



NEW BUSINESS IN THE AGE OF TRANSFORMATION

*How Swedish executives
navigate growth outside of core*



FOREWORD: NAVIGATING GROWTH OUTSIDE THE CORE

In an era defined by profound global shifts and unprecedented challenges, the business landscape has undergone major transformations that compel organizations to reimagine their growth strategies. Technological disruptions, green transition trends, and rapidly changing market dynamics act like catalysts for change for corporations around the world. In an increasingly interconnected world, it has become imperative for Swedish executives to seek opportunities beyond their core domains.

In a recent Harvard Business Review article global chief executives were interviewed on the topic of growth. Taking into consideration the pace of change and transformation currently being seen across the globe, the responses are unsurprising; 65 per cent of the CEOs predicted that in five to seven years their firms' main competitors would be different from their main competitors today, and 63 per cent said that new competitors with new business models would pose a major threat to their firms' core business.

It's against this backdrop that we decided to reach out to executives representing Swedish industry globally, to get their take on adjacent and transformational growth in an increasingly complex business environment.

The same article also stated that 60 per cent of large public global companies have seen their growth stall or stagnate in the last five years. Reflecting the awareness of the situation, the CEOs surveyed projected that in the next decade 40 per cent of the value their companies created would come from entering new markets and launching new business models. These rather aggressive projections stuck with us and are in many ways a reflection of dialogues we have with Swedish corporations as we support them in their pursuit of new avenues for growth around the globe.

We wanted to gain further insights from corporate strategists of Swedish corporations on their projections on future turnover from new business, in what direction they are heading, and to what degree these strategies vary between different industries.

While the challenges associated with identifying new avenues for growth are not exclusively endemic to large companies, we decided for the purpose of this report to only interview Swedish companies with global sales, communicated plans for new business ventures and with over USD one billion in revenues. In total, the respondents represented 28 per cent of the total revenue from Sweden's 100 largest companies with international sales.



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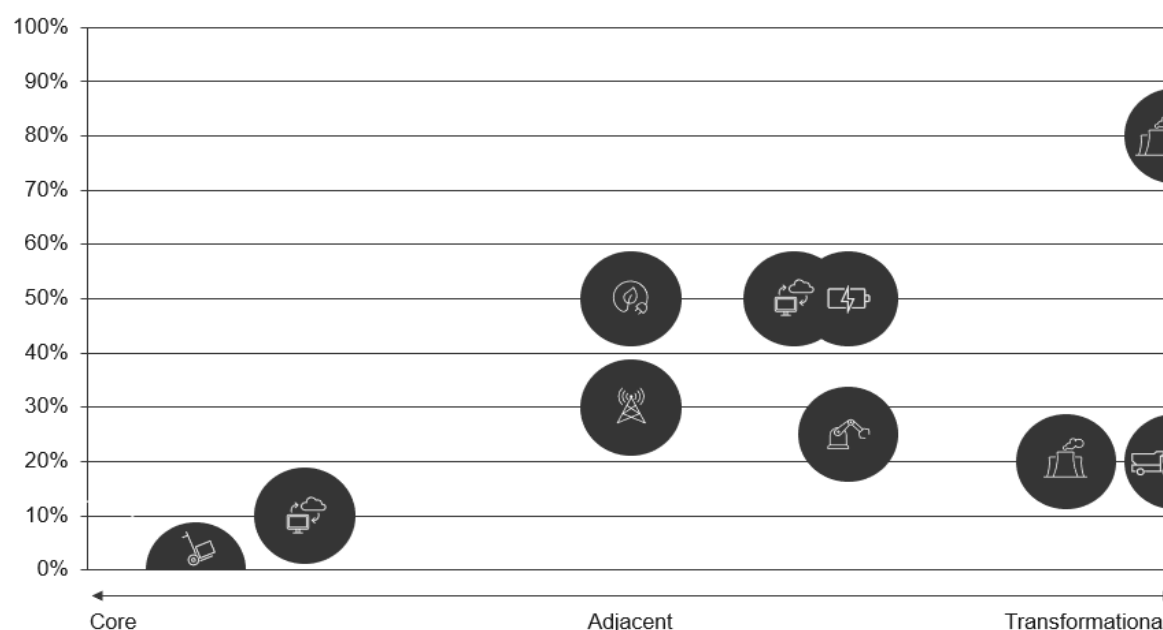
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A FUTURE DEFINED BY CHANGE

Most interviewed Swedish companies estimate that in the coming decade, 20-50 per cent of their future turnover will come from 'new business', with some planning to completely transform their core.

Turnover from New Business

Type of growth, estimated future share of turnover outside the current core in the coming decade



While most of the selected companies in our sample were chosen due to their public growth ambitions outside of their current core, there were large variations as to the level of commitment and projections for the percentual revenue the new businesses would bring. Estimates mostly varied from 20 per cent to 50 per cent in the coming decade. Considering that the interviewees represent some of Sweden's largest companies, this shift is monumental.

Only one company said they were focusing entirely on their current core. For context, the company recently completed a transformational journey, where 85 per cent of their current revenues (> USD one billion) did not exist 10 years ago.

INDUSTRIES REPRESENTED

- Energy
- Transport
- Automotive
- Technology
- Industrial automation

GLOBAL MEGATRENDS DRIVING CHANGE

Interviewees cited large industry transformations, on the back of digitalization, the green transition, geopolitics, and the business climate, as driving forces to shift priorities and look for opportunities beyond their core.

These trends are pushing some companies to pursue transformational growth due to long-term existential threats; their current core will be rapidly declining in the next decade, while others will leverage adjacent growth to enhance their current core offerings and to capture new opportunities that they are well-positioned to capitalize on.

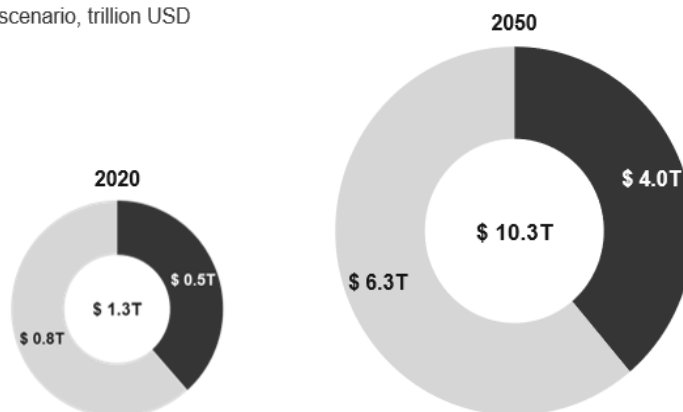
GREEN TRANSITION

Industries with the most transformative bets included the transport, energy, and refinery industries. Perhaps not that surprising, as their current core will radically transform in the coming decades, in-part due to a changing regulatory landscape to meet climate goals.

Green Transition

GVA from green markets under NZE2050 scenario, trillion USD

■ Direct impact
■ Indirect impact



Direct impact denotes value captured by companies developing and producing green goods and services; indirect denotes the wider supply chains of those industries

According to Oxford Economics, the transition to a net zero emissions environment is estimated to create an opportunity for green goods and services of USD 10.3 trillion to 2050 global GDP, in 2020 prices.

Several of the interviewed companies have extensive green transition strategies in place, with explicit targets and commitments to completely transform their core by producing new green offerings. We also see an increasing tendency for legacy players to explore completely new segments within the green transition, unrelated to their core.

Several companies are exploring opportunities specifically in the renewable energy segment, typically partnering or acquiring companies with core competencies to accelerate their ambitions and capture opportunities.

Green Transition

GVA from green markets under NZE2050 scenario, billion USD

	2020	2050
Green Finance	\$ 21B	\$ 152B
Biofuels	\$ 88B	\$ 326B
Hydrogen	\$ 3B	\$ 806B
Clean Energy Manufacturing	\$ 170B	\$ 340B
Renewable Power Generation	\$ 901B	\$ 5331B
Electric Vehicles	\$ 118B	\$ 3349B

DIGITAL

Companies also have public plans to enter the digital sphere to a larger extent, both as a stand-alone offering but also as an offering to enhance their current core. It’s also a move to protect their business from disruption. Recent developments in AI and increasing use of digital technologies for automation and the like, means 58 per cent of CEOs seeing ‘Rise of disruptive technologies’ as the number one concern and trend to act on in 2023 and beyond, according to the McKinsey CEO Excellence Survey.

GEOPOLITICAL LANDSCAPE

Another key megatrend affecting our interviewees decision-process is the increasingly complex geopolitical landscape, with increasing tension between world economies, global consequences of the war in Ukraine, and rise of protectionism globally.

Multiple leading economies are executing their industrial strategies, often leveraging the climate-angle to push protectionist policies. Recent legislation such as the Inflation Reduction Act in the United States has had a strong effect on Swedish companies’ strategies so far.

This trend is not specific to the United States. Companies active in other regions and countries are evaluating their footprint and considering reshoring or nearshoring operations closer to their end-markets for various reasons including costs, lead-times, logistics, quality of goods, reducing carbon footprint, and mitigating short- and long-term risks associated with certain markets.

“96% of CEOs are evaluating reshoring their operations, have decided to reshore, or already reshored, an increase from 78% in 2022.”
- 2022 Kearney reshoring index

BUSINESS CLIMATE







The risk of prolonged high inflation and economic downturn is another key concern affecting companies' position and willingness to invest into new business. Several key metrics are currently pointing in a negative direction, further complicating decision-making for executives. However, several interviewees especially in the manufacturing industry are staying the course and executing on their strategies for new growth opportunities.

PRINCIPLES FOR GROWTH

We asked our interviewees which key success factors and pitfalls they see when pursuing adjacencies and transformational growth. These experiences can be boiled down to six principles for how to successfully grow outside of core.

Principles

Six principles for successful growth outside of core

	Don't forget the basics	Nothing will make up for not understanding the business case
	Leverage your assets	Leverage your current capabilities; partner-up to fill the gaps
	Allow for adaptability	Be prepared to adjust your strategy often (be prepared to fail, and adjust your course)
	Kill your darlings	Don't fall in love; stay rational
	Invest wisely	Don't destroy the business case by investing too much too early. But do plan to build critical mass
	Separate from your core	Manage the new business with separate standards; separate KPIs, leadership and organization (you may need to act like a startup)

DON'T FORGET THE BASICS

“It may sound basic but understanding the business and customers will always be key. We’ve made mistakes when integrating new acquisitions, not understanding that our new customers wanted more than just a product.”

- Head of Business Segment

Nothing will make up for not understanding the businesses case. Hindsight can't change mistakes, and most could come up with examples when they should have been more

diligent in ensuring understanding of market dynamics and its attractiveness, their customers, competitors, and business models.

LEVERAGE YOUR ASSETS

“We have set out to transform our business in the next decade, and we are currently defining future revenue streams. It will however be key to leverage and build on our core business – this will give us a unique edge.”

- Head of New Ventures

New business initiatives generally aim to support the current core, and to leverage its assets. These assets can be everything from a customer base to distribution channels, technology, and data. The winners of tomorrow will understand how to leverage their current core, while adjusting to capture new opportunities.

ALLOW FOR ADAPTABILITY

“We have learned the hard way not to formulate 5-year strategies. We made a lot of mistakes in the beginning, and we’re now much more agile. It’s ok to course-correct, often, when a direction is not playing out as expected.”

- Head of Business Development

Five-year strategies developed for the core business rarely translate well to adjacencies and transformational bets. The nature of new business is that it’s unknown, and hence an area in which the company has limited experience. It will be key to build in frequent checks to ensure the current direction is producing the intended results, and not be afraid to course-correct if it’s not.

KILL YOUR DARLINGS

“Be ready to change course; we stuck with a business for far too long. Looking back we had the necessary data to make the decision earlier, especially when expected improvements did not materialise.”

- Head of Business Area

It’s important to not forget the overarching aim of the new ventures. Several executives, especially in the more engineering and R&D intensive industries, described a tendency to fall in love with the technology, rather than the problems they are trying to solve, increasing the risk of losing track of the market. Executives stress sticking to data, remaining rational and in the worst case, cutting your losses.

INVEST WISELY

“It’s difficult to succeed outside of core. We have been in positions historically where we have invested too much, too early, and built capacity we have struggled to fill – we are now more conservative and opt to grow gradually.”
- Strategy Professional

Few businesses have unlimited funds to invest in new ventures, and even if the new venture may not have immediate revenue targets, large initial investments will make it difficult to show black numbers even in the medium-term. While a bold vision is good, gradually growing and showing results will increase your chances of not experiencing cuts if there is an economic downturn.

SEPARATE FROM YOUR CORE

“A key enabler for us has been to separate our new business from our core; by doing this we can be measured with separate KPIs, it helps us avoid internal politics, facilitates direct contact with our board and shortens the decision-making paths, which is critical in the new markets we are targeting.”
- Head of Ventures

There are numerous ways to separate new ventures from the core; creating a new division, or by setting up a separate subsidiary are just two examples. This approach can bring several benefits; ability to focus on the new business with undivided attention, ability to establish alternative targets, for example focusing on growth rather than short-term profitability, shortened decision-paths, attraction of new talent, and ability to establish an alternative leadership which is likely more bold, agile, and visionary. In some companies it’s much like a startup within the traditional business, with startup-like characteristics. Trying to govern new business with the same tools as the core is a likely path to failure.

THE TIME TO ACT IS NOW

Corporate strategists are working to ensure that their business models adapt to new realities as several industries experience large transformations stemming from shifts in digitalization, the green transition, and geopolitics. Through our engagements with leading Swedish companies, we note a trend in questions being asked by these professionals as they aim to avoid existential threats to their business, and to capture new opportunities;

What are the customers of today going to need or demand tomorrow? How can we be a part of the solution (to the global climate crisis)? What position should we take in the changing landscape, where are the revenue streams, and which business models should we use? How much can we afford to invest before we need to show profit? Who do we need to acquire or partner up with to take a market leading position?

While the answers are not simple, taking an agile, open, yet strategic approach is proving to be the winning formula for many large companies.

In this brief report we wanted to capture insights from corporate strategists representing leading Swedish companies. Key take-aways for us were the striking similarities in challenges when it comes to treading new ground across vastly different industries, and the monumental shift that leading Swedish companies are currently experiencing. It is also evident that the green transition is a major influence for the companies who are aiming for the largest shift. This shows promise both from a climate and profitability perspective.

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DISCLAIMER

Due to the sensitive nature of these interviews, all information provided has been anonymized and grouped to ensure proprietary information remains confidential.



*We help Swedish companies grow global sales
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