



CBI
Ministry of Foreign Affairs

CBI Alternative distribution channels

Introduction

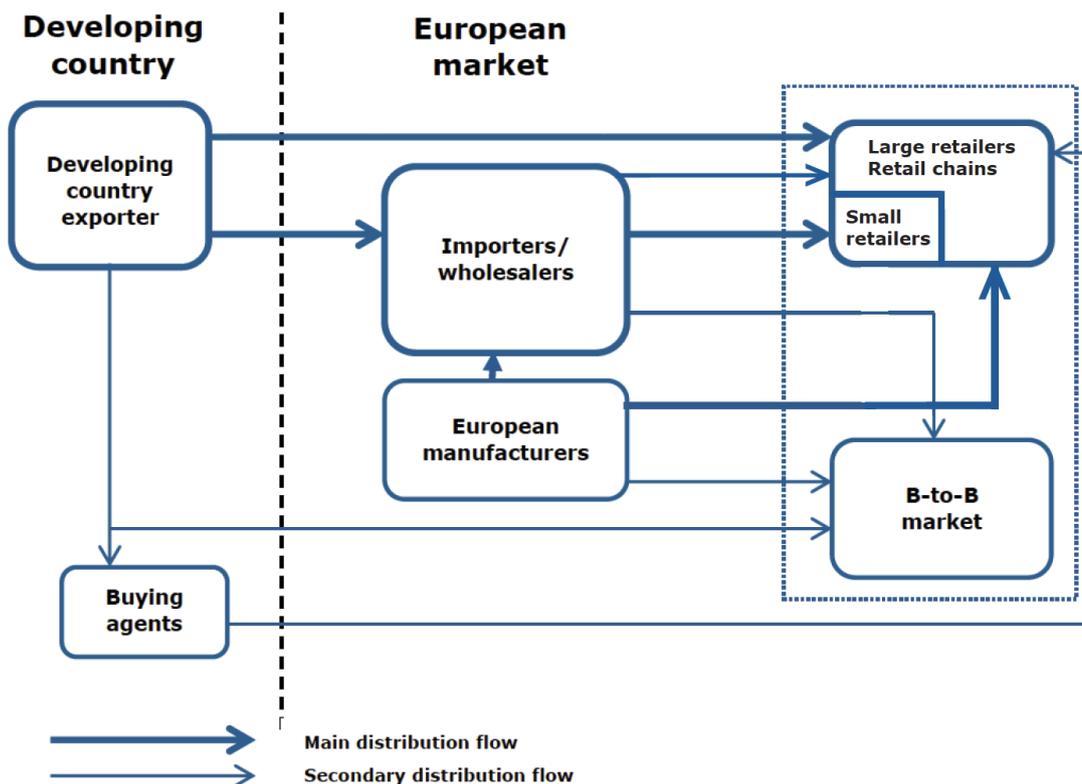
Imports into the European market for home decoration and home textiles traditionally take place through wholesale importers and larger retailers, or retail chains. Increasing numbers of smaller retailers are also interested in buying directly from producers in developing countries. This document explains what the pros and cons are of supplying directly to these retailers.

Smaller, independent European retailers purchase mainly from domestic wholesalers/importers. However, like in other sectors in the European market, such as food or clothing, independent retailers in home decoration and home textiles are struggling to compete with retail chains and need to differentiate on value-added service, as well as specialised offers and authenticity. Where products would otherwise be unavailable, buying them directly from producers in developing countries is a way to achieve that.

Tip:

- Find out if distribution through smaller, independent retailers could be an option for you and what the pros and cons are of such a distribution method.

Traditional trade structure for home decoration and home textiles



Traditional trade structure

Wholesale importers are the main interface between exporters in developing countries and European retailers. However, as the market is becoming more and more competitive, large retailers and retail chains are increasingly trying their hand at importing themselves, instead of through wholesale importers in Europe. The obvious advantages would be cutting out the margins of the wholesaler and reducing delivery time to the market. Furthermore, it allows these retailers to compile their own tailor-made collection, rather than buying off the shelf from an importing wholesaler.

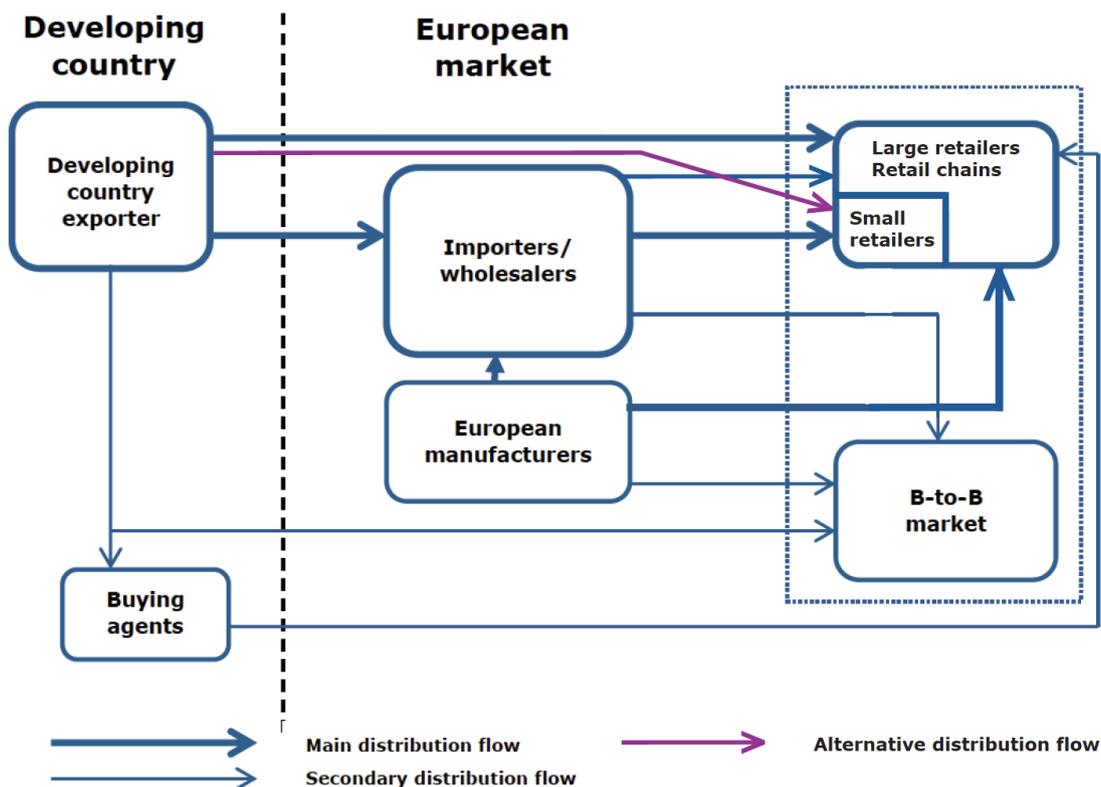
Pros of selling to importers

1. The advantages of dealing with a wholesale importer lie in the fact that the quantities are usually good and that this type of buyer is experienced in dealing with producers from developing countries.
2. Furthermore, it is not necessary to keep products in stock for wholesale importers. They are used to waiting for their goods to be produced after they have placed the order.

Cons of selling to importers

1. Since the larger, self-importing retailers (or retail chains) aim to cut out the margins of the wholesaler to increase their own margins, they might want to drive a much harder bargain with the developing country exporter.
2. Importing wholesalers may also negotiate hard for different reasons: they need to ensure that they realise enough margin for themselves, while at the same time having a competitive proposition for their buyers.
3. The fact that all the importing buyers buy ahead of season and buy relatively large quantities puts pressure on your production and hampers continuous, even production throughout the year.

Why consider small retailers as a distribution channel?



Trade structure for home decoration and home textiles, indicating an alternative distribution flow

- For producers that have limited production capacity, supplying to smaller retailers can help to build a wider client base, rather than only supplying to one or two wholesale importers.
- When struggling to realise sufficient margin in supplying to wholesale importers, catering to smaller retailers can be an alternative.
- As an additional channel to supplying to wholesale importers. In this manner you can help to spread your risk for a certain market or region. When you are planning to cater to a market in such a way, you have to ensure that you do not violate any exclusivity clauses that you may have with an importer. If this is the case, you can always consider developing an adapted range of products that would not fall under this exclusivity clause.
- The absolute margins are higher if you can manage to keep the cost of transportation and other logistics down. This is not easy, since small retailers require doorstep delivery and may also want additional services.

What to consider?

When approaching smaller retailers, you need to understand what the specific needs of this type of buyers entail:

- They prefer orders for small quantities of each item
- The total order volumes are usually small
- Small retailers require doorstep delivery
- There is a limited likelihood of repeat orders
- Small retailers may want special (gift) packaging, suitable for display

Exporters need to calculate whether such small orders are cost-effective, especially since the logistics are expensive:

- Relatively high costs of administration for small orders
- After-sales activities are expensive, for instance, replacing damaged or imperfect goods. A small retailer is likely to complain when one article is not according to expectations
- Unless you keep stock yourself, it is not easy to fulfil small repeat orders

Because of these relatively high costs, it is important to have a good idea about the price structure, as well as the logistics involved.

Price structure

Indicative price breakdown per segment

In this table the FOB price is set at 10.00

	Low margin	Middle margin	High margin
FOB price	10.00	10.00	10.00
Transport, handling charges, transport insurance, banking services (20/15/15%)	+2.00 12.00	+1.50 11.50	+1.50 11.50
Wholesalers' margins (50/75/90%)	+6.00 18.00	+8.60 20.10	+10.40 21.90
Retailers' margins (90/110/150%)	+16.20 34.20	+22.20 42.30	+32.70 54.60
Selling price incl. VAT (18 - 27%)*	+6.80 41.00	+8.50 50.80	+10.90 65.50

Your FOB price

Landed price for the wholesale importer

Selling price from the wholesale importer to the retailer

Selling price excluding VAT from the retailer to the end consumer

Selling price including VAT from the retailer to the end consumer

*VAT percentages in the EU range from 18% in Malta to 27% in Sweden. On average most of these percentages are around 20%. In this table, 20% has been used for the calculation.

This table shows that the FOB price is multiplied approximately 4 times (lower segment) to 6.5 times (higher segment) before the actual end user buys the product.

For more information on the different segments in home decoration and home textiles please refer to:

www.cbi.eu/market-information/home-decoration-textiles/channels-segments-decoration
www.cbi.eu/market-information/home-decoration-textiles/channels-segments-textiles

The table also shows that when selling directly to a retailer the FOB price can be more or less doubled.

Difference in expected services

However, there is a big difference between the services included in the FOB pricing and the services included in the pricing for direct sales to retailers.

FOB pricing includes air- or seaworthy packaging and transportation to the air- or seaport.

When selling directly to retailers the following aspects also need to be incorporated into the pricing:

- Transportation to the retailer (doorstep delivery)
This can be costly, depending on the method you are using; see also the next point 'Logistics'.
- Import duties (if applicable)
- It is important to ascertain whether duties need to be paid for the import of your product into the European Union. You can research this through the following website: <http://exporthelp.europa.eu/>
- The retailer may insist on special packaging that looks good on the shelves in the shop
- The fact that your administrative processes are relatively expensive is set against the small order values

Important challenges

- Whereas the wholesale importer is used to dealing with suppliers from outside the European Union, independent retailers usually are not. So keep in mind that the retailer wants a hassle-free delivery, without additional costs and other unexpected factors.
- In general, the small retailer will have a lot less understanding and patience compared to an experienced importer.
- When you cater to both wholesale importers and retailers in the same country or region, make sure your pricing does not generate any conflicts: if your prices for retailers are relatively low, this kills the market for your buyers that are wholesale importers. This becomes clear when you look at the above table, which explains the price structure.

Logistics

There is more than one way to get your product to the retailer. The most important aspect is that retailers are used to fast delivery (within a couple of days), unlike wholesale importers who usually work with lead-times up to 90 days.

So how can you arrange for fast delivery to small retail buyers?

- Produce stock and organise a storage facility (warehouse) in the European Union and ship from there.
The advantage is that you can ship a large quantity in one go, which will decrease the handling and transportation costs per product.
You can also organise this with fellow exporters to share the costs.
The disadvantage is that you need to have some sort of partner in the country where you would like to establish your storage. This partner also needs to be able to take care of the complete order fulfilment process: processing the order, sending the goods, invoicing and collecting the payment.
- Set up an arrangement with one of your wholesale importer buyers that can take care of the distribution, as long as it does not interfere with their own business.
- Work with a sales agent that sells for you and can assist you in stocking and supplying the goods. For these services, the agent gets a percentage of the value of the goods sold. The percentage depends on the completeness of the services the agent provides you with.
- Using so-called fulfilment service providers. These companies can stock your goods, send your shipments, invoice and collect the payment for you for a fee.

- Produce stock in your own country and supply the retailer using a postal or courier service. In this case, you need a reliable postal or courier service that would also be able to take care of the import duties calculation and collection process. A lot of courier services, in particular, can provide this kind of service nowadays. This is typically something you need to research properly in the country where you want to export from.
- Produce upon order and supply the retailer by post or courier.
- This is only feasible if you can produce very quickly. And as in the previous example, you need to have a reliable postal or courier service that would also be able to take care of the import duties calculation and collection process. A way to decrease production time is to keep your most important raw materials and accessories in stock.

As stated earlier, all these methods contribute to higher costs. And that is why it is so important to map out the entire process properly to see if it would be cost-effective to supply in this manner.

Marketing

Distribution via another type of channel also requires marketing in a different manner. In the European Union there are trade fairs specifically for retailers and there are also trade fairs that cater to both wholesale importers and retailers. The latter are more internationally oriented, whereas fairs that specifically cater to retailers are usually on country or regional level.

When identifying and approaching possible buyers via the internet (direct marketing), the process (online research, studying potential buyers and targeting them) is in principle more or less the same as when identifying wholesale importers. For more information read CBI's study 'Tips for finding buyers'.

Tips:

- Trade agreement
Make a pricelist specifically for the small retailer, keeping in mind the price structure as discussed. Include your terms and conditions to create clarity, avoid misunderstandings and decrease time spent on communication on standard questions. When working on your terms, it is important to determine what minimum order value you need to be cost-effective.
- Payments
If you do not work with a partner in the European Union and the retailer has to pay you directly, consider using international payment systems such as Paypal or credit card payments. These payments are processed very quickly and inspire more confidence with your buyer.
- Logistics
It is also possible to group small orders and send them to your distribution partner in the European Union at set intervals, for instance, twice a month.

All in all there are a lot of methods you can use. Keep an open mind with respect to different kinds of solutions.

When working with courier services it may be an idea to work with standard size boxes that give you the best value for money with respect to the transportation costs. Based upon size it is possible to develop a variety of package deals with different products, all within the same box size.

Keeping the shipping costs as low as possible is necessary in order to generate sufficient margins.

- Online presence
Europe's population is well connected to the internet. This has made it easier for consumers to compare and review your products or the way you do business. They are also increasingly open to inspiring stories from the other side of the world. The marketing of home products, traditionally the domain of brand and PR-driven communication, is now gradually gearing itself towards consumer referral and reviews. Social media has become an increasingly important part of business marketing and a client-based development platform. For more information on e-commerce, please refer to:
www.cbi.eu/market-information/home-decoration-textiles/trend-special/e-commerce
It is essential in this sector and this kind of business to have excellent product images, since the end-consumer makes his/her buying decision mainly based upon the image of the product.
- Shop-in-shop display
To increase the chances of repeat orders for brick-and-mortar retailers (as opposed to online retailers), you can consider developing a (small) display that is specifically designed for your products. This makes it easier to win repeat orders from these retail buyers.



Missoni shop-in-shop display for Target

- Seasonal influences
Keep in mind that when you are supplying to retailers and your product is fashionable, the season you are selling is the current season. There is usually a gap of up to six months between what you supply to importing wholesalers and to retailers.
Since the importing wholesalers need to wait for the products to be ready and have to promote these products to their buyers, they need to order well in advance compared to retailers that sell immediately.



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This survey was compiled for CBI

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