

3.313 The distributor's main obligation is to invest in advertising and marketing programmes to obtain a profitable market awareness. The distributor will normally have established a number of retailers who will sell to the end user. The developer should try to retain the right to bypass the distributor if it becomes attractive to deal with a large retailer directly.

3.314 Independent sales agents or representatives merely solicit sales; they assume no economic or legal risk for sales or marketing. Agents or representatives are useful in the case of highly specialized and geographically diversified products. Often the best agents or representatives are consultants who recommend the software product as a value-added part of their consultancy services. Commission rates vary, depending on the product type and the services demanded from the sales agents or representatives, from two to about 20 per cent.

3.315 Direct sales can take two basic forms:

a. Direct sales force

To establish a direct sales force in Europe involves the greatest financial commitment. In return for committing resources to a direct sales force, the developer retains direct control over all interactions with the market and, when sales are successful, a higher gross margin. A direct sales force should consist of local staff. Consequently, the developer becomes an employer in the EC with all the attendant costs and responsibilities under local law, which should be studied carefully before any commitments are made. Most European developers of package software are moving away from direct sales. Highly technical packages and/or those that require support will often still be sold through a direct sales force.

b. Mail order

Mail order is becoming an increasingly popular form of distribution for package software that requires little or no support. In Denmark, the mail order company

Computer Mail A/S has been operating successfully for the last five years. However, Pan-European mail order companies have not yet seen the light of day owing to incompatible postal rules throughout Europe, although they are likely to be harmonised within the EEC. Mail order should not be mixed with other forms of distribution because the price difference will be disruptive.

3.32 The Economics of a Local Presence

There are three options in terms of local presence:

- sales representatives,
- a European headquarters, or
- local country subsidiaries.

If developers decide to have no local presence they must plan to visit the distributor at least once a quarter. A sales representative will decrease the cost of visiting distributors and establish a more continuous contact because he is not handicapped by the time difference between Canada and Europe. The developer obtains the greatest insight and control by establishing either a European or a local subsidiary. However, this approach demands a revenue of at least CDNS 1.73 million per person employed. Furthermore, the legal rights of the employees must be studied carefully since the cost of a potential staff reduction in most European countries is higher than in North America. Also, the cost of employees is about 20 to 25 per cent higher compared with North America.

3.33 Can Exclusive Distribution Be Offered?

The distributor expects to obtain exclusive regional rights to distribution in return for investments in marketing, manpower and market knowledge. The "mind-share" that the products receive increases dramatically, mainly owing to the greater profitability and the potential ability to dominate the local market. A key issue is what strategy the Canadian software developer will implement to avoid "grey marketing" — parallel importing from North American or Canadian mail order companies, where the street price is often lower than the European wholesale price, for example. "Grey marketing" can often be curbed through tight control of the serial numbers of upgrades. Still, a Canadian software