

DISTRIBUTORS

KAO

KAO InfoSystems opened for business in Japan in 1886, and for most of its life it was Japan's foremost soap maker. In 1986 it branched out into computer diskettes, audio tape and CD-ROMs. At around the same time, the company entered the Canadian market, where it quickly became Canada's leading supplier of diskettes. It has also been very successful in the United States. The decision to move into Mexico was a logical extension of its existing business in North America. Changes in the political climate, economic reforms and changes to the trading environment in Mexico all made the country more attractive. In addition, the proximity and size of the internal market were important factors. Computers and computer products have reached about 25 percent of the Mexican market, and this market segment is growing at about 25 to 30 percent a year. By entering now, KAO hopes to secure a leading position in the Mexican market within the next few years.

KAO made its first contact with the Mexican market through leads provided by the Mexican Embassy. At Comdex, a trade show in Las Vegas, company officials met a potential distributor. They attended a trade show in Mexico to look further into the market and explore the possibilities of a venture with the contact made in Las Vegas. A deal was struck after six months, but the distributor eventually closed its business. KAO spent another three to four months developing another relationship, with a former employee of the original Mexican distributor. This person eventually became a manufacturer's representative for KAO in Mexico. This arrangement allows KAO's products to be marketed through several different distributors. At the same time, it allows the representative to make more contacts and develop the business.

Johanne Allaire, International Business Manager, stresses the need to "do your homework. You must build a personal relationship with your partner, be willing to spend both the time and the money." Allaire also notes that most professional Mexicans are fluent in English, but it is still a good idea to learn Spanish and it is essential to incorporate the Spanish language into the packaging of products and company literature.

Unlike agents, distributors actually purchase the exporter's product and then resell it to local customers. For example, a Mexican distributor may import a consumer product from the Canadian producer. It then sells the imported product to retail outlets in Mexico, perhaps with the aid of its own advertising and promotion program. Often, distributors set the selling price, provide buyer financing, and look after warranty and service needs. Because they assume risks, foreign distributors typically insist on longer payment terms and on control over the product once they take possession of it.

A significant potential advantage for the Canadian exporter is that the distributor is often able to provide after-sales service in the Mexican market. The main disadvantages of using a foreign distributor are that margins are reduced, the exporter has less control over the product and price, and does not benefit from direct contact with foreign customers.

Distribution channels are generally less well-defined in Mexico than in Canada or the United States. Consequently, Canadian firms are well-advised to be cautious in selecting a distributor. Make sure that proper attention is being paid to the product and that the distributor is not treating it as an afterthought to fill out a particular product line. Consider issues such as the regions covered, product specialization, specific lines handled, the size of the firm, knowledge of the product, the distributor's track record, the size and quality of sales staff, relations with local governments, the condition of facilities, the distributor's willingness and ability to keep an inventory of the product, the possibility of offering after-sales service, and the company's reputation and its relationships with financial institutions. Ultimately, the exporter has to decide on how much interaction and cooperation will be required to make the relationship work and be comfortable with it. Perhaps most important, attention should be paid to the percentage that the distributor proposes to add to the final price.

If the transaction involves selling consumer goods, it may be possible to enter into a direct relationship with a retail chain. Larger retail chains and discount stores are playing an increasing role in the distribution of products to consumers in Mexico. Using marketing techniques similar to those found in the rest of North America, they are also introducing techniques such as bar-coding to speed up customer service. *CIFRA*, the largest retail chain in Mexico, operates approximately 200 supermarkets, cafeterias and department stores and does about US \$2 billion annually in sales. Other important retail chains include *Comercial Mexicana*, *Grupo Gigante* and *Soriana*.