9 Route to Market Options

You have choices about the route to market you take.

Your decision about the right route for you will need to be based upon two things:

- Your research into how any specific geographical market operates in practice. Where do your potential customers expect to buy from?
- Your own resources. Some options require higher levels of initial investment/on-going management than others.

The following module offers a deeper insight into this topic:

Your Route to Market

You can find it either in the SavvyAcademy or in the 'Access Markets' area of 'Create Your Plan'.

Information you complete as part of the Module will be automatically entered into your Plan. The more modules you complete, the more your Plan will build.

Your principal options as a product-based company are:

- Agent
- Distributor
- Direct sale
- E-commerce
- Joint Venture
- Franchise
- Licence
- Value-added reseller
- Own office or subsidiary

If you are a **service company** the above are all still options for you with the exception of distributor (by definition a distributor handles goods) In some industries different terms apply for slightly different functions. In the software business, for example, the term 'reseller' is used for an organisation distributing on behalf of the Principal and 'integrators' have a similar function to OEMs).

Agents

An agent negotiates sales on your behalf and earns a commission. Your product/service is delivered directly to the customer. Some agents may offer spares or servicing facilities. Some agents will hold stock on your behalf.

Advantages

- A market presence for minimum cost
- May have complementary products
- The right agent will know the market and will already be working with potential target customers so results can be fast
- Helps overcome language issues
- You are in direct contact with your customers – you get direct experience of their needs and requirements

Disadvantages

- May carry too many lines
- Will lose interest if sales don't come quickly
- Can lack commitment to you and your company
- If the market has real potential this may not be the best route
- As sales develop you may prefer your own office
- You carry the stock and the costs and risks of invoicing
- Relationships can be difficult to get out of in some countries

Tips

- *Get legal advice on your contractual commitments (especially EU and Arab states), agree clear targets and monitor regularly.*
- *Plan a strategy that ensures you are 'first out of the bag'.*

Distributors

A distributor buys products from you and sells them to their customers. Distributors may be sole, exclusive (even the Principal is debarred) or non-exclusive.

Advantages

- Understand the market, local customs and legal issues
- Will bear the currency risk
- If they speak good English you will mitigate language problems
- If they have a good reputation in their own right, their brand will support your brand
- Provide warehousing, local after-sales service and support

- You deal with just one customer. They carry the credit risk of the end-users

Disdvantages

- Will probably want exclusivity. An agreement may lock you in even if things go wrong.
- You are a step removed from your end-users and will be reliant on the market understanding of your distributor
- May position your product differently to your ideal
- May want to control the brand completely
- Will require a significant margin

Tips

- *Only offer exclusivity after performance is proven*
- *Agree clear targets and monitor regularly*
- *Build trust and ask for visits to end users*

Direct Sales

You identify, sell to, supply to and service customers from your UK base. You may use website, catalogue and/or telesales as part of your process. If you have UK customers who are part of a multi-national you may 'piggyback' to customers abroad.

Advantages

- You exercise the level of control you are used to in the UK
- You are directly exposed to the market-place and should get a better understanding of it
- You develop relationships with your customers

Disadvantages

- Getting the right skills in place in your business can be difficult, risky and expensive
- You carry all the cost and effort of marketing
- You have to keep track of more than one market-place
- Travel is costly in terms of money and time
- There are personal implications in time spent overseas

Tips

- *Carefully assess the real costs of this option, including the cost of (eventually) appointing staff or representatives in country*
- *Take account of the service limitations and logistical issues this option may impose*

- *Take account of additional administration and management costs*

E-Commerce

You service clients directly from your e-commerce website.

Advantages

- Easy exposure to an international audience
- You exercise a very high level of control
- You are directly exposed to the marketplace
- A wider market for your niche offering

Disadvantages

- You need to understand and deal with VAT issues
- You carry all proactive marketing costs
- You have to keep track of more than one marketplace
- Market penetration will require local marketing

Tips: Think through your longer-term objectives. Are there territories you want to focus on and penetrate? Will you eventually need an in-market partner?

Joint Ventures

Joint ventures can take many forms from a formally constituted JV company (usually owned 50/50) to an informal strategic alliance.

Advantages

- Brings market, knowledge and technical skills together in a powerful way
- Clear up-front investment ensures commitment from both parties
- Clear jointly agreed objectives are supported by jointly agreed resource allocation
- Brand issues often well-managed (sometimes through a third brand)
- Customer access is shared so access issues are managed
- A positive statement to the market-place

Disadvantages

- JVs often have a limited life-span and this needs to be recognised
- Needs up-front resource investment
- Cultural issues can be difficult to manage
- Intellectual Property (IP) issues can be difficult to manage

- Partners may develop a different agenda
- Shareholding structure can be an obstacle

Tips

- *Be very clear about objectives*
- *Be very clear about IP ownership*
- *Recognise problems early and communicate/negotiate*
- *Understand your exit strategy*

Strategic Alliances

You develop a relationship with one or more businesses and work together to achieve strategic objectives which would otherwise not be possible.

Advantages

- Access to local organisation
- Local credibility by association
- Access to local customer base
- Increased capacity
- Access to specialist skill-sets allow you to focus on core competencies

Disadvantages

- Could create a potential competitor
- IP can be an issue
- Roles and balance of power can be an issue

Tips:

- *ensure all parties perceive clear benefits from the alliance.*
- *work to keep communication open and clear*
- *plan roles and responsibilities carefully (including targets)*

Licensing/Franchising

These terms cover a wide range of agreements relating to the sale or leasing of industrial or commercial expertise in exchange for an agreed form of remuneration (usually an up-front payment and a royalty based on sales).

Advantages

- New products can be exploited quickly. Minimises competitive threat, especially where product protection is an issue.
- Fast expansion of the brand (franchising)
- Allows you to increase production without strain on your UK resource
- Effective when significant product modification is required
- Effective where UK production costs or transport costs are high
- Access to high tariff markets
- Little capital investment
- Low penalties for failure
- Local partner uses contacts to create market

Disadvantages

- Control of your know-how is weakened
- Competition from licencee when contract expires
- Quality control may be an issue
- Returns may appear low compared to more traditional routes

Tips
Go for a large up-front payment and a lower on-going royalty to reduce risk

Own office/subsidiary company

You set up a separate organisation overseas. This may be owned by your UK company or you set up a differently owned company.

Advantages

- Control
- Know-how kept in-house
- Focus
- Positive market message and image (home and abroad)
- Learn about the market-place

Disadvantages

- High initial costs
- Risk – steep learning curve
- Writing off initial losses may be difficult
- Need to understand market legal and regulatory framework
- Risk of aggressive MBO (service businesses)
- Can expose UK business to liability and other risk if UK company is owner

Tips

- *If the market is very attractive don't dismiss this out of hand. In the longer term it may pay real dividends*
- *Understand the tax implications of trading under a different regime*

Links

- **International Market Research** – Find the right market information through desk research or via in-country experts;
- **Do business outside Scotland** – Looking to widen your product or service distribution? Get free support and guidance to take your business global.