

9.5. Place (2): Sales Channels (RC)

Introduction

Finding the right sales channels might be a challenge and also depends very much on your product characteristics. Limitations e.g. can include the requirements for installation, service, the product fit as described in another chapter.

Building up your own sales channels can be capital intensive when you have to maintain your own shops and staff but it will allow you to better control sales and service.

Sales Channels

Sales-Channels are often industry-specific and it barely happens that one company exploits a sales channel that is not used by others. An analysis of the channels or your competitors can support you in expanding your business.

General Criteria

Sales channels can often play an important part in your whole value chain and even third party companies can be highly integrated in your own organization.

When you are considering your possible sales channels, be always aware about

- the role that the partners have to play, e.g. should they be also supporting financing, marketing or outsourcing of risk and cost
- they can seriously contribute to your success but they can also be blocking further developments of the market since they could limit their sales.

Finding good long-term partners in China can be a long and hard undertaking and you should ensure to keep the good ones while filtering out the ones that do not reach the expectation. To do this, your sales partners also will need enough room for profit and other support support, e.g. in the area of marketing.

Incentives and Showing (international) faces

Incentives for Chinese sales partners are pretty common and can give you a competitive advantage over your local competition. While the range is pretty broad, especially sales meetings in good locations, yearly dinners and trainings are the most commonly exercised ones. Especially if you are working for an international corporation, a common incentive is an invitation the international headquarters since your company can support with the visa application.

When implementing incentives, you still should make sure that you are compliant, that the incentives are actually being earned and that they are not misused.

Please keep also in mind that international trips require a high level of organization since still many of your potential partners might never have been abroad before and might require a lot of assistance. Commonly these trips are fully organized with a mix of working meetings, sightseeing and some time for shopping.

Being an international company can still be an advantage and your sales partners might ask you to send a high-ranking, foreign employee to some of their activities and/or even for supporting their own sales. Mostly this does only mean that they want to show some foreign face which can help them to gain reputation. This is much more the case in Tier 2 and below cities.

Considering development stages in the market

Depending on your product, the market in each province or even in each city can be in early stages or in a more mature level. When you are deciding on a sales channel strategy, keep this in mind and try to find a strategy that fits to the current market status. A “one size fits it all” approach can have some negative influence on your business success and using multiple strategies in different areas can be the better way.

Distribution Model

General Distributor

One or several distributors that are given exclusive rights by you to sell your products in China can be a seemingly easy way of bringing your product to the Chinese market. At the same time, it might limit your growth and/or can lead to a strong dependency in which a general distributor might even be able to hold your sales hostage.

Direct Online Sales from outside of China

Direct Online Sales from outside of China can be a way to “test the waters”, at the same time they seriously can hamper your abilities for marketing and brings increased risks regarding logistics and money transfers. Even if you are considering direct online sales, you very probably will still need some local cooperation partners to support your sales.

B2B

Even while the need for “Guanxi”, the need for a strong network, is often stated in literature about the Chinese Market, this topic is somehow overstated. While you might be able to build up a network, you will probably not reach a level which really can influence the purchasing decision in a significant way. Still, fostering relationships will definitely not hurt – you have to be compliant though.

Sales to the government

Local governments on the one hand often look for a good technical solution, at the same time they often tend to give local suppliers an advantage. Before investing resources in building up government relations and applying for tenders, you should also consider that payment terms often are not very favorable and can lead to long outstanding payments. With a “take it or leave it”-attitude of the governments, you should also not expect to have a lot of room for negotiation.

B2C – Offline-Sales

Offline-Sales to direct customs will require building up your own shops and staff which can be very capital intensive and can bring high risks, especially if you are considering products for a broad market. This will automatically limit your growth depending on the resources you have available.

B2C – Online-Sales

Online-Sales from your company directly to consumers will most probably involve one of the big third-party platforms that consumers usually visit. Opening your own online shop on your own website is somewhere between hardly possible to straight forward illegal due to limitations for Online-Shopping providers by law.

B2B2C

Business-to-Business-to-Consumer structures is a channel in which you will sell goods to another business which will then resell it to consumers.

By choosing this channel, you can increase the reach and scale more quickly. At the same time, you will have to give up a certain level of control and have to define clearly what kind of functions your cooperation partner has to fulfill, e.g. regarding financing or local marketing.

At the same time, you should ensure that your cooperation partner has enough profit to survive without infringing antitrust laws.

Multi Level Marketing

MLM-structures became very restricted and have to be entered carefully.

About Online-Sales

Opening an online-shop on your own website can be conflicting with legislation and with your business license. Also, your product might be not fit for online sales depending on the level of professional installation and service it might require.

When opening an Online-Sales channel, consider which platform(s) might be the best

one for you, e.g. depending on how they are commonly being used, the number of frequent visitors and if they support third party suppliers.

Also keep in mind that even if you choose not to sell products online, some of your sales partners might take the opportunity and might utilize this sales channel.

Common pitfalls

- If you chose a distributor to sell your products to the local market, be aware that this can also either end up in a lock-in which makes you highly dependent of the distributor or also in a distributor which will try to maximize his own benefits before yours. Choose your distributor carefully or you might lose your access to the market.
- If you are defining distributors for a single area, overflow might happen: The distributors might start selling outside of the agreed area. To prevent this, a strong contract, enforcement of breaches and the ability to track this overflow are recommended.