

Go-to-market strategy

What is a route to market?

A route to market is the mix of direct and indirect channels a firm uses to reach a set of customers, the revenue each carries and the work each does.

Author	Published	Reading time	Words
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Management summary A route to market is the combination of direct and indirect channels a firm uses to reach and serve a defined set of customers, the share of revenue each carries, and which tasks each performs. This concept guide separates the route from a single distribution channel, reports what a review of channel research says about when firms sell direct, and what its author, from experience, advises on dividing channel functions (Frazier), sets out a German survey's finding that which way of governing sales partners paid off depended on the channel mix (Homburg, Vomberg and Muehlhaeuser), adds the pressure of channel multiplicity (Van Bruggen and colleagues), and gives a one-page record for writing a route down by customer segment and product line.

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What is a route to market?

§ 1 of 8

A route to market is the combination of direct and indirect channels a firm uses to reach and serve a defined set of customers, the share of revenue each channel carries, and the functions each performs. The phrase comes from the channel literature, where it usually names each channel rather than the set: Van Bruggen et al. (2010)³ open with “Advances in information technology and changing customer needs for channel service outputs have dramatically affected the routes to markets in many industries.” Later they write that manufacturers “will need to manage a more diverse portfolio of routes-to-market”.

³ Van Bruggen, G. H., Antia, K. D., Jap, S. D., Reinartz, W. J., & Pallas, F. (2010). Managing marketing channel multiplicity. *Journal of Service Research*, 13(3), 331-340.

Homburg et al. (2020)² give the design dimensions. Studying B2B multichannel sales systems, “the authors introduce direct and indirect channel usage as focal design dimensions of multichannel sales systems”, and they define channel usage by two dimensions, which they combine in one entropy measure: “channel usage considers both the number of channels employed (variety dimension) and the relative revenue contribution (intensity dimension)”. Frazier (1999)¹ adds what each channel is for: “Channel functions reflect the job tasks (e.g., lead generation, installation, customer training) that must be performed within the distribution channel.” In his words, “They represent the basic building blocks of any distribution channel.”

¹ Frazier, G. L. (1999). Organizing and managing channels of distribution. *Journal of the Academy of Marketing Science*, 27(2), 226-240.

² Homburg, C., Vomberg, A., & Muehlhaeuser, S. (2020). Design and governance of multichannel sales systems: Financial performance consequences in business-to-business markets. *Journal of Marketing Research*, 57(6), 1113-1134.

In this guide the route to market is that portfolio as it serves one set of customers, and a channel is one route in it. Two firms can use the same channels and still run different routes.

How is a route to market different from a distribution channel?

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A distribution channel is one route; the route to market is the set of routes and the division of work among them. Frazier (1999)¹ shows why the difference matters by giving two ways to define a multiple channel. The first counts any case “when more than one pipeline is used to sell and distribute the same product line”, as when “a manufacturer uses a direct channel to sell to large customers and an indirect channel to sell to small to medium-sized customers.” The second applies “when more than one primary channel is used to sell the same product line to the same target market.” He preferred the second, and noted that some intrabrand competition exists even under the first, because intermediaries meant for smaller customers “sometimes venture in and attempt to do business with large customers.”

The first splits customers by segment; the second sends two channels after the same customers. Frazier did not treat that overlap as a defect in itself. He asked “what percentage of a firm’s potential transactions with customers should be in conflict”, since with none “market coverage and sales revenues may be sacrificed unnecessarily”, while too much overlap, he expected, would confuse and irritate customers. A route written by customer segment makes the chosen overlap visible. The [go-to-market essay](#) treats the wider allocation of capacity across opportunity, route and service; this page treats the routes themselves and the division of work among them.

When do firms sell direct, and when through partners?

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The research Frazier (1999)¹ reviewed points to specialised investment, hard-to-judge performance and scale. “Integrated channels (i.e., direct channels) appear to be facilitated to the extent that specialized investments are required to consummate transactions and performance ambiguity is high”, and, from the scale-economies studies, “the higher the sales volume of a product line or business, the more firms rely on integrated channels”. The evidence on uncertainty was mixed: “The effects of environmental uncertainty are less clear.”

He adds his own expectation about the deciding factor: “the fundamental determinant of channel integration will, in all likelihood, be the average order size from individual customers”, because “Small to moderate-sized customers cannot be economically served by traditional direct channels because selling and operational costs would surpass the revenues.” He also reports manufacturers that “are using

both direct and indirect channels to serve their largest original-equipment manufacturer (OEM) customers”, so the “traditional wisdom that intermediaries like distributors should only be used to serve smaller sized customers is being transformed”. And he notes that research on this decision had stalled: “Unfortunately, little has been done as of late to promote our understanding of the channel integration decision.”

Most B2B manufacturers sell through at least one indirect channel. Homburg et al. (2020)² write: “Of the different sales channels that B2B companies (principal) employ, at least one is an indirect channel (agent) (e.g., dealers, external online shops). This is the case for most”, almost 80%, of B2B manufacturers in the CMO Survey of 2019 that they cite. Their own sample was drawn only from firms with at least one indirect channel, and those firms used two direct and two indirect channels on average. Frazier saw the trend two decades earlier: “The use of multiple channels of distribution is now becoming the rule rather than the exception”. Multiple channels “potentially increase the firm’s penetration level and raise entry barriers”, but “intradbrand competition and intrachannel conflict may become major problems”.

Who does what in a route?

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The manufacturer, its partners or both, function by function, and the research had not tested how to choose. Frazier (1999)¹ notes that some functions “may be performed only by the manufacturer”, others “solely by intermediaries”, and still others are split and shared, and he files function allocation among issues no major study had examined. His warning comes from experience: “In my experience, many manufacturers make channel role decisions very poorly”, and “Often, saving costs by off-loading as many functions as possible to downstream channel members is the key imperative.” Taken to an extreme, “such an approach will lead to dysfunctional channel conflict and poor sales; efficiency at the expense of effectiveness”.

He argues that keeping part of a function has a value that does not show in the cost line: “By performing at least some of a channel function itself, a firm can gain knowledge it would otherwise lack, while better monitoring channel member behaviors and performance.” His example is a manufacturer whose salespeople make some joint calls with distributor salespeople. He also says which part is still open: “Research is needed that examines, based on context, which functions are best shared between channel members.”

Why does governance have to match the route? § 5 of 8

Because, in the one study cited here, the same way of governing sales partners raised or lowered the manufacturer's returns depending on the channel mix. Homburg et al. (2020)² measured three mechanisms once per manufacturer, all aimed at its sales partners: written rules, the partners' need for the manufacturer's approval, and information exchange. In their words, "the same governance mechanism (e.g., formalization) can enhance manufacturer performance in one setting (e.g., aligned with indirect channel usage) but diminish manufacturer performance in the other (e.g., aligned with direct channel usage)." A separate survey of the manufacturers' sales partners suggests why: "Whereas direct channel usage predominantly lowers agency conflicts in terms of information asymmetry and sales partner moral hazard, indirect channel usage amplifies moral hazard concerns", and "Low to moderate levels of direct channel usage also reduce moral hazard concerns, whereas high levels increase moral hazard."

The authors' summary of the governance result: "formalization enhances performance outcomes for manufacturers in the case of indirect channel usage but diminishes performance in the case of direct channel usage", while "centralization and information exchange enhance outcomes of direct channel usage but diminish outcomes of indirect channel usage".

Figure 1 The same partner governance, opposite effects by channel mix

Formal rules for sales partners went with better outcomes as indirect channel usage rose and worse ones as direct usage rose. Centralization and information exchange did the reverse.

Governance of sales partners	With more direct channel usage	With more indirect channel usage
Formalization (written rules and procedures for partners)	Diminished performance outcomes	Enhanced performance outcomes
Centralization (partner decisions need the manufacturer's approval)	Enhanced performance outcomes	Diminished performance outcomes
Information exchange with sales partners	Enhanced performance outcomes	Diminished performance outcomes

Which way of governing partners paid off depended on the channel mix, so a change in the mix is a reason to review how partners are governed.

Source Homburg, Vomberg and Muehlhaeuser (2020), online-first PDF pp. 1, 13-14 (Table 5, N = 103 manufacturers) and 16: moderation of the link between the extent of direct or indirect channel usage and the manufacturer's EBIT over total assets in the following year, in a survey of B2B manufacturers compared with the German industry distribution. Each mechanism is measured once per manufacturer and concerns its sales partners (appendix, pp. 17-18). All six interactions are significant in the authors' main model, two at the 5% level and four at the 1% level; two lost significance under one alternative usage measure each (p. 16). Signs only. The final record is Journal of Marketing Research 57(6), 1113-1134.

Their conclusion: “The focal managerial implication is that managers must align the design of their multichannel sales systems with effective governance mechanisms.” Because routes change, “managers need to regularly reevaluate the appropriateness of their governance approaches”. The [essay on channel governance](#) takes the governance question further.

Read together, the sources treat a route as two decisions: which channels, and who does what in each. Governance is what the route then has to fit. Frazier (1999)¹ expected the impact of formalization and similar parts of channel structure to “vary across channel contexts” and called for “contingency frameworks”; Homburg et al. (2020) tested that alignment for the governance of sales partners.

How does channel multiplicity change the route?

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It makes the route the customer's as much as the firm's. Van Bruggen et al. (2010)³ describe customers who combine independent sources of information, sales and support, with "Customers' increasing demands for, and expectations of seamless transitions from information provision to transaction fulfillment to post-purchase service provision". They name the consequences for channel design and management: "a broadened view of products and services, channel leadership challenges, alterations in channel structure, and an expanded view of distribution intensity". The paper is conceptual; it proposes these consequences rather than measuring them.

Their central thesis is that "changes to channel structure are not necessarily a function of carefully planned deliberations, but rather, a response to market and customer evolution", and they argue that firms "are increasingly unable to control the channel structure" as new information-based organizations take over the job of providing information. A route record is a snapshot of a structure the firm only partly controls.

How do you write a route to market down?

§ 7 of 8

As one row per customer segment and product line that names the channels and their revenue shares, who performs each function, how sales partners are governed, and what would trigger a review. The fields follow the decisions above.

Figure 2 A route-to-market record

Write the customer segment and product line, the channels and their revenue shares, who does each function, how sales partners are governed, and the review trigger in separate fields.

Segment and product line	Channels and revenue share	Functions by channel	Partner governance	Review trigger
Which customers, by size, need or market, and which product lines?	Which direct and indirect channels serve them, and what revenue share each?	Who generates leads, sells, installs, trains and services, and which functions are shared?	How formal are partner rules, what needs approval, what information flows?	What change in mix, conflict or results would reopen the route?

A route that is not written by segment hides where channels overlap. Write the segment first, then decide how much overlap you want.

One row per segment and product line. A row that names two channels for the same customers records an overlap: Frazier held that with none, coverage and sales may be sacrificed unnecessarily, and that too much is likely to confuse and irritate customers.

Source Author's decision worksheet. The segment and product-line field follows Frazier (1999), pp. 232-233, on multiple channels by customer size and by product; the function field follows his function allocation, p. 235; the channel and revenue-share field follows the variety and intensity dimensions in Homburg, Vomberg and Muehlhaeuser (2020), online-first p. 1; the partner-governance and review fields follow their findings, online-first pp. 1, 14 and 17. The fields are reader inputs; no company data is supplied.

Whether an overlap helps or hurts results is not something one conflict score can settle; the [channel conflict essay](#) explains why a conflict review has to carry the measure and the performance object together. What the route costs and earns per channel is a separate calculation, which the [channel economics guide](#) sets out.

Where does the evidence on routes to market stop?

§ 8 of 8

At one survey, one review and one conceptual paper. Homburg et al. (2020)² surveyed B2B manufacturers with at least one indirect channel and compared their sample “with the relevant B2B industry distribution for Germany”. “We received usable responses from 519 manufacturers (a response rate of 18%).” “For 201 of the 499 remaining respondents, we obtained objective financial performance data”, and “We acquired matched sales partner data for 103 manufacturers”. The governance results in Figure 1 come from a regression on 103 manufacturers, with performance measured as “earnings before interest and taxes (EBIT) scaled by total assets” in the following year. The authors corrected for which firms supplied data and for the firms’ own choice of channels and governance, and a second method agreed. The design is still observational: two of the six effects lost significance under one alternative measure of channel usage each, and when the authors tested centralization against direct and indirect usage together, the result was not significant; for firms using both heavily, centralization showed no clear effect. The sales-partner results rest on 170 partner responses. Frazier’s¹ determinants come from a 1999 review of transaction-cost and scale-economies studies published between 1979 and 1990, and from his own expectation; his advice on dividing functions comes from his experience, in a section on issues no major study had tested, and he warned that one-shot studies struggle to show performance effects. Van Bruggen et al.³ are conceptual. None tests a change of route in a firm.

 End of essay

References

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How to cite this essay

Isoglu, S. (2026, October 18). What is a route to market? Sinan Isoglu. <https://isoglu.com/insights/journal/what-is-a-route-to-market/>
Online version: <https://isoglu.com/insights/journal/what-is-a-route-to-market/>

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