

## Distribution Network

For a start-up the toughest part is not the development of a new product, the manufacture of a prototype or the testing of its new creation. The toughest part is to persuade distributors to work with you. A distributor is interested to make money, like you do. But for a start-up, how do you convince a distributor that he can indeed make a profit, without it being too obvious that he may well be a guinea pig for your product, experimenting, trying out, and often taking the pressures and financial burdens that come with an unproven, new concept? If you do not have hard proof, success stories, or a list of sound reference users, how do you get a complete stranger in a foreign land to market and promote your new product?

Most distributors would rather opt for “reactive” marketing: let you, as manufacturer, do all market research, gather market and competitive intelligence, handle all regulatory and reimbursement issues, set up and run clinical trials and tests, create promotional material, handle the PR, compose press releases, and when done, offer the distributor an extensive marketing and sales plan with a list of reference users, publications, and leads that are eagerly waiting to buy the new product. They will then sit next to the phone, waiting for clients to call in their orders, cashing in on your blood, sweat and tears.

But, you cannot live without a sound distribution network: customers expect service, a local phone number or address for complaints, and to speak in their own language to customer service. This is, if you are serious about selling your product beyond the short term. If, however, you want fast cash and do not care about the long term, you can always use the second-hand car salesman’s “hit-and-run” method: sell quickly for the highest price, and offer, but do not give guarantees and customer support.

The bottom line is that start-ups and small manufacturers have a tough time breaking into a new market. What you need are “pro-active” distributors, companies you should consider (and treat as) an extension of your own company, the important link between you and the end-user. They are the kind that will understand what needs to be done, and will be prepared to share the burden with you to bring your new product to market. Such distributors are scarce, hard to find, and can be difficult to convince to do business with you. But they exist. It takes time, research, and hard work to identify, and convince them.

### SO, WHAT DO YOU NEED TO DO?

#### 1. Get your product market-ready

Most new manufacturers are not ready and able to go to market. They have spent most, if not all their money on product development, and think that, with the product “ready”, clients will buy. Before going to market, manufacturers must resolve issues ranging from writing clear and understandable operations manuals, designing the most appealing appearance of the product and its packaging, to finding the best way to ship. Furthermore, if you wish to export, all your printed materials must be in the local language of the countries where you plan to market: in many countries this is a ‘must’, regulated by law. They also must determine the price clients are prepared to pay, whilst ensuring good profit margins for distributors and, of course, themselves. The new product needs to have a point of difference. If the product is, for instance, a piece of equipment, the difference could be either in price, quality, reliability, realizable time savings, ease of use, one or more exclusive features, or all of the above. The manufacturer must create either *real* or *perceived* differences in its marketing strategies. New manufacturers must prepare printed materials with the product's features and benefits, and its specifications, as well as user or statistical information. Production capacity is also a major issue: you cannot sell unless you are capable to manufacture the units you plan to sell.

## 2. Understand to whom you are selling

Manufacturers should not sell directly to the end-user for reasons described above. Instead, the manufacturer's marketing strategy must aim at sales through distributors. Most distributors deal with a narrow range of products, and are specialized in a specific field or area. They know each other, and refer work to each other. Distributors want to carry products that sell in high volume, but if you cannot promise huge sales, you might have to lure distributors with high profit margins. If, however, you cannot raise the consumer price, that extra margin will have to come out of your profit. It may sound costly, but compared to the cost of reaching clients yourself, it is not.

## 3. Target your market

One way to focus your marketing is to set priorities to whom you may want to sell first. The biggest market potential is not always the best: if you are small, it is better not to compete head-on with your larger and/or existing competitors, but to find a market niche where you can build a reputation, create brand awareness, and obtain a substantial market share.

## 4. Create demand

The manufacturer, not the distributor, must make clients want to buy a product. That can involve cooperative advertising and PR campaigns with distributors, participation at trade shows, fliers, brochures, direct mailings, and other marketing materials. You must do everything possible to encourage [client] acceptance and to create brand awareness.

## 5. Prove your product will sell

A new company may have to prove its product will sell before distributors and potential clients take notice. If a potential user cannot see or touch the product, chances to sell such a product are very remote: Selling out of a brochure, or using vague sales pitches do not work. There are two ways to tackle this highly important issue: either have a potential client test the product, or make a demonstration unit available to your distributors for road shows, exhibitions and presentations. But even then, to obtain orders requires work, follow-up visits and calls, and supportive promotional activities. Do not expect clients to call you: your distributor still has to call them.

## 6. Ask questions

Many new manufacturers do not know where to look for distributors. The best way is by asking questions. Contact your target markets and ask users (potential clients) whom their suppliers are, which companies offer the best after-sales service and customer support, and get as much gossip and grapevine stories possible. Visit local chambers of commerce, trade associations, trade meetings and presentations, and, most importantly: trade shows (see further). Contact manufacturers of similar products and ask who their distributors are. Go through trade journals and magazines, and search for names and ads. Sign up for newsletters, industry related chat groups and forums, and snoop around for the information you need. Many professional trade groups have, besides the professionals (your potential clients) distributors as members: look for them. You need referrals, names, contacts, in order to get through the door: impersonal emails or cold calling usually never gets you past a receptionist or secretary. Networking and working networks are the only and best way that will get you where you want.

## 7. Attend trade shows

Take an exhibit booth, either by yourself, with your distributor, or, if you do not have one yet in partnership, with another company with complementary products. As with other marketing efforts, choose a trade show targeted to your market. At the show, ask questions (as above), collect business cards from prospective distributors, and then follow up after the show is over. Even if you cannot afford your own booth, attend the shows that target your industry. Shows are good places to network and identify the people and companies that will buy and/or represent your products.

## 8. Select distributors carefully

Ask for their credentials, financial information and references, both of other manufacturers they represent, as well as of their major clients. Look for distributors, who carry similar, but non-competing products, and who sell to the same geographic territory and type of users. Distributors usually buy some of your product and carry a stock, but do not expect them to do so if you are a start-up with a still to be proven product. Good ones fill orders quickly and accurately and help build a market for your product. Another important aspect: do not expect to find distributors that will stick out their necks, and spend their time, money and efforts to market your new products, without obtaining exclusivity. Nobody will do so without any security or assurance that they do not do the work, and have another walk away with the results.

## 9. Warranties

If you cannot guarantee the functioning of your new product, and are not willing to put that in writing, do not expect success. Selling cheap products for peanuts or little capital outlay is a piece of cake, but if one expects a client to pay serious money, expect the client to demand more than a product with a promise. Clients want value-for-money and security. By buying your product, a user wants to either work faster, better, more economical and/or produce larger volumes. If by buying your product nothing changes, or worse even, their situation or results worsen, you might as well not bother to market your product. A sound warranty is the ultimate and final marketing tool you can use to secure sales, now, and for many years to come.

## 10. Find private label partners

In some countries or regions a *private label agreement* with a larger, well-established company could offer you better and faster sales opportunities. They often have more products to sell and have more extensive distribution channels. In addition, by using a larger company to cover several countries, like the smaller countries or developing nations, you will not have the burden to serve these countries directly, or find local distributors to do so. Like building relationships with distributors, attracting private label deals takes time and effort, but can be a valuable part of your marketing strategy.



The relationship between a manufacturer and a distributor is a 2-way street. Each must fulfill certain tasks to create brand awareness, get the product to market, sell, and increase market share.

### **THE MANUFACTURER'S ROLE**

- Make a quality product with unique or improved features and benefits.
- Use advertising and make a well-designed website to create demand for the product.
- Provide marketing and promotional materials.
- Know your target markets.
- Provide training for your distributors.
- Have the capacity to fill any order the distributor gets.
- Offer incentives to distributors' sales forces.
- Do not undercut your distribution network. When clients call you directly, pass their orders on to your distributor.
- Provide technical support and quality after-sales service.

### **THE DISTRIBUTOR'S ROLE**

- Respond quickly when the manufacturer passes on sales leads.
- Attend training sessions offered by the manufacturer.
- Provide storage for products (and spare parts) prior to sale.
- Actively promote the products by frequent advertising, field visits, PR and marketing campaigns.
- Fill clients' orders quickly and accurately.
- Assist in building a market for the product and create brand awareness.
- Give customer and market feedback to the manufacturer.
- Provide technical support and quality after-sales service.

**Finding distributors is an art.** It is time-consuming and often a matter of trial & error. Distributors do not flock to you, or present themselves on a silver platter. Even after you have found a distributor, it requires a lot of work to get them started, motivated, and to generate sales. Depending on the industry, the complexity, and price level of the product, setting up a distribution network can take 2 to 3 years before it can be self-sufficient and profitable.

A company that plans to expand its horizons and sell on a global scale must be prepared and ready to spend money. International business development and marketing need adequate funding: the rule of thumb is to reserve 50% of total budget during the start-up phase, and 10%-12% of sales revenues when you are up and running. This may come as a shock to those that have spent all their money on R&D and roaming the world, but the truth cannot be denied. If you cannot invest in this important stage, sell your concept, idea, or technology.

GlobalStrategists is a consultancy boutique, specialized in Upstream and Downstream Marketing, including establishing distribution networks. We have assisted a variety of companies from the BioTech, MedTech, CleanTech and other industries, as well as medical institutions and private practices.