

## **Alternative Distribution Approaches**

### **Joint Venture**

Joint ventures bring together a foreign company and an American company with similar goals to establish a market entry and a distribution network. Each partner brings specialized skills that make significant contributions to manufacturing and distribution capabilities.

Unique features of joint ventures include:

- Joint ventures can be equity or non-equity partnerships.
- In some countries, a joint venture is the only way an American company can set up operations.
- Host country laws often require a citizen from that country to have a percentage of ownership.
- Both partners make substantial investments into the venture.

Unlike licensing, joint ventures require a direct investment for management, technology transfer, training, and foreign relations. However, in a joint venture agreement, your company is in a position to expand resources, export experience and market knowledge while spreading the risk and laying a distribution framework. There are also several forms of tax advantages or waivers offered by foreign countries for joint ventures.

### **Strategic Alliances**

Strategic Alliances is a broad term used to refer to alternative alliances, other than joint ventures or subsidiaries. An alliance is a form of presence in the overseas market that represents more than a simple buy/sell agreement. It has a well structured purpose, shared management strategies and financial goal. Companies that form strategic alliances do not necessarily create an independent business organization. For example, a strategic alliance may take the shape of any one, or combination of the following agreements:

- Intellectual/Technology Sharing
- Cross-Licensing
- Distribution Arrangements
- Equity
- Product Development Coordination

Many small businesses view strategic alliances as an alternative to capital intensive investment approaches to foreign market entry.

### **Subsidiaries**

In contrast to a joint venture agreement, a subsidiary agreement guarantees control over all decisions involving marketing and production. Its technologies, patents, trademarks, and know-how have the maximum protection available under the host country's laws. (*Exporting From Start to Finance*, Wells, 1995).

A subsidiary is treated the same as host company operations in terms of benefits, regulations and taxes. For obvious reasons, there are choice places in the world to

consider for jointly or wholly owned subsidiaries and manufacturing facilities. Factors to consider range from low labor costs and government regulation to tax and economic incentives.

Expert legal advice is recommended to determine true advantages of the subsidiary agreement within the laws and customs that are unique to the host country.

### **Agent or Distributor?**

The decision whether to use a distributor or an agent is a substantial one and vital to the nature of your overseas efforts. The success or failure of your export effort will depend upon this decision. Consultation with your legal counsel, the practicalities of your export requirements, and the traditions of the country you are exporting to will have substantial bearing on your decision. The time and effort spent up front in your evaluation and determination of the correct avenue will greatly benefit the success of your export program.

Representation of any kind in a foreign country is much like a marriage, it can be easy to get into but often difficult and expensive to terminate. If you are not confident in your selection of a representative, sell directly to retailers or other end users until the right one is located.

### **Use an Agent if:**

- It is the accepted distribution method in the country you are exporting to.
- You do not need to maintain inventory in the foreign country. For example, if you manufacture custom or capital equipment, sell services, or can have inventory shipped direct for individual orders, you probably do not need to keep stock and maintain a distributorship program in the foreign country.
- You want to maintain direct control of the sales of your products overseas. Since agents sell the product on behalf of the exporter, they must sell it at the exporter's price, under specified conditions, and with prescribed representations.
- You intend to benefit from corporate identity and intend to conduct business under your own name.

### **Use a Distributor if:**

- It is the accepted distribution method in the country to which you are exporting.
- You need to maintain inventory on the foreign country and do not want to maintain your own distribution network.

### **Compile Potential Representative List**

Once you've determined that you will use a representative, you must locate possible candidates to act on your behalf. These are available either through government sponsored or private sector programs, databases, business contacts, and a host of other methods. One of the best sources that can minimize your search efforts is the Department of Commerce Agent/Distributor service. If your product has 51% or more U.S. made content, the DOC will send your product literature to the specified foreign country, conduct a search, and prepare a report identifying up to six foreign prospects who have examined your literature and expressed interest. Read the following for information on additional sources

## **Contacting Potential Representatives**

Having obtained a list of contacts of potential representatives, the next step is to establish contact to determine those who might be available and have interest in acting in that capacity. The best method is the face to face contact which is available during trade shows, trade missions, and foreign travel. If this is not practical, communicate through written correspondence. Contact representatives through letters, telephone or telefax, cables, or for many, through the electronic medium.

Download the [Initial Letter To Potential Export Sales Representative](#) (50k PDF), a sample letter to use as a guideline in your initial contacts with distributors. Remember to use the BACK button in your web browser to return to this page.

Use this sample as a guide in developing your own communications under the review of your legal counsel. If the communications can be drafted in the language of the foreign country, that will be even better. Initial communications should convey the following, at a minimum.

- Background information on your firm
- Information regarding your product
- The type of sales representative you are seeking
- Available information regarding your target market and/or end user
- Deadline for securing representation in the local market

Take care that you don't make an offer or imply a contract, instead your communication should be a solicitation for a proposal. Keep track of your communications and responses. If you do not have a response from your contact within 30 days of your first efforts, send a follow up letter. If there is still no response within another 30 days, consider placing this contact on your inactive list.

## **Evaluating Potential Representatives**

As previously stated, the arrangements you make with your representative are critical to the success of your marketing efforts. Too little care in evaluating and selecting your representative may be regretted later. You want to know as much as possible about your contacts to make informed decisions and assure mutual compatibility. At a minimum, you should consult the following information when available:

### **Background Information on the Representative**

The more information available to you on a prospective representative, the better. At a minimum, you should inquire about the following:

- Company letterhead
- History and experience, particularly with similar products or industry
- Qualifications of principals and/or officers
- Adequacy of personnel, facilities, and resources
- Availability of the resources to meet your requirements
- Current sales volume and size of inventories
- Territories they cover
- Product lines they carry (including competing or complimentary products)
- Customer base
- Current clients
- Past Performance

- Familiarity with U.S. business practices
- Nature of Sales force
- Media resources