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## Cost information for a company to have a Representative Office or Distribution Warehouse in the U.S.A.

A supplier (or producer) of any product or service must determine how to maximize their sales and profit. And though there is great potential to expand business in today's global marketplace, careful consideration must be given to the most beneficial way to expand it.

Much depends on the competition in the marketplace, and how they are selling. For instance, if a supplier's competitors are selling more directly into a favorable marketplace, that supplier must consider doing the same. Otherwise, that supplier will find themselves in a disadvantaged position.

Suppliers must always focus on keeping their prices competitive. And, with a reputation for having low prices, they can indeed attract buyers to come to them. But, those suppliers must recognize that eventually there will be others offering lower prices, or better sales terms and conditions - and, the buyers will no longer be coming to them.

During the past decade, we have seen changes on the global economy that demonstrate the importance of this. Most significant has been the shift of both product production and services to low-wage countries. And though the suppliers in these low-wage countries saw their businesses greatly grow in the earlier years of this shift, they are now confronted with the problem of how to continue business growth.

The Internet and telephone communications do offer some opportunities to develop new business. But, experienced sellers realize that it takes much more to expand business - especially when selling products and services to other businesses.

And though many large companies often have their own buyers or agents searching and buying in source countries, this way of doing business can be a disadvantage to the suppliers (especially factories). Primarily because the suppliers have to rely on these buyers to continue purchasing from them. And, as we have seen in the past decade, large buyers easily shift their business from one place to another.

Thus, for their own well-being in the long-term, suppliers should also be focusing their sales activities on the target marketplaces - taking the opportunity of selling to the maximum number of buyers in those marketplaces. And, this is often best accomplished with a presence in the target marketplace(s).

A supplier's presence in a target marketplace can be in the form of having a selling agent, their own sales office, or a sales office and distribution warehouse.

In this article, I will focus on the potential costs of having a sales office or a warehouse/distribution center here in the U.S.A. (For information about working with sales agents, you can refer to the separate article that I wrote on this subject).

### **Why Have a Sales Office or Warehouse in a Target Marketplace?**

The primary benefit is because the selling company will have more opportunities. With their own representatives in a target marketplace, there will be easier and better communications with the buyers. And, most importantly, with buyers from all economic levels - large, medium and small sized companies.

This will result in a larger number and more diversified types of buyers. And, this is always a better business situation for a supplier.

From the perspective of the buyers in that country (the target marketplace), this is a great convenience. They have better access to product and service information, get prompter responses, and (if there is a warehouse/distribution center) they will get faster delivery of products.

### **Costs and Analysis**

For comparison, I am including costs for 3 possible geographic locations:

- Large Major Cities - Such as New York City, Chicago, Houston and Los Angeles
- Medium Sized Cities - Such as Charlotte (North Carolina) and Cleveland (Ohio)
- Industrial Areas - Located away from cities

I point out that the costs are approximate, and can be adjusted according to a company's particular needs.

### **Costs and Analysis of a Sales Office**

This analysis is for a sales office with an experienced sales manager and an experienced assistant.

Each analysis is for a 3 room office of approximately 700 square feet (63 m<sup>2</sup>) with the office located in a nice, fairly modern building. The costs include:

- Rent
- Salaries and benefits
- Insurance
- Telephone/Fax/Internet
- Parking (in major cities)
- Advertising in industry journals
- Promotional activities

- Memberships and subscriptions - with trade associations/organizations
- Office supplies
- Postage and courier services
- Taxes and fees

The approximate total costs would be:

- Large Major Cities - From US\$ \$230,000/year
- Medium Sized Cities - US\$200,000/year
- Industrial Areas - \$175,000/year

The differences are primarily due to the differences in office rents and salaries appropriate to the areas.

To these costs should be added the separate expenses of travel for the sales manager:

- If the sales manager would cover a regional area (within 1,000 miles from the office location), the travel costs could be approximately \$34,000/year
- If they are to cover the entire U.S.A., the travel costs could be approximately \$55,000/year.

These travel costs assume that the sales manager would be traveling about 8 - 10 business day/month, and include all expenses such as:

- Air Fare
- Car Rentals and Gasoline
- Hotels
- Meals and Entertainment for Clients

### **How Much Sales Activity Would Justify Expenses of a Sales Office?**

To analyze the total monthly costs and the sales that would have to be generated to cover those costs - I offer the following analysis:

Assuming that each sale order would have an average value of \$25,000 (such as for a container of a product), and applying a 10% credit/commission to the representative office:

#### **With representative office having responsibility for all of the U.S.A. sales:**

- Major Large Cities -  $\$230,000 + \$55,000 = \$285,000/\text{year}$ . The sales target would be  $\$2,850,000/\text{year}$ . Thus, the office would have to sell at least 114 orders per year (about 10 sales orders per month).
- Medium Sized Cities -  $\$200,000 + \$55,000 = \$255,000/\text{year}$ . The sales target would be  $\$2,550,000/\text{year}$ . Thus, the office would have to sell at least 102 orders per year (about 9 sales orders per month).

- Industrial Areas -  $\$175,000 + \$55,000 = \$230,000/\text{year}$ . The sales target would be  $\$2,300,000/\text{year}$ . Thus, the office would have to sell at least 92 orders per year (about 8 orders per month)

**With the representative office having responsibility for their office region, the numbers would be:**

- Major Large Cities -  $\$230,000 + \$34,000 = \$264,000/\text{year}$ . The sales target would be  $2,640,000/\text{year}$ . Thus, the office would have to sell at least 106 orders per year (about 9 orders per month).

- Medium Sized Cities -  $\$200,000 + \$34,000 = \$234,000/\text{year}$ . The sales target would be  $\$2,340,000/\text{year}$ . Thus the office would have to sell at least 94 orders per year (about 8 orders per month).

- Industrial Areas -  $\$175,000 + \$34,000 = \$209,000/\text{year}$ . The sales target would be  $\$2,090,000/\text{year}$ . Thus, the office would have to sell about 84 orders per year (about 7 orders per month).

**Costs and Analysis for a Warehouse/Distribution Center**

For a Distribution Warehouse and Representative Office, the costs would be higher. But, the analysis would be somewhat different.

The fact that the warehouse/distribution facility would be selling a good part of its orders “ex-U.S. warehouse” would factor-in a higher sales price. And, many buyers understand and accept this economic fact - as it is a greater convenience to them.

Thus, working with the assumption that each  $\$25,000$  order represents a container-load of product, a factor of 10% can be added into the calculation, as this would represent an additional charge that could then be added to the selling price. Therefore, the sales target total would then be divided by  $\$27,500$  to come to the needed number of orders (or container-loads).

Each analysis is for a 5,000 square feet building with offices. The costs include the same as those for the representative office (though with a warehouse worker rather than a sales assistant), and also include other expenses, such as warehouse supplies and utilities (that are typically charged separate from rent) and additional labor costs.

The costs would be approximately:

- Major Large Cities -  $\$280,000/\text{year}$

- Medium Sized Cities -  $245,000/\text{year}$

- Industrial Areas -  $\$215,000/\text{year}$ .

To these costs, you can apply the same travel expenses, and do the same calculations for container load sales. Thus, to analyze this with the assumption that the warehouse would serve the entire U.S.A., with both sales and distribution, the orders needed to be generated are:

- Major Large Cities -  $\$280,000 + \$55,000 = \$335,000/\text{year}$ . The sales target would be  $\$3,350,000/\text{year}$ . Thus, the office would have to sell at about 122 container-loads per year (about 10 containers per month).

- Medium Sized Cities -  $\$245,000 + \$55,000 = \$300,000/\text{year}$ . The sales target would be  $\$3,000,000/\text{year}$ . Thus, the office would have to sell at about 110 container-loads per year (at least 9 containers per month).

- Industrial Areas -  $\$215,000 + \$55,000 = \$270,000/\text{year}$ . The sales target would be  $\$2,700,000/\text{year}$ . Thus, the office would have to sell at least 98 container-loads per year (about 8 containers per month)

### **Summary:**

It is important to note that in each situation, a company has to determine if 10% is an appropriate credit/commission to apply. As the office and warehouse would effectively be extensions of the company's facilities, a company should also credit an additional amount that would be representative of their own overhead costs. Otherwise, the representative office/warehouse will have an unfair burden placed on them.

So, even though I used a 10% credit in this analysis, a company should apply a factor most appropriate to their own situation.

Additionally, in the matter of analyzing the warehouse/distribution facility, I used a 10% price increase. But, here again, a company should apply the market price that would be most appropriate to their own product(s). Thus, the factor can be even greater.

I repeat again that these analyses are approximate, and are representative of the actual costs. Much depends on location within the areas itself, as rents differ even within geographic areas. Also, if the parent company itself does sufficient advertising and promotion, these costs for the representative office can be less or even eliminated.

There are many factors to analyze in the decision on whether to have only a sales office or to also have a warehouse/distribution center. The decision depends on the goals of the company and the benefits that each would have.

For instance, if the goal of the company is to primarily sell large orders with direct shipment to the buyers, and there are marketing benefits to a more centralized location, then a sales office in a major city can achieve that goal.

Though, in product marketplaces there are benefits to having product locally available to the buyers. As I mentioned, is a great economic convenience to the buyers when a supplier has product ready to deliver from a domestic warehouse. It also allows the supplier to expand sales greatly, as they can then sell to those buyers that can not normally buy an entire container-load of product.

Either way, having a presence in a target marketplace helps to increase sales for a supplier.

**Note:**

As I mentioned, I based the costs for salaries, rents, utilities and insurance on the typical costs in the 3 locations. Whereas, for the other expenses, I applied the same expenses for all locations.

Should anyone require more detailed information, please contact me and I will work with you to accommodate your needs.