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Sales Partners – Agents, Distributors, Licensing and Franchises

By Stuart Ayling

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When I'm speaking with clients who are looking for ways to expand their business the conversation often comes around to the possibilities of using agents, distributors, licensing arrangements or a franchise.

These sales partners have a lot to offer. But it's important to understand what each type of partner means for your business (equally so for online enterprises).

The term 'franchise' has become a common way of describing a business relationship where the franchisor allows other people to sell their products or operate the same type of business under the same name, usually within a designated area. But there is more to it than that. Much more. Legal obligations, management control, customer service and pricing are involved. And often 'franchise' is not the correct term for the relationship being offered.

Let's Have Some Definitions...

Agent: A representative for your company who will find buyers and sell your products. Paid by commission on sales achieved. Stock is not usually held by an agent.

Distributor: An enterprise whose business is to buy merchandise for resale, usually to retailers or other industrial and commercial users.

License: A formal permission or authority to do, or not to do, something which otherwise would be a legal wrong. Often used when dealing with merchandise or procedures protected by trademarks and patents.

Franchise: A privilege granted by one organisation (the franchisor) to another (the franchisee) to sell, produce or use its products. Different types of franchises include:

* A product franchise – which acts as an outlet for a particular product.

* A system franchise (usually called a business format franchise) – which is authorised to conduct business according to a system developed by the franchisor.

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* A process or manufacture franchise – for which the franchisor supplies a critical ingredient or the know-how for a production process.

According to the Franchise Council of Australia the most common franchise method is the business format franchise, with 708 different systems being offered in Australia.

Typically each type of sales partner is subject to geographic restrictions of some kind, such as a pre-defined territory. Depending upon the situation this may be part of a metropolitan area, a state, or an entire country. Ideally the size of the territory should be based on sales and/or profitability benchmarks. This is sometimes tough to calculate for new products and services.

At times the definitions may overlap. For example a 'manufacture franchise' may be the same as a

'license' for a manufacturer to produce certain items. The legal boundaries can be quite puzzling and expert assistance should always be sought.

Of particular importance is the requirement of a business format franchise to offer comprehensive training, support, business management procedures and marketing programs. This all-inclusiveness is a hallmark of a true business format franchise.

It takes a long time to develop the systems and knowledge required to create a business format franchise that conforms to the Franchising Code of Conduct and that will be of interest to serious franchisees.

If you find that your products do not require the intensity of support required by a business format franchise then the other sales partner options may be more suitable.

From a simple commission-based arrangement with an industry sales agent (or broker) to a more formalised licensing deal that may offer exclusive territory and advertising support, there are opportunities to get your partners working for you to increase your overall sales.

Don't Just Leave It To Your Partner...

However, it's not simply a case of thinking, "Let's sign a deal and let them worry about getting the sales". No matter which option you choose there will be ongoing communication and support required from you if you want your sales partner to get the best results.

And there are always potential pitfalls in any relationship. Remember, the less committed your sales partner is to you, the lower your products or services will appear on their priority list.

So here are a few things to keep an eye on if you want to stay on track for success:

* Agents – Stay in regular contact. Sell them on your products. Get them excited. Make sure your commission is competitive. Do you have an exclusive arrangement with them? Try to avoid agents who also represent competitive products, as they may have a conflict of interest.

* Distributors – Be aware of how your products fit with their ranging policies. Train their sales team. Help them to promote your products by way of co-operative advertising and sales incentives. Stay on

top of any seasonal or dated stock. You don't want your distributor overstocked with old merchandise (because they will think twice before ordering current stock!).

* Licensees – Make sure your legal documentation is sound. Gain a thorough understanding of your licensee's business so you know how your product/service is being used. Are they committed to you for a period of time, number of units, or value of sales? Limit the license to their specific use so you are free to deal with other licensees.

* Franchisees – Use a franchise consultant to help develop your package. Remember your selection of new franchisees will be of paramount importance – people make the business! Have procedures to measure customer service levels and operating standards (use random checks, mystery shoppers, contests etc). Gain co-operation and 'buy-in' from franchisees, rather than confrontation.

Sales Partners Online...

It's no news to online businesses that they should use productive partnerships to increase their chance of success. For example:

* An affiliate program can be compared to a sales agent.

* Syndicating content can be compared to licensing (of the information).

* Patented code/software is commonly used under license.

Always do your sums and make sure your choice of sales partner presents the best outcome for you. Look for commitment, synergy, innovation and growth potential in prospective partners – your future depends on it.

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True Value Added Distribution

By Stanley Mekkattu Glancy

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Distributors have been talking about value-added service for quite some time now. All agree that it's the only way to survive in the emerging highly competitive scenario. But most channel partners 360 Magazine spoke to complained that this was hardly the case. Except for a select few, most distributors do not provide any value-addition, they said.

But most distributors do have service centers in different cities. And most try and provide quality products and services. However, providing high-quality products and service reliability is no longer enough. Both manufacturers and channel partners demand much more from the new age distributor. So what does value-addition mean in the current sense of the term?

The basic definition of value addition says it's any factor added to a product to increase its value or

price. In reality value addition can be split into three sections —presales, support sales and post sales.

Presales

This is one aspect of value addition, which is ignored by most of the channel. But this is as important as either sales or post sales support, and especially so when a new product is launched in the channel.

Many partners enter the market without a clear understanding about the pros and cons of the business. That is where a distributor can play a lead role by enabling them to understand the pitfalls in terms of deliverables or credit.

True value-added distributors empower the channel by educating them about new products, invest in marketing campaigns, and more importantly, ensure that the product is available across the country.

Says Navinder Chauhan, marketing and communications manager, Rashi Peripherals, "Distributors not only need to educate the channel but also train its internal staff about the product. Only when the internal staff is aware about the latest offerings and its technicalities will they be able to pass on this knowledge to the channel. In addition, distributors also have to ensure that the product available wherever there is demand."

Post Sales

The manufacturer promises the warranty on the product. But the onus lies on the distributors to provide it. Hence, distributors need to have systems in place to track products under warranty, and take steps to be closer to the channel partner as well as the end customer. Most distributors 360 Magazine spoke to are either putting in place new systems or upgrading legacy systems.

Says Chauhan, "Value addition doesn't end with sales. It extends to the post delivery phase as well. The distributor should put systems in place to provide support at the lowest cost, and ensure that the entire supply chain function as a single entity."

Beyond this, distributors also need to ensure the continuity of a product line by either launching upgrades or replacing it with a new product if the existing one is being phased out. "If a product line dies out then providing warranty would prove to be a serious challenge," says Chauhan. Adds Kulkarni, "The distributors' role is to reduce the risks involved in the business and provide the channel with an efficient service model."

Requisite Factors

Any distributor should first add value to its manufacturer partners by giving them the right kind of support. Says Paras Shah, Neoteric, "The instrument to penetrate into the market is the channel partner. The distributor should give the channel proper direction about business strategies."

Different distributors have expertise in different areas. They can hone this expertise wherein both manufacturer as well as the channel partner can benefit from it. "I believe it is not about having few exclusive partners or a few hundreds. What is important is to have the right strategy for that market," says Shah.

Thorough knowledge of a product is a key component in effective distribution. Therefore, product training remains a primary factor. But today the challenge for the distributor is different. Distributors should identify methods to conduct the training without taking the sales force out of the field for an extended period of time. One method that has been working successfully is online training with many distributors setting up robust online training websites for partners.

Profitability is another key factor. Says Aditya Bhuwania, "Unless a distributor is profitable, the partner cannot be profitable." But J. Kulkarni of Redington feels that channel partners do not need help from distributors to maintain profitability. According to him, the distributor can help the partner to access business opportunities, which it may not be able to do on its own due to geographical or financial restrictions.

In terms of sheer profitability, there is very little the distributor can do. However, ensuring that they run a profitable business is something the distributor can do. For instance, large tender queries can be addressed more effectively through distributor participation. Since a small reseller may not be able to comply with these requirements the distributor can step in to fulfill the demand.

Finally

The goal of a distribution company should be to make sure that the right product is made available at the right time in the most efficient and cost effective manner. Distributors not only need to procure the product from the channel and sell it to the next level but also ensure that it in turn successfully sells to the next level by creating demand for it. A single weak link could affect the whole chain.

Stanley Mekkattu Glancy is a senior staff writer at 360 Magazine, India's leading IT channel magazine from the IT Nation Group, a new age IT media company. Prior to taking up this assignment he was correspondent cum sub-editor at Express Computer, India's only technology weekly published by the Indian Express group. He has written various articles on 'the business of IT' during the last four years he has been in IT journalism.



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