

NORDIC INNOVATION PUBLICATION 2012:09 // MAY 2012

Nordic opportunities in emerging markets

Status, challenges and room for action



Nordic opportunities in emerging markets

Status, challenges and room for action

Authors

Nordic Innovation

In co-operation with:

Dalberg Research

Købmagergade 45, DK-1150 Copenhagen, Denmark

www.dalbergresearch.com

Publisher

Nordic Innovation

Stensberggata 25, NO-0170 Oslo, Norway

www.nordicinnovation.org

Layout: Nordic Innovation/Gaute Rossnes

Production: Allkopi

Copies: 300

Cover photo: iStockphoto.com

Dalberg Research

Nordic Innovation publication 2012:09

ISBN 978-82-8277-024-8 (Print)

ISBN 978-82-8277-025-5

(URL: <http://www.nordicinnovation.org/publications>)

This publication can be downloaded free of charge as a pdf-file from www.nordicinnovation.org/publications.

Other Nordic Innovation publications are also freely available at the same web address.

Printed on environmentally friendly paper.

© Copyright Nordic Innovation, Oslo 2012. All rights reserved.

This publication includes material protected under copyright law, the copyright for which is held by Nordic Innovation or a third party. Material contained here may not be used for commercial purposes. The contents are the opinion of the writers concerned and do not represent the official Nordic Innovation position. Nordic Innovation bears no responsibility for any possible damage arising from the use of this material. The original source must be mentioned when quoting from this publication.



Table of content



The emerging market opportunity	4
Go to the BRICS and beyond!	5
Engage more with emerging markets	8
Challenges of emerging market entry	10
Seizing the emerging market opportunities	13
Appendix 1: Companies interviewed	14
Notes	15

The emerging market opportunity

Fast growing emerging economies represent great opportunities for Nordic businesses and constitute important arenas for economic growth of the Nordic countries. In order to seize the opportunities and turn them into growth and progress, companies and policy makers need to adopt a more innovative global mind set. This calls for a coordinated effort amongst the innovation and export agencies in the Nordic countries.

INSIGHTS ON NORDIC COMPANY INTERACTION WITH EMERGING MARKETS

A 'Nordic Emerging Market Study', was conducted for Nordic Innovation in the spring of 2011 by Dalberg Global Development Advisors. The purpose of the study was to provide an overview of the Nordic companies' presence in emerging markets; describe perceived barriers for market entry; and analyze the variety of existing support schemes. The investigated support mechanisms encompass public and private funding schemes and advisory services, which are available for companies looking to either enter or expand their presence in emerging markets.

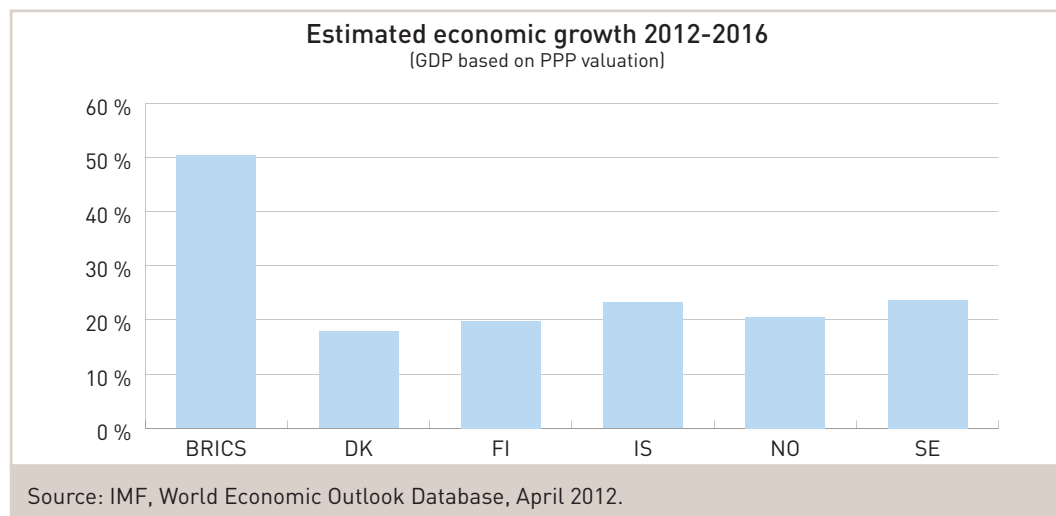
This report builds on an updated version of the 2011 study, which relied on an in-depth desk study and expert interviews with public and private organizations and 25 Nordic companies spanning from large corporations to SMEs.

Go to the BRICS and beyond!

Nordic economies are open and exports amounts to 35 - 50 % of their GDPs. The high degree of openness provides vast opportunities, but also presents high exposure towards fluctuations in the global economy. The fast changing dynamics of the global economy require Nordic companies to be able to adapt to changes in market conditions and exploit new opportunities as they emerge.

Over the past 5 years, almost 2/3 of the growth in the world economy can be attributed to the development in emerging markets. The high and stable growth rates in the BRICS have already attracted a substantial attention in the media. Growth rates in the next layer of fast growing markets are however equally impressive, and frontier markets in Asia, Africa and South America offer still improving market opportunities for Nordic companies.

Figure 1: Economic growth - Nordic countries and emerging market economies



In spite of this, only a small portion of the economic activity in the Nordic countries is focusing on the opportunities offered by the fast growing emerging markets. Nordic exports to these markets constitute a modest 3-10 % of total exports and investment flows¹ or less than 0.5 per cent of GDP. The low level of activity does not only indicate that Nordic companies are missing out on significant growth opportunities. It can also be seen as a sign of the challenges Nordic companies are facing when approaching emerging markets.

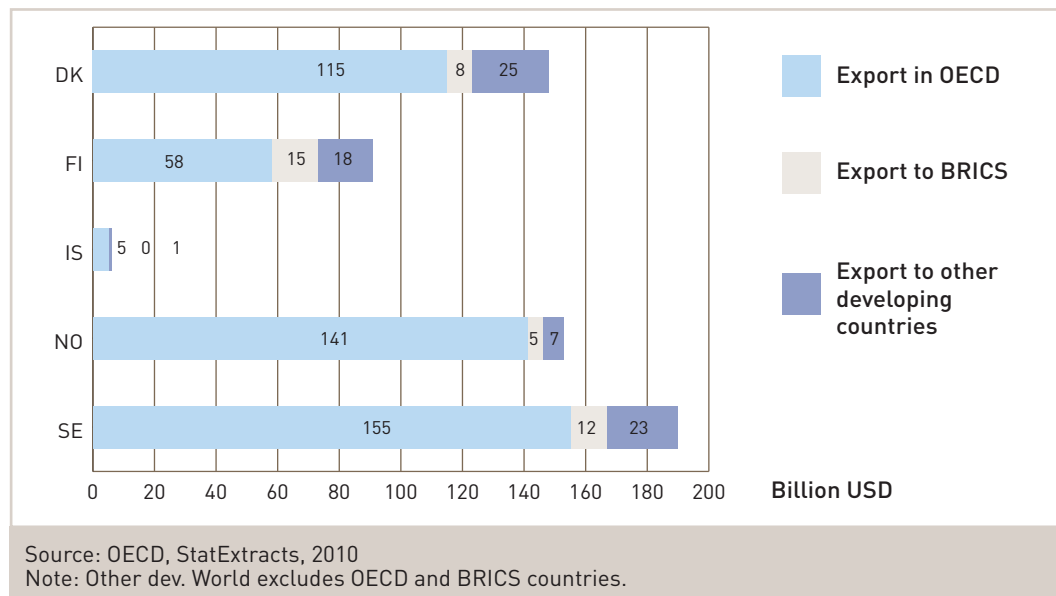
¹ Finland is an exception with 19 % of total exports and investments flowing to emerging markets. However, 9 % of total exports go to neighboring Russia.

CURRENT STATUS OF NORDIC EXPORTS TO EMERGING MARKETS

The development of income and wealth is closely connected to the earnings of export companies. Thus, in order to ensure growth and sustain the existing level of welfare society, Nordic countries are dependent on tapping into the most attractive markets and adjust the market focus in accordance with the development trends in the global economy.

Many Nordic companies have been active in emerging markets for a long time and exports to these markets are generally growing at a faster pace than exports to more developed markets. **Exports to BRICS and other developing economies still make up a very small portion of total exports and an increased presence in emerging markets is essential for the growth prospects of companies in the Nordic countries.**

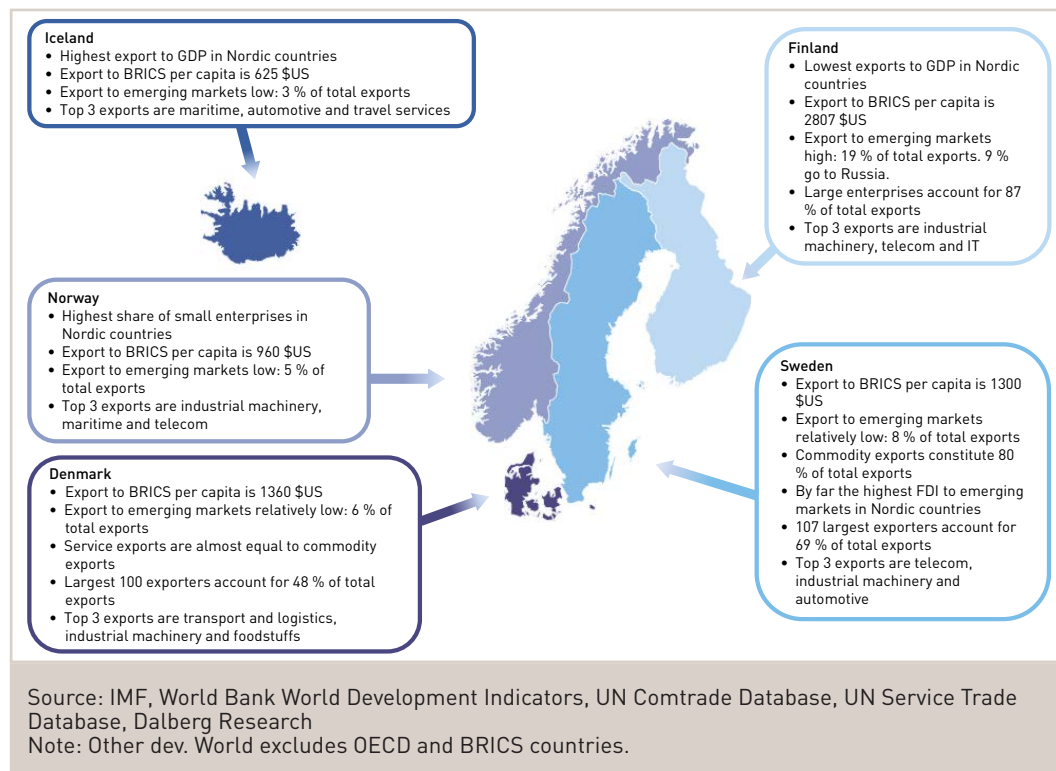
Figure 2: Nordic exports to emerging markets as a share of total exports



Nordic exports and activities towards BRICS and other developing markets generally reflect the Nordic countries' national core strengths and are concentrated on a few dominant sectors, varying across the Nordic region. The exports to emerging markets

are primarily centered on industrial and professional machinery, telecom, transportation & logistics, maritime, paper production, automotive, and pharmaceuticals & medicine.

Figure 3: Overview of Nordic countries' engagement with emerging markets



The Nordic companies' activities in emerging economies are primarily dominated by their operations in China and Russia. The high focus on China is a universal trend due to China's growing importance in the world economy, while the intense focus on Russia can be explained by the historical links and geographical proximity to the Nordic countries. Still, the high focus on these two countries might also indicate a lack of knowledge or experiences related to the opportunities in other developing economies or simply imply a conservative approach towards business opportunities in unknown and distant markets.

Engage more with emerging markets

The world economy is more and more influenced by the development of emerging markets

Future Nordic welfare is closely related to our ability to tap into the potential in emerging markets

The growth in emerging markets represents huge business opportunities for Nordic countries. In the past 3 years, the economic growth in the BRICS has outpaced the economic growth in developed countries by a factor of 5. Even though the international financial crisis has slightly reduced the growth rates, the BRICS and other developing economies keep expanding at a rapid pace.

The key economic drivers indicate that a similar pattern is likely to characterize the economic development in coming years. The economic growth in most Western countries is severely constrained by an ageing population and the impact of debt, while the growth in emerging markets will continue to be stimulated by a growing and vibrant work force, urbanization and technological progress. Thus, these markets offer concrete business opportunities for Nordic companies no matter whether their products or services are aimed at consumers (B2C), businesses (B2B) or governments (B2G).

B2C

The B2C market in emerging economies is growing rapidly due to population growth and increasing incomes. It is further stimulated by the diffusion of modern IT technology, enabling Nordic companies to get in direct contact with new customer groups that were not previously accessible. Even though the average spending power is often very low, the aggregated purchasing power is significant.

B2B

The rise of spending power among consumers and the integration of the economies into the global value chain generates many new opportunities for companies involved in the B2B market. Local production is often required to serve local markets and the expansion in production capacity is associated with a high potential for Nordic companies.

B2G

Finally, growth in BRICS and other developing markets creates increased demand for B2G activities, in particular when it comes to the investments in infrastructure. Most emerging and developing economies are characterized by inadequate infrastructure and in order to provide a solid platform for growth, many countries are investing huge

sums in improving infrastructure. This significantly increases the playing field for Nordic entrepreneurial, logistic, and construction capabilities.

GETTING READY FOR FURTHER ENDEAVORS IN EMERGING MARKETS

Nordic companies' exports to emerging markets are primarily aimed at B2B and B2G industries, involving industrial machinery, and logistics & transportation amongst others. The purchasing power among consumers in many emerging markets is growing fast and this offers new and increasing opportunities for Nordic companies to focus on the B2C segment. In fact, many emerging markets have already emerged, when seen from a business opportunity perspective. These markets are still very different from the traditional markets in Europe, and Nordic companies must adjust to compete.

Challenges of emerging market entry

Nordic companies are experiencing a variety of challenges associated with entry and expansion in emerging markets

Nordic companies perceive a gap between the services offered and the services needed to approach emerging markets

Nordic companies face significant barriers when entering into or expanding in BRICS and developing markets. The legal and practical barriers constitute a significant challenge in terms of acceleration of activities of Nordic companies in these markets.

Each Nordic country has facilitated institutional measures to assist companies with the challenges related to different market conditions, hoping to foster their emerging market endeavors. As such, there is a large number of public and private service organizations in the Nordic countries that assist Nordic companies in their engagement in emerging markets. However, the Dalberg Research analysis indicates that **the public and private service offerings are not fully capable of helping Nordic companies to overcome market entry barriers, thus leaving a significant gap between the companies' needs and the support schemes available.**

EMERGING MARKET ENTRY CHALLENGES: COMPANY PERCEPTIONS

When asked about their perception of challenges in terms of emerging market entry and strategy, the three main challenges Nordic companies come up with are:

- 1. Access to market information**
- 2. Lack of skilled staff with local insight**
- 3. Lack of innovation support**

1. Access to market information

A clear barrier for entry or expansion in BRICS countries and other developing markets is often the lack of information about opportunities. Information systems and updated and reliable data are less advanced in emerging markets than in home markets, implying a significant hazard of conducting incorrect assessment of risks and rewards in the markets and further dangers of making wrong strategic decisions, drawing on outdated or insufficient information. Interviews with SMEs point out that the "information deficits" constitute a key barrier for entry, as information is perceived to be a prerequisite for a successful market engagement.

RECOMMENDATION 1: UTILIZING LOCAL KNOWHOW

SMEs need a systematic and easy access to reliable information about business opportunities in BRICS and developing markets. In practice, there is a need to ensure that local expertise is anchored to embassies and representations and that the expertise is easily accessible by companies. Building up such expertise would help bridge the gap between the current information deficit and the ideal support mechanism envisioned by the companies.

2. Lack of skilled staff with local insight

Market conditions in BRICS and other developing markets vary significantly from the conditions in well-known, established markets. This stresses the need for a boost of both internal and external resources. Nordic companies need on-the-ground, skilled and trained professionals and networks with local market insight.

Many of the larger corporations interviewed in the study express that they find it challenging to find talented staff with the right mindset, experience and skills to operate in emerging markets. This staffing challenge keeps some corporations from tapping into the growth potential on new markets.

RECOMMENDATION 2: SUPPORT MECHANISMS FOR FACILITATING RECRUITMENT

Large corporations and SMEs need a support mechanism, capable of establishing and facilitating contact with skilled staff, which is available to drop into developing markets and hit the ground running. In practice, there is a demand for a job bank or specialized expertise capable of bringing together and matching potential new hires and companies.

3. Lack of innovation support

National innovation and development programs and other related resources aimed at supporting Nordic companies on global markets are not sufficiently focused on BRICS and other emerging markets. The lack of innovation support is particularly pronounced

by SMEs and implies an extra challenge when market entry requires that existing concepts are fitted to consumers' and companies' needs in the new markets.

For early stage "born globals" and other small companies with strong international potential, support services to develop and test concepts for emerging markets would be highly valued in order to adapt the products and services to the market needs and hence enhance companies' competitiveness.

RECOMMENDATION 3: SUPPORT FOR PARTNERSHIP INNOVATION

There is an urgent need for a more focused approach in order to assist the Nordic SMEs in overcoming various challenges associated with innovation, business and trade challenges on the markets.

To increase the innovation opportunities for Nordic companies in the emerging markets, a joint Nordic innovation program is proposed.

The proposed Nordic Innovation Partnerships for Emerging Markets (NIPEM) would stimulate partnerships between Nordic SMEs and relevant emerging market actors and thus increase the Nordic companies' capacity and competitiveness when responding to unmet needs of the emerging markets.

Seizing the emerging market opportunities

If the Nordic countries are to seize the high growth potential of emerging markets, it requires a global outlook and mindset combined with stern initiatives from Nordic companies and governments.

Looking at the challenges for entry and expansion in BRICS and other developing markets, there appears to be a need for additional support measures, backing the Nordic companies in their emerging market aspirations. The specific need for support varies between companies, from mechanisms that can help companies to overcome the information deficits at the first stage of their market entry, to more advanced forms of support that relate to getting access to resources, such as employees and finance for innovation and growth.

Though specific companies might differ in terms of their needs, the analysis shows that Nordic companies face many of the same challenges when it comes to market entry and expansion. This observation suggests that identifying and activating synergies across the Nordic countries, including potential joint initiatives, might be associated with a high potential.

GOING GLOBAL BY GOING NORDIC

The Nordic countries are small economies that have much to gain by standing together when breaking into emerging markets. Combined, the Nordic region has a lot of complementary knowhow, competence and technological excellence.

Activating synergies could entail pooling some amount of the national resources and facilitating joint Nordic initiatives in order to enhance the volume and quality of support available for emerging market entry and expansion. There is a need for a close collaboration across the Nordic borders and for inventing new ways of working together. A more holistic approach to support Nordic companies' quest for opportunities in emerging markets, in which Nordic governments and companies join forces, would entail high mutual benefits for all Nordic economies. The Nordic cooperation would activate individual strongholds and provide all Nordic companies with greater visibility on emerging markets, thus making it easier to locate new partners, suppliers and customers.

Emerging markets offer immense business opportunities for Nordic companies, and a closer cooperation between the Nordic countries can play a vital role in turning the new opportunity into growth and progress in the Nordic region.

Appendix 1: Companies interviewed

Country	Company	Size	International activity
Denmark	FLS	Large	40 countries worldwide
	Cowi	Large	Africa, Middle East
	Novozymes	Large	Asia, Americas, Europe, CSR in Africa
	Dam Graphic ApS	SME	Vietnam, Mozambique
	Advance Nonwoven	SME	South Africa
	Kallesøe A/S	SME	China, India, Russia, South Africa and Zambia
	Agro Business Development	SME	Uganda, Tanzania, Malawi
	SUNMARK	SME	Vietnam
	Karise Kleinsmedie	SME	Uganda
Sweden	Northdar Group	Large	Global
	Eltel	Large	Asia, Africa
	Elof Hansson	Large	Global
	WRAP International AB	Small	East and South Asia, North America
	Volvo Construction Equipment	Large	Global
Norway	Telenor	Large	Bangladesh, Pakistan, India, Ghana, Malaysia, Thailand
	Akvaplan-niva AS	Medium	Russia, India, Indonesia, the Phillipines, Vietnam, Uganda, South Africa
	Scandinavia Water Technology	SME	Global supplier through partners
	Trønder Energi	Large	Global
	Trace Tracker	SME	China, Uganda
Finland	Pesmel Oy	Medium	Europe, North America, India, South Africa
	ABB Finland	Large	Global
	Alteams	Large	Northern Europe, India, China
Iceland	Marel	Large	Global
	Fjölblendir ehf (TCT technology)	SME	India, China
	CCP Games	Large	Global

Notes

[illegible]

The emerging market opportunity

Fast growing emerging economies represent great opportunities for Nordic businesses and constitute important arenas for economic growth of the Nordic countries. In order to seize the opportunities and turn them into growth and progress, companies and policy makers could benefit from adopting a more innovative global mind set. This calls for a coordinated effort amongst the national agencies in the Nordic countries.

A 'Nordic Emerging Market Study' was conducted for Nordic Innovation in the spring of 2011 by Dalberg Research. The purpose of the study was to provide an overview of the Nordic companies' presence in emerging markets; describe perceived barriers for market entry; and analyze the variety of existing support schemes. The investigated support mechanisms encompass public and private funding schemes and advisory services, which are available for companies looking to either enter or expand their presence in emerging markets.

This report has been prepared by Nordic Innovation in cooperation with Dalberg Research. It builds on an updated version of the 2011 study, which relied on an in-depth desk study and expert interviews with public and private organizations and 25 Nordic companies spanning from large corporations to SMEs.

It is our ambition that this study could form a basis for further discussion among relevant stakeholders in the Nordic countries.

Join the discussion in our LinkedIn group: Nordic opportunities in emerging markets
<http://www.linkedin.com/groups/Nordic-opportunities-in-Emerging-Markets-4475506/about>



Sign up for our newsletter!

Scan the QR-code or visit:
www.nordicinnovation.org/subscribe

Nordic Innovation is an institution under Nordic Council of Ministers that facilitates sustainable growth in the Nordic region. Our mission is to orchestrate increased value creation through international cooperation.

We stimulate innovation, remove barriers and build relations through Nordic cooperation
