

The identification, selection and management of agents & distributors in China

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- Exporters are confronted with the problem in China, that although their products are of good quality, there are difficulties finding suitable distribution
- Establishing a good marketing and distribution strategy is therefore one of the major challenges for companies active in China

Agent or distributor?

- Agent: in general an agent acts on behalf of a principal in return for the payment of a commission based on the value of the goods sold
- Distributor: typically purchases goods on their own account and resells at a higher price, accepting the risks and rights of owning the goods

Control

- The most significant difference between agent and distributor is the degree of control exerted over the intermediary by the principal:
- The principal wants to control:
 - The price at which the product is sold
 - How it is advertised
 - The extent of the intermediaries territory
 - Market development
 - Restrict the sale of competing products

Recruiting agents and distributors

- Clearly define your own needs
 - Each territory is different
 - Obtain a good profile of customers, their needs and the way they do business
- Create a market profile to facilitate the selection of the best representative
 - What is the average call cycle required to make a sale?
 - Are there any unusual conditions in China in terms of quotations, specifications and delivery?
 - How well is the representative acquainted with prospects in this region of China?
 - How aggressive are your competitors?
 - Are there slow payers?

Create a profile of the distributor that will best suit your needs

- Prospective business partner questionnaire
- Is it important to have a well-established representative?
- Is the representative able to understand your product and sell without a lot of factory support?
- Are his staff compatible with yours?
- Are his growth plans compatible with yours?

Recruiting agents or distributors is as important
as taking on a partner

Recruit them carefully!

Agency & distributor agreements

- All business relationships should be governed by a written agreement
- The exercise of negotiating an agreement forces the parties to address the important issues
- Formulate a checklist for agent/distributor agreement

A good commission plan includes the following

- A rate that is high enough to ensure that the agent will make a profit and that is practical for the principal
- The rate should be competitive with the other product lines that the representative carries
- Flexibility: fixed rates should be set, but remain flexible to handle special situations
- Rates should be high enough to encourage the representative to invest in local promotion of the product

Develop a package of documentation to screen and/or select prospective trading partners

The package should consist of three parts:

1. A one page fact sheet to say:
 - Who you are
 - What you do
 - What you are looking for
2. The firm's literature or catalogue describing the product. Price information may or may not be included
3. A questionnaire asking for the in-depth information that you are entitled to and which you must have to make an informed decision

What a representative looks for in a new product line

- A history of quality
- A well-thought out pricing policy
- Financial stability
- Good delivery record
- Technical support
- Good sales support

What a representative wants from you

- Prestige products
- Exclusive territory
- Good product line
- Training from the manufacturer
- Technical after-sales service to be provided by the manufacturer
- Warehousing back-up from the manufacturer
- Good warranties
- Manufacturer to carry the cost of labour & parts needed to replace defective components

What a representative wants from you

- Advertising & merchandising support or an allowance for same
- Special discounts and deals
- Favourable credit terms
- Commissions on “house accounts”
- Commissions on direct sales in the representative’s territory
- Manufacturer to assume the responsibility for preventing other sales outlets from selling in his territory
- Minimum visits and control by manufacturer

What a representative wants from you

- Representative must supply minimal information to manufacturer
- Freedom to handle other lines
- Freedom to price
- The right to terminate the agreement when he pleases
- To have the manufacturer pay indemnities for cancellation of the agreement
- Security that the line will not be taken away once the product is established
- Visits to UK

Check out agents & distributors

- Check list to avoid mistakes
 - Estimate market size and potential
 - Determine the key elements of market success
 - Set some specific written goals for the market
 - Construct an “ideal representative” profile
 - Determine the ability of the potential distributor to cover the market
 - Find out the nature of the representative’s business
 - Estimate the importance of your business to the representative

Check out agents & distributors

- Check list to avoid mistakes
 - Determine mark-ups or commissions current in the market
 - Think about physical distribution
 - Ask the representative specifically what he can do for your product
 - Look closely at your company's commitment to the representative
 - Check the company's financial standing
 - Know the representative's local reputation
 - Be aware of possible parallel distribution
 - Anticipate external events

Common complaints about exporters

- Do not familiarise themselves with the market
- Give less attention to foreign business
- Ignore foreign inquiries
- Delivery dates not reliable
- Promises not kept
- Prices quoted are FOB
- No Chinese literature
- Domestic customers offered better terms and support

Improving representative performance

- Controls & communication
 - Visit the market often
 - Require monthly/quarterly reports on sales, inventory, service, competitors etc.
 - Maintain regular, sympathetic and clear correspondence
 - Bring representative to UK occasionally

Improving representative performance

- Creating representative loyalty
 - Develop his identification with your company
 - Hold distributor conferences
 - Send give-aways and samples bearing company's name
 - Reward good performance with cash prizes, trips abroad, achievement certificates
 - Publicise successful representatives
 - Provide training and training material

Improving representative performance

- Finance & credit
 - Offer credit terms that are competitive or better
 - Give better credit terms to new distributors
 - Offer incentive prices for expanded sales
 - Assist in overcoming exchange difficulties
 - Assist in securing local financing
 - Share advertising & promotion costs
 - Ship semi-manufactured goods for local finishing

Improving representative performance

- Increasing the market
 - Provide training programmes to develop distributor skills in product management, market research and general business
 - Develop advertising campaigns in local and international media
 - Develop promotion through clear and impressive export catalogue, plenty of samples for customers, contribution to local charities, participation in trade fairs, sponsorship etc.
 - Upgrade after sales service
 - Provide service and technical manuals in Chinese
 - Warehouse at strategic locations

Improving representative performance

- Evaluating distributor performance
 - Compare ratios of sales with competitors
 - Match sales with past performance
 - Check against market survey targets
 - Watch inventory turnover ratios
 - Compare notes with customers on your distributors sales efforts
 - Check local media for effectiveness of advertising

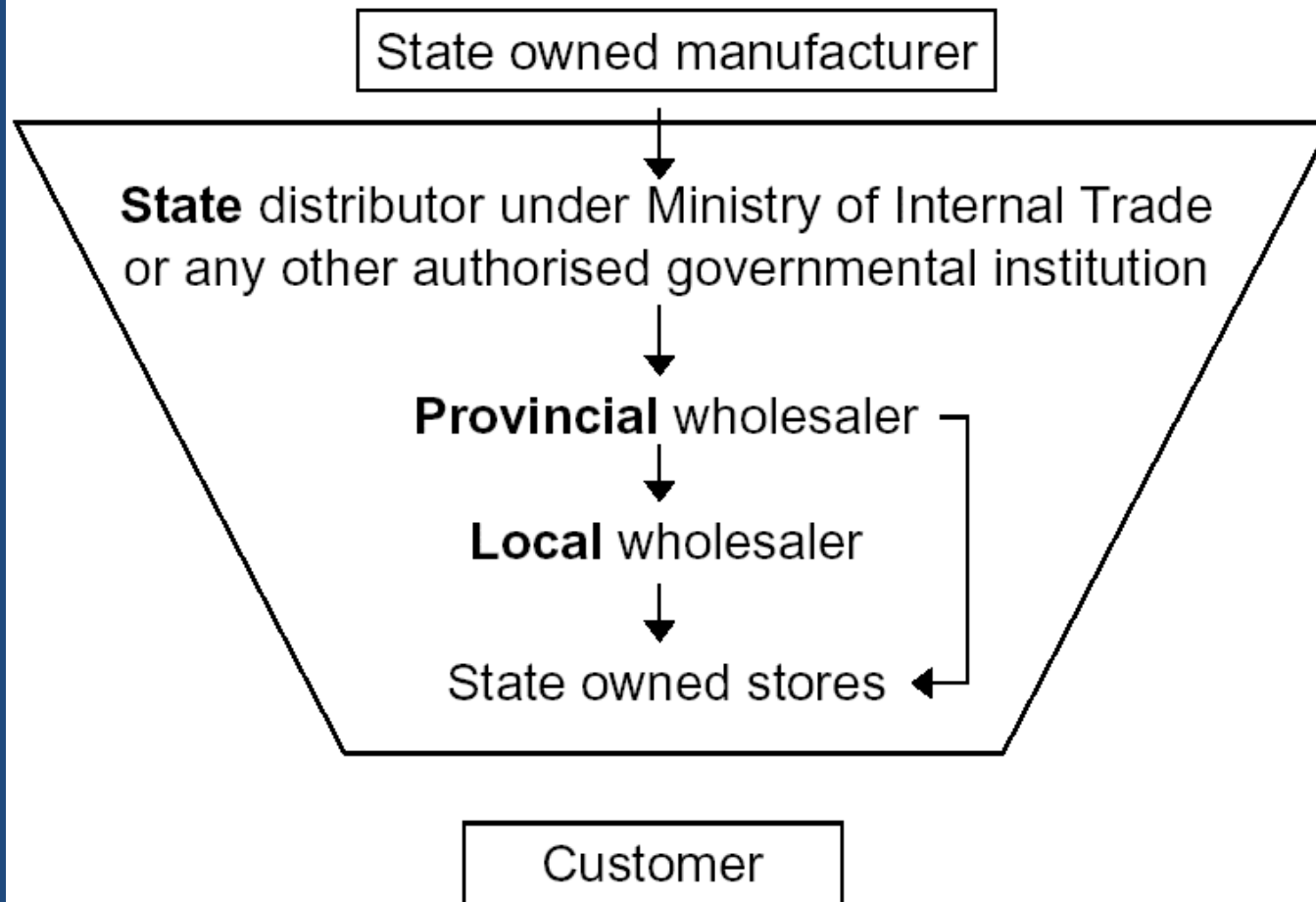
Improving representative performance

- Applying pressure
 - If dissatisfied with representative's performance, tell him in person
 - Tie credit and terms to performance
 - Set deadlines for selling a fixed amount
 - Threaten (nicely) to give new products or all products to competing representative
 - Switch from an exclusive to a non-exclusive contract – if possible
 - Suspend shipments to distributor

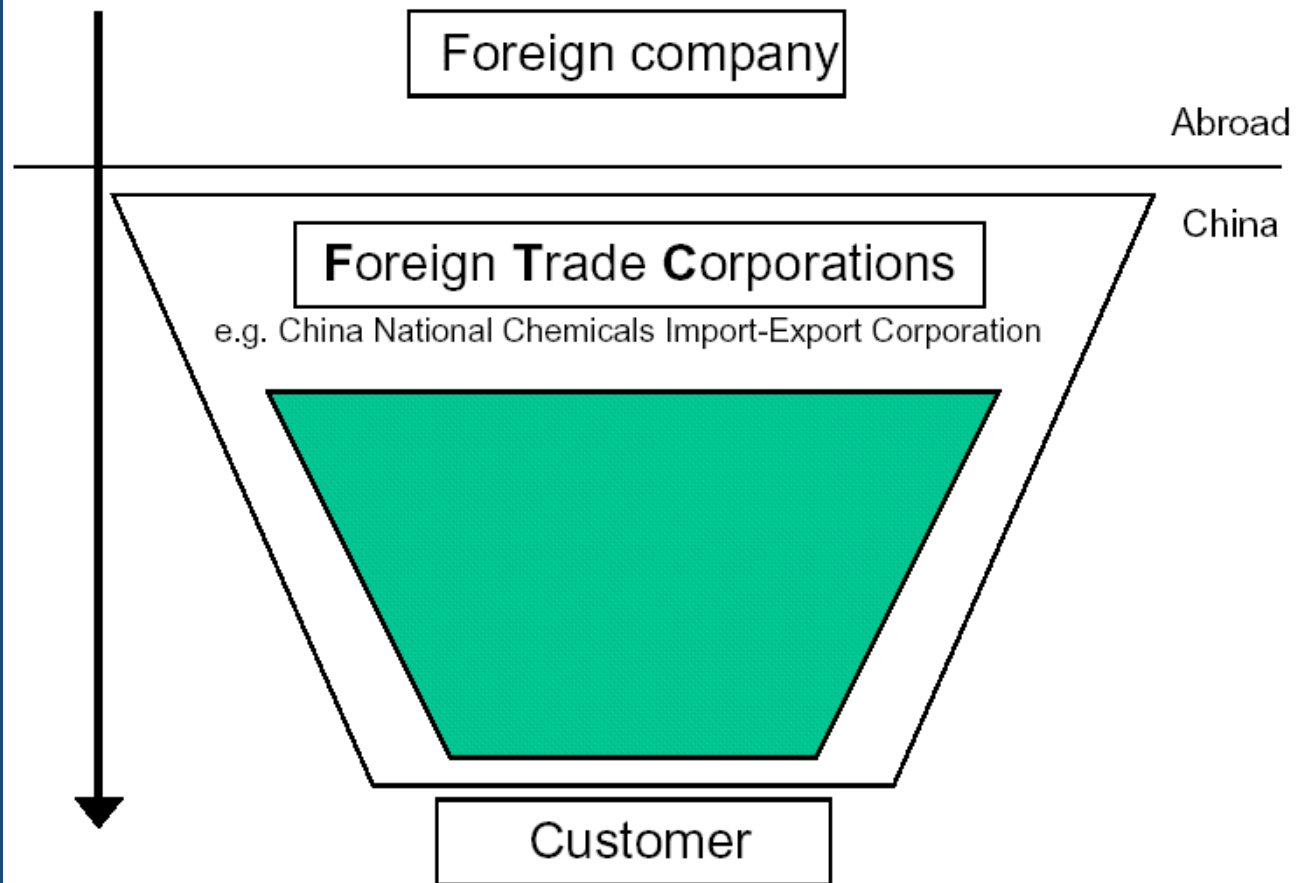
Where to find distributors

- Government agencies, trade offices etc.
- Trade shows
- End users
- Consult existing distributors
- Other FIEs

Traditional channels of distribution: Internal



Traditional channels of distribution: Import



- Competition amongst the former state owned distribution units
- Factories selling directly
- Independent wholesalers and retailers (also private ones) were allowed to operate
- Import-Export licences were issued to several other companies, also to some manufacturers and to foreign investment enterprises (FIE)
- Increasing ability to utilise different distribution channels (e.g. mailorder, bigger variety of retail avenues etc.)

But still there are problems ...

in general but especially for FIEs

- The size of the country and the differences between the regions
- The Chinese economic situation and the infrastructure for distribution
- Lacking knowledge of foreign investors about the market
- China's legal system still imposes restrictions for FIEs in marketing and distribution (trade, wholesale, retail) for imported goods and also for goods made in China

China has very different regions

Every region has a different characteristics which can be divided into the following categories:

- Dialect
- Mentality
- Geographical location
- Population density
- Infrastructure
- Industrial structure
- Product knowledge

... which can have a huge impact on marketing and distribution.

Import

- Via intermediaries
 - Advantageous for a company with no office or a Representative Office in China
- Chinese distributors
 - Private
 - Small private companies with no financial backing but plenty of incentive
 - State-owned
 - Financial backing but often little incentive to perform
 - No direct access to the market
 - Still too much planned economy thinking

Import

- Through state-owned import/export companies
 - Good *guanxi*
 - Well experienced in handling customs
 - Expensive
 - Lack of initiative

Import

- Through trading companies in Hong Kong
 - Low costs
 - Good *guanxi*
 - Well experienced in handling customs
 - Dangerous

Import

- Through multi-national trading companies
 - Various services in sales and marketing
 - Low exit costs
 - Maybe less market knowledge

Import

- Through Free Trade Zones
 - Preferential policies
 - Legality
 - Still restrictions
 - “Grey” area

Import

- Directly employed Chinese
 - Could be deemed an employee
 - Control may be difficult
 - Will not be able to import
 - Less professional
 - Limited geographic coverage
 - Could work well with the right person

Know the market, past, present and future. Discuss with targeted customers to establish what they require, both short and long term.

Do not rush to appoint agents or distributors. Visit their customers to sound them out. Understand the distribution networks of each agent or distributor before appointing them.