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Mid-sized Companies as Innovation Drivers

Kozminski University: International Conference on Innovations and Emerging Technologies

Warsaw,
November 27, 2014
**Prof. Dr. Dr. h.c. mult.
Hermann Simon**

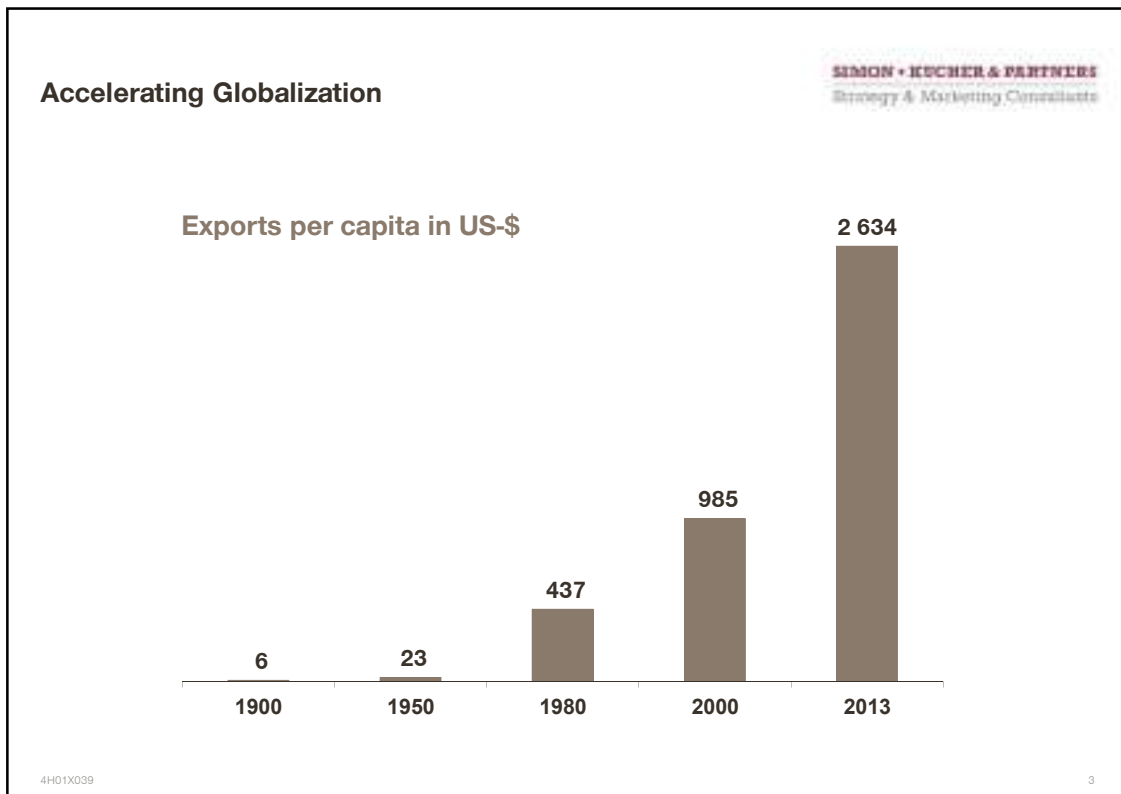
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**First, a look at
globalization and global competition**

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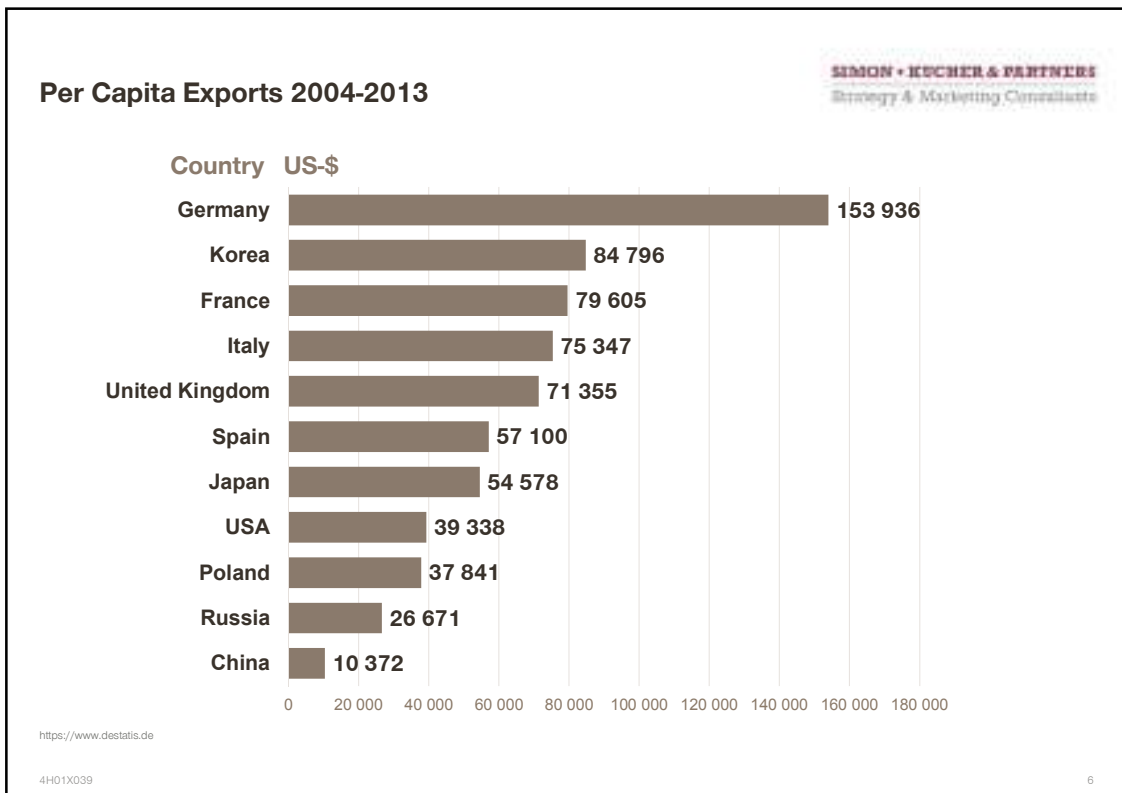
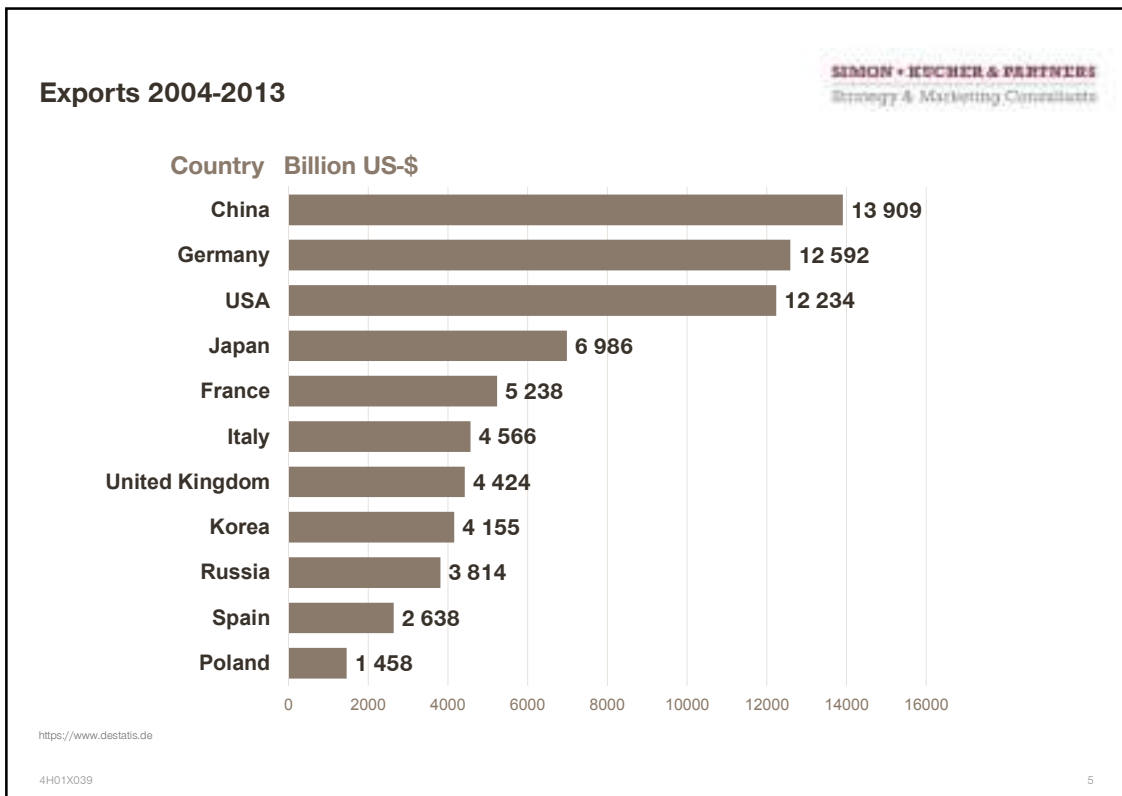
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**How successful
are individual countries
in global competition,
especially in exports?**

?

?

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Who Competes in Exports?

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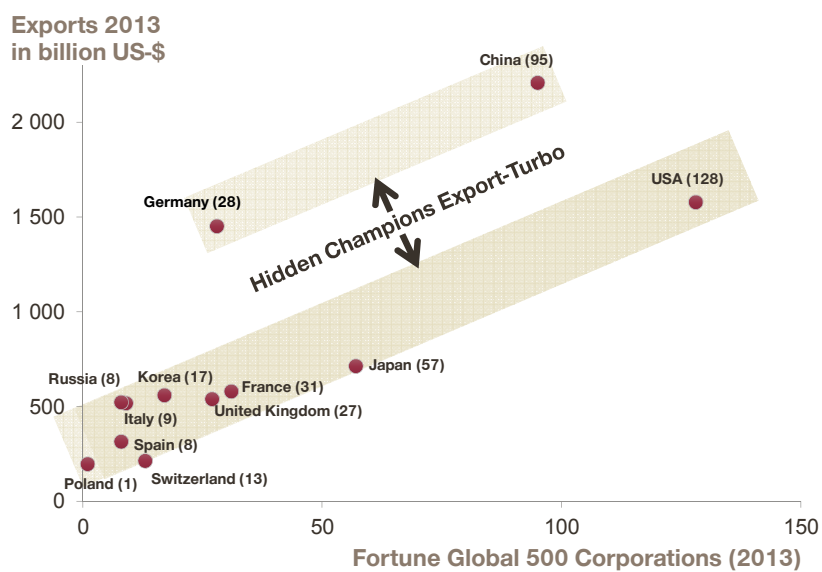
- Countries/states do not export!
- "Only the strongest companies export."
(Professor Marc Melitz, Harvard)
- Do large corporations explain the export performance of a country?

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Do Large Companies Explain Export Performance?

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What Is a Hidden Champion?

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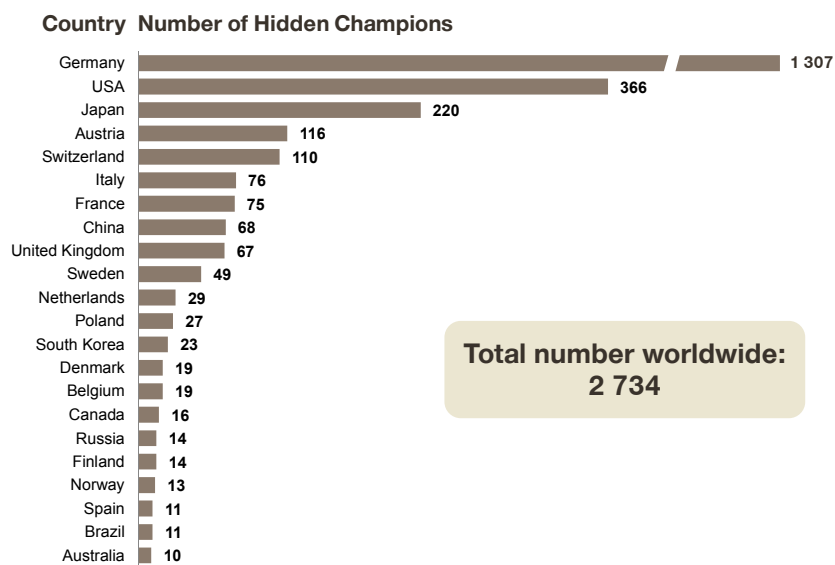
- **Top 3 in the world or no. 1 on its continent**
- **Revenue less than €5 billion**
- **Not well known in general public**

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Hidden Champions by Country

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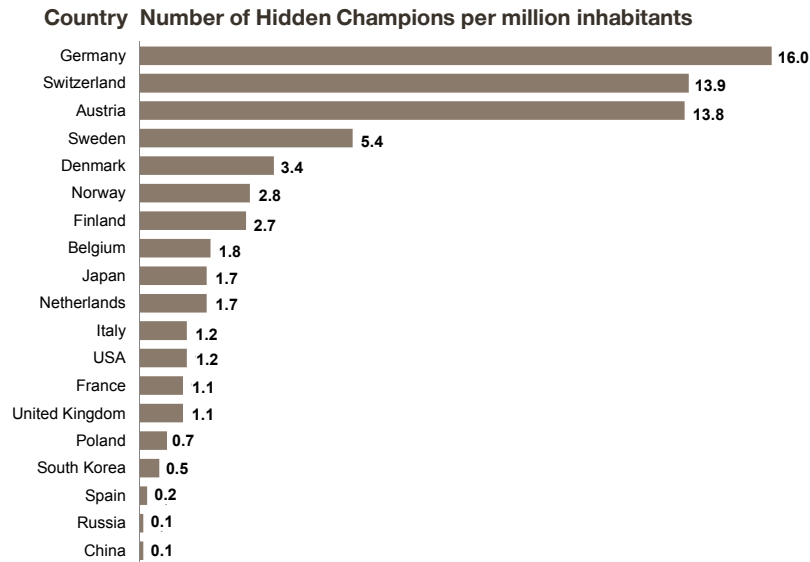


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Hidden Champions per Million Inhabitants

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Lesson 1

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Globalization is the strongest driver of growth. The export success of countries differs dramatically. This reflects the competitiveness of the *companies* from those countries, not the strength of the states or the governments. Outstanding export success does not solely depend on large corporations, but on world-class mid-sized businesses, especially the Hidden Champions.

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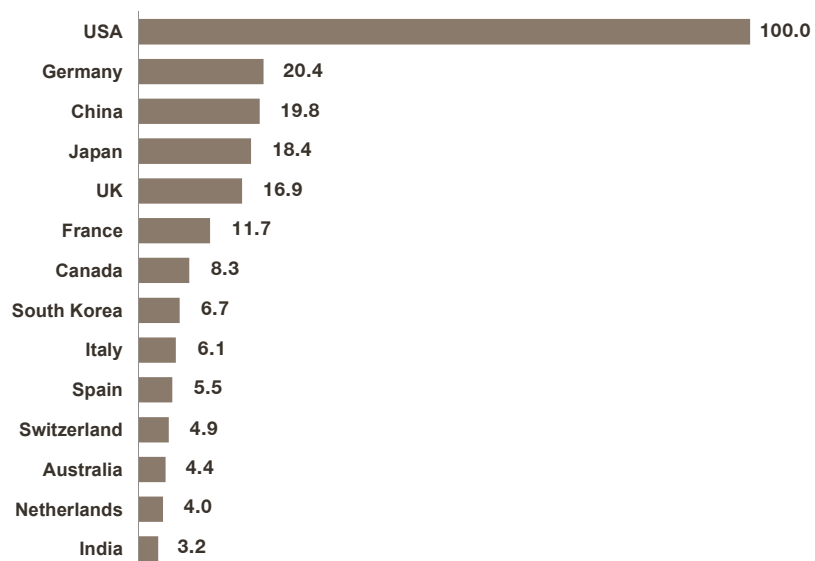
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Innovation: Where do the innovations come from?

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The World's Leading Countries in Science



Source: The World's Best Countries in Science, Scientific American, October 2012, p. 36-37

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Innovativeness (Measured by European Patents)

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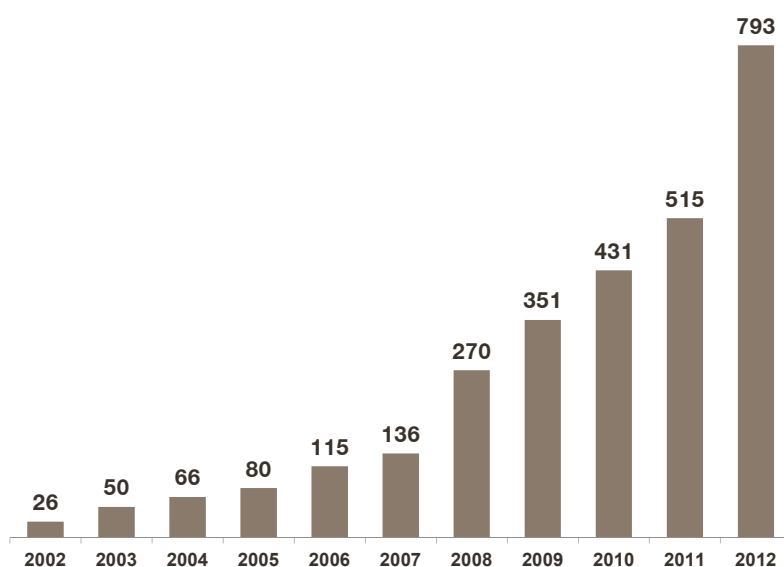
Country	Number of European patents 2003-2012	European patents per million inhabitants
Switzerland	22 803	2 815
Germany	130 032	1 590
Sweden	14 785	1 540
Japan	108 418	847
Austria	6 366	749
France	44 363	674
USA	134 306	427
Italy	21 636	357
United Kingdom	20 893	337
Korea	9 859	197
Spain	3 649	79
Portugal	249	23
Greece	244	23
Poland	313	8
Russia	462	3
China	2 807	2

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European Patents of Chinese Origin

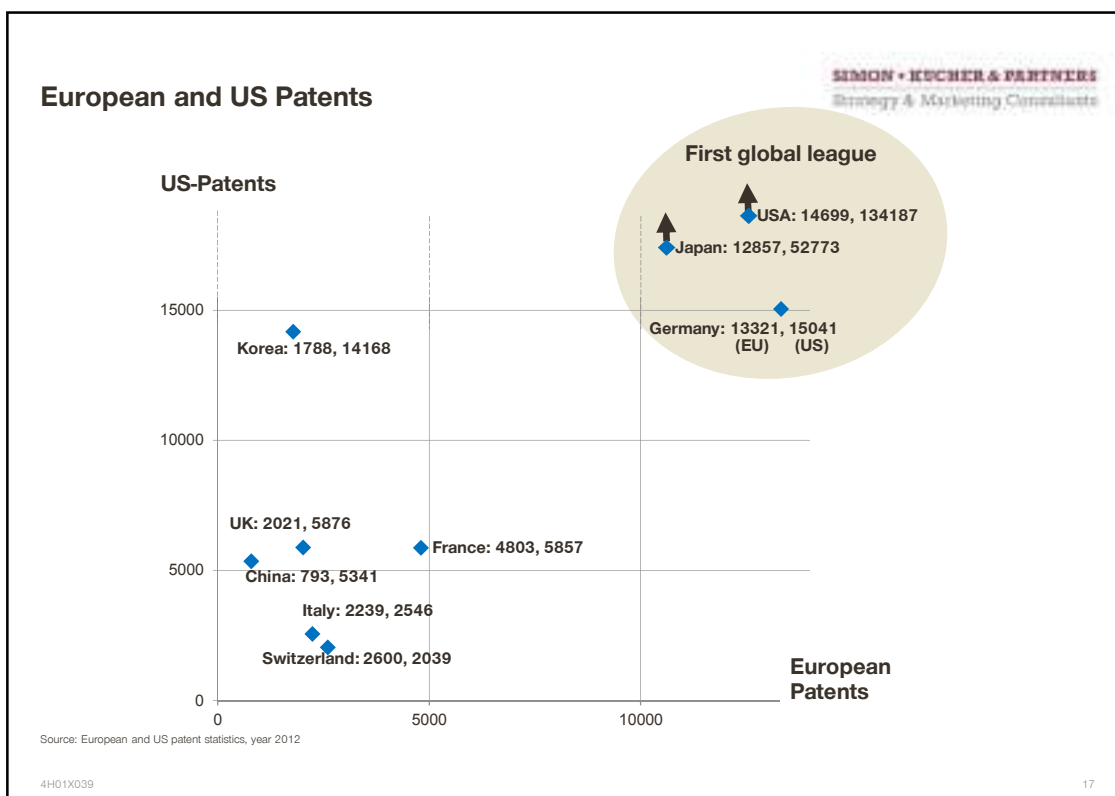
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Source: www.uspto.gov/web/offices/ac/ido/oeip/taf/cst_all.htm

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Patent Applications in Germany

red=foreign, blue=Hidden Champion

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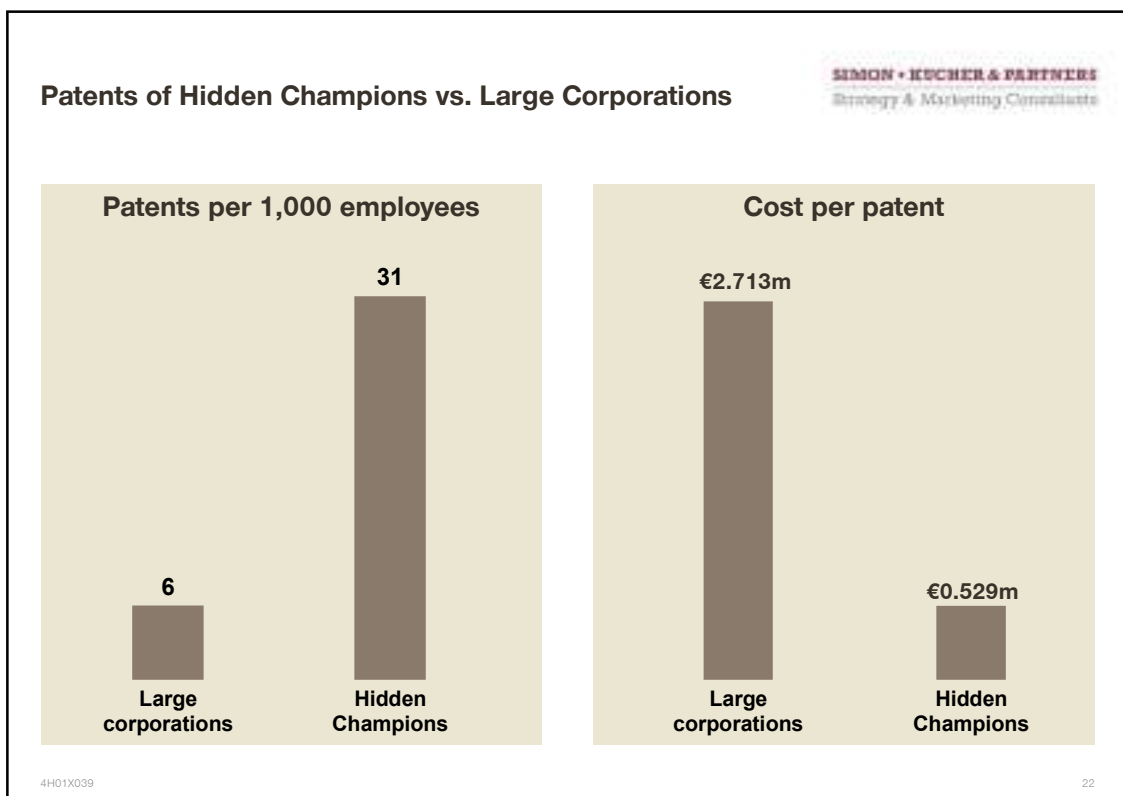
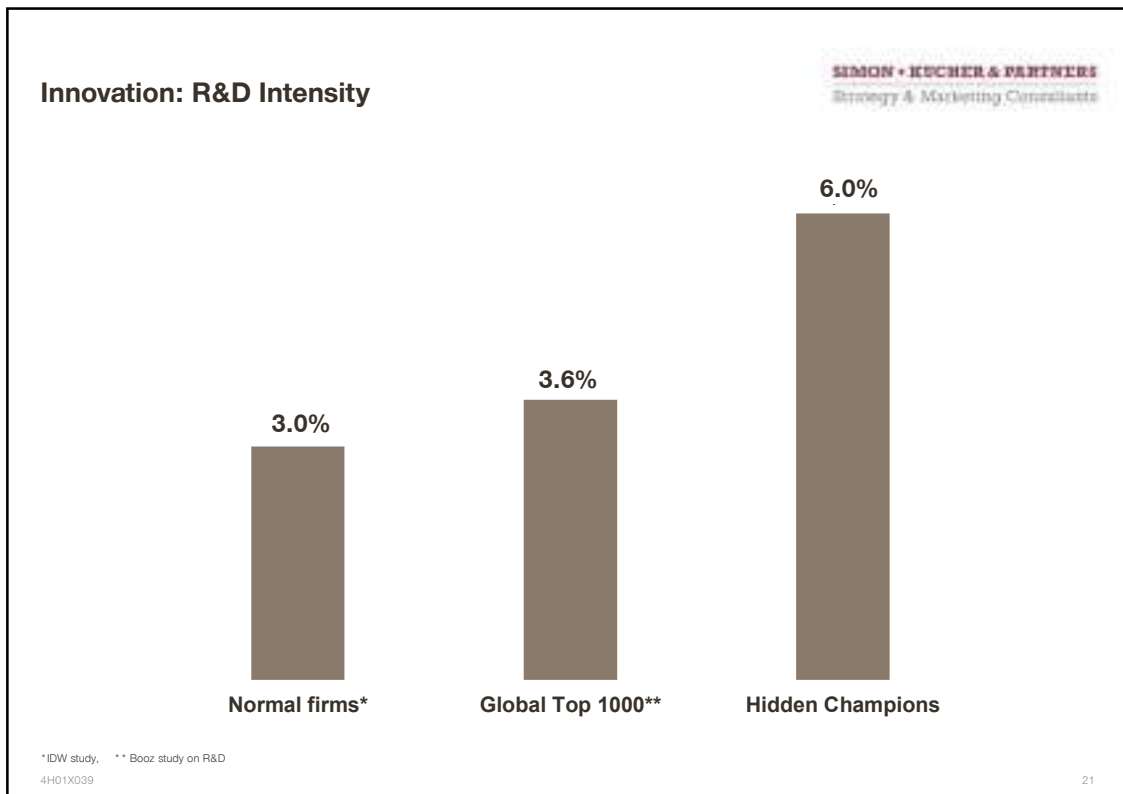
1. Robert Bosch	3602	
2. Daimler	2014	
3. Siemens	1910	
4. Schaeffler Technologies	1832	
5. GM Global Technology Operations	1566	
6. BSH Bosch und Siemens Hausgeräte	884	
7. Volkswagen	730	
8. ZF Friedrichshafen	669	
9. Audi	661	
10. Bayerische Motoren Werke	658	
11. Denso	512	
12. Continental Automotive	424	
13. General Electric	418	
14. Dr. Ing. h. c. F. Porsche	405	
15. Ford Global Technologies	394	
16. Fraunhofer-Gesellschaft	364	
17. Voith Patent	331	
18. Continental Teves	327	
19. Henkel	303	
20. Hyundai Motor Company	293	
21. Infineon Technologies	256	
22. Dt. Zentrum für Luft- + Raumfahrt	233	
22. Krones	233	
24. Airbus Operations	199	
25. OSRAM Opto Semiconductors	187	
26. Giesecke & Devrient	177	
27. Carl Zeiss SMT	159	
28. Johnson Controls	158	
29. Hilti	157	
30. Mitsubishi Electric Corporation	154	
31. Brose Fahrzeugteile	150	
32. SEW-EURO DRIVE	148	
33. MAHLE International	144	
34. Heidelberger Druckmaschinen	140	
34. Behr	140	
36. Phoenix Contact	138	
37. Linde	130	
38. Aktiebolaget	129	
39. Evonik Degussa	116	
39. XEROX Corporation	116	
41. Hella KGaA Hueck & Co.	114	
42. Mann + Hummel	111	
43. Continental Reifen Deutschland	107	
43. Benteler Automobiltechnik	107	
45. König & Bauer	104	
45. Osram	104	
47. SMS SIEMAG	103	
48. Von Ardenne Anlagentechnik	101	
49. Merck Patent	98	

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Lesson 2

The regional sources of innovation are highly concentrated. On a per capita base, European patents differ by a factor of several hundred between European countries. In the case of Germany, Hidden Champions contribute overproportionately to innovation.

Innovation on the business level



Innovation: Enercon E-Ship with Flettner Rotors

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Innovation: Volocopter

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Innovation: 3D Sensor Pepperl & Fuchs

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Lesson 3

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The Hidden Champions are enormously effective innovators. They spend twice as much as other companies, the innovative output is much higher, and the costs per patent are vastly lower than in large corporations. Behind this success are radically different innovation processes.

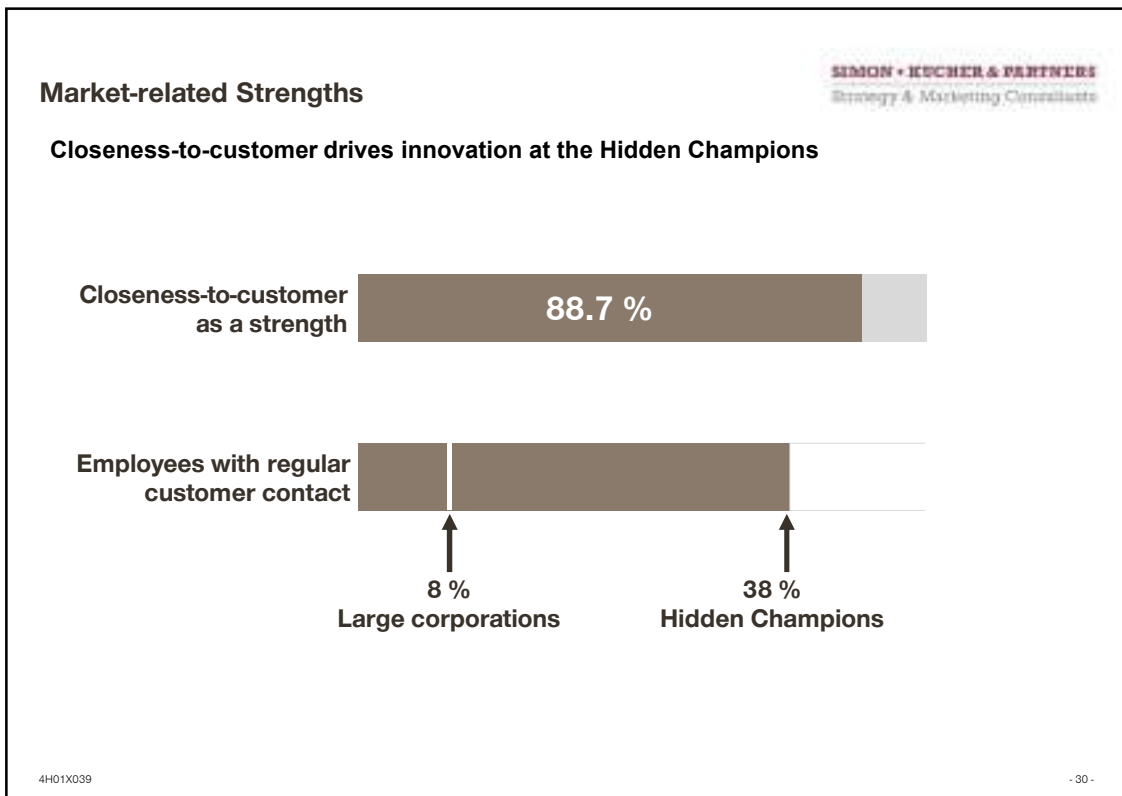
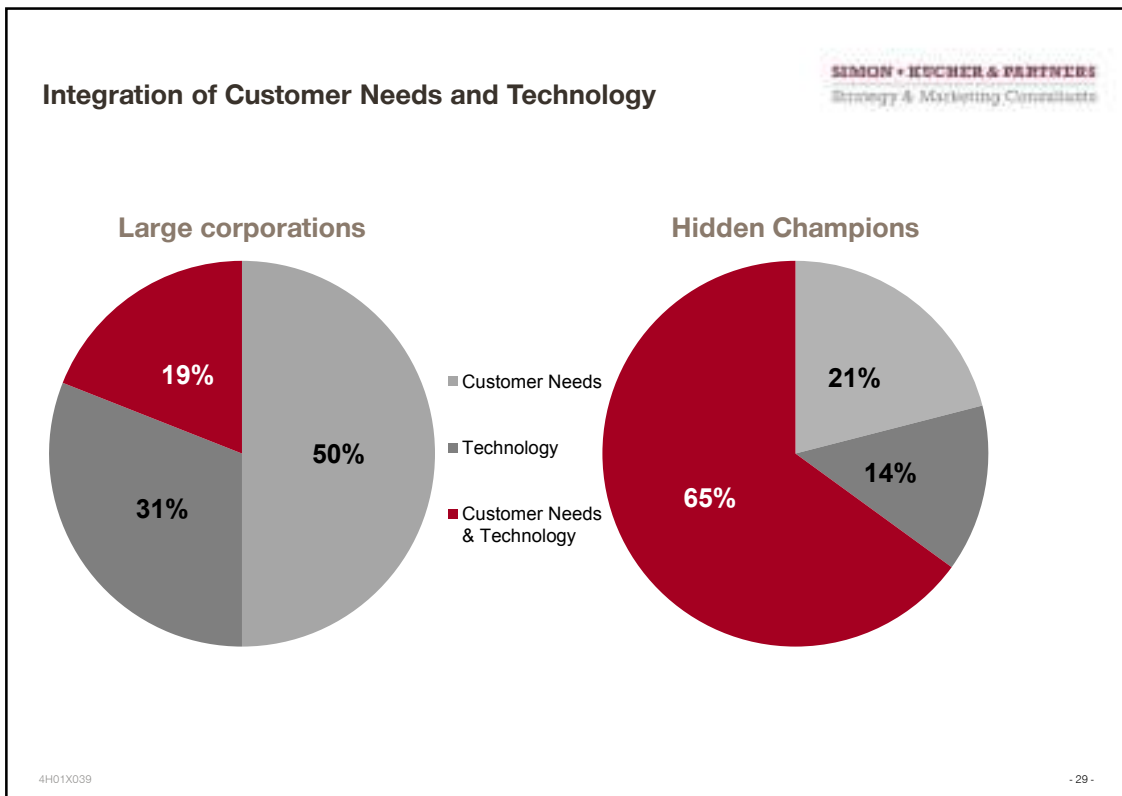
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Innovation processes

Innovation Process of the Hidden Champions

- **Heads more important than budgets**
- **Integration of technology and customer needs**
- **Co-development with customers**
- **Cooperation between functions**
- **Speed**



Closeness to top customers

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- **Grohmann: Global top 30 customers as targets, most important customer is Intel**
- **Top customers become partners and sources of innovation**

You can only become and stay world class if you work for the global top customers

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**Ambitious goals
related to market leadership**

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Chemetall

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"The goal of Chemetall is the worldwide technology and marketing leadership."

Chemetall is the world market leader in special metals like lithium and cesium.

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Deep Leadership: Sick

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"We lead by anticipating our customers' expectations. Leadership means becoming the benchmark for others. We set the standards on the world market."

Sick is a world market leader in sensors.

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Deep Leadership: Rosen-Group

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"We want to create ultimate value for our customers as the world's undisputed leading supplier. It is our objective to be the world's most competitive provider. We go far beyond present market requirements. We envision the market's future needs."

**Rosen-Group is the world market leader
in pipeline inspection systems.**

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Focus and depth

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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."

**Uhlmann is the world market leader
in packaging systems for the pharmaceutical industry.**

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Flexi

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

**Flexi is the world market leader
in retractable dog leashes.**

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Deep Value Chain

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- No outsourcing of core competencies
- "We produce all parts ourselves, based on the quality standards we define." (Wanzl)
- "We grow our own wood in our own plantations." (Faber-Castell)
- "We do everything ourselves, especially in R&D" (Pepperl & Fuchs)
- Own machine shops
- Extremely secretive in R&D

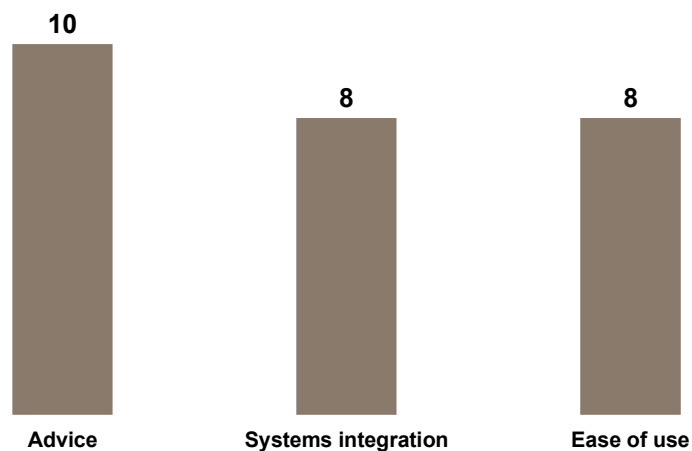
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Competitive Parameters with Biggest Increase in Importance

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Increase in importance in %



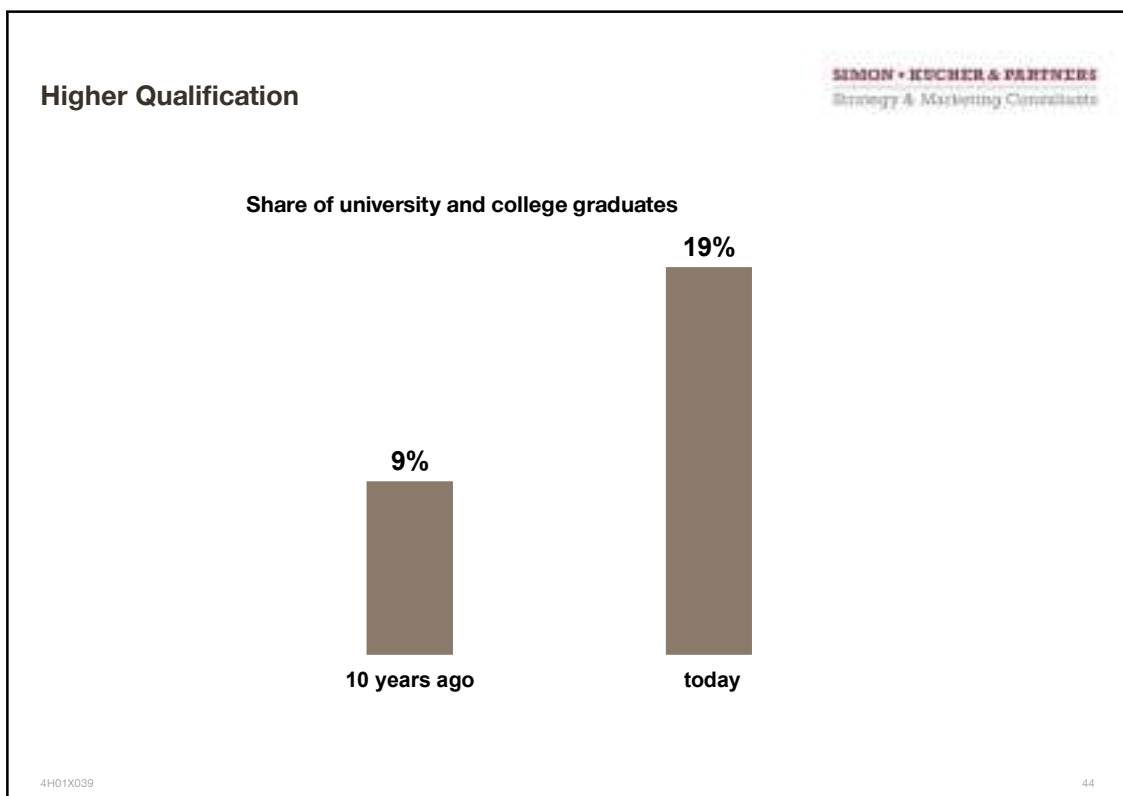
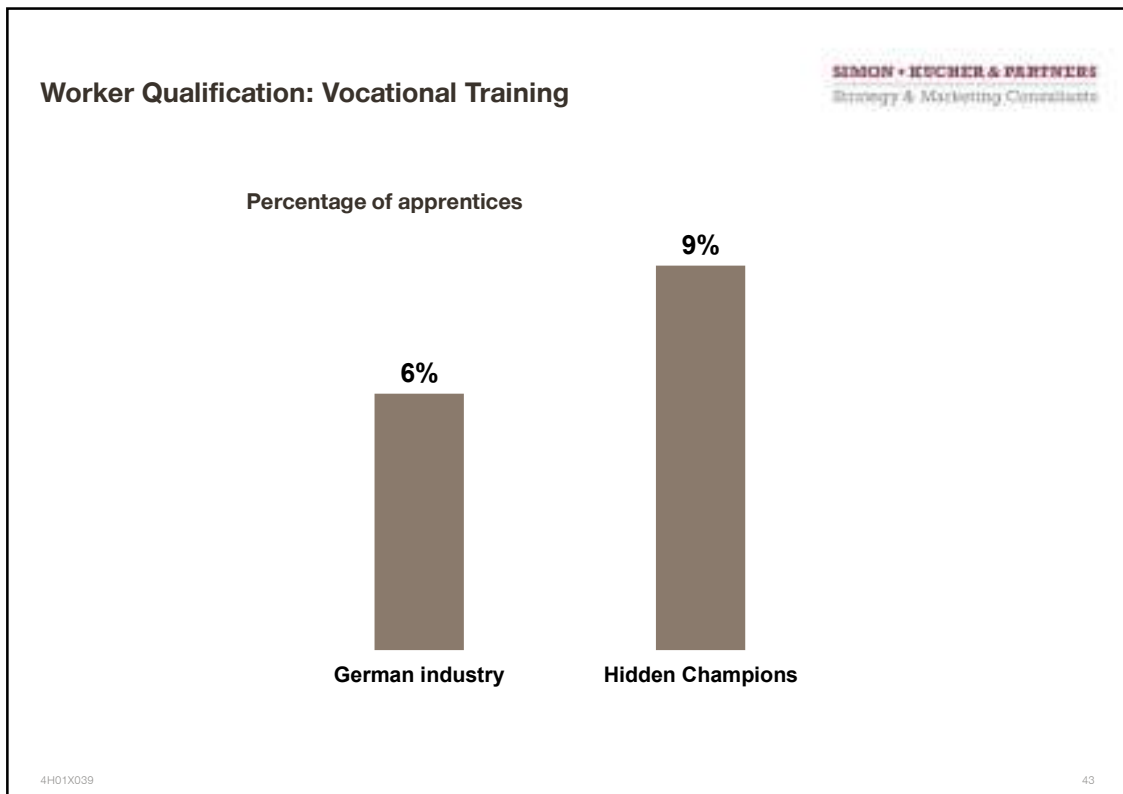
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Lesson 4

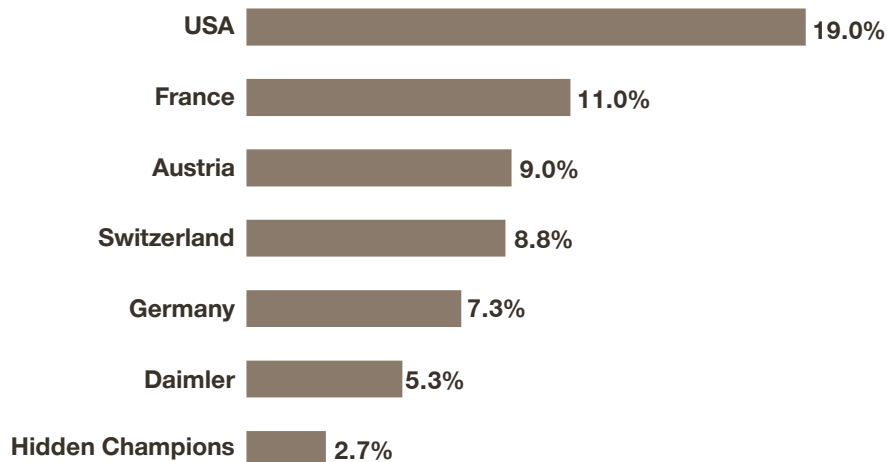
The innovation processes of the Hidden Champions aim at the integration of customer needs and technology. The goal to be the leader in their narrowly defined markets and deep vertical integration lead to continuing innovations and make it difficult for the competition of catch up.

The inner sources of innovativeness



Employee Turnover Rates

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Source: Hemstein-Institut/US Department of Labor/INSEE (Frankreich), Wall Street Journal Europe, 4. Juni 2013, S. 15
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The Leaders

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- **Unity of person and purpose/deeply “entrenched”**
- **Leadership**
 - authoritarian in the principles
 - participative, flexible in the details
- **Leaders come young into power**
- **More women in top positions**
- **Very high continuity of the leaders**
 - Hidden Champions: 20 years
 - Large corporations: 6.1 years

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Lesson 5

The innovativeness of the Hidden Champions is rooted in their inner strengths. They invest heavily into education of workers and professionals. Due to the extremely low turnover rates, the know-how remains in the company. The leaders are deeply “entrenched” in the business. Their continuity ensures long-term orientation, which is indispensable for sustainable innovativeness.

Summary

- Globalization offers unlimited growth opportunities, but countries differ strongly in how they exploit these opportunities.
- Innovativeness and strong mid-sized companies determine the success in global competition to a large degree.
- The Hidden Champions contribute overproportionately to the innovativeness of a region or country due to radically different innovation processes.
- They are highly focussed, have a deep value chain, and effectively integrate technology and customer needs.
- Their capabilities are rooted in inner strengths based on qualification, loyalty and continuity.



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

“My firm has spearheaded the professionalization of pricing more than Simon-Kucher & Partners.”
Wolfgang Pflüger, CEO of Porsche

“In pricing you offer something nobody else does.”
Wolfgang Peter, CEO of Mercedes-Benz


“We are always more about pricing than Simon-Kucher.”
Professor Philip Kotler

Best consultancy in marketing, sales, pricing

Management	Marketing and sales	Marketing and pricing	Sales and CRM
1 Simon-Kucher & Partners	1 Simon-Kucher & Partners	1 Simon-Kucher & Partners	1 Simon-Kucher & Partners
2 Water Consulting Group	2 Water Consulting Group	2 Water Consulting Group	2 Water Consulting Group
3 McKinsey & Company	3 McKinsey & Company	3 McKinsey & Company	3 McKinsey & Company


The Best S&P STAR

Global presence



Continuous growth

Revenue 2014: €173 million



Employee: 984

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Hermann Simon

Hermann Simon is chairman of Simon-Kucher & Partners Strategy & Marketing Consultants with offices in Amsterdam, Beijing, Bonn, Boston, Brussels, Cologne, Copenhagen, Dubai, Frankfurt, Istanbul, London, Luxembourg, Madrid, Miami, Milan, Munich, New York, Paris, San Francisco, Santiago de Chile, Sao Paulo, Singapore, Sydney, Tokyo, Toronto, 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 1995 to 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 2004) and *Power Pricing* (New York 1997), as well as *Manage for Profit, Not for Market Share* (Boston 2006). 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. *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, he 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). Simon is co-founder of the first Special Purpose Acquisition Company (SPAC) listed on the German Stock Exchange in Frankfurt, which acquired Exceet Group S.E. in July 2011.

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 has received numerous international awards and holds honorary doctorates from IEDC Business School of Bled (Slovenia), from the University of Siegen (Germany) and from Kozminski University Warsaw (Poland). He is a honorary professor at the University of International Business and Economics in Beijing.



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