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International Sales Channel Agreements

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For U.S. companies, expanding sales internationally is both exciting and daunting. Prudent planning and a strong business plan significantly increase the chance of success. A strong business plan considers the pros and cons of selling direct, including the challenges of becoming familiar with the local market, its laws, language and cultural practices, not to mention the costs and challenges of establishing a local office with local staff. Further, in some countries, local laws require a local national act as the sales agent or have an ownership interest in the distributorship.

As a result, after weighing such considerations, companies often decide to market and sell their offerings indirectly through local companies and agents already established and familiar with the territory. While working with local resellers and distributors may instill initial confidence and excitement, these relationships are generally new to both sides and success does not always follow expectations. Discord between the company and its sales channels arise even in cases of tremendous sales success.

Failure to consider the items below and address them carefully prior to and when entering a written agreement may result in extensive unanticipated costs, not to mention immense missed opportunity, frustration and enterprise value – disrupting or even arresting the established success of the company's offerings within the U.S. and elsewhere.

1. **Export Concerns.** International sales require analysis of what is being exported. Companies should identify what will be transferred abroad and seek U.S. legal counsel to confirm whether such export requires licensure. Such determinations are fact-specific, dependent upon what is exported and where it is going. By way of examples only, certain foods, drugs, weapons, software and technologies require export licenses. This list is not exhaustive. Furthermore, for transaction involving certain countries subject to U.S. trade sanctions, commercial activity and trade may be partially or even completely prohibited without specific U.S. government authorization.
2. **Protection of Intellectual Property.** In most circumstances, intellectual property (IP) rights are protected within a specific jurisdiction. Therefore, even if a company has undertaken prudent steps within the U.S. to protect patents, trademarks and other IP, such rights will likely not extend to foreign jurisdictions without further action. Prior to providing access to company IP to foreign entities, a company should work with legal counsel to find ways to protect against infringement and misappropriation of its and

important third party IP in the territories that it seeks to market its offerings or otherwise disclose its critical processes, methods and/or technologies.

3. **Websites and Product Collateral.** Marketing materials, offering documentation, sales literature and product packaging will likely need to be translated, modified and customized to address local preferences and legal requirements. For obvious reasons, companies often rely heavily on the local sales presence to accommodate, but due care should be observed so as to protect the companies global brand and the opportunity both within the territory and elsewhere. As a result companies should retain rights to make sure quality of marketing meets expectations, including authorization and audit rights. Moreover, companies should consistently exercise these rights. Furthermore, the company will want in most instances to assure that any filings or registrations are made in its own name rather than in the name of the distributor or local agent, unless there is a specific reason for allowing registration by the local entity and all the risks associated with such registration by someone other than the company have been addressed. This rule applies to registration of the URL for any country-specific top level domain (ccTLD) as this is a common area for dispute as the relationship with the local entity sours or otherwise comes to an end.
4. **Plan for the End.** Sales channels end for numerous reasons and thoughtful planning regarding the term, termination, expiration and transition following the relationship are all part of a prudent plan for entering new markets. Among questions to consider: Is there a possibility of residual inventory held by the local entity at the end of the relationship? May the local entity continue to market and sell the inventory? How long? At “fire-sale” pricing? Does the company want the right to buy the inventory back? At what price? Do marketing materials and excess product packaging transition to the successor sales channel? Who controls, has access to and can utilize the customer list going forward? Should a non-compete apply post termination or expiration? Finally, most companies may not be aware that certain countries protect their nationals in the event the relationship is terminated without cause, thereby providing for continuation of aspects of the relationship even after the company might believe the relationship has ended.
5. **Choose Distributor Carefully.** A simple search using Google, while prudent, is not sufficient, as the local entity will be representing the company's brand and in some cases may be an agent of the company. Perform significant diligence on the local entity and agents. Ask for references and follow-up with prior customers, partners and employers. Furthermore, verify that none are “prohibited parties” under U.S. law by checking with the Office of Foreign Assets Control, Specially Designated Nationals and Blocked Persons List, as well as the U.S. Department of Commerce and the U.S. State Department sanctioned parties lists. (A consolidated export screening lists of the Departments of Commerce, State and the Treasury is provided as an aide to

industry in conducting electronic screens of potential parties to regulated transactions and can be found at http://export.gov/ecr/eg_main_023148.asp.) Once the company has developed a level of comfort through its diligence, add adequate controls to prevent the transfer of rights or the addition of individuals or entities by the local entity.

6. **Fair Competition.** Companies should be certain that the local entity is aware of and committed to observing anti-bribery and fair competition law, including the U.S Foreign Corrupt Practices Act and the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. And, though companies may want to have discussions around pricing in the local market, both company and the local entity must be careful to observe all applicable antitrust law. Companies should also confirm the transaction complies with the often overlooked and complicated U.S. antiboycott regulations. This is particularly relevant for companies engaging in transactions in the Middle East due to the Arab League boycott of Israel. Failure to comply with such regulations may result in criminal and civil penalties and/or the loss of certain U.S. tax benefits.
7. **Exclusive vs. Non-Exclusive.** Many distributors and resellers will seek exclusive rights within the jurisdiction and there may be circumstances in which granting such rights may be appropriate. However, companies should consider “earn in” triggers for exclusivity or, as is more common, performance metrics that trigger termination of exclusivity or the distribution and marketing rights altogether. Once such performance measurements are set, companies would be wise not to overlook initial failings or such “waiver” might impede enforcement of the rights granted pursuant to the metrics at a latter date.
8. **Scope Territory Appropriately.** Regardless of whether the territory is exclusive or non-exclusive for the local entity, companies should define the scope of the territory narrowly so that neither party is trying to tackle more than can be handled. The breadth of the territory can always be re-evaluated at a later date and expanded when and where appropriate.
9. **Confirm Agreement Will be Respected.** Frustration understandably arises when companies enter into a written agreement with the local entity only to later find out that certain aspects of the agreement are either non-binding or are read to have a different result than initially intended. Unlike the Uniform Commercial Code adopted in most U.S. jurisdictions, which applies to contracts only in circumstances when the parties have failed to address particular issues within the contract, the1980 U.N. Convention on Contracts for the International Sale of Goods (“Convention”) applies even if conflicting provisions are agreed between the parties but the Convention has not been expressly disclaimed. Parties will also need to determine which law will govern the agreement. U.S. law remains among the most dynamic to changes in the modern world, and by specifying the applicable law of a certain United State a company will provide greater clarity

for the parties in the event of disputes. In some circumstances, local courts may cause undue delay or not enforce matters in a way consistent with the express language of the agreement, or even enforce a decision by a U.S. court. To address these concerns, companies frequently require arbitration to resolve disputes in international agreements primarily since over 150 of the United Nations member states are contracting parties to the N.Y. Convention on the Recognition an Enforcement of Foreign Arbitral Awards, which requires local courts to recognize the enforcement of arbitral awards.

Each territory, offering, business case and agreement present additional issues in addition to the items raised above. Yet, even though each circumstance is unique, companies can establish processes and templates for efficiency as it seeks to enter new markets or work with new sales channels. While one-size-will-NOT-fit-all for international sales channel agreements, thoughtful drafting upfront can provide for efficiency and consistency for companies seeking to expand its offerings globally.

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