

Finding, Training and Managing International Agents and Distributors

The most basic way to export is to sell your goods directly to your overseas customers. This can be the ideal strategy for many Canadian exporters, especially when they operate in countries such as the United States, where the business and consumer cultures resemble ours.

In other markets, however, there may be language barriers and unfamiliar ways of doing business. In these places, working through intermediaries such as agents and distributors may be a more fruitful approach. This paper will examine the issues that exporters should consider if they decide to adopt this strategy.

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1 TYPES OF INTERMEDIARIES

The intermediaries most commonly used by Canadian exporters are agents and distributors.¹ The major distinction between them is that distributors buy your goods from you and then resell these goods to their own customers. In contrast, agents don't purchase your goods from you, but instead sell them to your customers on your behalf.

Which type of intermediary will best serve your needs will be determined by the nature of your company, your product and the goals you hope to meet in your target market.

1.1 Agents

An agent is an individual or firm you employ to sell your products to wholesalers, retailers and sometimes end users in the target market. In effect, you are selling to your customers through the agent, who acts as your representative. Other major characteristics of an agent include the following:

- The agent isn't financially involved in the sales transaction itself. Once the agent has made the sale, invoicing and payment is between you and the customer. This also means that the agent is not responsible for checking the customer's creditworthiness, and doesn't accept any credit risks.
- Agents are normally paid on commission after they have completed a sale on your behalf and you have received payment from the customer. This can be to your advantage since commissions can be an incentive for an agent to work harder at selling your goods. In addition, you know your selling cost (the commission) in advance and can build this into your unit pricing.
- Agents tend to have smaller product ranges than distributors, so they can concentrate more closely on selling your products. A small agency, however, may have fewer sales resources than a distributorship.
- If your products require installation, customer training and/or possible after-sales service, the agent should be responsible for handling this. You, however, will be responsible for providing the agent's personnel with the training required for supplying these services to the customer. In most cases, the agent is justified in charging the customer for such services (except for warranty repairs, which you obviously have to pay for). Your agent/company contract should specify the details of any such arrangements.
- Agents may be the preferred choice when your product has a high unit cost and (possibly) complex installation and training needs, such as heavy machinery. Distributors are much less likely to buy such a product from you, since they would have to commit a substantial amount of their own money on the assumption that they'll be able to resell the goods.

¹ Other types of intermediaries include trading houses and export management companies. Small and medium-sized Canadian companies rarely use such firms, however, so this paper does not examine them.

- Agents aren't normally responsible for the shipping, distribution and delivery of your product, so you'll have to pay for this. If an agent does get involved in logistics, you'll be expected to pay them for this, over and above their commission.
- Marketing and promoting your goods won't normally be part of an agent's responsibilities, although this can vary according to the market and the capabilities of the agent. On the plus side, this means that you retain full control of your branding, pricing and marketing strategies. (With a distributor, in contrast, your control will be limited or nonexistent.)

EXCLUSIVE OR NON-EXCLUSIVE?

You can appoint an intermediary as having either exclusive or non-exclusive rights within a market. Exclusive simply means that your intermediary has the sole right to represent you in the market, and you can't appoint anyone else until the agreement ends. In a non-exclusive agreement, you can appoint additional intermediaries to represent you in that market, along with the original representative.

Most intermediaries prefer exclusive agreements since it prevents any competition for them within the market. If you do set up an exclusive agreement, though, make sure the contract has a termination clause that will allow you to part company with an intermediary whose performance isn't adequate.

1.2 Distributors

Distributors buy your product from you and then sell it to their own customers, who may be wholesalers, retailers or end users. While you have no direct control over the selling, branding or marketing strategies they use with your goods, this may be offset by the fact that they take a great deal of responsibility off your hands, from customs clearance to credit checks. This can be a big plus in an unfamiliar market.

The major characteristics of distributors include the following:

- Your distributors buy your goods from you, but from that point onward they're responsible for all financial transactions with their customers. This includes assuming any credit risks associated with a customer.
- Distributors set the resale price of your product within their particular markets. You have no control over this, however, and if they mark the product up too far it can undermine your competitiveness.
- Distributors handle all the details of importing your product, such as clearing customs and the payment of duties and taxes. They also deal with in-market logistics, such as warehousing and distribution. By holding an inventory of your products within the market, they can also shorten delivery time, which can be an important selling point.

- They will often help with promoting and marketing your products within their particular markets, and can help develop a customer base for your product. This can be very useful, although their marketing approaches can also affect the branding of your product.
- They assume responsibility for after-sales service and may be willing to handle warranty issues as well.
- However, because distributors handle so much of the sales process, you'll have less firsthand knowledge of market conditions and of your products' end users. If you rely on end-user feedback for improving your products and developing new ones, this could be a drawback.

GIATEC SCIENTIFIC: GETTING STARTED WITH DISTRIBUTORS

Established in 2010, Ottawa's **Giatec Scientific** provides advanced concrete testing solutions for the construction industry. Designed for concrete producers, consulting firms and infrastructure operators, the company's quality control and condition assessment devices help engineers schedule maintenance, rehabilitation and repair operations.

Soon after acquiring its first U.S. customers, Giatec's management realized that having a distributor in the United States would give the company more exposure and credibility, and provide faster penetration of its new market. "With that in mind," says Dr. Pouria Ghods, Giatec's President and Chief Technical Officer, "we looked for a major U.S. distributor of concrete testing products and eventually chose the best one. We signed a memorandum of understanding with them, for a non-exclusive distributorship, and they began promoting our devices through their catalogue. Since they have a worldwide dealer network, we got a lot of global exposure and received queries from numerous other distributors abroad. It was a very successful initial experience, and our strategy of selling through distributors began at that point."

Giatec, notes Dr. Ghods, almost always uses distributors rather than agents. "Our dealers have to purchase inventory up front and keep it in stock. This gives us a level of certainty that they'll meet their sales targets, and it ensures that they'll have products available when our end users need them on short notice."

2 FINDING INTERNATIONAL INTERMEDIARIES

Let's assume you've chosen an overseas market that promises great opportunities, with lots of potential customers and long-term, reliable demand. You've done extensive research and have been developing an export plan for doing business there. The more you work on your plan, however, the more you feel that the best way of operating in the market would be to use an agent or distributor. But how do you find a trustworthy, effective one?

2.1 Government and industry resources

If you're in that situation, the best way to start is to contact a **Regional Office** of the **Canadian Trade Commissioner Service** (TCS). "We'll sit down with you and work out exactly what you're looking for," says Amanda McNaughton, the TCS's Deputy Director for the Prairies and Northwest Territories Region. "Once we've determined the profile of the intermediary you're trying to find, we can obtain a list of qualified possibilities from the TCS post in your target market. Our Trade Commissioners abroad will know if these intermediaries are legitimate, so you can then go ahead and perform your own due diligence to see if they're what you're looking for."

In addition to leveraging the TCS network, McNaughton advises, "you should also check with your industry association to see if they have on-the-ground resources in your target market. If they have lists of experienced local service providers, they're usually willing to provide this information."

Mel Sauvé, CEO of Burlington's **Global Growth**, takes a similar view. As a consultant who works with Canadian businesses to expand their global reach, he's familiar with the challenges of finding good intermediaries.

"I'd start with the TCS office in your part of Canada," he says. "Trade Commissioners work in all the major sectors where Canadian companies are active, so you should contact the people in your local TCS office who focus on your particular industry. Tell them what you want to do in the market you've chosen, and that you're looking for intermediaries there. They'll contact the TCS post in that market and get back to you with the kinds of information you're likely to need. Similarly, several of the provinces have the equivalent of Trade Commissioners at the provincial level. They could be a second line of approach for you."

Another key source of information, as noted by both Sauvé and McNaughton, is your trade association. "If you can connect with their key people," says Sauvé, "they can help you look for an agent or distributor. Some of the industry associations are very well organized when it comes to helping Canadian companies export, which of course includes finding intermediaries."

Export Development Canada (**EDC**) may also be able to help. With **international representation** in more than 14 high-potential international markets, EDC can use its local relationships to help you find not only new overseas customers, but also suitable intermediaries.

2.2 The complementary strategy

Sauvé also suggests a “complementary strategy” for companies that want to identify potential agents and distributors in a market. “In this approach,” he says, “you look for Canadian exporters who are selling goods that complement your product line. If you were selling hovercraft, for example, you might look for businesses that have a line of industrial-type ATVs that they market abroad. Ideally, you’ll find a company that already has a network of agents or distributors around the world, and has done really well through that network. And because your hovercraft line complements its ATV line, you may be able to establish a relationship with the company so you can tap into its network of intermediaries. Once you’ve done that, you send a proposal to those agents or distributors and go on from there. This can be a really efficient way to identify intermediaries that can do the job for you.”

2.3 Trade shows

Trade shows can be another useful way of finding intermediaries, who often attend such events to look for new products they might handle. If you have a booth of your own, you can put up a notice saying you’re looking for international representation, and even specify the countries that interest you. If you’re using the complementary strategy described above, you could also walk around the shows and look for companies whose product lines complement yours.

GIATEC: FINDING THE RIGHT DISTRIBUTORS

“Until a couple of years ago,” says Sarah McGuire, Giatec’s International Sales and Development Manager, “most of the companies that were interested in distributing our products wanted to offer them through their websites and catalogues. They were sticking with the customers they already had, as opposed to looking for new buyers. We knew that strategy could work because of our experience with our distributor in the U.S. market, but we wanted to go much further. We wanted distributors that would not only sell our devices, but work hard to market them to new customers.”

One challenge for Giatec, curiously enough, has been the extremely advanced nature of their products. “Ours is not a traditional testing technology for the concrete industry,” says Dr. Ghods, “and when we were getting started, our end users had never encountered it. So in a sense we had to create the actual market for our devices—we needed to look for distributors who would be proactive in educating our end users, in training them and in marketing our products to them.”

And that's exactly what the Giatec team has been doing, says McGuire. "About a year ago, we began to search aggressively for distributors. Since then, we've been qualifying the best ones, signing agreements with them, setting up their sales targets, joining them in trade shows, providing demonstration units and so on. We now have distributors in Africa, Southeast Asia, the Middle East and both the Americas. About 25 of them are actively selling for us and another 25 have put us in their online catalogues. The Canadian Trade Commissioner Service has given us a lot of support in all this, as has the Government of Ontario. Essentially, we try to leverage every resource we have in order to find the people we need—networking, trade shows, Google searches, email campaigns, cold calls, anything that works."

3 QUALIFYING INTERNATIONAL INTERMEDIARIES

No matter where or how you find your intermediaries, you must always qualify them before you appoint them to represent you. This is absolutely vital, since failing to do proper due diligence on an agent or distributor can commit you to an intermediary who can't (or won't) perform as you want them to.

McNaughton suggests that you look carefully into the following areas, which broadly apply to both distributors and agents.

- What kind of customer base does the intermediary typically work with? Does it match your product line?
- Who are their key accounts and what is their product mix? How familiar are they with the kinds of product you're offering?
- How big is their territory and does it match the places where you see your opportunities?
- How big is their sales force and would they be able to expand it if you needed them to?
- How do they monitor their sales performance and what is their sales record? Has it been consistent and, if not, why not?
- What would their minimum sales volume need to be when handling your product line? Do their sales projections agree roughly with that figure?
- Do they represent other Canadian firms? This would be a positive since it means they'll be familiar with how Canadians do business.
- Do they represent companies that could be in direct competition with you? If so, might this undermine your competitiveness in the market?
- Could there be a language barrier? Can their personnel talk fluently with your personnel?
- If training the intermediary's staff is required, how is that going to be accommodated and who pays for it?

- Who handles after-sales service and warranty repairs, and how is this paid for?
- Can the intermediary help with your local market research or do you have to do it on your own?
- What kind of budget do they have for advertising? How do they allocate it?
- What kinds of promotion do they do within the market?
- What kind of printed materials might be required? Can they translate and produce local versions or will that be up to you?
- What kinds of media (including social media) do they use and how?
- For distributors, are their facilities and equipment adequate for your needs? For example, do they have suitable warehouse space for both inventory and repair parts? Do they have up-to-date, secure IT systems?

Answering questions like these can alert you to potential problems that could disqualify an intermediary from working with you. In addition, says McNaughton, you can ask the TCS to do a bona fides check on a potential intermediary that you've identified yourself, especially if you've been approached by someone out of the blue.

For a more comprehensive version of the above checklist, you can consult [Chapter 6](#) of the TCS's [Step-by-Step Guide to Exporting](#).

Mel Sauv  also stresses the crucial importance of qualifying intermediaries. In his view, the ability to communicate easily with an agent or distributor is vital, so it's a major plus if they can speak and write good English.

"After that," he says, "you should find out how often the intermediary would call on your potential customer base, and whether he has good relationships with these customers. Also, you'll need concrete evidence of how well he covers your territory. In short, he should have a very good idea of who and where your customers are, and be energetic at calling on them."

Another thing to find out is whether the intermediary already represents products that would complement yours. "An agent or distributor's ability to carry product lines that complement yours is an important element of qualifying the intermediary," says Sauv . "After that, you can get into other things such as the size of his sales team. It doesn't necessarily have to be big, since you can be very successful working with smaller agencies or distributors."

Other positive signs, adds Sauv , are experience and a track record. "You should look for reputable, successful intermediaries who have been around for a while and are well known. Also, they should understand the competition that your product line will be up against. So in my view, the vital elements for qualifying an intermediary are good English, energetic calling on prospective customers, good customer relationships, good client coverage, complementary product lines and an effective sales team."

GIATEC: QUALIFYING DISTRIBUTORS

Having found a likely distributor, Giatec must then qualify them. “When a company shows an interest in distributing our products,” says McGuire, “we put them through our pre-qualification process. I send them a questionnaire to find out what they sell, what their customer base looks like, how many people work for them and how long they’ve been in business. We also ask about their technical expertise, because they’ll need to be technically skilled if they’re going to sell and support our devices.”

If the distributor seems a good bet, McGuire can begin negotiations. “If they show genuine interest and they’re well qualified, we usually set up a memorandum of understanding (MOU), which authorizes them to distribute our products in their region on a non-exclusive basis. We commit to providing marketing support and give them a basic discount on the devices they purchase for resale. Their discount increases as they sell more and, if they want to work toward exclusivity, they can.”

Giatec uses their dealer discounts to establish different levels of distributorship. “This depends on the level of commitment and investment the distributor is willing to make to us,” says Dr. Ghods. “We like to begin with them acting simply as an authorized dealer, but eventually let them move up to an exclusive distributorship if everything goes well. It all depends on how committed they are to the relationship, so we proceed one step at a time and see how they perform before going on to the next stage. This avoids risks such as signing a two-year exclusive agreement with the wrong distributor.”

Finding and qualifying the right distributors can be a necessity for penetrating some markets, such as the Middle East, according to McGuire. “We’re really breaking into that market, but we couldn’t have done so if we’d tried to work from Canada. In that region, you absolutely must have a local representative on the ground, someone whom your end users know and trust. If you don’t, you’ll never make a sale.”

4 THE LEGAL PERSPECTIVE

Once you’ve decided to appoint the intermediary, you’ll need to set up a contract. Its intention is to make sure that everybody understands how the relationship will work and that both parties have the same goals in mind. Such agreements commonly include the following elements:

- The names and addresses of the businesses involved, and whether the agreement is an agency or distributorship arrangement
- A full and complete description of the goods the intermediary will handle
- Your expectations of the intermediary’s performance over the course of the contract
- The territory where the intermediary will sell your goods
- Whether the agreement is an exclusive or non-exclusive one for that territory
- Who is responsible for the logistics of getting your goods to the end users
- The prices that will be charged for your goods in the market

- If the intermediary is an agent: the commission you'll pay, when you'll pay it and the currency that will be used
- If the intermediary is a distributor: the payment terms and the currency of payment
- The termination date for the agreement, together with provisions for ending the agreement before that date (for example, if the intermediary performs below the expectations set out in the contract)
- Confidentiality provisions to safeguard your company's proprietary information and intellectual property (IP)
- Any rights the intermediary will have regarding your IP, such as the use of your business name, brand names, patents, copyrights and trademarks
- The responsibility for training the intermediary's personnel in the product's installation, servicing and warranty repair, if applicable
- The responsibility for after-sales service, such as training the end user to operate the product
- The responsibility for any promotional and marketing activities to support your products in the market
- The laws (Canada's or those of the market) that apply to the contract

It is always advisable to have your lawyer review an intermediary agreement, especially when it's a complicated one. To further protect your interests, you can also set up a limited-term contract to get started. Then, if the intermediary doesn't work out, you're not bound to a long-term, unsatisfactory relationship.

It's also important to ensure you correctly identify your customer, including the correct legal name, in case of a claim. Another way Canadian exporters may find themselves involved with distributors or agents is when the exporter sells a product not to its actual customer, but to an intermediary representing that customer. This may become an issue if the exporter is using credit insurance and doesn't get paid. In this case, the insurance policy must identify the correct customer in order for a claim to be paid.

Asking the questions below will help EDC confirm that the correct customer is insured, thus avoiding the ineligibility of a claim in the event of a loss. Essentially, exporters need to assess the role of any third party in the transaction and confirm in writing who has the legal obligation to pay for the goods.

- **Order origination/payment obligation**

Is the order request originating from the end customer and simply being passed through their agent, or is it directly from an agent with no other correspondence supplied from the end customer? This should indicate whether the agent is taking ownership and reselling to the end customer, or is acting only as a deal facilitator. To confirm the scenario, request written proof (dated within the last year) from the end customer that confirms the agent's role in the transaction and who is legally obligated to pay.

- **Shipping destination**

Are the goods being shipped directly to the customer or to another destination? The agent or customer may request that the goods be delivered to a clearing house location, or directly to the customer's end buyer. Best practice is to obtain written confirmation from the customer that this is their preference.

- **Previous group experience/common principals**

Is the order coming from a company that is part of a larger group, or from a principal contact that is also affiliated with another company? In some cases, one company in a group will default, the exporter will cut ties and then orders will again commence from a company affiliated with the defaulting firm.

- **Trade references/credit information**

Has the customer, clearing house and/or agent provided any trade references, or have you obtained an official credit report? Best practice is to request two or more trade references (in North America if possible) to obtain details on previous payment experience, as well as to verify operations. An official credit report can also provide similar information in addition to other company information, such as sales figures.

- **Ongoing monitoring**

Have orders been steadily increasing and/or have you seen a sudden change in payment behaviour? A common scenario is that the customer has been prompt with ordering and payments, but then begins placing larger orders while providing only partial payments, and eventually defaults on entire invoices.

5 MOTIVATING YOUR INTERMEDIARIES

Here are some tips for motivating your intermediaries to do their best for you.

- **Build the relationship**

Your long-range goal should be to build a mutually compatible relationship that helps both your businesses grow. You can work toward this by treating your intermediaries like partners rather than employees—making it easy to do business, nurturing clear communications and providing fast access to decision makers. Do your utmost to keep them informed about product development, marketing plans and new opportunities, and always remember that being a partner means helping your intermediaries reach their goals, too.

- **Stay structured**

The most fruitful company-intermediary relationships are structured, not haphazard. Meet with your agents or distributors regularly to discuss (for example) your current expectations, how they're being met and what resources you should be providing—in short, what's working and what isn't, and how to deal with the latter. Your intermediaries will come to expect and welcome these opportunities for working as your partner.

- **Give them the tools they need**

Each of your intermediaries will be representing multiple product lines. If you make it easy for them to remember the features and benefits of your own products, they can do a better job of selling them. Give them cheat sheets on each product, on beating the competition and on key points of differentiation. Provide testimonials, demonstrations and performance data, and package it all in customer-ready formats such as PowerPoint presentations, brochures, videos and demonstration kits.

- **Be responsive**

If an intermediary has an inquiry, it's often because of a new sales opportunity or an issue such as a customer complaint. Since these tend to be time sensitive, it's essential to respond within hours. Moreover, you should use any resources necessary to provide a complete, satisfactory answer to the message. And even if the inquiry isn't urgent, treat it as if it were. A fast response to any type of query tells your intermediaries that you're paying attention to them and that you take their concerns (even minor ones) seriously.

GIATEC: TIPS FOR DISTRIBUTOR STRATEGIES

Here are some approaches that Giatec has used successfully in its distributor strategies:

- Work with the Canadian Trade Commissioner Service, especially when you're at the stage of choosing and qualifying distributors and want background checks into their activities and reputations. Also use the export services provided by the various provincial governments.
- Don't rely solely on your distributors to handle your marketing for you, as you don't have full control over their actions. Always maintain your own inside sales team so you can quickly modify your sales strategies if the behaviour of the market changes.
- Start your distributors at the bottom, with lower discounts and non-exclusive agreements, and let them work their way up.
- If a potential distributor demands an exclusivity agreement, don't simply say no—that will cause many of them to lose interest. Instead, tell them they can have the agreement if they make a large, up-front financial commitment. If they balk, you can suggest an MOU and go on from there. If they agree, of course, you may have found an ideal partner!
- Keep your distributors motivated. Give them opportunities, upgrade them when they perform well, and provide a development path that can lead to an exclusive partnership with training, customer support and other benefits.
- Remember that for many industries, there is no how-to manual on setting up partnerships like this. If you're lucky enough to have competitors against whom you can benchmark yourself, you should take advantage of that situation. But if you don't, you should be prepared for a steady learning curve that may involve a good deal of trial and error.

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