

Hidden Champions in CEE and Dynamically Changing Environments: Who are they, where they come from, how different are they?

Summary of research results

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- 1. Research overview**
- 2. Success stories**
- 3. Market position**
- 4. Competitive strategy & leadership**
- 5. Marketing strategy & innovations**
- 6. Summary**

- **All analysis and findings outlined in this presentation are preliminary**
- **Full research results and country chapters will be published in the upcoming book:**
 - **Title (TBD): “Hidden Champions from Central and Eastern Europe”**
 - **Editors: Hermann Simon, Danica Purg, Melita Rant, Marek Dietl**
 - **Expected publisher: Emerald**

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Geographic scope

Our research covered 18 countries with population over 400 million but we identified around 300 HCs, and study in a greater detail 165 HCs.

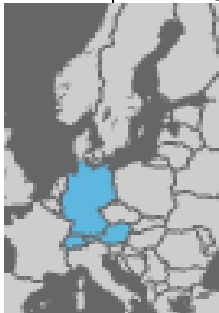
Simon's HC research

Macroeconomic indicators:

- German-speaking countries (A, DE, CH)
- Total population (2009): 98 million
- Total GDP (2009, current \$): 4.2 trillion
- Range of av. GDP growth ('99-'09): 0.9%-1.9%
- Avg. GDP/cap. (2009, current \$): 50 thousand
- Total export (2009, current \$): 1.8 trillion
- Export as % of GDP (2009): 43%

Hidden Champions:

- Number of HCs: 1316
- HCs per 1000 inhabitants: 0,0134



CEE HC research

Macroeconomic indicators:

- 18 countries (C/SE Europe, Turkey, Kazakhstan)
- Total population (2009): 400 million
- Total GDP (2009, current \$): 3.7 trillion
- Range of av. GDP growth ('99-'09): 2.5%-8.0%
- Avg. GDP/cap. (2009, current \$): 11 thousand
- Total export (2009, current \$): 1.3 trillion
- Export as % of GDP (2009): 34%

Hidden Champions:

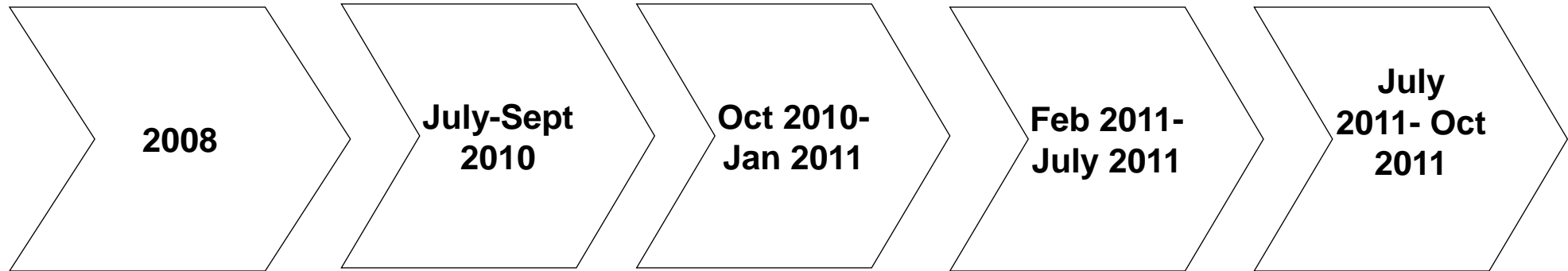
- Number of HCs: 300
- HCs per 1000 inhabitants: 0,0007



* Albania, Belarus, Bosnia and Herzegovina, Croatia, Czech Republic, Estonia, Hungary, Kazakhstan, Latvia, Macedonia, Poland, Romania, Russian Federation, Serbia, Slovak Republic, Slovenia, Turkey, Ukraine.

Research methodology: Dilemma „Rigor vs. Relevance“?

Unreliable maps, ambiguity, substantial institutional and cultural differences, lack of resources.
The only true resource: Committed researchers.



Activities:

Pilot study: Poland.
Original Simon's questionnaire.

Challenge:

Quantitative approach works well on big samples.
Semi-structured interviews work better.
Max 90 min.

Activities:

Formation of CEEMAN research team.
Identification of possible HC.

Challenge:

Each country different story.
Unified approach ineffective.

Activities:

Interviews with companies.
Writing detailed analytical cases and questionnaires.

Challenge:

Not many Simon's type of HCs.
Adjustment of selection criteria.

Activities:

Sharing of findings at a workshop.
Additional interviews, information search.
Analysis.
Book – 1st draft.

Challenge:

HC like to stay hidden.
Data reliability.

Activities:

Book – 2nd drafts.
Conference report.

Challenge:

Developing relationships with HCs.

Hidden Champions in DACH and CEE

Simon's HCs reached outstanding global position. Our HCs are on the way there.

Indicator	Simon's HCs	HCs from CEE
Market position	No. 1 in Europe or World's top 3	Global / Europe / CEE / Regional leaders
Average revenues (p.a.)	€ 326 millions	€ 141 millions*
Revenue growth (10 years in EUR)	8.8% p.a.	10.4% p.a.
Export (% of revenues)	61.5% (51.1% 10 years ago)	62.1% (58.2% 10 years ago)**
Productivity (revenues per employee)	€ 160,039	€ 99,240
Median age of the company (years)	61	19
R&D expenses (% of revenues)	6%	16.4%
Patents per 1000 employees	30.6	41.98
ROCE/ROI (%)	13.6%	32%
Equity ratio (%)	41.9%	56%

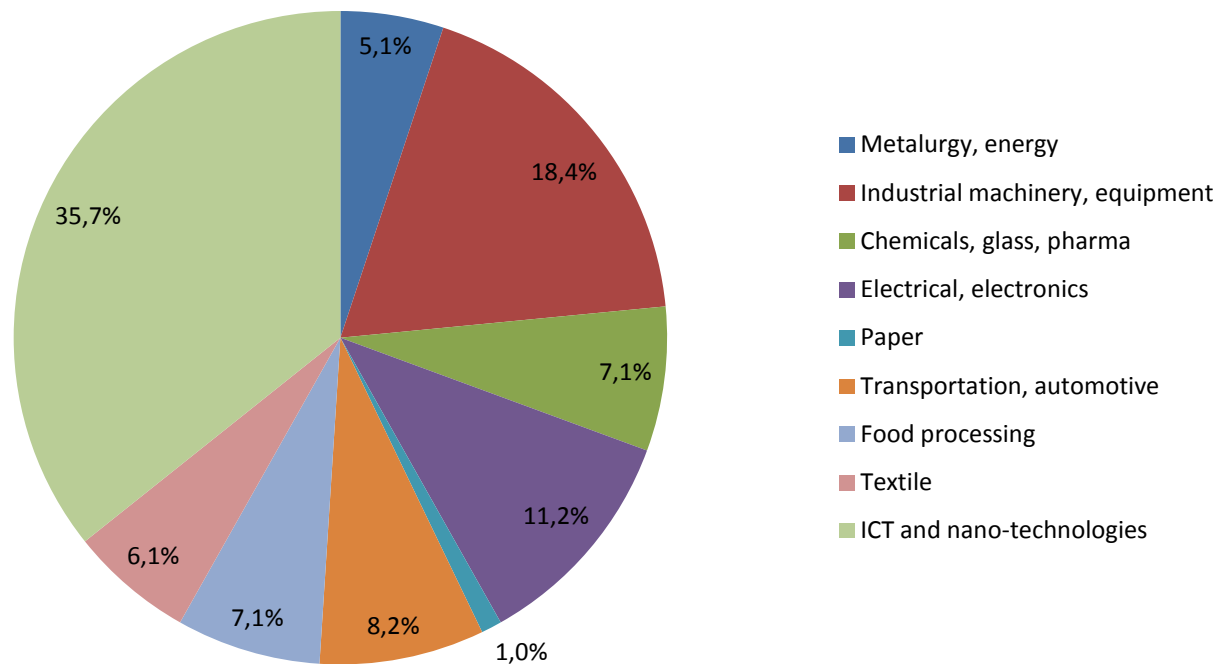
* Data for Poland 2008, Turkey not included.

** Some companies did not exist 10 years ago.



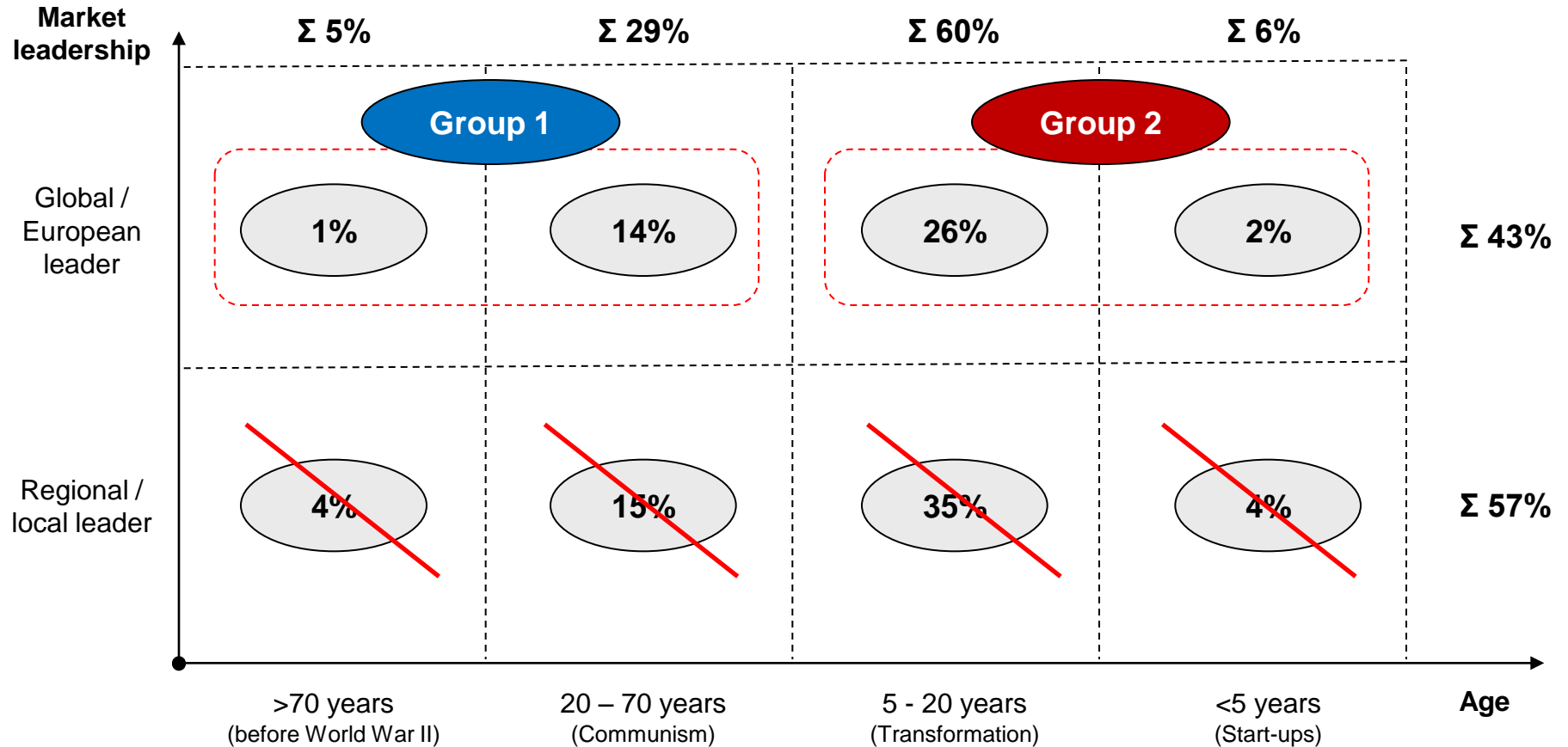
Industry structure: Substantial diversity

1. Information and telecommunication technologies and other nano technologies (35,7%)
2. Manufacturing of machinery and equipment (18,4%)
3. Electrical industry, electronics (11,2%)



Segmentation of CEE HCs*

Majority of CEE HCs were established after transition to market economy. Despite short presence in the market some of them have become global players.



* Turkey & Greece are excluded from the segmentation due to different historic background.

** Czech Republic & Slovakia was excluded because late arrival of the data.

*** Data on both age and market position is available for 140 out of 157 researched companies.

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Success story # 1: Hidria (Group 1)

Real Hidden Champion!

- Third in the world in diesel cold start systems for internal combustion engines.
- First in the world in range extenders for hybrid electric vehicles.
- Second in Europe in ALU die castings for automotive steering systems.

Growth & globalization

- Growth rates (2000-2010): revenues x2,4; growth both organic and through M&A.
- 25 sales subsidiaries and 9 production plants in 15 countries; however sales in 80 countries.
- Clients all major OEMs: Renault, Peugeot, Volkswagen, Audi, BMW, Citroen, MAN.

Competitive advantages

- Building strategic partnership to manage ambiguity over the prevailing standards for EV technology: R&D departments at strategic clients: BMW, Audi, PSA, Technology platforms: ERTRAC, ESTTP, STTP, SGTP....
- Backward integration – even machines are designed in-house.

Leadership

- Ownership consolidation early on; employees co-owners - unified interest.
- Top management cosmopolitan, well-educated in both technical and managerial background.
- Top decision-makers Slovenes; building their global mindset through education and own development.

Success story # 2: Morpol (Group 2)

Real Hidden Champion!

- World leader in manufacturing of smoked salmon.
- Revenues (2010): € 430 millions / EBITDA (2010): € 23.5 millions.
- Not known to general public however listed on the Oslo Stock Exchange.

Growth & globalization

- Growth rates (2005-2010): revenues x4; EBITDA x5 (2009); employees x5.
- Polish company listed in Oslo with operations in 8 countries and market presence in 20+ countries.
- Organic growths + successful cross-border M&As (including German Laschinger Group).

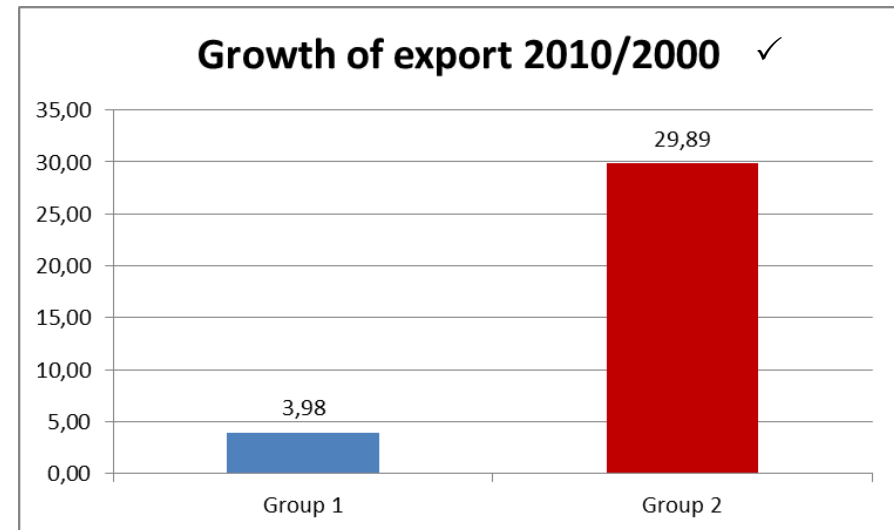
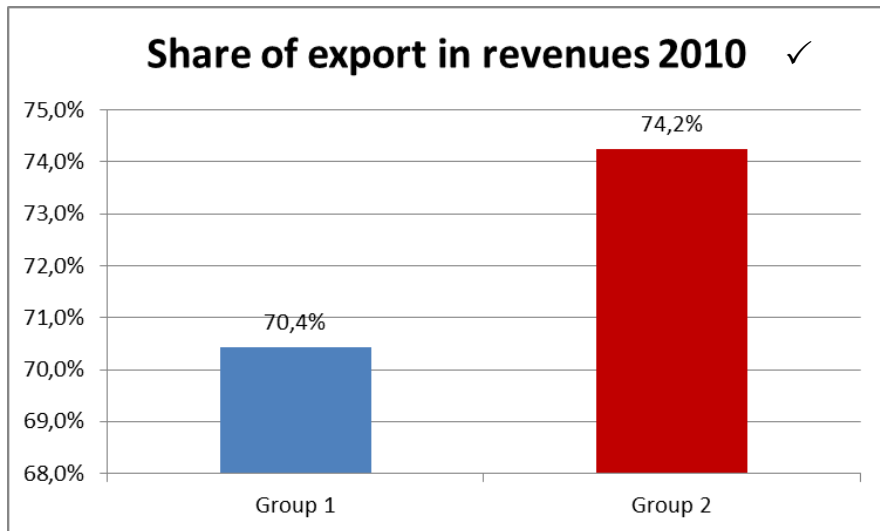
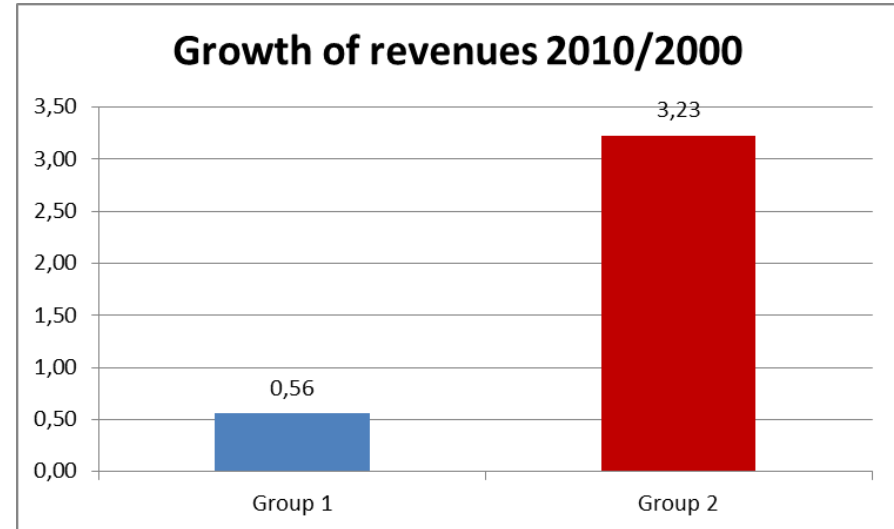
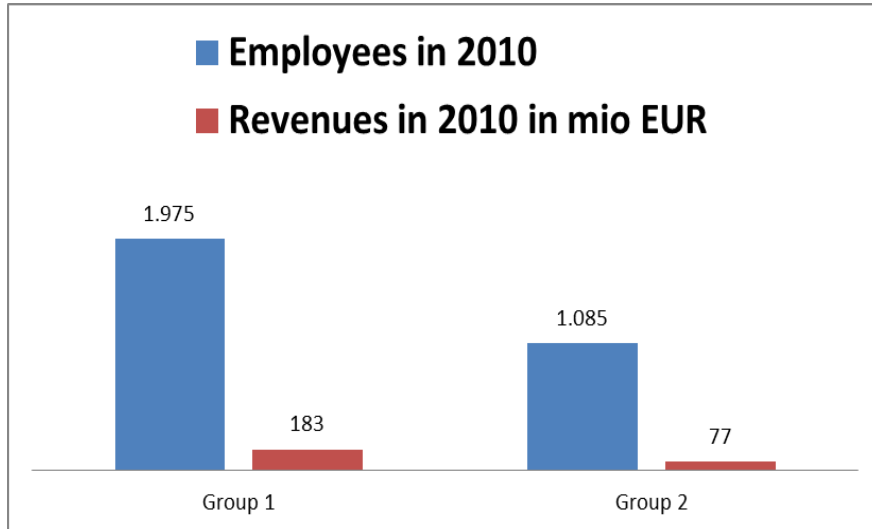
Competitive advantages

- Focus on: global mentality, quality, efficiency.
- Backward integration – even machines are designed in-house.
- Covering whole value chain: from farming to end customer.

Leadership

- Mr. Jerzy Malek – founder & CEO – real entrepreneur.
- CFO and COO from UK.
- Supervisory board: two Norwegians, two Poles and one Dutchman.

Group 2 is growing extremely fast through internationalization.

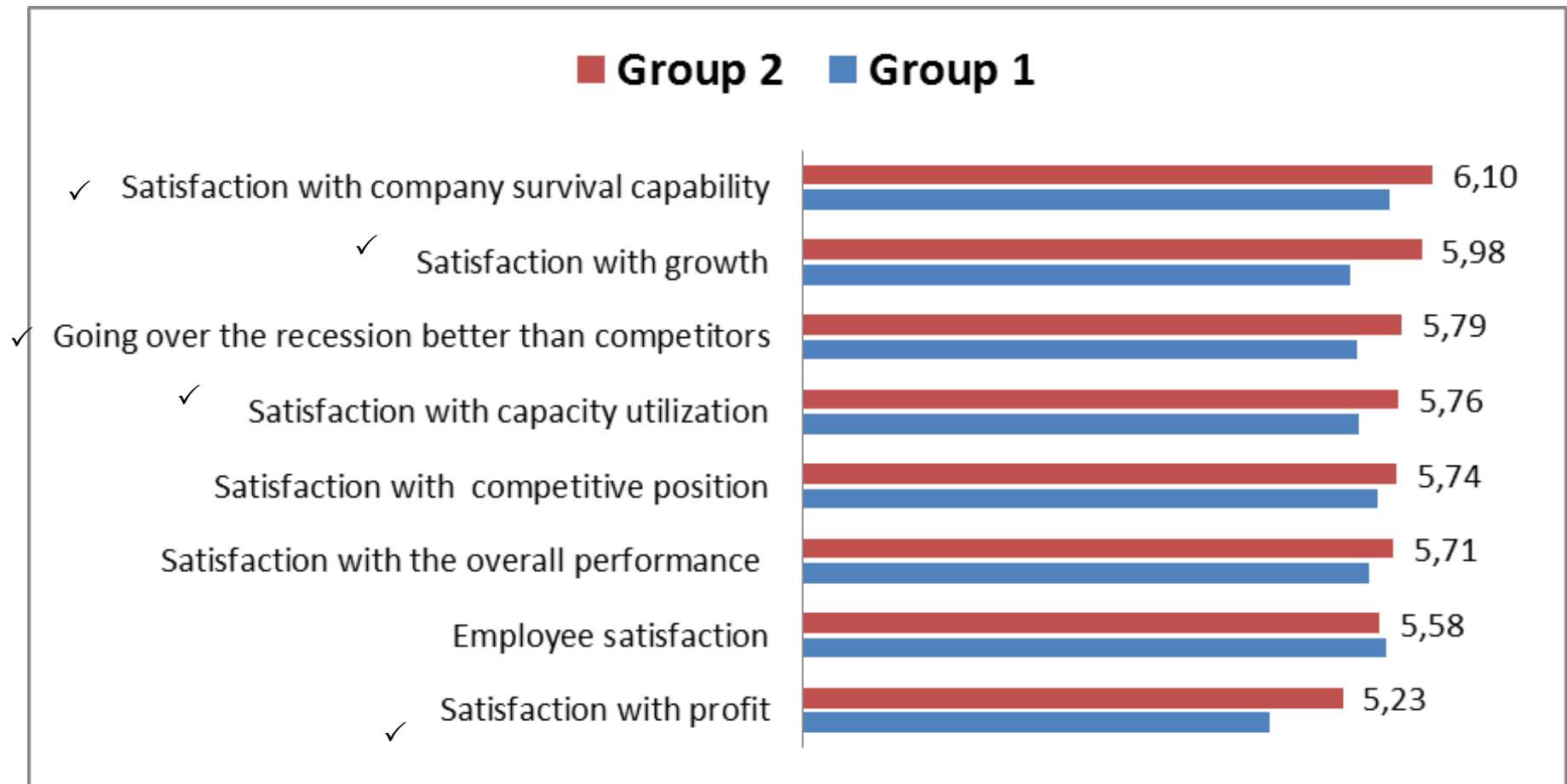


Note: Poland not included in the calculation.

✓ Statically significant differences between groups (sign. < 0,05).

Group 2 is more satisfied with performance and competitiveness

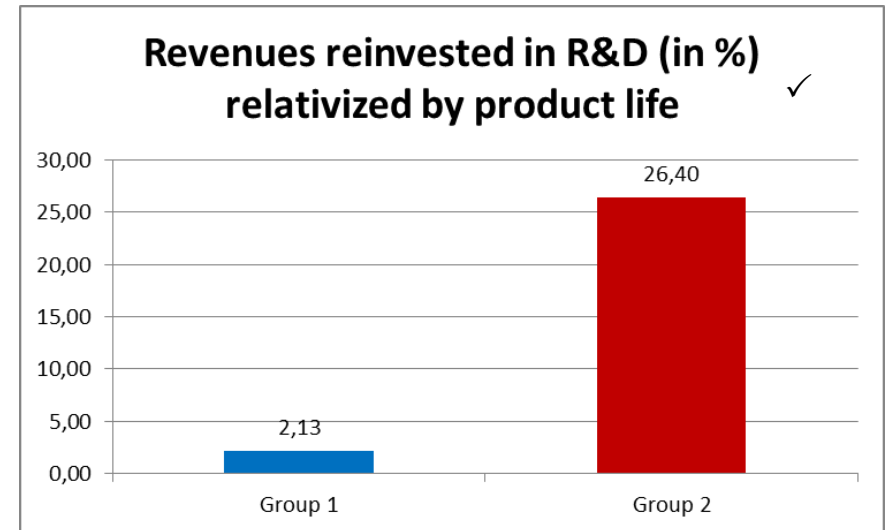
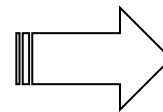
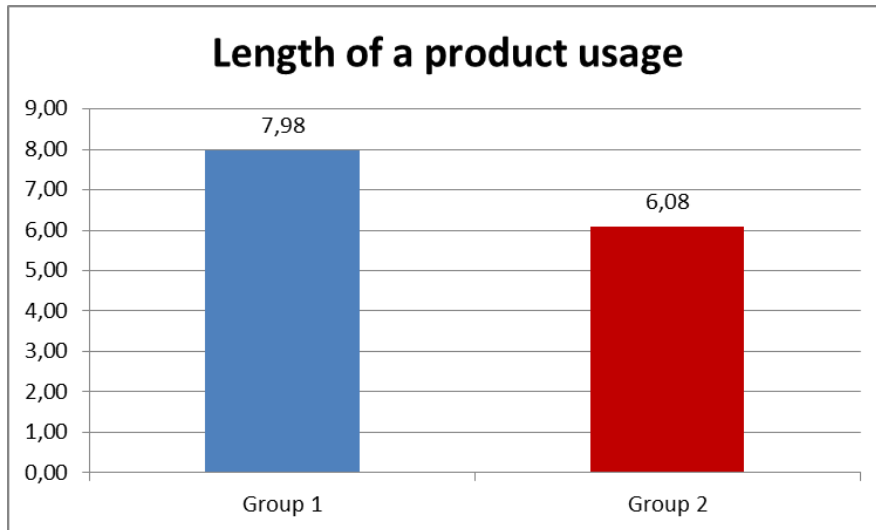
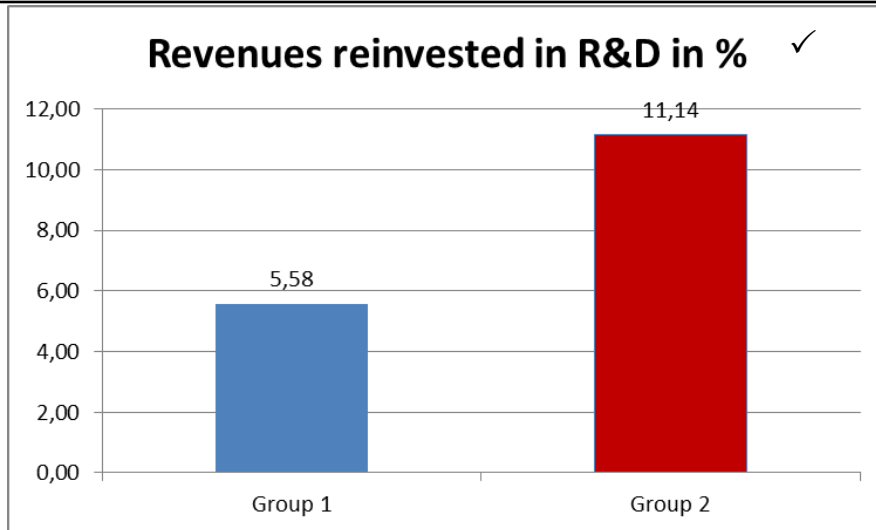
Survival ranked the highest – profit ranked the lowest by both groups!
However, the grades are still very high!



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Why is growth important?



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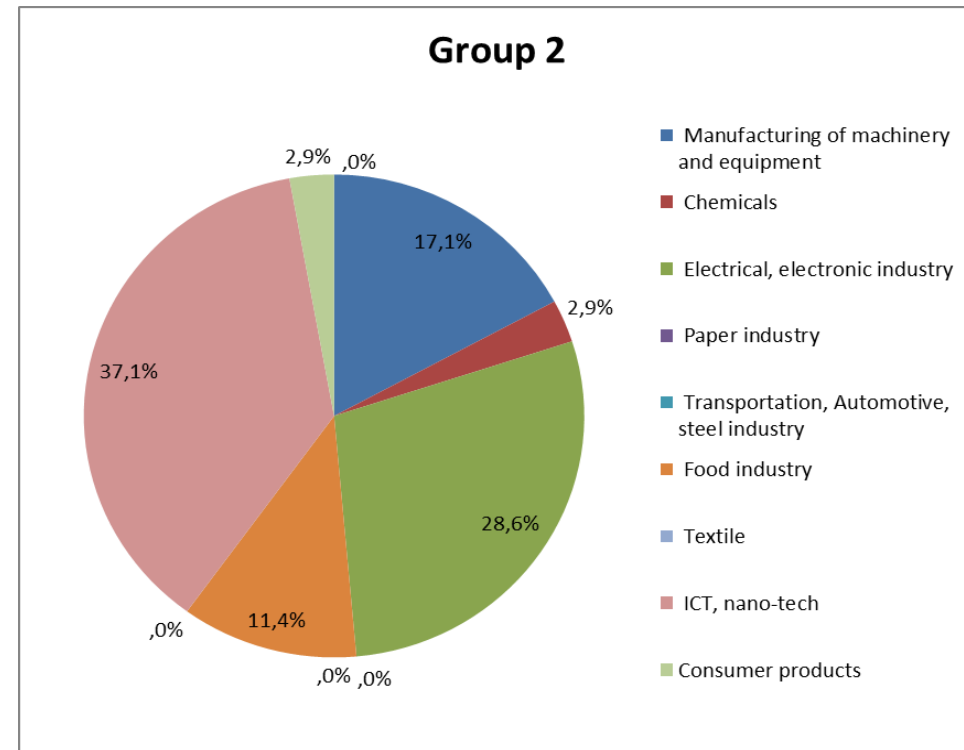
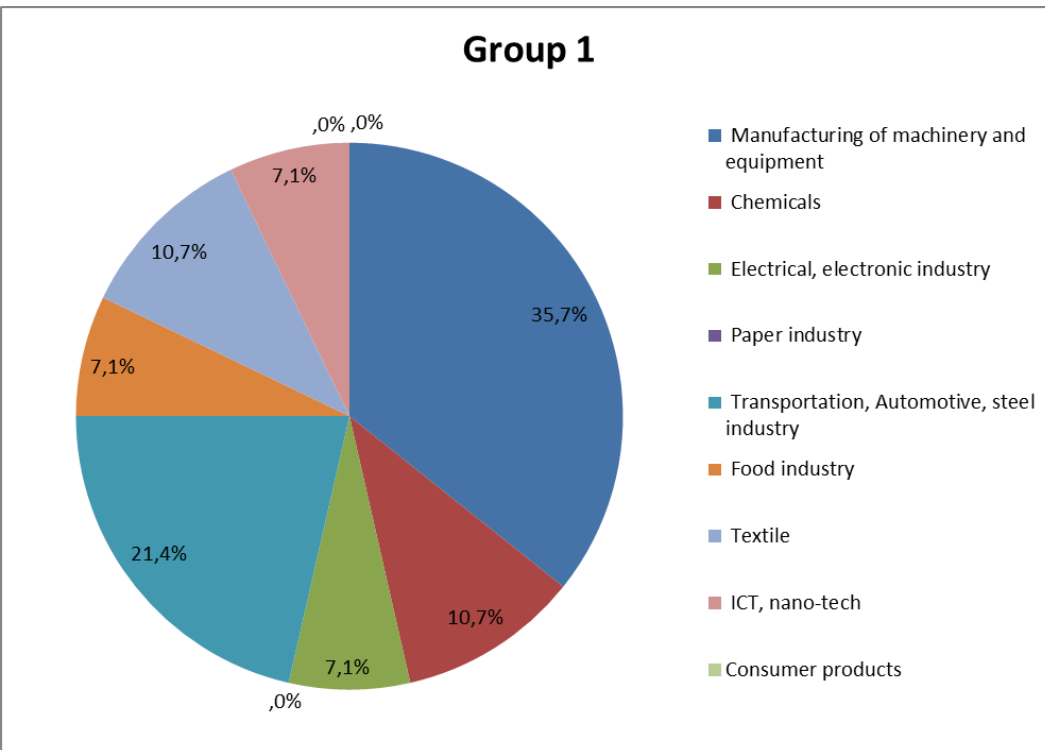
Group 2 is in new technologies where the demand is growing.

Group 1:

1. Mature stage
2. Machinery, industrial equipment (36%)
3. Transportation, automotive industry (21%)
4. Inconspicuous products for B2B segment within one industrial branch

Group 2:

1. Growth stage
2. ICT, Nano technologies (37%)
3. Electrical industry, electronics (29%)
4. Multi-purpose technologies for numerous industrial branches



Note: Poland not included in the calculation.

Structural attractiveness of industries is better for Group 1.

Competition:

Number of relevant competitors

Group 1: 20

Group 2: 22

**Competitive rivalry exists.
Slightly stronger in Group 2.**

Customers:

Revenues from Top 3 customers

Group 1: 23%

Group 2: 30%

**Customers' holdup strong.
Stronger in Group 1.**

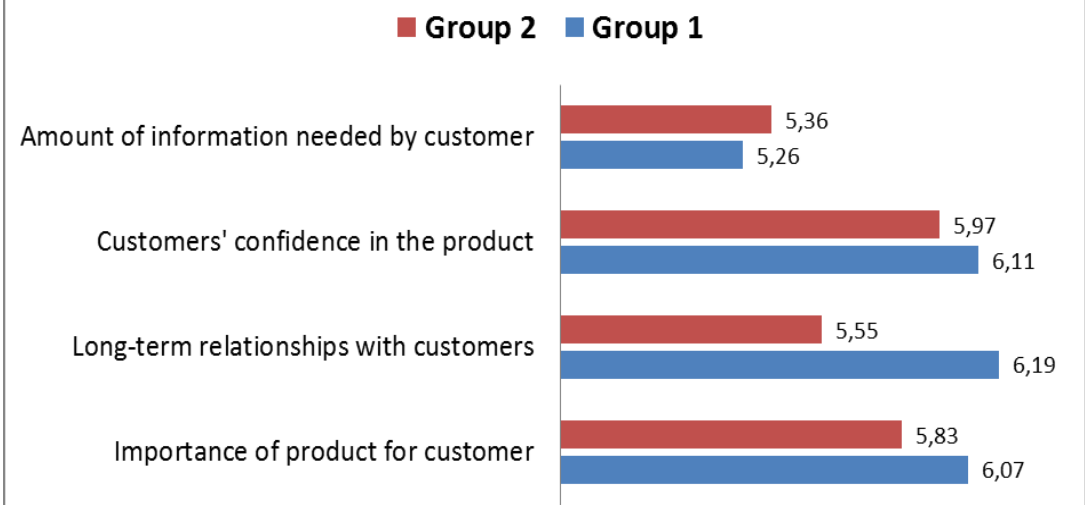
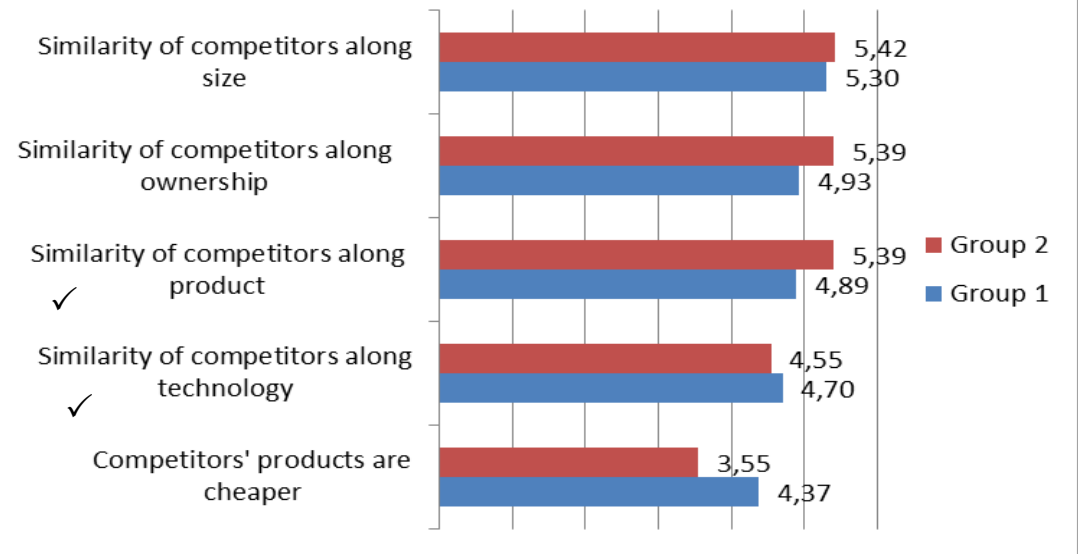
Barriers to entry:

Group 1: Higher capital intensity

Group 1: Lower capacity utilization

Group 2: Growing demand

Barriers to entry higher for Group 1.



Note: Poland not included in the calculation.

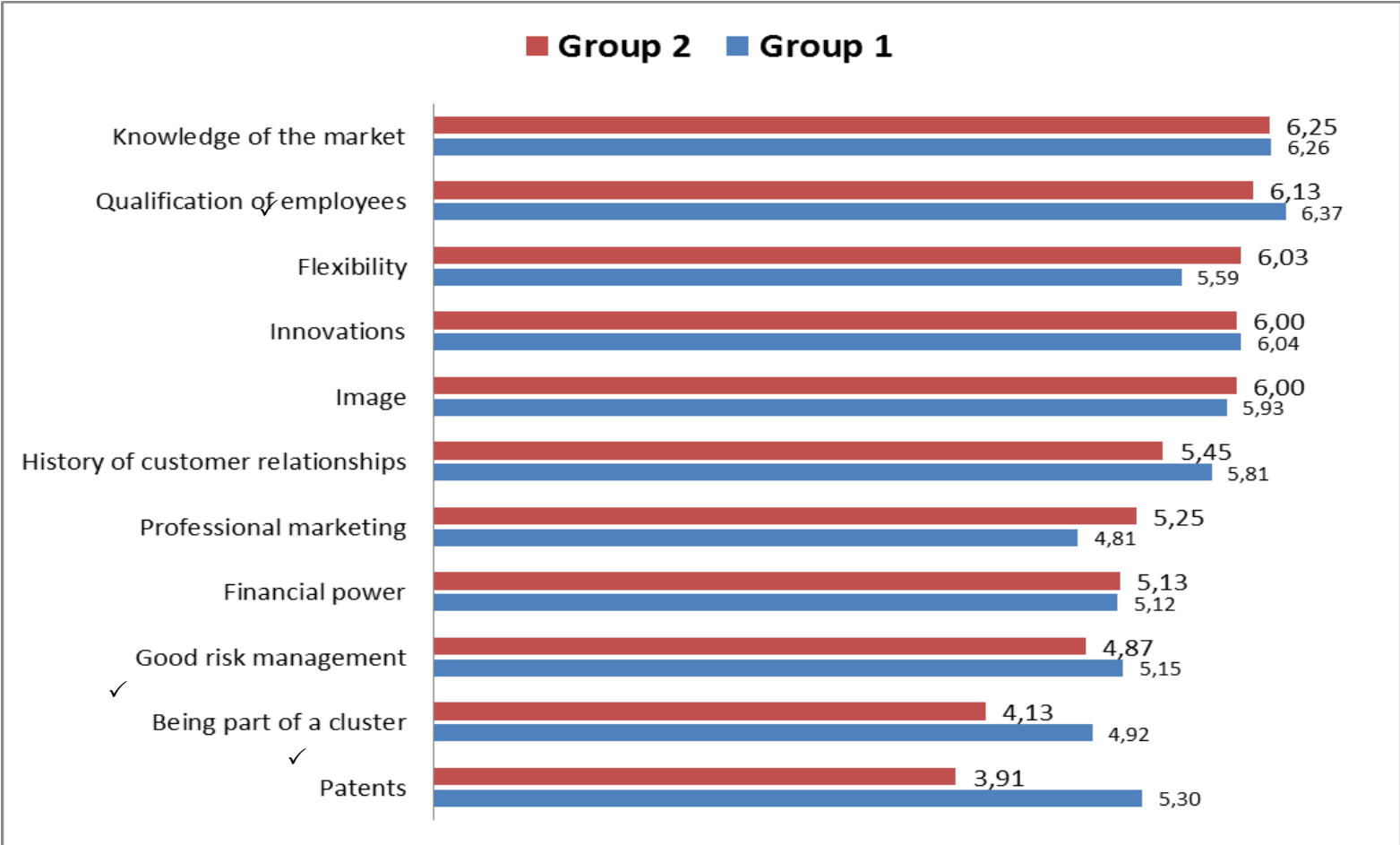
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In both groups core drivers to success is the knowledge of the market, qualification of employees, innovations and image.

Group 2 is more flexible, has better marketing, while Group 2 is significantly better off in terms of patents and clusters.



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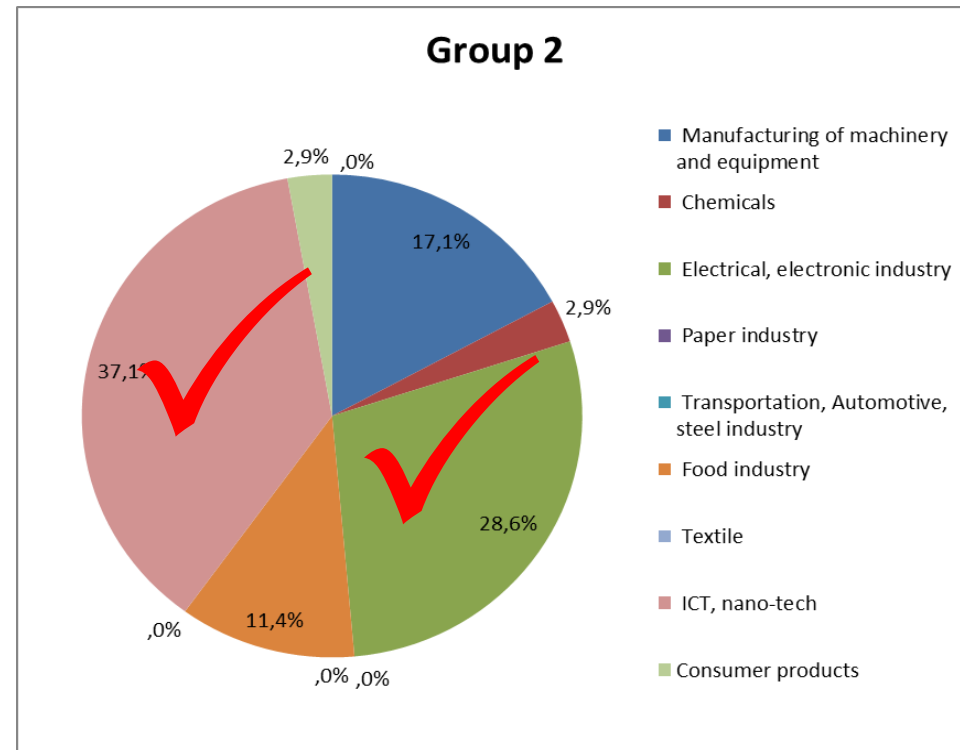
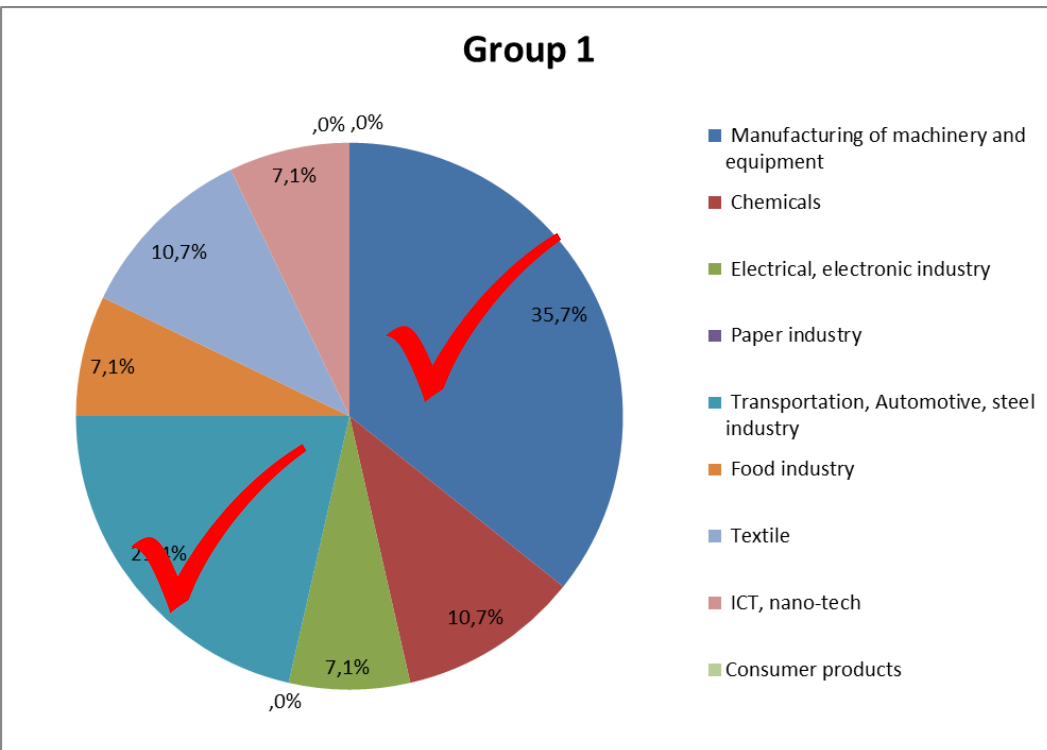
What more can we say about strategic behavior of CEE HCs?

Group 1:

1. Machinery, industrial equipment (36%)
2. Transportation, automotive industry (21%)

Group 2:

1. ICT, Nano technologies (37%)
2. Electrical industry, electronics (29%)



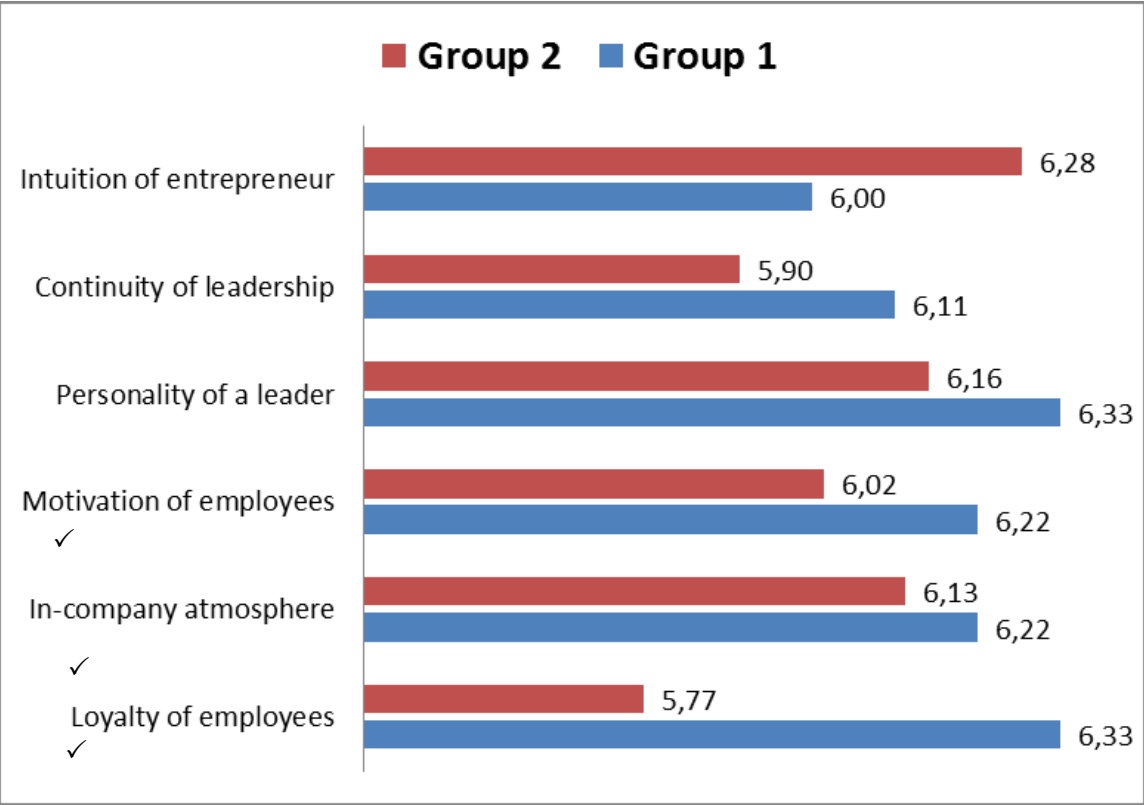
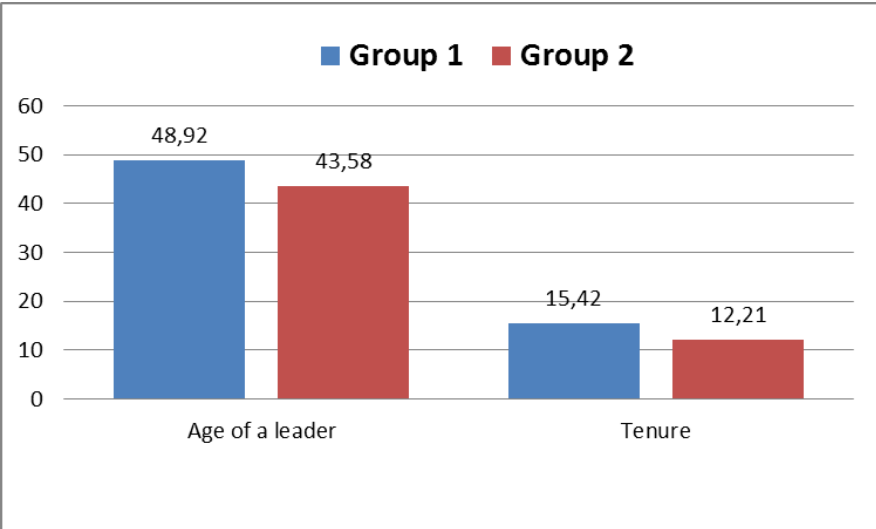
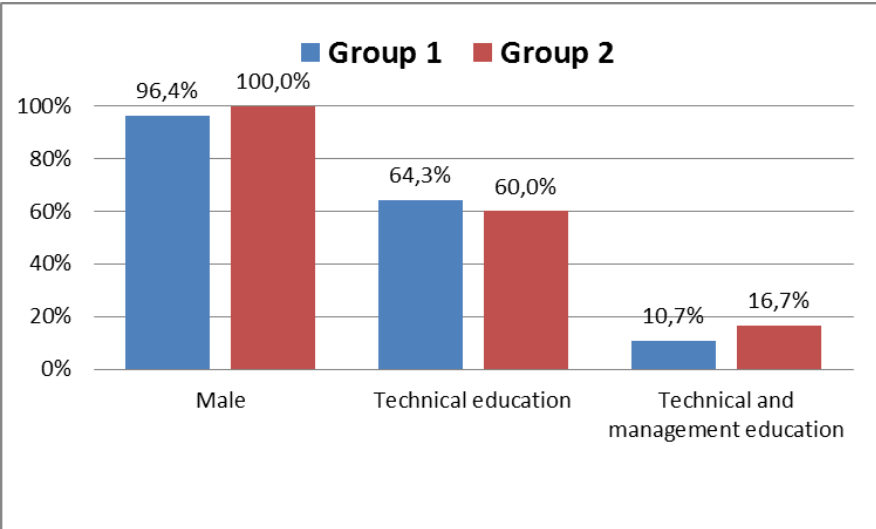
Note: Poland not included in the calculation.

Though Group 1 and Group 2 are HC type of companies, their approach towards value creation and value capturing is different.

	Group 1	Group 2
Product	Technologically complex (standard) product.	Knowledge complex (custom) product (solution).
Attitude towards competition	Push forward price/value advantage. Focus where you can better manage country risks.	Push forward product design features. Move quickly to the next generation of products.
Tactics for avoiding customer holdup	Enforce product as (proprietary) standard.	Intellectual protection weak. Branding. Professional articles. Prestigious awards.
Attitude towards suppliers	Suppliers as competitors. Design of own manufacturing equipment.	Suppliers as customers. How can I create value for supplier?
Sources of cost advantages	Economies of scale.	Learning economies.
Core capability	Process design.	Product (solution) design.

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Strong leadership is a core driver to success in both groups, however motivation and loyalty of employees is higher in Group 1.



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✓ Statically significant differences between groups (sign. < 0,05).

What more can we say about leadership practices of CEE HCs?

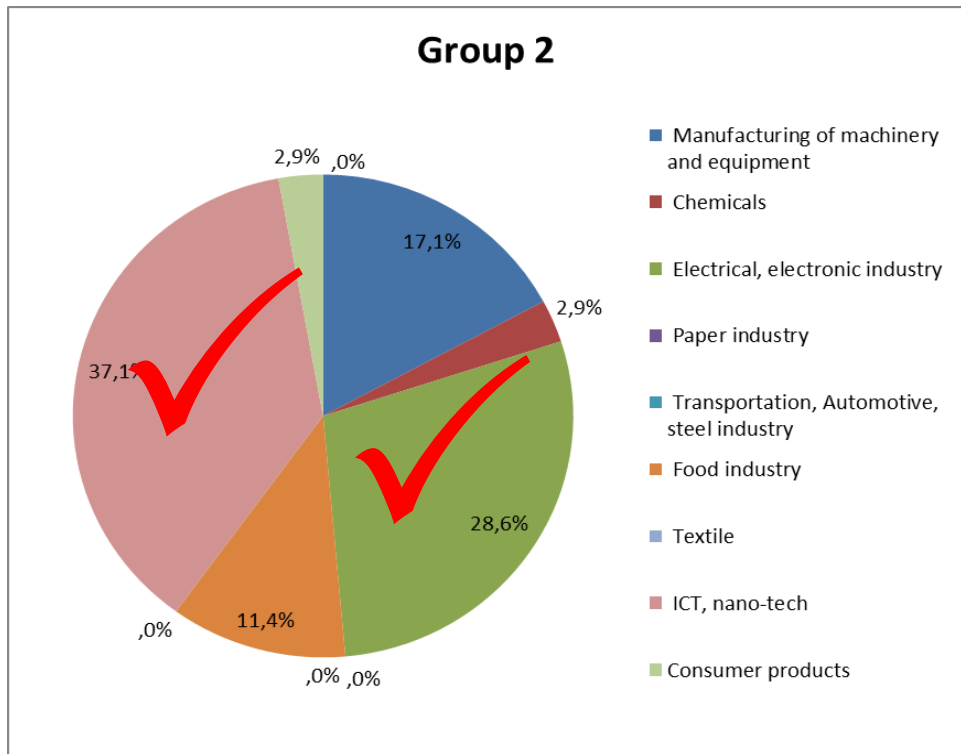
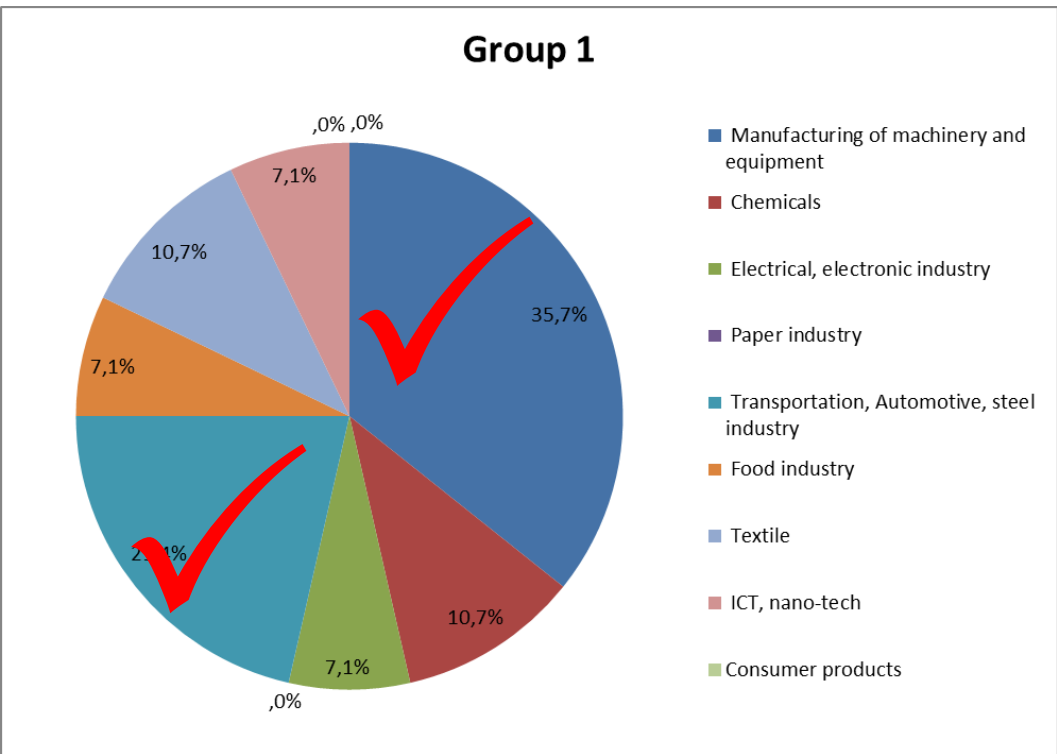


Group 1:

1. Machinery, industrial equipment (36%)
2. Transportation, automotive industry (21%)

Group 2:

1. ICT, Nano technologies (37%)
2. Electrical industry, electronics (29%)



Note: Poland not included in the calculation.

Based on scarce information about leadership practices, our presumption is that the later also differentiate between the two groups

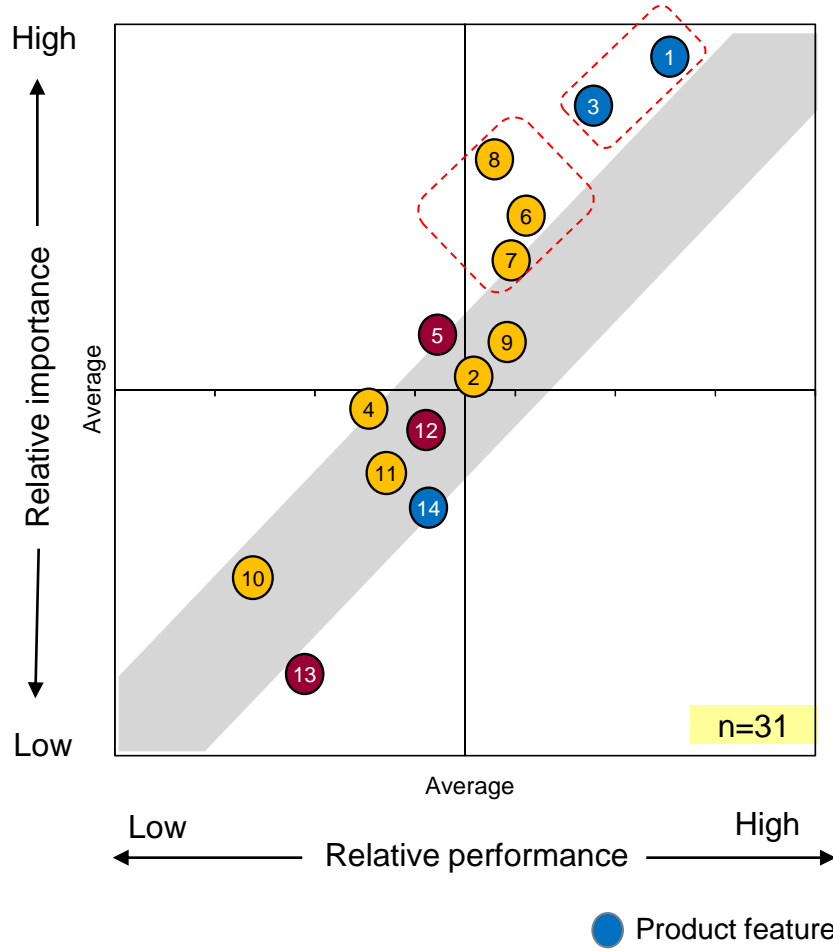
	Group 1	Group 2
Role of a leader	Resolving challenges and tensions.	Creating of new challenges and tensions.
Core questions of a leader	Living the customer reality! How to adjust standard product do the demands of individual customer?	Living the future! What needs to be changed by us, by customers to respond well to the future?
Organization of innovations	R&D departments. Research institutes and labs. Joint ventures and membership in technological platforms.	R&D but no R&D departments. Innovation is responsibility of all employees.
Communication	Clean communication lines. Core technological decisions decentralized to experts.	Spurious communications, lots of questioning. Core technological decisions centralized.
Motivation	Employees incentivized by better job & higher salary.	Employees incentivized by quest for prestigious awards, professional recognition.

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Strategic marketing: Matrix of competitive advantages

CEE HCs offer high quality products with good service.

Matrix of competitive advantages of CEE Hidden Champions:



Attributes:

- 1 Product quality
- 2 Price
- 3 Product efficiency
- 4 Closeness to customers
- 5 IT systems
- 6 Pre-sales advice
- 7 After-sales advice
- 8 On-time delivery
- 9 Flexibility in dealing with customer requests
- 10 Advertisement
- 11 Distribution
- 12 Cooperation with suppliers
- 13 Close to customers location of production
- 14 Possession of important patents

CEE HCs marketing-mix

High quality product accompanied with good level of services at a reasonable price are the fundamentals for attractive marketing mix.

Product:

- High quality
- High efficiency
- But not a breakthrough innovations

Favorable quality/
price relation

Pricing:
Standard (not premium)

Good level of service in
relation to price

Marketing-Mix

Communication:

- Not proficient in advertising
- Not that close to customers (both relations and geography)

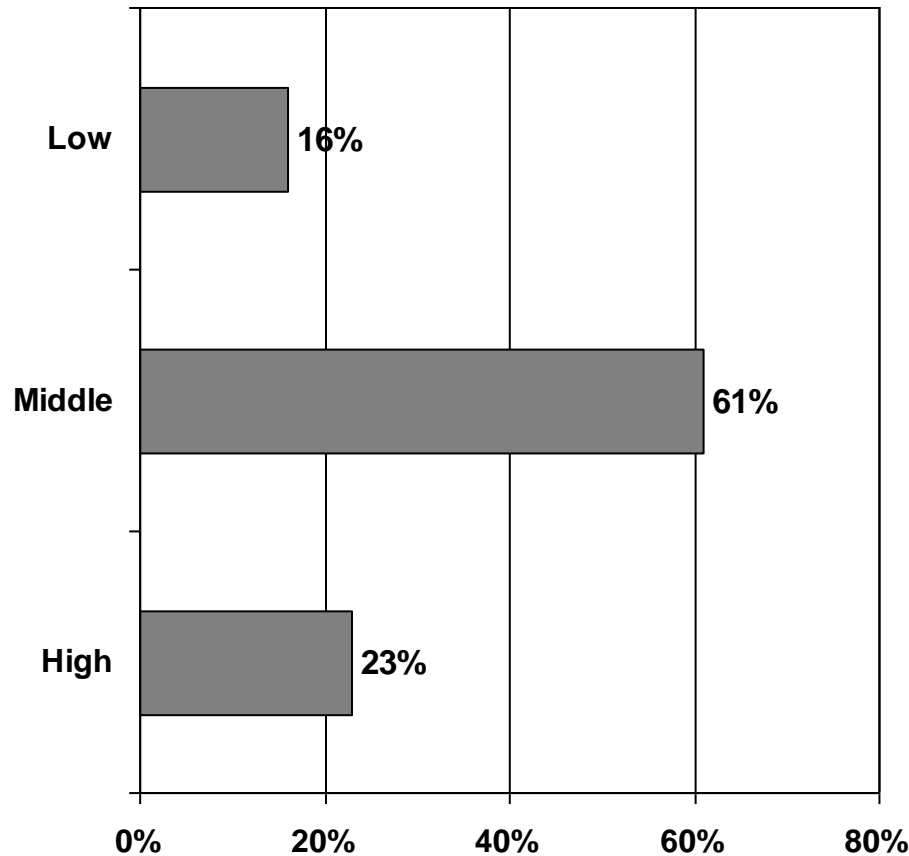
Sales:

- High level of service
- Timely delivery
- Distribution not a strength

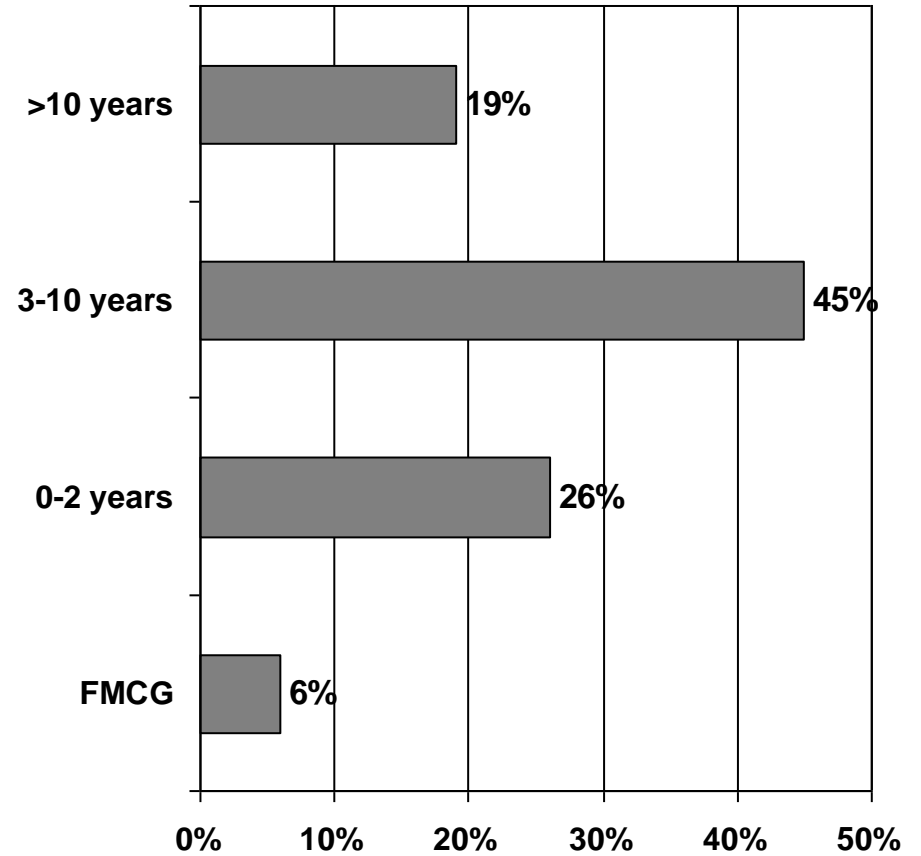
Products' characteristics

CEE HCs offer rather durable goods produced with technologies with middle level of capital intensity

Capital intensity



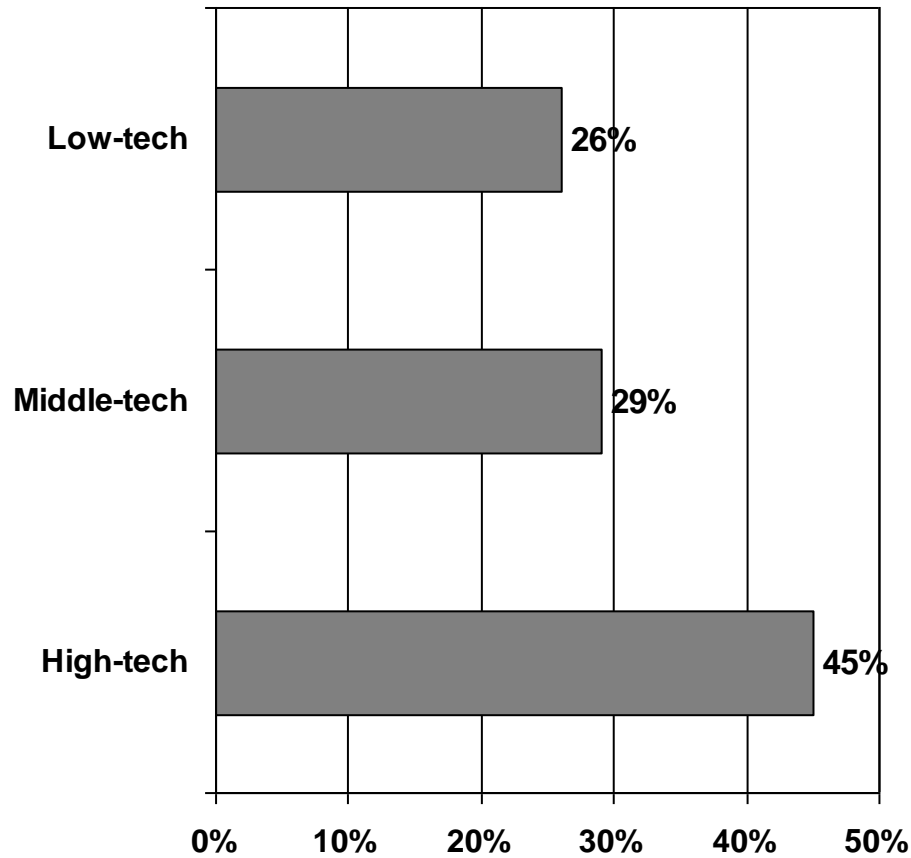
Lengths of product usage



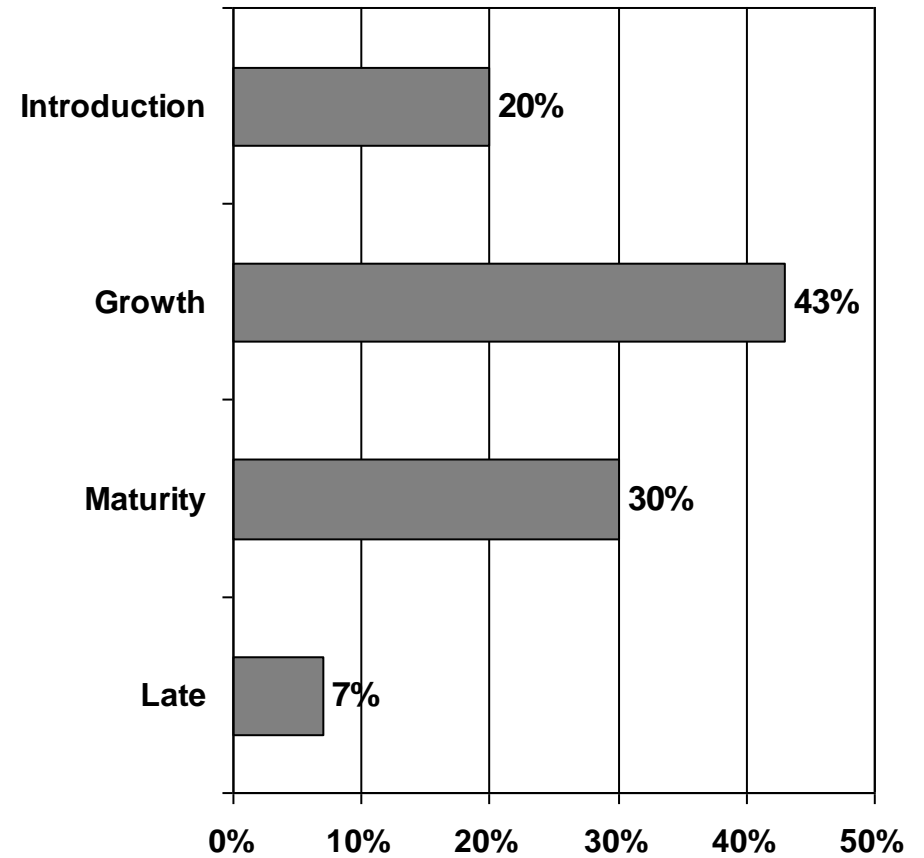
Technology and life cycle

CEE HCs are high-tech companies which products are in growth phase.

Technological development

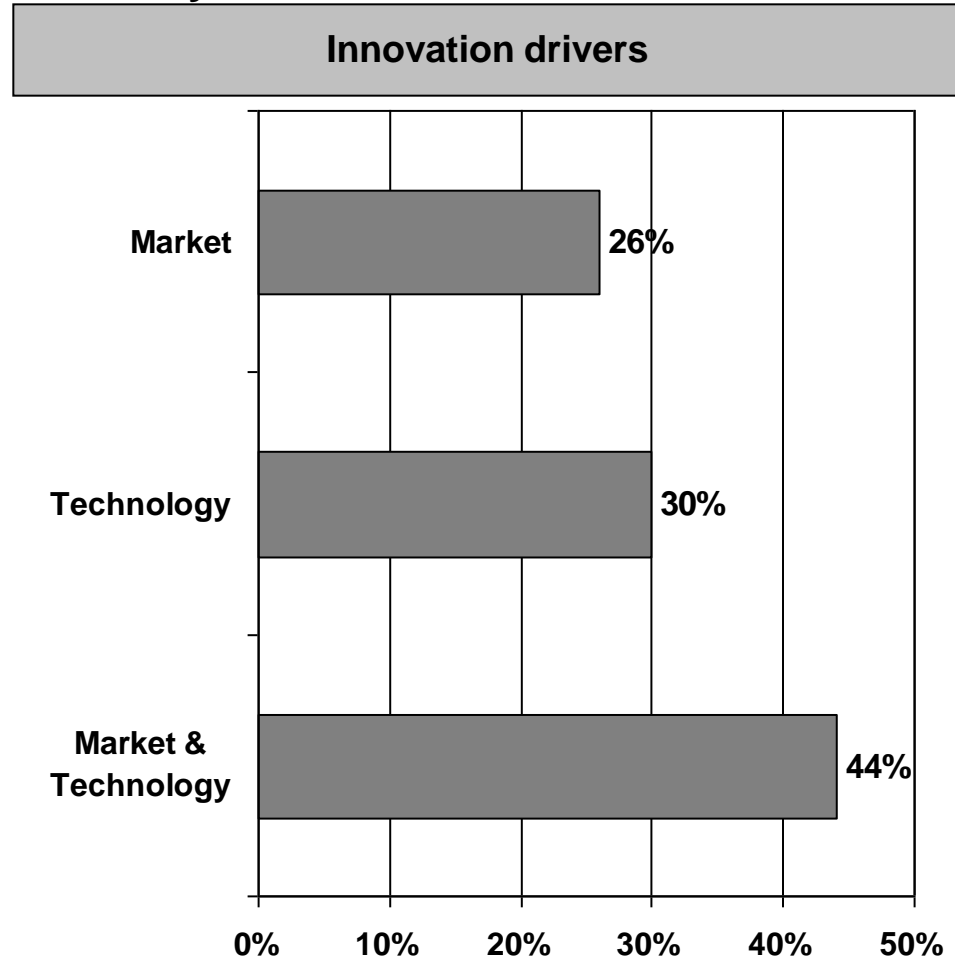


Life cycle



Innovation drivers, R&D spending and patents

Innovations of CEE HCs are driven by both market & technology. Those companies are extremely innovative – some of them are R&D focused.



Average:

R&D as % of revenues:	19%
Patents per 1'000 employee:	97

Top-10 innovators:

R&D as % of revenues:	39%
Patents per 1'000 employee:	277

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- There are Hidden Champions in S/CEE!
 - They constitute the avangarde of the region economy:
 - Their growth rates out-performs GDP growth
 - Their share of export is 2 times higher then region average
 - CEE HCs are much younger then their DACH counterparts but they are catching with:
 - **Ambition:** they are usually first generation of entrepreneurs who are success hungry
 - **Innovations:** high R&D spendings and patents per employee
 - Marketing strategy **focused on growth:** high quality at a reasonable prices
 - Major challenges are: succession, financing and managing growth and internationalization.
 - Future for those companies look bright:
 - Their major products are at the early or growth stage and are rather high-tech
 - They are still foreign markets to be conquered
- It is great that those companies exists but S/CEE needs more Hidden Champions!**