5 STEPS FOR FINDING DISTRIBUTORS IN EUROPE

EUROPEAN DEVELOPMENT BUSINESS SERVICES

5 STEPS

STEP 1 — Research the market potential

STEP 2 — Penetrate specific countries

STEP 3 — Select a type of distributor

STEP 4 — Prepare for introduction and make an initial contact

STEP 5 — Ensure that the distributor is interested

1 RESEARCH THE MARKET POTENTIAL

The first step for U.S. companies is to identify the following: Current competitors in Europe, where these competitors are concentrated, how the product compares with their competitors' in, among others, quality and cost, whether or not similar/varied SKU significantly affects sales, how the product's distribution is already, and what is the future potential in these markets.

When having trouble in identifying the previous, one could look into the five forces that shape competitive strategy, which are: Threat of new entrants, bargaining power, there are a lot of differences within the European market as well. Europe is both a lucrative and challenging market. U.S. products are well respected and innovative and Europe is a large market with a population of 500 million people, slightly larger than U.S. companies, making U.S. products much more attractive to European buyers. In addition, Europe's population of over 500 million people is larger than the United States, and the European Union's GDP is slightly larger than the United States' and with its million in U.S. AS of the aforementioned factors contributes to the appeal of the European market, particularly for U.S. companies.

"U.S. products are well respected in Europe"

2 PENETRATE SPECIFIC COUNTRIES

Upon entering the European market, most companies gravitate towards Germany, France and the United Kingdom, which are the three largest economies in Europe and are the combined population of the European Union. The disadvantage to selecting these markets, however, is that they are very competitive and have fairly stagnant population growth. Other countries that are worth considering are the smaller markets, which are smaller markets (e.g. Spain, Poland, Czech Republic). Often, these countries are not as well served and have good growth potential due to rising incomes and other factors. Another benefit to these markets is that they are not as competitive as the larger markets. The European Union is comprised of 27 different countries (plus Switzerland, Norway, Liechtenstein and Iceland which are not part of the EU) and 20+ official languages.

Although the EU has come a long way in harmonizing regulations among member states, there remain significant differences in consumer preferences, tastes, habits, languages and cultural values. Many people do not fully appreciate these differences and sometimes leave the market in frustration.

3 SELECT A TYPE OF DISTRIBUTOR

The U.S. company has determined which countries make the most sense for their company, the next step is to determine which type of distributor is best suited to meet their needs. Many companies initially underestimate the importance of this step, which need servicing? Does the company want/ability to market in one or two countries? Or is it imperative to have widespread distribution from the outset? Is the product new and does it require a lot of "hand holding" or is it well known and "sells itself"?

Often, companies find success/failure of their products, depending on the distributor and vice versa, in agreement with the first opportunity that presents itself (e.g. meet a distributor at a trade show, immediately sold to the distributor because it seems to have the "right" product, company, and personality, and vice versa). Sometimes, for example, if the goal is to focus on one to three countries and manufacture a fairly simple product, a short distribution chain is recommended because they may better utilize the company's assets.

In contrast, if the U.S. company wishes to get started in numerous countries and has a fairly complex, high margin product that requires customer and technical support, a market distributor with an established pan-European service network may offer the best option. Market distributors typically have a pan-European service network, sales network, and, in addition, developing distribution. This means that one distributor, instead of several national distributors, serves the complete European market. Having to deal with one distributor, instead of several, makes the process much more manageable with different distributors. This greatly simplifies the activities and processes involved with the expansion to Europe.

Another common misconception is that a product is suitable to the U.S. simplifies immediate success in the European market. Unless the product is truly revolutionary to the market, the U.S. company must "adapt" the product before it will be profitable on the market.

4 PREPARE AND MAKE INITIAL CONTACT

Once the type of distributor and which countries the U.S. company wants to target have been determined, the U.S. company will need to create a market introduction plan. This plan should include the following: Who is the target customer, what is the message the company is looking to accomplish and what the benefits of the product are.

In addition, the U.S. company should take the opportunity to request a time to speak in their own language, if possible, when initially contacting a potential distributor. Although this time is not perceived unfavorably, however, it might also be mistaken that the contacted distributor not requires a translation (especially in Western Europe most people are able to communicate in English).

5 ENSURE THE DISTRIBUTOR IS INTERESTED

Once a dialogue has been established and the distributor has expressed interest, the U.S. company should ask the distributor what types of similar products they sell already, how long they have been selling in the market(s), what are the percent of their sales from the U.S. companies' product, what are the distributor's expectations for the U.S. company (why because it will help the U.S. company ensure that the distributor is interested and excited about their product, and also if the distributor is the best fit for the U.S. company's product), what are the U.S. company's expectations, and what is required during this informal evaluation is the branding image which the company portrays, and how this distributor with mention that image.

The U.S. company should also be prepared to answer a series of questions by the distributor, who will want to assess that they too are conducting business with a professional company. Some of the questions may include: Who is the primary source supply on time. Finally, customer references should be checked to assess the satisfaction level of their current clients.

BEING AWARE CULTURAL DIFFERENCES

Differences in how business is conducted in the United States versus the various countries in Europe. Though both the U.S. and Canada are very homogeneous in comparison to Europe, there are far more cultural differences in their approach to life and business than, say, the Spaniards vs. the Germans.

In the North American Continent, about 95% of people speak English, in Italy only 36% of people speak English, and in Spain, only 15% speak English. Of those who do speak English, at least enough to hold a conversation, business being conducted in English is not the same as conducting business by calling upon multiple resources and, sometimes, translators. Although the U.S. and Canada are very homogeneous, different business cultures can have a big impact on how business is conducted. For example, Hispanics and people of Asian descent or Indian origin.

SIGNING A CONTRACT

When it is time to sign a contract with a distributor, U.S. companies should be wary of the issue of exclusivity. The decision to sign a contract for product distribution with an exclusive distributor is a very serious one. Many companies, after they have realized that they were exclusive, it is too late and the distributor has actually disappointed, immediately raise negative consultations, but again, it is a matter that warrants attention and thought needed.

With terms of an exclusive contract, the distributor may put more focus on pushing the product, but it is also a risk for the U.S. company because it ties their hands in the event that the distributor does not market the product as promised, or it better, more suitable products distributor is located after the contract has been signed.

Make sure the contracts clearly define the sales objectives for distributor of the products. For example, if a U.S. company were to establish products distribution with a new distributor, the U.S. company should be aware that the distributor may, if it already has an exclusive agreement in place with a similar distributor for Germany, the contract with the French company should specify that the territory covered is France only.

Other important issues to consider are: The conditions under which the contract can be cancelled (e.g. minimum service levels, sales levels) how products will be returned, who will pay for the return, the distributor's responsibilities in the event of a product recall, and, it may behoove the U.S. company to explore the "handshake agreement" and by things out for six months before agreeing on a contract. Sometimes this is the best way to get things moving quickly.

HANDLING PAYMENTS

For purposes of simplicity, three common payment methods are discussed: Payment in Advance, Letter of Credit and Terms. Each separate incoming terms of risk to the U.S. company, from most to least favorable.

PAYMENT IN ADVANCE

Payment in advance: the distributor pays the U.S. company up front before the shipment leaves the United States. Typically, this is done through a wire transfer and is not very done in the early stages of distribution, before trust and rapport has been established.

LETTER OF CREDIT

The second option involves a Letter of Credit (LOC), which is often used for large orders and is a guarantee from the bank that the buyer's bank will pay the U.S. company, but it is subject to authorization by the buyer's bank accepting any of the terms and conditions outlined in the LOC. Typically, it is proof that the products were shipped.

OPEN CREDIT OR TERMS

The final form of payment is called Open Credit or Terms. Typically Net 30. Providing credit to a customer is only happens after the first shipment. However, it's important to be aware of the risks associated with this form of payment. Many companies have been burned by not receiving their products delivered, and then, even if they do receive the product, the customer refuses to pay the invoice. Or, the customer's financial situation changes and they are unable to pay the invoice. Sometimes, the U.S. company ends up with a bad debt.

The U.S. company suffers from the United States, they should be aware of currency fluctuations and the impact this can have on their market share. Especially if the U.S. company's product is priced in Euros, it may be worth it to have a contract in place in their dollars in the market.

SHIPPING PRODUCTS TO EUROPE

Before shipments can be made, companies must ensure that all of the proper documentation is in order and device labeling requirements have been met. Make sure that the product is in the "Harmonized Tariff Schedule" and that the product is classified and avoid problems with Customs. The distributor or freight forwarder can be used as resources for guidance.

Customs officials have the right to hold a shipment if the necessary paperwork is not received and in the case of the EU, the Customs Officials can hold the shipment for up to all of the proper documentation, including CE Marking, is in place prior to shipment. There are many types of documents that may be required, depending on the product and the country which method is best suited for the situation.

HARMONIZED TARIFF SCHEDULE

Every product imported into a country is assigned a code according to the Harmonized Tariff Schedule (HTS). Customs officials in the country where the product first enters the EU will determine the HTS code. Knowing the HTS code is important because the classification made by a customs official in the European Union is used from then on to determine the product's rate of duty. Some devices are not subject to any duties. The different rates of duty can be found in the HTS database.

CE MARKING

The European SMEs similar to the United States law and is levied regardless of whether the goods are eventually be resold in the European Union. The distributor will need to pay the VAT (sales range from 15% to 25%), but are eligible for a refund as the amount paid is a credit against future sales taxes. The distributor will need to be aware of the process refunds, so there is a short-term burden for distributors.

HANDLING PRODUCT RETURNS AND SERVICING

Product returns and servicing are important considerations. Will the distributor handle returns? How will damaged products be handled? If the product is serviceable, will it be returned to the United States for service? If so, who covers United States international shipping costs?

Shipping between the United States and Europe can add up to four to eight times more that domestic shipping. This is a salient point because for certain products, the shipping and administrative costs overweigh the value of the product.

If the company manufactures a serviceable product, the cost and time associated with shipping the product back to the United States for repair may be too high. In this case, it may be more economical for the company to have the product repaired in Europe. Alternatively, it may be cost-effective to have the distributor ship the product back to the United States if the cost for expedited return shipment is $150 and this does not include the time to repair it and ship it back to Europe, plus duties.

In the example provided below, it may be best to outsource that task to the distributor or third-party provider in Europe. Many factors need to be considered when deciding on the product, complexity of servicing, frequency of repairs, customer service levels and liability issues. It is important for U.S. companies to be prepared to consider all of the implications before signing a contract.

CONCLUSION

It can be a challenge for U.S. companies to deal with companies in Europe because of the distance, time zones, and cultural differences. Many companies underestimate the amount of work involved in nurturing these relationships and end up disappointed by their distribution arrangements and sales in Europe. Depending on the product, it may be more economical for a U.S. company to establish a presence in the distribution of their products to an industrial distributor with a presence in Europe. A carefully chosen and evaluated European industrial distributor can thereby provide great advantage.

ABOUT EURODEV

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