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
Exports in 2009 (billion US-$)

- China: 1202
- Germany: 1121
- USA: 1057
- Japan: 581
- Netherlands: 499
- France: 475
- Italy: 405
- Belgium: 370
- Korea: 364
- United Kingdom: 351
- Hong Kong: 330
- Canada: 316
- Russia: 304
- Singapore: 270
- Mexico: 230
- Spain: 218
- Taiwan: 204
- Saudi Arabia: 189
- United Arab Emirates: 175
- Switzerland: 173
- Hungary: 84

Source: WTO, press release of March 26, 2010
Per Capita Exports

<table>
<thead>
<tr>
<th>Country</th>
<th>Per capita exports 2009 in US-$</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>893</td>
</tr>
<tr>
<td>USA</td>
<td>3,358</td>
</tr>
<tr>
<td>Japan</td>
<td>4,568</td>
</tr>
<tr>
<td>Germany</td>
<td>13,724</td>
</tr>
<tr>
<td>France</td>
<td>7,469</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5,791</td>
</tr>
<tr>
<td>Italy</td>
<td>6,785</td>
</tr>
<tr>
<td>South Korea</td>
<td>7,484</td>
</tr>
<tr>
<td>Spain</td>
<td>5,382</td>
</tr>
<tr>
<td>Hungary</td>
<td>8,365</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Deviation from empirical norm 2009 in US-$</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>-2.495</td>
</tr>
<tr>
<td>USA</td>
<td>-2.282</td>
</tr>
<tr>
<td>Japan</td>
<td>-2.495</td>
</tr>
<tr>
<td>Germany</td>
<td>6.635</td>
</tr>
<tr>
<td>France</td>
<td>274</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-1.404</td>
</tr>
<tr>
<td>Italy</td>
<td>-421</td>
</tr>
<tr>
<td>South Korea</td>
<td>217</td>
</tr>
<tr>
<td>Spain</td>
<td>-1.927</td>
</tr>
<tr>
<td>Hungary</td>
<td>894</td>
</tr>
</tbody>
</table>

Source: Calculations based on data from UN Comtrade - 2009 International Trade Statistics Yearbook, New York June 2010;
What Is a Hidden Champion?

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

- Delo
- Baader
- Brainlab
- Lantal
- Brita
- Tetra
- Belfor
Key Facts of the Last Ten Years

- 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
Why are they successful?

How do they differ from large firms?

What can we learn from them?
Extremely ambitious goals:
Market Leadership
Growth
Chemetall

“The goal of Chemetall is the worldwide technology and marketing leadership.”
3B Scientific

“We want to become and stay no. 1 in the world.”
“We don’t want our world market share to drop below 70%.”
# Market Share of Hidden Champions

<table>
<thead>
<tr>
<th></th>
<th>Absolute market share</th>
<th>Relative market share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10 years ago</td>
<td>Today</td>
</tr>
<tr>
<td>World</td>
<td>30%</td>
<td>33%</td>
</tr>
</tbody>
</table>
Growth

Mid-sized Hidden Champions

Revenue in € million

1995 2008

Cronimet

Claas

Enercon
Growth

Small Hidden Champions

![Graph showing growth of companies over time.](image)
Lesson 1

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.
Focus and Depth
Uhlmann

“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.”
“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

Dishwashers for Hospitals

Dishwashers for Schools

Dishwashers for Hotels/Restaurants

Dishwashers for Companies

Dishwashers for Organisations

Dishwashers

Water Conditioners

Detergents

Service

Broad

Deep

(0H01X52)
Lesson 2

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.
Globalization
The Hidden Champions Strategy

- Specialization in Product und Know-how -

Global Selling and Marketing
Accelerating Globalization

Exports per capita in US-$

- 1900: 6
- 1950: 23
- 1980: 437
- 2000: 985
- 2005: 1600
- 2008: 2353
Globalization: Kaercher

World leader in high pressure water cleaners

67 subsidiaries since 1962
Lesson 3

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.
Innovation
### R&D Intensity

<table>
<thead>
<tr>
<th></th>
<th>R&amp;D as % of revenue</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial firms with R&amp;D</td>
<td>3.0%</td>
<td>50</td>
</tr>
<tr>
<td>Booz (Global Top 1000 in R&amp;D)</td>
<td>3.6%</td>
<td>60</td>
</tr>
<tr>
<td>Hidden champions</td>
<td>6.0%</td>
<td>100</td>
</tr>
</tbody>
</table>
## Patents

<table>
<thead>
<tr>
<th></th>
<th>Patents per 1,000 employees</th>
<th>Cost per patent in 1,000 €</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patent-intensive large corporations</td>
<td>6</td>
<td>2.713</td>
</tr>
<tr>
<td>Hidden champions</td>
<td>31</td>
<td>529</td>
</tr>
</tbody>
</table>
Driving Forces of Innovation

Large corporations

- Market: 50%
- Technology: 31%
- Market & Technology: 19%

Hidden Champions

- Market: 21%
- Technology: 14%
- Market & Technology: 65%
Lesson 4

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.
Customers and Competition
Market-related Strengths

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

- Closeness-to-customer: 88.7%
- Image: 84.1%
- Professional marketing: 36.4%
Closeness to Top Customers

- 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

- Strategies are value-driven, not price-driven
- Price premium 10-15%
- Avoidance of price wars
Competitive Advantages of the Hidden Champions

- Competitive performance
  - Importance
  - Weaker than the strongest competitor

- Competitive performance
  - stronger

- Competitive performance
  - weaker than the strongest competitor

- Importance
  - Price
  - Flexibility
  - Distribution
  - Cooperation with suppliers
  - Advertising
  - Made in Germany
  - Patents
  - Systems integration
  - Service
  - Closeness-to-customer
  - Advice
  - Punctuality
  - Economy
  - Product quality

- Simons Kucher Partners
  - Strategy & Marketing Consultants
## Attributes with Strongest Increase in Importance

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Increase in percentage points last ten years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advice</td>
<td>+10</td>
</tr>
<tr>
<td>Systems integration</td>
<td>+8</td>
</tr>
</tbody>
</table>
Lesson 5

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.
Ownership and Financing
# Ownership and Leadership

<table>
<thead>
<tr>
<th>Ownership/Management</th>
<th>Ten years ago (in %)</th>
<th>Today (in %)</th>
<th>Change (in %-points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family-owned</td>
<td>76</td>
<td>66</td>
<td>-10</td>
</tr>
<tr>
<td>- thereof with family management</td>
<td>82</td>
<td>78</td>
<td>-4</td>
</tr>
<tr>
<td>- thereof with non-family management</td>
<td>18</td>
<td>22</td>
<td>+4</td>
</tr>
<tr>
<td>Corporations</td>
<td>21</td>
<td>16</td>
<td>-5</td>
</tr>
<tr>
<td>Publicly listed</td>
<td>2</td>
<td>10</td>
<td>+8</td>
</tr>
<tr>
<td>Private equity</td>
<td>-</td>
<td>8</td>
<td>+8</td>
</tr>
</tbody>
</table>
Key Financial Indicators

- Return on Capital Employed (ROCE): 13.6%
- Equity Ratio: 41.9%
- Self-financing dominates
- Capital markets increasingly important
## Financing of the Hidden Champions

<table>
<thead>
<tr>
<th></th>
<th>Past</th>
<th>Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-financing</td>
<td>78.6%</td>
<td>77.8%</td>
</tr>
<tr>
<td>Traditional bank loans</td>
<td>61.6%</td>
<td>44.0%</td>
</tr>
<tr>
<td>Private equity</td>
<td>15.3%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Capital markets</td>
<td>12.8%</td>
<td>29.6%</td>
</tr>
</tbody>
</table>
Lesson 6

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.
Employees and Leaders
Employees

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

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

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

University graduates (%)

10 years ago: 8,5%
Today: 19,1%
Employee Turnover Rates

- USA: 30.6%
- Austria: 9.0%
- Switzerland: 8.8%
- Germany: 7.3%
- Daimler: 5.3%
- Hidden champions: 2.7%

Source: Hernstein-Institute/US Department of Labor
Leaders

- 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

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

- Focus
- Innovation
- Competitive advantages
- Depth
- Leadership with ambitious goals
- High performance employees
- Global orientation
- Closeness to customer

(SIMON • KUCHER & PARTNERS)
Strategy & Marketing Consultants
The Ultimate Lesson

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…
To conclude….

... a personal

Hidden Champions Story
Simon - Kucher & Partners

- 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.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Consultancy</th>
<th>Score*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Simon-Kucher &amp; Partners</td>
<td>401</td>
</tr>
<tr>
<td>2</td>
<td>Boston Consulting Group</td>
<td>370</td>
</tr>
<tr>
<td>3</td>
<td>McKinsey &amp; Company</td>
<td>346</td>
</tr>
<tr>
<td>4</td>
<td>Bain &amp; Company</td>
<td>344</td>
</tr>
<tr>
<td>5</td>
<td>Roland Berger</td>
<td>338</td>
</tr>
</tbody>
</table>

* Maximum 500;  Source: manager-magazin August 2007/IMB (Institute for Management & Consulting);  Survey of 264 Top Managers
World Leader in Price Consulting

“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
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).

- Boston Consulting Group: Founded in 1963, Year 1987 (364 professionals)
- Simon-Kucher: Year 2010 (375 professionals)
Global Presence

Germany, Bonn
Switzerland, Zurich
England, London
USA, San Francisco
USA, Boston
USA, New York
Luxembourg
Belgium, Brussels
Netherlands, Amsterdam
Denmark, Copenhagen
Germany, Frankfurt
Germany, Munich
Germany, Cologne
Japan, Tokyo
China, Beijing
Singapore
Australia, Sydney
France, Paris
Spain, Madrid
Switzerland, Zurich
Italy, Milan
Austria, Vienna
Russia, Moscow
Poland, Warsaw

(3H01X52)
Challenges for Emerging Countries

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

www.hermannsimon.com
The Most Influential Management Thinkers in German-Speaking Countries 2005-2009

<table>
<thead>
<tr>
<th>Rank</th>
<th>Thinker</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Peter F. Drucker †</td>
<td>38.6%</td>
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<tr>
<td>2.</td>
<td>Hermann Simon</td>
<td>14.3%</td>
</tr>
<tr>
<td>3.</td>
<td>Fredmund Malik</td>
<td>13.6%</td>
</tr>
<tr>
<td>4.</td>
<td>Michael E. Porter</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

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.


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.