



## Building an Overseas Distribution Network: Like gravity, it is pretty much the same all over the world.

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Our firm just finished a year in which we helped a California based manufacturer of thermal products develop a distribution network in 11 countries throughout Asia. Each country has different import regulations, language and culture, but at the end of the day, each distributor contract negotiation revolved around the fundamentals of:

1. Price – *At what price the distributors buy from you, and at what price they are allowed to resell.* This becomes an issue when your authorized distributors are trying to compete against resellers that acquire product outside the target market, and import without paying the legally required tariffs. In the case of this specific product, we stopped several of these unauthorized resellers in the first year alone, thus building confidence within our network we were serious about partnering with legitimate distributors.
2. Warranty – *What happens when things go wrong with the product.* For this specific product line, distributors were given an extra 1% off their price to replace any product that went bad in the first year. Warranty is a great way to differentiate your authorized distributors from the unauthorized resellers.

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### **PRACTICE AREAS**

International Business & Trade

3. Marketing Support – *Material, logos, trade show and financial support.* Your distributor partner should be sophisticated enough to ask about this. We recommend preparing a shared file that your distributors can enter to get the materials they need. In the particular case, larger distributors were given an extra 2% off for marketing activities. As the manufacturer’s “boots on the ground,” we monitor these activities for our client.
4. Industry or Geographic Exclusivity – *To whom and where they can sell.* Most distributors will have a very specific industry or geographic (even within the target country) segment they serve. Distributors in Asia are generally much more fragmented than those in the US. You will generally need more distributors to cover the territory and industries.

Language and cultural differences are important, but we recommend not losing sight of the business fundamentals, like gravity, are pretty much the same around the world.

**Lancaster Management Consulting was founded to give on-the-ground support in Asia to small and medium-sized foreign enterprises that are: newly entering the market, in need of more resources and support, or that are in a distressed/turnaround situation. The author of this article, Alex Claypool, is the Managing Director and has started-up, turned around and grown businesses in the US, China, Indian, Japan, Singapore and Belgium for US Fortune 500 corporations and US private equity firm portfolio companies.**