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International Market Entry Options for Exporters

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New Zealand exporters entering overseas markets can use a number of legal structures, each of which involves different legal and tax issues.

Take the example of a company that owns a product technology and brand. It wants to sell products globally under this brand as well as possibly manufacture in overseas markets through the use of contract manufacturers, third party licensing arrangements or joint ventures.

Possible market entry structures for selling offshore include:

- Distributor/reseller.
- Agency.
- Joint venture.
- Wholly-owned subsidiary.
- Branch.
- Licence.

Manufacturing options when selling offshore include:

- Manufacturing products in New Zealand and exporting products to overseas markets.
- Using contract manufacturers in market.
- Manufacturing in offshore markets or through a subsidiary or joint venture.

'Weightless economy' businesses such as software companies, software-as-a-service (SaaS) providers and other web-based businesses do not need to worry about physically getting their products to markets, but may still require in-market sales channels in order to reach target customers.

The key characteristics, and positive and negative attributes of these models, is outlined below.

Distributor/reseller

Key legal characteristics

- Independent entity.
- Distributor/reseller buys product from exporter and sells product in its own market as principal.
- Takes the credit risk on product sales in market.
- Generally sets product prices and controls the sales, marketing and distribution in market.
- Generally responsible for importing the goods into the market.
- Makes its money through making a margin on the sale of the products.
- Generally bears most of the advertising and promotional costs, although this varies from arrangement to arrangement.
- Subject to any warranties that may be given by the exporter, is fully liable for its operations in the market.
- Generally keeps most of its customer details to itself.

Positives

- Most common form of export structure worldwide therefore is easily understood by all.
- Relatively simple to set up.
- Low cost and risk.
- Tax efficient structure.

Negatives

- Very good performance is often difficult to achieve.
- Exporter has very little control over how its products are promoted in the market and the pricing model used.
- The exporter does not get to know the market or the customers.
- The relationship between the exporter and distributor is often hard to manage because of separate ownership, differing interests, cultural and geographic separation and often language.

Other considerations

- Although many distributors/resellers will ask for it, try to avoid exclusive arrangements wherever possible. If the distributor/reseller is pushing for exclusivity, at the very least have a reasonable initial trial period and include minimum performance requirements.
- Choose your distributor/reseller carefully. In strategic markets this is absolutely vital.
- Distributors sell to retailers, wholesalers and/or resellers, whereas resellers generally sell directly to end customers. The more steps between the exporter and the end customer, the less the exporter is able to control how its products and brand are portrayed to end customers. Consider retaining approval rights, and having minimum requirements, for each step in the chain.
- For software companies, the licence agreement with the company will often be entered into directly with the