COVER

How to Choose a Distributor

Barine Kirimi (kirimi.barine@juno.com), of Evangel Publishing House in Nairobi, Kenya, explains the nitty-gritty of distribution for publishers.

Achieving an effective distribution system with the widest coverage is the dream goal of any publisher. However, many publishers in developing countries do not achieve effective distribution chains even within their own countries. One reason for this is the inability of many a publisher to identify and establish good business relationships with potential distributors. This raises the question of who a distributor is, how to identify one and the process of negotiating a contract with the potential distributor.

Distribution is the transfer of books from the publisher to the consumer. Therefore, a distributor is involved in getting the books from the publisher to the reader, either directly or indirectly. In developing countries like Kenya, many distributors also have retail outlets and thus sell directly to the readers and indirectly to other booksellers.

Important allies

Distributors fulfill orders from booksellers. Most retailers will not purchase books directly from a publisher or small press because it is more convenient to order titles from a single vendor than from multiple vendors. Likewise, it is a logistics nightmare for a publisher to process thousands of purchase orders from booksellers. An ideal situation is where the bookseller will find it best to buy from the distributor. However, in developing countries publishers are thought to offer better terms than distributors, so booksellers do purchase directly from publishers.

Distributors are important allies. They can perform such services as providing online and printed catalogs, a telephone order number, centralized storage and shipping of books to retailers, and at times handling of returns on behalf of the publisher. In the United States some distributors, for example Spring Arbor (www.springarbor.com), also market products. The publisher then pays for product insertion, promotional pieces, and so on. However, most distributors do not market books. Their role is to make the book available when orders are placed. The publisher's role is to fuel book demand.

Among the reasons why publishers can become frustrated with distributors are the unrealistic expectations they have that a distributor will market their books. More often than not, most distributors represent other publishers as well. They do not have the resources to market the large inventory they stock from several publishers. What is important to a distributor is the profit margin they accrue from the sales of product from each publisher they represent.

How to find distributors

A publisher can take either an active or a passive approach to identifying distributors. Sometimes it all begins with unsolicited orders. After all, distributors, wherever they are, are always on the look out for product representation that can be profitable and status enhancing.

Barine Kirimi joined Evangel Publishing House, a Kenyan Christian publishing house established in 1952, as a marketer in 2003. A year later, he was promoted to publisher and general manager, bringing the company out of debt and greatly strengthening its sales.

The initial contact with a new distributor may result from a trade show or an advertisement. At other times, trade sources such as directories, associations, magazines and journals are a good source. For Evangel Publishing House, the local chapter of the Christian Booksellers Association, and its magazine, as well as the CBA international magazine, *Aspiring Retail*, have been good sources of distribution contacts.

At times customers have referred a certain distributor to us. Another viable option could be identifying potential distributors via independent consultants. Also, many leading distribution companies can be found on BookWeb (www.bookweb.org).

Distributors who want your business will compete if they think you would be a good match to the rest of their client base. If they offer terms that are very low, they are either desperate for the business or extremely efficient.

Questions to ask

Before signing a contract with a particular distributor, a publisher ought to be satisfied regarding certain criteria. Look for performance and professionalism. The following guidelines offer pointers on the services and qualities of a distributor that a publisher should consider in choosing the best distributors for his or her list. The questions below also suggest pitfalls to avoid.

■ *Sales*

How is the distributor presently doing in terms of volume? Their performance can give you an indication of how well they will perform in the event you appoint them as your distributor.

■ *Market coverage*

Whenever possible, choose book distributors or wholesalers with nationwide coverage. Seek distributors with established relationships with online booksellers like Amazon.com.

Your analysis of coverage should include not only territory or segments of the market covered, but how well the markets are served. This is critical, as it enables a publisher to exclude from consideration many bookstores who claim to be distributors.

■ *Financial arrangements*

The financial standing of the candidate is key criteria. An audited report of the businesses performance or a bank reference will give you an indication as to the performance in the past. Financial reports are not always complete or reliable, or they may lend themselves to interpretation differences, pointing to a need for a third party opinion.

Ask how promptly publishers are paid. What terms are customary for this distributor? If the distributor only pays the publisher for the inventory they have received once the bookseller pays them, this is not a good deal. If their clients go bankrupt, for example, the publisher is not likely to be paid.

Ask distributors to describe their credit control mechanisms. How current is their market intelligence?

Be careful with small wholesale book distributors. Some have closed their doors overnight due to financial problems. When this happens, any inventory may be held by creditors for auction—even if the distributor has the books on consignment!

■ *Charging mechanism*

Is the charging mechanism straightforward and easy to understand? Or, is it so complex that the publisher will never really know if it is correct? The level of complexity should be appropriate to the publisher's level of operation.

There are many ways a distributor can charge the publisher for services rendered, but the most common is charging a percentage of the invoice value, often 12-15 percent. Is this percentage charged on all sales, including returns? Or, is it charged only on net sales? What other charges can be expected on the invoice? For example, some distributors charge a fee for repricing of stock or distribution of free items. How many years' stock will be held before fees are introduced? Is there a charge for returned stock to be restacked?

Does the invoice include a charge for value-added tax (VAT)? In many countries, the old-fashioned fixed rate charge—for example, when 50 percent of cover price is returned to publisher—avoids VAT charges and gives the publisher a definite return on each book sold. If a publisher does not want to use wholesalers (who want discounts over 35 percent off the cover price), and wants to avoid VAT charges, then the fixed rate has benefits.

■ *Customer service*

Try to meet the distributor's staff. How well do they handle difficult situations on the phone? How good is their front-line staff? Is there one publisher who seems to get priority treatment? How many new clients have they taken on during the last few months? Is there a danger of publisher overload? Some distributors have a history of their service being affected by taking on too much volume too quickly.

If the distributor employs outside representatives, ask him or her to describe the arrangements with this staff. Determine when the representatives are paid, and if they are paid promptly (this keeps them content and they will do a good job).

■ *Feedback*

Does the distributor offer regular and useful feedback on sales achieved, returns and stock levels, customer profiles, debtors? Is it in electronic or paper form? Will it meet your requirements? Are reports available on demand or only at set intervals? Can you make on-line queries? Do not be caught blind.

■ *Information technology*

How good is the distributor's IT system? Look at its flexibility and reporting ability. Watch out for movement to new systems! Some distributors' service levels decline when updating or changing hardware or software.

Does the distributor have a Web site? Can it handle direct sales? Does the distributor offer phone, mail, fax and Internet ordering capabilities? Are convenient payment options offered to their customers? Is the distributor linked to PubEasy (www.PubEasy.com) or other services to ensure prompt transmission and receipt of orders and reports?

■ *Marketing and publisher representation*

Does the distributor have an effective marketing structure, offering press releases, advanced information sheets, targeted mailings, catalogs, publicity, and other promotional material to bookstores? Will they notify Nielsen-BookData (www.nielsenbookdata.com) and other services of the publisher's titles?

Is representation offered at key book fairs and other publishing events? Representation charges may be as high as 10 and 15 percent of invoice value. This should always be of net sales. Demand a lot of the rep service because you are paying a lot for it. If the distributor works with another company to offer representation to publishers, make sure the relationship is not so exclusive that it results in biased and unhelpful advice. Getting as many solutions as possible at one stop is appealing to publishers, but may not be the best and most economic solution. Publishers should be wary of any deals with a distributor that require the involvement of a third party.

Barine, along with Nikolay Ivanov, of the Bible League of Bulgaria (right) and 25 other professionals participated in Cook's Marketing, Sales, and Distribution International Christian Publishing Institute held March 2005 in Colorado Springs, Colorado, U.S.A.

■ *Warehousing*

Is the stock handling and resource management reliable and efficient? A publisher may decide to contract only warehousing and fulfillment services from a distributor. However, the costs of such an arrangement must be carefully weighed. It may be tempting to hold on to cash collection but an honest and efficient distributor may be better positioned to argue with large chain stores and achieve prompt payment.

Insurance may be offered to publishers in a number of ways, often dependent on the size of the list. For publishers with a small number of titles it may be part of the overall package. It is usually the case that no insurer will pay out for more than one reprint cost. The standard insurance covers fire and flood. Goods are only covered once they arrive at the warehouse, thus transit time is not covered. Once the goods are in stock they are covered until they are dispatched to the customer. Stock loss in the warehouse is not covered separately. Generally, there is an allowed loss rate and if any loss amounts to more than this the distributor will probably negotiate the appropriate reimbursement with the publisher. With larger publishers, insurance is often discussed as a separate issue. Some publishers may have their own coverage and may not want it included in the contract with the distributor; others opt to take the risk not to be covered at all, or want to split the cost of insurance with the distributor. Since insurance is not inexpensive, it is a key area to cover in the negotiation.

■ *References*

Check the distributor's references. Contact the publishers they serve. The distributor's customers, suppliers and competitors, among others, may have information on their business conduct—especially on areas as customer service and ethical behavior. However, checking references may be difficult. For instance, in Kenya, some may not be willing to exchange such data.

Look for a distributor who wants to keep both clients and suppliers happy. Are the parcels well-packaged to avoid transit damage? Are deliveries on time? Are there seasonal trends—for example, does the distributor have problems with deliveries at Christmas? The bookseller has to have confidence in the distributor, or they will look for other ways to obtain the publisher's product, or give up altogether.

Due diligence

These are key points to consider in the selection of an effective distributor for your product. They will arm you with the questions to ask when discussing your requirements.

A criteria list is valuable only when good data is available on each criterion. Although the initial screening can take place at the publishing company's offices, at least three finalists should be visited where and when possible. No better method of assessing distributors exists than visiting them, inspecting their facilities, and interviewing their various constituents in the market.

Several other sources are important for publishers without the resources for on-site inspection, especially when sourcing for international distributors. The distributor's suppliers, or firms not in direct competition with them, can provide in-depth information. A bona fide candidate will also provide information through a local bank.

Publisher must ensure due diligence in gathering data. When done well, this prevents regrets after the contracts have already been signed.

The distribution agreement

Once a suitable distributor is found, an agreement should be drawn up to

Achieving an effective distribution system with wide coverage is every publisher's dream.

contain the following: an identification of the parties in the agreement and a statement that the contract supersedes all previous agreements.

The agreement should state a specified period for the contract's duration; for example one or two years subject to renewal. When signing a contract with a new distributor, a trial period clause of between three and six months and a minimum purchase requirement over a specified time frame are essential.

Geographic boundaries should be determined. The publisher may wish to reserve the rights to sell to specific customers. Hence, the decision on whether the distributor is exclusive or not should be indicated.

The products covered should be included if the distributor is not selling the publisher's complete list.

The distribution agreement should cover the publisher's rights, methods of payment and discount terms. Other issues such as the termination conditions, right to change price and terms, and the product and conditions for delivery of goods, need to be included.

The functions and responsibilities of the distributor for stocking inventory, customer service, and book promotion and representation need to be decided. Determine who is responsible for each expense. Spell out the credit and shipment terms as well as penalties for late payments. The contract should state the confidentiality of the information provided by either party.

Managing relationships

A distribution relationship may be compared to a marriage in that it brings together two independent entities that have shared goals. For the relationship to work, each party must be open about its expectations and openly communicate changes perceived in the other's behavior that might be contrary to the agreement. The closer the relationship between the publisher and the distributor, the greater chance for success.

Conflicts will arise, ranging from small grievances such as incorrect billing or packaging to major ones like late delivery. Both parties should work to manage the relationship for the long-term. If the distributor's performance is unsatisfactory, careful documentation and clearly defined performance measures are a must.

There are many reasons why a publisher may decide to end a distribution contract. The publisher might decide to sell direct to customers in the distributor's territory. The contract might end as a result of poor performance, fraud, damage to one party's interests, or the failure of the distributor in complying with contract obligations on minimum inventory requirements or sales levels.

Publisher-distributor relationships will vary from one region to another and also from one market segment to another. For example, international distributors often ask for higher discounts than local ones, due to the high costs of shipping as well as fluctuation in currency exchange rates.

Final thoughts

Every publisher ought to strive to achieve effective distribution and be on the lookout for opportunities to increase distribution capacity. Our ministries will be stronger if we can achieve this. ❖

COSTS OF DISTRIBUTION

The selling price of a book is based on five factors: 1. unit manufacturing costs (direct costs); 2. distribution costs (including discounts); 3. the author's royalty; 4. administration costs (the publisher's indirect costs); and 5. the desired net profit.

There are many channels for book distribution, and costs vary from one to another. These may include: discounts, commissions, quantity pricing, financial terms, advertising and promotion, freight, handling, fixtures, returns, specialized equipment, warehousing, etc. Each channel has specific costs. Thus, the publishing house's choice of channels, the second of the above five factors, is extremely important.

Which channel garners greater profits per book sold? Two financial instruments can help you determine this. Both require a thorough understanding of fixed versus variable costs.

A contribution analysis focuses on how much can be contributed toward fixed costs and profit by a specific channel after deducting all costs associated with that channel.

Gross sales	$000
Less discounts	(000)
Net sales	$000
Less cost of goods	($000)
Gross profit	$000
Less direct costs	
Ads and publicity	($000)
Shipping	(000)
Handling	(000)
Commissions	(000)
Other costs	(000)
Channel contribution	$000
Less fixed costs	($000)
Profit contribution	$000

A break-even analysis focuses on the volume of sales at which total revenues equal total costs.

$$\text{Break-even Sales dollars} = \frac{\text{Fixed costs}}{1 - \text{Variable costs as \% of sales}}$$

$$\text{Break-even Unit sales} = \frac{\text{Fixed costs}}{\text{Unit cost}}$$

These tools are useful in analyzing and prioritizing channel opportunities.

—Bob Livingston in *Managing Finances in Publishing*