

Distribution Channels

Distribution is defined as the means or mechanism through which your goods eventually reach the buyer. Physical distribution refers to the actual transportation of the goods from your production factory or warehouse, via the intermediaries (distributors, agents, wholesalers) to the final or end users or the retailer's shelf. As such physical distribution is the downstream element of the art of logistics which describes the flow of goods from its natural sources through the processing stage in your factory all the way up to the final consumer.

Consulting professional freight agencies on what form of transportation you should consider when exporting your goods is critical. They will tell you the best and most appropriate way for your products to reach their final destination. Bear in mind that the cheapest means may not always be the best. For example if you were to export fresh fruits which are highly perishable, even though road or sea forms of transport may be cheaper, air transport is the most appropriate because of the nature of your product.

Choosing a distribution channel

In most European countries and the United States of America the distributive system is highly developed, unlike in most countries in Africa. If you are using a trade partner, a distributor or agent, these can help you decide on the best channel to use. For you as an exporter the job of selecting the right channels may prove to be too involving unlike your trade partner, who knows the market better. Nevertheless, you must know enough about the local distribution system to justify or at least understand, your partner's proposals.

Options for Distributing your Products on the Export Market

There are several options that an exporter may consider when exporting. Below are some options: -

(a) Direct Exporting

This refers to the exporter selling directly to the importer. The advantages of direct exporting include more control over the export process, potentially higher profits and a closer relationship with the overseas buyer. However, these advantages do not come easily since the exporting company needs to devote more time, personnel and corporate resources than indirect exporting requires.

(b) Exporting through Sales Representatives

In developing countries, a sales representative is the equivalent of a manufacturer's representative in your own country. The representative uses the company's product literature and samples to present the product to potential buyers. A representative usually handles many complementary lines that do not conflict. The sales representative usually works on a commission basis, assumes no risk or responsibility and is under contract for a definite period of time (renewable by mutual agreement).

(c) Exporting through Agents

The term "agent" means a representative who normally has authority, perhaps even a power of attorney, to make commitments on behalf of the firm he or she represents. It is important that any contract state whether the representative or agent does or does not have legal authority to obligate the firm.

(d) Exporting through Distributors

The foreign distributor is a merchant who purchases goods from an exporter (often at a substantial discount) and resells it for a profit. The foreign distributor generally provides support and service for the product thus relieving the exporting company of these responsibilities. The distributor usually carries an inventory of products and a sufficient supply of spare parts. He or she also maintains adequate facilities for storage and personnel for normal servicing operations.

(e) Foreign Retailers

An exporter may also sell directly to foreign retailers, although in such transactions, products are generally limited to consumer lines. This method relies mainly on traveling sales representatives who directly contact foreign retailers although results might also be achieved by mailing catalogs, brochures or other product literature. For example a manufacturer of say biscuits may export directly to a supermarket in the importing country.

(f) Direct Sales to End Users

A business may sell its products or services directly to end users in foreign countries. These end user buyers can be foreign governments, institutions such as hospitals, prisons, research institutions, schools and business organizations. Such buyers can be identified at trade shows, The Internet, business catalogues, local and international business publications and trade missions (e.g. buyer-seller meetings).