

Agents and distributors can play an important part in building export sales to China. **Katie Poon** looks at the advantages and disadvantages of using them.

# The middlemen

"WITHOUT HAVING an agent we trust in the market it would have been very difficult to enter China." That is the verdict of Rob Keddie, export sales manager at Westbond-carpets. Two years ago, Rob Keddie and his sales team were struggling. Sitting in his office in Luton, he was wondering how he could find a way to break into the Chinese carpet market, which would be a new market for Westbond. Differences in business style, culture and market knowledge, not to mention the Chinese *guanxi* that take business people a lifetime to establish, all seemed to be insurmountable barriers.

However once Rob Keddie met Jon Hickey, everything seemed - like magic - to work. But Jon Hickey is not a magician; he is a director from Jinlogic, an agency which uses a wide range of Chinese partners to arrange the manufacture of products in China and the sale of products to China. "Jinlogic was able to help us put together a distribution arrangement," recalls Rob Keddie, "talking knowledgeable about issues

affecting the market, competition and import/export formalities. Their know-how was also hugely beneficial once we started to work with a Chinese manufacturer.

"Jinlogic was directly involved in the research and negotiation on our behalf." Jon Keddie says that, since appointing Jinlogic, Westbond's sales have risen by more than 50 per cent.

## Agent or distributor?

That worked well for Westbond, but what works for one business will not necessarily work in the same way for every other. But one issue most companies have to address is whether they need an agent to sell or promote their products, or whether it is better for them to have an agent or a distributor.

An agent is a company's direct representative and is paid commission, whereas a distributor sells products on to customers after buying them from the manufacturer. Their income comes from the profits they

make on the difference.

In general, the use of agent or distributor vastly reduces set-up costs and time taken to enter the market, mitigates risks and overcomes cultural and language difficulties (still not to be underestimated in China). Effectively, employees are already in place to work for you, providing you with local knowledge and contacts that would take you a long time to establish, and someone on the ground to look after your interests, to deal with red tape and to solve the problems that invariably arise.

As Westbond's sales agent, Jinlogic carried out market research, identified potential buyers and major competitors, and provided information about how sales networks operate in China. Once it was decided that the market was worth entering, Jinlogic took care of preliminary sales, meet-

**"If you don't have *guanxi* yourself, find someone who does"**

- Simon Rodwell



Jinlogic and Westbond with the management team of a Chinese carpet manufacturer. Second from left, Jon Hickey, fourth from left, Rob Keddie. Bernard Poon, Rob Keddie's business partner, far right

ing designers, project managers and end users to introduce the client's product, get feedback and start to build up a client base. Jinlogic also enlisted the help of a local Chinese carpet distributor with the necessary experience and contacts to assist with sales.

## Another satisfied customer

In September, the process safety specialist Smith Flow Control appointed KXTEC in Shanghai as its exclusive Chinese distributor. "We are very happy to have teamed up with KXTEC," says Mike Fynes, the company's sales and marketing manager. "If we had chosen to go down the route of direct selling, we would either have to control and spearhead the sales campaigns from the UK and make frequent and costly promotional visits to the area (far more often than when supporting a local agent), or be faced with taking on a local salesperson, which would be a much more risky and costly venture."

Despite these glowing endorsements of agents, there are some definite disadvan-

## Weighing up the choice

### Advantages of agency

- Principal has greater control over terms of sale
- Freedom to choose customers with whom to deal
- Allows direct contract between manufacturer and customer
- Greater control over methods of marketing
- Manufacturer able to retain risk of stock
- Commission paid to agent is typically lower than margin of profit a distributor will make

### Disadvantages of agency

- Agents have the right to lump sum compensation upon termination of agency agreement
- Tax implications: sometimes a principal will be treated as trading in a territory if he has an agent there. Local law and double taxation considerations should be given

### Advantages of distribution

- Supplier can pass greater degree of risk to the distributor
- Greater incentive for the distributor to sell the product
- Avoids the need for the supplier to have an established place of business in the territory (reduces costs and has beneficial tax implications)
- Supplier only needs to monitor the accounts of one distributor rather than for each customer
- No compensation payable on termination

### Disadvantages of distribution

- Loss of control over activities of the distributor
- Exclusive distributor is the supplier's entire credit risk in respect of sales rather than with each customer
- Distribution agreements will be regulated by competition law

tages to hiring an agent or distributor. Top of the list is the absence of direct access to, and communication with, customers. Lack of control over how the brand is portrayed is a second potential obstacle.

But the main disadvantage is that companies do not have the same degree of control over the agent or distributor that they have over an employee. The bigger agents take on such large product portfolios that, dependant on the products you have to offer, yours may never be taken out of the bag on sales trips. However, if you are a major company, your product portfolio could well be of great importance to a prospective agent, giving you a much stronger hand to negotiate.

"They [agents] may carry numerous product lines and will always say they are working hard for you," Mike Fynes continues. "It is up to the principal to support and encourage the agent to perform to their best ability; this may involve numerous sales support trips to concentrate their minds on your products and sales opportunities. It is very important, of course, to have regular reports and feedback on prospects and plans of action for the coming months."

John Riddick of Penningtons, a firm of solicitors, summarises the principal advantages and disadvantages of agents and distributors [see box, previous page].

#### Never underestimate "guanxi"

Selling to China indirectly, whether through an agent or distributor, does bring the disadvantage of not having direct contact with the market. Simon Rodwell, director of CBBC's Business Group, warns against solely using indirect methods. His advice to companies is to go to China themselves and seek advice and information from various sources: "You need to have a feel for China yourself, not just rely on reports produced by your agent or distributor."

Meech, an electrical engineering specialist, is doing exactly that. This September, Meech appointed three new distributors to

### CBBC's Business Group offers market research for companies looking for an agent or distributor in China

CBBC CONSULTANCY SERVICES Manager Josephine Loo explains that for an agent or distributor search, CBBC usually starts with a discussion with the client to understand their requirements and expectations. The client needs to provide CBBC with a list of criteria including ideal company size, existing capabilities and contacts, experience, English-speaking staff and target location or region. The project is carried out through one or more of CBBC's nine offices in China.

To start with, a working list of potentially suitable companies is produced using desk research and, where relevant, information from trade associations and government organisations. These companies are then contacted and further assessed for suitability through research and via interviews.

During this process CBBC also assesses the level of interest from the company in working for the UK client. The most suitable companies are then shortlisted and profiled in a report for the client to review. The next step is to arrange for the client to meet the shortlisted companies face-to-face in China and make the final choice.

Law firms can advise on contracts and agreement terms, and it is advisable to consult either a Chinese law firm or one in the UK with China experience.

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sell its products in China, and expects to appoint more soon. George Ren, business development manager and a CBBC Launchpad member, explains: "We sell directly as well as going through distributors. We appointed new distributors because we are expanding into the Chinese market and we

want to have a national distribution network."

Rodwell also believes in the importance of *guanxi*, which might translate as "connections" and "worth". But it is far more complex than that. It is a system of power and networking. Jinlogic's Jon Hickey agrees that connections are very important in China, where contracts are not always as binding as people might expect and the business environment is changing very fast.

In short, in China people prefer to do business with those they know and trust. While it is impossible to develop *guanxi* overnight, you can be certain that if you don't try to build friendships and trust, you will find your Chinese venture short-lived. "If you don't have *guanxi* yourself, find someone who does," says Simon Rodwell. He is not alone in this view. In fact, *guanxi* is seen by many as the most important element in business success in China.

An in-depth understanding of Chinese consumers and producers is also important, adds Jon Hickey, and people have to realise that China is a huge country with big social and economic differences. "In many ways it is more like trying to do business with the EU rather than one single country."

#### How to find an agent

Lists of agents or recommendations may come from trade associations, consultants, or by word of mouth. CBBC's Business Group can identify suitable agents (see box).

Make sure that your prospective partner has local distributors and sales channels in your chosen region. It would be very unusual to find a single Chinese company able to handle the whole of China, so exclusivity arrangements should be avoided.

Despite its rapid development, China remains a difficult market in which to operate. However, it is a market that any company may enter with the right help, whether selling direct, or going through agents or distributors.

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