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New Sources for Growth

By
Marco Maeder
Founding Partner, Strategia Partners

For some time now, Western companies have been facing challenges to growth in their mature home markets.

With the opening of global markets in the 1990s and the attendant acceleration of growth in emerging markets, niche players in equipment markets were successful in developing competitive global offerings, while leading Western brands in premium and luxury goods found themselves well-positioned in markets with rising wealth.

The strategy of relying on emerging markets as a primary source of growth for Western companies (both B2B and B2C) is increasingly under pressure, for various reasons:

- Rising competition from mid-range players from emerging markets;
- Political tensions between the US and China, leading to commercial and technical barriers over entire industries (Semiconductors, Telecom and Data Infrastructure, etc.);
- Governmental subsidies for specific industries (environmental technology and infrastructure, semi-conductors, etc.), leading to geographical shifts in capex allocation;
- Supply chain ruptures following the COVID-19 pandemic and nearshoring (as well as political issues in certain circumstances);
- Technological ruptures, sustainability trends, and regulation leading to shifts in competitiveness of traditional players (i.e., potential decline of production of combustion vehicles in Europe due to limited competitiveness compared to Asian players on EVs).

Western companies, in particular niche leaders on B2B markets who have benefited from global growth in the past, face significant challenges and must review their strategies and allocation of investments.

The good news is that there are alternative sources for growth.

New Sources for Growth

Over the past 20 years, many markets have been directly driven by the growth of the middle class and strong investments in infrastructure in emerging markets. This is still the case, although the significance of the growth lever as well as potentially the access and competitiveness of Western companies has been reduced.

Other major megatrends have continued to contribute to growth and, in some cases, have even accelerated, such as (to select a broadly defined groups of trends):

- Technology;
- Climate change;
- Urbanization;
- Digitalization;
- Demographic and social change;
- Other factors.

These megatrends are drivers for a large number of markets, equipment, consumer goods and services – both on global and local levels.

The table below illustrates and describes the key megatrends.

Figure 1: Overview of Strategia Partners Megatrends

	1	2	3	4	5	6	7	8	9	10
Trend	Artificial intelligence	Automation	Climate change	Commoditi-zation	Connectivity	E-commerce	Digitalization	Data era	Cybersecurity	Electrification
Description	New computational abilities coupled with advanced learning	Use of technology to control and monitor elements such as industrial production	Prevention and reaction to the warming of the planet	Without major innovation, products are becoming commodities	Greater connectivity between people, regions, and things	Online marketplace to buy and sell goods and services	Integration of digital technologies by digitalization of information	Smart use of data from production, people, processes, and the like	Greater protection for network systems from digital threats and attacks	Ongoing electrification of buildings and vehicles (especially in the developing world)

	11	12	13	14	15	16	17	18	19	20
Trend	Energy mix & renewables	Energy storage	Gender shift	Globalization	Growth of middle class	Health and work safety	Individuali-zation	Industry consolidation	Knowledge society	Mobility
Description	Increasing share of electricity in energy mix & renewables in electricity production	Greater capacity to capture and store energy from different sources	Movement away from fixed biological gender ideas	Integration of economies, industries and policy making around the globe	Rising income lifts large populations into the global middle class	Increasing awareness and fostering of human health	Increasing importance of self-fulfillment with rising living standards	Scale advantages lead to larger players consolidating certain industries	Decentralized use and generation of knowledge	New possibilities for mobility due to electrification, technologies and connectivity

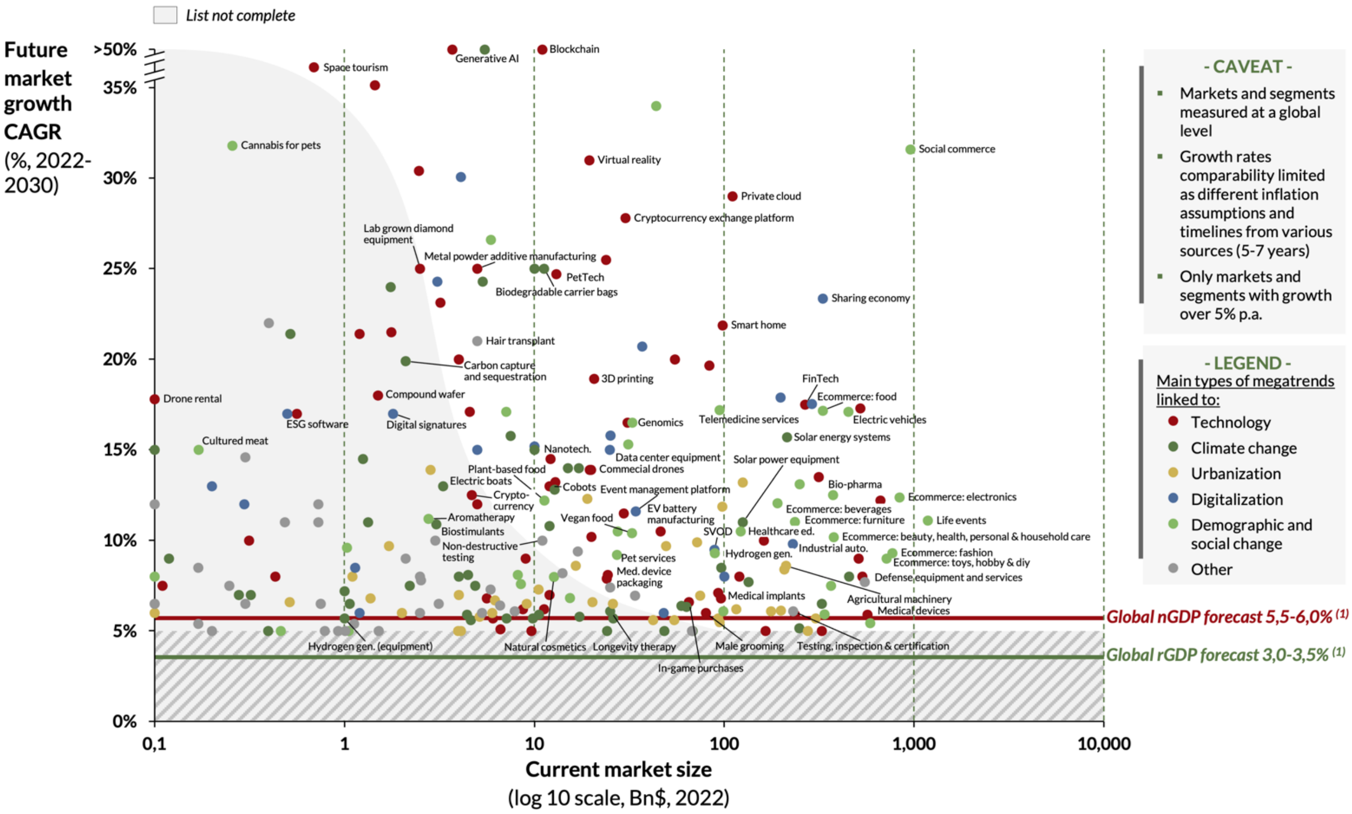
	21	22	23	24	25	26	27	28	29	30
Trend	New work	Political safety	Population growth	Resource and energy scarcity	Sustainability and ESG	Shift in global economic order	Social inequality	Technological breakthroughs	Demographic change	Urbanization
Description	New forms of work for humans as blue-collar jobs are becoming automized	Safety concerns of people due to war, terrors, rising populism, etc.	Increasing global population (especially in Asia and Africa)	Increasingly large and prosperous countries require more resources	Efficient use of renewable resources involving economic, social, and other aspects	Economic centers moves away from Western countries	Rising inequality within countries	Technological advancements change society and businesses	Humans become older, have less children, and child mortality declines	Increasing share of population living in urban areas

Sources: Trend One, World Energy Council, WWF, z punkt, Zpryme, Zukunftsinstitut, Zukunftsstark, Strategia Partners

In reality, the above megatrends drive a large number of markets – some of them represent global markets that are already large while others remain small niche markets.

Strategia Partners has drawn on its expertise for more than 250 markets (or segments of markets) which are forecasted to grow more than 5% p.a. (nominal terms) over the next years and therefore beyond global GDP.

Figure 2: Strong Growth ***Markets***



Note: Total of 250 markets analyzed, the cumulated value represents about 20% of the global GDP, not all markets labelled; (1) Projections for 2022-2030, real GDP forecast for 2023 and 2024 is of 3,0% including inflation; Growth depending on different sources e.g., IMF, OECD etc.
Sources: Shown at the end of the article, Strategia Partners

The cumulative value of these markets represents just about 20% of global GDP. The analysis is certainly not complete (in particular for smaller markets) and might reflect double counting through connected value-chains. Nevertheless, it clearly shows that for both large, global leaders and smaller niche players, there are multiple options of areas characterized by strong growth.

Positioning in strong growth markets is necessary for large groups and also niche leaders. A company with a portfolio constituted to 90% of activities with limited market growth (i.e., 3% p.a.) and only 10% of activities with strong market growth (i.e., 10% p.a.), will grow, albeit strong market share gains, at 3-4% growth, at the level of global GDP – leading to limited value creation. Shifting to 50% of activities with strong market growth in the portfolio will lead to a structural growth of 6-7%.

Companies can benefit from strong growth markets not only by directly developing in them, which can in some situations prove difficult, given high entry barriers (i.e., commercial aerospace). They can also address these strong growth markets indirectly, addressing key (potential) clients having a beneficiary exposure to these fast-growing industries and positioning as a Tier 1, 2 or 3 supplier – as long as margins remain sufficiently attractive.

There are numerous examples of companies having achieved sustainable high growth by entering and developing leadership positions in strong growth activities. Carl Zeiss for example, has entered successfully both in the MedTech and Semiconductor Manufacturing Technology market. Following strong investments in R&D and acquisitions, these two activities account now for about two thirds of revenue growth (cf. Figure in Annex of this text), contributing to the almost double digit growth of the group during the past years.

Adopting New Sources for Growth

The question is not whether to invest in activities characterized by strong growth but how to make a sound strategic choice, limit risks and develop successful, sustainable positions.

Prior to defining a strategy aimed at shifting the organization towards stronger growth areas, shareholders and management should:

- Get aligned on the overall goal and the share of revenues the company wishes to achieve in fast growth markets (in a given time frame);
- Prepare the organization to adopt potentially new activities and adequate managerial leverage to implement the decisions;
- Consider organizational changes to provide adequate dedication and support to potential new activities once growth initiatives have been launched.

To select the right field, markets and activities, companies should develop a structured mapping of potential markets and market segments, positively influenced by megatrends. Ideas can be generated through existing knowledge, initiatives and portfolio activities as well as with additional external sources (competitors' activities portfolio, research, …).

In order to identify the most adequate growth activities to invest in, two main dimensions should be analyzed (simplified):

(1) Market attractiveness

   a. Market size and future growth (with a long term perspective);
   b. Structural margins (and outlook) and margin levers;
   c. Competitive environment, degree of concentration / fragmentation;

   d. Value creation strategy for a new entrant, and presence of suitable M&A opportunities (in case of entry via acquisition).

(2) Market adjacency

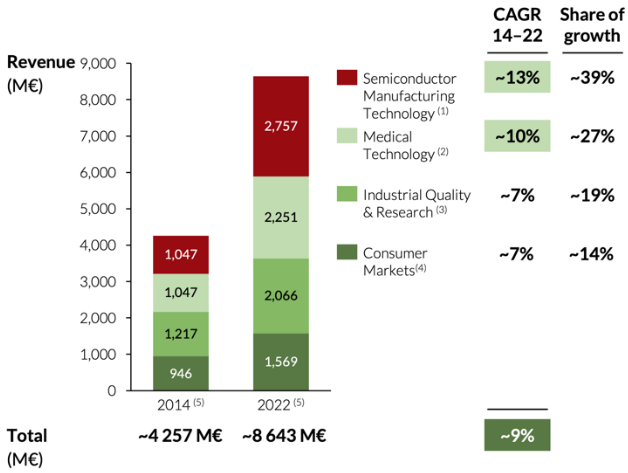
   a. Compliance with existing company investment criteria (ESG and other);
   b. Proximity of growing activity to existing competencies (technologically, commercially, culturally, etc.);
   c. Potential synergies with existing activities;
   d. Risks and level of risks for strategy implementation in new activity.

Moving a company into new activities and diversifying the activity of the portfolio is not free from risks. To take the right decisions, it is key to have solid strategic analysis and a thorough process involving key members of the company along the journey.

As Strategia Partners, we regularly assist companies with goals of realizing stronger growth or maintaining high growth levels by:

- Targeting the right ambition of growth (calibrating between growth in existing and new activities), by including three perspectives: strategic possibilities, organizational capabilities and sustainability (of the intended growth level and growth fields);
- Evaluating existing competencies (technology, commercial network, organizational capabilities);
- Mapping potential fields of adjacent growth opportunities (based on market trends, markets characterized by strong growth and existing competencies);
- Selecting most attractive and adjacent new activities (based on thorough strategic analysis);
- Formulating realistic growth strategies in new activities (right level of ambition combined with financial and organizational capability);
- Developing business and action plans (organic and with acquisitions);
- Screening and approaching of targets to accelerate growth with acquisitions (where applicable).

Annex A: Carl Zeiss AG



- Focus on highly innovative solutions in key niche markets related to megatrends in semiconductors and med-tech
- The SMT and MedTech SBUs together make up 66% of Carl Zeiss AG's growth

Semiconductor Manufacturing Technology

- Producer of lithography optics used in the manufacture of semiconductors and optics for inspection microscopes
- Carl Zeiss AG founded a separate business unit for semiconductor manufacturing in 1994 that has benefitted from the strongly growing semiconductor market especially in the last decade
- Persistent expansion of operations and over 25 years of partnership with ASML, allowed for innovative developments and the securing of high market relevance by SMT

Medical Technology

- Specialist in ophthalmology and optometry equipment since 1991 with a focus on tech-enabled diagnostic devices
- Notably moved into the fields of digitalization of eye care and med-tech enabled eye surgery in the past five years through various key acquisitions
- Reinvestment of 15% of revenues in R&D, continuous introduction of innovations into the market, and synergistic acquisitions have further enabled the growth of the SBU in past years

(1) SMT, Semiconductor manufacturing optics, photomask systems and process control solutions; (2) Systems and artificial lenses, surgical microscopes, medical loupes, intraoperative radiotherapy, other; (3) Metrology systems, nano dimension microscopes, other; (4) Lenses for ophthalmological and optometric use; (5) Excluding revenues from other categories (30 M€ in 2014, 111 M€ in 2022); Sources: Annual report, Carl Zeiss, Press releases, Manufacturing Today, Strategia Partners

Sources used:
ABB, AER, Allied Market Research, Arizton, BBC, Benzinga, Berkshire Hathaway, Bio Space, Bloomberg, Bloomberg Businessweek, BMV, BRC, Business Insider, Business Research Insights, Business Wire, Canada.ca, Cisco, CNBC Business News, Cognitive Market Research, Cruise Market Watch, Crunchbase, Data Bridge, Digital Journal, E.On, Emergen Research, Entrepreneur, Euroconstruct, Euromonitor, European Strategy and Policy Analysis System, Eurostat, Fact MR, Fast Company, Financial Times, Forbes, Fortune Business Insights, Future Market Insights, Future Tech-Trends, Global Market Insights, Globe News Wire, GMI, GQ, Grand View Research, GWI, HAICTA, Harvard Business Review, IC Consulting, IFR, IMAC Group, IMF, IMIR, Insight Partners, Investopedia, Market Watch, Markets and Markets, Maximize Market Research, McKinsey, Mega Trend Watch, MIT, MIT Energy Initiative, Morningstar, NASDAQ, National Grid, Navigant Research, New York Times, NVO, OECD, One Trend, P&S Intelligence, Persistence Market Research, Pitchbook, Polaries, PR Newswire, Precedence Research, Presistence Market Research, ReportLinker, Research and Markets, Reuters, S&P Global, Seeking Alpha, Seki Diamonds, SEMI, Siemens, SkyQuest Technology, Statista, Statista Market Insights, Straits Research, Strategia Partners, TechInsider, TenneT, The Brainy Insights, The Business Research Company, The Economist, The Insight Partners, The Insight Partners, The Wall Street Journal, Times, TopTrends, Trading Economics, US Census, Vantage Market Research, Vantage,Verified Market Research, Wall Street Journal, Washington Post, World Bank, World Energy Council, WWF, Yahoo Finance, Yole, z punkt, Zhiming Zhang et al., Zion Market Research, Zpryme, Zukunftsinstitut

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Contact : jean.berg@strategiapartners.com