EXPORTRÅDET
SWEDISH TRADE COUNCIL

# Export of Swedish Experience Industry

## A basis for prioritization of segments, markets and activities


Swedish Trade Council

Swedish Growth Industries


September 2006

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# CONTENTS

# EXECUTIVE SUMMARY

The Swedish Trade Council's department Swedish Growth Industries has analyzed the Swedish Experience Industry with the objective to set priorities for the department's activity plan. The study was carried out in two steps :

1. identify the segments with the highest export potential
2. within selected segments identify which markets the companies preferred and which of the Swedish Growth Industries' activities/support would be most beneficial to them

| 1. Selected growth segments | 2. Prioritized growth markets | 3. Preferred activities |
| --- | --- | --- |
| Design (Interior Design)<br>Experience based Learning (Computer/TV games)<br>Fashion (Young Fashion)<br>Music (Pop/rock) | France<br>Germany<br>Japan<br>USA<br>UK | Trade fairs<br>Market Information<br>Mapping of agents, importers, distributors |

# THERE IS A NEED FOR STC SERVICES – but STC should improve communication of service offering and trade knowledge

- Demand  for STC services varies from company to company
- Some companies find STC expensive
- It is important that the STC has knowledge of the trade to be able to offer suitable services
- Assistance with PR activities are especially demanded by music and game companies

In the research, survey and interviews we have cooperated with Gustav Fridlund, Magnus Furingsten and Joakim Johansson of  Inregia AB, part of WSP Group



Source: Surveys and interviews

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# CONTENTS

# PROJECT BACKGROUND

The government has assigned the Swedish Trade Council, Swedish Growth Industries, to assist companies in their efforts to start or expand business abroad

- The Experience Industry, a relatively new and young industry in Sweden, has shown a rapid development during recent years. It has potential to expand further in Sweden and internationally.
- The industry – mainly small companies with limited financial and personnel resources - needs to increase sales and profits to be able to expand.

# SWEDISH GROWTH INDUSTRIES –
# A department within the Swedish Trade Council

The role for the department is to offer Swedish Growth Industries a "vitamin injection" in the internationalization process. We support groups of companies, not individual companies. We work in close cooperation with the different industry associations. Together with STC offices abroad we offer various industry associations, market surveys, fact packs, matchmakings, trade shows etc. The Swedish Growth Industry Programs is 100 per cent funded by the Swedish government.

The Swedish Growth Industries consists today of nine industries:

- Automotive Suppliers
- Environmental Technology
- Experience
- Food
- ICT
- Life Science
- Metallurgy
- Tourism
- Wood Products

# PROJECT OBJECTIVE

The objective was to identify which segments Swedish Growth Industries should focus on when preparing an export strategy for this growth industry. The strategy should meet the needs and demands of the companies and ensure maximum return on government investment

1. Selected growth segments

2. Prioritized growth markets

3. Preferred activities

# RESTRICTIONS

- The segments Gastronomy and Tourism were excluded from this project as they are already covered in a separate programs within the Swedish Growth Industries (Food and Tourism)

- A global comparison with other countries' support to the experience industry is available upon request from Swedish Growth Industries but not included here

# THE EXPERIENCE INDUSTRY – an industry with 13 different segments

Most countries have an international program for their ”cultural”, ”creative”, ”entertainment” or ”experience” industry. Not only the name but also the definition of what is included in this industry varies, which makes comparisons difficult. Sweden has chosen to use the term ”Experience Industry” together with the definition and segmentation below, made by the Knowledge Foundation (KK-stiftelsen) in 1999.

- Architecture
- Art
- Design
- Experience based Learning
- Fashion
- Film/Photo
- Gastronomy
- Literature
- Market Communication
- Media
- Music
- Performing Arts
- Tourism

”The Experience Industry is a collective term for people and enterprises who have a creative approach in their way of producing and/or delivering experiences in any form.” *(Knowledge Foundation/KK-stiftelsen)*

# THE EXPERIENCE INDUSTRY –
# a large number of companies but the majority are very small

| | |
|---|---|
| Company structure | There are approx 64 000 companies within the industry of which a majority are small companies (< 50 employees and 10 million EUR turnover) |
| Number of employees | Approx. 94 000 persons |
| Value add | 37,4 billion SEK contribution to GDP |
| Export | Estimated to 16 billion SEK = 1,6 % of total Swedish exports |

# CONTENTS

# BASIS FOR AN EXPORT ACTIVITY PLAN 2007 – 2009
## Prioritized segments, markets and activities

| | Design | Fashion | Gaming | Music |
|---|---|---|---|---|
| 1. Segments | Design | Fashion | Gaming | Music |
| 2. Markets | • France<br>• Japan<br>• USA<br>• UK | • Japan<br>• USA<br>• Germany<br>• France | • USA<br>• Japan<br>• UK<br>• China | • USA<br>• Japan<br>• China<br>• Germany<br>• UK |
| 3. Activities | • Trade fairs<br>• Market inform.<br>• Partner/contact mapping | • Market Inform.<br>• Agent/contact mapping | • Trade fairs/ matchmaking events<br>• Market inform. | • Assistance with contacts<br>• Market inform.<br>• Trade fairs |

# COMPANIES NEED BUSINESS DEVELOPMENT, MARKET ACTIVITIES AND FUNDING TO EXPAND INTERNATIONALLY

| 1. Internal obstacles | 2. External obstacles | 3. Funding |
|---|---|---|
| • lack of personnel, time and export competence<br>• production<br>• distribution<br>• administration<br>• lack of market and PR knowledge | • trade rules and routines<br>• difficulties in finding right contacts<br>• cultural differences between markets | • lack of fundings in general |

Within the different segments the problems are different important. Above are the general problems for the industry.

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# CONTENTS

# ASSESSMENT PARAMETERS ARE SET TO SINGLE OUT THE SEGMENTS WITH THE HIGHEST POTENTIAL TO GENERATE EXPORT AND EMPLOYMENT IN SWEDEN

| Assessment parameter | Low potential | Medium potential | High potential |
|---|---|---|---|
| Employment | < 5% | 5 – 10 % | > 10 % |
| Employment growth | < 10 % | 10 – 20 % | > 20 % |
| Company structure<br>(% of employees in SMEs) | | 50 – 95 % | > 50 % |
| Value add, MSEK | < 3 000 | 3 000 – 6 000 | > 6 000 |
| Growth of value add | < 5% | 5 – 20 % | > 20% |
| Growth of productivity | 0% | 5 – 9 % | > 9% |
| Export, value or estimated value MSEK | Low | 100 – 600 | > 600 |

# DESIGN, FASHION, GAMING AND MUSIC STAND OUT AS SEGMENTS WITH THE HIGHEST POTENTIAL

| Param. / Segment | Empl. | Empl. growth | Comp. struct. | Value add [MSEK] | Value add growth | Productivity growth | Export [MSEK] | Export growth | Respondent assess. | Overall assess. |
|---|---|---|---|---|---|---|---|---|---|---|
| Architecture | 6% | +4% | 79% | 2 698 | +14% | +18% | Low | 0 | - | - |
| Art | 2,5% | +47% | 88% | 570 | +32% | -9% | Low | + | - | - |
| Design | 7% | +17% | 92% | 2 234 | +5% | -13% | 600 | + | + | + |
| Fashion | 4% | -21% | 81% | 987 | -14% | +11% | 7 822 | + | + | + |
| Film/Photo | 11,5% | +16% | 65% | 3 513 | +11% | 0 | 2 000 | - | 0 | 0 |
| Gaming | 3% | +54% | 59% | 1 031 | +23% | -6% | 1 000 | + | + | + |
| Literature | 6,5% | +8% | 49% | 2 739 | +21% | -7% | 118 | + | 0 | 0 |
| Market Comm. | 14,5% | -7% | 93% | 6 260 | -4% | +11% | Low | 0 | - | - |
| Media | 33% | -4% | 21% | 15 176 | +18% | +9% | Low | 0 | - | - |
| Music | 3% | +22% | 79% | 1 250 | +24% | +7% | 6 533 | + | + | + |
| Perf. arts | 8,5% | -4% | 25% | 895 | +14% | +14% | Low | 0 | - | - |

High potential    Medium potential    Low potential

# DESIGN – interior design has high export potential

- There is no clear definition of design accepted by all. ”Design” can mean :
  - aesthetic and functional products
  - the process of creating a product
  - a bridge between the producer and the consumer
  - ”everything in a product but the raw material” (Svensk Form)
- The expected export growth lies in designed products (aesthetic and functional) more than in design as a service
- Interior design is a concrete sub segment with increasing export. It is highly in demand internationally
- A ”designed” object gives the consumer an ”experience” and a connection to a specific lifestyle. Very often a designer’s name is connected with the product
- Interior design include
  - furniture (ex. Blå Station, Källemo, Offecct, Swedese..)
  - lighting (ex. BSweden, Örsjö Belysning, Zero..)
  - textiles (ex. Egget, 10-gruppen, Kasthall, Mairo, Mimou..)
  - other interior design objects (ex. Asplund, DesignHouse Stockholm, Mateus, Mingla..)

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# FASHION – the growth is found in Young Fashion design

- The number of new fashion design companies have increased the past five years
- Most of the new companies are found in the sub segment Young Fashion
- Export development is high and the potential is growing
- Number of employees and value add is diminishing but productivity growing due to out-sourcing of production to low cost-countries and countries specializing in fashion manufacturing
- Fashion is  together with music the most important segments within the Experience Industry in terms of existing export and growth potential
- Fashion design – trendsetting design that aims at creating an identity/image for the consumer
- Examples of companies – Acne, Dagmar, Nudie, Hope, Fifth Avenue Shoerepair, Velour, Whyred etc

# GAMING – continued growth expected among Swedish game developers

- Within the segment ”Experience based learning” gaming has the highest export as well as export potential
- Computer games is a narrow segment with high export share and continued growth potential
- Sweden has approx 100 game developers, most of them very small. Total turnover for this segment is estimated to 1 billion SEK and is expected to grow with 25% in 2006
- The gaming industry also gets substantial support from other governmental organisations such as the Nordic Game Program funded by the Nordic Council of Ministers with the purpose to support game development in the Nordic region including marketing events
- Examples of game developers are Digital Illussions, Grin, Jadestone, Starbreeze and publishers are Activision and Pan Vision

# MUSIC – growth potential in pop/rock

- The study only included so called commercial music, mainly pop/rock
- There has been a substantial growth of this segment for the past ten years and the export is among the highest within the Experience Industry (6,5 billion SEK)
- Swedish pop/rock music is well-known and successful abroad and plays a large role in the ”Swedish image”
- Together with fashion, music is the largest export segment of the Experience Industry

Export activities for the commercial music are effectuated by Export Music Sweden (ExMS), owned by the music industry, and overlap the STC offerings. They have little funding from the government. ExMS’ activities are much appreciated by the industry. The STC will continue to support projects were synergies can be found in more than one segment, for example fashion/music or music/gaming industry.

# GENERAL SWOT ANALYSIS OF PRIORITY SEGMENTS

## STRENGTHS

- National growth
- Internationally competitive
- Innovation and Creativity
- Sweden - a positive image

## WEAKNESSES

- Unclear definition
- Lack of funding
- Lack of competence in business development
- Lack of cooperation within the industry
- Many small sized companies

## OPPORTUNITIES

- Growing global market and demand for experiences
- Cooperation between different segments and with other industries
- Increased focus on intellectual property

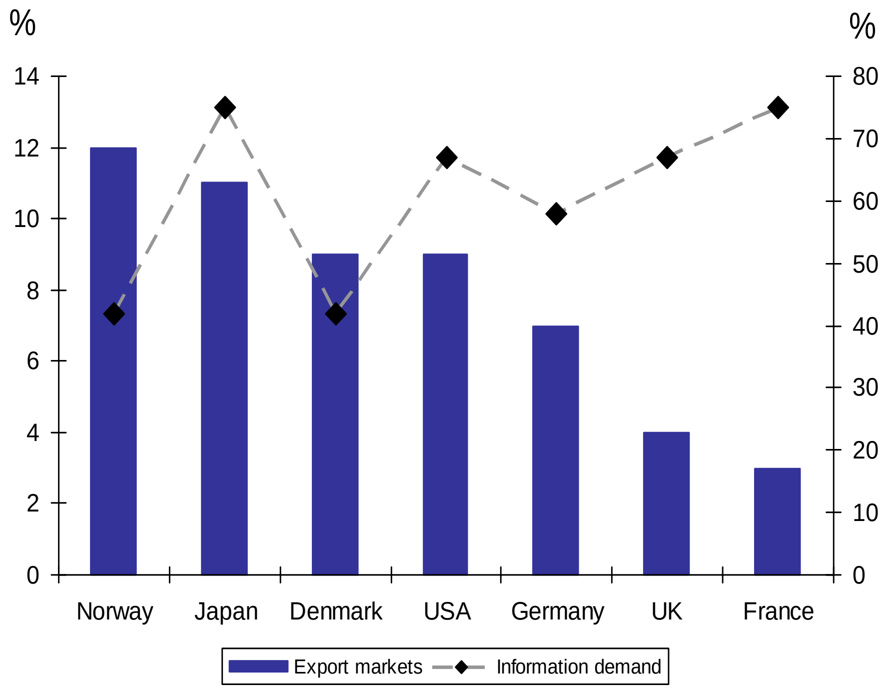
## THREATS

- Competition from other markets with larger governmental support
- Competition from low cost countries
- Rapid change of trends

# CONTENTS

# DESIGN – a market's export share of the production and the information demand do not necessarily correlate

## Export shares vs. company information need



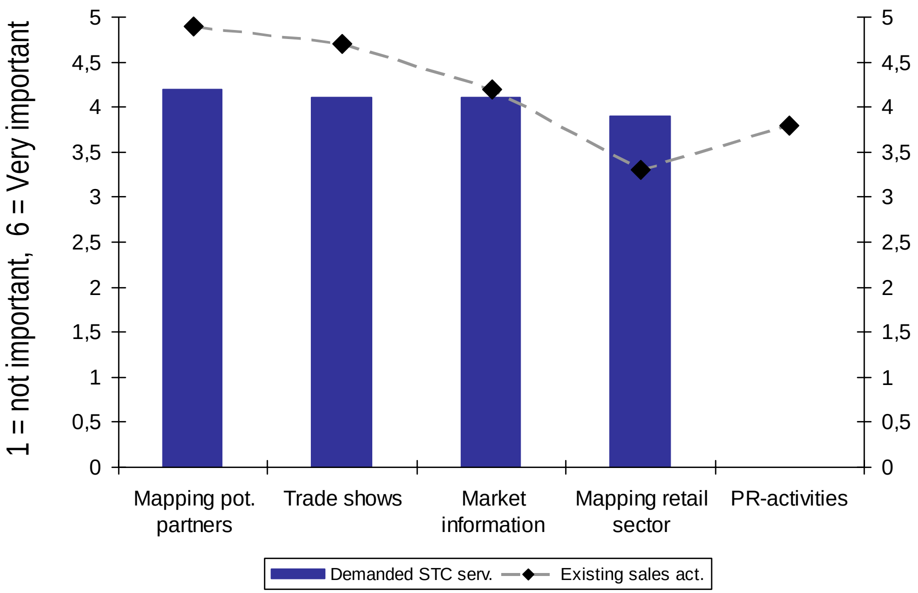

## Conclusions

- The Scandinavian countries hold large export shares but the companies need for information is relatively low. These markets may be considered as saturated.
- There is a large interest in UK and France in comparison to export shares. This may be an indication that these markets hold growth potential but also that they possess a large share of hype only.
- Japan and the US hold large export shares and are interesting to the companies. They should be considered as the markets where STC support could bring most impact.

**Most impact of STC services in USA and Japan**

# DESIGN – main STC services equally demanded

## Demand of STC services vs. existing sales activities

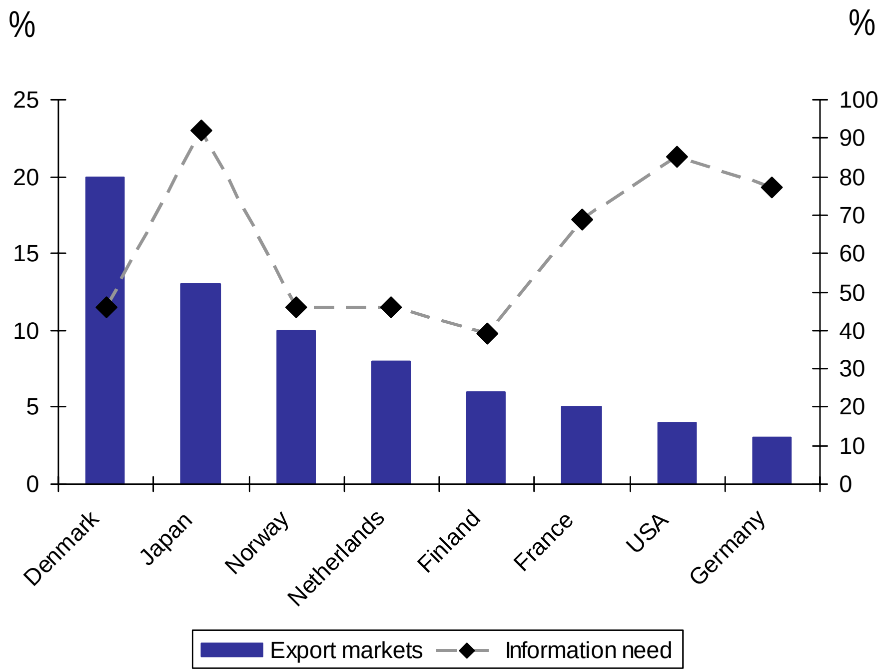



## Conclusions

- Finding the right partner is most important
- Participating in a Swedish pavilion at an international trade fair is attractive (ie 100% Design London, 100% Design Tokyo, ICFF New York, Maison & Objets Paris)
- PR-activities are high in demand , but not one of STC's core services. This service may be considered in the future.

# FASHION – the market's export share of the production and the information demand do not correlate

## Export shares vs. company information need



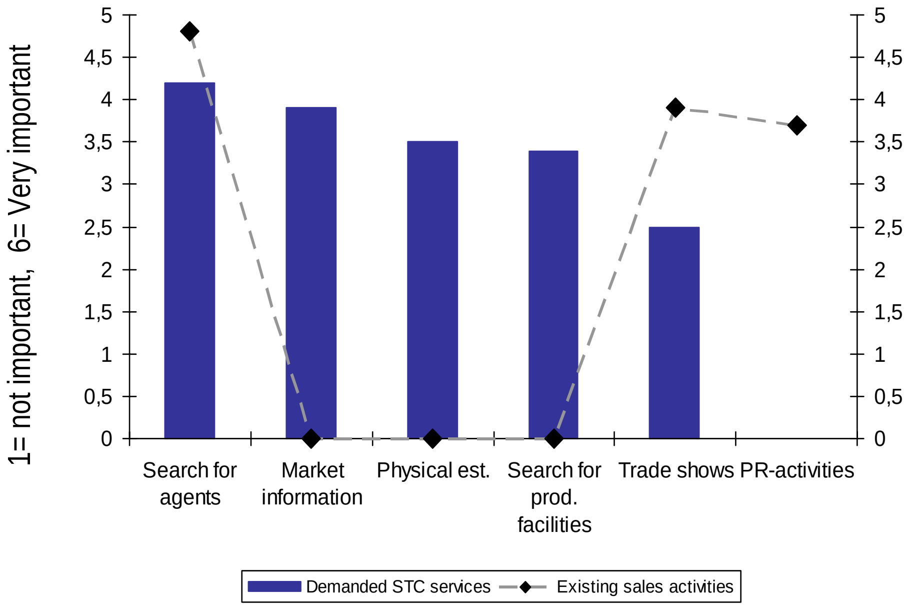

## Contradictory conclusions

- There is a large interest in USA and France in comparison to export shares. This may be an indication that these markets hold growth potential but also that they possess a large share of hype only.
- Japan holds a large export share and is interesting to the companies. Germany, a neighbouring country has a low export share but high interest and high potential.

**Germany is a potential market - high in demand and low export share**

# FASHION – it is important that the STC offerings reflects the demands from the companies as they are very small

## Demand of STC services vs. existing sales activities



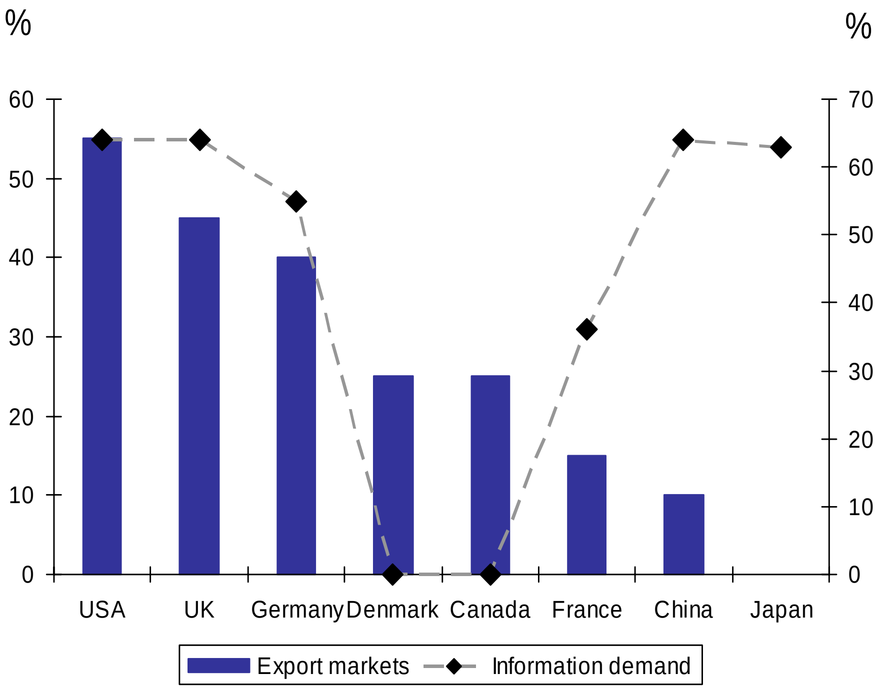

## Conclusions

- Mapping potential agents is the most demanded service, followed by market information
- The interest to participate in international trade fairs is generally high but the interest to participate in a Swedish pavilion is generally low
- The demand for physical establishment abroad does not reflect reality today as most companies are very small
- PR is important but not a STC core service. May be considered to include in the future

**Agents play an important role in the fashion business**

# GAMING - a market's export share of the production and the information demand don not necessarily correlate

## Export shares vs. company information need



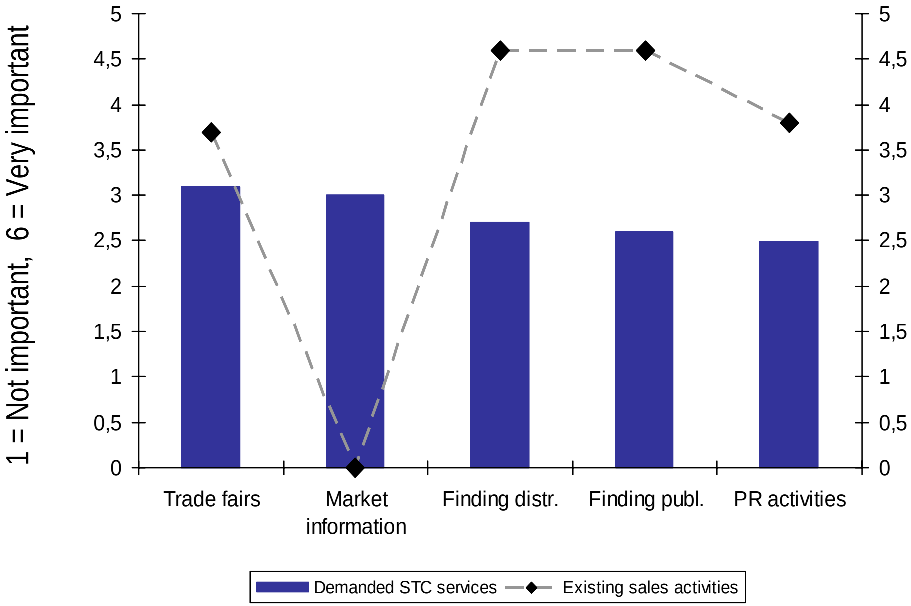

## Conclusions

- USA,UK and Germany hold large export shares and are still interesting to the companies. These markets may be considered to focus on.
- There is a large interest in China and Japan in comparison to export shares. This may be an indication that these markets hold growth potential but also that they possess a large share of hype only.

Most impact of STC services in USA , UK and Germany

# GAMING INDUSTRY – trade fairs and matchmaking are very important

## Demand of STC services vs. export shares



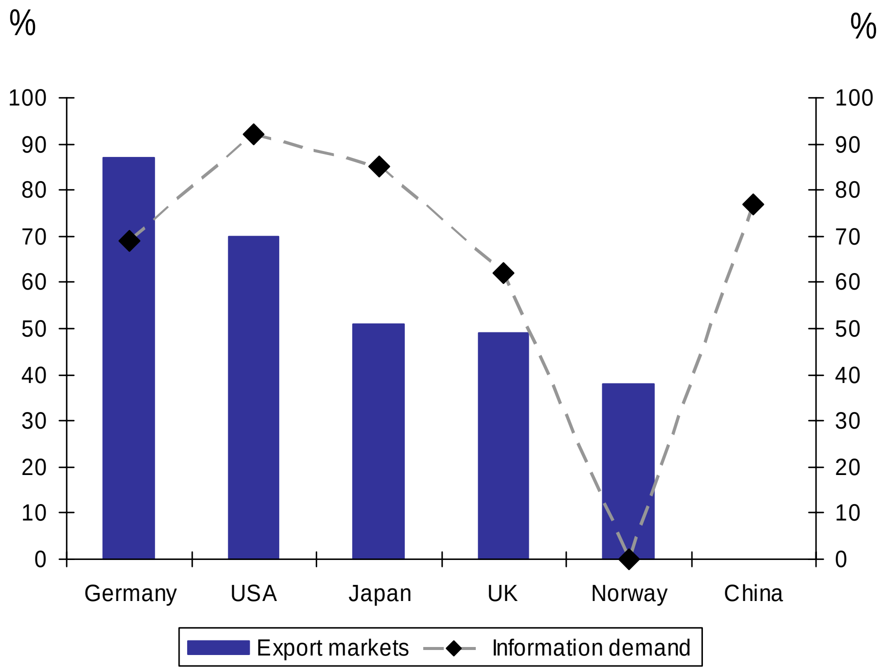

## Conclusions

- Participating in international trade fairs is important, as it is the forum for meeting partners, distributors etc (ie GDC San Francisco, GC Leipzig)

- Other requested assistance
  - legal advice in contract writing
  - active match-making
  - interactive market guides
  - marketing/PR of Swedish gaming industry abroad

# MUSIC - a market's export share of the production and the information demand do not necessarily correlate

## Export shares vs. company information need



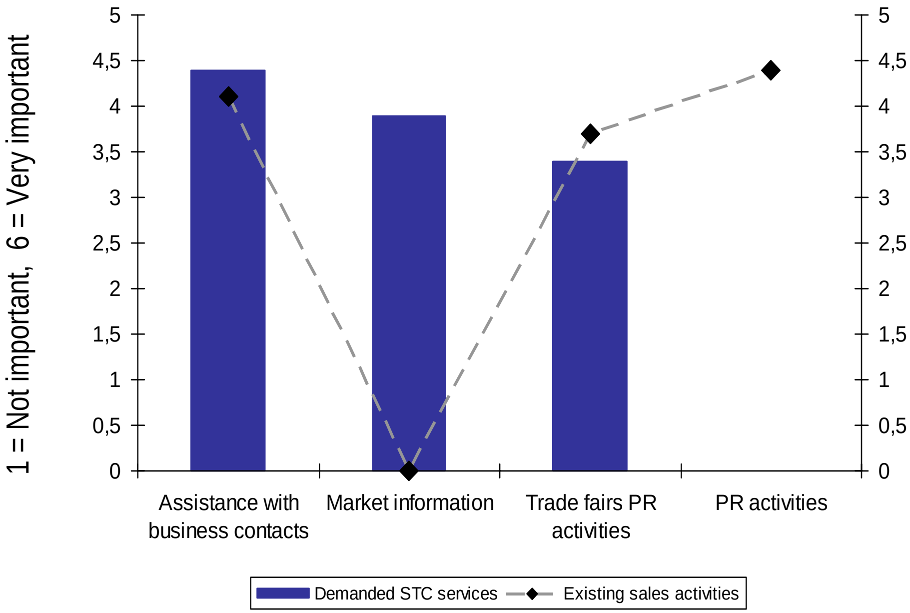

## Export shares vs. company information need

- Norway holds a large export share but the companies' need for information is low.
- There is a large interest in China in comparison to export shares. This may be an indication that this market holds growth potential but also that it possesses a large share of hype only.
- Germany, USA and Japan hold large export shares and are interesting to the companies. They should be considered as the markets where STC support could bring most impact.

**Most impact of STC services in Germany, USA and Japan**

# MUSIC – companies need assistance with international contacts

## Demand of STC services vs. export shares




## Conclusions / explanations

- Companies find it difficult to get in contact with the right international record companies, publishers etc. Companies doubt that STC can offer this service as that demands a thorough knowledge of the music business

- Participation in a Swedish pavilion at trade fairs are already offered and effectuated by Export Music Sweden, a service appreciated by the companies

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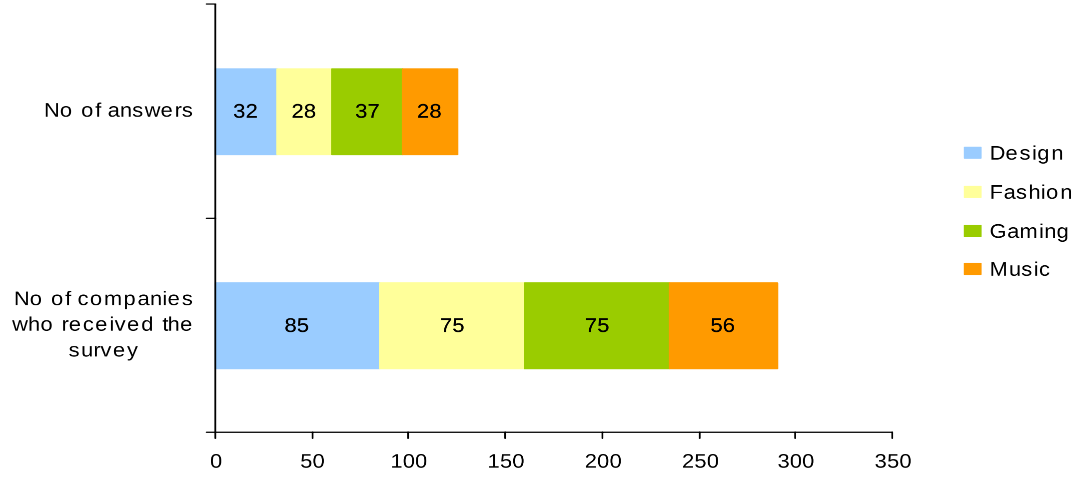
# CONTENTS

# IDENTIFICATION OF MARKETS AND ACTIVITIES

The second part of the study included
a) interviews with representatives from trade organizations and other experts
b) a web-based survey among companies in the four selected segments

The objective was to identify which markets the companies needed more information about and which export activities/STC services would be the most beneficial for them in their internationalization process. The following result is based on answers from 125 companies. 295 companies were invited to participate. **The reply frequency was 43%.**



# FUNNEL APPROACH TO ZOOM IN ON SEGMENTS, MARKETS AND ACTIVITIES WITH HIGHEST POTENTIAL

Key determining factors

**Which segments?**

- Number of employees
- Company structure
- Value add
- Productivity
- Export
- Companies' and trade associations' will and intentions to export

**Which markets?**

- Industry's existing exports
- Industry's planned penetration
- Growing markets for selected segments

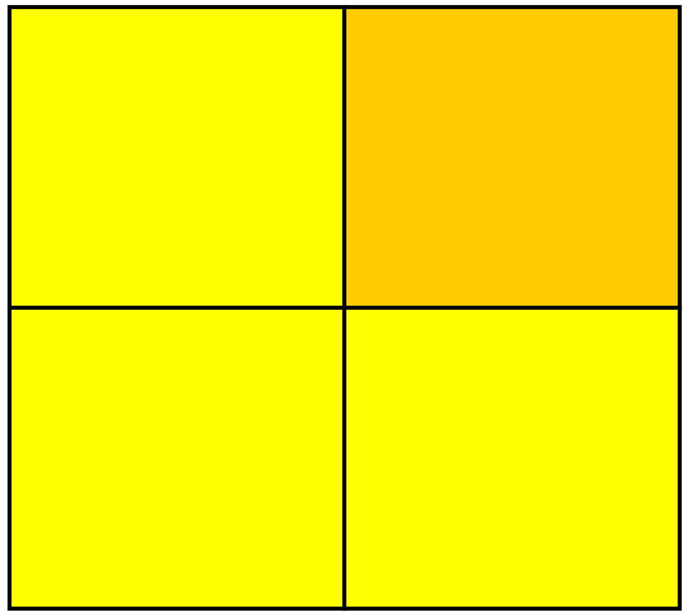
**Which activities?**

- What are the key challenges to overcome for Swedish companies to expand abroad?
- Which activities would be most effective to support Swedish companies in overcoming these challenges?

# BASIC LOGIC FOR HOW TO SET PRIORITES FOR SEGMENTS

- Number of employees
- Company Structure
- Value add
- Productivity
- Export
- Respondents' comments

Segment attractivity



*Priority segments will be selected, based on the companies' needs and where government supported activities can be most effective*

Potential impact of activities

- Presence of significant number of companies
- Cost and difficulty of achieving result
- Companies own interest and needs

# ANALYSIS AND PRIORITY OF SEGMENTS

The ”experience industry” as a collective term is not statistically defined and there are few trade associations in this sector.  As a consequence official data is not available for all segments and have to be estimated. Existing statistics are mainly supplied by Statistics Sweden (SCB) but built on information not fully adapted to the experience industry. Thus it is very difficult to gather complete statistical data about the Swedish experience industry.

Activities in the experience industry are divided into three lines of business :

- production (including both creator and producer)
- support (necessary for the making of a product,  i e printing of books)
- distribution and transport (i e wholesale and retail)

This project only included production.

For statistical variables, see page 37

# THE ANALYSIS IS BASED ON STATISTICAL DATA, SURVEYS AND INTERVIEWS

A multistrategical method – quantitative statistical data combined with qualitative input from respondents - was used when evaluating and prioritizing segments.

| Statistical sources | Survey respondents | Interview respondents |
|---|---|---|
| ▪ Statistics Sweden (SCB)<br>▪ Swedish Agency for Economic and Regional Growth (Nutek)<br>▪ The Knowledge Foundation (KK-stiftelsen) | ▪ Trade Associations<br>▪ Meeting Points (KKS)<br>▪ Councils and institutes | ▪ Researchers and experts specializing in the Experience Industry |

# STATISTICAL DATA

Variables used for the quantitative evaluation of the segments in relation to each other:

| | |
|---|---|
| Number of employees in the segment | a high number of employees gives more interest in the segment<br>-the higher the growth of employment the more focus in the segment |
| Company structure | Small companies = < 50 employees and 10 million Euro turnover<br>Medium companies = < 250 employees and 50 million Euro turnover<br>The data shows the percentage of employees in small companies |
| Value add | Contribution to GDP<br>- high value means focus on the segment<br>-the higher the growth of value add the more interest to the segment |
| Productivity | Total salaries per employee<br>- the higher the growth of productivity the more advantageous for the segment |
| Export | Goods, services, intellectual property<br>-the higher  the figure the more important is  the segment<br>-high export growth is an advantage for the segment |

# CONTENTS

# SURVEYS

Qualitative input from trade associations, councils, institutes and other.

| Respondents | |
|---|---|
| • Atkins, Consultants to Architects<br>• Cirkus Cirkör<br>• "Meeting points" in Gothenburg, Hällefors, Karlshamn, Malmö, Piteå, Stockholm<br>• Novax<br>• Reklamförbundet<br>• Spelplan | • Statens Kulturråd<br>• Svensk Form<br>• Svenska Filminstitutet<br>• Svenska Institutet<br>• Svenska Moderådet<br>• Svenska Förläggareföreningen<br>• Sveriges Tidskrifter |

# INTERVIEWS

| Contact | Organisation, company |
| --- | --- |
| • Carin Daal, Head responsible for export competence, Experience Industry | The Knowledge Foundation (KK-stiftelsen) |
| • Pierre Guillet de Monthoux, Professor, Faculty of Business Administration | Stockholm University |
| • Tobias Nielsén, Founder, specializing in the Experience Industry | QNB Analys & Kommunikation AB |
| • Dominic Power, Teacher, Department of Economic and Regional Geography | Uppsala University |

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# MORE INFORMATION ...

- KK-stiftelsen  www.kks.se
- KK-stiftelsens Mötesplatser  www.upplevelseindustrin.nu
- Svensk Form (The Swedish Society for Craft and Design)  www.svenskform.se
- The Swedish Fashion Council  www.moderadet.se
- Association of Swedish Game Developers  www.spelplan.se
- Nordic Game Program, Nordic Council of Ministers   www.nordicgameprogram.org
- Export Music Sweden   www.exms.se