



CASE LASSILA & TIKANOJA **– ENTERING THE SWEDISH MARKET** **THROUGH A STRATEGIC INTELLIGENCE** **PROJECT**

Lassila & Tikanoja specializes in environmental management and property and plant support services.

L&T operates in Finland, Sweden, Latvia, Russia and Norway. Net sales in 2006 amounted to EUR 436 million. L&T employs 9,500 people in total. L&T's shares are listed on the OMX Nordic Exchange.

Interviewed for this case article was Henri Turunen, Director, International Development.

Mr Turunen joined L&T in 2005 from a Finnish investment bank. Earlier he had worked as management consultant at McKinsey & Co's Helsinki office.

Intelligence and the strategy process at Lassila & Tikanoja

“Our existing strategy is very much focused on expansion through new investments and acquisitions, along with organic growth”, says Henri Turunen, Director, International Business Development at Lassila & Tikanoja. “The purpose of our strategic intelligence activities is naturally to support these objectives”, Turunen continues.

Contrary to the other companies presented in this paper, Lassila & Tikanoja have a relatively decentralized intelligence operation in place in the sense that, according to Turunen, “We think the market intelligence must be conducted as an integral part of each manager's and each co-worker's regular work. We also believe that specific research and analysis is best carried out by the business responsables on a specific need basis. That said, we do provide support for such research and analyses in a centralized manner, alongside with names of proven outside suppliers.”

Lassila & Tikanoja have identified the following key strategic issues that are critical from the perspective of their business performance, and will subsequently need to be backed up by high quality strategic intelligence:

- Strengthening the strong market position in Finland
- Investing in recycling plants
- Controlled expansion to countries around the Baltic Sea
- Growing both organically and through acquisitions
- Achieving the annual growth target that exceeds 10% in the long term

“With regards to acquisitions, we are quite experienced since M&As is a major part of our expansion strategy”, Turunen explains. “We typically focus on how new markets differ from our home market, and on how that might affect our baseline corporate strategy. If there is a major difference between the existing and target market characteristics, we carefully consider the risks and rewards from market entry.

“How we typically go about the analysis preceding an expansion decision is that we first try to understand the market characteristics. History, regulation, business culture and political environment are important factors here. If they are in line with what we are familiar with in our existing operating environment, we will proceed to identify and analyze individual companies of interest”, Turunen describes. He adds that the evaluation project often gets easier towards the end, since it is essentially about straightforward benchmarking between different companies.

Case example

Case

Researching the Swedish Property Services Market for Potential Acquisition Candidates

One market that appeared interesting for Lassila & Tikanoja back in 2005 was Sweden. Being a neighboring country to Finland, Sweden was a natural choice of market entry investigation, and Lassila & Tikanoja went for the research project.

The starting situation back in 2005 could be described as follows:

- L&T had no presence in the Swedish market at that time
- They also had little accurate knowledge about the market, but had developed strong hypotheses
- It was clear that the market size and characteristics needed to be researched, along with the local players
- As a result, an analysis of the market entry opportunity was to be produced

It was evident that lots of additional knowledge about the Swedish market needed to be gathered before any decisions could be made. The related intelligence needs were identified and structured:

- Gain an overview of the Swedish property services market
 - Market size and growth
 - Customer needs and buying behaviour
 - Competition and profitability
- Identify suitable acquisition candidates
 - Service focus
 - Size
 - Location
- Review recent M&A activity in the market
 - Acquirers
 - Valuation levels (if available)

The methodology used in the project consisted of both secondary and primary research:

- Desktop research
 - News archives
 - Industry reports
 - Company databases
- Interviews with various stakeholders
 - Branch organization
 - Trade unions
 - Selected customers
 - Selected facility management companies

Results of market overview

- Overall, the Swedish market is not very different from the Finnish market, yet certain unique characteristics were identified that needed to be taken into account
 - Size substantially larger (economy, outsourcing)
 - Outsourcing on a higher level particularly in the public sector
 - No clear difference in terms of market growth
 - No clear difference in the profitability of market players
 - No major difference in the customer needs and in their buying behavior
- The cleaning market in Sweden appeared to be relatively fragmented
 - ISS: Annual revenue SEK 10bn
 - Sodexo: Annual revenue SEK 6bn
 - Samhall: Annual revenue SEK 2bn
 - A few additional companies fell in the SEK 150-200m range, while all others were below SEK 100m
- In the cleaning business, it was concluded that ISS had been the active acquirer in recent years
- In property maintenance and specialty property services, ISS as well as some other industrial players had been active
- No major transactions had taken place in the recent years

Conclusions of market overview

- The Swedish market was seen as interesting and lucrative for L&T
- The research project therefore went on to further look into potential acquisition candidates

Results of acquisition candidate identification

- **13 Swedish companies were selected for profiling based on their service focus, location and size**
- **Of these**
 - 2 were discarded by L&T due to unsustainable business methods
 - 1 was acquired by ISS during the study
 - 2 were discussed with unsuccessfully
 - **3 were eventually acquired by L&T in 2006-07**
 - **Further 5 remain as potential future acquisition candidates**

Comments

- The study provided L&T with the information that was needed to get started with the market entry
- Some of the market curiosities were underestimated, such as the fact that the black market was considerably larger in Sweden compared to Finland, and that the public sector has some special characteristics
- Interestingly, entrepreneurs' interest in selling their company to L&T was also underestimated
- L&T has continued to develop contacts to potential acquisition targets. Entrepreneurs also actively contact L&T
- L&T has continued to deepen their knowledge of the Swedish industry
 - Word-of-mouth monitoring
 - Own research into selected smaller and regional companies

The project as a whole represented one example of how Market Intelligence can effectively be used to support strategic planning and execution.

Lessons Learned

Elaborating on the lessons Lassila & Tikanoja have learned in the process of conducting strategic intelligence, Turunen brings up three key issues:

1. Ask the stupid questions

“In our experience, it is important to question the things you think you already know. If we dare to ask a sufficient number of stupid questions over the course of a research project, one or two of them will give us the (potentially surprising) knowledge that may make or break a deal.”

2. Use local consultants and market researchers to get the Market Intelligence

“Local players know the local market, the culture, the key decision makers, and the legislation. They will be much better equipped to identify potential problems and threats compared to a foreigner that is doing research from abroad.”

3. Use consultants and market researchers in an active manner

“If using external help in a research project, it is very important to maintain an open line of communication between the partner who is involved in the research. We want to derive the best possible intelligence out of every research project that we engage in, and this in our view cannot be achieved by merely defining the needs and then sitting back, waiting for the results. Rather, we believe in actively combining the best capabilities of both ourselves and our research partners for the best results.”

Turunen concludes with a check list of issues to be considered when using consultant as external support in strategic intelligence projects:

- Know what you need and be specific about it
- Get and pay for what you need
- Distribute the work meaningfully regarding information gathering and analysis
- Request for ideas and recommendations
- Make use of personal connections
- Contribute to the work – share your knowledge over the course of the project

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Today, we are the preferred partner for organizations seeking to understand, compete and grow in international markets. Our industry expertise and coverage of over 100 countries enables our customers to make better informed decisions worldwide.

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