



Government
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Department of Trade and
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BizFacts

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Selecting a Distribution Channel Checklist

Selecting and managing your distribution channels is a key component of your marketing mix, and integral to the successful operations of your organisation. It is all very well to have a fantastic product with a well-recognised brand, clever promotion and a price your customers will pay; ***if they can't get a hold of it then your efforts are worthless***

Purpose of the Engaging Intermediaries Checklist

The purpose of this information is to assist you in obtaining an optimal result when you engage an intermediary.

Choosing the right distribution channel for your business is critical, and ensuring that you understand the process and have a documented agreement will assist in the development of a mutually beneficial relationship. The checklist is designed to prompt you with questions and hints that should be considered when engaging intermediaries.

The first decision to make is whether to attempt to handle the whole distribution internally (ie conducting all activities to do with selling, distribution, transportation, storage etc), or to allocate these duties to intermediaries. Remember that you can take away the 'middle man' but you can't take away his/her function, and if you don't have the skills, resources or time to spend on distribution, then outsource it to the experts.

Deciding to use intermediaries will determine to a large extent, where you will focus your marketing activities. For example, you may decide to focus your advertising, sales promotion and pricing strategies at generating trade interest and demand for your products, or you may focus these activities on consumers. Most organisations use a combination of both, with the balance laying more one way than the other.

Advantages and disadvantages of using intermediaries

- ◆ In general, the longer the chain between provider and consumer, the less communication between the two and the higher the purchase price of the product to the consumer.
- ◆ Engaging intermediaries allows you less control over delivery to your customers, but also allows you to focus on your core competencies.
- ◆ Having intermediaries can present opportunities for you to share promotional costs.
- ◆ Depending on what you negotiate with the intermediary and which type of intermediary you engage, you can pass on the worry of storage, adjusting stock quantities, establishing sales office in various geographical locations, and bearing the cost of add-on services.
- ◆ A major disadvantage of using intermediaries, particularly agents who don't take title to your goods, is that you are reliant on their enthusiasm and knowledge of the market.

Activities you should consider in selecting intermediaries to assist you in distributing your product:

KEY SELECTION ISSUES and REVIEW ISSUES		Completed ✓	N/A ✓
1.	Analyse the nature of your product, market, and the activities of your competitors. Determine which type(s) of intermediaries you need: ◆ Wholesaler ◆ Distributor ◆ Agent ◆ Retailer		
2.	Determine intermediaries available – ask competitors, look in directories (general such as Yellow Pages, and Trade Directories and magazines) etc.		
3.	Arrange meetings with short-listed potential intermediaries.		
4.	Before the meeting with potential intermediaries, consider and document your decisions on the following: ◆ The information you require from your intermediaries, how much and how often ◆ Whether you want regular meetings with your intermediaries ◆ What your distributors will expect from you in terms of promotional literature and support ◆ Set a budget for distributor support activities in your business ◆ Outline what promotional activities will be directed towards intermediaries ◆ How will you evaluate the performance of your intermediaries –what tangible results do you expect?		
5.	Document and provide information to potential intermediaries on: ◆ The background of your company ◆ Details of your product ◆ Details of your target market (where is it geographically located, where will it be located in the future, is it growing, what is its size currently) ◆ Customer requirements and buying behaviour.		
6.	Points to be discussed and/or negotiated in meeting potential intermediaries: ◆ Stock holding, handling, stock levels, stocktakes – Where will inventory be held? By whom? When does title pass to the intermediary? ◆ Who will do the proactive “selling”? ◆ Who will deal with local inquiries that you generate? ◆ Will the distributor generate their own leads? ◆ Who will prepare quotations/proposals? ◆ Work out insurance details ◆ Work out sales expectations, budgets, agreed targets ◆ Agree on and document a description of representative duties ◆ Advertising and promotion – ensure responsibility and protection of the interests of your business, who pays? ◆ Transportation – who is responsible and who pays (is the part of the service provided by the intermediary?) ◆ Territories; consider: ❖ State and national boundaries – exclusive or non-exclusive rights? ❖ Who services national accounts as distinct from local accounts? ❖ Are national accounts part of local territory or will you have to find other intermediaries if you want to export interstate? ◆ Is commission paid or credits given? ◆ Who will provide arbitration in the case of disputes? ◆ Payment and settlement terms – who invoices, who collects debts? ◆ Follow up service and warranties – whose responsibility is this? (Consider product liability, distributor liability) ◆ Who will have access to documentation such as financial figures and the customer database? ◆ Pricing structure and controls – check the Trade Practices Act ◆ Will you need an agreement with the intermediary to be industry specific? ◆ Will you provide consideration for distributorship – eg cost of distributor to take up distribution? ◆ Agree on and document how you will wind up proceedings (eg consideration of stock disposals, returns, credit, time frames, use of name, further use of name etc) ◆ Consider the contractual arrangements intermediaries may have to ask on behalf of your business The agreement should specify clearly the intent of both parties and if possible be open-ended to allow each party to move a little, re-negotiate and/or walk away within the guidelines established.		
7.	Evaluate alternative potential intermediaries, based on their presentation to you of their skills and expertise.		
8.	Make a choice.		
9.	Negotiate terms, document the agreement and have it checked by a legal representative, and have it signed by both parties once satisfied.		
10.	Provide what you promised		
11.	Monitor and evaluate activities.		

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Above all, support and work with your intermediaries in achieving your objectives, and monitor their progress on a regular basis. Your role in managing your distribution channels and communicating with them is paramount to the success of your distribution strategy. A strong relationship with your distributors will ensure that you get great sales, and good feedback from the marketplace.

Selecting a Distribution Channel for Your Product

Types of intermediaries

The type of distribution channel required for your business is dependent on:

- ◆ The nature of your product (is it fragile/sensitive to heat/cold/movement and requires specialist transportation or storage?)
- ◆ Your target market (where do your customers like to purchase similar products from, what are their expectations?)
- ◆ The nature of the market place (there may be firmly-entrenched distribution channels with well-defined territories)
- ◆ How your typical customer prefers to purchase.

For example, if your customers expect a high level of customer service which you can't or don't want to provide yourself, you will probably need to engage an agent or distributor who can provide this for you, rather than a wholesaler. Alternatively, if the nature of the market is such that all major players use agents and that this is a long established tradition, you may have to follow suit.

Wholesalers: Merchants who take title to goods (purchase) and then on-sell them, generally to retailers, adding a distribution margin.

Distributors: Similar to wholesalers, except that distributors add value to the product in the form of sales support and service. They take title to goods and on-sell them, adding a distribution margin.

Agents: Agents do not take title to goods (ie purchase them), but act as the manufacturer's representative sales force. They provide sales support and service and usually work in business to business markets, often specialising in particular industries. They are usually remunerated on a commission basis.

Retailers: Retailers are involved in physically making a product or service available for sale to end users. They take title to goods and on-sell them to consumers, adding a margin.

Types of information you may require

- ◆ Number of contacts with customers
- ◆ Number of sales visits made
- ◆ Number of quotations or proposals submitted
- ◆ General market feedback
- ◆ Competitor activity
- ◆ Any problems encountered
- ◆ Sales pending
- ◆ Suggestions for improving your market mix
- ◆ Sales lost
- ◆ Discounts given and reasons for this.

Possible expectations of your intermediaries

- ◆ Product and company training
- ◆ Brochures, corporate literature, fliers etc
- ◆ Sales presentation kits
- ◆ Website and links
- ◆ Point of sale material
- ◆ Publicity and sponsorship
- ◆ Trade or consumer advertising
- ◆ Trade shows/exhibition attendance (may be joint attendance)
- ◆ Corporate gifts
- ◆ Product videos
- ◆ Joint meetings with customers.

Promotional strategies to consider when using intermediaries

- ◆ Sales promotions such as cash discounts and increased margins for dealers
- ◆ Direct mail to dealers with special offers and/or free gifts
- ◆ Dealer competitions
- ◆ Merchandising and dealer point of sale material
- ◆ Salespeople incentives, bonuses etc
- ◆ Trade advertising
- ◆ Trade exhibitions.

Evaluation of intermediaries

- ◆ Sales volume and value
- ◆ Number of sales visits
- ◆ Generation of leads
- ◆ Referrals
- ◆ Repeat business
- ◆ Number of trade exhibitions attended.

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