

## **Fortune 1 Perspective: International Sales Channel Development**

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### **Introduction**

According to the U.S. Small Business Administration, there are approximately 200,000 small companies engaged in international trade. This is a small fraction of the 12 million businesses in America with products or services that are exportable. This is an exciting statistic especially if you own or manage one of these companies. Of course it is not that simple. Any company thinking of international expansion has to ask: 1) Where will I find customers, who 2) want my products or services, and 3) are willing and able to pay for them?

In most cases, a strong partner(s) is fundamental to companies' successes in international markets. Your first partners come typically in the form of agents, distributors, and manufacturer's representatives – Sales Channels. Developing international sales channels casts your nets wider, and helps you explore the greater potential of a larger overall market place. However, more than a foothold in these new markets is dependent on your sales channel strategy and your selection of partners. Forming the proper alliances, creating a successful marketing plan, developing your sales channels, and providing general management and administration are the critical components that you must deliver on.

Expanding internationally requires a serious investment of time, effort, and money, but unfortunately sales rarely materialize instantly. Although, for many companies international expansion is not only about finding new customers; as profit margins come under pressure, international expansion can also be critical to finding low cost suppliers. The most compelling reasons for expanding internationally are:

- Grow sales by selling into new markets
- Save money on procurement of supplies
- Save money on production
- Save money on development costs

### **Channel Strategy**

More and more, competitive advantage is not just in the product or service you offer. As globalization increases, product enhancements are easily copied, and product features, although important, are a fleeting source of competitive advantage. Especially in international markets, it is not just what you bring to market, but *how* you bring it to market. Your routes to market, and the people and partners that manage these channels are ultimately your single source of competitive advantage. The human-side of the equation still drives business results.

Long term, international expansion is the only viable sales strategy. Gateway computers is an interesting example. Having recently backed out of its international markets, Gateway said: "...we do not need to be a global business to succeed." On the heels of Gateway's withdraw however, Dell continues to push into international markets and sure enough is picking up market share as Gateway recedes.

## CASE STUDY

PolyMem is a Burr Ridge, Illinois company, founded in 1977. The Company employs about 30 people and has annual sales of \$10 million. In 1988, PolyMem patented a formula for a drug-free and irritant-free wound therapy treatment, which stimulates healing and reduces pain associated wound dressing changes. PolyMem's product is now known as "The Pink Dressing."

PolyMem knew its product was applicable in every country in the world, but in 1996 only 3% of the company's annual revenues were being generated from outside the U.S. The Company researched and contacted every government office they could find – finally learning of a subsidy available through the Illinois state government that would help fund PolyMem's participation in Medica '96. Medica is one of the world's largest annual medical device exhibitions held in Düsseldorf, Germany every year. Medica '96 served as the launching pad for PolyMem's international expansion. The first Medica show gave PolyMem almost 150 international leads and gave the Company their first-draft list of distributors to assess in terms of partnering. Today, foreign sales account for 25% of PolyMem's total earnings. Working with the resources of state agencies also helped PolyMem secure the Illinois Governor's Export Award two years in a row.

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My intention here is not to write another article about the miracles of Dell's supply chain, nor their direct-to-customer model. Dell, in my opinion, is the exception not the rule. Simply put, most companies do not have the size, the expertise, or the infrastructure to duplicate Dell. As well, one very important point is: Most of your end-users like the channels they buy from. There are existing relationships, there is an existing trust level, and in many cases these channels offer other services that the buyer, be it a company or an individual consumer, finds valuable.

Careful planning of your channels and strategically laying out the details of operating internationally are key determinates to your success.

- What are the routes – the channels – to market?
- What are the objectives of each channel?
- What are the needs of each channel?
- Territory planning
- What level of integration is required for each channel?
- International Marketing
- Partner Development
- Management and organizational support

**What Are The Routes To Market?** You need to look at the international markets you are working in or want to work in. From whom does the end-user buy? Note, the end-user is not Joe Consumer; it is the person, place, or thing that uses your product. After you identify who the final buyer buys from, who does the second level buy from; and who does the third level buy

from, and so on? This is what I call *rough value chain analysis*. When you look at the flow of inputs into the product or service all the way to the end buyer, you have a clear picture of where you can insert yourself or where you might want to play. Depending on your business, ideally this is no more than one or two times removed from your end-user, but this varies by industry. By roughing out the value chain, and mapping the sources from which each buyer buys from, you can identify your possible routes to market.

In your international expansion, you are likely beginning with agents, distributors, re-sellers, etc. With the *rough value chain* in front of you, identify the specific companies at each point in the chain where you feel you can play and where you feel you need help. Then you must meet end-users, and you need to learn why they buy from the channels they do, and if there is any one or two outstanding channels, and what the pros and cons of each channel are. This will help you differentiate your sales channels, and is a great piece of data for assessing potential partners.

**What Are The Objectives Of Each Route To Market?** Multiple channels are used effectively by many businesses. Sometimes multiple channels are used to represent different brands, to service different markets, or to sell into different layers within an end-user organization. It is very important to establish clear business objectives for each channel. Something like, “increase sales” is too simple. There must be strong logic in using multiple channels and you must create and manage clear lines of responsibility. There is nothing worse for your initial international expansion than cross channel competition. I’ve seen organizations completely ruined by cross channel competition – prices are pushed down, customers learn the game, or get completely exasperated with the game, and the sales channels grow jaded and discouraged.

Assuming “increase sales” is a given, each channel must have a logic behind it – a reason for using that specific route to market. Good starting points by which to delineate channels are:

- According to brand names
- To service different market segments
- To offer additional value added services (i.e. Technical Service)

**What Are The Needs Of Each Route To Market?** This is a big question, and one that needs to be constantly addressed. There is nothing worse than wasting your partners’, your agents’ or your distributors’ time. They will hate you for it. More importantly, they likely have other products that they can be selling as opposed to waiting for you to get your international act together. Building “mind share” in your channels is important – this is the relative importance that you and your company occupy in your channels’ minds. You increase mind share by making it profitable and easy to work with you.

Every channel has needs. Whether you employ a direct sales force, are partnered with a large distributor, use manufacturers representatives, or have an e-commerce website, each one of these routes to market has distinct needs. First and foremost, every channel needs attention. A direct sales force and manufacturers reps typically need the most personal interaction. Whereas, big distributors look for financial rebates, buffer inventory, and increasingly require a high degree of technological integration. Even a website requires daily updates and new window dressing to be sure it does not look like a dead duck. You must have people in charge of ensuring each channel *feels* highly serviced and “loved” by your organization. What do your channels like? Do more of these things. What do they hate? Change these things.

**Territory Planning.** Here again, when setting up multiple channels, you need to minimize cross channel competition. You also need to make sure each channel has a profitable territory. At the

same time, you need to manage your channels so that you expand into new territories at a pace you and your organization can support.

A focused, rifle shot approach is best. Unless your resources are unlimited, an evolutionary approach is far better for entering international markets. Start small. Get your feel. Understand who you are working with and who you are selling to. Then grow it. Do not expand until you are satisfied with the market penetration in the original markets you mapped out. Increasing your international spread exponentially increases complexity and costs. You must be able to at least see a pending return on your investment in your original markets before moving to new woods.

Typically territories are best created along geographical lines or market segments. These tend to be the cleanest and most distinguishable lines, albeit never perfect. You need to create check points to make sure your channel partners are respecting the territories. There is nothing trivial about a territory dispute between channel partners. This should be managed at the highest level possible, and the root of the problem should be fixed, so that any damaging in-fighting is limited. Remember, your end customer more often than not witnesses these ugly disputes.

**Level Of Integration With Each Route To Market.** My commitment at the beginning of this article, not to tout the Dell model should not be interpreted as an anti-technology approach. On the contrary, it is an imperative that all companies look at how to employ technology and the Internet to their advantage.

It is significant to note, and wise caution to point out, that the biggest e-tailers are now reaching billions in sales, but are only beginning to show miniscule profits. However, most small U.S. companies are B2B companies making components that are included in larger products and services. One of the most powerful pieces of e-Business a B2B company can implement is a website and online order entry that supports and adds convenience to its sales channels. I strongly believe that all companies should use technology to strengthen channel bonds. In many cases, you will not have a choice because the channel partner will demand it from you.

In setting up international sales channels, you must perform a level of due diligence that is consistent with what you hope to achieve. There is nothing worse than not knowing who is representing you. Refer to the Fortune 1 Perspective: [Strategic Partnering](#), and review the partnership checklist. Operational due diligence must include an understanding of invoice, collection, and payment procedures used by your partners. Order entry and billing can often be the first points of integration; inventory management, technical service, customer service, and spare parts are other areas providing great returns from increased integration. You need to assess the channels' need and desire to integrate with you, their ability to do so, and in what ways this integration helps you, them, and your customers.

Finally, especially in international markets, relationships tend to take first precedent, more so than in the United States. There is little substitute for good chemistry in any relationship. You need to work hard to develop these personal relationships, and you need to build trust. Rapport is probably the most valuable type of integration you can create with your sales channels.

**International Marketing.** Your sales channels will expect to be supported by marketing. In many cases, marketing is the last thing you want to do. You want sales. However, advertising, even just a bare minimum, is required to make your channels *feel* supported. Beyond advertising, product development, pricing, and packaging, are important components of your international marketing; and your channels should be intimately involved. Marketing gaffes in terms of product names, labeling, and use of logos are infamous. Your channels can help protect

you against these embarrassments, if you 1) encourage them, 2) insist they help you, and 3) you listen carefully and heed their advice.

Another important point in terms of international marketing is closely looking at the other products or services your channels sell. Their related business lines can create cross-marketing opportunities and larger partnership opportunities with creators of goods and services who market to the same customer base as you do.

Rarely should you turn marketing solely over to your channels. This is a mistake that companies who over-rely on their channel partners often make. In your international expansion, you should want to understand every facet of your international market place. Marketing is too often a black whole and an inefficient expenditure of money. As well, no matter how good both parties' intentions are, there is a strong chance that you will sooner or later part company with more than one of your international channel partners. When this happens, you need to assume control with knowledge of with whom, where, what, and how your channel has been doing business.

An important collateral issue is control of your international marketing. Your channels will not be as sensitive to your branding and identity requirements as you are. Even with well thought out and well communicated branding and identity plans and instructions, these things will spin out of control. You will have invested a great deal of money only find a complete lack of consistency from market to market, and from one channel to the next, in how your company is represented.

**Partner Development.** Partnerships should be two-way in nature, and should ideally lead to the reduction of duplicating efforts; increasing financial resources; and creating a network that both you and your sales channels benefit from.

As you gain experience with your international sales channels, and you learn the ins and outs of your industry in international markets, your partnerships will evolve, and you will need to cultivate relationships with other players in the value chain. For example:

- Associations who offer education programs that support your customers' selection process.
- Consultants and system integrators who recommend products and services like yours.
- Trainers who help your customers learn how to use your products.

These 3<sup>rd</sup> party players have a great deal of influence, and hence are an important component of your expansion plan. These types of partners significantly augment your company's limited resources, and can be a major help for your sales channels.

In terms of your channel partners, you want to develop increasing profitability without significantly increasing costs. If you cannot get them to this point, you need to cut the channel off. However, that should be the last resort. To maximize your chance of success and return on investment you need to consistently improve the effectiveness of your channels. Of course, your ability to develop your sales channel is driven in part by your company's size, sophistication, and resources relative to your sales channels'. Some areas where you may be able to help develop your sales channels include:

- Adding Talent – You can add in-country management to help increase operational effectiveness and communications between your company and your channel partner.

Furthermore, if your company is in active recruiting mode you can lead the recruitment and hiring of key personnel for your channel partners.

- Information Technology – The internet is a major enabler for cross border partnering, and for increasing your technological ties to your sales channels. IT solutions that support better customer service and innovation are great areas in which to coordinate with your sales channels.
- Networking – As a company employing multiple channels, you should not shy away from establishing annual get-togethers to promote cross partner networking. This enables your larger organization to share and grow ideas across channels and across markets.
- Finance – Your finance team may be able to provide expertise in finance, accounting, tax, financial reporting and financial planning for your partners.
- Strategic Guidance – You can work directly with your sales channels to educate them – and them you – to better integrate your respective strategic plans. A lot of learning can come from these exercises. You can help partners develop their best ideas, ultimately strengthening the overall channel and business.

**Management And Organizational Support.** You must develop, in your company, the capability to support and manage your international sales channels. Remember: There is nothing worse than wasting your partners' time. There are very practical steps that go a long way in creating momentum inside your company to gear up for international expansion and to support your new partners.

- Create an International Department – Promote or hire a professional manager to be in charge of the International Department. This person has got to be a top performer, and in most cases small companies need to hire from outside to get the international skills required to be successful. Your International Department should have a strategic plan and sales forecast, following from this a proper operating budget and organizational structure. I strongly recommend the head of International report directly to the CEO.
- Communicate the importance of international markets throughout your organization. Without obvious top-level management support, your International Department will be left wanting, while domestic sales, and the stuff that everyone is *comfortable* with, receives 110% attention. Celebrate your early international successes, and power through the inevitable setbacks.
- Ensure timely follow-up on international issues. Do not leave issues hanging. They will be more complex and time consuming, and will present your organization with questions it is not used to answering, but your international sales partners deserve the same level of professionalism you give your domestic market.
- Ensure a process for up-dating your channels with new product and company information. Localize all marketing, service, and other support materials into the languages of your markets. Too often companies think their English language brochures and website will suffice. They will not. Note, your marketing and support materials must be *localized*, not just translated, and re-worked to appeal to your new markets.
- Ensure a process exists for feeding competitive, product, and market information from your company to your channels, and from your channels to your company.

- Establish your expectations and management style, and make sure your channels know they are an important part of the bigger organization.

These basic steps for creating an international organization, the same steps any company goes through when it first sets up its domestic business, are too often ignored. International Sales is sometimes made the red-headed step child of the organization, and struggles for organizational resources and attention result. This is one sure way to significantly limit your return on investment, and constantly hold your international expansion back from its actual potential.

If you are not prepared to create an inside department responsible for international sales, you can choose to partner with an export intermediary – an export management company or a global trading company. Working with a global trading company is probably the fastest way to expand into international markets. Global trading companies usually operate as manufacturers' representatives and have established networks of international agents and distributors. Their experience in global markets will quickly get your products in front of international distributors.

Global trading companies vary in size and expertise, and many specialize in specific industries or products. This is a good thing, as they will usually have excellent knowledge not only of international markets, but also sound product knowledge, and strong industry contacts.

Export intermediaries truly can facilitate your transition into international markets, but they create levels between you, your channels, and your customers. You give up a great deal of control when partnering with a global trading company. Most often you are one of many products they represent, so your ability to get their attention can be significantly limited unless you are a key product in their portfolio. As well, global trading companies are more focused on building their business than on building your business. If you are a secondary product, or if you have organizational hiccups, a global trading company is not likely to be a sympathetic partner.

### **International Differences**

Your frame of reference is the business practices you are familiar with. When you embark on international expansion, things change and complexity grows. In some cases, your “commercially accepted business practices” will be unacceptable, not *fit* for the market, and may even be illegal. To push yourself through the adaptation phase, you are well advised to interact frequently with your channel partners. You also need to have experienced financial and legal advisors for the markets in which you want to expand.

In many ways you will need to modify your thinking, and as discussed above your organization's procedures in order to support and build your international sales channels. You and your organization must learn to welcome the unknown. Gear up for something entirely different, and get excited about the new challenges your international markets and partners will bring to you. These are too numerous to write about, but here are a few rules to keep in mind:

- Europe is nowhere near as easy as you think it is
- There is no greater divided than the western and eastern mindsets
- Mexico and Latin America are not one market
- You will always over estimate the market, and under estimate cultural differences
- Learn the pleasantries (at least) of every language for each country you are doing business in

Make personal contacts with courtesy, professionalism, and consistency. Consistency is critical. This demonstrates sincerity and professionalism. Visiting once or twice per year simply does not cut it. In-person visits are vital to building a relationship with your international partners. There has got to be a high degree of interaction. I shudder when I think of company executives not visiting their channel partners for months at a time. One of your key missions must be to learn about your foreign markets.

Look and listen a lot. Hold your tongue and know that consensus building, or at least the illusion of consensus building, is more important in most other cultures than it is in the U.S. At the same time, as I was once counseled by the Managing Director of a UK firm with operations in Europe and Asia – “You’ve got to fly your flag. They [your international partners and customers] expect you to.”

### **Conclusion**

There is no denying that business is done in a fast changing commercial, economic, political, technological, and cultural world. In many ways as the economies of the world grow closer our differences become more pronounced. You need to create a practical framework and organize your company to be a player in this large and growing sphere.

The process of international sales channel development requires strategy, sourcing, assessment, legal agreements, implementation, and ongoing management and control. It is no small task to manage, support and develop your international channels. Driving international sales is too often the thing that “we know we should be doing,” but domestic markets, earning the bread butter for a small company, will almost always take precedent.

Know your channel partners before you reach a distribution agreement. You must know their company, its history, its source of start-up and ongoing funding. You must understand their other distribution relationships. You must assess their management, their organizational approach, and their use of technology.

You need to create an international organization, even if it is just one person or an international intermediary to begin with. This group or person must have the sole responsibility for international business development. Your management team must be managing. They must travel; They must meet distributors; And they must meet and speak with end-users. Otherwise you will create over reliance on your international channels. You and your company must be informed, experienced, and possess a full grasp of your international markets. With your channel partners and customers, politely and tenaciously manage your chief role as creator of the goods and services. You cannot afford to be ignorant of your markets.

Finally, look at a map. Organize your international markets in your own head to begin with. Analyze the market sizes and growth rates. Know where you want to go and go there. Take decisive steps and follow it up with sensible judgment. Do not delay. Market experience is critical to market success. This is more than the clichéd *first move advantage*. Your wisest decisions and smartest moves come only after stumbling through the learning process of making lots of bad decisions. So, you are well advised to get on with it.

## Developing International Sales Channels: First Steps Check List

Description	✓
<p><b>Research And Map Out Your International Expansion</b></p> <ul style="list-style-type: none"> <li>• Know where you want to go</li> <li>• Size markets and growth rates</li> <li>• <i>Rough out</i> the value chain, and identify where you can best deliver results</li> <li>• Factor in 3-year lead time</li> <li>• Set initial sales forecasts</li> </ul>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>
<p><b>Identify And Contact All Possible Business Partners</b></p> <ul style="list-style-type: none"> <li>• End-user organizations</li> <li>• OEM customers</li> <li>• Distributors, Agents, Manufacturer Reps</li> </ul>	<p>✓</p> <p>✓</p> <p>✓</p>
<p><b>Present Your Company And Your Products/ Services</b></p> <ul style="list-style-type: none"> <li>• Arrange meetings with full cross section of international players: Sales Partners, OEM Partners, and End-users</li> <li>• Identify International Trade Shows <ul style="list-style-type: none"> <li>– Create product demos</li> <li>– Plan travel logistics and booth support</li> <li>– Contact the press and arrange interviews</li> </ul> </li> </ul>	<p>✓</p> <p>✓</p>
<p><b>Create A List Of Potential Partners</b></p> <ul style="list-style-type: none"> <li>• Rank potential partners as A, B, and C</li> <li>• Background check on all potential partners in which you have serious interest</li> <li>• Operational due diligence on top partner choices</li> </ul>	<p>✓</p> <p>✓</p> <p>✓</p>
<p><b>Create Working Agreements With New Partners</b></p> <ul style="list-style-type: none"> <li>• Agree on objectives with each partner</li> <li>• Agree on sales forecasts</li> <li>• Negotiate contracts with chosen partners</li> <li>• Legal review for each country</li> <li>• Ensure payment methods are in place</li> </ul>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>

<p><b>Develop Your Channel Partners</b></p> <ul style="list-style-type: none"> <li>• Sales training for your new partners</li> <li>• Cultivate larger network and new partner relationships with consultants, system integrators, and trainers</li> <li>• Add value via your in-house functions: IT, HR, Finance, and Strategy</li> <li>• Encourage cross-channel networking and idea-sharing</li> </ul>	<p>✓ ✓ ✓ ✓</p>
<p><b>Build Organizational Commitment</b></p> <ul style="list-style-type: none"> <li>• Create an International Department or partner with a global trading company               <ul style="list-style-type: none"> <li>– Create a structure and budget for your international business development</li> <li>– Ensure your international expansion is championed by top management</li> </ul> </li> <li>• Communicate the importance of new markets in your organization</li> </ul>	<p>✓ ✓</p>
<p><b>Sales Channel Management</b></p> <ul style="list-style-type: none"> <li>• Manage day-to-day channel activity               <ul style="list-style-type: none"> <li>– Ensure timely follow-up on international issues</li> <li>– Put in place a sales lead referral system</li> </ul> </li> <li>• Translate literature, manuals, and technical service documentation into foreign languages</li> <li>• Create visitation schedule for follow-up and relationship building</li> <li>• Ensure a process for up-dating channels with product and company information</li> <li>• Work with your channels to create sales forecasts; Set your expectations and management style</li> <li>• Ensure a process exists for feeding competitive, product, and market information from your company to your channels, and from your channels to your company</li> </ul>	<p>✓ ✓ ✓ ✓ ✓ ✓</p>

## **SUPPLEMENTAL: September 11<sup>th</sup>'s Effects On International Channels**

One of the most dramatic business effects of September 11<sup>th</sup> has been on the ability of companies to operate a supply chain spanning international borders. Companies now have significant new costs in clearing goods across country borders. Worse, as the terrorist threat grows and spreads, costs will continue to increase.

The dominant use of containers in transporting goods is a tremendous security weakness, because it is impossible to inspect the tens of thousands of containers entering any given major port. Customs officials are concerned that terrorists may try to import nuclear, biological, or chemical weapons materials by exploiting this weakness. According to the U.S. Department of Commerce, the cost of shipping and insuring U.S. imports was \$36 billion in 2001. Following September 11, new security requirements have increased this by 10-20%; And inventory levels have increased 5-10%. All of this obviously and significantly affects companies' working capital.

Not only are companies feeling the pain of new costs in transporting goods internationally, and increasing inventory levels, but companies are facing the need to adapt new IT capabilities for transferring and tracking goods across borders. This creates even more costs, especially for small companies. As well, general administrative costs are increasing due to stronger disclosure requirements and subsequent penalties for including false information on shipping documents.

The U.S. government has introduced SCATT – Supply Chain Anti-terrorism Trade Security. Companies need to ensure their conformance to the new SCATT regulations, the effects of which bullwhip back through the entire supply chain. Whereas, large companies have import/export organizations specifically for managing their supply chains, smaller firms simply lack the organizational resources to work directly with Customs officials or to create systems for expediting their goods, which means more costs.

The above all said, policy makers continue to move toward freer trade, even after the far reaching ramifications of September 11. For example: China joined the World Trade Organization in December 2001; Even more telling, countries around the world continue to build trading blocks, and with increasing frequency are lowering trade barriers; And the House voted to extend President Bush "fast track" authority to negotiate trade deals.

International expansion is inevitable, even in the face of terrorist warfare. Despite the naiveté of anti-globalism demonstrators, international expansion is a good thing. Indeed, it creates jobs, develops economies, and increases the likelihood for education and opportunities for the poorest nations. This is not always a perfect process, and the inequities involved and the drastic separation between rich and poor is just cause for strong concern. However, violent demonstration, terrorism, and the forced re-distribution of wealth are the antitheses of the social cooperation and economic development efforts that the world needs to bring to its most impoverished areas.

U.S. companies founded and built in the leading economy in the world – where the idea of *making money* was invented, as opposed to stealing it or re-distributing it – have an economic and social responsibility to expand. It is a good thing, to concentrate financial and human capital on bringing goods, services, and opportunities where they do not currently exist. In doing so, U.S. companies help the world focus on social, economic, and human capital development – investments with the possibility of infinite return and which are the ultimate sources of wealth that every country needs.