

THE SELECTION OF AGENTS AND DISTRIBUTORS IN FOREIGN MARKETS: A DESCRIPTIVE MODEL

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Abstract

The application of marketing principles across the borders of many countries has become one strategic option many firms consider for survival and growth in our highly competitive global market. The purpose of this paper is to highlight the basic significant selection process used by marketing firms when searching for agents, and distributors of their goods in foreign markets. The work also discussed the identity of these channel members and their respective duties. The concluding aspect is made by proposing a descriptive model which the researcher believes if orderly and logically approached will enhance the chances of finding a good representative for any marketing firm that embarks on international operations.

Making goods available to the end users when, and where they are wanted and in right quantities has added significantly to the level of consumer satisfaction. It has also increased the level, and intensity of competitiveness among firms, in world markets. Firms go intentional for certain reasons. It could be that the home market has saturated, become highly competitive, or that that foreign markets promise greater or more opportunities for growth, lesser competition, and lower costs of doing business. Whatever might inform the entry into foreign markets, the firm must have seen such markets as being substantial, and profitable enough. Basically the decision on how to get her offers to the consumers at the right time, and place must be reached otherwise, her efforts would become futile dashing away all aspirations, and hopes. It becomes imperative therefore, that agents, and distributors must be selected for the firm's products. The question now is how would a good representative be selected? This is the objective of this work.

Interestingly, the agents, and distributors exhibit different attributes, which remain the key to deciding which type of partner to choose. In addition, countries do not present the same characteristics as what works in one, may not work in the other making it possible, the likelihood of having a mixture of channel partners. All the same, management of firms are to pay due attention to the selection process in the distribution function as a good one, guarantees place, time, and possession utilities thereby increasing their competitiveness in the market.

Again, they shall enjoy the representative's expertise, knowledge of the market, increased profitability, and improved aspirations and morale etc. Conversely, appointing

Academic Scholarship

an agent or distributor means that the exporting firm has effectively subcontracted the selling function of the business which of course has its dire implications as it not only loses control of marketing the goods, but may be equipping a ready competitor soon.

However, for the benefits which entry into foreign markets may present, successful operations to a large extent shall depend on selection of a good representative. Such a representative must perform the statutory duties diligently expecting in like manner, performance by the supplier, his own duties. Who then are these intermediaries? What are their duties?

Nature of Agents and Distributors.

Kerin, Hortley, and Rudelius (2004:282) define an agent as any intermediary with legal authority to act on behalf of the manufacturer.

Distributor, they further posit to be an imprecise term, usually used to describe intermediaries who perform a variety of distribution functions including selling, maintaining inventories, and extending credit.

Pride, and Ferrel (2008:435) define agents as intermediaries that do not take title to products and are compensated with commissions for negotiating exchange between sellers and buyers.

Distributors they define as intermediaries that take title, assume risk, and buy and resell products to other wholesalers, to retailers or to other business customers.

Kotler, and Armstrong (2008:387) on the other hand define agents as intermediaries that do not take title to goods whose main function is to facilitate buying and selling, for which they earn commission on the selling price.

Distributors, they define as independently owned businesses that take title to the merchandise they handle.

Duties of Agents and Distributors:

Agents:

An agent generates sales between a principal (supplier, or marketing exporting firm) and its customers. For his efforts, he receives commission usually tied to whole of goods or services sold. The agent does not take title, possession, or risk on goods at any stage of the transaction and for this, receives lesser remuneration unlike the distributor who sets his own margins.

The marketing firms retain control over key areas such as marketing strategies, product price list, and customer base.

The Agent Is Expected To Perform The Following Duties:

1. Comply with reasonable instruction of the supplier.
2. Have no conflict of interest with the supplier.
3. Keep the supplier's information confidential.

4. Account to the supplier for property and money under his care.
5. Keep supplier informed of all marketing and promotional activities.
6. Keep separate and proper books of account showing enquiries
7. Meet minimum sales target set by the supplier.
8. Refrain from selling or marketing competitive goods in the territory.
9. Indemnify the supplier of any breach of its obligations.
10. Act only within the limits of its authority. etc

In Turn, The Supplier Should:

1. Act dutifully and in good faith;
2. Provide the agent with the documentation and information necessary for the performance of the agency contract;
3. Send a representative to the agent where necessary, to accelerate promotion and sales of the goods and services;
4. Provide training and support to the agent relating to the demonstration of the goods and the provision of after sales service;
5. Inform the agent within a reasonable time period of his acceptance or refusal of an order or contract procured by the agent, and
6. Notify the agent once he anticipates lower volume of commercial transactions compared to the agent's expectations. Irish Exporters Association (2012:3)

Distributors:

Under a distributorship agreement, the supplier sells its goods to the distributor that in turn sells the goods to its own customers. A margin is usually added to cover costs and profits. Distributors unlike agents, take title to goods.

The Distributor Is Expected To Perform The Following Duties:

1. Maintain an adequate inventory of goods to meet customer needs;
2. Keep up to date books of account and records;
3. Use its best or reasonable endeavours to market, promote, and extend sales of goods in the territory;
4. Meet minimum purchasing or sales targets;
5. Indemnify the supplier for any breach of its obligations.
6. Refrain from marketing or selling competing goods (if sole or exclusive).
7. Refrain from making representation or warranties in respect of goods that exceed the supplier (IEA, 2012:5)

The Supplier In Turn Is To Perform The Following Duties:

1. Supply the distributor (not necessarily free of charge) with such amounts of samples of the goods and of advertising material to promote sales of goods within the territory;
2. Give the distributor such technical, and advertising support and advice both by correspondence and meeting as is considered necessary; and
3. Use reasonable efforts to protect the rights afforded to the distributor pursuant to the agreement.

The Selection Process:

Selecting an overseas agent or distributor is one of the biggest challenges that any firm planning for export, could face. Hunt and Hovel (1967) in a study of United Kingdom engineering firms found that firms are continually being approached by individuals offering to act as sole agent in particular market. The problem really, is how to recognize the potentially successful agent. The selection of agents and distributors depends largely on a range of legal, financial, and market factors. It could become more daunting for the export intending firm when other cultural factors such as language, and distance from the market are added to list.

Dunn (1979: 69-78) in a study of agents, and distributors found four selection criteria that were important. These were:

(a) Financial strength

Exporting firms need to find representatives who have substantial funds for investment. This is because the representatives must often make upfront expenditures such as hiring additional sales or service people before actual sales commence.

(b) Good connections

Companies need to engage representatives who have good connection with the sectors in which the firm is seeking business. It is important that the local concern is known, and respected by key purchase influencers such as the government ministers, commissioners, and business leaders.

(c) Other obligations

The exporting firm should understand extent of representative's involvement with other companies. If the representative handles several companies then his track record can be examined in some detail. Such examination determines whether he should be avoided or considered.

(d) Personal facilities and equipment

The representative's size and quality of work force is another important factor. The exporting firm being unfamiliar with the market will need a lot of information that will draw it to point of having successful operations. Such information not only bothers on competition, market operating characteristics, and buyer behaviour. There is need to have information on the agent's or distributor's facilities and available equipment that shall support marketing efforts. In addition to factors briefly explained above, some control factors have been identified as important selection criteria. They are:

1. The Goods:

Consideration for selection is made on basis of who retains title to the goods to be sold until they reach the consumers. Where supplier wishes to retain title to goods, then and agent is the correct choice since ordinarily he does not take title while the distributor does and in most cases, takes possession of the goods.

2. The Customers:

The distributor has direct link with the customers. They are his customers and not that of the supplier and with his knowledge, can often dictate the product and marketing strategies for his territory. If in the long run the distributorship is terminated, the supplier has no link with the customers and the disengaged distributor can supply his customers, competing brands. But in the case of agent, the customers are that of the supplier who maintains direct contact with them. This form of relationship therefore, seems to be more relevant where customer contact is essential.

3. The Price:

The appointment of an agent rather than a distributor is more popular for the situation where supplier wants to retain the right to control price of the goods. The supplier in most jurisdictions is not allowed to set the resale price for the distributor though it can make a recommendation. An agent is known not to set prices though he can negotiate prices.

4. The market:

An agency seems less suitable if goods required on-site technical support and after sale service. This is because commission earned will not be sufficient to fund investment required. The supplier therefore must find a local operator who will undertake the investment to provide a full service local operation. This makes the distributor more preferable.

Thorn (2004:169-176) however identified seven routes to finding overseas agents. They are explained below.

- (a) **The Volunteer:** - Agents who write in unsolicited, possibly having seen the principal's publicity or found the name in a directory.
- (b) **Local Prospective Customers:** - Requires a visit by the principal to the market to find agents.
- (c) **Institutions:** - Identifies the potential agents through institutions like Chamber of Commerce, trade organizations, and export promotion council. etc
- (d) **Commercial Searchers:** - Search companies that link prospective exporters with agents.
- (e) **Suppliers of Parallel Products:** - Non-competing suppliers of products bought by the principal's target market could be a possible approach.
- (f) **Poaching:** - A variant to choosing parallel supplier's agents. Involves persuading agents of other suppliers to come and work for you. An aggressive action considered by some as unethical.

(g) **Advertising:** - Placing an advert for representatives.
He further asserted that after establishing a short list of candidates, the following should be followed.

1. Make a credit check of each candidate.
 2. Visit each candidate's office to appreciate the environment he has chosen to work in.
 3. Have a history of each candidate and other principals he represents if any, to check their success or failure rates.
 4. Then make an introduction to individuals who will be handling the products.
- In actual fact selecting an agent or a distributor is no child's play. This is because indentifying the one who would take the product to heart and see it as personal objective to make its sale a success in his country is quite difficult. But because of the consumers ever- changing tastes and preferences, inequitable distribution of natural wealth, etc, export and import businesses must occur to sustain mankind since no one, or nation is self sufficient. These have brought in its wake opportunities, and want satisfying goods and service must be made available to the people that need them in their respective locations. The question has been how to select the individual that will play this very important role of contributing to making goods available when, and where they are wanted.

A model has been proposed for use by firms in selecting either agents, or distributors. It is shown below in the next section of this work.

The Overseas Intermediary Selection Model.

Recall that a model is a simplified representation of reality. (Loudon and Della,1984:29). Selecting an agent or distributor is a reality as supplier must undergo certain process in appointing who handles his products as they move down the chain to the final user.

Following the review of literature, a descriptive model illustrating the selection process can be developed. (See figure 1)

Academic Scholarship

The model above shows that exporting firms go through the following key steps during the process.

1. Entry strategy decision
2. Desk research
3. Shortlist of Potential agents
4. Personal visits
5. Recommendation to Board of Directors
6. Appointment of the Agent

1. Entry Strategy Decision:

There are three major entry strategies open to firms that seek international operations. These strategies are exporting, joint venturing, and direct investment. (Kotler, 1980:670). Within each of these channel strategies there are several options which are also available. They usually include the sales force of the firm, a subsidiary, agents, trading company, and distributors. Terpstra (1983:198) identified a number of different ways of entering foreign market as follows:

Production in Home Market

Indirect Export - Trading Company
- Export management company
- Piggyback e.t.c

Direct Export - Foreign distributor
- Agent
- Overseas marketing subsidiary

Foreign Production Services

- Contract manufacturing
- Licensing
- Assembly
- Joint venture
- 100% Ownership

2. Desk Research for an Overseas Intermediary:

At this stage the firm is faced with the difficult task of finding a suitable representative. Several sources as earlier explained are available to export intending firms. Common among them are export promotion councils or boards, direct approach, trade fairs, trade directories, business consultants, commercial banks and Chambers of Commerce.

Walsh (1981:146) recommends that the firm develops a profile of the various available agencies. Such profile should include.

- I. The precise geographical area the agent should cover.

- II. The types of customers or distribution channels the agent should be selling to; and
- III. The completeness and frequency of the agent's sales coverage.

3. Shortlist of Potential Agents.

After the desk research, exporting firm or supplier can now draw up a shortlist of potential representatives that merit further investigation. The list must be made based on some criteria that eventual selection of a representative guarantees actualization of the firm's goals.

4. Personal Visits:

The drawing up of the shortlist is followed by further investigation as earlier stated. Such investigation usually consists of personal visits by appropriate company executive to make contacts with the intermediary and to develop joint evaluation of business proposals. These objectives make personal visits very important in the selection process.

5. Recommendation:

After the personal visits, suppliers conduct a further check if visits prove satisfactory. The further checks are in areas of financial capability of the representative, and status report of the representative coming from the export promotion council or trade board, as the case may be. If the checks turn out a satisfactory result, then a recommendation will be made to offer the agent or distributor a formal contract.

6. Appointment:

Appointment of the agent or distributor starts with preparation of preliminary contracts, then a visit by the agent or distributor to the principal's home base to complete the contract negotiations, and to allow the representative visit the manufacturing plant.

Drawing up a preliminary marketing plan which will define the marketing objectives for the particular market, won't be out of place. This will make the principal and the representative have an agreed plan with objectives for the first year of trading entrenched into the contract negotiations.

Implications of the Model:

The descriptive model proposed in this paper illustrates the selection process used by firms when they are searching for an agent, or a distributor that will represent them in foreign markets. It attempts to highlight the steps taken by firms in this regard and should serve as a guide to the management of those firms thinking of going international, by way of exporting. This is advisable because the consequences of making a hurried and bad choice could be too devastating to the firm's survival and growth plans.

Conclusion:

The efforts of any firm shall be most unrewarding when her offers are not made available to the reach of both the actual and potential users of the products. As consumers' tastes and preferences keep changing, so have they become opportunities in the market place. An attempt to fulfill these needs call for not a mere product development, reasonable pricing, and effective promotion. Rather a good and efficient distribution network is as well required. Firms usually seek distribution locally and internationally depending on the intensity wished. The search in foreign markets is even more difficult because a bad selection will lead to eventual failure in the market place. Not only will sales volume and profit margins drop, the firm will not remain competitive and may end up setting a rival firm in his erstwhile distributor or agent or have his products counterfeited. Due care therefore must be taken in selecting agents or distributors abroad if the firm wishes to enjoy the benefits that informed the reasons for her going international.

Recommendations:

Market entry through agents or distributors can have several advantages such as reducing time and costs, gaining the local knowledge and network of the agent, or distributor. But the other way round, control and visibility over marketing and sales are lost which have implications for intellectual rights protection, and increasing the risk of product counterfeiting.

This work in recognition of these, recommends that suppliers or exporting firms should:-

1. Take time to select the right representative to avoid costly loss of time, and money, after wards.
2. Carry out thorough diligence to ensure the agents or distributors are financially sound, with good reference and market knowledge.
3. Appoint one that is in good societal standing to handle their products bearing in mind that control of marketing, and sales shall be shifted to the agent or distributor. This could be getting a competitor equipped for rivalry.
4. Ensure that all legal aspects of the relationship are straightened from the onset.

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Rowland C. Ezenwugo

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