APEC: GROWING INDIGENOUS BUSINESSES THROUGH TRADE (PHASE 3)

2024

Market entry strategies

FACTSHEET

The 4 Key Market Entry Strategies

1. Indirect Market Entry Strategies:

- ☐ Businesses may start to indirectly enter an overseas market through using third-party e-Commerce platforms (I.e. Amazon, Lazada or Tmall Global).
- ☐ Most commonly, businesses will use **agents and distributors** as they tend to have strong industry relationships and knowledge.
- ☐ Agents and distributors act as the middle person of international transaction between the exporter as the seller and clients as the end user.
- ☐ Choosing an agent or distributor:
  - When choosing an agent or a distributor, exporters need to ensure that they can build high levels of trust and strong communication with that person.
  - Exporters need to keep in mind that they rely on their representative's local knowledge and contacts to win business in the market.
  - A trial period may be a good starting point, after which the exporter can assess the success of the relationship and then put in place a longer-term agreement.
  - Exporters should carefully consider whether an exclusive basis works for them. This would mean that the agent or distributor has the sole right to sell a product or service within a defined territory. If an exporter decides to move forward on such terms, it is highly recommended that they have strong KPIs in place that must be met over a set time period.
  - Before choosing any overseas partner, exporters should undertake a rigorous due-diligence process and speak with a range of potential buyers and you at Austrade.

- [ ] Some key differences between agents and distributors:
  - Agents don't take ownership of the goods, distributors do (through buying the goods).
  - Agents are generally paid a commission of sales value generated; distributors work on a distributor margin (higher than an agent commission).
  - Agents provide information on local pricing with the exporter setting the final price, distributors set the price themselves.
- [ ] Indirect market entry strategies are best suited for businesses with no or very limited experience in a chosen overseas market.

2. Contractual Market Entry Strategies:

- [ ] A business can use a variety of contracts such as **licensing and franchising** to enter an overseas market.
- [ ] Licensing grants another individual or a company the exclusive right to use the exporter's IP for a specific period of time.
  - Licensing can be attractive to exporters as there are no development costs nor risks associated with market entry.
  - Licensing may be unattractive to exporters as there is a lack of control and the risk of appropriation, meaning that the licensee could violate contractual relationships and steal the exporter's IP.
  - Exporters should seek out legal advice to gain a better understanding of how to best protect their IP.
- [ ] Franchising allows a third party to purchase the right to market and distribute the franchisor's products and/or service, plus use their business name.
  - Franchising can be attractive to exporters as it allows them to quickly build a global presence without the risks of opening up a foreign market themselves.
  - Franchising may be unattractive to exporters as it can be difficult for them to detect any quality issues or concerns, potentially negatively affecting their domestic operations and public image.
  - Exporters must also remember that they will have continued obligations to the franchisee.
- [ ] Contractual market entry strategies are best suited for businesses that do not want to commit to substantial resources abroad yet are willing to share their IP.

3. Investment Entry Strategies:

- [ ] Investment entry strategies include **partnerships and joint ventures** (JVs). Investment entry strategy options are greatly dependent on the export market as countries have differing levels of foreign investment allowances.
- [ ] Partnerships explain a business structure that involves several people who carry on a business together. A partnership is not a separate legal entity, so the exporter and its partners are liable for all the business's debts and obligations.
  - Businesses can benefit from their local partner's knowledge, experience, and networks.
  - Often, partnerships end due to underperforming results with partners having been too optimistic about their potential value creation.

- ☐ JV is an alliance between two or more people or businesses for the purpose of a single project rather than a continuing business. With JVs, a new legal entity is created with new IP and supply chain needs.
  - JVs are often used to reduce the political barriers of a foreign market through partnering with a domestic company.
  - Risks of losing control and say if goals and objectives change over time. 60-70% of JVs fail because of shared ownership conflicts.
- ☐ Investment entry strategies are best suited for businesses that want to operate in a chosen market together with another firm through sharing their costs, risks, and profits.

4. Direct Export Strategies:

- ☐ Businesses may start to **directly enter a market** through selling their offerings via their own website. Often, setting up a foreign firm in that market comes as the logical next step once a business's confidence in and knowledge of a market has grown.
- ☐ Exporters may initially begin to enter the market through one of the previously mentioned entry strategies before they decide to open their own firm. Setting up a foreign firm involves the most risk, resources, and commitment from the Australian business.
- ☐ Benefits of setting up a foreign firm:
  - By owning resources within the market, exporters have more control over the supply chain and delivery of goods and services.
  - Exporters may wish to set up their own legal entity to reduce some of the transaction costs they would have when using third parties such as agents or distributors. Through internalizing some of these activities, no more margins or commissions would have to be paid.
- ☐ Exporters must be aware that the option of setting up in a new market is completely dependent on the regulatory framework present in that market. They may not have the choice of setting up their foreign business as a non-citizen, even if they wanted to.
- ☐ Direct export strategies are best suited for businesses that seek to have the most control over their business in the chosen market.