Chapter 1

Decisions, Decisions...

Do Canadian Manufacturers Need Agents in the U.S.?

As a manager of a small-to medium-size Canadian company, you may be eyeing the large United States market, planning for the day when you can launch your product line south of the border. That day might be closer than you think. The amount of time and capital required to develop a new export market can be a limiting factor, but having a well-qualified manufacturer's agent can be an economical and effective way for a Canadian manufacturer to develop and keep a share of the lucrative American marketplace.

Depending on the type of agreement you as a manufacturer negotiate, the agent can help your firm adapt to the conditions in the new market, provide personal and frequent contact with customers, and even propose changes in your product to yield continued buyer satisfaction and better market penetration.

Agents, Brokers, Distributors... Is There a Difference?

The answer to this question is yes, but the terms "agent," "broker" and "distributor" are sometimes used interchangeably. This publication focuses on the relationship between manufacturer and indirect sales agent, but there are other types of arrangements that Canadian manufacturers can make to have someone else do the selling on their behalf. The terms defined here are traditional ones, and all denote some form of indirect representation for the manufacturer in the designated market territory.

• Agent

Depending on the terms of the agreement, agents or manufacturers' representatives can be authorized to enter into contractual sales agreements with customers on the manufacturer's behalf. Agents usually work on commission, but may prefer to work on a retainer with an agreement regarding expenses. They can provide many types of expertise, including market intelligence if it is part of the agreement with the manufacturer. Several related but non-competing lines can be handled for more than one supplier. The usual process for concluding a sale involves the agent obtaining the order and the manufacturer supplying the goods and invoicing the customer directly. The manufacturer then collects the payment and pays the agent a commission on the sale.

The manufacturer-agent-customer relationship is not always as clear-cut as the above explanation might lead you to believe. In industrial markets, manufacturers' agents often sell products through distributors. In such cases, you, the Canadian supplier, might give your agent the authority to hire and fire distributors as necessary. The agent becomes your field sales manager and receives commissions on products sold by the distributors or on reorders by the distributors. In turn, the agent supports the distributors by training sales people, making sales calls with the sales staff, giving them leads and, sometimes, providing after-sales service.

• Distributor

The distributor can be the best indirect sales option in a new market for some products. Manufacturers of hardware or automotive parts and accessories, for example, frequently contract with distributors to channel their goods to the customer. The distributors buy the products from the manufacturer, stock them in their warehouses and re-sell them to customers in their regions. The Canadian supplier must expect longer terms of sale in such transactions. The negotiation on price is important because the distributors set their own prices to include the profit on the sale. The manufacturer thus loses some control of the marketing process, and this extends to delivery, because the distributors supply the goods directly to the customers.