HOW TO GROW AND ACCELERATE SALES IN ASIA

LESSONS LEARNED FROM SWEDISH SMES IN APAC

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Executive summary

The Asia-Pacific region, APAC, holds a significant share of the world’s largest and fastest growing economies. According to macro development indicators, the region will continue to grow and play an ever larger part of the global economy. However, the Swedish exports to the region are lagging behind the European peers.

A study conducted by Business Sweden shows that Swedish small and medium-sized enterprises (SME) often find entering the Asian market challenging because of the long distance, cultural differences and own bottlenecks in terms of limited resources. Business expansion in the region is perceived risky and tends to be opportunistic, with the majority of SMEs thereby missing out on the large untapped potential in APAC.

If the Swedish companies approach the new markets in APAC region with better knowledge and preparations, there are ways to reduce risks and maximize the opportunities.

The study has covered three areas:

- Challenges facing SMEs wanting to establish sales in Asia
- Case-based insights from established SMEs in the Asian markets
- Key success factors from SME when establishing sales in APAC

Recommendations for accelerating sales in APAC are:

- Switch on the right go-to market channels
- Reduce risk with a flexible setup
- Act big and pack a mixed bag
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FOREWORD

Swedish industrial companies have a strong heritage in Asia Pacific (APAC). Many of the larger Swedish companies entered the Asian market decades ago and now have a broad business footprint in the region. As a result, Swedish products and brands have a reputation of high quality and leading edge technology in APAC. For Swedish Small and Medium sized Enterprises (SME) however, Asia is still considered emerging with a lot of untapped business growth potential. By SMEs Asia has simply been perceived as far away, culturally different than the home market and with a higher business risk level. Consequently the Swedish SME penetration in APAC does not compare with the market potential.

If there ever was a time for Swedish SMEs to approach the Asian markets – the time is now. Asia is currently the engine of world GDP growth, generating over 50% of global growth and holding over 50% of the world’s population. It is home to 22 out of the world’s 37 megacities. By 2020, it will hold the largest middle class population in the world. More importantly, consumption in Asia has doubled in last decade, recently surpassing Europe and expected to surpass the U.S within 5 years emerging as the largest consumer market in the world. At the same time the ease of doing business take steps forward on an every year basis.

APAC markets have a large appetite for new innovation and sustainability, which is the hallmark of Swedish companies. Building on this strong market position, this report concludes how Swedish SMEs can capture the APAC market opportunity, by exploring success factors of pioneers as well as the pitfalls that must be avoided.

I hope this report will provide you with valuable insights and recommendations. I am looking forward to see you on the dynamic and fast growing APAC market in the near future.

Tobias Glitterstam,
Vice President Asia Pacific, Business Sweden.
1. CHALLENGES FACING SME IN THE REGION

As the world’s largest and most populous continent, the countries within APAC can vary greatly with regard to cultures, environments, level of maturity and growth rates. The government systems and legal landscape can also look vastly different in the different countries. For this reason, a clear understanding of each market characteristics and the fit of the company’s solution is essential. A uniformed approach and the same business model may not be appropriate in all markets.

Based on the interviews that Business Sweden has conducted with Swedish SME companies during this study, many state that they are unclear of where and how to start their internationalization and growth when it comes to Asia. The natural pattern for expansion outside of the home market typically starts in the Nordics, followed by western markets. This pattern of expanding geographically is often based on perceived similarities with the home market and cultural understanding. The approach to Asia is often more opportunistic and less structured.

Apart from the long distance from Sweden to Asia, cultural differences, languages barriers and local bureaucracy (complex regulatory framework and requirements for permits etc.) can make it more difficult to reach the Asian market. Due to these obstacles, the most common go-to-market option for SMEs entering APAC is via indirect sales channels, i.e. a distributor driven model through local agents or distributors.

THE LIMITATIONS OF THE DISTRIBUTOR-DRIVEN MODEL

While establishing sales in new markets via indirect sales channels is a relative fast and resource-efficient way to access far-away markets, leveraging the partner’s local networks and market knowledge, there are some considerations to SMEs should do. From a distributor survey that Business Sweden has conducted, 65% of the Swedish companies are not happy with their current distributor due to sales losses. The share using distributor is naturally also higher among SMEs than large companies. Although there are many reasons behind this, we believe a common mistake is missing the fundamentals and not doing the proper homework before choosing business partner.

Case studies done by Business Sweden show that many SME working with agents/distributors have found them spontaneously in, e.g. a trade fair. That in itself is not a problem, but what is often missing is a thorough analysis of the chosen partner and a sound investigation of other alternatives available. The following are other considerations to do before choosing distributor-driven business model to expand in APAC.

NO DIRECT CUSTOMER CONTACT

Passive approach to local sales by not having your own feet on the ground entails a risk that your distributor is less focused on your product. Especially if they are working with other companies or brands as well. In many markets, there can be common client expectations, such as quick A/S or technical support. A distributor should have the capabilities to meet these common client demands.
LIMITED BUSINESS DEVELOPMENT
Distributors typically sell within their existing distribution chains and industry segments. They can be strong in their current segment, but have difficulties in evaluating new business potentials and expanding horizontally to other business segments.

NO KNOWLEDGE BUILDING IN-HOUSE / LONG-TERM
Utilizing a distributor’s local knowledge, contacts and networks, market insight will remain second-hand sources and the potential for developing in-house capabilities and market knowledge is limited.

Communication Issues
Unsuccessful cases often have lacking communication between the company and its distributor. This can be due to language barriers, but also discrepancies in corporate cultures and failure to fully convey the benefits of the company’s solutions. To be successful in a market, it is important to communicate the unique selling points and values, tailor-made to fit the local clients.

OTHER CHALLENGES
For proactive SME that want to set up direct sales, or is in a position where they have successfully established a distributor-driven model ready for the next step, there are other challenges for successful market entry. One of the key challenges is the scarcity of own resources, both financially and/or in terms of manpower. SMEs entering Asia often need to find the most effective way to deploy limited resources in order to grow and compete in the market.

A few strong international players and large local conglomerates typically dominate the competition in many APAC markets. The mid-sized local players have better access to resources and local networks and more established local brand. Even the small local players can be tough competitors, despite the shortcomings in technology, quality and brand, in that they are agile and have a lower cost base.

For many SME, there is a built in conflict in the model for expansion: in order to get local traction and start up successful sales growth, a local presence or “feet on the ground” is needed. Local presence signals commitment, access and local technical support, which can be a decisive factor for a potential client.

However, in order to justify direct sales resources locally and put feet on the ground, the company needs proof in terms of sales or a first project. Full time employing own resources is a big risk if sales do not take off. A classical chicken/egg situation, leaving many companies with opportunistic sales, if not abandoning the region to focus on closer markets. How to overcome this chicken and egg situation?

How to put feet on the ground and limiting risk: the “chicken and egg situation”
2. HOW TO BE A SUCCESSFUL SMALL FISH IN A BIG POND

Firstly, and the basis for a successful market entry, is to offer a product or service that adds value to the local market. Having a unique, or value adding product or solution that the local competition cannot offer is key. A me-too product or solution without a strong brand name will have a tough time, especially in the more developed Asia markets with strong local players. To illustrate how to overcome the aforementioned chicken and the egg situation, we will highlight a few case studies of successful collaborations between Business Sweden’s APAC offices and Swedish SME companies. The case studies demonstrate a number of crucial commonalities for successfully establishing and growing sales in the APAC region for SMEs.

CASE: REGIN IN INDONESIA
Regin is a Swedish company providing a wide range of solutions for building energy efficiency. The company has been cooperating with Business Sweden with stakeholder mapping and market analysis, specifically for the hotel industry in Indonesia. Open business communication with hotel chain owners was an effective top-down approach that complemented their initial bottom-up approach through system integrators. Local representation has significantly increased sales during the last three years and empowered Regin to be a true energy efficiency challenger in the local market.

“Indonesia is in great need of solutions for energy efficiency, especially within its ever expanding tourism and hospitality industry. During the coming years, we hope to offer quotes to some big hotel projects in Indonesia.”

Michael Johansson, Business Area Manager and Product Manager at Regin

CASE: CONTEXT VISION IN KOREA
Context Vision is a medical technology company specializing in image analysis and image processing. Due to a high demand in Korea for innovative and advanced technologies within healthcare Context Vision entered the market already in the year 2000. Since then, Context Vision and Business Sweden have established a close relationship towards mutual goals for developing the Korean healthcare sector further. The Korean culture is to a large extent relationship based and therefore it is of significance to establish trust and keep in close contact with customers and stakeholders. Being present locally, Business Sweden act as ContextVision’s white label sales representative to manage relationships with existing customers and stakeholders, generate leads, coordinate meeting programs as well as assisting in contract negotiations etc.

“Having Business Sweden as a partner enables us to have a constant ear to the market, and this is crucial”

Stellan Heyerdahl, Sales director at ContextVision
CASE: MEDRAVE SOFTWARE
Founded on a robust ground of quality improvement work within healthcare, Medrave Software is a Swedish health care company, enabling doctors to provide better care for their patients. With a firm base in Sweden and other neighbouring markets, Medrave Software found Singapore to face similar challenges in the ageing population, which makes management of chronic diseases very important. Singapore’s healthcare system, known to be world leading in efficiency and recognized for good outcomes is very ambitious in furthering its quality of care and in the process measure and benchmark care delivery within the healthcare operators. Business Sweden worked closely with Medrave Software to understand the healthcare landscape and key drivers, such as digitalization initiatives and challenges faced.

“Business Sweden has contributed tremendously to our understanding of the unique characteristics and systems in Singapore. Of course, there are plenty of commonalities between the healthcare systems all over the world, but it is important to have an in-depth insight and meet with key persons which the team in Singapore helped greatly to facilitate”
Dr. Per Stenström, co-founder and CEO of Medrave Software

CASE: NEFAB IN TAIWAN
Nefab is a Swedish company providing a wide range of innovative solutions for packaging. The company has been in cooperation with Business Sweden from the very start with support in mapping of key customers and helping with market entry in Taiwan and China. Business Sweden supported with local door-opening capabilities, which has been an effective approach that breaks the wall for Nefab to enter new markets. 18 months in, Nefab now successfully have established a number of key accounts and set up its own company.

“We sincerely appreciate Business Sweden’s support in helping us to open the doors to many of the major Datacom companies in Taiwan. We will soon expand our local office in Taiwan and we owe thanks to Business Sweden for helping us build a foundation for growth”
Country Manager Jacob Liao, Nefab
3. KEY SUCCESS FACTORS FOR SME IN APAC

In Business Sweden’s experience and case studies from the region, SMEs successfully growing sales in APAC share many of the key success factors:

- Proactive approach to sales channels
- Local presence with “feet on the ground”
- Strong in innovation and brand - with local adaption
- Agile, but long term

SUCCESS FACTOR 1: PROACTIVE APPROACH TO SALES CHANNELS
The first factor may sound basic, but is often overlooked; make sure to do proper homework also when choosing an indirect go-to-market sales channel. A bad or passive choice of agent or distributor can prove costly. A strategic selection and thorough evaluation of the potential partner is essential including review of the industry and solution fit, definition of customer access and regional presence, stakeholder mapping and a evaluation of track record.

Other factors such as corporate culture fit, communication skills, competing product portfolio are also important. It can be costly to break an agreement with a partner, and valuable time may be lost gaining traction on the market.

Choosing your partner proactively and doing a thorough analysis of the capabilities and corporate fit before becoming long-term partners is crucial. Check the record of accomplishment and try to establish the long-term success of the partner within the particular local eco system to make sure that expectations are. A bad choice of distributor can lead to both financial risk, lost time to market, and in the worst case a hard exit from the market.

SUCCESS FACTOR 2: LOCAL PRESENCE WITH FEET ON THE GROUND
Developing local networks is key in many Asian markets. The networks can be accessed with own staff or via “White label” resources, i.e. local staff on the ground working for the Swedish SME on a contract basis. White label staff can also support in managing one or more partners, but also directly engage in sales, business development and technical support. Often neglected is the continuous engagement in supporting, coaching and setting targets with local partners.

When deciding if approaching the new market directly or indirectly, it is important to assess the risks associated with the setup. For partner setups; is the agreement exclusive? What are the exit options? What will be the sunk and alternate cost to restart with a new partner or with own resources? How will the market react on temporary exits? These are examples of questions that needs to be assessed.
SUCCESS FACTOR 3: LEVERAGE POSITIONING OF INNOVATION AND BRAND – WITH LOCAL ADAPTATION

Many companies successful in Asia carefully balance their positioning across two ends of the same spectrum: localizing the offer while keeping a Swedish brand image. To be able to relate to and gain the confidence of local customers, it is essential to recognize the difference of each Asian market and tailor key messages accordingly. Demonstrating cultural sensitivity, tact and understanding of the market gap builds trust and respect.

At the same time, the Swedish brand often brings a positive perception in Asian markets. Connected with values of innovation, sustainability and quality, which can be a strong differentiating factor from the competition. Trust your Swedish value proposition and hone it carefully to take a strong position by balancing Swedish branding and a localized offer.

SUCCESS FACTOR 4: BE AGILE, BUT LONG TERM

As relationships are important in growing businesses in Asia, stakeholders look out for signs of commitment to the market, comparing suppliers’ sincerity and capabilities. Local presence and responsiveness (consistent follow up, meetings in person, local support) are among the aspects to think about when approaching an APAC market. In order to stay agile and not take unnecessary risk, the case studies show that more and more companies initially choose a virtual presence (local address, local website etc.) as well as virtual employees via White label setup.

This is a way to accelerate local sales, but still have the opportunity to scale down, or adjust to market changes in a flexible way. A white label resource setup reduces risk, as the company is not stuck with fixed recurring costs. This leads to a more agile go-to market strategy that can be adapted and tweaked along the way according to market response.

Companies taking a holistic approach towards the market not only ensure the sustainability of the business in the long term, but the approach will also win the trust of the customers and stakeholders early on. International companies operating in Asia increasingly differentiate themselves by showing their commitment to the local market, such as carrying out corporate social responsibility programs that contributes to the community, job creation and other value add.
As has been previously discussed there is a built in conflict for SMEs with the need to be locally present and scarce resources. Business Sweden recommends a broad three-step approach to help mitigate this problem:

**SWITCH ON THE RIGHT MARKET CHANNELS**
Choose go-to market channels depending on market potential and local conditions. Make a sound judgement of the market potential based on macro factors, but also on the potential value add, innovative strength or brand position of the product or service. For some APAC markets, an indirect channel via a distributor may be the best setup. Either way, continue to be active and committed to the local market – just because you have a partner does not mean that they will manage everything themselves. You need to continue to support, coach and be active and visible.

**REDUCE RISK WITH A FLEXIBLE SETUP**
A setup with own local resources will show bigger commitment to the market and enhance follow-up and support with customers. In order to reduce risk, White label sales staff could be an option. The white label staff will act as own employees, add credibility and be used for both direct sales activities as well as proactive partner management. When sales leads mature into late stage proposals, own headquarter staff can be more involved. With a flexible workforce setup, it is easier to pivot and change directions when needed, or with a bad market traction, withdraw without any fixed assets or costs to dismantle.

**ACT BIG AND PACK A MIXED BAG**
Even a small company should aim for a noticeable local presence. There are several ways to do this. Synergizing industry promotion efforts, aiming to strengthen and position companies in an industry vertical is one way of building brand awareness with minimal investment.

Depending on the industry and customer, leveraging “Swedishness” locally can build further recognition and brand awareness. These activities should ideally take place after having mapped and identified the relevant potential clients and other stakeholders. This can be additional and long-term activity to create pull from the market and complement the other demand generation activities like marketing and PR.

Finally, by having a mix of own, white label and partner-resources you can appear bigger and occur more frequently in different contexts. Rightly structured, pursuing different industry segments, targets or geographies while showing a uniform front you can "appear bigger" than you actually are.
Business Sweden’s purpose is to help every Swedish company to reach its full international potential and help companies abroad to reach their potential by investing in Sweden. The purpose is operationalised through 450 staff deployed at 14 offices in Sweden and at 55 offices in 49 key markets abroad. Feel free to contact us for any questions regarding Swedish international trade or foreign investments in Sweden.