A Guide to Distributor Terms of Engagement

This document reflects AICPDF's recommended framework for ensuring equitable and transparent engagement between distributors and companies. It is meant to protect the rights of distributors across India and encourage best practices that respect the contribution of traditional trade in the FMCG ecosystem.

This document covers:

- Distributor-led credit policy and financial risk clarity.
- Strict prohibition on direct incentives to distributor staff.
- Mandated adherence to PO specifications and shelf life norms.
- Company's obligation to accept expired or unsold stock at original terms.
- Exit protocols to ensure complete financial closure.
- Long-term indemnity for tax-related risks created by the principal company.

Standard distribution agreements often prioritize the company's interests, with limited flexibility to reflect the practical realities of distributors. To address this, the terms outlined below capture the mutual commitments and understandings established through direct discussions with the company's sales team. These terms are formalized to ensure clarity, alignment, and a collaborative partnership. By proceeding with this agreement, both parties confirm their commitment to the mutually agreed terms, fostering a transparent and equitable working relationship.

Distributors are encouraged to use this as a base reference agreement with companies.

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1. Market Credit Policy

Credit extended to market customers shall be a discretionary facility provided solely by the Distributor, who bears the entire financial risk associated with such credit. The Distributor shall have exclusive authority to assess and determine the creditworthiness of any customer based on its independent judgment, market intelligence, customer conduct, and historical payment behavior across all product categories.

The Company and its representatives shall not, under any circumstances, make commitments, representations, or enter into discussions with customers regarding credit terms. Company sales personnel shall inform all new customers that initial transactions will be conducted strictly on an advance or payment-on-delivery basis, pending credit evaluation by the Distributor.

Company personnel shall not collect payments in any form from market customers. Furthermore, the Company shall abstain from influencing, directing, or interfering in the Distributor's credit decisions. Any concerns or observations regarding a customer's payment behavior or creditworthiness shall be communicated directly and confidentially to the Distributor and never in the presence of the customer.

2. <u>Prohibition on Direct Incentives to Distributor Personnel</u>

The Company and its representatives shall not, under any circumstances, offer or provide any direct cash, incentive, gift, or other form of benefit—monetary or otherwise—to any employee, agent, or representative of the Distributor. Any such act shall be deemed an attempt to secure undue advantage and will be treated as a breach of this Agreement and as an act of commercial bribery.

All incentives, benefits, or performance-linked rewards intended for distributor personnel must be communicated to and disbursed through the Distributor entity only. Any onward distribution to individual employees of the Distributor shall be at the sole discretion of the Distributor and in accordance with mutually agreed terms and performance metrics, if any.

Violation of this clause shall entitle the Distributor to take appropriate remedial action, including but not limited to termination of the business relationship.

3. <u>Purchase Orders:</u>

a. The company agrees not to deliver stocks exceeding the quantity specified in the Purchase Order (PO). The company agrees to deliver stocks as per the packaging, quality/grade, quantity, MRP, tax rates & price specified in the Purchase Order (PO). Any goods in deviation of the PO specifications will be rejected. In case such goods are accepted, they shall remain at the distributor's premises at company's own risk and may lead to delayed or rejected payments.

b. Any changes to the PO, by either party, must be communicated in writing via email. Verbal commitments or changes to the PO will not be entertained. The company is required to obtain a revised PO via email. The Distributor (buyer) shall not be liable for any rejections or incurred freight and labor charges resulting from the supply of goods outside or in excess of the PO.

c. All products mentioned in the PO must have a minimum shelf life of 75%, unless otherwise agreed in writing based on the nature of the product (e.g., perishable or short-shelf-life goods or imported goods with long shelf life). Any exceptions to this requirement must be documented via email approval from the Distributor prior to delivery.. Goods with shelf life below 75% may be returned at a later date. The Distributor bears no responsibility for the sale of such goods.

d. Any exceptions to these terms require written approval from the Distributor.The responsibility of maintaining and producing the written approvals lies with the company.

4. Return & Expiry

Both parties acknowledge that various factors influencing the sale and consumption of the product, including but not limited to pricing, marketing, promotions, packaging, product quality, and value proposition, primarily rest with the company. In the event that the anticipated sales do not materialize or either party chooses to terminate the agreement, resulting in unsold or returned goods, the company agrees to accept the return of all goods, regardless of their condition, at the original purchase rate or higher as agreed in the settled commercials. This includes goods returned due to expiry or being past their best-before date, whether in saleable or unsaleable condition, with the exception of damages resulting from pest infestation or mishandling of goods at the Distributor's warehouse, which will not be subject to return or compensation.

Furthermore, the distributor shall adhere to the following good warehousing and reporting practices for the company to take timely decisions regarding unsold inventory:

1. Maintain the FEFO (First Expiry First Out) method during dispatches from the warehouse. Any exception by the distributor should be approved by the company. The company agrees that FEFO can effectively be maintained and reported by the distributor only if SKU wise manufacturing or expiry date or batches are mentioned in the purchase invoices. Responsibility to mention batch information or manufacturing / expiry date on purchase invoice lies with the company. The distributor cannot be held responsible for FEFO violation if the company invoices do not mention manufacturing or expiry date and product batches.

2. Provide regular stock and sales data to the company's sales team, with a preferred frequency of weekly updates.

5. Termination

While either party may choose to terminate this agreement, the termination process shall respect the operational and financial realities of the distributor. In case the company intends to terminate the agreement, it must provide a written notice of at least **60 (sixty) days** and the distributor shall be given sufficient time and support, extended on **mutual consent,** to recover any **unsecured market credit** extended in good faith under the brand's commercial operations.

If the distributor chooses to terminate the agreement, a written notice of **30 (thirty) days** shall be provided to the company.

In the event of termination, howsoever occasioned, from either party:

1. The company agrees to accept the return of all goods, regardless of their condition, at the original purchase rate or higher as agreed in the settled commercials. This includes goods returned due to expiry or being past their best-before date, whether in saleable or unsaleable condition, with the exception of damages resulting from pest infestation or mishandling of goods at the Distributor's warehouse, which will not be subject to return or compensation.

2. The Distributor shall immediately return all the Company's confidential information, equipment, materials and all intellectual property lying with the distributor.
3. The Distributor shall return to the company within 30 (thirty) days all samples, plans, documents, advertising material, specifications or other information relating to the products bearing the name of the company.
4. The distributor shall remove and not use any further, any signage, advertising and any other material that contains the name and logo of the company.
5. Neither party has any liability or responsibility for compensation, reimbursement, market settlement, indemnification or damages on account of the loss of prospective business or on account of expenditures, investment, leases or commitments made under this agreement in any manner whatsoever.

6. <u>Settlement of Dues</u>

Upon termination or completion of this Agreement, each party shall be responsible for settling all outstanding dues or payables to the other party. Both parties agree to reach a full and final settlement within 30 days of termination, ensuring that all accounts are reconciled and all amounts owed are paid in full.

This includes, but is not limited to, payment of all invoices, reimbursement of expenses, and settlement of any other financial obligations. Failure to reach a settlement within the specified timeframe may result in additional charges, interest, or legal action, as applicable.

7. <u>Indemnification of Tax Liability</u>

The Company agrees to indemnify and hold harmless the Distributor, its officers, directors, employees, and agents, from and against any and all claims, demands, actions, losses, damages, and expenses (including legal fees) arising out of or related to any tax liability, including but not limited to GST tax slab misclassification or HSN category misclassification, that may be imposed on the Distributor during the course of business and after the termination of this Agreement.

This indemnification shall survive the termination of this Agreement and shall remain in effect for a period of 7 (seven) years from the date of termination.

The Company shall be responsible for any tax liability, including but not limited to GST tax slab misclassification or HSN category misclassification, and shall reimburse the Distributor for any amounts paid by the Distributor in connection with such tax liability.

Conclusion

This document outlines essential terms to protect the interests of distributors while fostering fair, transparent, and accountable partnerships with companies. Every clause is grounded in operational realities and years of collective distributor experience across markets.

We have intentionally kept the terms minimal and practical to ensure wide applicability and **minimum interference with existing agreements**. The objective is not to create friction, but to bring clarity, structure, and mutual respect into day-to-day business dealings.

Distributors are encouraged to use this as a reference framework—whether for entering new partnerships or formalizing ongoing ones—while ensuring alignment with AICPDF’s principles of equity, risk recognition, and commercial discipline.

These terms promote trust, reduce ambiguity, and minimize the potential for conflict—ensuring that both parties can focus on growth, execution, and long-term value creation.

A fair system benefits not just the trade—but the entire FMCG ecosystem that depends on it.