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Straight answers for emerging issues

How to follow renewable energies
into emerging markets

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How to follow renewable energies into emerging markets

Six suggestions to leverage the growing renewable energy opportunities in emerging markets.

Large-scale deployment of renewable energies has so far been concentrated in Europe and in the US, but that is changing. Take wind energy, solar PV and CSP (Concentrated Solar Power), for instance: 44%, 35% and 23%, respectively, of new capacity for the next 5 years will be deployed in emerging markets (Exhibit 1). For North American and European companies that have so far focused on domestic markets, emerging markets can thus represent an opportunity for

additional revenue, but also a risk for increased costs and diluted market focus. In this article we explore six suggestions to develop and implement a sensible market entry strategy for emerging markets.

1. Follow existing clients into emerging markets

Following existing clients (or partners) into new markets is often a good point to start, as it reduces expansion costs and risks, while giving companies a chance to scout different markets before settling down on the most attractive ones. For companies that get most of its turnover from a limited

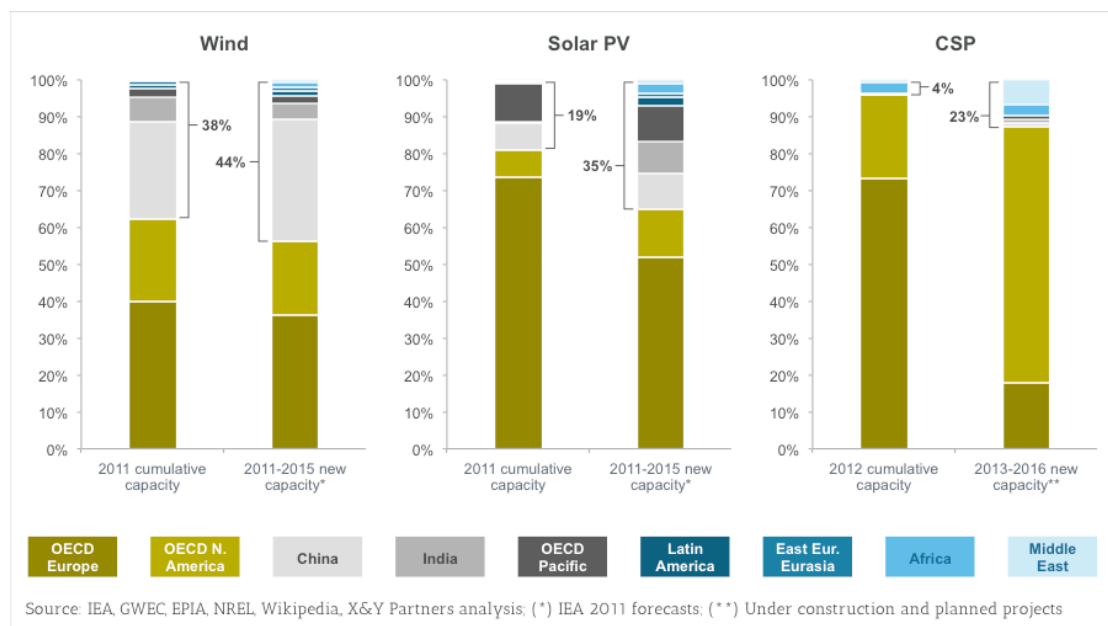


Exhibit 1 – Regional breakdown of cumulative and new capacity for wind energy, solar PV and CSP

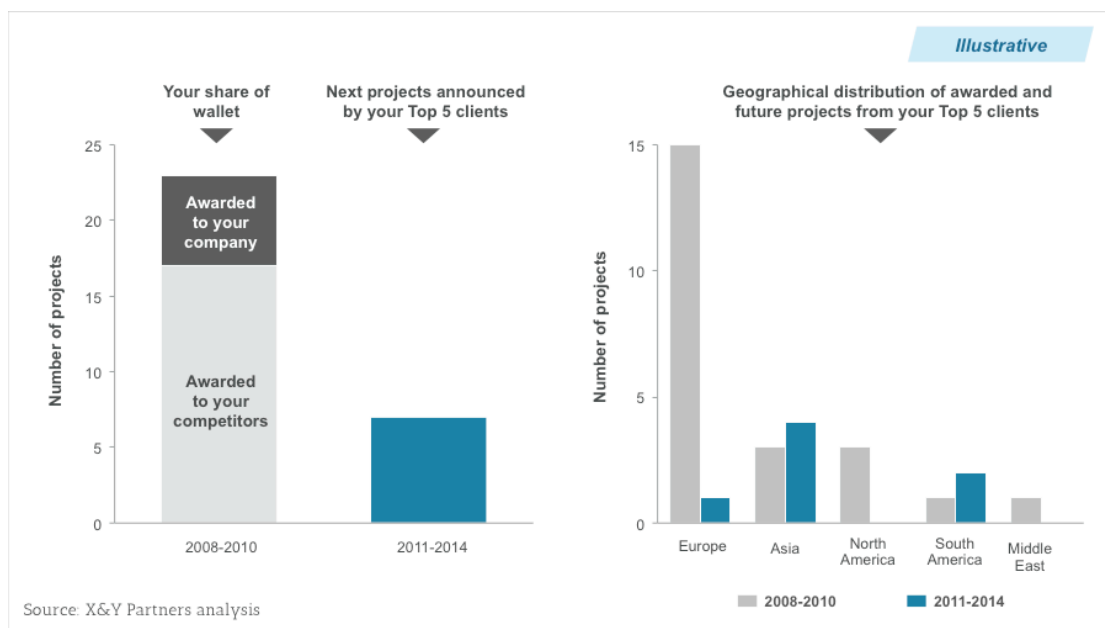


Exhibit 2 – Example of a company for which market expansion was a necessity, rather than an option

number of clients, following key accounts into emerging markets might not even be an option but rather a necessity: Exhibit 2 illustrates a company that simultaneously needed to increase the share of wallet on its top 5 clients and expand to Asia and South America, just to maintain the same turnover.

Following existing clients into emerging markets is often more straightforward than it seems: when facing an unknown market, most European and US companies will choose to continue to work with existing suppliers that they know and trust. Expect however smaller contracts, as your client will probably award the less critical elements of the project to local suppliers.

2. Do not overlook domestic markets

One of the biggest risks of a market expansion operation, especially for smaller companies, is to overlook domestic markets. This holds particularly true for the renewable energy sector, which will continue to offer opportunities in Europe and the US (Exhibit 1).

A good market strategy will often balance domestic and emerging markets, as well as existing and new clients (Exhibit 3): retaining and acquiring clients in domestic markets offers a lower business development cost, while expanding into new markets presents an opportunity for faster growth.

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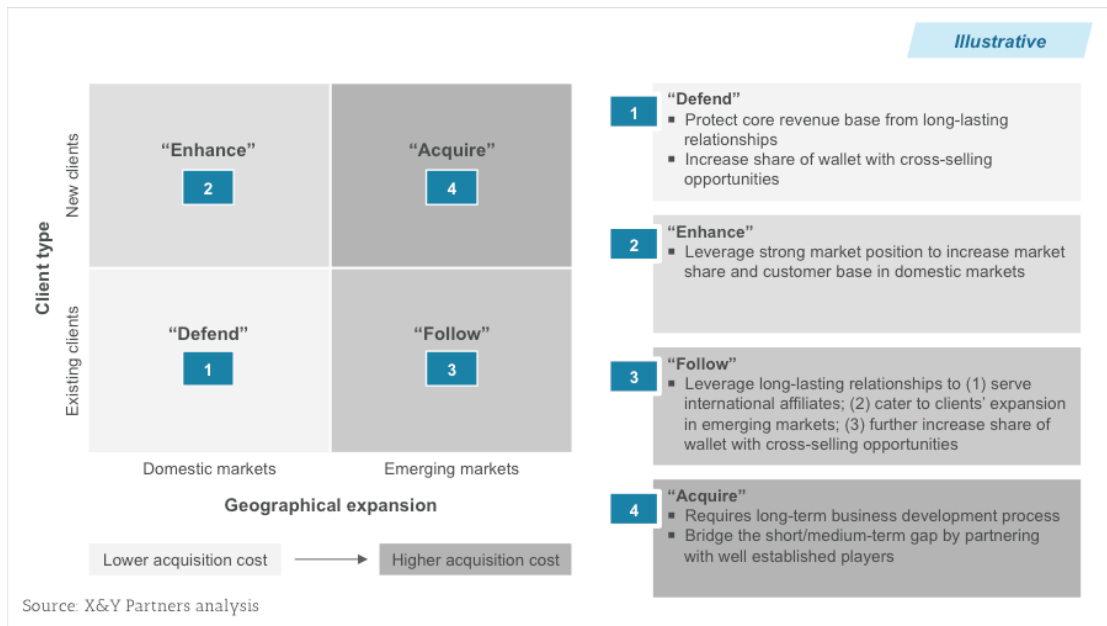


Exhibit 3 – Example of a market strategy that balances domestic and emerging markets, as well as existing and new clients

3. Look beyond market hype

For business development purposes, the most talked-about emerging markets are often not the most interesting ones. Renewable energy market buzz is mostly generated by ongoing procurement programs and

announced projects, meaning that at that stage you are already probably too late. An alternative approach is to try to identify early stage market opportunities. Rather than looking for ambitious statements of intention, look for countries that can genuinely benefit from renewable energies. Take the Kingdom of Saudi Arabia, for instance:

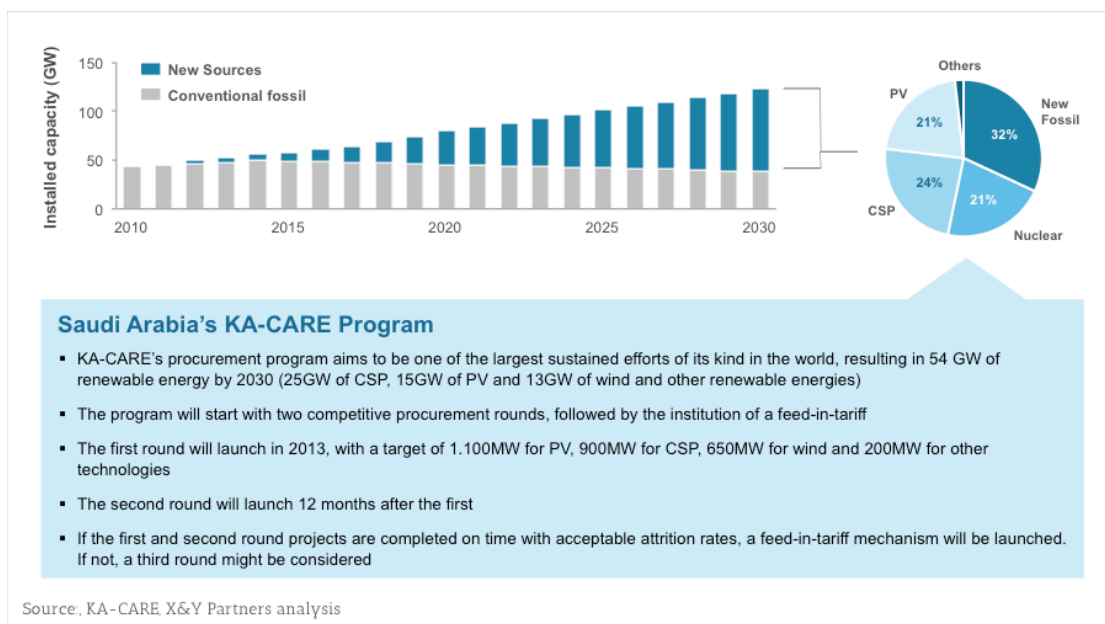


Exhibit 4 – The Kingdom of Saudi Arabia’s KA-CARE Program

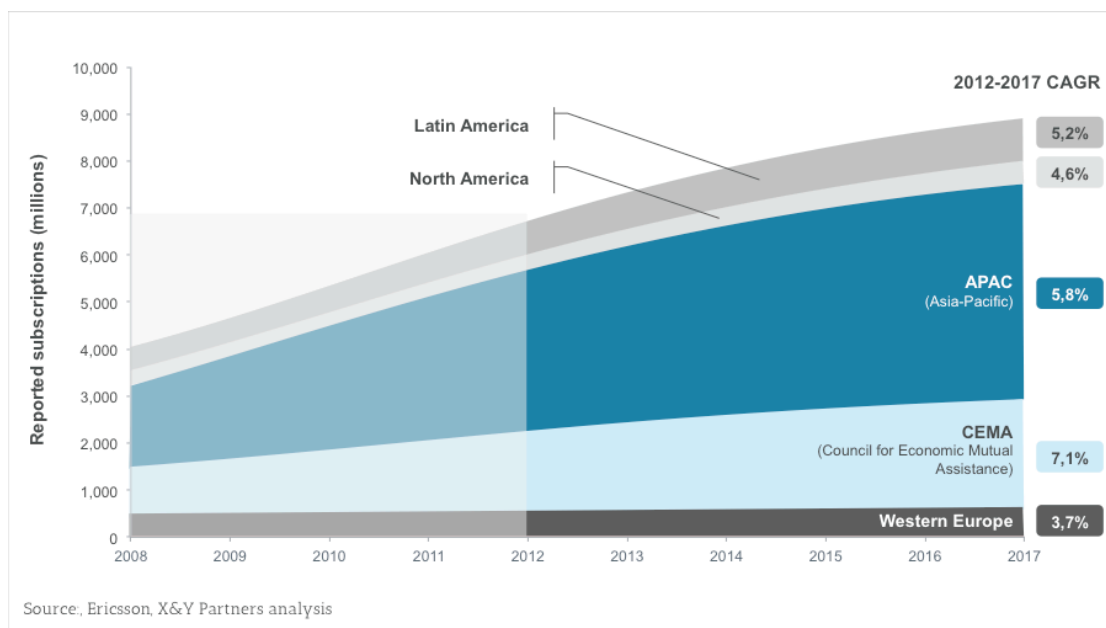


Exhibit 5 – An example of a niche market opportunity: renewable energy installations for the growing demand for off-grid telecom towers in emerging countries

the Middle East is nothing more than a blip in IEA's forecasts at this point, but the country has announced one of the world's most ambitious renewable energy programs (Exhibit 4). While it is likely that the program will start later and run smaller than intended, there are bona-fide reasons for the adoption of renewable energies in Saudi Arabia: **i)** given the reduction of wind and PV costs (and the potential of CSP to do so) renewable energies can already displace some types of fossil fuel generation, freeing oil to sell in international markets; **ii)** the country and its major companies have the funds necessary to support the associated higher investment costs; and **iii)** renewable energies are labor intensive across the entire value chain, offering attractive opportunities for local economic development.

4. The larger markets are not necessarily the most attractive ones

For smaller companies and niche players, going off the beaten track might be a more attractive option than fighting for the larger markets. This option requires however a fundamentally different approach: instead of looking for large volume and/or high growth markets, these companies should ask themselves two questions: **i)** *Which emerging markets are moving in a direction that will create demand for our products and services?*; and **ii)** *What products and services can we develop to better address that demand?* For instance, in a previous [article](#) we have discussed how recent developments in solar PV might overthrow the diesel generator

as the technology of choice for off-grid mobile base stations, which face growing demand in emerging countries (Exhibit 5).

5. Combine local presence with global scale

The value of local presence is unquestionable: business opportunities in most emerging countries are identified, developed and closed face-to-face, in the local language and according to local costumes. Furthermore, a growing number of countries have local content requirements for renewable energy projects, favoring projects that use elements developed, manufactured or sourced locally.

However, setting up local presence is expensive, and can arguably be

circumvented in some situations. Exhibit 6 illustrates our recommendation to a European manufacturer of PV inverters that had a limited budget to expand to four different markets. While local Engineering and Sales teams were indispensable for most markets, other functions such as Installation and Post-service could be more efficiently handled through local partners. Furthermore, upstream functions such as R&D and Manufacturing required a combination of global and local coverage, as the former ensured economies of scale and the latter satisfied local content requirements.

6. Ask around

Unsure of which markets to target, or how and when to target them? Gauging your clients, suppliers and

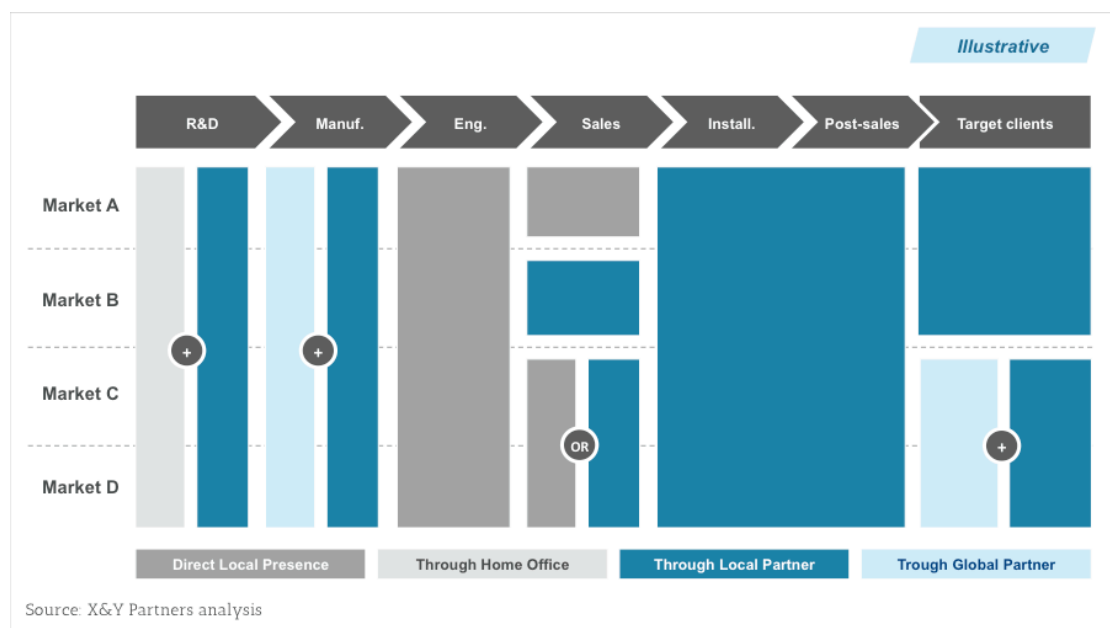


Exhibit 6 – Example of a market entry strategy that combines economies of scale and global key accounts with local partners and local presence

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Key Ideas	Satcon	Kaco	Schnider Electric	Power One	AE	Princeton	Xtreme Power	Comverge	S&C	Eskom	Juwi	PSEG	Enel
Global R&D + local partnerships	✓		✓		✓				✓		✓		
Contribution to standards			✓					✓	✓				
Global strategic suppliers + local suppliers	✓		✓							✓	✓	✓	✓
Local engineering		✓			✓			✓					
End-to-end partnerships	✓				✓				✓				
Autonomous structure for North America		✓											
Local presence in priority emerging markets, partnerships for secondary markets	✓			✓			✓						
Sub-contracting of installation and services	✓		✓		✓								
Key global accounts + local clients	✓	✓				✓			✓				

Illustrative

"Success stories are based on working with local people and local management"

- Business Development expert

"Finding and training the right people in emerging markets is not as hard as retaining them"

- Business Development expert

"The Middle East is fertile territory for any supplier that wants to devote capital and personnel to this region"

- Procurement manager

Source: X&Y Partners analysis

Exhibit 7 – Example of a company benchmark and expert interview process

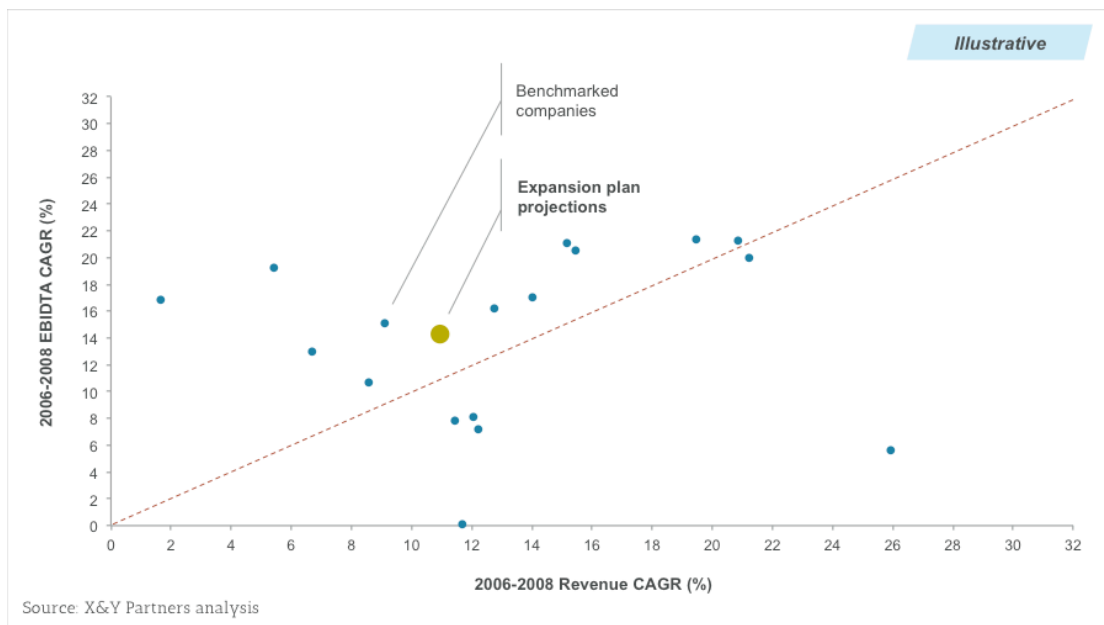
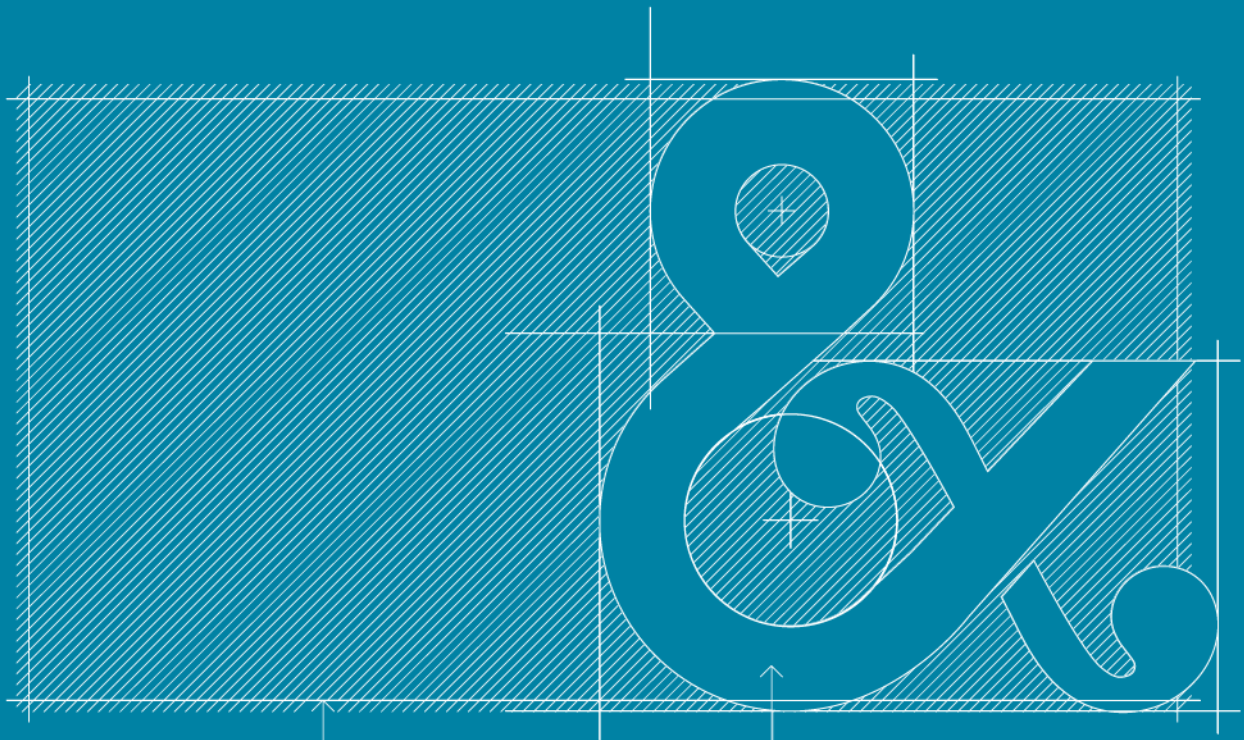


Exhibit 8 – Example of an expansion plan sanity check

employees for opinions, interviewing experts, and benchmarking your competitors can reveal important insights (Exhibit 7). The latter option is also a good way to check if your market expansion strategy is sensible:

Exhibit 8 illustrates a comparison between the revenue and EBITDA growth expectations of an expansion plan, with what similar plans from competitors had achieved in the past.



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