Types of representation abroad

When exporting a product or service, you should choose the kind of offshore representation that best meets your business needs. Offshore representation includes:

1. **Commission or indent agent:** sells on your behalf and receives a commission on sales
2. **Agent:** seeks out potential customers for your product and can be paid a salary, a retainer, a commission or a combination of all three (an agent does not take ownership of your goods)
3. **Importers:** solely import goods for re-sale to other companies in the distribution chain (importers take ownership of the goods)
4. **Importer/distributor:** takes on ownership of the goods and pays you for them (under export agreements, they usually carry stock and offer after-sales service)
5. **Joint Venture** arrangements, formal or informal with like minded local firms who can best serve your interests in their markets. They may be, for example, a local service provider providing a similar but not competitive service to the one you are offering.

(**Note:** in some countries agents are not permitted - for example, Libya, Burma)

Selecting a representative to meet your needs

In selecting an agent/distributor to suit your needs, you should ask:

- Am I looking for an agent to sell on commission or retainer, and do I need an overseas representative to take ownership of my goods or to locally be responsible for the service I wish to provide?
- Does an agent/distributor need particular technical knowledge to sell my product or service and is it feasible to train their staff?
- What type of customers should an agent/distributor be targeting? For example, architects for building products, banks for financial service packages, etc.
- What size operation am I looking for? For example, small, new exporters should avoid getting 'lost' among a number of other firms, some of which may be in competing lines, represented by the same major distributor.
- What geographical area does the agent/distributor cover, and is it necessary to have more than one representative to cover the area? Check to see if the area they state they can cover, is actually covered! Exaggerations are not uncommon.
- What servicing and warehousing facilities does the agent/distributor have?
- Does the agent/distributor need to have links with the government?
- How many sales staff does the agent/distributor employ and do they have the right expertise?
- What is the best location for an agent/distributor? For example, a representative in Brazil handling mining equipment is better located in Belo Horizonte or Rio de Janeiro rather than in Sao Paulo.

Distribution options

The way you distribute your product or service overseas markets is influenced by:

- **Customer characteristics -** the greater the number of customers, the greater the need for agents and distributors. For instance, if only ten customers want an industrial product or a specific service, direct sale or employing one agent may be the best solution. But, if you have a large number of low-volume retailers, it may be best to reach them via distributors.
- **Product/service characteristics** - if an item has a high unit price such as machinery or a major call centre software package, selling direct is usually the least-expensive option. However, if an item is technically complex, it may be necessary to have a local manufacturer/service provider or distributor with a strong technical after-sales service capability undertake or supervise sales. Selling perishable products will also require distribution through channels with experience in careful handling of such products.
- **Middleman characteristics** - if you select a middleman, consider whether they are: product or service specialists or general intermediaries? needed because of business practices in the country? only available because all the reputable middlemen already represent competitive lines? 'cherry pickers' or ‘order takers’, rather than promoters of total product ranges or service offerings?
- If you have trouble finding an agent to distribute your product or service effectively for a reasonable commission, there are some alternatives including: basing your own person in the market until you can locate an agent; giving the line to an importer/distributor, to reduce your distribution costs; making sure your agreement is legally enforceable and paying the cost of an agent for a set period (agents are likely to be interested in this because of the commission on sales)

Important: Seek legal advice before signing a commercial agency or distributorship agreement.

Tendering for overseas business

Tendered business can represent a ready export opportunity waiting to happen. To be successful in tendering, all it takes is to think deeper about the organisation that's tendering, the outcomes driving the contract, and your ability to provide a solution.

When you decide to enter an overseas market, both the capability and capacity of your organisation are major considerations. Following are some steps you can take to help demonstrate your capability and capacity to the tendering authorities:

1. **Gather information**
   Obtaining information on tenders in a new country can be useful to gain an understanding of market potential. In-depth research on likely contract opportunities can provide an understanding of likely competitors and the current solutions being sought by purchasers without the cost of establishing a branch office.

   Depending on your industry, many of these contracts may be recurring in nature. So, it's good to prepare yourself for the next time the opportunity is tendered. In most cases, you can access details of who won the last one, how much they charged, what they were requested to provide, and the quality of the outcomes. Plan a lot earlier than when the next invitation to respond is advertised.

2. **Define capability**
   Your capability and capacity must be expressed in terms that are relevant to the buyer, as well as the culture and environment, and particularities of the country in which the opportunity appears. It seems simple enough, but is something that sellers often ignore – you need to empathise with the potential buyer.

3. **Establish credibility**
   The logistics of supplying an overseas customer must be mapped in detail. A track record on similar projects is a plus, but the absence of previous experience can be offset by demonstrated capacity to plan for the project or supply chain resources.

4. **Demonstrate innovation**
   Market leaders add value to the solution offered by detailing innovative product, technique or process that ensures a greater certainty that the buyer will achieve the objectives of its purchase.

5. **Hidden opportunities**
   A tender can lead to other selling opportunities. For example, there may be future purchases connected to a project that have not been identified. Some projects are not isolated and may lead to preferred supplier status being granted.

   The winner of such projects will invariably require sub-contractors, additional suppliers of component equipment, services and consumables. Consequently even when a tender is 'won' it's not yet over. However the emphasis shifts from concentrating on the tender agency to the prime contractor and this may actually mean a shift in geography as well.

Exporting a service

The intangibility of services has an effect on their marketing. So exporters need to:

- take time to personally present and demonstrate features of the service to the end use
- take account of differences in cultural, commercial and social circumstances in the target market
- allocate adequate time to locate the right intermediary
- provide extensive training for local sales staff

Other **opportunities for services exporters** may arise when:

- service exports support product exports (enabling services to use product export channels)
- large accounting and banking firms follow major clients into offshore markets to continue their close service relationship
- smaller service exporters cooperate closely with local manufacturing firms to deliver services to them abroad
- services exporters follow mining companies to service them overseas

A different strategy is needed for providers whose services are independent of products. In this case, you should search for markets abroad that are similar to your home markets.

Investment

In taking your business overseas, you can also look at licensing, joint ventures and offshore operations. While exporting direct may be profitable, other options can include licensing your product's manufacturing rights to a foreign company or setting up a foreign manufacturing joint venture.

When looking at foreign investment, consider these issues:

1. **Do I really need a foreign investment partner and what would they bring to the partnership?**
   Overseas agencies usually recommend you find a foreign investment partner to help you with issues like financing, labour relations and distribution networks. Or you may need a local partner to deal with the local authorities. Whatever the reason, carefully question whether you will benefit from a partner's involvement, because it is very difficult and expensive to undo an investment agreement once it is signed.
2. **Can I withdraw from an investment and recoup my equity?**
   In some countries all fixed assets left after a joint venture company is wound up devolve to the domestic partner.
3. **What are my legal responsibilities?**
   Before you agree to an investment, find out how your legal responsibilities could affect you and your personal circumstances. If you don't understand all the technicalities, serious problems can develop for you overseas. Ask other foreign investors about their experiences and what works best in practice, and how to handle difficult issues overseas in culturally acceptable ways.

Important: Each country has its own investment and tax laws. Before you decide to commit to a foreign investment, make sure you get good legal and financial advice. It can also help to check the experience of other companies which have chosen to invest in the country of interest to you.

Franchising

If your product or service is unique – for instance, an innovative quality-control system - franchising can be a smart way to expand your business overseas.

Before making a final commitment to franchising, take steps such as:

- **Establish your own 'reference site' to help you market your franchise offshore** - to demonstrate how well your concept worked at home
- **Decide how many franchisees you want to appoint -** either have a master franchisee for your new market or run the major franchise yourself and appoint other franchisees direct
- **Work out how to 'split up' your new market** into territories - these should be sizeable enough to be attractive to potential franchisees
- **Set out what will happen if you want to wind up the franchise -** because your new 'partners' will want to have guarantees before they sign up

- **Design a market strategy -** calculate how to fund your franchise, and establish a team to help arrange leases, handle legal work, manage accounts that comply with local tax requirements, organise local supplies, etc