New Zealand TRADE & ENTERPRISE

BEST PRACTICE MANUAL FOR
AGENT MANAGEMENT

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Contents

1.0 BEST PRACTICE AGENT MANAGEMENT

Relationships with an agent, importer or distributor (called agent in this paper) have a lifecycle. Acknowledging the different stages of the relationship helps to effectively manage the relationship, identify problems and know when it is time for change.

This paper is a best practice guide for managing agent relationships from establishment to performance, problem solving and evolving relations and structures.

Many companies build a relationship with the first importer that places an order. It is tempting to lock in a sale early on but that decision can limit options for future growth.

While this is the most common mistake, there are other traps for the unwary. However, by the time most companies realise they have an agent problem at least three critical mistakes have already been made:

1. Inadequate market research
2. Lack of due diligence
3. Lack of relationship management

Agent problems generally develop slowly, are rarely explosive and the true reason for the problem is often masked. As a result, agent problems can drag on for years, causing significant frustration and limiting growth opportunities.

The risk of losing business is a key impediment to taking action.

Actively managing the relationship with your agent is critical to the success of your business in a foreign country. Too often companies sign a promising product to a good agent only to see sales languish further down the track. Other problems follow, the relationship sours, the business goes nowhere and companies don't understand why or what to do about it.

The good news is problems are easily avoided by forward planning and early recognition and resolution. Effective management of your agent relationship will save money, frustration and heartache, and speed up success in the market. Learn what you need to know by following the guidelines in this manual and working with New Zealand Trade and Enterprise (NZTE) in-market.

2.0 FINDING AN AGENT

2.1 Rule Number 1 — Research

Thoroughly research the market, customers and channels. You need to know as much about the market as your agent. Inadequate research disadvantages you when negotiating with customers directly or through your agent.

Identify your major customers, what they are doing, the channels to market and market place trends.

Gather information about your competitors, the regulatory environment, portion size, packaging quality, import regulations and customer specifications.

Most importantly, you need to know the prevailing price in the market place.

The more knowledge you have the better prepared you will be both in negotiations and if problems arise.

NZTE can assist you with a market research report. Once you have this information, complete a SWOT analysis of your competitors.

A good market entry research report should include:

- Market overview
- Regulatory environment
- Tariff rates
- Market structure
  - Customers
  - Market channels
  - Market size
  - Competition
- Potential barriers to entry
- Shortlist of recommended potential agents
- Market entry strategy

2.2 Rule Number 2 — Think of your customer first

If you can identify your customer base, then it is sometimes best to contact them early as the first step. You may think this is why you are looking for and paying an for an agent, but sometimes this can be a rewarding exercise because:

- Your customers often have established relationships with importers and distributors. You will end up working with an agent that has a proven positive relationship with the end customer, which is what you want.
- They will know the payment terms, logistics requirements, documentation needs and unique attributes of the customer.
- You only have to sell to one party - the customer. The normal process is to sell to the agent and the have them sell to the client, possibly removing you from the sales process and feedback you would receive.
- You establish strong relations with the customer and receive valuable feedback from the customer early on, which is important if you ever want to leave that agent.
- If the customer introduces an agent, then they will be working with someone they know and trust.

How do you identify customers? Speak to NZTE - we employ professional staff with expert knowledge and market connections for this purpose.

2.3 Rule Number 3 — Due diligence

Carry out due diligence on your potential agent.

- Research their financial situation - Dun and Bradsheet and Veda Advantage offer international credit reports that can provide valuable insights into credit worthiness.

  NZTE can also access local credit information providers.
- Find out your agent's strengths, the customers they reach, and which customers they don't reach. In Asia, it's almost impossible to reach the whole market. You may need to appoint different agents for different customers or segments of the market. Make sure your agents understand they are not competing with each other.
- Find out who the agent is working with and ask those companies about their experiences, providing they are not competitors.

- Ask for references and contact the referees directly.
- Talk to the agent's bank. Most companies will provide banking references and give permission for the bank to be contacted.
- Discuss contract types – will the contract be exclusive, segmented, performance orientated?
- Discuss sales development including business plans, resources to be committed, staff skills and experience.

Some agents will be nervous about discussing these things, particularly performance criteria. Explain that you are carrying out a structured process to maximise your chances of success and minimise future misunderstandings and problems.

Thorough due diligence sends clear signals to your future partner:

- You are focused on the long term
- You are prepared to invest time and money
- You are committed to making the relationship work

2.4 Rule Number 4 — Active management

It is crucial to actively manage the relationship with your agent. This means taking responsibility for the sale of your products in market.

Active management includes:

- Creating a business or sales plan with your agent
- Setting annual sales goals and targets
- Developing a 3 - 5 year plan for growing sales, with specific targets
- Developing and reviewing a sales pipeline
- Reviewing performance against budgets
- Regular customer visits
- Annual customer reviews
- Regular price negotiation
- Establishing a process for dealing with customer sales claims
- Regularly talking with your agent
- Product innovation or product development meetings
- Developing sales material

Active management can also include advertising, public relations, technical manual development and other relevant initiatives.

Active management involves regular communication with your agent and visits to the market. Visits are expensive but essential, although the frequency depends on individual circumstances. Some companies are in market on a weekly basis. A minimum of three to four visits a year is recommended.

3.0 APPOINTING THE AGENT

After completing research and due diligence, one or two companies will stand out as highly qualified prospects. You will have spent enough time with them to understand the company and have the beginnings of a personal relationship.

The next step is to negotiate the right kind of agreement.

Most companies will ask for exclusive agreements. They want to protect the money and resources they have invested and ensure you don't walk away from them once the business is established.

This is a good start to negotiating an agreement. Ask the agent to define:

- The resources they will commit to marketing your products
  - People
  - Capital
  - The stock they are prepared to purchase in advance
  - The stock they are prepared to keep on hand
  - Marketing $$
  - Advertising $$
- The market segments where they have strength and can demonstrate value
- New market segments they wish to enter using your product

This information demonstrates their commitment and will help you decide whether to give them an exclusive license. You will be able to establish the agent's strengths and the weaknesses they will admit to. Few companies cover the whole market and many have strong relationships with certain groups of companies but not others. If you can protect an agent's key relationships they may be happy that you sell to other, non-competing customers.

Rather than offering total exclusivity you can negotiate exclusivity by:

- Market segment or channel
- Brand
- Customer by name
- Product

This gives you the option of finding more appropriate agents for other products or market segments.

Insist on a written agreement but don't get stuck in legal detail where you don't have to. Asian business practice does not have the same focus as the United States on strict legal agreements. In many cases a Heads of Agreement or Memorandum of Understanding setting out the basic terms and conditions will suffice.

Remember your agent is probably dealing in a second language. A written agreement ensures verbal discussions are correctly represented and that the agent fully understood what was said.

4.0 MAXIMISING THE PERFORMANCE OF YOUR AGENT

Finding an agent is relatively easy; getting results is much harder.

New Zealand companies typically put most effort into finding an agent and very little effort into ensuring they perform well. They mistakenly believe that if they sign up a good name, results will magically come.

Most agents believe the products they sign up have potential, but this doesn't necessarily mean they will allocate resources to develop the business. Just like New Zealand companies, agents are looking for a return on their investment. If the product delivers results they will put more resources into selling it. If it doesn't do well they will be reluctant to spend more time and money on it.

Products need most support at the beginning, when they are entering the market. This is the time to invest in marketing collateral, visit the market often, work closely with your agent to develop sales plans and arrange meetings with end customers.

The best practice steps outlined in this document form a structured process:

1. Find the right agent for your company
    - Research
    - Due diligence
2. Establish the ground rules up front in the contract
    - No blanket exclusivities
    - Segment where necessary to allow multiple agents
    - Specific dates and milestones
    - Performance measures
    - Agreement in writing
3. Actively manage your agent
    - Business plan in writing
    - Sales targets, forecasts
    - Review regularly
    - Performance based agreement, consider bonuses
    - 3-5 year growth plans
4. Support your agent in the early stages with collateral, customer visits, marketing support

Bain & Co. looked at 2,000 successful sales organisations and tracked their sales growth over 10 years. They found that only 25% of companies were able to achieve growth rates of over 5.5% per annum.

Bain & Co. found that conventional companies:

- Spread their targets across territories
- Are dependant on rainmakers (agents)
- Focus on trends (or hot markets)

In order to achieve sales growth, these companies have to increase sales resources and/or add new markets which increases costs. This results in average to low growth rates and is not a great business model.

The research found that companies with superior sales performance take a different approach:

- Identify the most promising customers
- Customise products to sell to targeted customers
- Prioritise resources into key segments
- Have a systematic sales and marketing process
- Have a structured performance management process
- Align sales metrics to maximise sales

This structured, prioritised sales approach cannot be achieved when sales responsibility rests solely with the agent.

Developing the trust and relationship required for partnering with your agent takes time but delivers better results long term.

Agents may be resistant at the start. Overcome this by explaining what you are trying to achieve and spelling out the ground rules up front. Your commitment to developing sales materials, customised products and working with the agent to make the sale will ultimately reduce their apprehension, allow you to become part of the sales team, and form a long lasting relationship.

5.0 IDENTIFYING PROBLEMS

Problems can arise in any relationship. Being prepared and recognising the warning signs ensures a quick resolution.

Signs of an agent problem include:

- Lack of English language skills or a deterioration of those skills in times of difficulty
- Slower response times
- Intermittent communication with no response for periods of 2 - 3 days
- No back up when the key person in unavailable
- Limited or non-existent customer feedback
- Issues over price with every transaction
- Playing the culture card - "You don't understand, that is impossible, or this is the way things are done in Asia"
- Cancelled orders for no obvious reason
- Technical problems or claims that cannot be verified
- Reluctance to name end users or take you to visit them, saying the customer is unavailable
- Payment terms dishonoured with the agent blaming the client
- A blow out in payment terms with no explanation

A good agent will have a strong relationship with the end user and will introduce you to them. Regular contact with your end user is essential to your success in the marketplace. It will help you develop products the customer wants and make it easy to resolve small technical issues that inevitably arise.

A good agent understands that you know more about the product than they do and are best placed to sell it. A good agent adds value to the transaction.

An ineffective agent adds little value, feels threatened by the prospect of you interacting with the end user and shields them from you as a result. This is counter productive and damaging.

It can be difficult to work out the real cause of agent problems but they generally arise for the following reasons:

Agent's side:

- Lack of competence
- Key staff changed
- A poor value proposition for your product
- Quality issues with your product
- Financial problems

Supplier's Side:

- Supplier performance; on time delivery, meeting quality specification, shipping the right product, damage during shipping, etc.
- Price

Understanding the value proposition of your product is essential. Some agents will tell you straight away when the value proposition is lacking but others will be too shy or polite. It can be hard to work it out for yourself when you don't know the market and hard to face reality when you have your heart, soul or job invested in the product. International markets offer huge opportunities but are highly competitive. Failing to understand your value proposition wastes time and causes frustration.

Price is generally the first issue raised but, providing you can identify the value proposition of your product, it is not a deal stopper but a negotiation point.

6.0 MANAGING THE AGENT LIFECYCLE

Relationships with agents have a lifecycle. The agent that got you into a market may not be the right partner long term.

As sales grow your agent may not have the sales force, logistics or finance to grow with you, although you may not realise you are losing opportunities.

A common scenario is for companies to sign deals with someone who looks experienced, has a smattering of English and who previously worked for a trading company with a good name. Initial sales are generated, but don't progress. You are worried about a lack of growth but feel loyalty to the person who got you into the market.

When that situation arises, you need to change agents quickly. The relationship is costing you money and will not deliver growth.

It also puts you at risk in the marketplace. You probably don't know your customers well enough to tell them you are changing agents and take them with you. You don't know your channels well enough to know what you are missing out on and you don't know your agent's competitors so it's difficult to choose an alternative representative.

Avoid getting into that situation by following the structured approach outlined in this paper.

6.1 Where do you find the right agent?

- Start by researching trade magazines, newspapers and the Internet
- Attend trade fairs – they are a cost effective way to meet a lot of people
- Exhibit at trade fairs to maximise exposure of your products
- Work with NZTE – we have market knowledge, contacts and expertise to carry out research and due diligence to find the most appropriate agent

6.2 How long does it take?

There are no fixed rules about the length of time it takes to do business in Asia. Sometimes direct approaches result in almost overnight sales, but this is the exception not the rule. This approach is also problematic in that you end up dealing with the first cab off the rank and have not completed the background research needed for long term success.

A realistic timeframe for getting a product into the market, from finding a partner to achieving good sales growth, is at least 36 months. There is often early progress because importers move fast to secure supply of a promising new product. However, planning cycles in the food and beverage sector take 12 - 18 months or longer and there is no short cut.

6.3 How much does it cost?

A budget of NZ$200,000 – NZ$250,000 is needed to establish a business opportunity in Asia. This covers at least four visits to the market each year, wages, the cost of product samples and overheads. Much more money will be needed if you want to open an office and have staff on the ground.

Most companies opt to work with an agent first because it is cheaper although you will still have to invest in market research and preparation.

Developing a new market is a significant investment. Following the right process will increase your chance of success and ultimately save you money.

6.4 The role of the agent

Agents can provide many services including importing, warehousing, handling logistics, holding stock, carrying out business development activities and selling product.

Some agents do all of these things while others employ middlemen to handle parts of the job. This can add extra costs and may seem illogical.

There is a good example in the Japanese food service industry. It is a very large trading company in Japan with sales in excess of $13 billion dollars.

With 150,000 customers, it offers huge opportunities to New Zealand manufacturers. However, this company does not import or handle product delivery. Its focus is on selling and it sells a lot of product. To work with it, you need to know in advance the costs and margins associated with importing and distributing your product or you will not have accurately costed the opportunity.

Find out which services your agent offers and the likely cost of services they don't provide.

Nobody is better positioned than you to sell your product. You know the most about it, have the details at your finger tips and are more passionate than your agent. Ensure you actively manage the relationship with your agent so you are in front of customers on a regular basis.

Be realistic about who you are dealing with and the attention you will get from them. If you represent a million dollars of sales in a $13 billion dollar business like the above-mentioned, your leverage will be negligible. You can't leave the responsibility for growth to your agent.

The biggest isn't always going to be the best.

6.5 Lessons

- ✓ Follow a structured process
- ✓ Do your research
- ✓ Find the most appropriate agent
- ✓ Get the right contract
- ✓ Actively manage the relationship with your agent
- ✓ Maximise performance
- ✓ Identify problems
- ✓ Manage the agent lifecycle

7.0 IN-MARKET STRUCTURES

When you outgrow the relationship with your agent it's time to review the structure of your business in the market.

NZTE can provide more information on:

- Establishing a representative office
- Establishing a branch office
- Becoming a registered company

For further information:

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