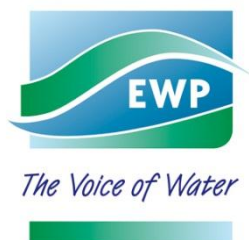


Supporting Cross-border Water Business Tools to Grow and Internationalise



This report summarises the approach for internationalisation support developed by INNOWATER.

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Partnerships for better
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Introduction: Developing tools for SMEs to grow and internationalise

The internationalisation of SMEs has expanded in recent years as a result of technological changes, deregulation of markets, liberalisation of world trade and the establishment of regional economic cooperation agreements, such as the European Union. However, evidence from surveys carried out for the Observatory of European SMEs suggests that, overall, only around 8% of European SMEs export out of their country, with the UK and Germany at 9%, above France at 6% but below Netherlands at 13%. Likewise, according to EIM Business & Policy Research, in their study on internationalisation of European SMEs (2010), a considerable number of European SMEs are engaged in international activities, yet only a small percentage is involved in internationalisation beyond the Internal Market (domestic market and EU).

In the increasingly global economy, internationalisation has become a part of 'business as usual'. Barriers and borders are gradually disappearing, exposing all companies (from multinationals to SMEs) to new markets and international competition. SMEs also have to deal with globalisation, being required to adopt an international perspective. Those that do not, severely restrict their potential for growth and long-term survival.

INNOWATER is a public private innovation partnership of innovation agencies, water associations, technology specialists, innovation experts and eco-innovative cluster organisations from Belgium, Cyprus, Denmark, the Netherlands, Spain and the UK, coordinated by the European Water Partnership. INNOWATER is supported by the EC Europe Innova Programme. The overall objective of INNOWATER is to establish and implement a water innovation partnership that develops and tests new and better support tools and delivery mechanisms for innovative SMEs and first-user industries. A key objective of the project has been to develop a portfolio of tools to assist SMEs in the development of appropriate business models which support growth into international markets¹.

INNOWATER has developed an approach for supporting European SMEs in their internationalisation process and gathering international market intelligence that is relevant to, and easily accessible by, European SMEs. It uses a small team of independent third party experts to build on existing and available market intelligence to undertake specific in-country fact finding missions on behalf of the SMEs, with subsequent feedback and business planning support provided by way of follow up.

Due to the complexity of the internationalisation process, it is impossible to provide a 'one-size-fits all' solution to successfully support the cross-border activities that fits all SMEs. However, there are a number of factors that can be considered in this process to increase the chances of success. Through a structured analysis considering all key elements of the internationalisation process, companies can define a unique strategy.

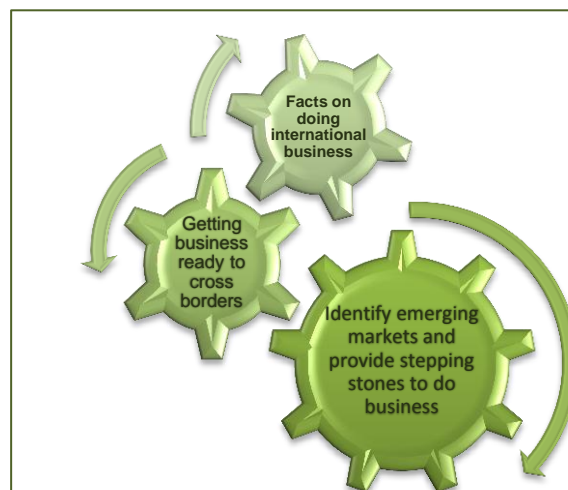
To support European SMEs in the water sector in their internationalisation process and (international) growth, the INNOWATER partnership developed a comprehensive framework with tailor-made tools. Key to this is an understanding of the main drivers for internationalisation, the major barriers and the current provision of internationalisation support to SMEs.

¹ See www.innowater.eu for detailed information on all support tools produced by the Innowater project.

In order not to duplicate services that are already available to SMEs in Europe, and to maintain focus on ensuring the right strategic approach to foreign markets for SMEs in the water sector, INNOWATER developed a new model for internationalisation support. This model is based on a three-step process, which continuously involves SMEs:

1. **Facts on doing international business:** INNOWATER has developed a comprehensive toolkit to support innovative companies take the first steps in their internationalisation process.
2. **Getting business ready to cross borders:** INNOWATER developed a format to coach companies to develop an international business model that addresses their unique business strategies in the early stages of their business planning that will include a clear value proposition adapted for a first-end user in foreign markets.
3. **Identify emerging markets and provide stepping stones to do business:** INNOWATER enhanced international capacity building by undertaking 'business scouting missions' targeting innovative SMEs in the water sector and actively providing 'stepping stones' to support companies in understanding the market opportunities in specific international markets.

The development of this model for internationalisation support has culminated in a tools package and services that function as a 'one stop shop' for reaching (specific) overseas markets. Building on state-of-the-art intelligence, SMEs are being guided along the way in the development of the business model and in taking the (first) steps of entering foreign markets.



Combining guidance in terms of the development of a business model and value proposition, tailored to new markets by bringing these markets closer to the SMEs through 'business scouting missions' that provide tailor-made feedback to the SMEs leads to an inclusive approach that gives European SMEs participating in INNOWATER a head start in successfully crossing borders (see Figure 1).

Figure 1: The INNOWATER internationalisation framework

1. The INNOWATER Internationalisation Framework

To identify the needs for internationalisation support and make companies familiar with the basics of internationalisation, the INNOWATER partnership developed a comprehensive internationalisation framework to support SMEs to grow and internationalise. The main contents of this 'toolbox' consist of the mapping of internationalisation support that is already available to SMEs, practical information about entering foreign markets and specific information on three emerging international markets.

1.1 Overview of available support

To create synergy between INNOWATER and existing support systems for SMEs and to be able to build upon existing information, support available for SMEs was mapped in the first phase of the partnership. It turns out that there is a wide variety and considerable amount of support already available from internationalization support agencies. For example:

- There is a common platform of services around trade missions and marketing support. This provides an introduction to different countries, often including an overview of cultural issues and external barriers to trade, and offering the potential to make initial contacts.
- Some agencies also offer upstream innovation support and help in attracting foreign direct investment (FDI).
- The value and impact of the services vary with the scale of funding available.
- Sector-specific advice is also often available, as seen, for example, in the Water Group within the UK Trade and Investment (UKTI).

However, the follow-on support that would help SMEs embed their approach to internationalisation into a coherent business model is limited. In addition, many SMEs do not engage in accessing these services because;

- i. They are not aware of them;
- ii. They do not consider them to be of relevance to them in early stages of business planning;
- iii. They do not have the resources to take part in overseas trip or 'meet the buyer' events; and
- iv. Financial support from the public sector in this regard is very poor.

The main objective of INNOWATER is to develop the tools to assist SMEs overcome these challenges.

1.2 Practical information on doing business abroad

The complexity of internationalisation has effects on products and services, business models, strategies and budgets. Therefore, the vision and strategy of a company should serve as the foundation to develop a internationalisation strategy and the company must be able to analyse whether the potential benefits of internationalisation exceeds the risks and the costs related to it.

INNOWATER developed a comprehensive practical guide for the internationalisation of European Companies², with a focus on innovative waste water and water efficiency technologies and services, including the basic steps and approaches to internationalisation:

- Cross-cultural management and product marketing in foreign markets;
- Business etiquette;

² The 'Practical Guide for Water Innovation International' can be downloaded at www.innowater.eu

- The local adaptation of global innovations; and
- The most promising and emerging markets that provide opportunities to European SMEs

The strongest motives for internationalisation are improving the firm's presence across international markets, increasing its competitive advantages or achieving larger scale and therefore improved cost efficiency. One of the main challenges for companies, who want to go global, is to define and draft a realistic business plan. Although a small percentage of the total world market may lead to a seemingly promising business opportunity, the total market is in reality much smaller. In-depth analysis and market segmentation is crucial to develop realistic benchmarks for market analysis.

Designing the right strategy for international markets requires a comprehensive plan that considers objectives, goals, resources, and policies that makes it possible to achieve solid business results in the market place. Figure 2 shows the recommended steps that lead to successful internationalisation for SMEs. Below each step in the process is explained in more detail.

1. *Define the most promising market:* when it comes to defining a potential market, a range of tools and check-lists are available for companies to assist them in choosing a promising market within the water sector, by doing a Political, Economic, Social and Technological (PEST) analysis, for instance.
2. *Defining the product:* markets are attractive when the product in question satisfies an unmet need, but even though the company's' products may be a huge success in the domestic market, it is not guaranteed to become a success internationally. Exploring how competing products are positioned in the new market is essential. When the positioning of a product is clear, it is needed to define whether the product can be marketed in its current form (standardisation) or whether changes are required (adaptation).
3. *Choice of entry mode:* when a product is ready for distribution, the entry to the market needs to be defined. A company can arrange entry into a foreign country via indirect export entry mode or export via agents and distributors or through an investment entry mode that involves ownership and management control in the foreign country and may be either sole ventures with full ownership and control by the parent company or joint ventures.
4. *Marketing Plan:* having decided which markets to enter, which products to promote, and which entry strategy to apply, the strategy for selling the products needs to be defined and a marketing plan can be developed.



Figure 2: The internationalisation process in four basic steps

In the whole process of internationalisation, and therefore also in each of the steps that are described, it is important to consider the following topics³ to develop successful business abroad:

- **Culture:** Having the right business etiquette in the foreign setting is crucial for success.
- **Currency:** The decision about whether the importer or the exporter will bear the currency exchange risk is important: both the buyer and seller would typically prefer the sale to be denominated for payment in their local currency.
- **Legal:** The foreign markets legal and regulatory systems; antitrust regulations; corporate governance codes; and transparency and financial disclosure laws all determine how attractive or risky a country is to operate in.
- **IPR Risks and protection:** For a technology-based company with international ambitions, special attention must be directed towards the issue of intellectual property rights (IPR).

Each decision step in the described chain of internationalisation activities should be monitored and reviewed regularly by implementing a management control system. The purpose of this control is to monitor operations and identify any differences between actual and planned performance, diagnosing the causes of variances (especially when the discrepancies have a negative impact), and defining action plans to eliminate problems.

³ These topics are explained in detail in 'The Practical Guide for Water Innovation International'

2. Global Outreach of Innovative Water Technologies

2.1 Internationalisation Coaching Integrated in the Business Proposition Toolkit

To ensure the right strategic approach to foreign markets, one part of the INNOWATER support partly incorporated the concept 'internationalisation' within the detailed units of the business support provided through the Business Proposition Toolkit (BPT)⁴. The BPT is a business support framework developed by INNOWATER that aims to assist innovating SMEs within the water sector in the articulation of a robust value proposition and the formulation of an appropriate business model that meets the needs of the end-user markets.

This integrative approach introduces the concept of internationalisation to the SMEs within the context of early business planning. To accommodate a discussion around the potential for approaching an international market, an additional focus in the BPT was set up being a market-segmentation phase. Subsequently, every unit that is addressed by the BPT (revenue streams, key partners and key activities) is equally applicable to a domestic or external market. Supporting material (available on the INNOWATER website) contains clear signposting to the organisations that provide support to European SMEs (summarised in 1.1), so that the SMEs will be guided towards currently available information and support. However, using the BPT ensures that SMEs who are interested in international markets are equipped with a fully-integrated business model that includes a clear value proposition adapted for a first-end user, and an action plan that outlines key next steps for each of the model components.

The key points that were addressed in the internationalisation coaching were related to international intellectual property rights (IPR) issues, support in choosing the (first) entry market and 'spin in' strategies. Active support in negotiations between the partners on areas as ownership was also provided in some coaching sessions. Cooperation between start-ups with ambitions in the same international markets was supported through targeted matchmaking.

⁴ For more information on the Business Proposition Toolkit visit www.innowater.eu

2.2 INNOWATER Business Scouting Trips

INNOWATER experts defined three specific emerging market that face specific challenges with regards to water management and wastewater treatment where innovative technologies of European SMEs might provide a solution. INNOWATER developed a specific approach of promoting international markets by deploying a small team of independent third-party industry experts to build on existing market intelligence through focused in-country fact finding missions on behalf of the SMEs. Subsequent feedback, dissemination and business planning support are provided by way of follow up in the home country in an INNOWATER 'Water International Information Day'.

The core of each business-scouting mission is the development of an International Technology Needs Assessment (ITNA) framework for each target market which is developed and refined over the course of delivery, and which seeks to identify and characterise specific innovation challenges being faced in the target markets. The ITNAs were disseminated to SMEs before the scouting missions and electronic feedback on the findings afterwards was provided at the Water International Information Day.

The feedback and dissemination of the results of the business scouting trips mainly took place to scouting mission reports and through online video presentations on YouTube. These video presentations were released during the Water International Information day and are still available online⁵. After the event, an executive summary of each business trip was distributed to SMEs; further individual internationalisation coaching (see paragraph 2.1) including the dissemination of the full, detailed reports of the business scouting missions entering these specific markets is available on request. A detailed description of the organisation and the main outcomes of the business scouting trips is described in chapter 3.

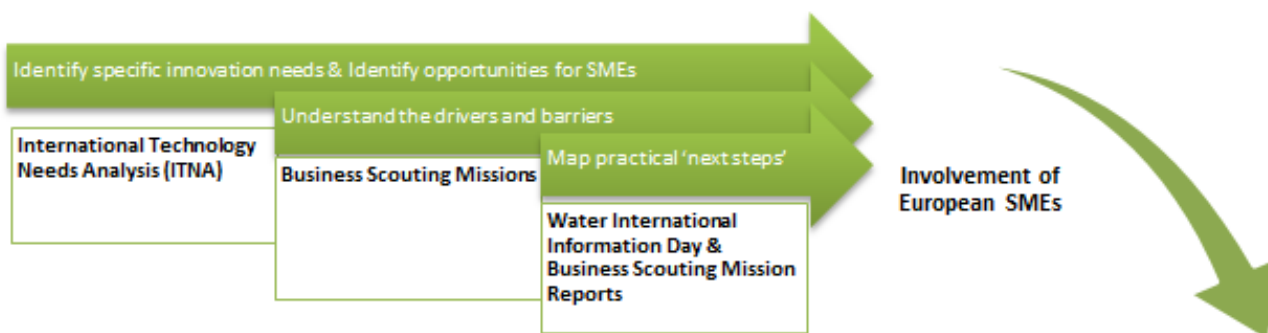


Figure 3: INNOWATER Internationalisation Activities

⁵ Mexico: http://www.youtube.com/watch?v=jh1ETil_QaU

China: http://www.youtube.com/watch?v=QvICAG_fBZc

South Africa: <http://www.youtube.com/watch?v=r0suXrBqex0>

2.3 INNOWATER Road Shows

Parallel to visiting non-European markets to 'scout' opportunities for SMEs, five INNOWATER road shows in Europe were organised to link innovative water and wastewater companies with industries that have a strong footprint in water use and pollution. The INNOWATER road shows functioned as a vehicle to bring the new and innovative tools to end-users. The road shows included a small seminar to address the general water challenges in a specific sector, followed by specific and guided matchmaking allowing SMEs to contact their end-users and promote their technologies (see Figure 4).

The facilitated matchmaking smoothed the process of doing business, because the setting allowed water-using companies to overcome the first barriers and risks of being introduced to new technologies.

The INNOWATER road shows resulted in 'Expressions of Interest' to cooperate in the future, signed by both the innovative SMEs and water-using industries attending the events.



"Join the roadshow and find your partner in water technology"

**EUROPE INNOVA
Eco-Innovation
INNOWATER**

INNOWATER Roadshows

Matchmaking in different water technology markets:

- ▶ Denmark, Spain, Cyprus, The Netherlands, Belgium and the United Kingdom.

And different sectors:

- ▶ Among others: Surface Industry, Construction, Food&Drink, Textile, Agriculture,...

Objectives:

- ▶ Breaking barriers: linking innovative solutions with industrial sectors that have a strong water footprint.
- ▶ Testing newly developed tools with end users.

Contents:

- ▶ Presentation of State-of-the-art and best available technologies for the sector.
- ▶ Discussion on the challenges and opportunities regarding water efficiency.
- ▶ Matchmaking event between end user and R&D organisation of the industry sector and innovative water technology developers.

INNOWATER: Facilitating the market access of Innovative Water Technologies

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Figure 3: The INNOWATER Road Show Concept

3. Bringing foreign markets closer: A new approach to reach international markets

The initial approach to assist companies in entering foreign markets was to organise business-scouting missions open to European SMEs. However, in the course of the INNOWATER partnership it turned out that the business trip model required time and financial resources that exceeded the capacity of most SMEs. Building on this conclusion, INNOWATER developed a new strategy that brings specific foreign markets closer to SMEs without their having to invest in a visit: business-scouting missions

3.1 Organisation of the business-scouting missions

The process of organising the business trips comprises three key steps:

Step 1

A team of INNOWATER water innovation experts undertake a thorough collation and analysis of available and relevant market intelligence to ensure that the scouting missions are prepared and as focused and effective as possible. This is drawn together within the ITNA framework. The ITNAs are developed on a thematic basis, targeting countries where there is evidence of need and where there is sufficient scale of interest from the home markets. INNOWATER worked closely with the Netherlands Water Partnership and British Water to identify three priority international market opportunities for the pilot:

1. Acid Mine Drainage in South Africa
2. The Food and Drink Sector in China
3. Horticulture in Mexico.

European SMEs with potentially relevant solutions are then contacted and asked to validate their interest in the market, as well as to submit specific questions/issues to be addressed by the relevant market actors.

Step 2

An international business trip is undertaken whereby the team of experts holds pre-arranged meetings with a range of local key stakeholders, supply chain participants and end-users to gain a full understanding of the innovation challenges associated with that sector, and in particular to:

- Understand the drivers and barriers to the uptake of new technologies in this market;
- Identify specific innovation needs for which there is a benefit in sourcing solutions from international suppliers;
- Identify niche opportunities that can realistically be met by European SMEs (alone or in consortia); and
- Map practical next steps for establishing communication between innovators and end users.

Step 3

Following the business trips, the ITNA is updated, shared and disseminated to SMEs via a series of workshops, webinars etc. One-to-one follow up individual internationalisation support is also available from the INNOWATER innovation experts for those interested in further detail and receiving support in building a robust value propositions for the prequalified export market. This follow-up support consist of individual sessions with companies to answer questions they still have after the feedback of the Business Scouting Trips and advise on entering one of the specific markets with their specific product and/or service.

3.2 Overview of the results of the Business Scouting Missions

Business Scouting Mission 1 - Acid Mine Drainage (AMD) in South Africa

AMD in South Africa was chosen as a potentially interesting sector because the issue is an internationally well-known problem that currently does not have clear technological solutions.

AMD refers to polluted water that arises when exposed areas of sulphide minerals, particularly pyrite, come into contact with oxygenated water, primarily in abandoned mine voids (where water levels rise following cessation of pumping), or as a result of seepage through surface residues (tailings and slimes dumps).

The drivers to identify and deploy cost effective innovative technologies are indeed strong, and solutions are welcomed from international players.

However, there are also significant barriers to addressing this market, in particular the political controversy over liability for disused mines, the conservative nature of many end users, and competing factors for finance and innovation. Consultation with stakeholders identified potential opportunities for European SMEs in the following areas:

- Real time measuring, monitoring and interpretation of the geo-hydrological environment;
- Mine closure planning and implementation;
- Improved (cost effective) treatment of AMD polluted water (neutralisation and desalination);
- Waste disposal and product recovery from sludge and other waste streams;
- In-stream remediation, including impacts of previous discharges of raw AMD.



Business Scouting Mission: 2 Food and Beverage Sector in China

According to information from the China National Food Industry Association (CNFIA) there are an estimated 500,000 industries in the food and beverage sector in China. The sector is composed of large state-owned enterprises, large international industries (often organised in Joint Ventures with Chinese companies) and a large number of medium and small privately owned and operated companies.

Stronger regulation and a growing economy combined with water scarcity drives the need for better water saving, cleaning and reuse technologies. However, there are also significant barriers to the uptake of new technology including a high focus on capital acquisition costs rather than life-time costs; low protection of IP rights and a culture of copying technology; absence of funding support from private or public sources; and difficulty of finding reliable local partners.

Business Scouting Mission 3: Water for Horticulture in Mexico

Horticulture is an emerging market in Mexico, and protected horticulture, in particular, has increased rapidly in the last 20 years, due to demand-side requirements for lower cost, high quality produce to serve the North American market. Although there is no structural water shortage in many growing regions, concerns are being raised about the need to conserve water in the future. This is a result due to a high consumption of water



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caused by over irrigation and outdated, inefficient irrigation systems; over abstraction of the aquifers causing environmental damage; increasing soil salinity and high energy costs for using water technologies (for example pumps and water treatment plants) within the production chain.

Today however, water remains relatively cheap, or even free, and the implementation of innovative technologies in the protected horticulture sector in Mexico has been low, and confined mainly to producers serving export markets. Nevertheless the number of businesses interested in innovation is increasing, driven principally by factors other than reducing water consumption, such as decreasing electricity costs; recovering nutrients; product differentiation; and increasing the production/yield per m².

4. Conclusions & Recommendations

Feedback from SMEs and third parties involved in the pilot concluded that the approach adopted was highly effective and generated good quality market intelligence. SMEs are by their nature vulnerable to risk and applying the INNOWATER tools is a crucial risk mitigation component for any SME considering entering the international market with a new and innovative product;

Specific benefits of the approach include:

- Concomitant to the inherent risk mitigation through the application of the INNOWATER tools, is further risk reduction by
 - Delaying investment until the market opportunity has been validated by an experienced third party;
 - Providing tailor-made market intelligence, earlier than might otherwise have been the case, informing the business planning process and ensuring that future investment is effectively targeted;
 - Identifying the institutional and financial barriers to entry, key stakeholders and appropriate market-entry routes;
 - Identifying and providing specific and pre-qualified end-user and stakeholder contacts in the target markets; and
 - Through the delivery of niche-focused resources to further enhance the business planning process and thus ensure the development of a compelling value proposition before approaching the target market.
- The approach of INNOWATER is also reducing the costs for SMEs by:
 - Saving travel- and accommodation costs for visiting potentially interesting markets for by providing insight in opportunities that are realistic for SMEs
 - Obviating the time (and therefore costs) needed for organising business travels
- Lastly, INNOWATER is providing added value of entering new markets by:
 - Sparing human resources: SMEs do not employ excess personnel and investing hours in expanding their business to relatively insecure markets;
 - Enhancing the capacity of individual SMEs through establishing first contacts with relevant stakeholders, supporting cooperation between SMEs and building consortia.