The Myth of Establishing a New Location: Why Individual Market Contacts Do Not Guarantee Long-Term Potential

Why personal connections are valuable - but cannot replace a robust expansion strategy

By Kai Wichelmann, Senior Manager at DTO

A personal contact, a promising distribution partner, or an initial customer order can quickly create the impression that establishing a new location is already backed by a solid market opportunity. Especially among mid-sized companies, expansion decisions are often influenced by specific individual opportunities. However, good access to a market does not necessarily mean that a viable market exists. A new location only becomes sustainable when demand, the competitive environment, operational requirements, and strategic objectives are aligned.

The First Contact Is a Door Opener, Not a Business Model

A local contact can provide valuable market knowledge, build trust, and facilitate market entry. However, problems arise when that person's assessment is taken as representative of the market as a whole. Individual contacts usually view opportunities from their own perspective. They may overestimate demand, generalize regional characteristics, or pursue their own interests. Therefore, neither positive feedback nor a single customer project is sufficient to justify the establishment of a new location.

Sustainable Potential Requires Systematic Validation

Before establishing a new location, companies should determine the actual size of the addressable market segment, identify which customer groups have a specific need, and understand how purchasing decisions are made. Equally important are price levels, distribution channels, regulatory requirements, the availability of skilled labor, logistics, and local competitors. Only by combining quantitative market data with qualitative interviews can companies determine whether an initial contact reflects repeatable market demand or merely represents an isolated opportunity.

Dependence on individual people must also be assessed. What happens if the contact leaves the company, priorities change, or the expected follow-up orders fail to materialize? A sustainable location requires multiple routes to market, a realistic sales pipeline, and a value proposition that is compelling independently of personal relationships.

Contacts can accelerate market entry. However, they cannot replace a thorough market analysis or a scalable market access model.

Viewing the Establishment of a New Location as a Strategic Investment

The decision to establish a new location should not be based solely on expectations of additional revenue. It also involves long-term costs, management effort, processes, personnel, and brand positioning. A phased approach is therefore advisable: first, the market potential should be validated. Customer and partner discussions should then be evaluated systematically. Pilot projects, a temporary sales office, or a partnership can help test key assumptions before permanent structures are established.

The key takeaway is clear: long-term potential exists where several independent signals confirm the same market opportunity and the company has a scalable market access model.

FAQs

When can an individual contact still be valuable?

When the contact serves as a starting point for further interviews, referrals, and pilot projects. The key is to validate their statements through additional market perspectives and data.

What minimum information should be available before establishing a new location?

Companies need a realistic assessment of market size, clearly defined target customers, an understanding of competitors and market entry barriers, as well as a robust assessment of costs, staffing requirements, and sales opportunities.

How can the risk be reduced?

By applying a phased market entry model with clearly defined milestones. A permanent location should only be established once demand, the sales pipeline, and operational feasibility have been validated.

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Kai has been working at DTO as a Senior Manager since 2015. With a degree in Business Psychology, he specializes in project management and the long-term implementation of strategies for mid-sized companies. His expertise includes advising companies on brand and image analysis as well as developing digitalization and sustainability strategies aimed at strengthening competitiveness and supporting sustainable growth.