Session 3: Business environment and context for hidden champions to grow and sustain Slovakia

Hidden Champions in CEE and Dynamically Changing Environments
Success lessons from 100 unknown market leaders from CEE, CiS and Turkey

Janka Táborecká-Petrovičová
Faculty of Economics Matej Bel University
Banská Bystrica Slovakia

Tamara Bobáková
Simon-Kucher & Partners
Where in the world?
Slovakia’s business environment

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td></td>
<td>EURO</td>
</tr>
<tr>
<td>GDP per capita (current US$)</td>
<td>5,547</td>
<td>16,175</td>
</tr>
<tr>
<td>Long-term unemployment (% of total unemployment)</td>
<td>47,7</td>
<td>50,9</td>
</tr>
<tr>
<td>Foreign direct investment, net inflows (% of GDP)</td>
<td>1,2</td>
<td>-0,04</td>
</tr>
<tr>
<td>Exports of goods and services (current US$, mio)</td>
<td>18,317</td>
<td>87,169</td>
</tr>
<tr>
<td>Exports of goods and services (% of GDP)</td>
<td>61,2</td>
<td>99,5</td>
</tr>
<tr>
<td>Merchandise exports (current US$)</td>
<td>10,211</td>
<td>55,979</td>
</tr>
<tr>
<td>Merchandise exports to high-income economies (% of total merchandise exports)</td>
<td>93,03</td>
<td>87,85</td>
</tr>
<tr>
<td>Manufactures exports (% of merchandise exports)</td>
<td>84,9</td>
<td>86,9</td>
</tr>
</tbody>
</table>

Source: World Bank, June 2011
Economy in transition

- **Two decades ago:** Centrally-planned, Soviet-style economy under strict communist regime
  - No private ownership of enterprises
  - Focus on heavy industries & agriculture

- **Nowadays:**
  - Schengen
  - EURO
  - Flat tax and other reforms
  - Foreign direct investment (automobile industry)
  - Hidden Champions...?
Researched Companies

- Spinea
- ACE Enterprise
- Grand Power
- ESET
- Media Control
- Sygic
- Mobile Maps
- Kvety S.K.
<table>
<thead>
<tr>
<th>Hidden Champion</th>
<th>Market leadership in…</th>
<th>Revenues 2010</th>
<th>Revenues 2000</th>
<th>Employees 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eset</td>
<td>Internet security. 1&lt;sup&gt;st&lt;/sup&gt; in the world to introduce proactive security, clever programming and ongoing innovation, leader in CEE countries, more than 100 mil. users globally.</td>
<td>137 mil €</td>
<td>0.55 mil €</td>
<td>340 in Slovakia</td>
</tr>
<tr>
<td>ACE enterprise</td>
<td>Integration and optimization of information systems (e.g. SAP). Highly customizable technology, quick delivery (in hours), low costs.</td>
<td>1 mil €</td>
<td>NA</td>
<td>30</td>
</tr>
<tr>
<td>Sygic</td>
<td>GPS navigation software for mobile devices. Flexible organizational structure, fast decisions, quick innovations ahead of competition. Versatile software for many platforms. No. 2 in CEE, more than 1 mil. Users.</td>
<td>6.2 mil €</td>
<td>NA</td>
<td>70</td>
</tr>
<tr>
<td>Spinea</td>
<td>High-precision bearing reducers. Machinery industry customers. Unique design, patents, R&amp;D investments, quality, qualified employees. No. 2 in CEE, no. 3 in WE.</td>
<td>22 mil €</td>
<td>2 mil €</td>
<td>300</td>
</tr>
<tr>
<td>Drevodomy Rajec</td>
<td>Log houses. Uniqueness of the product, constant innovations (added value), wide lifespan product (100 years), top quality and reputation. 20 years of experience and know-how.</td>
<td>4-5 mil €</td>
<td>0.5 mil €</td>
<td>75</td>
</tr>
<tr>
<td>Grand power</td>
<td>Pistols. High-quality weapons exported to e.g. USA, Russia, EU. International patents, innovations – barrel-locking mechanism and significantly diminished recoil.</td>
<td>2.9 mil €</td>
<td>NA</td>
<td>47</td>
</tr>
<tr>
<td>Kvety.sk</td>
<td>Flowers – internet sale and delivery. High-end offerings, exclusivity, customizable requirements. Keeps costs down by renting plantations. High level of trust. Started to expand abroad only recently.</td>
<td>1.3 mil €</td>
<td>NA</td>
<td>25</td>
</tr>
</tbody>
</table>
Key Research Findings

• All hidden champions are very young companies (established after the year 1989)
• Not family-owned
• HC from capital-heavy industries vs. HC´s niche without significant investments (IT)
• Well-educated and motivated workforce
• High-quality products
• Great customer service
• Focus on innovation
• Strong personality of the leader
Case Study Drevodomny Rajec

- The biggest European producer or log houses (by number of houses built)
- Competitive advantage:
  - Know-how: expanding on the know-how of past market leaders
  - Continuous education and dedication of the workforce
  - Quality standards; uniqueness of the product
  - Customer dedication
- Entrepreneurial leader
Questions for the Discussion

• What allows for a 'hidden champion' to emerge? What external and internal factors foster successful development of a 'hidden champion'? What are the secrets of successful strategic growth?

• How can the growth be sustained? What are the particular transitions and stages of growth have you noticed - and how can "hidden champions of CEE" pass through each stage successfully?

• What new trends in the business context - and the society at large - have you noticed - that influence ability of "hidden champions of CEE" to grow and develop? How can they assure sustainable growth?