questionable if the sales force could be increased in a relatively short period of time because company specific knowledge would be necessary and administrative operations at the manufacturer would most likely need to increase with an increasing size of the sales force as argued by Company 4.

Market turbulence
Rapp (2009) proposes that more market turbulences would decrease the likelihood of outsourcing. For the Swedish prefab wooden house industry the exact opposite seems to be true since the main argument for why external sellers are used is that they do not need to get paid when they do not sell anything, which is most likely during an economic downturn. Due to geographical distance, sellers are already equipped with much autonomy, simply because it is not possible to have too much control over somebody in another place. This is therefore true for direct sales agents as well as for manufacturers’ representatives.

Sales are currently relatively high and environmental uncertainty exists. Yet, no clear lines can be identified between the interviewed manufacturers so that their choices of structuring the sales function would align neatly with theory presented.
7. Conclusion

Theory partly supports empirical findings, and other times comes to completely contradicting conclusions. Collecting information about the industry at hand and some of its actors allows to conclude that the rationale of decision-makers appears to be not one but many, with high dependency on personal opinions about how the world works and which elements to regard as important.

Some manufacturers seem to think that it is possible to contract representatives that display the desired characteristics towards the customer, as long as the right balance between incentives and control can be found, which strongly correlates with agency theory. In such a scenario a sales agent would not be an in-house employee of the manufacturer but still represent the company to the outside world while holding a commission-based contract with the manufacturer via his personal sales company. This is, as we saw, rather common. The question arises what the factual differences between reps and direct agents are that translate into different behaviors and, more importantly, outcomes. The expectations of manufacturers regarding such are clearly manifold; justified by different arguments that are not easily testable. Different opinions and interpretations of the world are not the deviation from the rule but rather the norm, leading to diametrical strategies of how to structure the sales function.

While some interviewees appear rational in their argumentation by pointing to lower costs connected to reps, not one presents financial analyses on how the structure of the sales organization influences the company's finances, let alone studies of the influence on brand image through inaccurate brand representation. The cost saving argument seems therefore to be based on "common sense" in line with the thought that spending less money leaves you with more money than spending more money. It is unclear if surrounding influences are taken into consideration, but it seems like the main focus lies on the actual money saved by not hiring an employee, with no focus on what other implications might be connected to this decision.

That most interviewees do not point out how little control they actually have over reps underlines the production oriented approach applied in the industry, where how the office of a rep looks does not seem to matter and is therefore not seen as an issue. Interestingly, even the ones that would, if they could choose, only employ direct agents work to a certain extent with reps and provide varying motivations to why that is the case. The clear finding of this study goes back to where we started, namely that decision-makers in this dispersed industry use different rationale for making similar decisions with no clear line to be recognized.
8. Discussion

One reason for why some findings point into very different directions than proposed by Rapp (2009) could be his assumption that reps sell products of many different manufacturers, which is not the case for players in the industry at hand. This, however, should not be seen as a negative element of this research but rather as a finding underlining the importance of acknowledging differences between industries instead of assuming general overall applicability. More attention should be paid to the assumption that companies would be less likely to be represented by sales people not associated with the firm, because there are sales forces connected to Swedish house manufacturers whose contracts are based entirely on commissions, yet appear to belong directly to a manufacturer when interacting with customers.

The very foundational spirit of this thesis creates a starting point for further and more specific research within sales of prefabricated wooden houses. Clearly, proof is needed for what sales strategy is most beneficial to be applied in the industry if improvements ought to take place. Future research could address how to measure the success of different sales strategies, which determinants influence the attractiveness of manufacturers as contract partners for reps, the successfulness of different compensation strategies (e.g., revenue-based vs. profit-based commission payments), and analyzing the actual differences between direct agents as reps, as well as exploring if and how other incentives could be used to decrease principal-agent problems. The question here is what appears to be relevant for practitioners, as not much seemed to have happened within the industry over the past years, yet a change of spirit seems to take place in the very moment. That manufacturers were interested in taking part in this study and sharing their ideas of how to improve operations is the best sign for it. Future research might also want to make use of open case studies in order to address one of the limitations of this study where anonymity restricted the use of information. What companies do to achieve customer satisfaction is another question unanswered that could be addressed in future research. The transaction cost approach addresses the product life cycle as having influence on the make-or-buy decision (see p. 17). It needs to be discussed in how far the product life cycle is applicable to houses as products. Sales strategies and sales concepts as overall themes should be addressed in future research to make use of presented findings and to create further insight into the industry.

I took the first step into the direction of understanding the context in which decisions are made and the rationale applied by decision makers in the Swedish wooden house industry. This creates the foundation for more specific research to take place as argued in the problem statement.
References


Trä- och Möbelföretagen b. (n.d.). *TMF - an employers' organization*. Retrieved April 18, 2016, from http://www.tmf.se/english_1/about_tmf_1/bac827c5-6acf-4464-8b06-9c11ac7a20de_1


Appendix

Interview Questions

*Examples of questions that have been asked during interviews.*

**How do you sell houses?**
Hur säljer ni hus? Kan du beskriva försäljningsprocessen?

**How does the company set itself apart from the competition?**
Hur urskiljer sig företaget från sina konkurrenter?

**To how many customers do you sell more than one house?**
Till hur många kunder säljer ni mer än ett hus?

**How important is word-of-mouth for you from a marketing and selling perspective?**
Hur viktigt är hörsägen för er i ett marknadsföring- och säljperspektiv?

**What innovations take place in the industry? What innovations are you working on?**
Vilka innovationer är speciella för den här industrin och vilka innovationer jobbar ni på just nu?

**SALES**

**How did you decide to sell through reps or direct sales people and why?**
Hur bestämde ni vilken försäljningsprocess ni skulle använda?

**Who can represent the company better to the customer, a rep or a in-house seller?**
Vem tycker du är bäst på att representera företaget inför kunder, reps eller in-house sellers?

**Which way of selling do you think has a more positive impact on customer satisfaction?**
Vilken försäljningsprocess är mest positiv för kundbelätenhet?

**Can you describe the company's relationship to the sales agents?**
Beskriv er relation till era säljare.

**Can you think of examples where it is hard to align interests between manufacturer and sales person?**
Ge några exempel på när försäljningsagenter och tillverkare har haft olika intressen?

**How are sales agents compensated?**
Hur är säljare kompenserade?

**What are the advantages and disadvantages of having an outsourced or in-house sales force?**
Vad är för- och nackdelarna med att outsourca försäljning, kontra ha en in-house arbetskraft?

Är det några skillnader mellan försäljningsprocessen av fritidshus och småhus?
INFORMATION
What challenges could arise when wanting to access information (info about competitors/sales/market) a sales agent has?
Vilka utmaningar kan finnas om man vill ha information som säljare besitter (till exempel om konkurrenter/försäljning/marknaden)?

How difficult is it for you to access such information?
Hur svårt är det för er att få tillgång till information som endast säljare besitter?

Do you think agents could withhold any kind of information (rep/direct)?
Tror du att det finns säljare som hemlighåller information? Varför skulle de vilja göra det?

Do you see differences in accessibility of information when comparing the presence of an in-house sales force to reps?
Finns det några skillnader när det gäller tillgänglighet av information mellan in-house sales agents och reps?

ADAPTATIONS
Do you see any way in which adaptations to the initial offering to the customer could support having an internal sales force?
Kan det vara bra att ha sales in-house när det handlar om att anpassa produkten till kundens föreställningar?

When would adaptations be complicated to be made by reps?
Kan det vara svårt för reps att anpassa erbjudandet? Hur då?

How much freedom to make adjustments to the offer do sales people have?
Vilka friheter har säljare när det gäller att anpassa/göra ändringar till erbjudandet?

GENERAL
What is the most common way of pre-manufacturing?
Vilka processer är vanligast när man producerar monteringsfärdiga hus?

How long does it usually take to accompany a customer through the process (pre-prod., prod., post-prod.)?
Hur lång tid tar det att följa en kund genom försäljningsprocessen (från beslutet att de ville bygga till de flyttar in)?

How does the "connection" with the customer influences the process?
Hur påverkar relationen med kunden hela processen?

Is the company exclusively producing for the Swedish market?
Jobbar ni bara i Sverige eller också utomlands?

What challenges does the industry face right now and what challenges do you see emerging in the near future?
Vilka utmaningar finns i industrin just nu och vilka utmaningar tror du kommer finnas i en nära framtid?

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