



INCREASING SALES WITH THE HELP OF THIRD PARTIES

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When are we selling through third parties?

Many companies have made a decision to sell their products or services without their own selling team. They have instead decided to use other formats to reach out to the market. In practice, we see companies selling through third parties when exporting or when selling to their domestic market. In the first case, we see this type most often when a company is not present in the foreign market, and in the second, when selling to the fast moving consumer goods segment.

Selling through third parties means that you are selling through a company, which later sells your products or services forward to the end consumer or business segment.

This type of selling is not so easy, as companies are faced with many dilemmas: How can we increase sales, when we cannot forecast growth? How can we increase sales when we don't meet the end consumer? How can we increase sales when our customer is between us and the end market? How can we increase sales, when our customer is also using other competitive brands?

The problem is that many times we consider these parties as our customers. But are they really our

customers? No, they are our distributors, partners, external sales teams, development partners. Call them anything else but your customer!

We are talking about various forms of your company's representation, and this representation depends on the internal condition of your company and market specifics of your partner. In practice, we can see different forms of representation (or third parties) that are very different by the nature and content of cooperation – distributors, agents, selling subsidiaries, producing subsidiaries, license partners and joint ventures. In many situations it has been observed, that choosing the wrong form of representation discarded an otherwise promising market development.



Key things to remember, when selling through third parties are:

- Think marriage.
- Consider them as a partner, and not the customer.
- Have a marathon in mind.

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Increasing sales with the help of third parties. *CONT.*

Think marriage

When selecting the right partner to sell your goods, you obviously have your best interests in mind. You're thinking of market development, increasing your sales figures, constant growth, etc. So it is in your vital interest to choose the right "third party". You'll have to put in a lot of effort to three areas. First, you'll have to put in a considerable amount of time on the strategic decision on whom to choose (how are they aligned with your business, what is their market position, do they have an appropriate sales force, enough point of sales, etc). Second, you'll have to consider how to approach them and prepare your unique selling points, sales arguments, profit stories, reference cases.... And third you'll have to have a good proposal.

17,64% more sales is needed, if you grant only 3% of discount to your distributor.

The point is to select a partner for the long run and prevent being cornered any time while cooperating. Many times companies also think they'll win their partner with discounts and the lowest price (giving them the argument of being able to earn more margin). But the truth is that this is an especially delicate area of business. Let's imagine you're selling 100 units each costing 1 euro with gross margin of 20%. If you grant only 3% of additional discount, you would have to generate approximately 18% more sales volume to achieve the same gross margin.

So use other arguments and benefits to build a relationship with your partners than discounts.

Formula to calculate additional sales/discount ratio:

$$\frac{\% \text{ discount} \times 100}{\% \text{ gross margin} - \% \text{ discount}} = \frac{\% \text{ additional sales needed to keep the same Gross margin}}{\% \text{ additional sales needed to keep the same Gross margin}}$$

Consider them as a partner

... and not as a customer. You will have no overview of the end sales platform, no chance to influence your partner's business plans, lack of information regarding your competitors. And so you'll miss the chance to realistically grow. And maybe, all will come down to the price negotiations.

Instead, a partnership means a deep understanding of your "third party". Helping your partner sell and strengthen their market position is the right way to do it. You have to be able to talk about market dynamics, their sales team efficiency, help them with selling skills and product- and technology knowledge, to consider marketing activities - many things to do even daily to have a joint interest and partnership.

Typical mistakes when selling through third parties:

1. Considering them as a customer (and not as a partner).
2. When negotiating, sales planning and development, your method is confrontation (and not assimilation).
3. You have no platform view of the end market.
4. You have selected your third party by coincidence (and not by carefully considering what type of partner you need).

Increasing sales with the help of third parties. *CONT.*

Have a marathon in mind

Let's assume you have chosen the right partner and begun your cooperation. The sales figures are at the starting level and of course you want to do more.

When you're selling through third parties and have partnerships, sales and planning sales is a constant task to do. But you have to be prepared and systematic, and not work in a routine way.

Why a marathon? Each year, maybe half-year or quarterly, you have to implement a business review process which has to cover at least three important areas – you have to prepare a development plan for each partner, that consists of analysis of past cooperation with pinpointed areas of future cooperation, areas of developing the existing cooperation and of course, a proposal of mutually accepted business goals for the next period. So this is a constant exercise to help you become and stay fit!

Mercuri International is looking forward to continue the discussion with you about how to optimize sales through third parties.