

Distribution Channels used by New Zealand manufacturers of non-food products exported to the USA

This report summarises the key findings of a study of one hundred and seventy-five New Zealand manufacturers of non-food products who export to the USA. The study was conducted by Moira Moroney and the full results are available in the dissertation presented for her Masters in Professional Studies at Lincoln University. Moira gratefully acknowledges the support of the study participants, Dr Mark Wilson of Lincoln University and of her sponsors Base3usa and Oceanbridge.

The study aimed to describe the sales and distribution channels used by exporters to the USA and gain insights into the channel decision process. It was conducted by telephone in late 2011 and early 2012 with exporters listed in the Kompass database and had an 82% response rate. The study was limited to New Zealand manufacturers of non-food product. Future study of non-manufacturing and food exporters to the USA is recommended. This summary outlines the exporter attributes and distribution channels reported, and lessons learned about export channel optimisation.

ATTRIBUTES: Business to business oriented

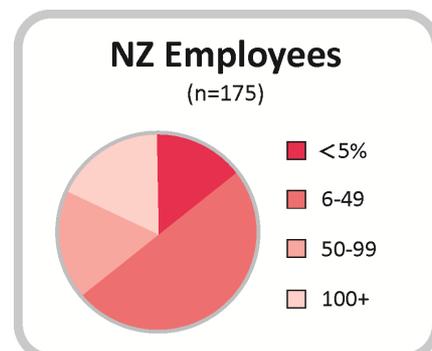
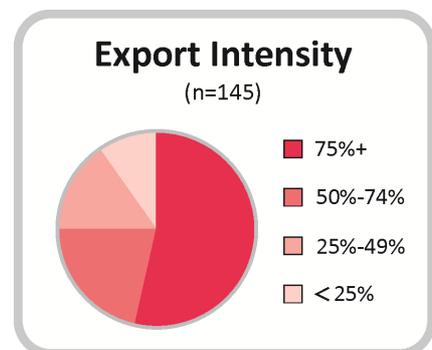
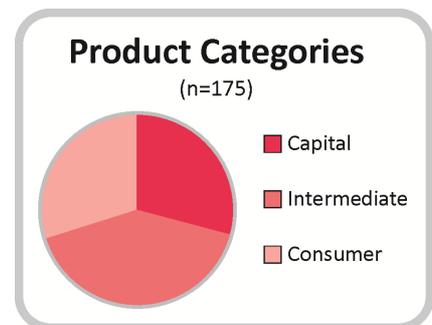
The study participants predominantly target business-to-business markets in the USA. Over two-thirds produce capital goods or inputs to production processes. Key themes in the capital exports are process machinery, monitoring equipment, instrumentation, mechanical equipment, boats and rescue products. The intermediate goods include processed primary products for re-manufacture such as sawn timber, yarn and marine extracts¹, and fully transformed components – mostly mechanical or electrical. Less than one-third export consumer goods. The consumer goods exports are mostly durables, especially sport and leisure equipment. Only 3% export consumer 'non-durables', and almost all of these are health and beauty products.

ATTRIBUTES: Export intensive but not US dependent

Manufacturing exporters of non-food product to the USA tend to be export intensive businesses. The vast majority of participants receive at least half of their income from export. Almost all export to more than one country or region and few are highly dependent on the US Market, with only 13% receiving half their income from sales to the USA. Several commented that their sales to the USA had dropped during the Global Financial Crisis (GFC).

ATTRIBUTES: Small but experienced

Export companies are not necessarily large companies. Most participants were from Small or Medium Sized Enterprises with less than 50 employees in New Zealand (64%). The remainder were evenly divided between having 50-99 and 100 or more New Zealand staff. The companies were all seasoned exporters, with over half (54%) having twenty years export experience, or more, and none having less than five years' experience. Many participants commented that the company owner was heavily involved in the export markets.

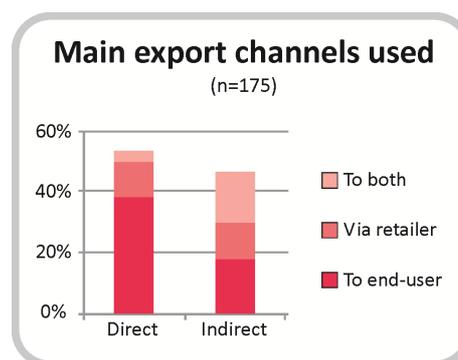


¹ This study is of manufacturing exporters therefore exporters of unprocessed commodities like logs and raw wool were not included.



CHANNELS: Just over half export directly to the USA

Just over half of the participants export directly without using an export intermediary, such as a distributor or agent, in their main US distribution chain (53%). Most of these sell direct to end-users (72%), while some sell via retailers, dealerships or resellers (22%) and the remainder do both (6%). The other half (47%) export indirectly, using at least one export intermediary in their main US distribution chain. The export intermediaries are almost all US-based agents, distributors and joint venture partners. One-quarter (26%) also use retailers and two-fifths (38%) use a mix of intermediary-direct and retail channels. A little over one-third (36%) use intermediaries that only sell direct to end users. Direct export was more common among those with intermediate or capital goods than those with consumer goods. It also increased as the level of product customisation increased, company size increased and export experience increased. The satisfaction levels reported by those using direct export models and those using indirect export were almost the same, averaging 5.4/7 and 5.3/7 respectively.



CHANNELS: Neither direct or indirect export are inherently better - it's all situational

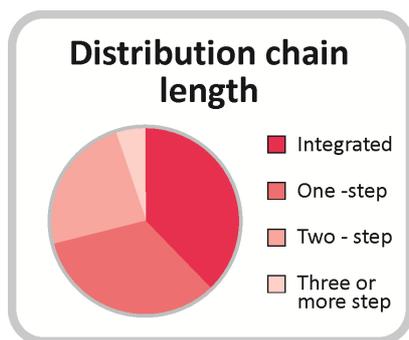
Participant descriptions of the advantages and disadvantages of their own primary export model (see tables below) suggest that no one model of export is inherently better than another. Exporters seek an option which offers the best basket of benefits - particularly close relationships, sales capability, market suitability and a good fit with the exporter.

Top 5 reported advantages of DIRECT export	Top 5 reported advantages of INDIRECT export
<ol style="list-style-type: none"> 1 Having strong, close relationships with clients (19%) 2 Good market intelligence - especially for sales and for Research & Development purposes (15%) 3 Cutting out the middleman and/or avoiding commission and fees (10%) 4 Having greater control (10%) 5 Greater sales effectiveness (9%) 	<ol style="list-style-type: none"> 1 General ease or ease of sales, administration or logistics (28%) 2 Intermediaries have good product knowledge (14%) 3 Intermediaries offer stock or logistics advantage (14%) 4 Intermediaries have a good customer base or market presence (13%) 5 Clients like buying from someone local (13%)

Top 5 reported disadvantages of DIRECT export	Top 5 reported disadvantages of INDIRECT export
<ol style="list-style-type: none"> 1 Challenges of selling from a distance like time zone and travel (16%) 2 Imbalance of power when selling to a large customer (9%) 3 Desire for more control over the US subsidiary (4%) 4 Stock holding costs or challenges of not holding stock (4%) 5 Thinking an intermediary may work better for them (4%) 	<ol style="list-style-type: none"> 1 Margin too high, too costly or not viable (19%) 2 Lack of focus on the exporter's products or priorities (16%) 3 Lack of control, especially on marketing (16%) 4 Desire for more customer contact or preference for direct model (15%) 5 Feel limited by distributor's limitations local (12%)



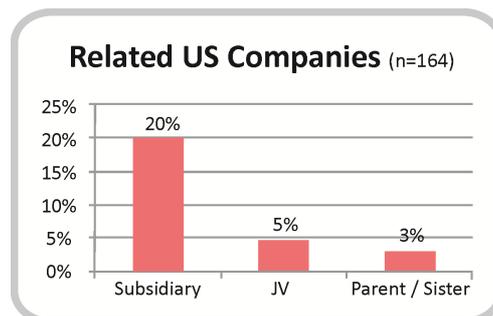
CHANNELS: Whether direct or indirect, distribution chains tend to be short



Participants were asked to describe their entire distribution chain, including the main chain and any secondary chains used. Forty-six participants had dual US chains with differing starting points, such as a subsidiary in one chain and a distributor in another. This resulted in a total of 221 chains being described by the 175 participants. Fully integrated chains with no external intermediaries were most frequently reported (38%), closely followed by one-step chains with one external channel member, such as an agent or retailer (33%). One-quarter (24%) use a two-step chain, usually involving a distributor or agent and a retail level re-seller. A small number use a distribution chain with three or more levels (5%).

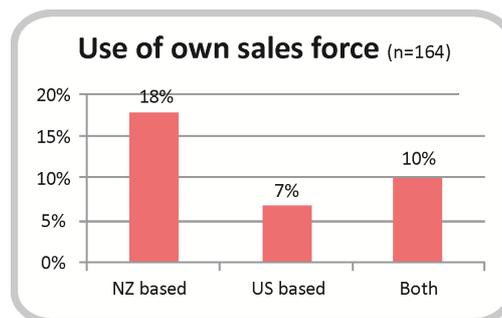
CHANNELS: Over ¼ have a US subsidiary or relation

One-fifth of the exporters studied (20%) have a wholly owned US subsidiary. A small number had a US Joint Venture (5%) or a US parent or sister. A higher proportion of those selling capital goods (38%) have their own US subsidiary that those selling intermediate (15%) or consumer (10%) goods. The proportion with a subsidiary also increases with company size and export experience, but some micro (12%) and small (16%) businesses do have a US subsidiary.



CHANNELS: Over 1/3 have their own US sales force

One-third (34%) of respondents use their own sales people in the USA. One-fifth (18%) use only sales people based in New Zealand who travel to the US regularly. The rest use US based staff (7%) or a mix of both US and New Zealand staff (10%). Those who used a US sales force sometimes delegate full sales responsibility to the US team. The proportion using both US and NZ based sales people for the US market suggests US sales staff often have a high level of sales assistance from the export company.



CHANNELS: Relationship-driven channel development

Distribution chains are not created overnight. Exporter discussion of distribution chain development shows it is a gradual and very relationship-driven process. Industry networks are paramount, with trade shows and events being important in the development of networks. The internet and cold calling are also used in channel development and some channels result from an unsolicited approach by a potential channel partner. Distribution channels often change in response to failure in a distributor relationship, and attention is drawn to the associated risks. There were some common themes in the steps and tools used to find prospects, build relationships and respond to environmental changes. The relationship development process, and key tools used at each stage is outlined in the model below:



CHANNELS: Several New Zealand manufacturers no longer export to the USA

During the screening process it was found that over one-fifth of New Zealand’s non-food manufacturers who were exporting to the USA five years ago are not doing so now. Some had moved their manufacturing off-shore and some had stopped exporting to the USA. Key reasons for this were the exchange rate, increased competition, market challenges and the GFC. One-fifth had left the market due to the failure or non-performance of their US distributor.



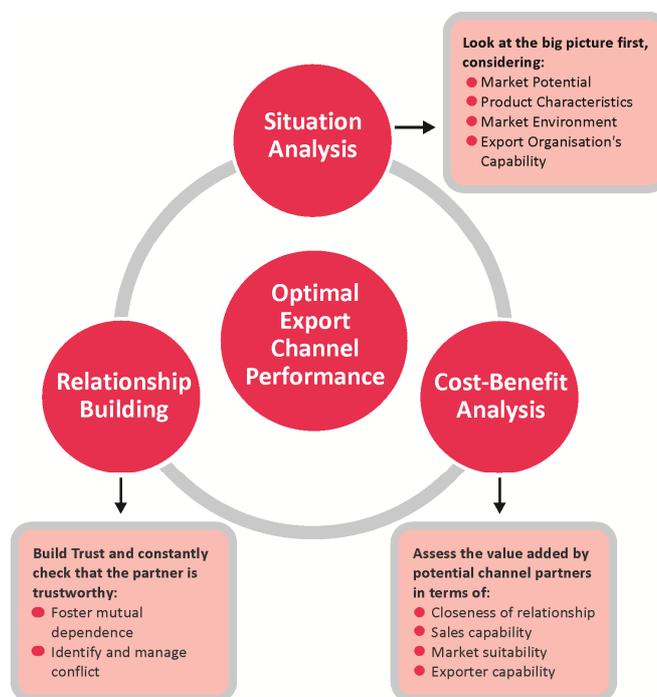
CHANNELS: The devil is often in the detail so here are some facts about terms of trade.

Participants were asked a series of questions about their terms of trade. Their responses help alert new exporters to the kinds of terms they might to consider when exporting to the USA:

- Half said US customs clearance was handled by the buyer, nearly two-fifths organised it themselves or through their freight broker. Some said it varied between transactions.
- Almost three-quarters offered their buyer some form of credit terms - normally net 20, 30 or 60 days.
- Customised sales normally involved deposit on order, progress payment and final payment after delivery.
- Wire or telegraphic transfer “TT” was the most commonly used payment method (63%) with “check” (16%), credit card (16%) and direct debit (13%) also being relatively popular. Few used Letters of Credit (6%).
- The most popularly reported third-party provider in the USA was a fulfilment warehouse (10%). A small number used a call centre (4%) or US-based advertising or marketing agency (3%).

EXPORT CHANNEL OPTIMISATION: The Export Channel Optimisation Model

The findings suggest that export channel selection is an on-going process and that channels often change in response to both natural evolution and cataclysmic events. Some key themes in channel optimisation were distilled from participant responses. There have been summarised in the Export Channel Optimiser model (below). Exporters can use the model to guide the channel selection, management and change process. More detail about factors to consider at each phase of the model is presented in *The Export Channel Optimiser*, available from Base3usa.



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About the Author: Moira Moroney is a founding director of Base3usa which runs fulfilment warehousing and virtual office services for over twenty kiwi exporters in the US— some who export directly and some who supply distributors from Base3usa. The company handles products for consumer, business and industrial markets, with its largest regular dispatch being a piece of equipment 10.4m wide and weights 4880 kgs. It also answers calls and provides in-market customer service support for several of its clients. Moira joined the export community in 2001 after a corporate career in marketing and seven years at the helm of regional research company, Key Research. She founded Base3usa in 2007 and has completed her Masters studies at Lincoln University in her spare time. Moira is happy to share the knowledge gained through her experiences in the USA and from this study. She can be contacted at moira@base3usa.com, +64-21-960960 or on Skype at Base3usa.

