Ways to Enter a New Market

You know the market you want to target and have a clear idea of its potential. Your next step is deciding on the channel by which your product will reach the customer. How you enter a market is a strategic decision that will define the very nature of your business there. There are two choices – sell directly or have someone sell for you. Your decision will be guided by resources, opportunity and the nature of your offering. A software company, for example, may find it natural to sell directly to the customer, while a manufacturer of farm machinery will find a distributor the obvious choice.

1. Agents and distributors

Companies eager to expand abroad want to hit the ground running and the cost of using a distributor is generally far less than operating a direct sales force. However, the payoff is ceding control of your brand to someone else and sharing some of your profits. Your distributor selection, contract negotiation, and management of your on-going relationship will be critical to how it performs in the market. In our experience, companies should sell directly to one or two customers before they engage sales and marketing partner and they can then use those customers to guide them to the right partner.

Finding the right distributor – a checklist

- How should you research potential distributors and agents?
  The simple answer is very thoroughly. Consider getting 30 agents' names in your sector, and have a list of questions that allows you to narrow them down to five.
- Are you looking in the right place?
  Look for an agent in your specific category. In some categories, such as software or engineering, a systems integrator may be the effective distributor in your chosen market.
- Use your contacts – is there a company you know or have worked with that is successful in this market? Ask them who they do business with and who they find reputable.
- Understand what your offer is – what value do you bring to an agent? Do you need to localise your product or service? How much margin can you afford to give away?
- Is there agreement on credit – are your terms acceptable to the agent? Will a letter of credit be required and accepted by the agent and for what percentage? What credit insurance should you look for and is it available?
- Understand what they offer – how will the agent promote your products? Who will be working directly with your products in the market? How much they will sell your products for, and what margin they are going to take?
- Who are you sharing the shelf with? Establish what competing products your distributor sells. How will they position your product – as the best in class or the cheapest in stock?
- Are you ready to collaborate? What resources will you need to give to support your product technically and commercially? What resources will the agent commit?
- Do you need to be realistic? Being the product of second choice isn't necessarily a deal breaker. It may be better than being the first choice of another distributor. What is important is clarity as you enter a relationship.

- Can you talk? It is important you share a common language with the distributor, not just at the top but at other key points, for example, in accounts and technical support.
- Have you taken legal and professional advice? What happens if the agreement needs to be renegotiated or terminated? Very strong legislation in for example Europe protects the interests of commercial agents, meaning you should be professionally advised and fully aware of the implications of signing a contract.

Think creatively about how you can identify credible agents and distributors in your sector. For example, does your industry body have links with organisations in your exporting country; can you search for an agent or distributor using LinkedIn.

Key things to remember
Your channel is not an add-on to the business model; it is a fundamental part of it. You can change your price with a phone call, but changing your channel could take years.
There will always be a certain tension in the manufacturer/distributor relationship. The manufacturer wants the distributor to sell their product; whereas the distributor wants maximum return on their transactions. Can you find a way to put your product at the heart of their increased profitability?

Avoid the scenario many companies have run into: You encounter a 'good' distributor at a trade show, and appoint him to represent the market. A year later, someone bigger and better comes along who can service this market along with others. Now, with two distributors, you find yourself using valuable management time to settle territorial disputes.

2. Getting started on the ground
In most markets, there comes a tipping point: if you want to grow sales beyond a certain level, you need someone on the ground to look after that market. There are three different types of structures that can be used to set up abroad:

- A representative/sales office
- A branch
- A subsidiary

The type you choose will depend on your commercial requirements and the taxation treatment of the different structures. More fundamentally, it should be informed by your company's business plan, answering the question 'what do I need to build share in this market?'

Having employees overseas will mean tax, social insurance and possibly visa requirements to be fulfilled, not to mention repatriation of profits, exit mechanisms and indirect and miscellaneous tax considerations. Depending on location, exchange risk may also become significant. View foreign exchange as a risk factor to be managed rather than an opportunity to speculate.
Proper planning at the outset will ensure your management time is freed up to concentrate on growing the business rather than dealing with red tape.

Setting up abroad is, in many ways, similar to setting up an entirely new business. As such, it is vital to know the real and complete cost of the operation so as to get a clear focus on return on investment and the funding requirement. In the preparation stage, ensuring access to twice as much cash as the expansion plan calls for is not a bad rule of thumb.

"Always over-estimate rather than under-estimate your costs. You are probably going to have to work on tighter margins to get your first customers, and you just don't know what's coming around the corner, so you should always have a contingency factor in there for emergencies."

Hiring overseas

The first person you have on board will often be make or break for you – the person who either builds the brand reputation, wins sales and attracts further colleagues…or doesn't.

Don't presume that a job spec in the new market will be the same as in your domestic market. If you're recruiting in a different language, salary, and education zone, you have to take all these factors into consideration, as well as local employment laws and culture. In Germany, for example, it is considered highly unethical to check personal references without informing the candidate first.

The chances are the person with the right skill-set, traits, contact-book and experience won't come cheap. But the cost of hiring the wrong person could be an awful lot higher.

Sales process

A formal sales process is particularly useful where managing a new team from a distance. Managing and gathering metrics on the 'sales pipeline' of your new market involves four elements:

1. Lead generation/opportunity identification
2. Initial engagement
3. The proposal or design stage
4. The delivery and close stage

The simple underlying principle is that your sales team needs to have enough prospects at each stage of the pipeline to hit your targets all the time. A formal sales process will help answer key questions on the measurement of sales performance and provide sales people with the tools they need to optimize their reporting, planning, and executing capabilities.

Psychometric testing could be useful at the recruitment phase. "They are cheap, incredibly accurate and impossible to trick. They rarely lead towards someone hiring someone you were not enthused about. However, they can detect candidates that hide deficiencies through the review process".

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