Alternative distribution channels in home decoration and home textiles

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In the European market for home decoration and home textiles (HDHT), imports traditionally flow through wholesale importers and larger retailers or retail chains. Nowadays, smaller (independent) retailers are also increasingly buying directly from producers in developing countries. Another way to reach European consumers is via business-to-consumer (B2C) e-commerce. This study discusses the pros and cons of distribution through smaller retailers and direct online sales to help you decide if these alternative channels are an option for you.

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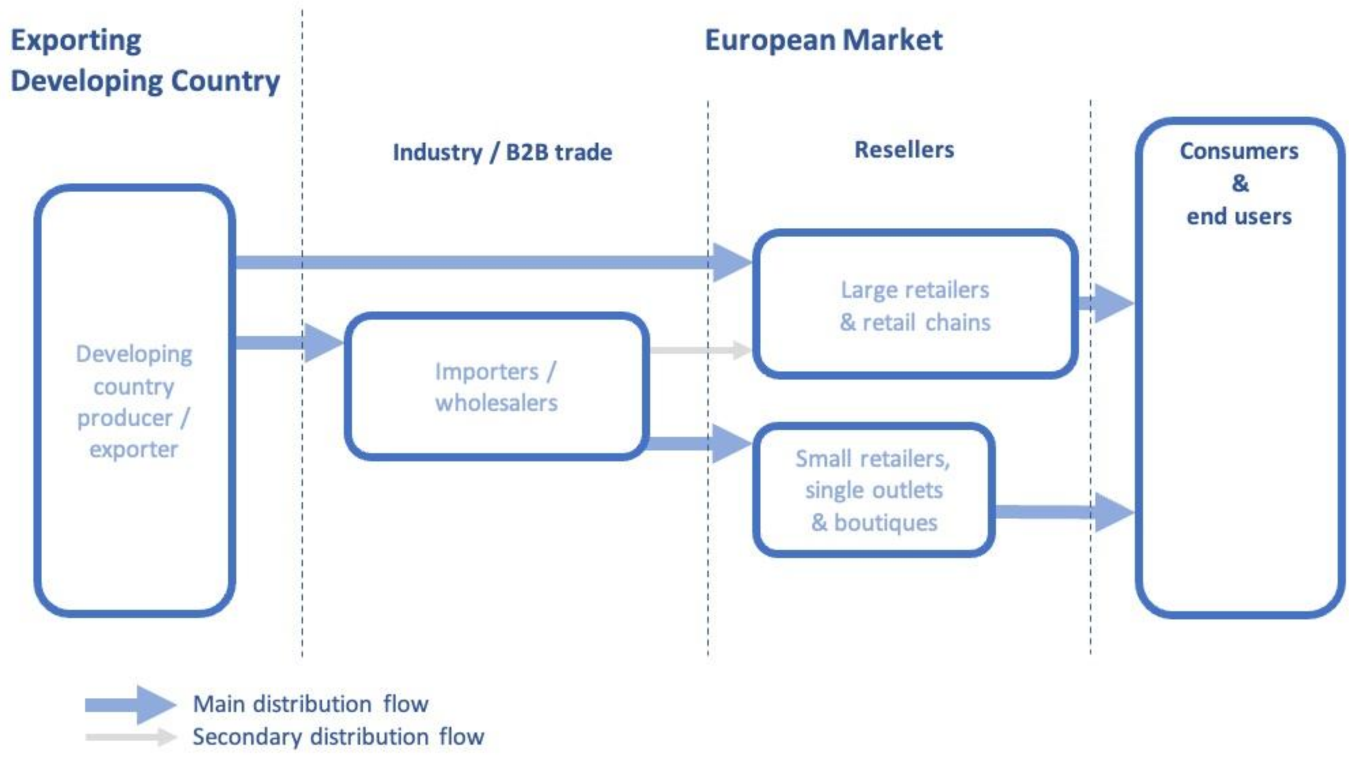
1. What are the main distribution channels?

Figure 1: Main trade channels in Europe for HDHT suppliers from developing countries



Source: Globally Cool, GO! Good Opportunity & Remco Kemper

Importers/wholesalers are the main connection between exporters in developing countries and European retailers. These importers/wholesalers take care of the import procedures. They take ownership of the goods when they buy from you (as opposed to agents), taking on the risk of the onward sale of the products.

In an increasingly competitive market, large retailers and retail chains now often import directly from their suppliers in developing countries as well. Many even have their own buying offices in developing countries. This allows them to cut out the margins of the wholesaler and reduce delivery time to the market. It also lets them compile their own tailor-made collection, rather than buying 'off the shelf' from an importer/wholesaler.

Pros of selling to importers/wholesalers and larger retailers (chains)

- Quantities are usually high.
- These types of buyers are experienced in dealing with producers from developing countries.
- You do not need to keep products in stock for these buyers – they are used to waiting for their goods to be produced after they have placed an order.
- Importers/wholesalers usually develop ranges with you, rather than buying off-the-shelf. This teaches you a lot about the design process, trends in the market and how to work towards target prices in your range development.

Cons of selling to importers/wholesalers and larger retailers (chains)

- Both types of buyers have considerable buying power, as they order in considerable volume. As such, they may negotiate hard.
- These types of buyers buy ahead of season, in relatively big quantities. This puts pressure on your capacity and hampers continuous and even production throughout the year. However, some buyers make a production plan for the whole year with their producers.

In addition to these traditional distribution channels, there are some increasingly popular alternatives – particularly selling directly to smaller (independent) retailers.

Tips:

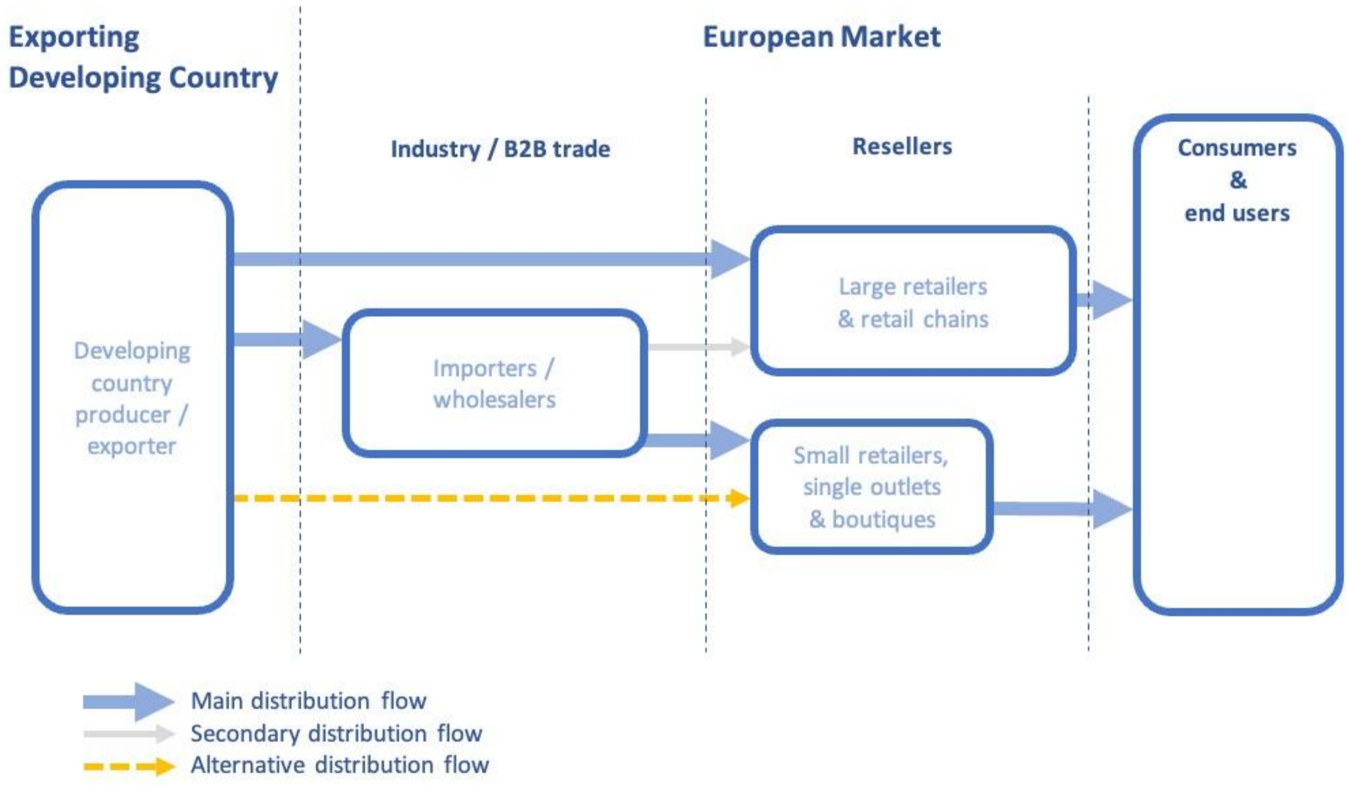
If you have the infrastructure for producing larger quantities for reasonable prices, focus on supplying directly to importing wholesalers and/or retail chains.

Use trade fairs to source this type of buyer. Because they typically participate in order to sell to smaller retailers, scouting exhibitor lists can be an effective strategy.

For more information on traditional trade flows, see our study on market channels and segments in HDHT.

2. Alternative channels: should you sell to smaller (independent) retailers?

Figure 2: Alternative trade flow via smaller retailers



Source: Globally Cool, GO! Good Opportunity & Remco Kemper

Smaller European retailers mainly buy their products from European wholesalers/importers. But like in other sectors (such as food or clothing) on the European market, independent retailers in HDHT are struggling to compete with larger retail chains. They need to differentiate on value-added service, specialised offers and authenticity. An interesting way for these retailers to achieve this differentiation is to buy products directly from producers in developing countries – products that would otherwise be unavailable and products with a strong personal story.

When approaching smaller retailers, you need to understand the specific needs of these buyers.

They usually prefer:

- small total order volumes;
- small quantities per item;
- quick doorstep delivery;
- special packaging (e.g. gift packaging) that is suitable for display;
- attractive storytelling, possibly through your website and social media.

Pros of selling to smaller retailers

- If supplying to importers/wholesalers does not give you enough of a margin, catering to smaller retailers can be an alternative. The absolute margins are higher if you can keep the cost of transport and other logistics down. However, this is not easy since small retailers require doorstep delivery and may also want additional services.
- If you have limited production capacity, supplying to smaller retailers can help to build a wider client base, rather than only supplying to 1 or 2 importers/wholesalers.
- Supplying to smaller retailers can be an additional channel, next to supplying to wholesale importers. This allows you to spread your risk for a certain market or region. However, make sure you do not violate any

exclusivity clauses that you may have with an importer. In such cases, you can consider developing an adapted range of products that would not fall under this exclusivity clause.

Cons of selling to smaller retailers

- Where importers/wholesalers are used to dealing with suppliers from outside the European Union (EU), independent retailers usually are not. You should keep in mind that the retailer wants a hassle-free delivery, without additional costs and other unexpected factors. This may include Delivery Duty Paid (DDP) delivery: delivered to the doorstep of the retailer, cleared and all.
- Small retailers generally have a lot less patience than experienced importers. They may expect you to supply within the same time frame as a European wholesaler.
- When you cater to both importers/wholesalers and retailers in the same country or region, your pricing could generate conflicts. If your prices for retailers are relatively low, this competition could interfere with the business of your buyers that are importers/wholesalers.

Tips:

Before deciding whether you should sell to smaller (independent) retailers, carefully map out the entire process to see if this type of trade flow would be cost-effective for you.

Consider developing a (small) display rack that is specifically designed for your products to increase the chances of repeat orders from brick-and-mortar retailers.

What else do you need to consider?

You need to calculate whether such small orders are cost-effective, considering:

- the logistics are expensive;
- administration costs for small orders are relatively high;
- aftersales activities, such as replacing damaged or imperfect goods, are expensive – a small retailer may complain when even one article does not meet expectations;
- fulfilling small repeat orders is not easy, unless you keep stock yourself.

Because of these relatively high costs, you need a good idea of the price structure and the logistics involved.

Price structure

In a traditional distribution flow, consumer prices generally consist of:

your selling (FOB) price

shipping, import, handling costs

wholesaler margins

retail margins
VAT – about 20% on average

Your FOB price includes your margins as a producer. These margins depend on your efficiency and price setting, as well as on the market segments you target. Generally speaking, margins in the lower segment, which deals with high volumes for low prices, are smaller than those in the middle and higher segments.

Figure 3: Traditional price breakdown indication for HDHT in the supply chain

Source: Globally Cool, GO! Good Opportunity & Remco Kemper

By supplying directly to (smaller) retailers, you shorten the supply chain. Cutting out the wholesaler margins creates room for a higher margin for the retailer, and a higher FOB price for you – for the same consumer price.

Figure 4: Alternative price breakdown indication for direct sales to smaller retailers

Source: Globally Cool, GO! Good Opportunity & Remco Kemper

For example, in Table 1 the FOB price is set at €10. Depending on the market segment your product is designed for, the consumer price ranges from €41 in the low-end market to €65.50 in the high-end market. In other words, the FOB price is multiplied 4–6.5 times before the actual end user buys the product.

Table 1: Example of a traditional price breakdown per market segment

	Low margin	Middle margin	High margin	
FOB price	€10.00	€10.00	€10.00	Your FOB price

Transport, handling charges, transport insurance, banking services (20/15/15%)	+2.00 €12.00	+1.50 €11.50	+1.50 €11.50	Landed price for the wholesale importer
Wholesalers' margins (50/75/90%)	+6.00 €18.00	+8.60 €20.10	+10.40 €21.90	Selling price from the wholesale importer to the retailer
Retailers' margins (90/110/150%)	+16.20 €34.20	+22.20 €42.30	+32.70 €54.60	Selling price excluding VAT from the retailer to the end consumer
Selling price incl. VAT (20%)	+6.80 €41.00	+8.50 €50.80	+10.90 €65.50	Selling price including VAT from the retailer to the end consumer

Table 2 shows that when selling directly to a retailer, the FOB price can be increased while the consumer price stays the same.

Table 2: Example of a price breakdown for direct sales to retailers per market segment

	Low margin	Middle margin	High margin	
FOB price	€15.00	€17.50	€19.00	Your FOB price
Transport, handling charges, transport insurance, banking services (20/15/15%)	+3.00 €18.00	+2.65 €20.15	+2.85 €21.85	Landed price for the retailer
Retailers' margins (90/110/150%)	+16.20 €34.20	+22.15 €42.30	+32.75 €54.60	Selling price excluding VAT from the retailer to the end consumer

Selling price incl. VAT (20%)	+6.80 €41.00	+8.50 €50.80	+10.90 €65.50	Selling price including VAT from the retailer to the end consumer

In the low-end market, a higher FOB price of €15 (+20% shipping, +90% retail, +20% VAT) would result in the same original consumer price of €41. In the high-end market, the FOB price could even be raised from €10 to €19. In practice, the extra margin is likely to be divided between you and your buyer, i.e. the retailer.

However, there is a big difference between the services included in the traditional FOB pricing and the services included in the pricing for direct sales to smaller retailers. Smaller retailers need a DDP price, which includes transport to the doorstep of that retailer and cost of clearance.

Tip:

Make a price list specifically for the small retailer, keeping the price structure in mind. Include your terms and conditions to create clarity, avoid misunderstandings and decrease time spent on communication on standard questions. When working on your terms and conditions, you need to determine what minimum order value you need to be cost-effective.

Difference in expected services

Standard FOB pricing includes air- or seaworthy packaging, and transport to the airport or seaport.

When selling directly to smaller retailers, your DDP pricing also needs to include:

- shipping to the retailer (doorstep delivery) – this can be costly, depending on the method you use;
- import duties – if applicable;
- special consumer packaging – if the retailer requires this;
- your administrative expenses – these are relatively high set against the small order values;
- cost of clearance.

Tip:

See Access2Markets for what import duties apply to your products and country.

Logistics

There is more than one way to get your product to smaller retailers, but whichever way you choose, it needs to be fast. Retailers are used to delivery by European distributors within a couple of days, whereas importers/wholesalers usually work with lead times of up to 90 days.

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

1. Pre-stock. That means producing stock in your own country before you start your marketing. You then supply the retailer by postal or courier service immediately after they order. You would need a reliable service provider that can also take care of the import duties calculation and collection process. A lot of courier services provide this kind of service nowadays. For this method, you need to research the options in the country where you want to export from.
2. Produce stock and arrange for a storage facility (warehouse) in the EU to ship from. This will allow you to ship large quantities in one go, which will decrease the handling and transport costs per product. You can also organise this together with fellow exporters in order to share the costs. The disadvantage is that you need a partner in the warehouse country that must also be able to take care of the complete order fulfilment process: processing the order, sending the goods, invoicing, and collecting the payment.
3. Use so-called fulfilment service providers in Europe. These companies can stock your goods, send your shipments, invoice, and collect the payment for you against a fee.
4. Set up an arrangement with one of your importer/wholesaler buyers in a particular country/region who can take care of any orders from smaller retailers and arrange distribution – as long as it does not interfere with their own business.
5. Work with a sales agent who 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 their services.
6. Produce on order and supply the retailer by postal or courier service. This is only feasible if you can produce very quickly. A way to decrease your production time is to keep your most important raw materials and accessories in stock. Again, you would need a reliable service provider that can also take care of the import duties calculation and collection process.

All these methods add to your costs. This is what makes it so important to map out the entire process properly to see if it would be cost-effective for you to supply in this manner.

Tips:

Keep your shipping costs as low as possible, so you can realise sufficient margins.

When supplying to smaller (independent) retailers, keep in mind that the season you are selling is the running season. There usually is a gap of up to 6 months between what you supply to importers/wholesalers and what you supply directly to retailers. Since the importers/wholesalers need to wait for the products to be ready and promote these products to their buyers, they need to order further in advance than retailers, who sell immediately.

If you use courier services, consider working with standard-size boxes that give you the best value for money with respect to shipping costs. Based on this, you can develop a variety of package deals with different products, all within the same box size.

Consider combining small orders and sending them to your European distribution partner at set intervals – for instance twice a month.

If you do not work with a European partner 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 in your buyer.

Marketing

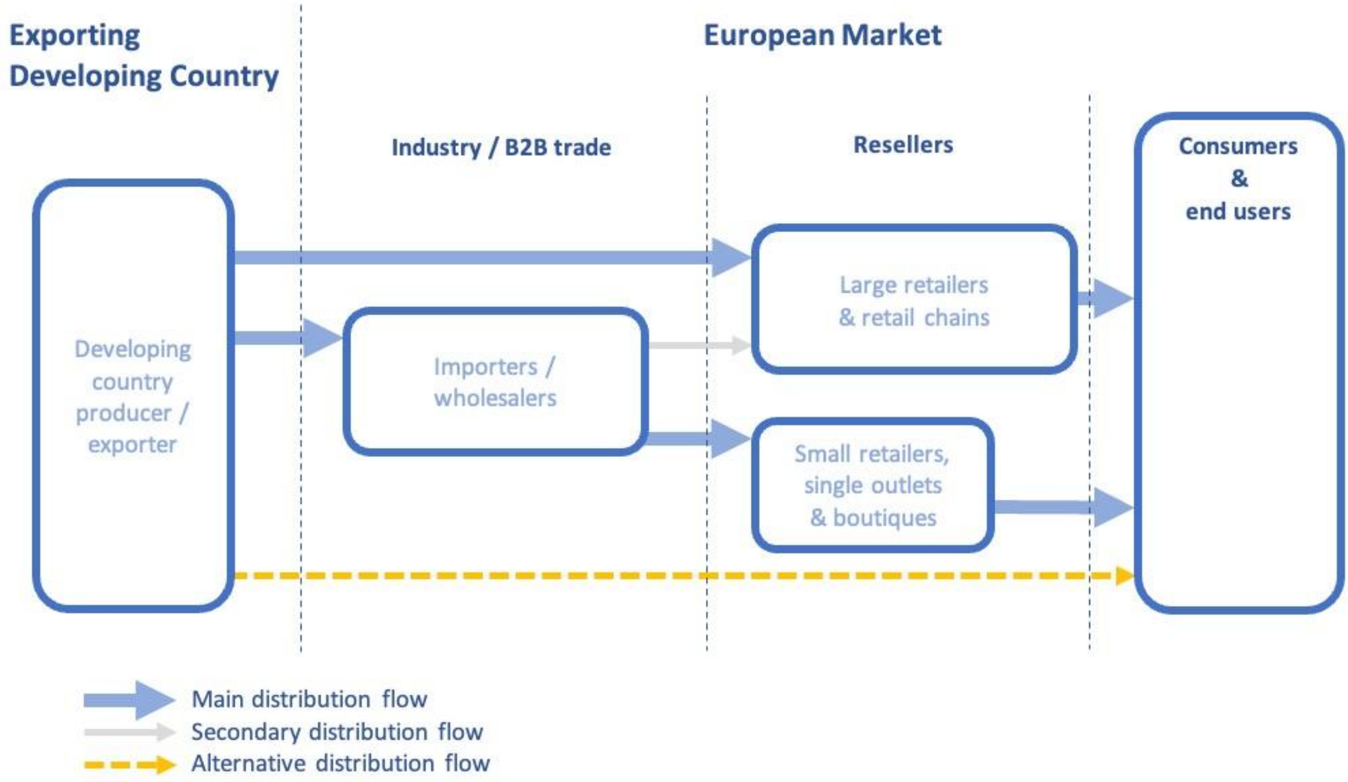
Distribution through a different market channel also requires marketing in a different manner. In Europe, there are trade fairs specifically for retailers, and trade fairs that cater to both importers/wholesalers and retailers. The latter are more internationally oriented, whereas fairs that specifically cater to retailers are usually oriented at the country or regional level. The process of identifying and directly approaching possible smaller retail buyers on the internet is generally the same as when identifying wholesale importers.

Tip:

See our tips for finding buyers for more information.

3. Alternative channels: should you sell directly to consumers via e-commerce?

Figure 5: Alternative trade flow via B2C e-commerce



Source: Globally Cool, GO! Good Opportunity & Remco Kemper

On a business-to-consumer (B2C) level, HDHT e-commerce has been increasing. More consumers have become more confident buying online – particularly since the COVID-19 pandemic. For you, supplying to online retailers is not a separate market channel. The way you supply to them on a business-to-business (B2B) level stays the same, with all the pros and cons of selling to a brick-and-mortar smaller retailer. Although there are exceptions, you would generally need a European wholesaler to distribute your products to online resellers.

You could also tap into the trend of online B2C sales by opening your own webstore and selling directly to consumers. However, managing your own international B2C e-commerce is not easy.

When targeting consumers directly, you need to understand their specific needs.

Consumers usually require:

- small order volumes;
- small (often single) quantities per item;
- doorstep delivery;
- special packaging (such as gift packaging);
- easy and familiar online payment systems;
- aftersales service.

You also need to know that the EU introduced new VAT rules in 2021. VAT must now be paid for all imports in the EU Member State where the goods are to be delivered – either through the new Import One-Stop Shop (IOSS) or through a full import declaration. According to Consumentenbond, the Dutch Consumers' Association, Dutch consumers are now buying less from non-EU webstores because of the new VAT rules. They are deterred by the increased VAT on orders up to €22 and the uncertainty about additional costs.

In addition, the new Market Surveillance Regulation states that non-EU manufacturers of products such as toys or energy-related products must have an 'economic operator' in Europe. In B2B sales, this is often the importer. For B2C sales, you need to make specific arrangements, such as mandating an authorised representative or fulfilment service provider in the EU.

Pros of international B2C e-commerce

- Because you shorten the value chain even further, in principle your margins are even higher.
- You are directly in touch with the needs of the end consumer.

Cons of international B2C e-commerce

- Order volumes are very small and items may need to be packaged individually.
- You need to pre-stock and offer more just-in-time supply concepts.
- B2C e-commerce is only suitable for 'high' value items.
- You need effective consumer payment systems.
- Competition from experienced and well-known European parties is strong.
- You have to deal with aftersales on a B2C level, including returns and replacements.
- B2C marketing and promotion is a specialised job.
- VAT payment is your responsibility.
- You may need an 'economic operator' in Europe.

The cons show that international B2C e-commerce is rather complicated and can be costly. Because of this, direct online sales to European consumers are not feasible for most exporters from developing countries.

Tips:

Before deciding whether you should sell directly to consumers, carefully map out the entire process to see if this would be feasible and cost-effective for you.

Study the new European VAT rules for e-commerce and the European Commission's guidance document on the Market Surveillance Regulation, and make sure that comply with them. See the International Trade Centre's webinar and report on e-commerce at the border for more information on customs and indirect taxes for small business owners.

If you do decide to sell to consumers through your own webstore, see Conzoom Solutions' step-by-step guide to creating your own online shop.

Check out the International Trade Centre's ecomConnect programme and its community platform ecomConnect. This programme facilitates shared learning, innovative solutions, cooperation and partnership to help small businesses in developing and least developed countries on the way to selling online. Use the readiness quiz to check your readiness to engage in international e-commerce and see where you need to concentrate your efforts.

Study the information offered by eTrade for All, a multi-stakeholder initiative that helps developing countries harness e-commerce and digital trade for development. eTrade for Women focuses on empowering female entrepreneurs in developing countries through masterclasses, communities and policy dialogues.

What else do you need to consider?

Again, you need to calculate whether such small orders are cost-effective, considering:

- the logistics are expensive;
- administration costs for small orders are relatively high;
- aftersales activities, such as replacements and returns, are expensive;
- fulfilling small repeat orders is not easy, unless you keep stock yourself;
- you need to provide customer service.

Because of the relatively high costs, you need a good idea of the price structure and the logistics involved.

Tip:

Use international payment systems such as PayPal or credit card payments. These payments are processed very quickly.

Price structure

Figure 6: Alternative price breakdown indication for B2C e-commerce

Source: Globally Cool, GO! Good Opportunity & Remco Kemper

By selling directly to consumers, you create the shortest supply chain possible. This provides you with considerably higher margins than when you use traditional trade channels. Table 3 shows this, using the example from Table 1.

Table 3: Example of a price breakdown for direct sales to consumers per market segment

	Low margin	Middle margin	High margin	
FOB price	€28.50	€37.55	€47.50	Your FOB price
Transport, handling charges, transport insurance, banking services (20/15/15%)	+5.70 €34.20	+4.75 €42.30	+7.10 €54.60	Landed price for the consumer
Selling price incl. VAT (20%)	+6.80 €41.00	+8.50 €50.80	+10.90 €65.50	Selling price including VAT from you to the end consumer

For the original low-end consumer price of €41 (including 20% shipping and 20% VAT), your price could be raised from €10 to €28.50. In the high-end market, your price could be €47.50.

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

Difference in expected services

When selling directly to consumers, your pricing also needs to include:

- shipping to the consumer (doorstep delivery) – this can be costly, depending on the method you use;
- import duties – if applicable (if you do not include these, the consumer has to pay them on delivery);
- special consumer packaging – perhaps gift wrapping;
- your administrative expenses – these are relatively high set against the small order values;
- returns and warranty cases.

Tip:

See Access2Markets for what import duties apply to your products and country.

Logistics

Like retailers, consumers expect delivery within a couple of days.

So how can you arrange for fast delivery to consumers?

1. Use a professional fulfilment service provider in Europe. Such companies can stock your goods, send your shipments, invoice, and collect payment for you against a fee. This allows you to ship large quantities in one

go, which decreases the handling and transport costs per product.
2. Set up a similar arrangement with a partner from your network in Europe who can warehouse for you. They must be able to take care of the complete order fulfilment process: processing the order, sending the goods, invoicing, and collecting payment. For example, you could partner with one of your importer/wholesaler buyers, as long as it does not interfere with their own business. Partners from your personal network are another option. You can also organise this together with fellow exporters in order to share the costs.
3. Store stock in your own country and supply the consumer by international postal or courier service. You would need a reliable service provider that can also take care of the import duties calculation and collection process. A lot of courier services provide this kind of service nowadays. For this method, you need to research the options in the country where you want to export from.

Again, all these methods add to your costs. You need to consider the entire process to see if B2C e-commerce is suitable for you.

Tips:

Keep your shipping costs as low as possible, so you can realise sufficient margins.

Keep in mind that the season you are selling to consumers is the running season, unless your offer consists of timeless pieces that do not need to respond to short-term trend cycles.

If you use courier services, consider working with standard-size boxes that give you the best value for money with respect to shipping costs. Based on this, you can develop a variety of package deals with different products, all within the same box size.

Marketing

Online B2C sales require marketing that is aimed directly at the European consumers you are targeting. It should be 100% online, as targeting consumers at trade fairs would require too much effort and costs. Consumers are increasingly open to inspiring stories from the other side of the world, which you can showcase on your website. Social media has also become an increasingly important part of business marketing. In addition, online referrals and reviews make it easy for consumers to compare and evaluate products and the way companies do business.

Tips:

Use Conzoom Solutions' guide to product photography to learn more about using high-quality images to showcase your products online.

For more information about online sales (B2B and B2C) and digital technologies you can use, see our tips for going digital.

This study was carried out on behalf of CBI by Globally Cool B.V. in cooperation with GO! Good Opportunity and Remco Kemper.