



DARE YOUR DISTRIBUTORS

FIVE STEPS TO ACTIVE DISTRIBUTOR MANAGEMENT

BUSINESS SWEDEN, JUNE 2016

DARE YOUR DISTRIBUTORS

Distributors, the most significant sales channel partner for Swedish companies, are not delivering to their optimum potential. Solution lies as much with the Swedish principals as with the distributors.

Relationship is drifting

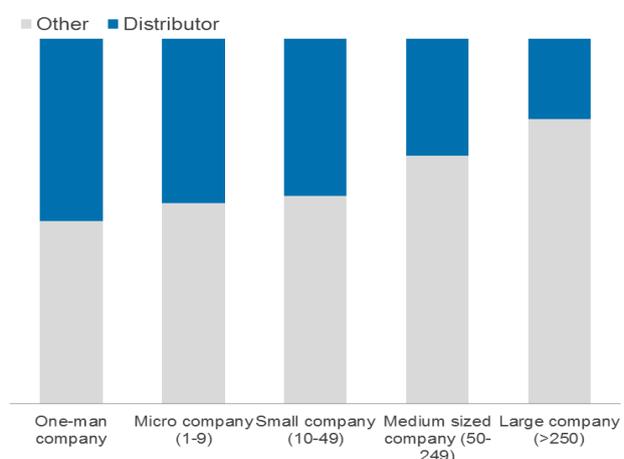
Today 65% of the exporting Swedish companies are not satisfied with their distributors¹. Still the majority of them tend to stick to these underperforming distributors.

Are the Swedish companies doing enough to actively engage and get the best out of their distributors? Business Sweden interviewed a number of leading Swedish companies, across industries, company size and geographies, to understand their current distributor situation and why their performance was less than desirable.

Most exporting companies recognize the importance of distributors as sales partners. For a majority of the companies, distributors are often the first entry step in the international sales process. In fact, 47% of overall Swedish export is enabled through distributors.

Figure 1.

Estimated share of distributor sales among Swedish companies



Source: Business Sweden

What makes a distributor attractive? First of all, a good trade-off between market reach and capital investment is vital. Nevertheless, this trade-off becomes less effective with time. Most of the Swedish companies fare well in the early stages of the distributor life cycle (see figure 2). In the early stages, there is a positive energy from both the sides to do something new. Then, as the relation matures, this energy and excitement plateaus and reaches an inflexion point. Action is needed to take the relation forward and to avoid digression. There are some tell-tale signs of the inflexion point:

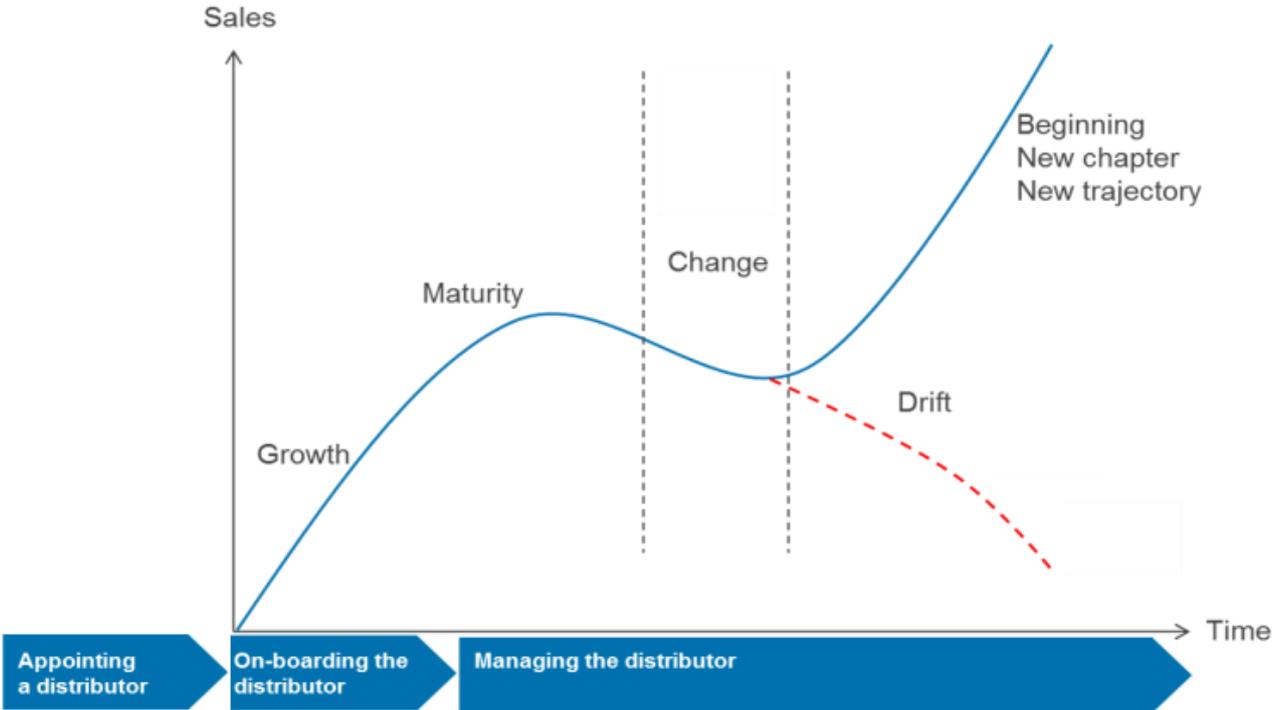
- ▶ Lack of customer feedback
- ▶ Continuously demanding price discount
- ▶ Unhurried response time
- ▶ Often citing business culture - "You don't understand, this how it's done in my country"

- ▶ Blaming the end customer for unverified claims (payment terms not honored, technical problems claimed etc.)
- ▶ Unexplained cancellation of orders
- ▶ Lack of transparency regarding clients (not naming them, reluctance to do joint client visits)

"We are generally good in structured distributor selection. However, we are really poor in managing those selected distributors, particularly in far-away markets", says the Head of Regional Sales at a large industrial engineering company, with almost 1 BSEK revenue from distributors (15% from emerging markets). This points to a need for a continuous and engaged relationship. An actively managed relationship will lead to a win-win trajectory for both partners.

Figure 2.

Distributor life cycle



Source: Business Sweden

Meet the reality

Most of the companies are keenly aware that the global market has significantly changed in the last few years, and that it is becoming increasingly complex. Digitalisation has disrupted or is disrupting traditional sales and marketing models across industries. Successful business practices of mature markets are not as effective in fast growing emerging markets.

The distributors' profiles have also changed over years. Independent local distributors, who were happy serving their own markets, have started showing regional ambitions. Now, we see more distributors serving Southeast Asia, Northern Europe, Central Americas etc., rather than just individual markets of those regions.

Also, there are several new trends among global distributors. A case in point is Sandvik Mining who has entered into a distributor agreement with a much smaller company, Getman Corporation, based in the US where Sandvik Mining will be the sole global distributor of their products. This is an example of enhancing your product portfolio with complementary products, without acquisition.

Power balance between distributors and their principals are also changing. Emerging markets are now much less in awe of the Western products.

“In China, it is more challenging these days to find distributors compared to 10 years ago, since the market has become a lot more mature. Previously there was a big gap between imported and domestic products in terms of quality and price but the imported products nowadays do not always stand for high quality. The distributors are becoming more selective. The competitiveness of the product is key”, says Judy Zhao who has worked with hundreds of Swedish companies in the last 15 years as a consultant for Business Sweden in China.

All of these changes are impacting the distributor life cycle. The effects vary with industries and markets, but what is indisputable is that managing the distributors is no more business-as-usual.

“ UNDERSTANDING CULTURAL ASPECTS AND BETTER UNDERSTANDING OF CUSTOMER PRIORITY ARE KEY CHALLENGES, WHEN ESTABLISHING A DISTRIBUTOR SETUP ”

Regional Sales Manager
Large construction equipment company

Five steps to active distributor management

To meet the increasingly competitive reality of today, active distributor management is critical. Based on the discussions with Swedish companies, combined with extensive experience from supporting organisations globally, Business Sweden has identified five steps to secure success with the distributor model.

Step 1: Create a global distributor strategic framework

A critical success factor for companies to realize their full international potential, is to have a strong strategic framework to define where, when and what sales channel(s) to use.

Set your global distributor strategy by defining when and where distributors are required. The framework has two broad components:

1) Distributor model - This aims to create an ideal distributor profile

- ▶ customer segmentation
- ▶ geographical reach
- ▶ product portfolio
- ▶ cultural fit
- ▶ long term business goals

The need for a distributor model is more pronounced for those who have multiple products that are varying in quality and price, application usage and brand perception.

“Understanding cultural aspects and better understanding of customer priority are key challenges, when establishing a distributor setup. In Sweden, we focus a lot on improving productivity. However, in most of Asia, they prefer reliability over performance. That distinction is important to understand and then tweak your sales pitch accordingly”, says the Regional Sales Manager, for a large construction equipment company with distributor led business in Asia.

2) Omni-channel framework – A multiple channel framework is necessary to reach a large and dispersed customer base. The digital avenues (online sales) enable you to test the market without major investments, while still retaining full control over price, customer relations and marketing.

A prerequisite for online sales success is to secure that

- ▶ your customers are comfortable buying online in the chosen market
- ▶ your product lends itself to online sales

“Consumer goods companies are bypassing the traditional distributors in mature markets. We will not have any traditional distributors by 2020, by then all sales will be online”, says CEO of a medium sized food retail company focused mostly on the European market.

Keep in mind that for certain industries your end customer may not feel comfortable purchasing from a company without a local presence. This approach may also mean higher freight costs if you are posting individual items directly to the customer.

Make sure to consider all possibilities in terms of distributor model and channel framework before selecting the right distributors for your business.

Step 2: Choose, not get chosen

Choose the market first, before choosing the distributor. Many Swedish companies, when approached by an independent local distributor, agree to test the market in the distributor's country. They consider the distributor to be an appropriate partner because the distributors were already serving customers with products similar to theirs. However, for the majority of Swedish companies, this turns out to be a mistake.

Many of these opportunistic distributors, particularly in the emerging markets, are out there “collecting foreign brands” and seldom make serious effort in creating mutual value.

A more effective way is to better understand your chosen market. Get fact based information on customer behavior, competition scenario, effective sales channels and local business practices. By doing so you can more effectively qualify and understand the need of distributor(s).

Step 3: Select experienced yet passionate distributors

Choose your distributor with care. You want an efficient distributor who performs in line with set goals, and continues to be ambitious and grow when goals are reached.

Favorable traits to look for in general when choosing your distributor are

- ▶ Experience from the industry or related sectors
- ▶ Passion to succeed – look for someone with the same enthusiasm and ambition as you have
- ▶ Ethical compliance – do your research, take references, make sure your business does not get associated with non-ethical behavior
- ▶ Financial stability
- ▶ Diverse portfolio – a distributor with a successful diverse portfolio will know how to sell various products to various customers
- ▶ Openness and transparency – ability to communicate openly to secure that your distributor will tell you about what is happening in the market and how sales are going

Identify what you want from a distributor and evaluate seriously at least two-three alternatives (this includes meeting them in-person). Avoid settling for only one distributor, and do not grant exclusivity unless absolutely necessary.

“Rather than seeking a distributor with a good “market fit”, we look for one with a good “company fit” – a culture and strategy compatible to our own”, says the export manager of a medium sized Swedish healthcare company who are expanding rapidly in Asia through distributors.

Another important factor is to understand what share of your distributor’s revenue you represent. It is sensible to try and find someone who sees your business as valuable, not just a drop in the ocean. This means assessing the scale of their overall business versus the size of your orders, and always be prepared to recognize that their orders may out-scale your current capabilities.

Step 4: Onboard vigorously and set expectations early

Once you have chosen your distributor, spend some time to on-board them properly. It is critical to invest time and resources early into the relationship. Key elements of onboarding are

- ▶ Clear contract without fine prints
- ▶ Company culture and compliance training
- ▶ Product training
- ▶ Clarity on marketing and pricing
- ▶ Clarity on delivery and after sales
- ▶ Transparency in joint activities, results and reporting

During onboarding, commit corporate resources up front, even if the market's prospects are uncertain. Make the distributor feel as part of your organisation. Encourage distributor's management team to create a joint market development plan. Have a strong and sharp sales pitch to make your product important enough in the distributor portfolio.

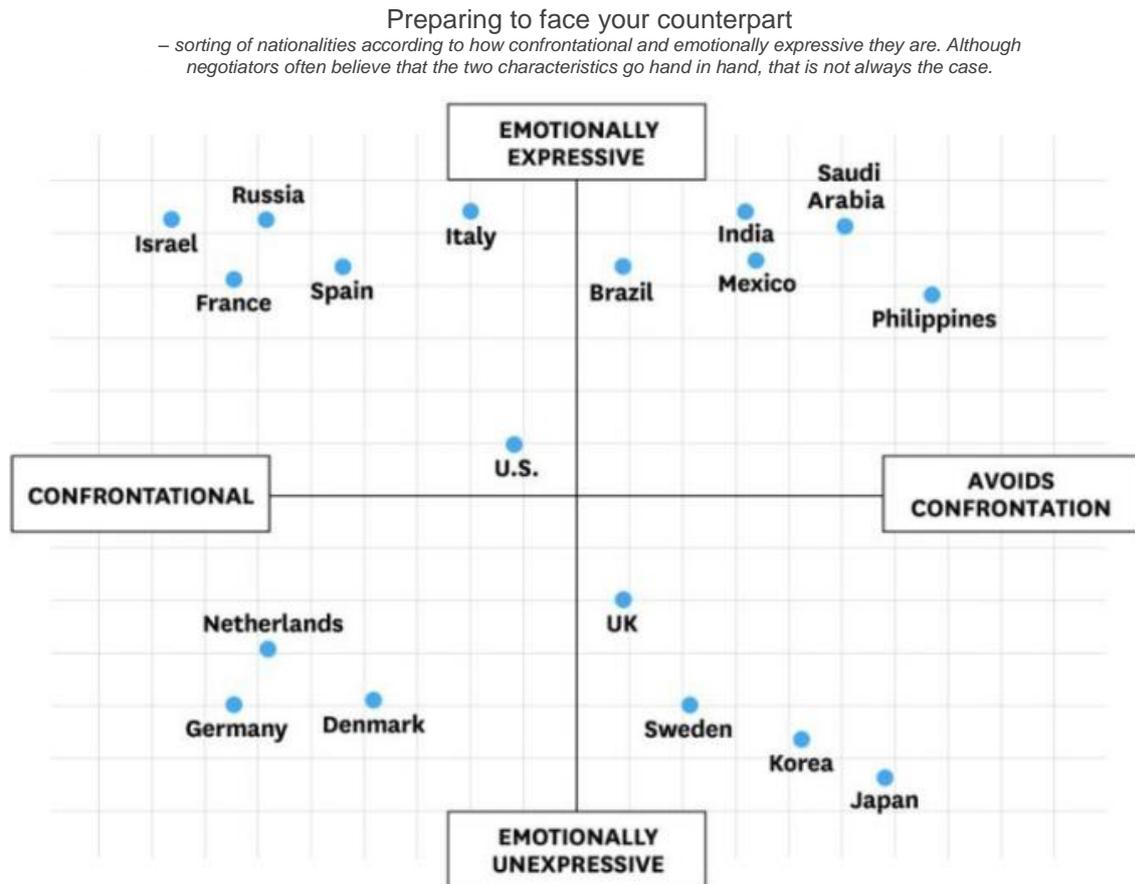
It is critical to understand the cultural context of the distributor. In mature markets, the rules of distribution management are generally straight forward. Companies agree to objectives and activities, roles are divided and performance is, usually, in accordance with the plan

Figure 3.



Source: Business Sweden

Figure 4.



Source: Erin Meyer, “Getting to *si, ja, hai, and da*”

In emerging markets, however, the familiar rules do not always apply. Companies that take emerging market as a nascent version of a mature market, and hope that it shows “mature” behavior are in for a surprise. Less open markets, different regulatory norms, greater influence of government, corruption etc. make emerging markets a different ball game. At the minimum, more follow ups and in-person visits than in mature markets are required.

As figure 4 demonstrates, countries are different in their emotional and behavioral make. Therefore, it is important to understand and appreciate the business culture of the distributor’s country. For example, national holidays or religious festivals often experience either a surge or nosedive in demand. If you understand these factors, you will undoubtedly enjoy a more productive relationship with your distributors.

“To get the most from your distributors, firstly, you make it your business to understand the market your distributors work in, and really get to know the challenges they face”, is the mantra of success as per Regional Sales Manager for a large construction equipment company with strong distributor led business in Asia.

Set the expectations clearly. Not meeting sales targets consistently will require performance reviews and/or the right to terminate the relationship.

It is, sometimes, recommended to already at the outset jointly establish a trial period for the distributorship with agreed goals and outcomes.

Step 5: Actively manage the performance

This is the phase where many companies leave the relationship on auto-pilot, assuming that the onboarded distributor will now start performing. For the initial couple of years, there is indeed growth in sales and the scenario looks promising. However, after a few years, the sales become stagnant and the Swedish principal companies realize something is missing.

This is the time to actively engage with the distributors, or drift will set in. It is important to do regular performance assessments to secure that jointly agreed goals are being reached. And if not, remedial action needs to be taken.

Performance assessment may include

- ▶ Comparing distributor's current and planned performance against historical and estimated future size and growth of the market
- ▶ Key competitor's performance
- ▶ Internal targets in terms of product sales, pricing, market penetration, brand promotion, geographical spread and organisation
- ▶ Review of internal arrangement between Swedish company and the distributor

"We have some complacent distributors, who have been working for a long time and have a stable base of customers, but are not so ambitious anymore to grow. A few of such distributors are with exclusive rights, where we have locked ourselves in", rued the Global Sales Manager for an industrial components company with large distributor setup in Europe and US.

Remedial action would need to be taken to jointly review and agree on next steps.

It should be kept in mind that distributors are also looking for return on investment. If the product does not meet expectations, they will be reluctant to spend time and money on it. So, a potential action could be to terminate the relationship if it is not working for different reasons.

It is imperative to keep a long term view of the market and not to expect immediate results, post onboarding.

A successful distributor relationship requires investment of time and energy, as well as profound understanding of both your market and your distributor.

“ EVERYTHING IS MUCH MORE COMPLEX TODAY THAN EARLIER. THERE ARE GREATER DEMANDS ON THE SALES ORGANISATION AND THIS PUT GREATER DEMANDS ON THE DISTRIBUTORS. MY KEY CHALLENGE IS TO INSERT A STRONG SENSE OF URGENCY IN MY DISTRIBUTORS ”

Global Exports Manager

Large industrial engineering company

Key questions for executives

The biggest challenge in a distributor relationship is to discern when the internal relations or market conditions have changed, which requires a new sales strategy. Key questions facing the executives responsible for international business are

- ▶ How to manage inert distributors in the markets where they were “chosen”?
- ▶ When to move from distributor led sales to more in-house sales?
- ▶ How to motivate a complacent distributor to perform and grow?
- ▶ When and how to move from a single distributor to multiple distributors in a market?
- ▶ Whether or not to acquire a high performing distributor?

Those distributors that were only taking order and providing no value addition are being weeded out. The good distributors, who serve the customers with knowledge, service and technical support, are being rewarded. In a similar way, the principals who actively manage their distributors, right from market selection to continuous support, reap rich dividends of their investment. However, those who are less engaged with their distributors are realizing that it is a costly mistake.

By Fredrik Fexe, Charlotte Rylme, Manik Karn and Sofia Öberg.

The authors thankfully acknowledge the inputs and support provided by Business Sweden colleagues from Beijing, Berlin, Chicago, Delhi, Dubai, Johannesburg, Kuala Lumpur, London, Sao Paolo, Tokyo and Warsaw offices, as well as Swedish companies who were interviewed for this article.

BUSINESS SWEDEN Box 240, SE-101 24 Stockholm, Sweden World Trade Center,
Klarabergsviadukten 70
T +46 8 588 660 00 F +46 8 588 661 90
info@business-sweden.se www.business-sweden.se

Business Sweden's purpose is to help every Swedish company to reach its full international potential and help companies abroad to reach their potential by investing in Sweden. The purpose is operationalised through 450 staff deployed at 14 offices in Sweden and at 55 offices in 49 key markets abroad. Feel free to contact us for any questions regarding Swedish international trade or foreign investments in Sweden.



THE SWEDISH TRADE & INVEST COUNCIL