„Hidden Champions of the 21st Century“

Presentation for the Conference
"Top management: Challenges and Limits of Competition"

Harald L. Schedl
Maria Vola

Minsk, November 30th, 2007
Overview

Introduction to Simon – Kucher & Partners

Success Factors of „Hidden Champions“

Questions & Answers
Profile of Simon – Kucher & Partners

2007: 15 offices, 400+ employees

- Germany, Bonn
- Switzerland, Zurich
- UK, London
- France, Paris
- Germany, Frankfurt
- Germany, Munich
- Germany, Cologne
- USA, San Francisco
- USA, New York
- Spain, Madrid
- Switzerland, Zurich
- Italy, Milan
- Russia, Moscow
- Austria, Vienna
- Poland, Warsaw
- Japan, Tokyo
- USA, New York
- Canada, Toronto
- USA, Boston
- France, Paris
- UK, London
- Germany, Bonn
- Germany, Munich
- Germany, Cologne
- USA, San Francisco
- USA, New York
- Spain, Madrid
- Switzerland, Zurich
- Italy, Milan
- Russia, Moscow
- Austria, Vienna
- Poland, Warsaw
- Japan, Tokyo

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Overview

Introduction to Simon – Kucher & Partners

Success Factors of „Hidden Champions“

Questions & Answers
What is a „Hidden Champion“?

„Hidden Champions“. Who are they?

• Mainly small or medium-sized companies
• Number one or two in the world or number one in the European market in terms of market share;
• OR – leading position in the global markets
• Market shares often more than 50 percent
• Low public visibility and awareness
• Very successful
## Growth of „Hidden Champions“ Western Europe

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Primary Product</th>
<th>Revenues 1995</th>
<th>Revenues 2005</th>
<th>Growth Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bechtle</td>
<td>IT services</td>
<td>59</td>
<td>1178</td>
<td>20,0</td>
</tr>
<tr>
<td>2</td>
<td>Enercon</td>
<td>wind energy plants</td>
<td>153</td>
<td>1390</td>
<td>9,1</td>
</tr>
<tr>
<td>3</td>
<td>Stada</td>
<td>generic drugs</td>
<td>120</td>
<td>1020</td>
<td>8,5</td>
</tr>
<tr>
<td>4</td>
<td>Getrag</td>
<td>transmissions</td>
<td>332</td>
<td>2420</td>
<td>7,3</td>
</tr>
<tr>
<td>5</td>
<td>Fresenius</td>
<td>dialysis services</td>
<td>1143</td>
<td>7889</td>
<td>6,9</td>
</tr>
<tr>
<td>6</td>
<td>SAP</td>
<td>standard business software</td>
<td>1378</td>
<td>8513</td>
<td>6,2</td>
</tr>
<tr>
<td>7</td>
<td>Interseroh</td>
<td>raw materials</td>
<td>161</td>
<td>947</td>
<td>5,9</td>
</tr>
<tr>
<td>8</td>
<td>Rossmann</td>
<td>chemist's shops</td>
<td>486</td>
<td>2408</td>
<td>5,0</td>
</tr>
<tr>
<td>9</td>
<td>Hexal</td>
<td>generic drugs</td>
<td>257</td>
<td>1060</td>
<td>4,1</td>
</tr>
<tr>
<td>10</td>
<td>Gildemeister</td>
<td>machine tools</td>
<td>381</td>
<td>1125</td>
<td>3,0</td>
</tr>
</tbody>
</table>
Examples of “Hidden Champions” in Russia / CIS

- OOO Svetovye Technologii: Light electronics
- OAO "Sevkabel Holding": Components
- OAO "Transvit": Transformers, electronics
- SAO "DKS": Components
- SAO «Petrosavodskmasch»: Machinery
- OAO Chimpharm: Generica pharmaceuticals
- AEK Dynamo: Electric motors and cranes
1. Ambitious Goals

Extremely ambitious goals:

Market leadership

Growth
1. Typical Statements

“Our goal is to become no. 1 and to stay there.”

“We want to be the best in our market - worldwide.”

“Market leadership, nothing else.”
1. Example Karl Mayer Knitting Machines

“We prefer our market share not to slip below 80%.”

Fritz Mayer
Karl Mayer Textilmaschinenfabrik GmbH
Hidden Champion, knitting technology
## 1. Market Positioning

<table>
<thead>
<tr>
<th>Absolute market share 2005</th>
<th>Relative market share*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1995</td>
</tr>
<tr>
<td>Germany</td>
<td>42%</td>
</tr>
<tr>
<td>Europe</td>
<td>23%</td>
</tr>
<tr>
<td>Worldwide</td>
<td>16%</td>
</tr>
</tbody>
</table>

*Own market share in relation to the market share of the strongest competitor*
2. Focus and “Soft” Diversification

Focus

- but also “soft” diversification
2. Typical Comments

- "We are a specialist."
- "We concentrate on our competencies."
- Niche! "We want to be big in small markets".
- No diversification
- "We see the market definition as a strategic parameter, not as a given fact."
2. Example Winterhalter Dishwashers

- Dishwashers for Hospitals
- Dishwashers for Schools
- Dishwashers for Hotels/Restaurants
- Dishwashers for Companies
- Dishwashers for Organizations

- Breadth
- Depth

- Dishwashers
- Water Conditioners
- Detergents
- Service
2. Example Dynamo Drives (Russia)

Focused Approach

- Mining Equipment
- Electric Engines for Cranes
- Electric Engines for Public Transport
- Electric Engines for Elevators
- Metallurgical Equipment

Spare Parts/Service Products
Maintenance Service
Technical Consulting

Width
Depth
2. Example Schmitz Cargobull Truck Trailers

Elimination of 90% of product line, only four models left

Radical improvement of productivity, quality, competitiveness

Revenue from US-$ 417 million in 1995 to US-$ 1.6 billion in 2005 (Factor 4!)

Target 2010: Capacity increase from 30,000 to 60,000 trailers, revenue $ 2.5 billion (Factor 6!)
3. Globalization

Globalization

The No. 1 Growth Booster
3. Typical Comments

• „Close to our customers, wherever they are.“

• „We are present, wherever our customers need us.“

• „We are at home in the whole world.“

• „The regional definition of our market is very simple, it’s the world.“
3. „Hidden Champion“ Strategy

Specialization in Product and Know-How

Global Selling and Marketing
3. Example Kärcher High Pressure Cleaners

Number of Subsidiaries

- Kärcher Europe
- Kärcher America
- Kärcher Asia/Pacific
- Kärcher Production Sites

Start-up year of Subsidiary

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### 3. Subsidiaries of “Hidden Champions”

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage of the Hidden Champions with their Own Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>97,4%</td>
</tr>
<tr>
<td>France</td>
<td>76,9%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>66,7%</td>
</tr>
<tr>
<td>Italy</td>
<td>51,3%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>51,3%</td>
</tr>
<tr>
<td>Austria</td>
<td>48,7%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>48,7%</td>
</tr>
<tr>
<td>Spain</td>
<td>46,2%</td>
</tr>
<tr>
<td>Japan</td>
<td>46,2%</td>
</tr>
<tr>
<td>Brazil</td>
<td>46,2%</td>
</tr>
<tr>
<td>Belgium</td>
<td>38,5%</td>
</tr>
<tr>
<td>Canada</td>
<td>35,9%</td>
</tr>
<tr>
<td>Denmark</td>
<td>28,2%</td>
</tr>
<tr>
<td>Sweden</td>
<td>25,6%</td>
</tr>
<tr>
<td>Singapore</td>
<td>23,1%</td>
</tr>
<tr>
<td>Norway</td>
<td>23,1%</td>
</tr>
<tr>
<td>Australia</td>
<td>20,5%</td>
</tr>
<tr>
<td>Finland</td>
<td>18,0%</td>
</tr>
<tr>
<td>India</td>
<td>18,0%</td>
</tr>
<tr>
<td>Greece</td>
<td>15,4%</td>
</tr>
<tr>
<td>Portugal</td>
<td>15,4%</td>
</tr>
<tr>
<td>Ireland</td>
<td>15,4%</td>
</tr>
</tbody>
</table>

**Number of Foreign Subsidiaries**

- Hidden Champions: 9,6
## 3. Shift in Revenue Shares for „Hidden Champions“

<table>
<thead>
<tr>
<th>Region</th>
<th>% absolute</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>+7.8%</td>
<td>+6.9%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>+4.9%</td>
<td>+152%</td>
</tr>
<tr>
<td>USA</td>
<td>+1.7%</td>
<td>+13%</td>
</tr>
<tr>
<td>Europe</td>
<td>-11.3%</td>
<td>-18.6%</td>
</tr>
</tbody>
</table>
3. “Hidden Champions” View of Market Attractiveness

Question: “Which of the following markets are most attractive for your company?”

- China: 79%
- Russia: 46%
- USA: 44%
- India: 40%
- Eastern Europe (without Russia): 33%
- Asia (residuals): 31%
- Japan: 14%
- Brazil: 12%
4. Market Approach

Closeness to Customer,
Marketing Professionalism,
Competitiveness
4. Matrix of Competitive Advantage

- Importance for Customer
  - Price
  - Distribution
  - Cooperation with Suppliers
  - Advertising
  - Made in Germany

- Competitive Performance
  - Economy
  - Delivery
  - Quality
  - Closeness to Customer
  - Service
  - Systems Integration

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### 4. Performance vs. Customer Interaction

<table>
<thead>
<tr>
<th>Customer Interaction</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>low</td>
<td>low</td>
</tr>
<tr>
<td></td>
<td>high</td>
</tr>
<tr>
<td>high</td>
<td>(Average) Small Companies</td>
</tr>
<tr>
<td></td>
<td>Hidden Champions</td>
</tr>
</tbody>
</table>

- Large Companies
- Small Companies
- Hidden Champions
4. Closeness to Competition

Head-on fight with strongest competitors

Very often global top competitors in one location

Do not avoid but actively seek competition for fitness (not price competition)
### 4. Selection of Competing „Hidden Champions“ Pairs

<table>
<thead>
<tr>
<th>Market/Product</th>
<th>Competing Hidden Champions</th>
<th>Competitive Position and Conduct</th>
</tr>
</thead>
</table>
| Assembly products | Würth  
Berner | Würth uncontested no. 1, relative market share approx. 5  
Berner offspring and fierce attacker |
| Offset printing presses | Heidelberg  
Roland | Intense competition for more than 100 years |
| Ingredients for beverages | Wild  
Döhler | Wild in Heidelberg, Döhler in Darmstadt  
Intense competition |
| Bottling systems | KHS  
Krones | KHS is no. 1 in complete systems  
Krones is no. 1 in labeling machines, fierce competition |
| Gas-pressurized springs, vibration control | Stabilus  
Suspa | Each is no. 1 in certain submarkets |
| Industrial chains | RUD  
Erlau | Intense competition for 100 years  
In 1988 RUD took over Erlau |
| Shopping carts | Wanzl  
Siegel | Wanzl. no. 1, Siegel no. 2 in world  
Both are located in Guenzburg, Bavaria |
| Brush-making machines | Zahoransky  
Ebser | Zahoransky is distant leader;  
Fierce competition in sub-markets |
5. Innovation

Innovation
## 5. Patent Position of „Hidden Champions“

Siemens has the highest number of patents
10 patents per 100 employees

<table>
<thead>
<tr>
<th>Company</th>
<th>Main Product</th>
<th>Employees</th>
<th>Number of Patents</th>
<th>Patents per 100 Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fischerwerke</td>
<td>Fastening products, construction sets</td>
<td>2.350</td>
<td>5.500</td>
<td>234</td>
</tr>
<tr>
<td>Tracto-Technik</td>
<td>Ground-rockets</td>
<td>211</td>
<td>100</td>
<td>47</td>
</tr>
<tr>
<td>Herion</td>
<td>Pneumatic proportional valves</td>
<td>1.500</td>
<td>600</td>
<td>40</td>
</tr>
<tr>
<td>RUD-Kettenfabrik</td>
<td>Tire and snow chains</td>
<td>904</td>
<td>350</td>
<td>35</td>
</tr>
<tr>
<td>Sachtler</td>
<td>Camera tripods</td>
<td>130</td>
<td>40</td>
<td>31</td>
</tr>
<tr>
<td>Heidenhain</td>
<td>Linear measuring systems</td>
<td>3.190</td>
<td>800</td>
<td>25</td>
</tr>
<tr>
<td>Kiekert</td>
<td>Locking systems for cars</td>
<td>1.670</td>
<td>300</td>
<td>18</td>
</tr>
<tr>
<td>Prominent</td>
<td>Metering pumps</td>
<td>700</td>
<td>90</td>
<td>12</td>
</tr>
<tr>
<td>Krones</td>
<td>Labeling machines</td>
<td>7.600</td>
<td>911</td>
<td>11</td>
</tr>
</tbody>
</table>
At Braun they make everything themselves, even the special machines and the small screws for the razors. They say they pay extreme attention to quality, and this quality you can't buy on the market at reasonable prices.

Frankfurter Allgemeine Zeitung
5. Example Enercon Wind Turbines

- Founded in 1984
- 7,000 employees today
- 1.5 billion € revenue
- No. 3 in world
- More than 40% of all patents worldwide
- 20% higher price
- Premium service (99% availability)
5. Typical Comments

- „The only way to permanent success is continuous innovation.“

- "A successful innovator does not only know what the customer can do, but also what the customer is not able to do yet.“
6. Employee Retention

Employees

Identification and Motivation
6. Biggest Strength of „Hidden Champions“

Question: “What do you consider your biggest strength?”

- Long Term Customer Relationships: 92.3%
- Loyalty of Employees: 84.6%
- Image: 78.8%
- Market Knowledge & Qualification of Employees: 75.0%
- Motivation of Employees & Consistency in Leadership: 73.1%
6. „Hidden Champions“ Culture

„More work than heads"

Very strong corporate cultures

Low absenteeism

Sharp selection in the beginning of the employer-employee relationship

Little fluctuation of employees
6. Growth in Employees

<table>
<thead>
<tr>
<th>Employees 1995</th>
<th>457</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees 2005 (Median)</td>
<td>700</td>
</tr>
<tr>
<td>Change</td>
<td>+53%</td>
</tr>
<tr>
<td>Domestic change</td>
<td>+21%</td>
</tr>
<tr>
<td>Change abroad</td>
<td>+41%</td>
</tr>
</tbody>
</table>
Leadership
7. Leaders

True entrepreneurs
Unity of person and purpose
Extremely high continuity: Ø 22 years
Leadership
  authoritarian in principles
  participative, flexible in details
Inspiring to others
7. Impact on Overall Success

Level of Impact on Overall Success

High

Leadership

Professionalism of Management

Qualification of Employees

Speed and Flexibility

Question: “Which management factors do you consider to have the highest level of impact on overall success?”
## 7. Tenures of CEOs/Leaders

<table>
<thead>
<tr>
<th>Company</th>
<th>Established in</th>
<th>Main product</th>
<th>Age of Company</th>
<th>Number of managers since establishment</th>
<th>Average incumbency of managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Glasbau Hahn</td>
<td>1836</td>
<td>Vitrines</td>
<td>158</td>
<td>4</td>
<td>39.5</td>
</tr>
<tr>
<td>Böllhof</td>
<td>1877</td>
<td>Screws and nuts</td>
<td>117</td>
<td>3</td>
<td>39.0</td>
</tr>
<tr>
<td>Seca</td>
<td>1840</td>
<td>Medical scales</td>
<td>154</td>
<td>4</td>
<td>38.5</td>
</tr>
<tr>
<td>Haribo</td>
<td>1920</td>
<td>Gummy bears</td>
<td>75</td>
<td>2</td>
<td>37.5</td>
</tr>
<tr>
<td>EJOT</td>
<td>1921</td>
<td>Screws for plastic</td>
<td>72</td>
<td>2</td>
<td>36.0</td>
</tr>
<tr>
<td>Stihl</td>
<td>1926</td>
<td>Chain saws</td>
<td>68</td>
<td>2</td>
<td>34.0</td>
</tr>
<tr>
<td>von Ehren</td>
<td>1865</td>
<td>Plants (mainly trees)</td>
<td>130</td>
<td>4</td>
<td>33.3</td>
</tr>
<tr>
<td>Loos</td>
<td>1865</td>
<td>Steam systems</td>
<td>129</td>
<td>4</td>
<td>32.2</td>
</tr>
<tr>
<td>Bizerba</td>
<td>1866</td>
<td>Electronical scales</td>
<td>128</td>
<td>4</td>
<td>32.0</td>
</tr>
<tr>
<td>Probat Werke</td>
<td>1868</td>
<td>Coffee roasters</td>
<td>126</td>
<td>4</td>
<td>31.5</td>
</tr>
</tbody>
</table>
### And Finally: Ownership and Management

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family with family management</td>
<td>57%</td>
</tr>
<tr>
<td>Family with non-family management</td>
<td>15%</td>
</tr>
<tr>
<td>Public</td>
<td>7%</td>
</tr>
<tr>
<td>Private equity</td>
<td>6%</td>
</tr>
<tr>
<td>Corporations</td>
<td>15%</td>
</tr>
</tbody>
</table>
Worldwide Strategy & Marketing Consultants

Clear Focus: Revenue-Driven Profit Growth

Core Competencies: Strategy / Sales / Pricing
### Competence-Ranking "Marketing & Sales"

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

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

“Simon-Kucher is the leading price consultancy in the world.”
Eric Mitchell, President Professional Pricing Society
Revenue 1995: $10 M, 51 people
Revenue 2007: $81 M, 410 people (est.)
“Hidden Champion” Simon • Kucher & Partners

- Energy & Utilities
- Oil & Gas

- Retail & FMCG
- Technology

- Telco
- Automotive

- Transport/Logistics
- Financial Services

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Overview

Introduction to Simon – Kucher & Partners

Success Factors of „Hidden Champions“

Questions & Answers
Managing Partner

SIMON • KUCHER & PARTNERS
Strategy & Marketing Consultants GmbH

Dipl.-Kfm. t.o.
Harald L. Schedl
Managing Partner Austria & CEE

Project Manager Russian Federation

SIMON • KUCHER & PARTNERS
Strategy & Marketing Consultants GmbH

MSc International Business Management
Maria Vola
Senior Consultant

<table>
<thead>
<tr>
<th>Twin Tower / Wienerbergstr. 11/12a, A-1100 Vienna</th>
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<th><a href="mailto:maria.vola@simon-kucher.com">maria.vola@simon-kucher.com</a></th>
<th><a href="http://www.simon-kucher.com">www.simon-kucher.com</a></th>
</tr>
</thead>
</table>