

Part 3 - Engage

Developing a Successful Relationship with Distributors:

How to attain high performing distributors for your business

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Part 3: Engage

In this section I will outline a critical step when working with distributors. This step establishes the basis for either success or failure of your exporting activities since small businesses often don't know how to frame their approach to distributors or partners.

Trading Terms

At a very basic level of engagement you need to ensure that your trading terms are right for you. Let's assume your overseas distributor price list is ready. The things you need to check are that you have clearly stated the Incoterms® related to that price, as well as the city and country; namely EX-Works (EXW Sydney Australia) and Delivery At Place (DAP Munich Germany). If you are not familiar with Incoterms®, I recommend that you register for a training session with ECA. Next, you need to make sure your price list includes a validity date and that your payment terms are clearly stated. For an example of a Pricelist Template, check out the download section of our website (www.exportia.com.au).

[Download Pricelist Template](#)

Exclusivity

Exporters are often asked for an exclusivity agreement by distributors. I have a very definitive position on this: no exclusivity is my general rule whenever I negotiate with a distributor. Small businesses need to be able to keep control of their distribution and granting exclusivity to a distributor means that they won't really have to go the extra mile for you. If you ever do decide to give exclusivity to a distributor, it should be for a limited time only and subject to sales performance. You really need to frame your agreement so that you are in a position to walk away if your distributor is not performing well for you.

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How many?

The number of distributors you should appoint really depends on the size of the target market and distributor. In Europe, for example, I suggest that you only appoint one distributor in a small market such as Belgium and a minimum of two in very large markets like Germany. Make the situation more manageable for yourself by appointing one distributor at a time.

Negotiation

Where to start?

The way to negotiate your terms with a distributor is to start from the best position for your business. For a new distributor, it is fair to provide payment in advance. In the case of my business team, whenever we are dealing with European distributors, we usually stick to thirty days or end of month. As you may have seen on our Pricelist Template, I also like to add the proviso: 'We reserve the right to change trading terms in case of late payments'. I urge you to adopt a similar practice. To make it easy for your overseas distributors, deal in their currency. Of course, for the sake of simplicity, you may want to limit your transactions to a limited number of currencies to start with (i.e. Euros and US\$). In terms of the Incoterms[®], try to Impose EX-Works as it will make your life easier. The distributors may already have much better deals in place than you do with freight forwarders and may be in a better position to negotiate shipping costs. Also, it means that you won't have to manage overseas customs and local taxes.

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When I initially start the negotiation process I observe very strict principles. Firstly, I am not a big discounter and if I do offer a discount it's usually not very big. Secondly, when a distributor wants to negotiate a term, I usually like to be able to trade it against something. It could be a new product positioning in a catalogue, a marketing campaign or something similar. Don't always consider price only. Don't be afraid to walk away if the distributor is trying to push you towards trading terms that don't suit you. It just means that they are not right for your business.

Margin

A recurring question of exporters that consult us is: how much margin should I give to a distributor? Once again, you need to be aware of your starting point; it should not be dramatically different to the margin of Australian distributors. In principle, a margin level should depend on the role undertaken by the distributor. You need to clearly define what role they are going to play for you. For example, are they going to provide aftersales support for you? What marketing campaigns have they committed themselves to run for you? How many sales representatives have been trained in your product? The next aspect to consider in terms of a distributor's margin is their volumes of sales. You need to think about what volume of sales would mean that you would be prepared to give them a higher margin.

Distributors Program

This is the ultimate benefit! Once you have more experience dealing with distributors, you can develop a program for them. You can articulate in that program the different types of distributors (i.e. tier 1, tier 2, tier 3...), their obligations (minimum annual turnover) and their rewards (i.e. percentage discount). You can use this channel program as a useful engagement and activation tool.