

CHANNEL PARTNERS

FIND THE RIGHT PARTNER TO REACH YOUR EXPORT CUSTOMERS

KEY TOPICS

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- Building your shortlist
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- Useful tools



**EXPORT
ESSENTIALS
GUIDES**



Do you know how you'll sell your product or service in a new market? You'll need to consider a range of options based on your business needs – from agents and distributors to online direct sales, joint ventures, and licensing – and then identify the best possible channel partners to work with.

Before you start

Make sure you've researched the market

You can't choose the right channels without understanding the market and knowing your potential customers. Knowing how they buy, where, and when is essential, so you can tell which channels are worth considering for your business – and which ones will be a waste of time and effort.

Check out our detailed Market Research guide to help with this. It includes a plan for approaching your research in stages, with channels and partners as the final step – as well as a handy tool for structuring your research.

You should also map out your export value chain, to see who needs to be involved in getting your product or service all the way to the end customer.

Don't leave it up to your channel partner!

Many exporters rely on the knowledge of agents or distributors, but you need to have a good understanding of the market too. If your channel partner holds all the knowledge about your market and customers, they effectively own your export business – and you'll lose a lot of control over your future growth.

Market knowledge helps you get better results with channel partners by:

- identifying potential customers and competitors
- forecasting market demand
- providing the right marketing and support resources
- letting you set realistic and achievable KPIs, for both you and your partner
- identifying and managing underperformance.

Common channel options

Choosing the right channel to market will come down to the size of your company and its resources – and in particular your cash reserves. Different markets may also need different approaches, so if you're looking at going into multiple markets, you may need to mix and match your options.

Please note that this isn't a comprehensive list – you should consider professional advice tailored to the market you're targeting if you're unsure which channel option will suit you best.

Agents vs distributors

How does the relationship work?	Agent	Distributor
You control your product's price and terms of sale in market.	Yes	No
You can control which customers your channel partner sells to – they are effectively 'your' customers.	Yes	No
You can exert close control over the marketing and branding your Channel Partner uses.	Yes	Depends on the relationship and agreement
The Channel Partner carries the risk of any unsold stock.	No	Yes
You'll pay your Partner via a performance linked commission.	Yes	No – although bonuses may be agreed
Your partner will get compensation from you if your agreement with them is terminated or expires.	Yes	No – but payment is sometimes offered as an 'exit package'
Your partner will have a relatively high risk of competition law issues.	No	Yes
You'll have a relatively simple tax position for income you get from your Partner.	No	Yes
Your Partner will directly take title to your goods before they reach the end customer.	No	Yes
If the end customer doesn't pay their bill, you, not your Channel Partner, carry the risk.	Yes	No

Agents and distributors

Agents or distributors are by far the most common channel options for New Zealand exporters targeting a new market.

An **agent** is a representative who you hire to represent your company in the market and make sales in your name. They're usually paid through sales commissions. Agents don't import products or hold stock – those parts of the process are up to you.

A **distributor** buys product from you and on-sells it to their customers (such as retailers), adding a margin or setting their own price. They will import and hold stock of your product, and may provide after-sales service for customers as well.

With an agent, you technically "own" the customers and can control who your agent sells to – although some agents have their own loyal customers (especially wholesalers) who will only buy from them. With a distributor, the customers are buying from the distributor and not you, so you don't have direct control over pricing or who where your products are sold.

Overseas offices

Setting up an overseas office means you can act as your own importer or distributor in-market. This gives you direct control over how your products and services are promoted and sold – and means you’ll be able to get much closer to your customers. However, it also involves hefty setup costs and ongoing expenses, so it isn’t an ideal first choice if you’re new to export.

A simpler variation is a ‘virtual’ local office, using a local phone number redirected to New Zealand, or an answering service that takes local calls and passes information back to you.

Direct selling

Depending on your product or service, you may be able to sell directly to customers in-market. This usually means online sales (although some large companies or specialist retailers buy direct).

Direct selling lets you test the waters without a major investment, avoids third-party costs, and lets you keep direct control over your marketing. You’ll still need to be able to provide good customer service and after-sales support from a distance, as well as managing shipping and any regulatory or customs barriers.

Licensing

Licensing involves your products, services or technology being made available for production or replication by another company. A licensing contract usually includes manufacturing and marketing rights, backed up by intellectual property rights.

Licensing means you avoid the cost of producing the product or service yourself, and simply get an agreed payment from your licensee. However, you have limited control over who your licensee sells to, or the quality of what they produce – and they will pocket a much bigger share of the overall profit.

Franchising

Franchising involves licensing your entire business format. You give each licensee all the information they need to run an exact copy of your business, in return for a royalty based on a percentage of their sales. This is particularly suitable for fast food, retail and service firms.

Franchising allows you to expand quickly with someone else providing the capital. However, you’ll need very detailed business systems and training manuals for your franchisees – and strict operational rules to make sure that product, brand and service delivery are all done to the right standard.

Royalties

Royalties involve selling your intellectual property to someone else to manufacture a product on your behalf, or incorporate your products into something else they’re already manufacturing. You then get a set amount every time a sale is made.

This is a common approach for small components that are used in other processes (such as electronic components). It can be attractive if you lack the capital, time or commitment to manufacture and market an item yourself – but your income will be limited to the royalty payments, and you won’t have any control over sales or marketing.

Looking for channel partners

If you’ve decided to work through an in-market channel partner, start by putting together a list of potential candidates. This could include distributors, importers, brokers, or local producers of similar products. Look extra closely at companies that specialise in the market you’re targeting.

Good ways to collect information on channel partners include:

- talking to retailers or end customers to find out who they work with and can recommend
- attending trade fairs to find notable distributors or agents, or their end customers

- doing an online search for trade show participant information
- looking at similar products on sale in the market – they often have the distributor's name on the label
- searching online directories (such as the local Yellow Pages equivalent) to find contacts in a given region
- contacting local trade associations or business agencies.

When you contact potential channel partners, they'll want to know if you've got what it takes to succeed in the market. Be ready to share the following information:

- The value your product or service brings - your value proposition
- The size of the opportunity, including the data you've gathered that supports your claims
- The markets where you're already successful
- How you will support them to help achieve great results
- The level of profit they can expect and how long it might take to get there
- Promotional material that you can provide to help them make sales and tell your brand story
- The geographical area they will be responsible for.

Building a partner shortlist

Take your time when choosing a channel partner. Finding the right people to represent your business in a new market is critical to your success. Choosing the wrong people will cost you.

To decide who to partner with, you need to have firm criteria in place. This will help you make an objective decision about what's best for your business.

Here are a few starting points for your list of partner criteria:

Market reputation

- How professional do they look?
- Are they reliable payers?
- How long have they been in business?
- Do they understand the market structure?
- What brands do they look after? How well are their existing brands performing?
- Do they have strong market presence?


Sales

- How big a percentage of their business will you represent – too small to hold their attention?
- What capacity and resources do they have to drive sales? How will they do that?
- Do they sell into the right channels to reach your customers?


- Does the sales team understand your product?
- How much are they willing to invest in growing your product?

Culture

- Do you feel comfortable with them?
- Do they respect your values and you theirs?
- Are you comfortable with them being the face of your business in-market?



As you interview each potential partner, use an evaluation spreadsheet like our Partner Evaluation Tool to rank how well they meet your criteria – available online here:

 nzte.govt.nz/tools-and-templates/selecting-and-qualifying-channel-partners

Formal due diligence

Once you're comfortable with the culture and processes of your potential partner, it's time to formally make sure they are a reputable business and can follow through on any commitments they make to you.

As well as protecting your business, due diligence demonstrates that you're serious about the market, prepared to spend time and money doing things right, and committed to making your channel partner relationship successful.

At the most basic level, you need to know:

- What is their turnover?
- How many employees do they have?
- What products do they handle?
- Do they sell or represent any competing products?
- Are they a public company?
Can you see their financial accounts?

- What is their credit record – do they pay their bills?

Dun and Bradstreet and Veda Advantage offer international credit reports that can provide valuable insights into the creditworthiness of your potential channel partner.

Once you have this general information, start getting into further detail.

- **What do customers, suppliers or bankers have to say?** Get references and talk to some of their existing customers to reference check and find out what their experience has been like. See if you can also talk to their bank (with the channel partner's permission).
- **What is their English language capability?** Find out if the CEO or owner speaks English and how many employees have English language skills
- **How skilled are their sales staff?** Ask for copies of CVs. Do they have the technical expertise to sell your product?

- **What is their logistics capability?** Find out if they have their own warehouse, sales fulfilment and logistics systems.
- **What is their attitude to bribery or corruption?** Make sure there are anti-bribery and corruption policies and processes in place. You can be held liable in New Zealand and the relevant market for what your channel partners do, even if you don't directly employ them.

Once you have all of the information, you should complete a full risk analysis and mitigation plan.

Some channel partners may be nervous about discussing these points. Explaining why you're doing this – as part of a structured process to maximise your chances of success and minimise future misunderstandings and problems – should help to settle their concerns.

Appointing a channel partner

When you appoint a channel partner, you're generally entering a legally binding agreement. Make sure you consult a legal advisor with knowledge of the market you are dealing in.

By the time you get to this point you should already have a strong relationship with the owner, the CEO and any other key decision makers. A good agreement should structure positive relationships that already exist, not try to create them from scratch.

Set clear expectations about how you want the channel partner relationship to work, including:

- A transparent relationship, where you can access end customers and their information
- Active management, including your own commitment to helping the partner succeed

- Agreed sales and marketing support
- Clear key performance expectations (KPIs)
- Clear exclusivity and market segmentation
- A defined territory that the agreement will cover
- Ownership and protection of intellectual property
- A clear arrangement for stock and sample holding
- Agreed payment terms
- The duration of the agreement – when it starts and ends
- Clear arrangements for setting and controlling the sales price
- Commission and margins
- Reporting – including sales, warranty claims, losses and wastage, product expiry dates, forecasts, consumer trends and insights, etc.

- Dispute resolution – including processes for arbitration
- Termination processes – including reasons for termination, arrangements for repurchase of stock, settlement of outstanding payments, notice of termination, and each party's responsibilities.

Document all parts of the agreement in writing, so there's no possibility of confusion later.

If you have a product that needs to be registered for sale, make sure you know whether registration is tied to you or the distributor, whether it can be transferred, and whether more than one entity can hold the registration at the same time.

Where to go for help

Always start off by speaking with your accountant or financial advisor for specialist assistance.

Regional Business Partners

The Regional Business Partner Network (RBP) has specialist growth advisors available to provide you with advice, information and connections to support your business.

 regionalbusinesspartners.co.nz

ExportNZ

The export arm of BusinessNZ, ExportNZ provides knowledge, information, contacts, training, support and services that can help you grow your export business. They're a great source of connections to other export businesses who can share knowledge and lessons from overseas markets.

 exportnz.org.nz

Poutama Trust

If you are a Māori organisation or individual, Poutama can help your business with funding and advice through a range of services.

 poutama.co.nz

Kea

For the past 15 years, Kea has built a unique and strategic national asset: a borderless nation of Kiwis and friends of New Zealand around the world, bound by a passion to help New Zealand succeed on the global stage.

 keanewzealand.com



Useful tools

We've prepared a package of useful channel partner resources to help you along. These include questions and criteria for shortlisting partners, evaluation tools, and guides to agreeing responsibilities with your channel partner. Check these out online here:

 nzte.govt.nz/tools-and-templates/selecting-and-qualifying-channel-partners

You'll also find more handy resources, including confidentiality document templates and an Export Plan template, at

 nzte.govt.nz/tools-and-templates

Get a fuller picture of exporting with our other Export Essentials Guides, available for download at

 nzte.govt.nz/export-assistance/export-essentials-guides

The New Zealand Story is a free toolkit that provides a simple set of brand values, images, videos and presentations that can help you define your value proposition and promote your business offshore.

 nzstory.govt.nz



About NZTE

Export Essentials resources are brought to you by New Zealand Trade and Enterprise (NZTE), New Zealand's international business development agency. We exist for one purpose: to grow businesses internationally, bigger, better and faster, for the good of New Zealand.

We're here to help you get the right focus and information at the right time in your exporting journey, whether you need practical help to get started, a deep partnership to develop a fully global business, or anywhere in between.

Find out more at nzte.govt.nz/about or get in touch with us: nzte.govt.nz/contact-us

Go further with Export Essentials Workshops

Wherever you want to take your business next, it's good to know you're on the right track. NZTE's Export Essentials Workshops put you in full control of your export plans, using lessons learnt by New Zealand businesses in markets around the world.

Find out more and register for upcoming workshops at nzte.govt.nz/essentials

