

## Distribution strategies for non-US companies

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## NEED FOR A DEFINED ENTRY STRATEGY

The USA is not just one of many target countries for companies around the world. It is *the* single largest market on the globe with companies of all sizes trying to win a small piece of this lucrative yet highly competitive marketplace. Those who succeed enjoy great financial rewards, as even small niches in the US represent significant volumes for many non-US companies (NUCs). However, experience shows that market penetration does not usually come easily, especially for small and medium-sized firms based outside the USA.

All companies – US-based and non-US alike – need to develop a defined channel strategy. For example, a marketer of automotive components can target the OEM (original equipment manufacturer) market by selling to major vehicle manufacturers. Alternatively, its strategy can focus on sales in the aftermarket (outlets such as repair shops, auto-part stores and catalogues).

But the NUC has an additional hurdle, which does not burden most US-based corporations. *Managers of NUCs must invest a major effort in deciding who will do the actual marketing and distribution in the USA.*

Many small or inexperienced NUCs minimize the importance of a defined entry strategy. They simply look for sales contacts in the US and hope for the best. However, the fact that so many NUCs radically change their US marketing operations after a few years (or sometimes even sooner) indicates a need for better planning from the start. In fact, the development of an entry strategy that is right for your company *and* the market could make the difference between success and failure in your US marketing efforts. Since many small to medium-sized NUCs have limited financial resources for marketing investment, if the initial penetration strategy fails, they often cease their US marketing efforts entirely, losing their investment.

The task of determining your strategy should not be performed in a vacuum. Ideally, it is the result of an *internal* examination of corporate goals and objectives coupled with *external* market research and analysis.

## INTERNAL ANALYSIS

The best distribution strategy for your company to employ relates directly to the structure and corporate culture prevalent in your organization. Before considering US marketing options, managers of NUCs should look internally and consider the following:

- Does top management support the idea of US export?
- Will they back up that support with investment, staffing and management attention?
- Do they recognize that a return on investment may take three years or more?

- Can you expect other departments (production, finance, research and development) to support the effort as well, or will they see US sales as an extra burden?
- Does your company have experience exporting to other markets?
- Is there someone who can lead the effort who has previous experience in export marketing in general, with a US sales background in particular?

It is crucial to consider these factors before evaluating how you will operate in the USA. We have met many marketing managers who were frustrated by a lack of support from top management. If you are not the decision maker, be certain you clearly understand what the people who sign the cheques are willing to invest.

## **EXTERNAL STRATEGY OPTIONS**

Managers at many companies who are considering US marketing conduct endless internal meetings to discuss ‘the best way to sell in the USA’. While such planning is certainly recommended, our experience with many NUCs has shown that the number of entry options is quite defined. They include:

- recruiting a US-based strategic partner or marketing partner;
- opening a US subsidiary or sales office;
- opening a US parent company;
- joint ventures – establishing a US sales operation in partnership with a US corporation;
- acquiring an existing US company in your field;
- establishing a ‘master rep’ organization;
- working with trading companies;
- licensing;
- direct sales;
- e-commerce.

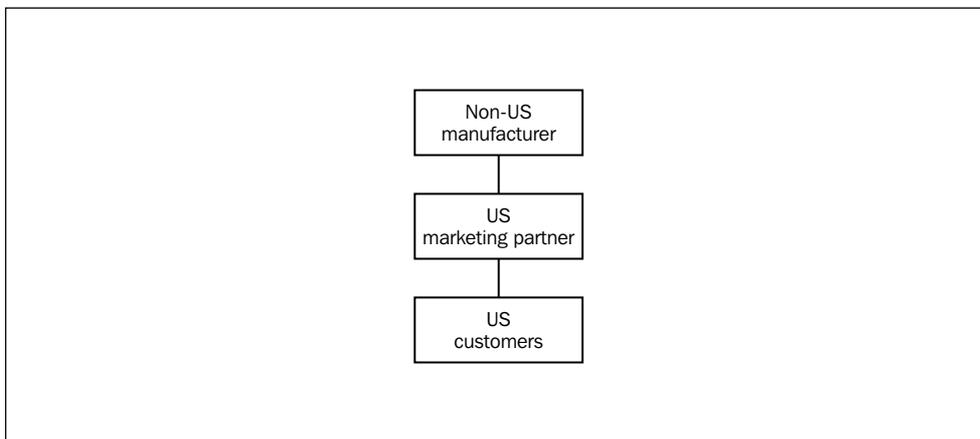
A look at each option will help you understand how other exporters are currently operating in the USA.

## **RECRUITING A STRATEGIC PARTNER OR MARKETING PARTNER**

Smaller NUCs typically begin their US marketing efforts looking for an American company to market their products. In fact, many exporters fail to recognize that other options even exist!

In this scenario, the NUC manufactures a product in its home country which is then sold to a US firm, such as a non-competing manufacturer or a national distributor selling in the relevant markets (*see* Fig. 2.1). For example, a European manufacturer of industrial tools might find a US manufacturer producing related (but different) tools, which are being sold to industrial distributors, as well as directly to maintenance staff at manufacturing plants. The US manufacturer benefits by adding new items to its line without the expense of product development or production. The exporter is pleased as this relationship allows it to tap into the existing distribution network of the US company without an investment in marketing.

**Fig. 2.1** Selling via a marketing partner



In the short run, this appears like an ideal situation for the European exporter. Entry costs are low as the US manufacturer imports and warehouses the goods, promotes sales via trade shows and advertising, ships orders and collects on past due accounts. The export manager, *from their non-US perspective*, often think they can just sit back and wait for orders (and payments) to flow in.

However, in practice, the NUC is often disappointed with the results. The US marketing partner typically has many products to sell, and if the US partner is a manufacturer it will almost always give far more attention to its own products than to those of its overseas partner, despite even the best of intentions at the outset. In many cases, this results in sales volumes that are far lower than anticipated.

The US corporation will provide many excuses why the sales are so low. Typical reasons include:

- ‘It’s a slow market.’
- ‘You [the manufacturer] didn’t invest enough in marketing.’
- ‘We need more training.’
- ‘The big trade show is next year.’

- ‘You need to understand that seeing results with a new product in the USA takes a lot of time.’

Despite this fine list of excuses, our experience has shown that the real reasons are actually one or more of the following:

### **Lack of dedicated staff**

The US company has not appointed staff (or even one full-time manager) who work exclusively on the sales and promotion of the exporter’s products. Someone must pioneer the effort, waking up in the morning thinking about how to sell more of the NUC’s goods and services. Simply being included in the US company’s catalogue will not produce results, as from the US company’s perspective, it’s just another item in the product line.

### **Selection of the wrong type of company as a partner**

This is a very common problem, which stems from business-mentality differences between many NUCs and US executives. For example, a company that produces lawn and garden furniture exhibited at the National Hardware Show in Chicago, where it met a US distributor of lawn and garden products. The exporter had no US sales at the time and was interested in finding ‘contacts’. The distributor was currently not selling plastic furniture and expressed interest in what it considered to be a unique, well-designed, competitively priced product line. Meetings were held, samples were shipped and the NUC was sure that it had ‘begun to conquer America’. After a year, progress was slow, with no significant orders received from the US distributor. The manufacturer then wrote a tough letter to the president of the US distribution company, threatening to cancel the agreement. This caused a major conflict and resulted in the distributor dropping the product line.

What happened? What’s the real reason that this great product line did not succeed? Quite simply, each of the companies did not meet the expectations of the other. Each ‘assumed’ that the other would take certain actions that did not occur. This is illustrated in Table 2.1.

The NUC just assumed that the US distributor would take care of all sales promotion and lead generation functions, since that is how it works elsewhere. The US distributor, however, did not see itself in this role. It was used to filling demand created by the promotional activities of the manufacturer. Customers failed to ask for the products as they had not seen them. So while some sales were generated through the course of regular business, it was not enough to keep either

party happy. In essence, what the manufacturer really wanted was to outsource the entire marketing function – *to the manufacturer, this was obvious.*

**Table 2.1** Conflicting expectations of the US distributor and the non-US company

<i>Function</i>	<i>US distributor's expectation</i>	<i>NUC's expectation</i>
Trade show exhibiting	This is the responsibility of the manufacturer: 'Manufacturers are the ones who invest in trade shows'	This will be done by the US distributor: 'It's my job to produce quality products and ship on time; marketing and selling are the responsibility of the Americans'
Trade magazine advertising	As above	As above
Public relations	As above	As above
Lead generation	'As a distributor, I fill demand; that demand must be created by the manufacturer'	'I have distributors in many countries around the world – each of them is responsible for lead generation in their country of operation'

The distributor was really looking for regional distribution, similar to when it sells US made products. When it saw that the 'foreign' manufacturer had no other contacts in the US, it asked for and received national distribution rights. But it really had no experience or intent to function as a 'national marketer' by investing in major trade shows, advertising and national sales promotion. It expected all of this from the manufacturer – *to the distributor, this was obvious.*

Had the exporter's marketing manager done his homework, he might have looked for a US manufacturer or national distributor of complementary, non-competing products that were sold to the same customers they wanted to reach. Such a company would be accustomed to handling functions such as sales promotion and lead generation, unlike the regional distributor. While a joint venture with a US manufacturer has problems of its own, it would have had a chance of working. Unfortunately, the deal that was made was doomed to failure!

### Entering into a distribution agreement with a company in the wrong field

Often NUCs appoint a US firm to act as their agent or national distributor without fully understanding what the US company actually does. A very common scenario

is when a non-US manager has a contact with a relative, friend or associate from the home country who now lives in the USA. A strong psychological attraction exists to appoint such a person, especially for non-US managers in non-English speaking countries. The ability to communicate in one's mother tongue with someone who understands the home country's business environment is very important to some managers.

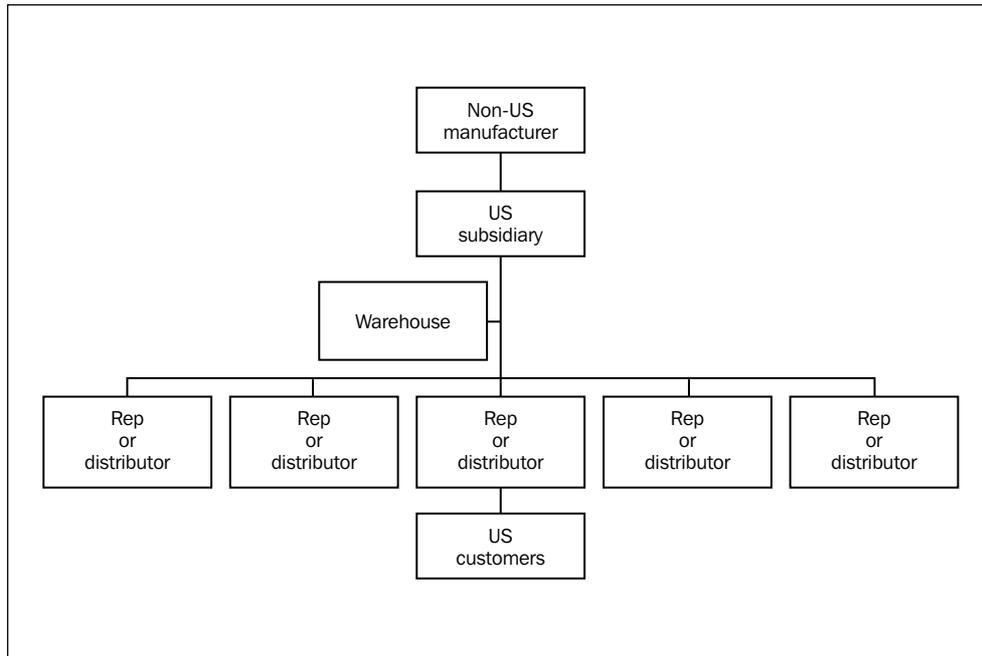
Many decision makers at NUCs are interested in US export but have few contacts in the USA. So, understandably, when they finally meet someone interested in representing them, the non-US managers readily agree, even if the Americans are not exactly a 'perfect match'. Such deals are also indicative of people in the USA searching for *any kind* of representation deal – clearly not a good situation for the NUC. For example, NUCs of technical equipment have been known to appoint US distributors who were selling food products! Developers of computer software have appointed US agents with no technical background. Exporters who are seriously interested in US marketing agreements should conduct a dedicated search for the right US company, after they have a thorough understanding of the US market for their products. Haphazard selection rarely generates good results and wastes valuable time.

While they frequently do not last more than a few years, we have seen marketing partnerships succeed to the satisfaction of both parties. This typically happens when the exporter conducts a systematic search, both parties clearly define their expectations and the NUC takes an active role in the US marketing. But even in the best of situations, the NUC and the US company must realize that priorities, market conditions and staff change, often causing the deal to sour. Nonetheless, marketing partnerships are often the only real choice some NUCs have for establishing a foothold in the US market.

## **OPENING A US SUBSIDIARY OR SALES OFFICE**

Another strategy for NUCs is to establish a US subsidiary or sales office. This approach opens up a whole array of opportunities for the manufacturer that are not possible when working with a marketing partner. On the other hand, it requires a much greater commitment in terms of investment, management time and dedication of resources.

While this method can take various forms, typically the NUC, after researching the US market or after a period of initial US sales activity, makes a strategic decision to open its own office, dedicated exclusively to the promotion, sales and service of its products in the US (*see* Fig. 2.2). This differs dramatically from the marketing-partner approach, since with its own office the exporter has full control and responsibility over its US sales operation. This is no small matter.

**Fig. 2.2** Selling via a US subsidiary

### Why non-US companies avoid opening US offices

Many NUCs shy away from opening US offices, for various reasons. These include:

- fear of the unknown – as NUCs, they are not comfortable with the idea of investing in business operations outside their home country; the idea of managing staff that are based in the USA also scares off many exporters;
- perceiving the financial risk to be too high: ‘we are a small company and having our own US office is beyond our capabilities’;
- the fear (incorrect in many cases) that they will need a large staff to sell their products nationwide, because the USA is so large;
- thinking that their product line is too small justify such a move.

### Controlling your destiny

Every exporter needs to investigate the market carefully and develop a strategy that makes sense based on the company’s goals, objectives and capabilities. We have observed that more and more NUCs have set up their own US offices in recent years, understanding the need to ‘control their destiny’ and not be dependent on the success (or failure) of a US distributor or strategic partner.

NUCs who rely completely on a US distributor or marketing partner can sometimes be described as using the ‘religious approach to US marketing’, since

they can only ‘pray’ that the US partner will perform (and pay) as agreed. When working in this manner, the exporter has little or no control over the US operation. You can ask, advise, push, complain and threaten your US counterpart, but you cannot decide what actions will be taken. This situation is quite different with your own US office.

### **A typical set-up**

An initial US office for an NUC can take many forms. Some companies set up elaborate offices in major cities such as Chicago, Los Angeles or New York with fairly large staffs. Others start small and hire one employee who is responsible for all US operations until sales begin to be generated, at which time adding staff may be justified. While such a manager must have extensive industry and marketing experience to qualify for the position, it is not uncommon to start from a home office, often not in a major city, where costs of living (and salaries) are lower than in key business centres. Companies with products that require professional installation and service can sometimes outsource these functions, with basic technical support provided by the home office in the US. (The question of who should be selected to run the office is discussed in Chapter 7.)

Due to the huge size of the market, the managers cannot cover the entire country on their own and will often recruit regional ‘reps’ (independent manufacturers’ representatives) to call on customers in various areas of the USA. Reps typically represent several manufacturers with complementary, non-competing products that can be sold to the same types of customers. Reps work on a commission basis and this allows the manufacturer to have national coverage without the fixed cost of salaried sales staff. NUCs can also sell throughout the USA via regional distributors, with all national marketing and promotion functions such as trade exhibitions and advertising handled by the exporter’s US office. More information on independent reps is provided in Chapter 8.

### **Responsibilities of the US office**

When NUCs sell via a US marketing partner, they have minimal control over the sales operation. However, when operating their own US office, exporters – via their US manager and staff – have full control and take responsibility for many functions beyond what is needed when simply selling to a US distributor. These functions may include:

- renting and operating an office and warehouse
- exhibiting at US trade shows
- advertising in trade magazines

- direct marketing and telemarketing
- public relations
- internet marketing
- recruitment and management of reps and distributors
- dealing with international shipping and customs clearance
- order processing
- evaluating customer creditworthiness
- shipping
- invoicing
- collection of past due accounts
- bookkeeping
- paying salaries
- human resources
- customer service and technical support.

It should be noted that many functions can be outsourced, allowing the development of a business infrastructure without the commitment of hiring employees. Warehousing, credit and collections, human resources and administrative services can all be purchased, with some smaller companies renting shared office suites where they can buy these and other services as needed.

While many functions can be delegated to outside parties, marketing and sales must remain 'in-house', since they are the primary functions of the US office. Marketing must never be outsourced, although the use of reps for the sales function is a widespread and successful practice among many companies selling in the USA.

Deciding to open a US sales office or subsidiary requires careful evaluation and planning. It is not appropriate for every company and is sometimes best to consider such a move only after reaching a sufficient US sales volume to warrant the investment. On the other hand, many companies will find it difficult – if not impossible – to generate any significant US sales without their own office and staff from day one.

For example, we once worked with a manufacturer of plastic packaging films used in the food industry that wanted to generate US sales for its products. Market-research interviews with potential customers uncovered serious complaints about the service and delivery times of 'foreign' manufacturers. Since the field was highly competitive and the company's relative advantages minimal, the likelihood of finding a marketing partner who would really invest in developing the market with this NUC was small. Therefore, although the company initially wanted to find a marketing partner, we recommended that it

opened a small US sales and service office and recruited an experienced marketing manager from its industry. We told the managing director that while *we could not guarantee* that this method would succeed, *we could promise* that the search for a marketing partner would fail.

The strategy was very successful. The company recruited an experienced marketing manager in the specific industry segment who had worked for an NUC in the past. Using his contacts, he ‘opened doors’ with many customers, distributors, reps and film converters, successfully building a national US sales organization. This is one of many examples proving the great value of researching the market *before* deciding your marketing strategy.

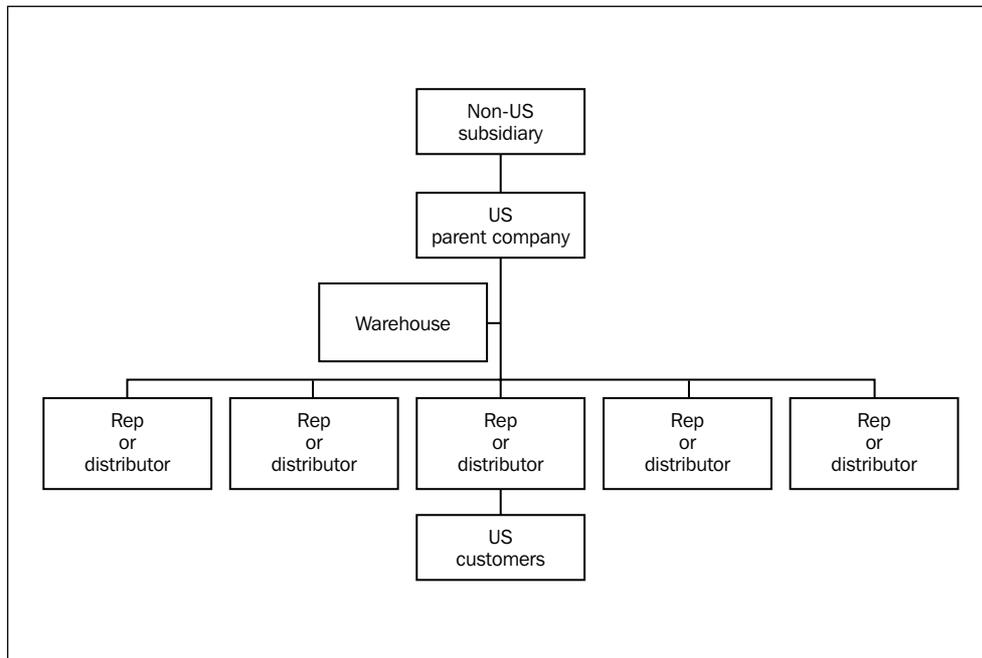
## **OPENING A US PARENT COMPANY**

Non-US technology start-ups often establish their company, from the beginning, as a US corporation, with the operations being conducted in their home country as a subsidiary of this US company. For example, a UK software start-up immediately establishes a US company with a UK subsidiary. The operations at the start are conducted in the UK with the plan to move key functions to the US once the product is ready for market.

Technology start-ups from outside the USA establish US corporations such as this for several reasons, including:

- *Investment.* They find it easier to bring in US venture capital when the company’s headquarters are in the USA.
- *Image.* As the USA is the centre for so many technology companies, they feel it helps their image to be viewed as a US company. This aids in the recruitment of key employees, major strategic partners and projecting an image of being an industry leader.
- *Tax considerations.* Some companies enjoy tax benefits from this arrangement.

Figure 2.3 shows the set-up in the early stages of the company. The non-US subsidiary appears on top, since during this initial period most of the operations and decision making take place outside the USA. However, as the company progresses past research and development (R&D) and into marketing and sales, the top managers (chief executive officer, chief finance officer, marketing vice-president and others) of the company are typically based in the USA. In some situations the key staff relocates from outside the USA to the US office; at other times senior management is recruited in the USA, with R&D and new-product development remaining in the home country.

**Fig. 2.3** Selling via a US parent company

## JOINT VENTURES – ESTABLISHMENT OF A US SALES OPERATION IN PARTNERSHIP WITH AN AMERICAN CORPORATION

The advantages of a dedicated US sales office for NUCs in the USA are clear. However, in conversations with many chief executive officers (CEOs) of small to medium-sized NUCs, we have been told that they are still uncomfortable in ‘going it alone’. They agree that control over the US marketing operation is critical; while they are willing to invest in US marketing, they still prefer a method where the risk will be shared.

Such companies sometimes establish an independent US sales office or subsidiary in partnership with a US company. In this scenario, the exporter identifies a US company in the appropriate field interested in its products, often a company with whom the exporter has an existing relationship. But instead of simply outsourcing the marketing to the US company, the exporter proposes:

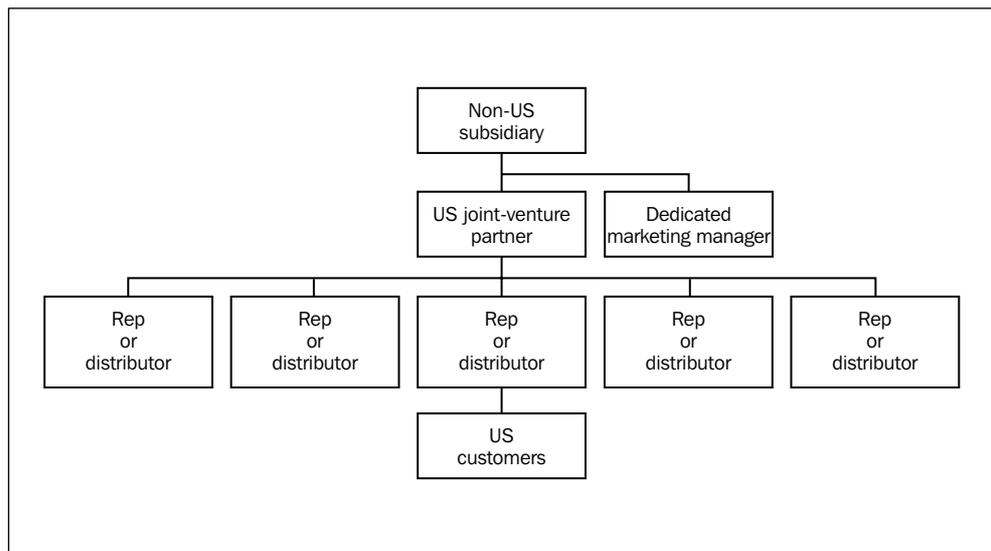
- the establishment of a new company, owned partially by the exporter and partially by the US company;
- investment in the company will be shared between the partners;
- the hiring of a US manager and other staff, whose jobs are 100 per cent dedicated to the new company; these should not be people who work part-time

for the US partner’s company and part-time for the new company – clear responsibilities are essential;

- various services can be ‘purchased’ by the new company from the US partner’s business infrastructure – this can include office space, warehousing services and accounting functions (as discussed earlier, many functions can be outsourced, except for marketing and sales).

This approach should not be confused with the strategic or marketing partnership options mentioned earlier. In the business model here, the owners of the NUC typically have equal control over the new company with their US partner (*see* Fig. 2.4). If working with a board of directors, each partner has equal representation. While the NUC does not have 100 per cent control over the marketing, it is far better than having to make suggestions to, beg and threaten a US partner who holds all the cards.

**Fig. 2.4** Selling via a joint-venture partner



Once established, such a company operates in a fashion similar to the US subsidiary structure outlined earlier. The exporter benefits, since the financial risk is shared and the Americans provide existing contacts, US marketing expertise and business services that can be utilized. However, a partner is still a partner and conflicts can and do occur. In addition, sharing risks also means sharing profits. So while such a structure may sound attractive at the outset, we strongly recommend serious investigation and consideration before entering into such a relationship.

As a final suggestion for this method, the NUC can also establish the US company in partnership with an individual, rather than a company. This could be, for example, a senior manager of a competing company who is interested in working with the exporter in the establishment of the US operation. Such a

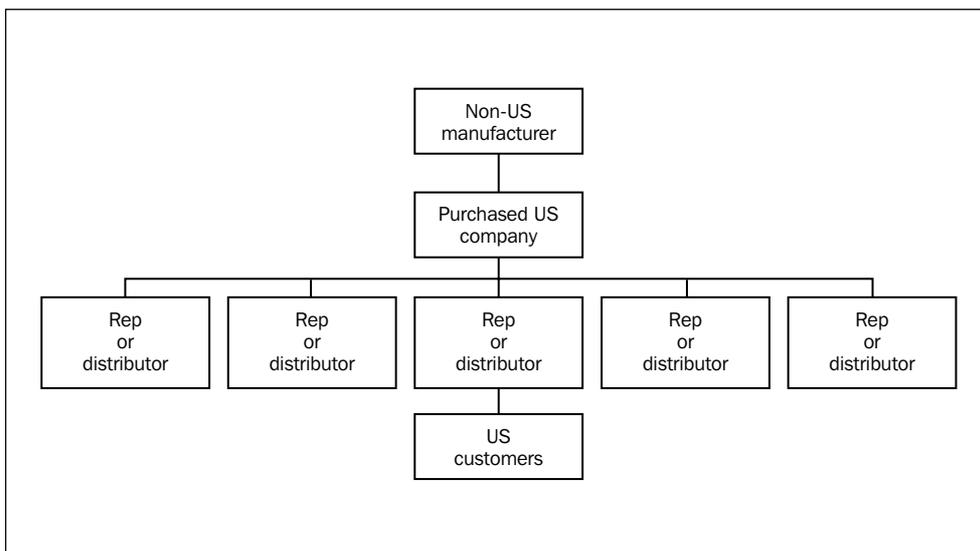
manager brings industry experience and contacts but will be lacking the business infrastructure outlined earlier. While we have also seen these situations work, our warnings above apply equally to this type of arrangement.

As with all the US marketing options, a careful evaluation is needed before making a decision. Once you are already working with a particular method, making changes becomes complicated and expensive, and wastes valuable company resources.

## ACQUIRING AN EXISTING US COMPANY

Some exporters are interested in a shortcut to market penetration. Rather than opening their own US office or establishing a partnership, they purchase a US company in their field, resulting in ‘buying’ contacts, reputation, a rep force, experienced staff and facilities (*see* Fig. 2.5). While greater costs are involved in this method, the US company that is purchased has market value and can also be sold if the NUC’s strategy does not work out as planned.

**Fig. 2.5** Selling via a purchased US company



Exporters who have purchased a US company often relate that the merging of two firms from different countries requires careful planning and attention to cultural differences. Handled well, the purchase will provide the exporter with fast entry and expansion into the US market. Handled poorly, the staff of the US company will go elsewhere, leaving the exporter with an expensive mistake.

NUCs seeking to purchase a US company can employ the services of a ‘business broker’ – a company that specializes in the purchase and sale of businesses. Working with a broker that has experience in your industry will save time and improve your chances of finding the right opportunity.

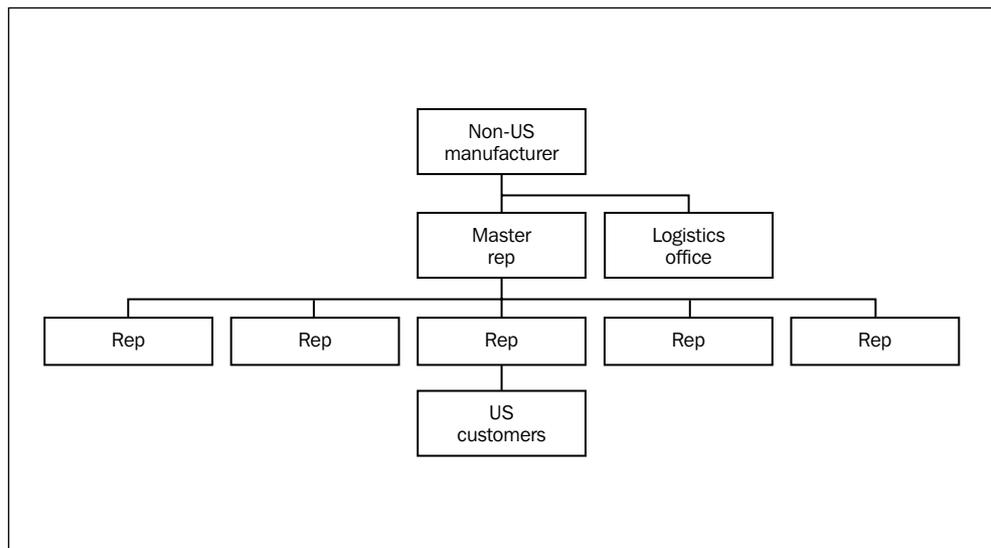
## ESTABLISHING A MASTER REP ORGANIZATION

Many NUCs are interested in having a US office because they recognize the importance of controlling their US marketing. On the other hand, they are unable or unwilling to invest in a full US subsidiary until they know that they have a reasonable chance of success. They reject the idea of opening a US company in partnership with a US firm because they are concerned about entering into long-term relationships that may not work out. In short, they are seeking full marketing control for a lower up-front investment. Such exporters may consider the establishment of a ‘master rep’ office.

As described in more detail in Chapter 8, US reps are small, independent business organizations that represent several non-competing manufacturers on a commission basis. Reps call on a very defined segment of the market (for example, car manufacturers, IT managers at technology companies, toy stores) and sell in a very defined geographic area, typically a few states. There are reps in almost every imaginable field because they fill a vital function of helping manufacturers achieve market coverage without the investment in full-time staff.

As business people, owners of rep firms are always interested in evaluating new opportunities. While they typically work only as a regional sales representative, they are often quite open to the idea of being a ‘master rep’ – acting as part-time national sales manager for the manufacturer until sales justify a full-time office and staff (*see* Fig. 2.6). Since this type of arrangement is not typical for many reps, you should be prepared to present the concept and your expectations.

**Fig. 2.6** Selling via a master rep



Our experience with master rep arrangements has shown that they may work for a limited period of time and can be a great method of generating initial US sales.

But even then, they work best if the reps are asked only to perform functions they know well and are not required to provide services that are unusual for their type of business. Let's review what you can expect:

### Expectations from a master rep

It is reasonable to expect that the master rep will:

- advise the manufacturer on setting up US distribution, preparation of promotional materials, selection of trade shows and other first stage actions;
- recruit additional reps to sell in other areas of the USA;
- manage the rep force;
- plan trade show participation;
- call on key customers;
- co-ordinate advertising;
- receive and process orders;
- work as the liaison with the marketing manager at the non-US factory;
- act as a part-time national sales manager.

### What not to expect from a master rep

In most cases, reps who are willing to work as your master rep are not interested in:

- managing the importation of your products into the USA;
- warehousing your products (although some reps offer warehouse services for a fee);
- checking customer creditworthiness after receipt of an order;
- sending invoices;
- collecting overdue accounts;
- other 'logistical' functions.

For this reason, companies setting up master rep organizations often need to work with two individuals or offices in the US:

- *A master rep*: handling all marketing and sales functions.
- *A logistics office*: managing functions such as co-ordinating the overseas shipments, warehousing, credit checking, shipment of merchandise to US customers, invoicing and collections. This can be another company with excess warehouse space and staff availability or a service provider, such as a public warehouse or a third-party logistics company offering these functions. There

are some reps who have the experience, staff and facilities to offer both the sales and logistics functions but a typical rep will normally not offer these services.

Owners or managers of NUCs can conduct a 'rep search' either on their own or using outside consultants. In master-rep searches that we have conducted for NUCs, we typically selected geographic areas that make sense for the exporter, taking into consideration where the biggest market is, for example Silicon Valley or Massachusetts for many high-tech firms, or East Coast locations for European exporters because their shipments typically come into the USA via East Coast ports. For some exporters, the location of the US master rep is insignificant.

### **The impact of e-commerce on reps**

Over the last few years, reps have become more interested in these types of expanded representation arrangements with overseas manufacturers. We predict that the increased use of e-commerce will reduce the number of reps needed in the US marketplace, with many companies, especially in business-to-business (B2B) fields, selling direct to customers without intermediaries.

Therefore NUCs who approach reps over the next few years are likely to find the reps more co-operative and interested than they would have been just a few years ago. Some reps, those who truly offer added value, are likely to thrive in the new e-business economy. Others, many of whom offer customers little more than brochures and a few jokes, are likely to be squeezed out in the new B2B internet world. This situation represents an opportunity for NUCs seeking US representation as many reps who offer little added value to a US company may provide substantial added value to a company based far from the USA.

### **Consultants as master reps**

While exporters can ask a regular rep to perform as a master rep, another good option is to hire a US-based consultant experienced in the field of the exporter. It is common to find many former marketing executives who have become consultants, some of whom have top-level experience, contacts and the ability to set up and run a marketing organization. Identifying such individuals may require extensive networking among industry experts, but this is well worth the effort, since finding the right consultant to be a master rep can be an important first step in US marketing success.

While a viable option, we only recommend the use of a master rep if there is no better choice. The part-time involvement of the rep, coupled with the need to buy logistical services, creates an organization that is difficult (but not impossible) to manage. Exporters setting up a master-rep organization should see it as a temporary first step and not as a permanent arrangement for their US marketing requirements.

## WORKING WITH TRADING COMPANIES

New exporters sometimes sell products in the USA via import–export trading companies, which are based either in their home country or the USA. Such companies typically handle all aspects of the export process, for example export documentation, shipping, billing and sales.

While this method is often used by new exporters, it is usually a very short-term solution, because trading companies are approached by many suppliers, giving only minimal attention to any one product line. If it has useful existing contacts, the trading company will try and sell your line, but it will rarely invest a significant effort in promoting your particular product. Some trading companies are most successful in selling off-the-shelf, consumer products, although companies do exist that operate in more specialized areas as well.

NUCs who are not committed to US export but are interested in trying to generate some sales with minimal effort can consider approaching trading companies. Most of these efforts will fail, a minority will succeed marginally, and fewer yet will generate substantial returns from such methods. As they say in the USA, there is no such thing as a ‘free lunch’.

## LICENSING

Some exporters license their products to US manufacturers, typically generating an up-front payment plus royalties on sales. Reasons why companies license include:

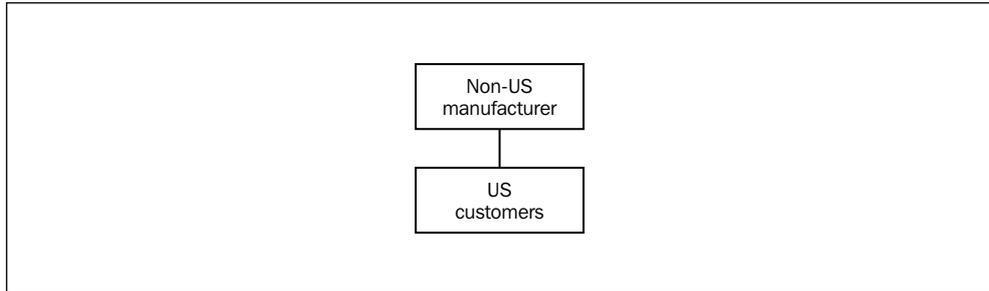
- they are small and lack the resources to invest in US marketing;
- shipping the product from their home country to the USA would raise the product cost to non-competitive levels;
- the NUC has a very small product line and US marketing investment is not justified.

Licensing partners can be found via an organized search and by networking with people in your industry. Be sure to get good legal advice before exposing your product or technology to individuals outside your company.

## DIRECT SALES

Another important method of US export is direct sales – simply selling non-US products directly to customers in the USA (*see* Fig. 2.7). This method is not practical in many fields, since numerous products require pre-sales service, installation, after-sales service, the ability to offer next-day receipt of spare parts and a host of other reasons.

**Fig. 2.7** Selling directly to customers



Nonetheless, direct sales are achievable in some situations, but even then it is often a first step to setting up organized US distribution. We have seen producers of B2B products (for example, machinery, specialized software, subcontracted metal parts, building materials) begin their US sales by sending representatives to the USA for periodic sales trips. While not an ideal strategy, it can help generate initial sales, justifying further investment.

## E-COMMERCE

The internet has opened up a wealth of sales opportunities for NUCs selling in the USA. Exporters can use a wide variety of online and traditional promotion methods to bring customers to their site and entice them to place orders. Even in these early stages, e-commerce has already proved to be successful for exporters of both B2B and consumer products. This medium did not even exist a few years ago and is one of the greatest imaginable developments affecting NUCs interested in the US market.

Americans have become very active internet users, so exporters with the right kinds of products may be able to create an e-commerce system to generate direct US sales without setting up a full US business infrastructure. However, since Americans are often concerned about buying from ‘overseas’, exporters selling via the net may want to invest in a US office or at least a US toll-free (800) number with a US address, even if the goods are shipped from their non-US location.

We know several exporters of consumer products (such as gifts, books, software, hand tools, training manuals) who are selling via the net, using a US toll-free number and address. One of them has the toll-free number answered at their non-US call centre, with American expatriates taking the calls. While it processes and ships orders from outside the USA, the fact that it is not US-based does not appear anywhere in the website. NUCs can also consider selling their products to US companies who operate e-commerce sites (as a first stage), rather than doing so on their own.

B2B e-commerce, an area growing even faster than consumer e-commerce, also offers enormous benefits to NUCs. B2B exporters can develop e-commerce relationships with US customers while managing much of the operation in their home country. But since dealing with credible, well-known companies is very important in e-commerce relationships, we predict that the most successful NUCs using B2B e-commerce will still establish a US marketing and sales office. E-commerce is a great tool, but reputations must still be established and relationships maintained.

Successful internet marketing is a subject unto itself and is beyond the scope of this book. We strongly encourage NUCs to evaluate ways they can succeed in the e-commerce world, even if their company and product are currently unknown in the USA. As the world of e-commerce is a moving target, constantly undergoing major changes, exporters will need to keep a close eye on technological and marketing developments that may help or harm their interests. One thing is certain: embracing the internet should be a key element in the US marketing strategy of most NUCs.

## **SELECTING A DISTRIBUTION STRATEGY**

This chapter has reviewed several distribution strategies that companies can consider in their US marketing efforts. But how should company management decide which strategy to employ? Strategy selection is only possible after obtaining a clear understanding of:

- market realities for your industry in the USA;
- reaction to your specific product;
- the market segments with the greatest potential;
- marketing methods employed by your competitors;
- how all of the above fit into your company's capabilities and corporate culture.

Obtaining practical market information and reaching a defined strategy are critical steps in successful US marketing. These topics are addressed in the next three chapters.

