Evaluating Foreign Distributors

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Your company has spent time, money and other resources to identify potential foreign distributors for your products. Now you have to decide which distributors are correct for you. What do you do? We strongly encourage you to contact an international business consultant or other qualified international business professional. However, before you do contact an international business consultant/professional, there are some basic things that you can do yourself to further evaluate your distributor candidates, thus saving your company some money in making the final decision.

Role of the Foreign Distributor

Your company wants to sell its products in foreign markets. Increased sales mean increased revenues, which should translate into increased profits. In order to accomplish this goal, you must first establish distribution channels in foreign markets. Whether or not you decide to set up your own export department or you work with an established trade intermediary, such as an export management company or global trading company, you will interact in some way with the foreign distributor. Many people believe that the Internet will eventually eliminate the foreign distributor. We are not yet convinced that this is true. For the present time, very few products can be directly sold in foreign markets without a foreign distributor.

For all intents and purposes, the foreign distributor which represents your company in a foreign market (in some countries you will be compelled by law to work with only one primary distributor who will in turn work with smaller wholesale distributors in that market) is YOUR COMPANY. Distribuidoras S.A. in Chile is equal to Widgets Manufacturing Inc. in Philadelphia, Pennsylvania. The Chileans who buy your widgets from Distribuidoras S.A. are in fact dealing with your company, Widgets Manufacturing Inc. Therefore, the decision about which distributor to select is a very important one.

What Does a Foreign Distributor Do?

Some cynics will suggest that foreign distributors are quickly becoming obsolete in international trade as the Internet becomes more important in global commerce. In some instances, this is very true. Small items such as books, jewelry and clothing can be easily shipped to a foreign destination via postal mail or by way of several different express shipping companies such as DHL, Airborne, UPS, Emory and Federal Express. Upon arrival, such small packages can be easily cleared through Customs' and if there is any Customs' duty payable, it can be collected upon delivery. However, most of the products sold in international commerce are neither small nor easily shipped. This is where the role of the foreign distributor working in conjunction with the Customs' House broker/foreign freight forwarder becomes extremely important.

Foreign distributors may be classified in two important ways:

- stocking
- non-stocking

A stocking distributor will purchase inventory from the manufacturer or export intermediary. In this way, he/she assumes some risk for selling the product to smaller distributors and/or end users in the foreign market. Generally speaking, a stocking distributor must be a well-established company with a competent sales force that is large enough to cover the country or region in which it is located. Stocking distributors expect manufacturers or export intermediaries to pay some of the costs for local advertising and in some cases, warehousing for the product. Foreign distributors call this "distributor support". Paying support costs is legal and is in the best interests of the distributor and the manufacturer. Occasionally, unscrupulous distributors will abuse this long established international commercial practice to solicit bribes so that the products might be distributed in the foreign country and unscrupulous manufacturers will try to offer bribes to important foreign distributors in order to prevent their competitors from gaining entry to the marketplace.

Non-stocking distributors generally maintain only catalogs and/or samples of a product and take orders from customers in their market. There are many reasons for this practice; among them would be the following: ·

- custom manufactured products ·
- seasonal sales ·
- perishable food products
- limited number of potential buyers

Both types of distributor are appropriate depending upon the product being sold. You will very rarely have to choose between a stocking and a non-stocking distributor. Foreign distributors are very competitive. Their business is selling your products in their marketplace. If they can not convince your company to choose them as its representative in their country, they might be losing a significant business opportunity. Therefore, foreign distributors have a vested interest in convincing you to do business with them especially if there is a high demand for your product in their country.

Foreign distributors work together with the foreign freight forwarder and Customs' House broker to move your products from the factory to their warehouse or showroom. A foreign freight forwarder is a company that arranges for the transportation of your products from the factory floor to a foreign destination. Foreign freight forwarders work very closely with trucking companies, railroads, airlines and steamship companies. They earn their fees by obtaining the best service at the lowest prices for your company and by properly completing the appropriate forms and executing the correct procedures so that your shipment is secure and will not be held up in Customs' upon its arrival in the foreign country. The foreign freight forwarder is often located nearby your company's factory. Your export intermediary or in-house international trade specialist is probably very familiar with many local foreign freight forwarders and can assist you in choosing the best one for your company. If your shipment is less than a 20' or 40' truck container and will travel overland by rail or truck and then go overseas via air or steamship, you will then need the services of a specialized foreign freight forwarder called a freight consolidator. The freight consolidator buys a large amount of cargo space, typically in 20' or 40' containers for steamships and in some cases in special air cargo containers, and then sells the cargo space to several smaller shippers like yourself, thus consolidating many small shipments into one or two containers and saving your company money on shipping costs. The foreign freight forwarder and freight consolidator will have Customs' House broker contacts at the foreign destination. The Customs' House broker's job is to clear the shipment through Customs as quickly as possible. It is very possible that the foreign distributor has not participated in choosing any of the other trade intermediaries, which help move your goods overseas. However, the foreign distributor knows his/her market very well and will often collaborate with the export trading company or export department and the other trade intermediaries mentioned above to assure the quick and efficient movement of your goods from the factory floor to their distant foreign destination.

After clearing Customs', your products are shipped to the foreign distributor's place of business. Certain products, such as home appliances, sporting goods equipment, furniture and toys, may require the foreign distributor to maintain a large warehouse. Larger foreign distributors who sell to smaller wholesale distributors might possibly have a showroom or product display area that is located nearby their warehouse but not necessarily in the same facility. Stocking distributors will typically order merchandise based upon their existing inventory and their predicted sales. Experienced stocking distributors know their customers very well and are usually able to anticipate their needs. A non-stocking distributor will notify his/her client of the arrival of their goods and then make arrangements with a local freight forwarder to move the merchandise from the port to its final destination. In some cases, especially in the case of custom-made products, it might be necessary to settle the account that is to complete the financial aspect of the transaction before the goods are moved. Depending upon how the transaction is arranged, the merchandise might be stored in what is called a bonded Customs' warehouse until the buyer makes arrangements to pay the remainder of the cost of the product.

How Do I Get Started?

Before you begin the process of evaluating foreign distributors, you must decide upon your company's international marketing infrastructure. As a manufacturer, you do have several choices of international business professionals who can add value to your business activities. However, you really only have two choices for how your company will set up its international operations in the beginning:

- an export marketing intermediary

  or

- setting up an international department

1) Working with an export intermediary, usually an export management company or a global trading company, is probably the fastest and easiest way to get involved in selling to foreign markets. Export management companies will function as your export department. Their name indicates their special orientation but they are merely another form of a global trading company. Global trading companies act as manufacturers' representatives in overseas markets. Often these companies have established networks of distributors in several countries. Their primary role is to assist you in setting up a distributor network in overseas markets. They rely upon their years of experience in global trade and their extensive knowledge of foreign markets to quickly get your products in front of foreign distributors who have the capability of distributing them in their particular market.

Export intermediaries come in several different sizes and have varying levels of expertise. In some cases, especially when the product involves technology, an intermediary's specialized knowledge of the product could be most important. In fact, some global trading companies will specialize in certain product areas. In other instances, product expertise is not very important, but getting into several markets is important. Your choice of an export intermediary will depend upon the following issues:

a) Does my product require a sales force knowledgeable in high tech products or some other kind of very complicated product knowledge?

b) What types of companies has this intermediary represented in the past and what types of companies does it presently represent?

c) Does this company have enough qualified people to assist my company in setting up our foreign distributor network as quickly as possible?

d) How difficult will it be to get somebody on the telephone to deal with any problems which might arise?

e) Does anybody speak any foreign languages?

f) Does the advice that they offer to you seem reasonable and how do your other business advisers perceive this company?

g) Does the company offer you both foreign and domestic references?

h) Is the company willing to allow you to meet the people who will be actually handling your account or are you meeting with only top-level executives?

i) Do people working in their office seem genuinely happy? Do clerks and assistants smile and speak to you? Are they willing and able to answer your questions?

Export intermediaries really do facilitate the transition into selling in foreign markets, but they also have a downside. Global trading companies sometimes seem to be more interested in promoting their own business interests than promoting their clients' products. However, there is a very good explanation for this. From my own experiences I can tell you that many companies say that they want to become involved in exporting to overseas markets. However, very few realize how much work is involved in changing a company so that it has the capability of becoming successful in international trade. Therefore, there is an extremely high failure rate for companies who get started with exporting but do not have the wherewithal to follow through and continue onward with a sound business strategy until they are successful. For very good reasons, global trading companies are reluctant to damage the goodwill that they have built up with foreign distributors and other international business experts who help them to work with their clients. One reason for this can be attributed to manufacturers who do not understand the function of an international business intermediary. Poor communication between manufacturer and export intermediary has killed many successful business opportunities. You have to be completely honest with your export intermediary because failing to do so will often result in bad feelings with a foreign distributor. This is not a good thing.

2) Setting up an international department is your other option. While doing this gives you complete control of your company's international business activities, it is an option that must be very carefully considered. Companies seem to make the same general mistakes when setting up their international department:

a) Choosing the wrong personnel. This is the most common mistake that smaller companies most often make. There is a misconception that anybody can figure out how to do business overseas. It's thought that it is merely a matter of reading a few how-to magazine articles and you're ready to go. This is wrong. Too often, successful small business owners want to adapt their style or formula to international business and it just does not work. The biggest mistake is in thinking that all you have to do is choose an aggressive salesperson and you will be successful. In reality, many business owners are afraid to hire a qualified international business specialist because that means going outside of the company for special expertise. If you plan to set up your own international department/division, you need to have a competent and qualified person to run it. It is just that simple.

b) Not paying a high enough salary. If you are going to set up your own international department, you need to have enough revenues to be able to allocate a special budget for this purpose alone. Skilled international business specialists are paid a little more than other employees are with comparable experience because of their specialized skills. If you try to hire somebody at less than the market price, you will be hiring a person who needs a job immediately. I can guarantee you that this person will leave within a year and will waste your time and resources either developing their own projects or looking for a better job. Do not be cheap. Find a qualified person, pay them a decent salary and allocate a sufficient budget to allow that person to hire experienced and qualified support staff.

c) Insufficient budget. Besides salaries for top rated personnel, you will have to develop collateral marketing materials suitable for your target markets. You will also have to pay travel expenses and several other additional costs. Too many companies do not allocate a sufficient budget for their international division and therefore set it up for eventual failure.

d) No strategic plan. This is a deadly killer. You must have a strategy that takes into account your company's capabilities and the advantages of your product or service. You have to be prepared to knock down some barriers to entry in certain foreign markets and to deal with serious competition in others. The time to figure out what you are going to do is before you actually begin marketing in overseas markets.

e) Failing to do proper research. The Internet has changed the global playing field in a remarkable way. There is now so much information available about so many products and services worldwide that potential buyers have more and better choices. Because there is so much information available, it is very important to do the appropriate research to identify your competitors and to fully understand what is happening in your particular industry worldwide. Too many businesspeople neglect doing the proper business research, often due to cost considerations. Once again, the cost for good international business research is higher than what one might pay for comparable domestic business research. It is better to pay the proper cost in the beginning because failing to do so will almost always guarantee that you will pay considerably higher costs later on.

f) Being too impatient. I once worked at a global trading company that was acquired by an owner of a small manufacturing business. This man used to pester me for a daily forecast of sales in my division. Finally, I had to leave because he just got too impatient. International business requires a longer transaction time. In my experience, most industrial products require from 9 to 18 months from the first sales letter until the first order. You are not going to set up your international division and then start getting orders three to six months later unless you have developed some exciting new technology that companies want immediately because it will help them make money. This is a fact about international business that many companies just ignore when they make their plans.

Your final decision about how you wish to set up your company's international marketing structure will depend upon your comfort level and also your available budget. If you do not have a sufficient budget to hire skilled and experienced international business people, you should forget setting up your own international department or division and look for an international intermediary to help you set up your distributor network.

We are going to assume here that you have decided to work with an international trade intermediary, which is the most common choice of companies looking to get into global markets. Therefore, it will not be necessary to discuss how to find a distributor because that is exactly what global trading companies do. There are several kinds of working arrangements between a global trading company (Remember that an export management company is a special type of global trading company.) and a manufacturer. The differences will vary only in two ways: will the intermediary actually take title to the goods and then resell them or will the intermediary function more as your export department, not taking title to the goods and receiving a commission? Some manufacturers prefer working with an intermediary that is actually going to buy the goods outright and then resell them for whatever price they can get. This method involves much less hassle and to some extent, less paperwork to get paid. It is also less risky. Its biggest disadvantage is that the intermediary controls the price of your goods in international markets. Another problem is that your company loses some degree of contact with the foreign distributor. On the other side is the situation where the global trading company acts as your export department, using your letterhead and only changing telephone numbers and addresses, etc. and assumes the same risk as your company. This is more risky for your company, but it allows you to maintain more direct control of your product in global markets. It also allows you more direct contact with the foreign distributor. For companies new to export, this is probably the better choice and the one that we will cover here.

Evaluating a Foreign Distributor

A former colleague of mine, an older lady with many years' experience as an export manager once told me the following:

"Anybody can find a foreign distributor. That's easy. Finding a good foreign distributor, however, is very difficult, but well worth the effort because a good foreign distributor is like a cash cow."

Before making a final decision about a foreign distributor, your company should know more about the following:

a) What is the company's reputation? Ask for trade references, (preferably outside of his/her country) and banking references. If possible, you want to speak with other foreign companies that his/her company represents. Check with your own country's foreign commercial service officer or commercial attaché in that country. Check the company's rating with Dun & Bradstreet. Hire a local independent consultant to prepare a background report on the company. Contact the local chamber of commerce as well as your country or city's chamber of commerce in that market. Contact your state or provincial government's overseas office in that country or region and request a background report. Use the Internet to find out as much as you can about the company via search engines and company directories online as well as a company home page if available.

b) What is the company's competitive profile? How many years in business? How many sales people? What is their marketing technique? How often do they visit customers? Who is their competition? What is the company's market share as compared to its competitors? What can they tell you about your competitors in their market? You should ask the CEO/owner of the company these questions. If he/she hesitates to answer for more than a second, move on.

c) What does the company expect in terms of manufacturer support? This is a very important question because it will determine whether your potential distributor is trying to extort a bribe from you. More importantly, however, it will tell you how much the company really knows about their market.

d) Discuss your requirements for purchase of minimum inventory. Foreign distributors talk a very good game. Your job is to see if they can deliver on their flowery promises. In some of these areas mentioned above, your global trading company will have some answers. In other cases, commercial attaches and other knowledgeable entities can provide you with good information. Your mission is to ascertain whether or not working with this distributor is going to be in the best interests of your company. If the global trading company can not provide you with specific answers to these questions and tells you not to worry, look very closely at the intermediary. The questions that I have listed here are designed to help you determine the viability and credibility of the distributor. Instead of "we can do this and that, blah, blah, blah", your aim is to make the distributor respond to specific areas of inquiry and to provide you with a clearer picture of exactly how your products will be sold in their market. An added benefit is the fact that these questions will help to evaluate your trade intermediary as well. One trap that you want to definitely avoid is the buddy-buddy relationship between the intermediary and the distributor. We did consulting for one client whose intermediary was being paid bribes or kickbacks by the distributors for choosing them. The kickbacks caused the price of the company's products to be too high in the foreign market and the company started to lose business to a competitor whose product was absolutely inferior.

If your intermediary seems reluctant to allow you access to the foreign distributor, then you must evaluate the intermediary more closely. Really good foreign distributors expect to have to answer these types of questions and look forward to doing so with great enthusiasm. You can avoid problems by asking the questions listed to evaluate the intermediary. One thing that I have found to be true in over 20 years of international business: if a foreign distributor is unable or reluctant to answer questions that will indicate how they sell foreign products in their marketplace and what distinct advantages they offer over their competitors, look elsewhere for help in going global.