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# Hidden Champions of the 21st Century

## The Success Strategies of Unknown World Market Leaders

**DEG - The Atrium Dialogues 2010**

**Prof. Dr. Dr. h.c. Hermann Simon**

Cologne, November 16, 2010

**Bonn Office**

Haydnstrasse 36, 53115 Bonn, Germany

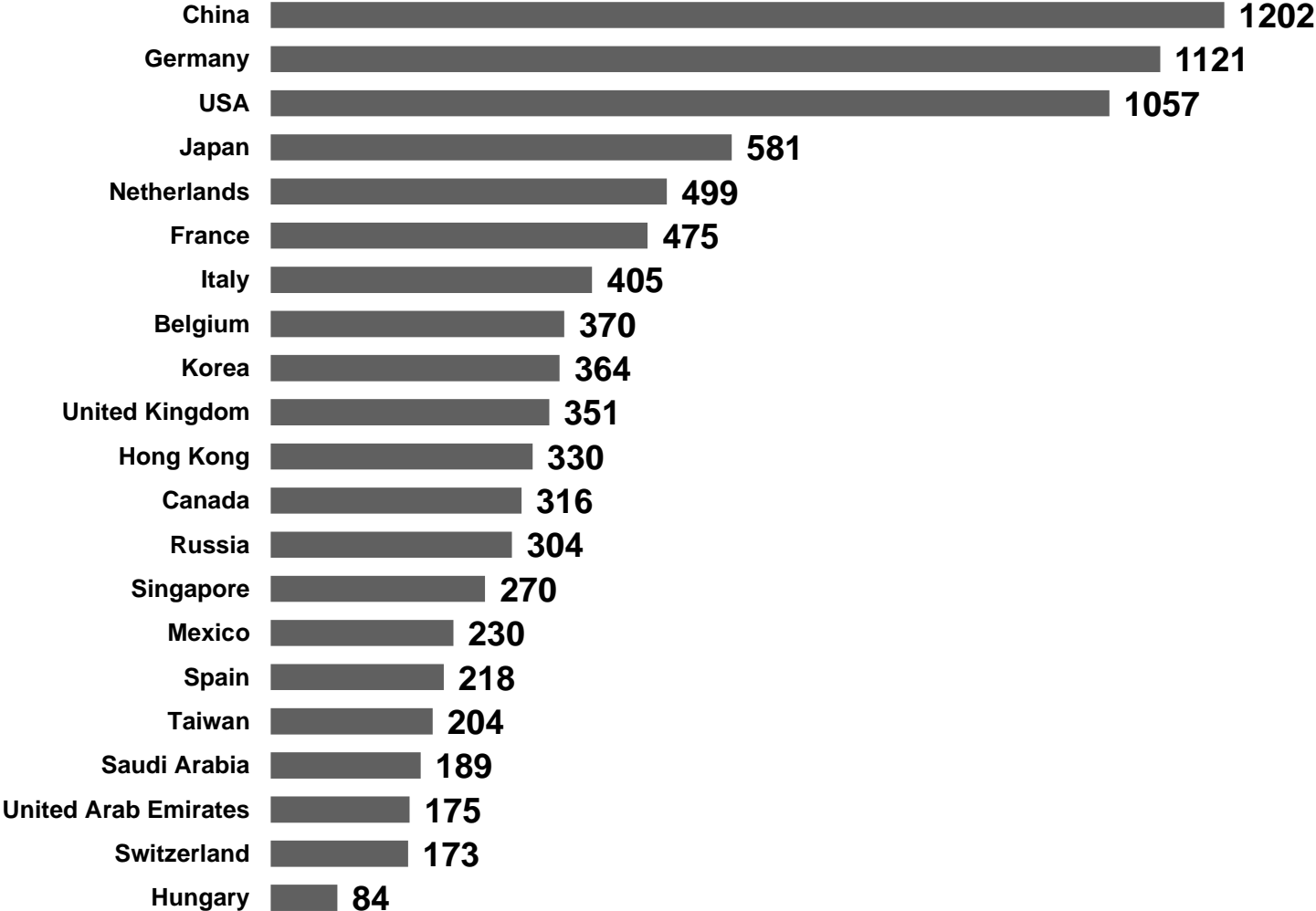
Phone +49/228/9843-115, Fax +49/228/9843-380

e-mail: [hermann.simon@simon-kucher.com](mailto:hermann.simon@simon-kucher.com)

Internet: [www.simon-kucher.com](http://www.simon-kucher.com)

# Exports in 2009 (billion US-\$)

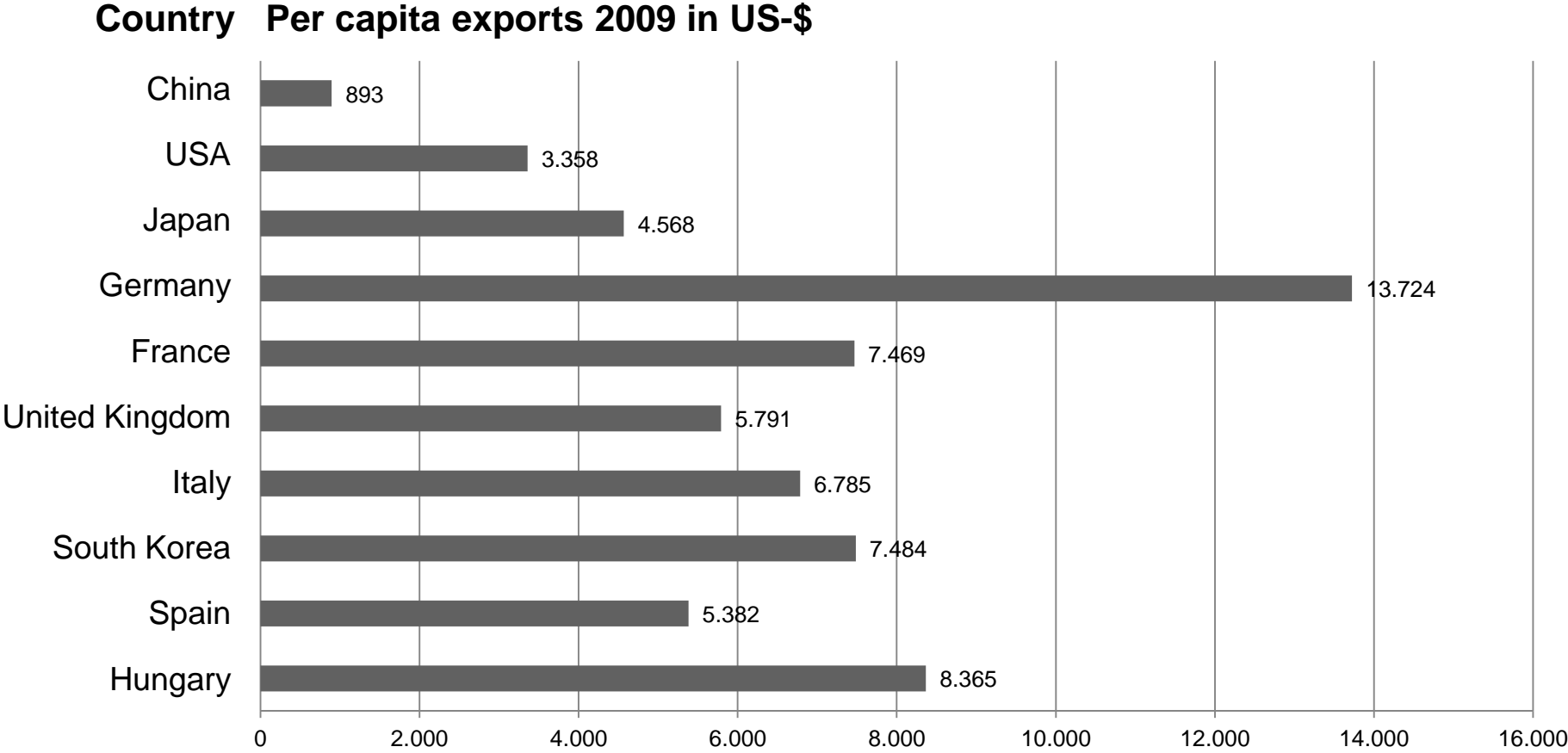
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Source: WTO, press release of March 26, 2010

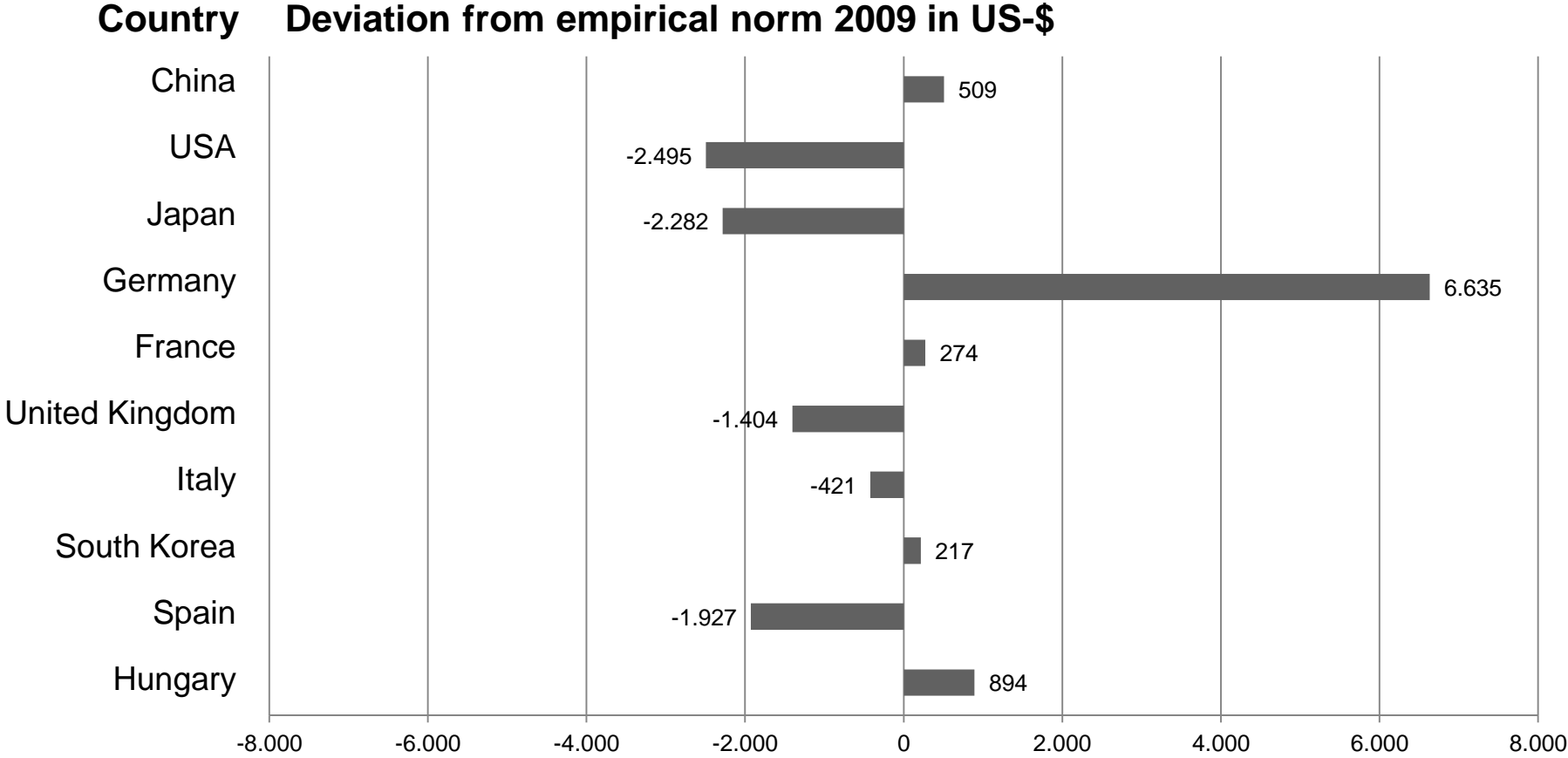
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# Per Capita Exports



Source: Calculations based on data from UN Comtrade - 2009 International Trade Statistics Yearbook, New York June 2010;

# Per Capita Exports



Source: Calculations based on data from UN Comtrade - 2009 International Trade Statistics Yearbook, New York June 2010;

# What Is a Hidden Champion?

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- **Top 3 in the world or no. 1 on its continent**
- **Revenue below €3 billion**
- **Not well known in general public**

# Hidden Champions

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- **Delo**
- **Baader**
- **Brainlab**
- **Lantal**
- **Brita**
- **Tetra**
- **Belfor**

# Hidden Champions Worldwide



Germany  
1997/2007



Taiwan  
1996/2004



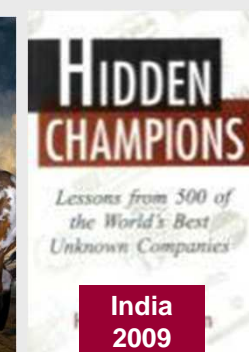
USA  
1996/2009



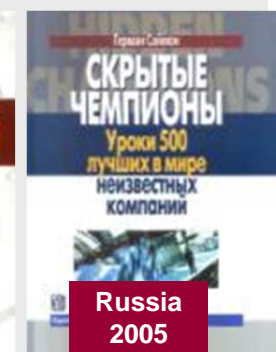
January 26, 2004



Slovenia  
2010



India  
2009



Russia  
2005



Turkey  
1999



France  
1998



Japan  
1998



Italy  
2001/2007



Poland  
1999/2009



Korea  
1997/2008



Brazil  
2003



Netherlands  
1997/2009



Serbia  
2007



Lithuania  
2009



Hungary  
2010



Egypt  
2008



Spain  
1997/2010



China  
1997/2000/  
2005/2009

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# Key Facts of the Last Ten Years

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- **1 million new jobs**
- **Annual growth of 10%, revenue 4 times larger than 1995**
- **More than 100 new €-billionaires**
- **Sharp increase of world market share**
- **Massive wave of innovation**



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**Why are they successful?**

**How do they differ from large firms?**

**What can we learn from them?**

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# **Extremely ambitious goals:**

## **Market Leadership**

## **Growth**

# Chemetall

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**“The goal of Chemetall  
is the worldwide  
technology and marketing leadership.”**

## 3B Scientific

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**“We want to become  
and stay no. 1 in the world.”**

# Karl Mayer

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**“We don’t want our world market share  
to drop below 70%.”**

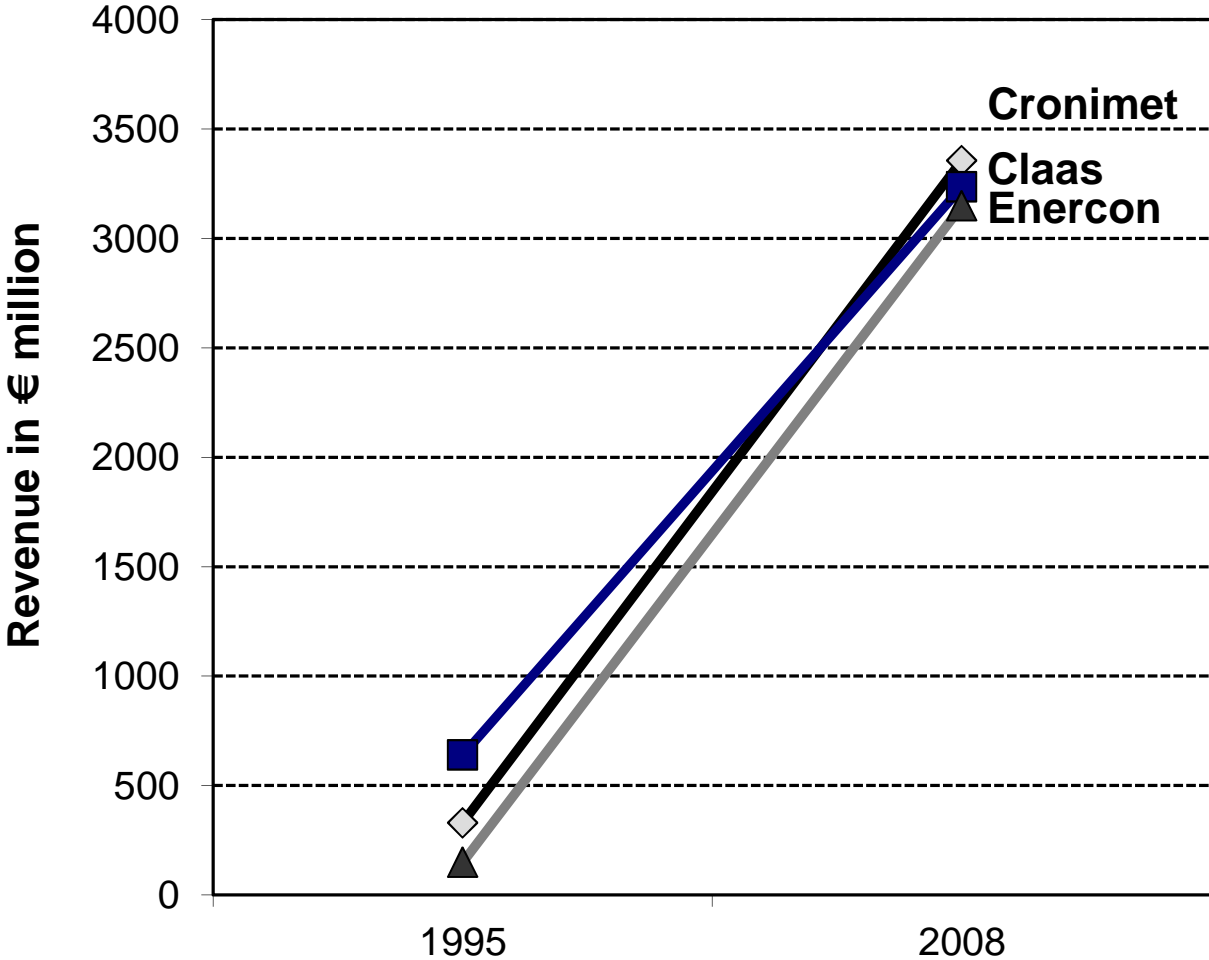
# Market Share of Hidden Champions

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	Absolute market share		Relative market share	
	10 years ago	Today	10 years ago	Today
<b>World</b>	<b>30%</b>	<b>33%</b>	<b>1.6</b>	<b>2.3</b>

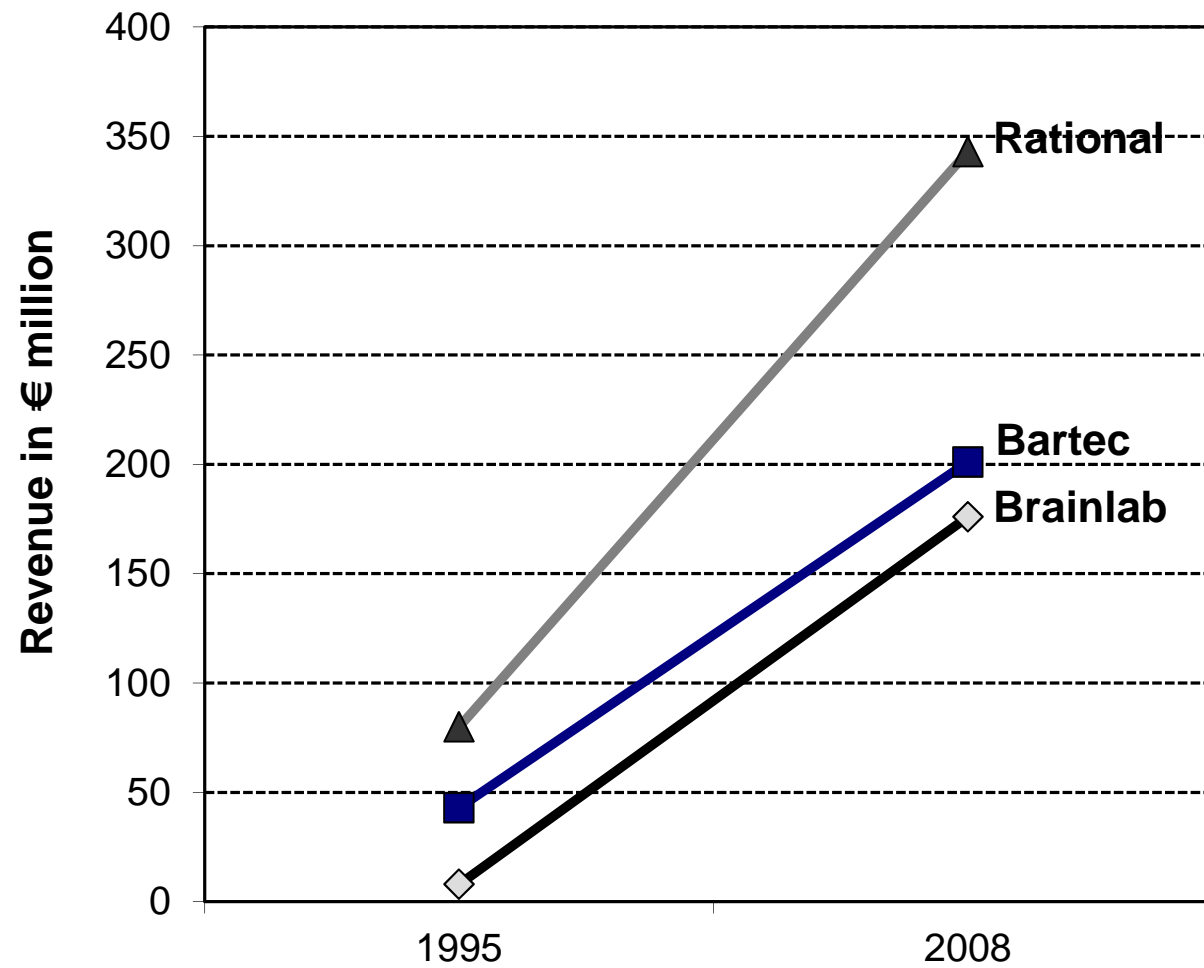
# Growth

## Mid-sized Hidden Champions



# Growth

## Small Hidden Champions





# Lesson 1

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**Success always begins with ambitious goals. The Hidden Champions of the 21st century go for growth and market leadership. This is the fuel that drives them forward.**

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# Focus and Depth



# Uhlmann

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**“We always had one customer and will only have one customer in the future: the pharmaceutical industry.**

**We only do one thing, but we do it right.”**

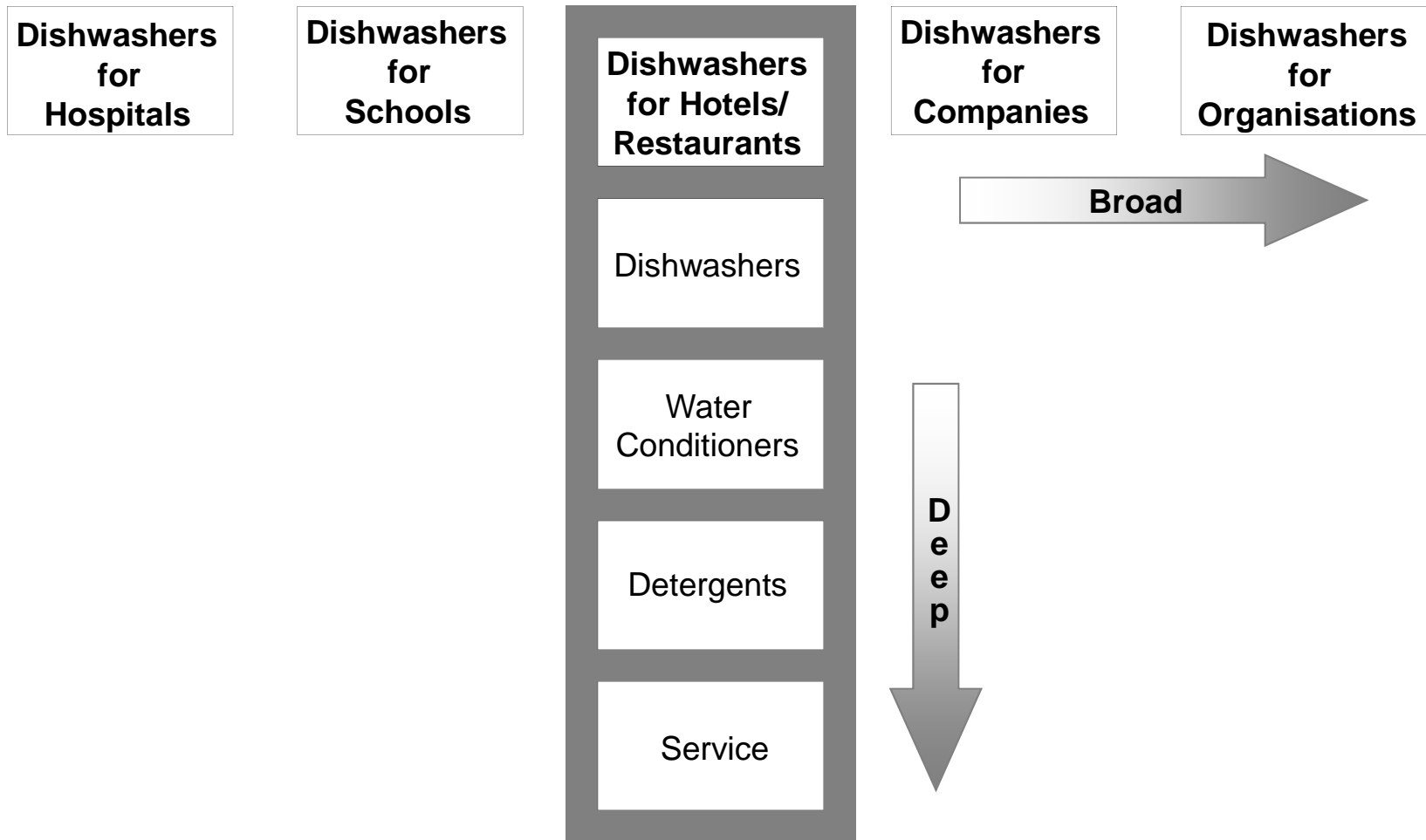
# Flexi

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**“We only focus on one thing,  
but we do it better than anyone else.”**

# Deep Instead of Broad: A Focused Strategy

## The Case of Winterhalter



# Lesson 2

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**Only focus and depth lead to world class. The Hidden Champions focus on narrow markets and are deep rather than broad. They tend to do things themselves and refrain from outsourcing core competencies.**

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# Globalization

# The Hidden Champions Strategy

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**- Specialization in Product und Know-how -**



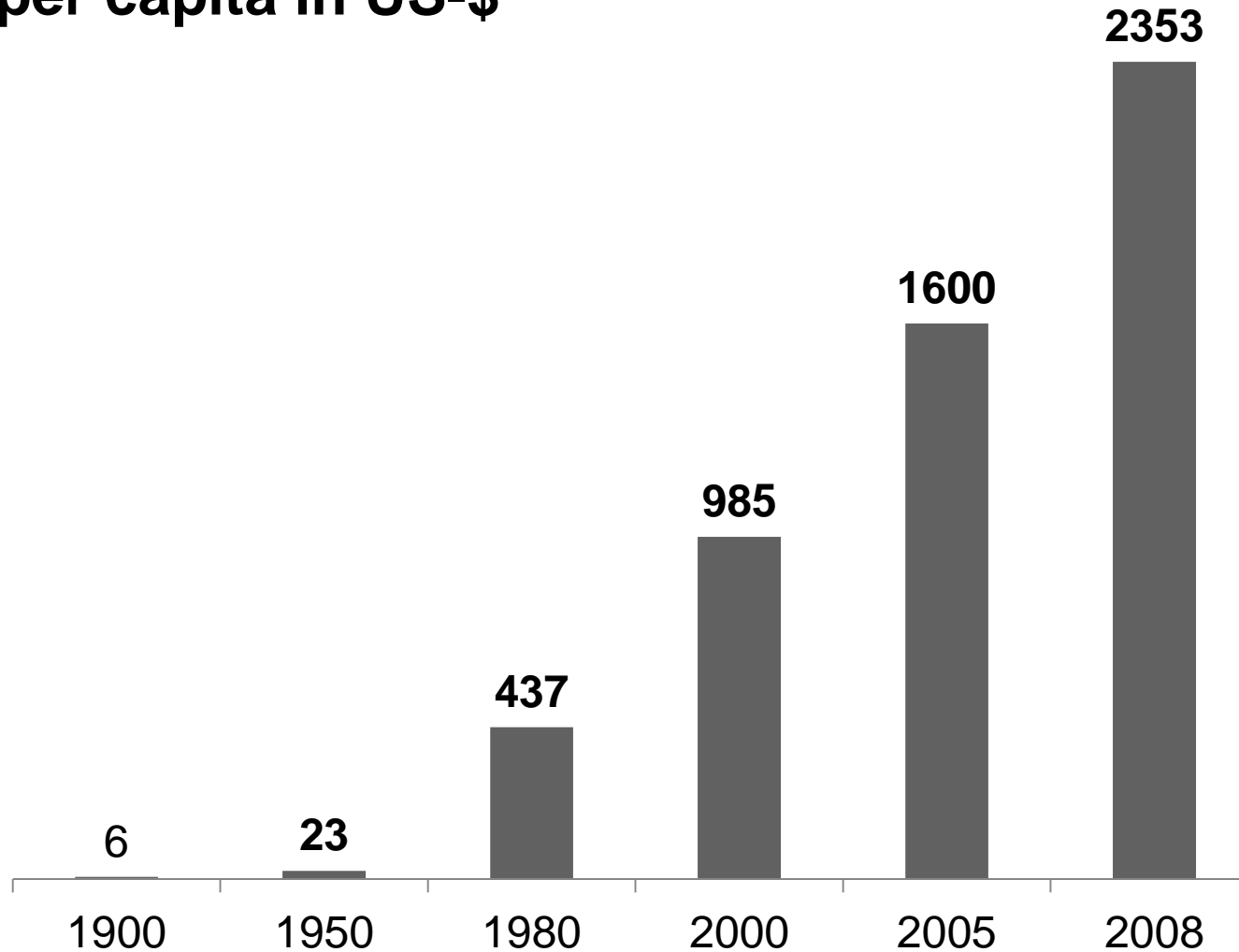
**← Global Selling and Marketing →**



# Accelerating Globalization

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Exports per capita in US-\$

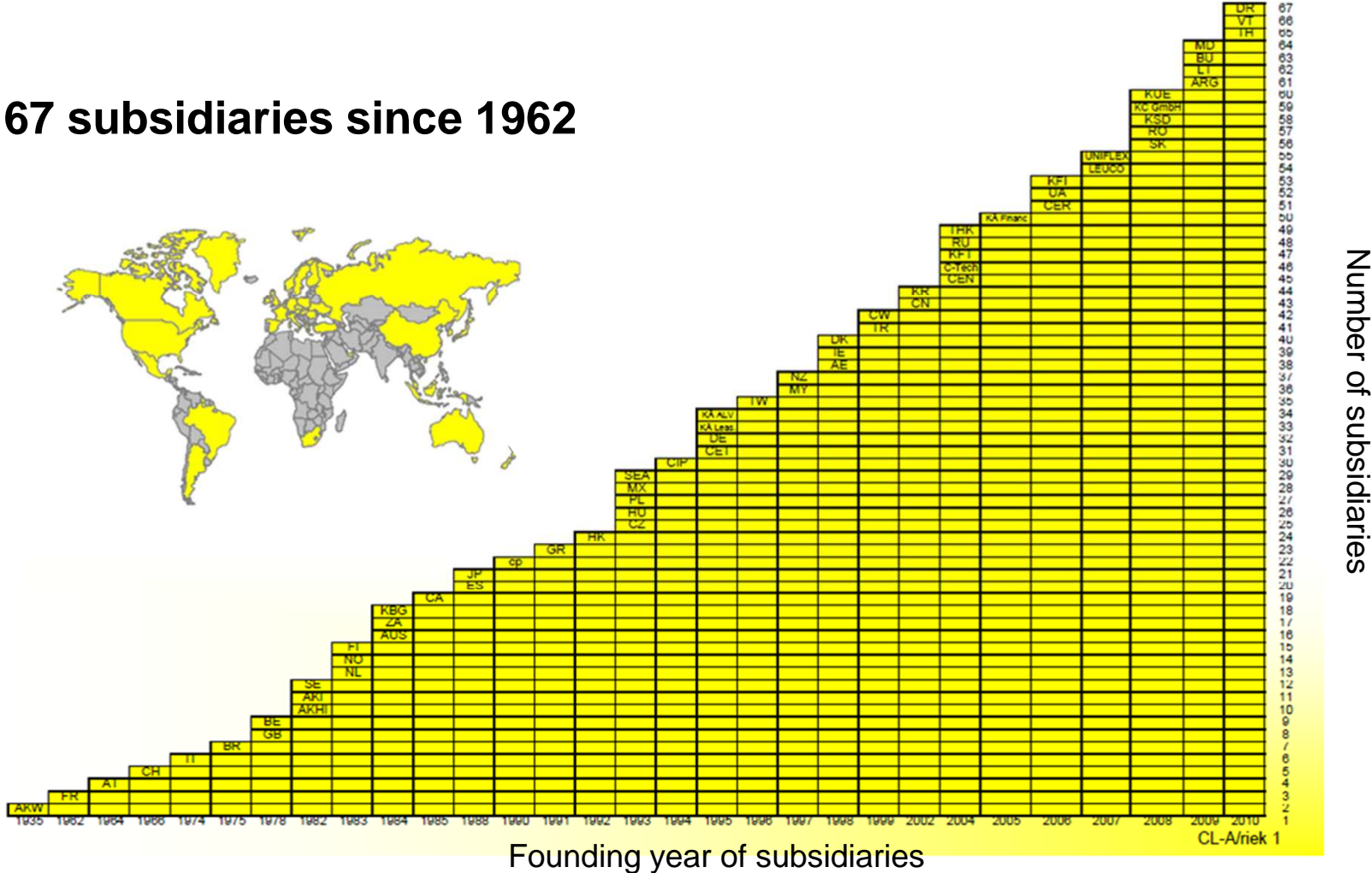


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# Globalization: Kaercher

World leader in high pressure water cleaners

67 subsidiaries since 1962



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# Lesson 3

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**The Hidden Champions combine specialization in product and know-how with global selling and marketing. Globalization is *the* growth booster for them. They serve the target markets through their own subsidiaries. They heavily invest into the markets of the future.**

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# Innovation

# R&D Intensity

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	R&D as % of revenue	Index
<b>Industrial firms with R&amp;D</b>	<b>3.0%</b>	<b>50</b>
<b>Booz (Global Top 1000 in R&amp;D)</b>	<b>3.6%</b>	<b>60</b>
<b>Hidden champions</b>	<b>6.0%</b>	<b>100</b>

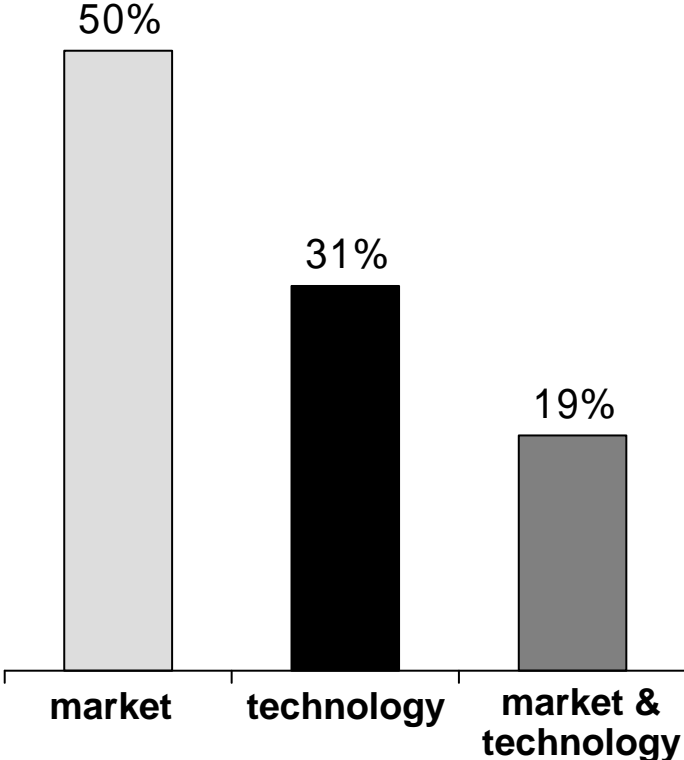
# Patents

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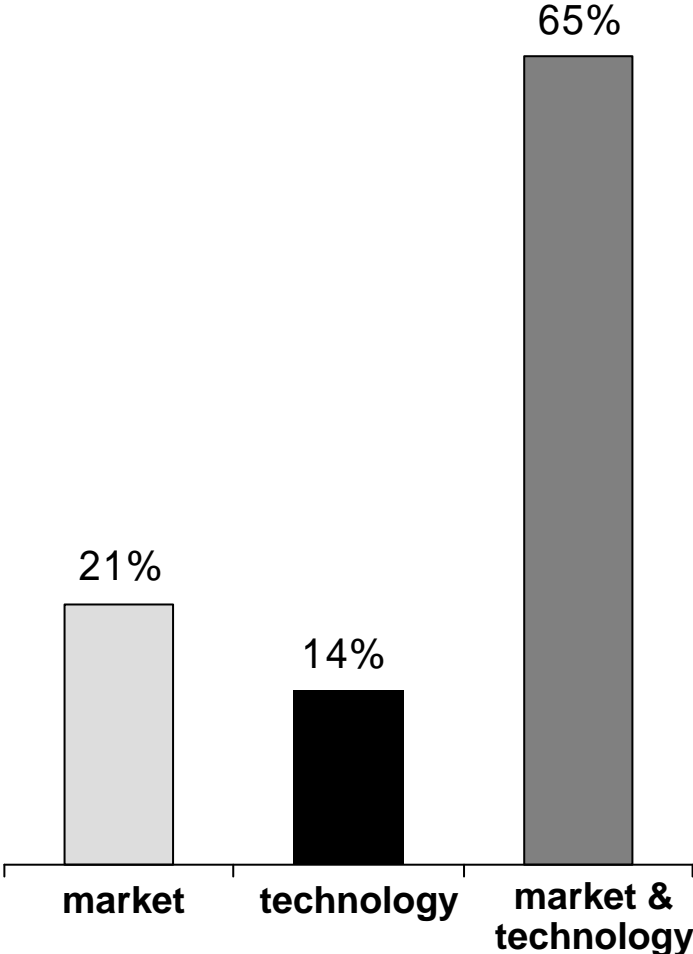
	Patents per 1,000 employees	Cost per patent in 1,000 €
<b>Patent-intensive large corporations</b>	<b>6</b>	<b>2.713</b>
<b>Hidden champions</b>	<b>31</b>	<b>529</b>

# Driving Forces of Innovation

## Large corporations



## Hidden Champions



# Lesson 4

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**The Hidden Champions are in a phase of massive innovations. The effectiveness of their R&D-activities beats that of large companies by a factor of 5. Their innovation processes are fundamentally different. Their innovations are both market- and technology-driven.**



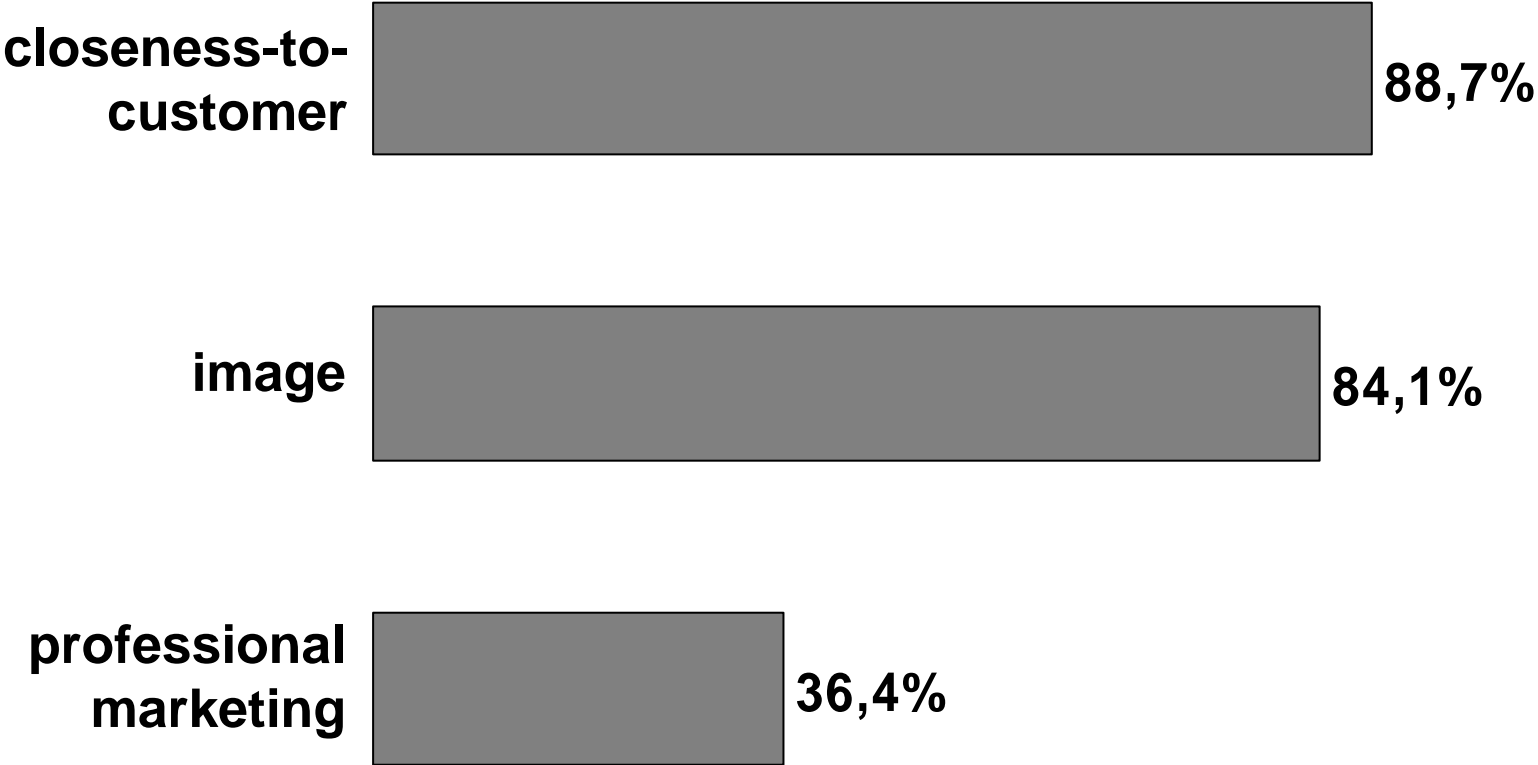
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# Customers and Competition

# Market-related Strengths

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Five times as many employees (25-50%) have regular customer contacts compared to large companies (5-10%).



# Closeness to Top Customers

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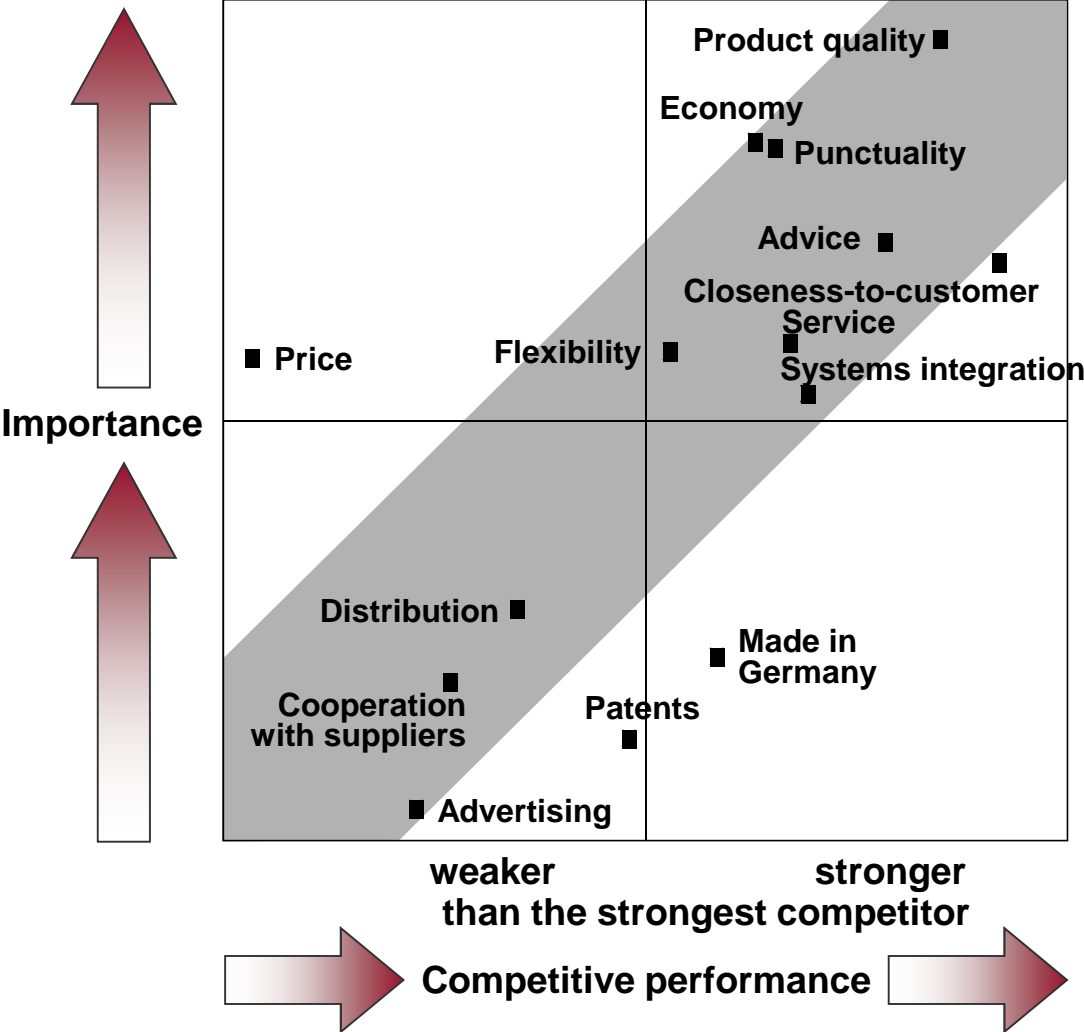
- **Close to most demanding customers**
- **Grohmann Engineering: Top 30 customers worldwide as target group, most important customer is Intel**
- **Top customers as drivers of performance and innovation**
- **Follow top customers everywhere**

# Value and Pricing

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- **Strategies are value-driven, not price-driven**
- **Price premium 10-15%**
- **Avoidance of price wars**

# Competitive Advantages of the Hidden Champions



# Attributes with Strongest Increase in Importance

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Attribute	Increase in percentage points last ten years
Advice	+10
Systems integration	+8

# Lesson 5

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**Closeness to customer is the greatest strength of the Hidden Champions – even ahead of technology. The Hidden Champions hold strong competitive positions. Advice and systems integration are new advantages which create higher barriers to entry.**

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# Ownership and Financing



# Ownership and Leadership

Ownership/management	Ten years ago (in %)	Today (in %)	Change (in %-points)
<b>Family-owned</b>	<b>76</b>	<b>66</b>	<b>-10</b>
- thereof with family management	<b>82</b>	<b>78</b>	<b>-4</b>
- thereof with non-family management	<b>18</b>	<b>22</b>	<b>+4</b>
<b>Corporations</b>	<b>21</b>	<b>16</b>	<b>-5</b>
<b>Publicly listed</b>	<b>2</b>	<b>10</b>	<b>+8</b>
<b>Private equity</b>	<b>-</b>	<b>8</b>	<b>+8</b>

# Key Financial Indicators

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- **Return on Capital Employed (ROCE): 13.6%**
- **Equity Ratio: 41.9%**
- **Self-financing dominates**
- **Capital markets increasingly important**

# Financing of the Hidden Champions

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	Past	Future
<b>Self-financing</b>	<b>78.6%</b>	<b>77.8%</b>
<b>Traditional bank loans</b>	<b>61.6%</b>	<b>44.0%</b>
<b>Private equity</b>	<b>15.3%</b>	<b>9.7%</b>
<b>Capital markets</b>	<b>12.8%</b>	<b>29.6%</b>

# Lesson 6

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**The financing of the Hidden Champions is very solid. The ownership is long-term oriented and capital markets do not play a big role. Rather, the Hidden Champions rely on self-financing. They are conservative in financial matters.**

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# Employees and Leaders

# Employees

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- **“More work than heads”**
- **High performance cultures**
- **High qualification**
- **Low turnover**

# Vocational Training

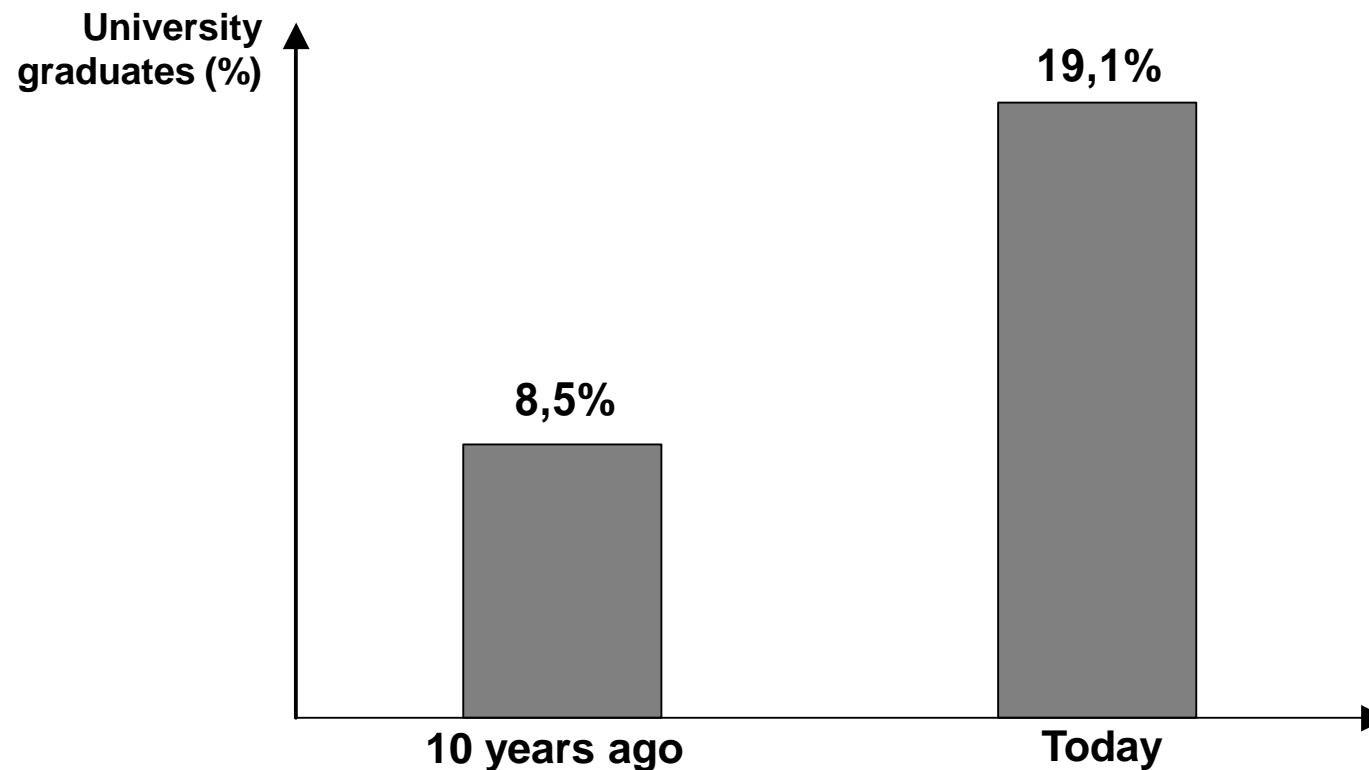
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- **Pillar of German competitiveness**
- **Highly qualified workers**
- **Combination of practice and theory**
- **Vocational schools**

# Higher Qualification

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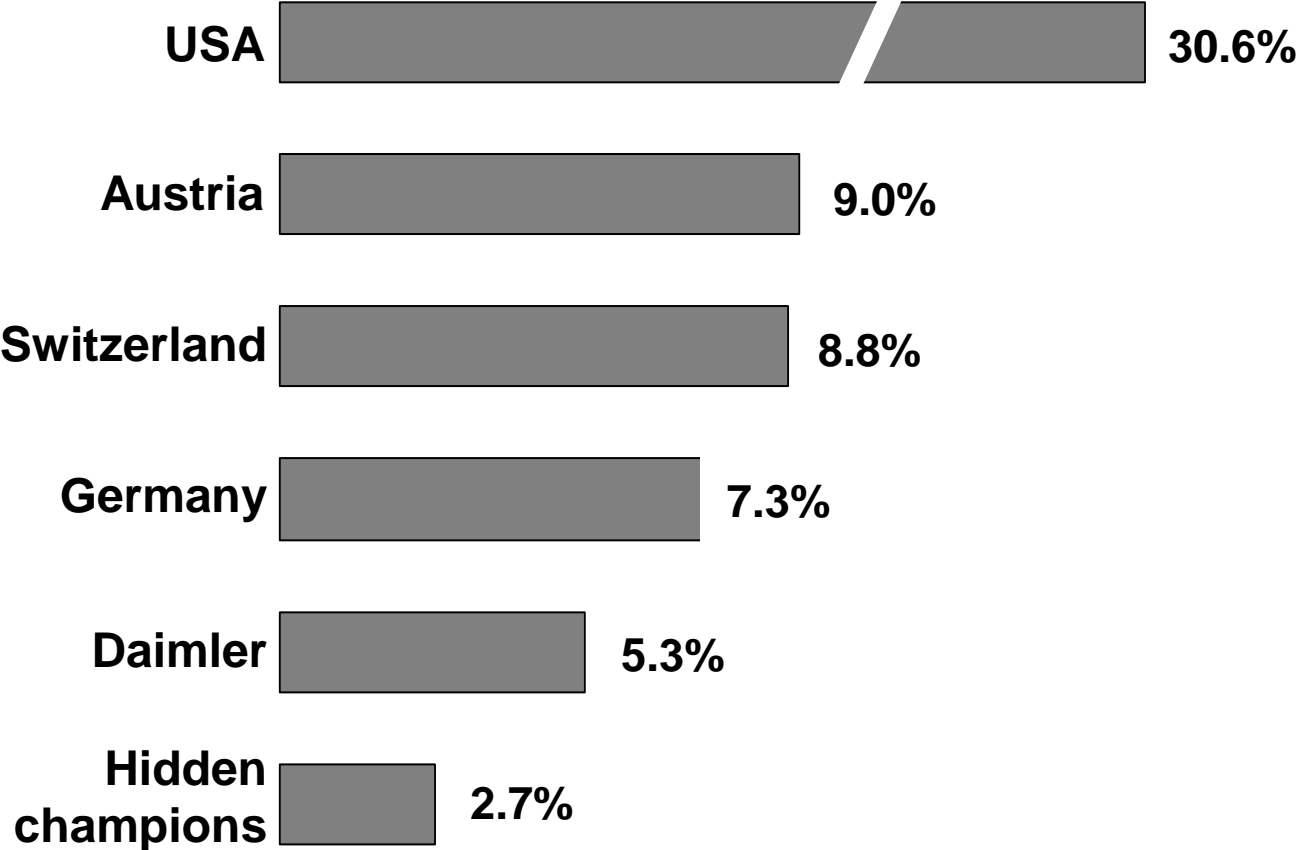
In the last ten years, the share of university graduates has more than doubled.





# Employee Turnover Rates

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Source: Hernstein-Institute/US Department of Labor

# Leaders

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- **Identity of mission and being**
- **Leadership**
  - **authoritarian in the principles**
  - **participative, flexible in the details**
- **CEOs come young into power**
- **More women in top positions**
- **Very high continuity**  
**(average CEO tenure 20 years,**  
**DAX-companies 5.1 years)**

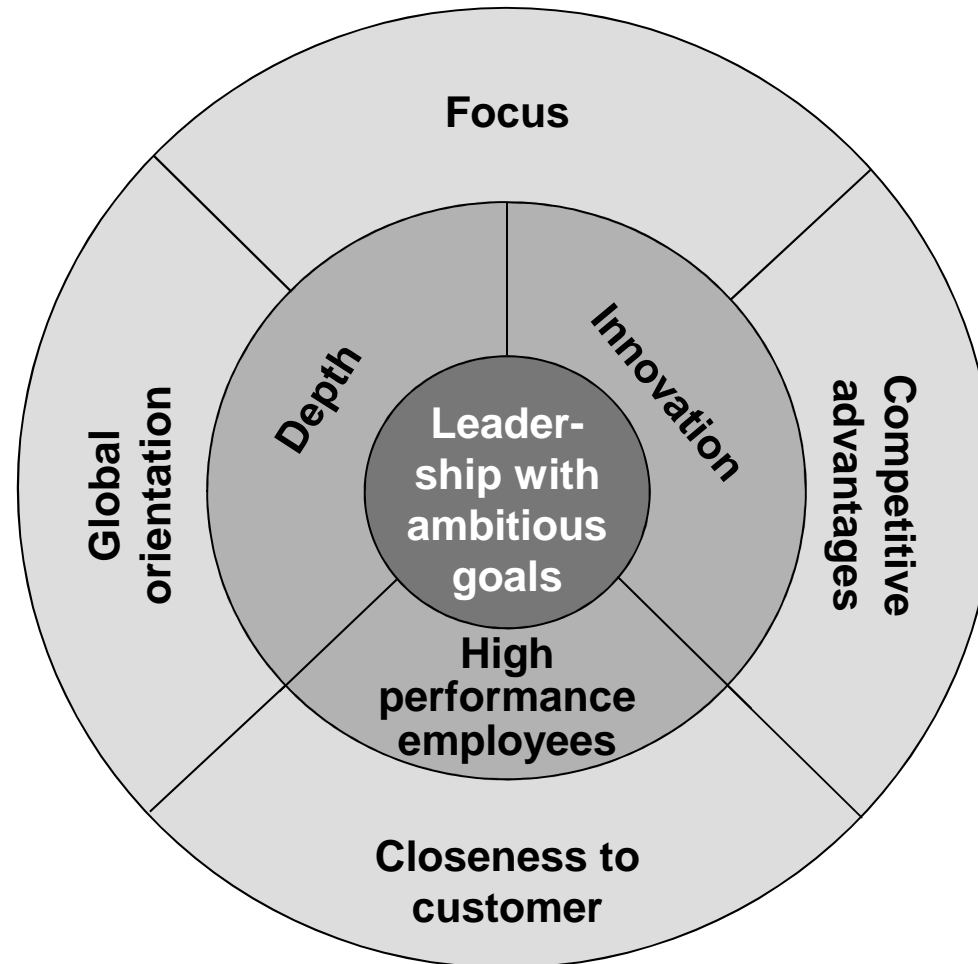
# Lesson 7

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**The Hidden Champions have “more work than heads” and high performance cultures. Employee qualification is top. Turnover and sickness rates are extremely low. Total identification and continuity of the leaders are the foundations for long-term success.**

# The Three Circles of the Hidden Champions

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# The Ultimate Lesson

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**The “Hidden Champions of the 21st Century”  
go their own ways  
– more decisively and successfully than ever.**

**They do most things differently...**

- **from the teachings of management gurus,**
- **from modern management fads,**
- **from large corporations**

**Maybe this is the most important lesson...**

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**To conclude....**

**... a personal**

**Hidden Champions Story**

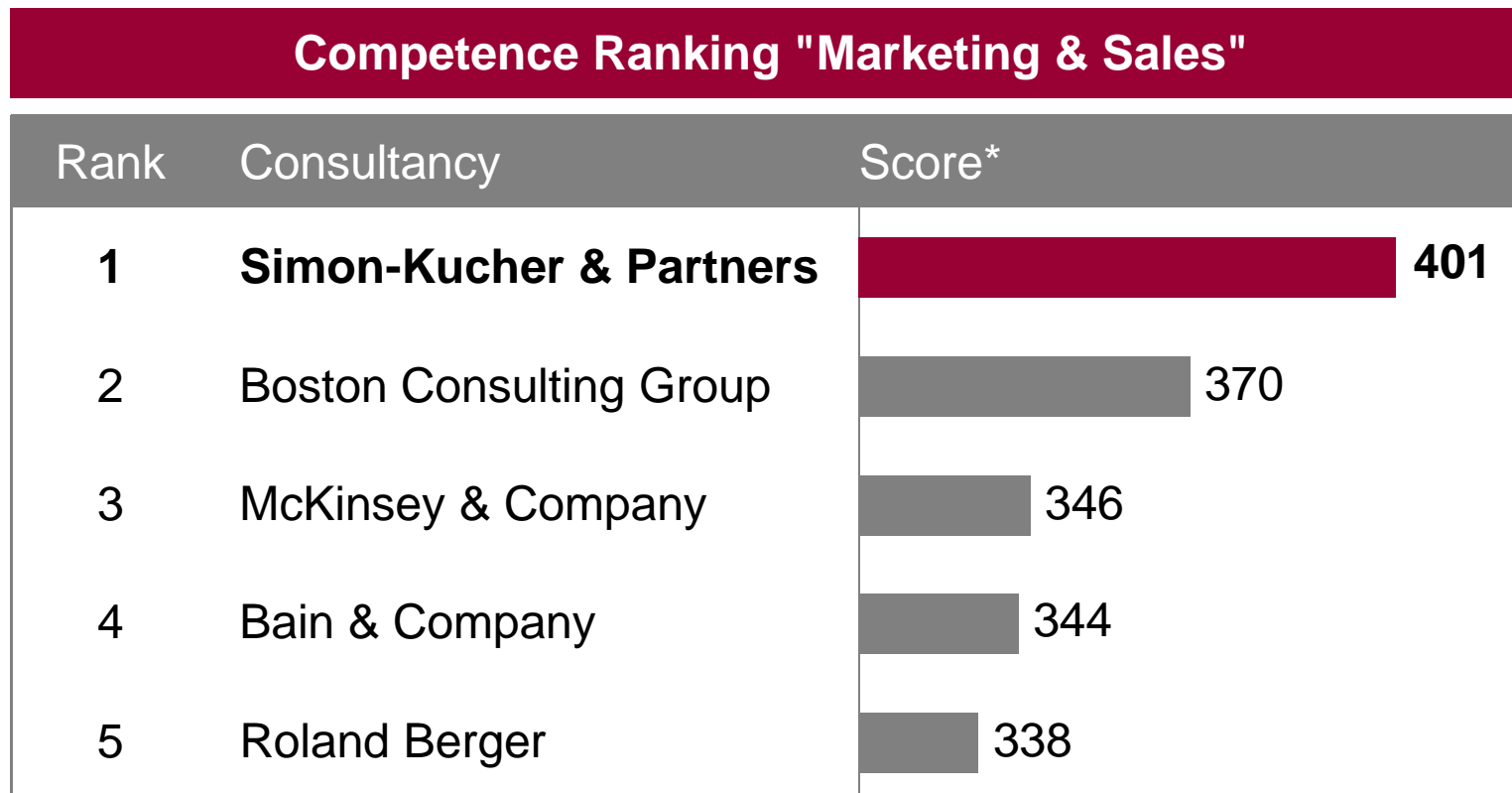
# Simon - Kucher & Partners

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- **Worldwide Strategy & Marketing Consultants**
- **Focus: Revenue-driven Profit Growth**
- **Core Competency: Pricing**

# Best Consultancies in "Marketing & Sales" in Germany

Germany's most prestigious business magazine ranks Simon-Kucher as the leading consultant in "Marketing & Sales", ahead of Boston and McKinsey.



manager-magazin 08/2007

\* Maximum 500;

Source: manager-magazin August 2007/IMB (Institute for Management & Consulting); Survey of 264 Top Managers

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# World Leader in Price Consulting

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***“Simon-Kucher is world leader in giving advice to companies on how to price their products.”***

**Business Week**

***“Simon-Kucher is the worlds’ leading pricing consultancy.”***

**The Economist**

***“In pricing you offer something nobody else does.”***

**Professor Peter Drucker**

***“No one knows more about pricing than Simon-Kucher.”***

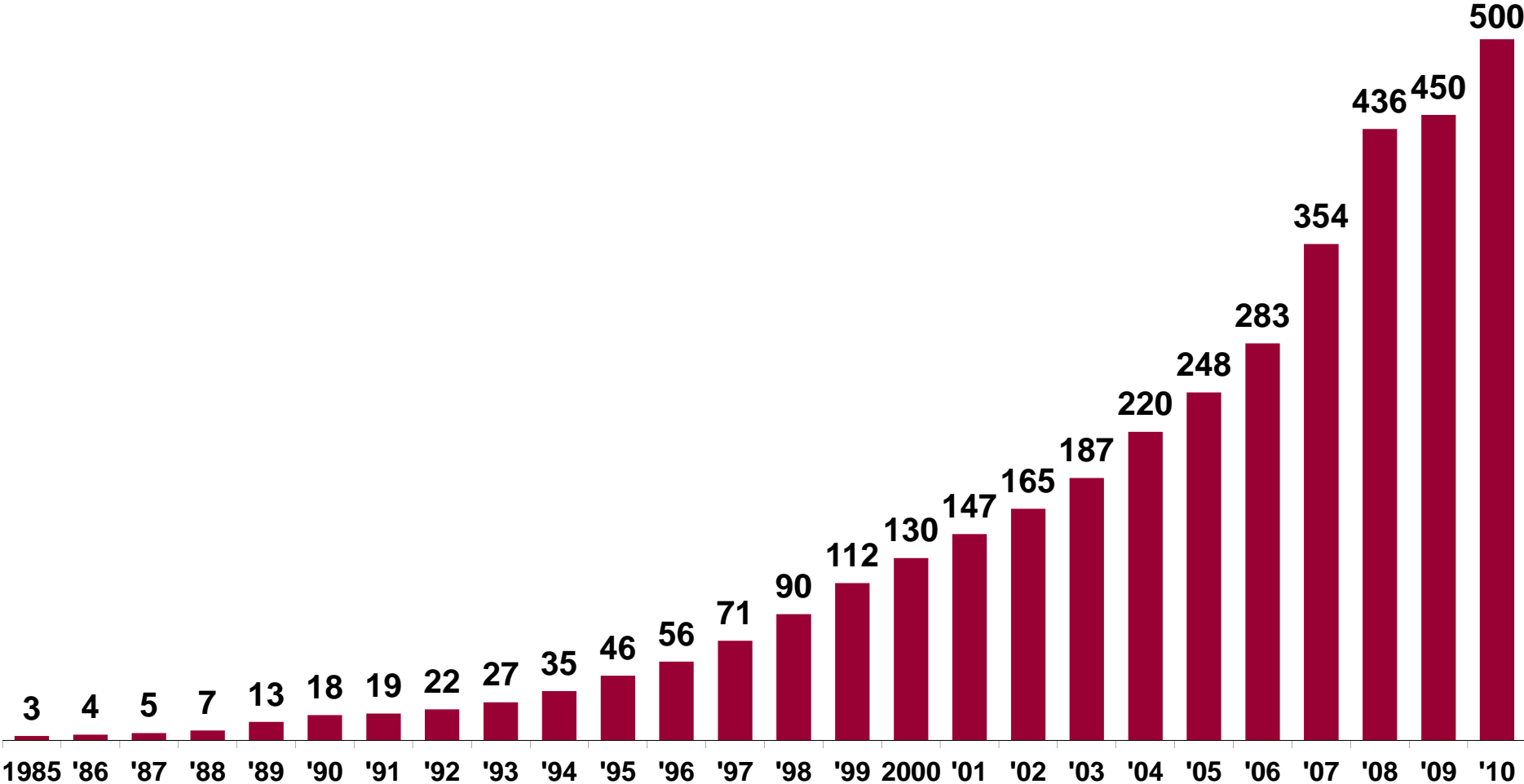
**Professor Philip Kotler**

***“No firm has spearheaded the professionalization of pricing more than Simon-Kucher & Partners.”***

**William Poundstone (*Priceless*, Hill and Wang, 2010)**

# Employees and Revenue

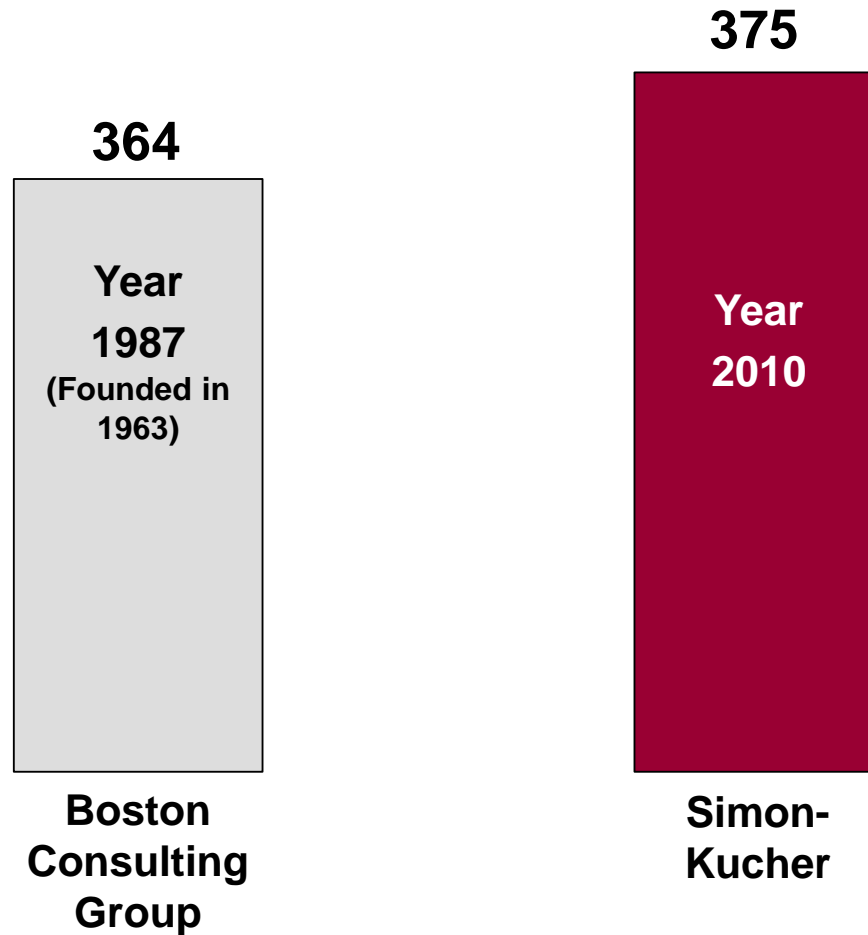
Revenue in 2010: €103 million



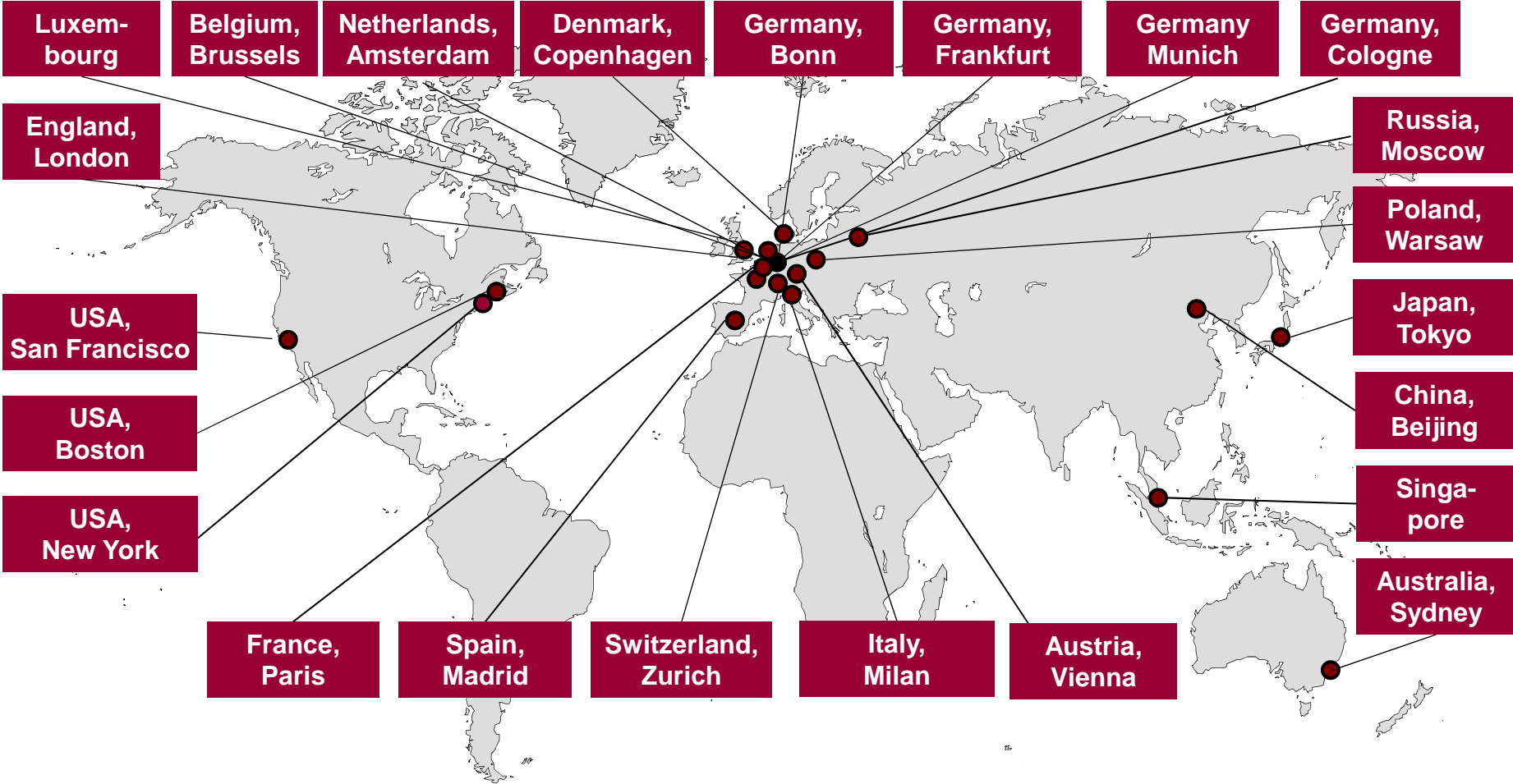
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# Comparison Boston Consulting vs. Simon-Kucher

After 25 years Simon-Kucher is larger than the Boston Consulting group was after 25 years (number of professionals).



# Global Presence



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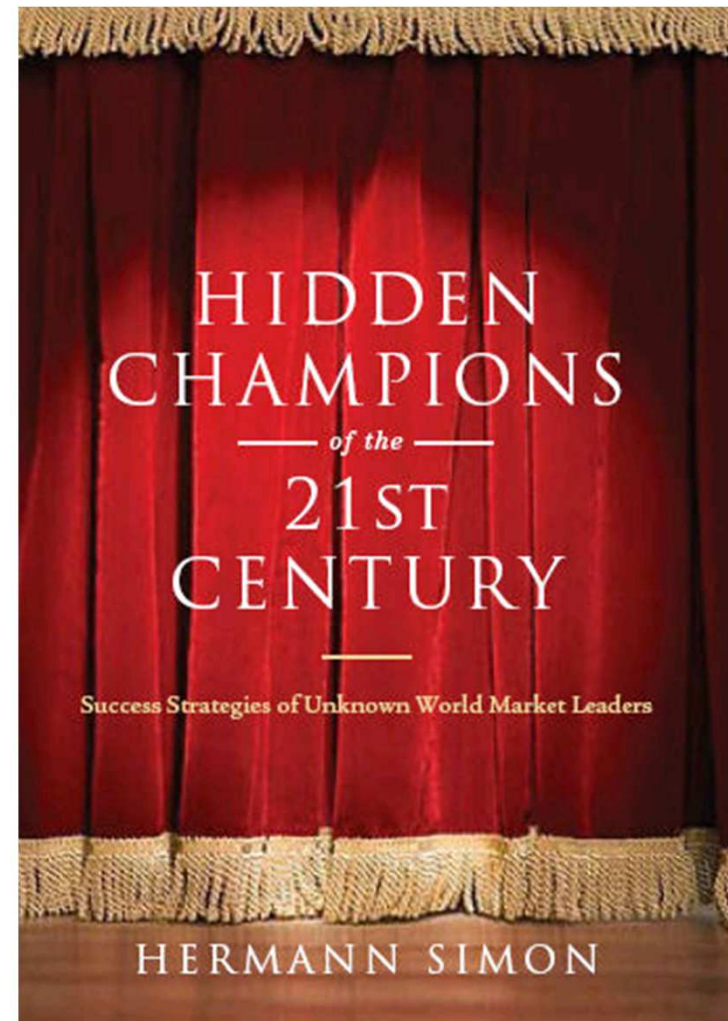
# Challenges for Emerging Countries

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- **Strong export performance requires internationally active mid-sized companies**
- **International orientation/openness of society**
- **Entrepreneurial culture**
- **Strategic lessons for individual companies**

# The New Book

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[www.hermannsimon.com](http://www.hermannsimon.com)

# The Most Influential Management Thinkers in German-Speaking Countries 2005-2009

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<b>1.</b>	<b>Peter F. Drucker †</b>	<b>38.6%</b>
<b>2.</b>	<b>Hermann Simon</b>	<b>14.3%</b>
<b>3.</b>	<b>Fredmund Malik</b>	<b>13.6%</b>
<b>4.</b>	<b>Michael E. Porter</b>	<b>6.7%</b>

Source: [www.managementdenker.de](http://www.managementdenker.de), Internet Surveys, n = 2069 2005 –2009

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Strategy & Marketing Consultants

# Hermann Simon

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Hermann Simon is chairman of Simon-Kucher & Partners Strategy & Marketing Consultants with offices in Amsterdam, Beijing, Bonn, Boston, Brussels, Cologne, Copenhagen, Frankfurt, London, Luxembourg, Madrid, Milan, Moscow, Munich, New York, Paris, San Francisco, Singapore, Sydney, Tokyo, Vienna, Warsaw and Zurich. Simon is an expert in strategy, marketing and pricing. He has an extensive global range of clients. In the German language area he was voted the most influential management thinker after the late Peter Drucker.



Before committing himself entirely to management consulting, Simon was a professor of business administration and marketing at the Universities of Mainz (1989-1995) and Bielefeld (1979-1989). He was also a visiting professor at Harvard Business School, Stanford, London Business School, INSEAD, Keio University in Tokyo and the Massachusetts Institute of Technology. From April 1995 to May 2009 he was CEO of Simon-Kucher & Partners.

Professor Simon has published over 30 books in 25 languages, including the worldwide bestsellers *Hidden Champions* (Boston 1996, cover story of *BusinessWeek* in January 2004) and *Power Pricing* (New York 1997), as well as *Strategy for Competition* (New Delhi 2003). *Manage for Profit, Not for Market Share* (Boston 2006) takes a critical look at the widespread focus on volume and market share and calls for a conscious shift of focus towards profit. His book *Hidden Champions of the 21st Century, Success Strategies of Unknown World Market Leaders* (New York 2009) investigates the strategies of little known market leaders. His most recent book *Beat the Crisis* (New York 2010) provides companies with practical advice against the crisis and for a quick recovery.

Simon was and is a member of the editorial boards of numerous business journals, including the International Journal of Research in Marketing, Management Science, Recherche et Applications en Marketing, Décisions Marketing, European Management Journal as well as several German journals. Since 1988 regularly writes columns for the business monthly Manager Magazin. As a board member of numerous foundations and corporations, Professor Simon has gained substantial experience in corporate governance. From 1984 to 1986 he was the president of the European Marketing Academy (EMAC).

A native of Germany, he studied economics and business administration at the universities of Bonn and Cologne. He received his diploma (1973) and his doctorate (1976) from the University of Bonn. Simon holds an honorary doctorate from IECD Business School of Bled, Slovenia.