

Cut in the middleman

Distributor can be vital to local firms looking to successfully establish customer base in foreign markets

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Any company moving into international markets faces countless tough questions in choosing the best route for the company and its products. But making the right choice can help you and your company avoid costly mistakes.

Overseas markets are complicated environments due to unfamiliar regulations, language, currencies and cultural preferences. Identifying the right partner or partners for your company can be a tremendous challenge. You must start with clearly defined targets and parameters and

include a robust set of guidelines on how you can identify the right partner for each of your export markets.

In preparing to enter a new export market, a company basically has four choices for reaching its customers: acquisitions/investment; partnerships/joint ventures; direct exports; and indirect exports. The most common route to market (and the one I that is my overwhelming preference) is indirect exporting, typically by using the services of an intermediary — either a distributor or an agent.

Agent or distributor?

Once you've decided to use an intermediary, the next choice is whether to hire an agent, commonly called a sales representative, or a distributor. As with many choices in exporting, the answer depends on your company's mid- to long-term expectations and what your company hopes to achieve from entering new markets.

For example, using an agent would allow you to retain control of your brand image and its selling price. Depending on their personal relationships, an agent can get you into accounts not available to distributors. That's because some accounts will only purchase from known agents and have a policy to avoid the extra costs associated with local distribution.

On the down side, an agent would have limited in-market resources, no inventory, and little sales support. And, you'd still have those marketing costs! In short, you carry all the risk, including relying on an individual agent.

Distributors, on the other hand, specialize in markets where they may represent several complementary products. Typically, they require higher margins than agents but they do take on greater responsibilities. So the trade-off is often beneficial. Another difference is that a distributor buys your product and deals with the import process — in exchange for margin, of course.

On the upside, a distributor shares in the marketing and promotion of your products and provides warehousing, logistics and after-sales support. Depending on your relationship with your distributor, you'd probably have less contact with the end client, while the distributor would have substantial control on product pricing.

Identifying distributors

Good distributors are hard to find and handing over your brand image can be difficult. Distributors consume management time and resources, and you will be relying on your distributor's resources to set the pace of in-market development. You also need to rely on this outside source for market information, trends, competitor news and your contact with end clients. Your control on pricing is greatly reduced and your products will be selling at higher prices.

Here are some areas you should focus on:

- Not too big; not too small: I like to match a U.S. vendor with an overseas distributor of suitable size. This typically means at least 10 percent of the distributors' revenue comes from your

company. Much less and you are not that important to the distributor. If your company provides more than 25 percent of the distributor's revenue, I'd be concerned that they rely on you too much. This is an important litmus test. It is healthy for your distributor to represent other complementary products — it makes them a stronger supplier to your potential in-country customer base.

- Targeted searches: Effective use of the Internet will provide you with a great start in narrowing down the list of potential distributors. Remember that search engines are geolocation sensitive and that your searches will be prioritized according to your local market. If using Google, for example, use the target market's search engine to optimize your search, e.g. google.co.uk for a U.K. distributor. Similarly, when using key words make sure you use local language key words to identify local distributors.

Any worthwhile distributor will have invested in its website, so this provides a good first clue as to its suitability. Be warned, however, appearances are often deceptive and one could so easily be fooled by a striking, polished website. The value of insider knowledge cannot be overemphasized, so use caution if relying on the Internet alone in supporting your channel partner search.

(I was once asked to comment on two distributors for a U.S. software company. Within seconds, my suspicions were aroused. I'd found that the company's U.K. distributor was located in a poor residential part of London, and its French distributor was on the Cote D'azur — a very long way from the French final markets in Paris.)

- In-market resources: Don't hesitate to investigate who the competitors are and — most importantly — find out which distributors they are using. This could help you determine which routes to market they favor. Often the best local distributor is one that has worked with a competitor in the past.

Consider approaching in-market suppliers and existing clients to help find your prospective distributor. Suppliers are usually happy to share information and even provide recommendations about in-market distributors.

Most industries have trade associations in their home country and have an equivalent association in most other modern economies. Contact your industry's trade associations directly as they often have lists of domestic distributors.

While no one doubts the benefits of doing business online, there will always be a place for trade shows and those critical face-to-face meetings. Because distributors rarely have booths at trade shows, the challenge is identifying and connecting with them at the shows. The most proactive, energetic and motivated distributors are typically the ones walking at trade shows but I always think the best distributors are the ones that I need to chase.

There are other things you can do to attract the good distributors. For example, your website needs to be visible in the target export market. If you are targeting distributors in a specific market, state it clearly on your website — make it easy for them to get in touch with you.

Also, distributors tend to look for companies with high-demand/high-margin products. Your website should showcase your innovations; highlight your success stories and feature new product launches. Distributors will need reassurances that you are aware of the complexities of doing

business internationally and that you are poised and ready for exporting, including an understanding of pricing in other currencies.

There is no substitute to seeing for yourself what an overseas distributor is all about and using the motto "believe nothing of what you hear and only 50 percent of what you see."

- Do your due diligence: So, you've narrowed down your list of potential distributors and you are under pressure to make that selection! Do your homework -- this is the serious bit!

Here's where you need to pay attention:

- Financials: In many countries, all registered companies are obliged to publish minimum financial data. You should seek out data on their revenue, number of employees, any ongoing legal disputes and generally get a sense of the distributors' ability to support your goals. Credit agencies can also provide information on company finances.

- Sales and territory: The size of the distributor's sales force should be considered in relation to your exporting requirements, products and market. For example, how many field salespeople do they have and how are they compensated? As an organization, what are their short- and long-range expansion plans, if any? Would they need to expand to accommodate your account properly? If so, would they be willing to do this?

- Customers: You can learn much by examining the customer base belonging to a prospective distributor and determining if it is compatible with your product line. Try to establish who those key accounts are and what percentage of the total gross receipts these key accounts represent.

- Facilities: In terms of facilities and equipment, do they have adequate warehousing and what is the method of stock control? If your product requires servicing, are they equipped and qualified to do this? If not, would they be willing to acquire the necessary equipment and arrange for any training, and to what extent would you have to share the training cost?

- Marketing: There are many ways a distributor can assist you in terms of your promotional requirements. For example, if you need to compile market research information for forecasting, can this distributor help? What type of media is used to promote sales? How much of the marketing budget is allocated to advertising and how is it distributed among various principals?

- Performance indicators: Once you have chosen your distributor, it's time to draw up the contract setting out mutual expectations. The right contract is vital in protecting your downside, but also to ensure the upside.

There really is no substitute for setting clear, realistic performance criteria agreed upon by both you and the distributor. Annual, quarterly and monthly reports can cover key performance indicators such as sales, competitor activity, new products and market trends. Falling short of sales targets can trigger performance reviews and/or the right to terminate the relationship.

Distributor support

Building an indirect sales channel is not easy. I expect you will have distributors that underperform and others that hit the sales quotas you set them. The vital thing to remember is that this is a two-way operation and you need to help your chosen distributors to succeed. The relationships must be strong on a personal level. Distributors overseas may want to socialize with you, they may want to meet your family and to have a friendship outside of work -- these are all good things and they build a barrier to entry for some of your competitors. The friendship will also protect you (somewhat) from some of the inevitable mistakes you will make.

I go out of my way to build a strong relationship with any distributor I work with because they are often the best source of competitive information, market rumors, product feedback and they can connect you to the media, trade associations and other useful resources.

Supporting your distributors should be very high on your priority list and this includes items outside of the normal and expected tools (price incentives, trade show support, marketing materials, etc). You need to give them a constant stream of new and exciting things to sell, the products you do ship to them need to be fully localized so they can sell them well and you must support them in terms of the intangibles — providing them the product knowledge to succeed, the training to their staff, the security that you will not be competing with them in their market and a general sense of trust that needs to be earned. The more motivated the distributor, the better job they will do for you.

Good luck, have some fun and make some new friends.

Atlantric llc offer practical help in sourcing and supporting your distributors. We have worked with many businesses in the North West to develop their export markets through distributors and this experience will help get your products or services onto the International stage.