Challenges and benefits for Swedish companies entering the British market

- A guide to achieving successful establishment

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This article is a short version of a master thesis performed during the spring/autumn of 2006 at Lund Institute of Technology. The report has been carried out on commission of the Swedish Trade Council in London. The United Kingdom (UK) is a very important market for Swedish economy as well as for the development of Swedish companies. The study aims to present up-dated information regarding the Swedish companies’ perception of the British market and investigates what can be learnt from the experience of already established companies. The purpose is ultimately to assist Swedish companies which intend to establish on the British market in the near future. The study mainly focuses on Swedish small- and medium sized companies, the main customers of the Swedish Trade Council.

Introduction

The UK is Sweden’s fourth most important export market and represents about seven percent of the Swedish export value. The Swedish export mainly consists of manufacturing- and telecommunication equipment in addition to products within the paper- and car industry. The UK is the fifth largest economy in the world and is therefore an important market internationally. However, no in-depth study has been carried out so far of the Swedish export to the UK. It is therefore highly motivated to produce up-dated information since the British market is of such great importance for the future development of Swedish companies. Due to limited resources, it is primarily small- and medium sized companies which are in need of guidance on the British market. Bad investments may be a determining negative factor on future business for a small company. The study therefore partially aims to investigate the most beneficial methods of establishment for Swedish small-and medium sized companies.

The purpose of the study is first and foremost to investigate how the Swedish companies, which are already established in the UK, perceive the British business climate. Furthermore, the study looks into the challenges Swedish companies generally face when doing business in the UK as well as the advantages of being a company with a Swedish background on the British market. Finally, the study aims to identify success factors in order for a Swedish company to be successful on the British market.

1 www.swedishtrade.se, 2006-04-05
Method

The study is based on a survey as well as in-depth interviews with nine Swedish companies. The survey was sent out to approximately 180 Swedish subsidiaries, agents, and distributors etc, which are active on the British market. Mainly MD’s of the companies, but also other management personnel at a few companies, answered 15 questions regarding the profitability on the British market, their estimation of the prospect of reaching their growth target and how they perceive their Swedish background. All in all 41 companies participated where the majority, about 60%, were subsidiaries. Additionally, in-depth interviews with nine companies, all with different backgrounds and experiences on the British market, were performed. Four of the companies were established as subsidiaries, one company was represented via an agent, two via distributors and one through franchising. Finally, a company offering financial and legal services mainly to Swedish companies aiming at establishing in the UK was interviewed. These companies received individually adapted questions based on the survey questions and their background. Consequently, the in-depth interviews could therefore complement the results of the survey in order to make the analysis more nuanced.

Business climate study

As mentioned above, the participating companies answered 15 survey questions. This section presents the results of three of these questions. The business climate study shows that 64% of the participating Swedish companies find the profitability on the British market average to very good. Almost 50% consider it being over average. Approximately 20% find the profitability being under average and the rest of the partakers chose to not participate in the question for one reason or another.

Over 80% of the companies see their Swedish background as a positive aspect when they do business on the British market. As a natural result of this, over 60% of the participating companies indicate that they communicate their Swedish background on the British market often and close to 30% do it sometimes. None of the partaking companies consider their Swedish background as a negative aspect and about 20% are neutral.

How Swedish companies establish on the British market

Smaller companies have, for natural reasons, limited possibilities of investing a larger amount of resources during an establishment and tend to take fewer risks. Swedish small- and medium sized companies therefore mainly choose to establish via an agent or distributor on the British market in order to share the cost of the establishment. Setting up a subsidiary before finding the specific marketplace can be very expensive due to the costs of hiring personnel, office space etc. Using an intermediary on the market may however imply a limited control of the business for the Swedish company as well as the information sent out to the marketplace regarding their products/services. Additionally, the risk is also that the company gets less contact with the important information and signals from the marketplace which is vital for the development of the
business. However, is there initial sales potential for the product/service, i.e. if revenues can be generated fast, there are motives for setting up a subsidiary in the early phase of the establishment even for a smaller company.

The question is therefore how a company can obtain both low costs for the establishment in the UK as well as keeping the control over the business and the information flow to and from the market. First and foremost should the company outline an efficient communication system with the intermediary or representative on the UK market. The system must be supported by a suitable technical solution in order to facilitate the information flow. A good base to set up the framework of information flow is to outline a contract which contains the conditions for the exchange of information. Both parties will obtain a mutual understanding of the expectations which makes it easier to overcome future problems due to misunderstandings. Furthermore, it is important to create a personal relationship with the partner or the clients in the UK since this is a far more significant aspect than on the Swedish market. A personal relationship generates a sense of responsibility and facilitates the flow of the information to and from the marketplace. Additionally, it is easier to detect if the business in the UK is not as successful as planned in order to support the business in an early stage and in an appropriate way. Finally, an important aspect of achieving a successful establishment is to find the right partner to cooperate with in the UK. Finding the right partner implies a partner with the right experience and knowledge of the specific line of business along with an appropriate network on the marketplace. This also constitutes a good platform to build a future subsidiary from since it is often the employees at the agent/distributor who form the future workforce.

Positive aspects of being a Swedish company on the British market

The advantage of having a Swedish background when doing business in the UK is the perception of having a very good reputation on the British market. The Swedish companies are considered to offer high quality products/services and have a reputation of being very trustworthy business partners. One can easily trust that a Swedish company keeps its promises. Another interesting aspect is that the Swedish companies are automatically perceived as being environmentally friendly, which may be an advantage since the issue of global warming is at the top of the political agenda in many countries, so also in the UK.

Challenges for Swedish companies in the UK

The greatest challenge on the British market for the Swedish companies is without a doubt the tough competition they come across. However, the participating Swedish companies perceive that the British not always fully appreciate good quality. High quality implies higher production costs which in turn reduce the ability to compete on the British market for many Swedish companies. High competition may however be positive in the longer term for the development of the Swedish companies. According to the study, the UK is next to Germany the market where most Swedish companies establish business after the Nordic countries. The companies often experience quite a low competition and may even be market leaders in the Nordic countries, which implies that they might find the British market extra tough in the early phase of an
establishment. On the other hand, a company operating in a competitive environment is forced to develop its products/services with the aim of making them more competitive, which is a necessity in order to grow as a business. I have found it important for the Swedish companies not to start to compete over prices on the British market. Instead they should continue to offer good quality and **focus on developing the product’s/service’s competitive advantage** on the market with the purpose of **creating value to the customer**. However, the company should **look into the cost structure** of the product/service in order to keep the price within a reasonable range so the customer finds it overall more beneficial to choose Swedish product/service instead of the low price alternative. Customers are generally willing to pay a higher price for features of the product/service which bring them value. Studies also show that companies investing in competitive advantage for their products/services, which also comprise good quality, can set a higher price on the market. As a result, they have considerably higher profitability than the low price alternatives.  

The study also shows that the British market represents a good platform for continued growth outside the Nordic countries since the UK is a central location for many international companies. This presents opportunities to find important potential customers with a business outside of the British market as well as key reference customers to facilitate a further expansion.

Another challenge, perceived by the Swedish companies, is the hierarchical structure which is still present in many British companies. It can for example be difficult to get hold of the decision maker at a British company due to the presence of personal assistants or secretaries who complicate the process of establishing contact. Further, there may be misunderstandings with the employees at the subsidiary due to different perspectives concerning the flat organisation, which is very common in Swedish businesses, and the traditional hierarchical structure in the UK. However, the hierarchical structures are about to be phased out from the British market since the newer workforce possess a modern education where hierarchy is considered to be very inefficient and costly to maintain. The study indicates that as long as a company has an **awareness of the cultural differences** and **plans for the potential problems** which might come up it does not have to be an issue.

The study also shows that some companies have a difficulty finding a suitable partner on the market, such as a distributor or an agent. Some participating companies has experience of not being content with the results on the British market when the partner has proved to be less ambitious than expected or not experienced enough of the marketplace. As a result, the Swedish company may lose valuable time and money on the British market. Worst case scenario, the Swedish company may get a bad reputation on the market which generally is very difficult to restore. The simplest way to avoid the situation of ending up unsatisfied about the partner’s achievements is to **carry out a thorough market check** prior to the establishment. By doing this the Swedish company receives an indication of the market’s structure and the potential for their specific product/service in order to see what kind of results which can be expected from a partner. Furthermore, a market check provides the company with knowledge of how to **find a niche for**

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the product/service on the British market in order to achieve competitive advantage in comparison to the competitors’ alternatives. Additionally, the chances of finding a suitable agent or distributor increase since the company gets an idea of what kind of partner which would suit the company and which less serious market actors to avoid.

Success factors for Swedish companies on the British market

The study identifies a number of success factors in order to achieve a successful establishment and prosperous business in the UK. These factors are indicated in previous sections with a darker text and are summarized in the bullet points below:

- Perform a thorough market check before the process of establishment is initiated in order to get indications of the product's/service’s potential on the British market and to increase the chances of finding a suitable and trustworthy partner. A good partner is, according to the study, a vital prerequisite for carrying out a successful establishment on the British market. For a company, which initially sets up a subsidiary, it is also important to find the right people to employ and work with since it is the employees who has the closest contact with the customers and they should also have the best knowledge regarding the British market.

- Be aware of the existing cultural differences. The British are for example generally more influenced by hierarchical structures than the Swedes and value personal relationships higher when doing business, see the figure in the right column.

- Establish an efficient communication system with the business partner in the UK. Especially when a company has contracted an intermediary on the market, like a distributor or an agent, it is extra important to set up rules for how information regarding the product/service should be communicated to the marketplace and how the intermediary should report to the Swedish company regarding market information and business results.

- Find a niche on the market for the product/service and develop the competitive advantage so the British customers are prepared to pay for the higher quality, which many Swedish companies generally can offer, instead of the low price alternatives. The Swedish company should however look into the cost structure of the product/service to keep the price within a reasonable range.