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Why create a hidden champion? — Interview with "Father of Hidden Champions"
Hermann Simon

Original Zhang Bingxin and Yi Jianrong [Entrepreneur Magazine](#) 2022-03-03 00:00

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Hermann Simon, a famous German management thinker, "Father of Hidden Champions", was a professor of business management and marketing at Bielefeld University, and is currently the chairman of Simon Kucher Management Consulting Co., Ltd.

Hermann Simon, known as the "Father of Hidden Champions", has written about Hidden Champions in 27 languages, and more than 1 million search results for "Hidden Champions" have appeared on the Internet.

Why do companies create invisible champions? How can China cultivate more hidden champions? In an exclusive interview with this reporter, Hermann Simon said that the only way to grow and defend market leadership is permanent innovation, and the

biggest challenge in the process is to find the right market.

01

The paradoxical "hidden champion"

Reporter: You are called "Father of Hidden Champions", can you talk about your origins with Hidden Champions?

Hermann Simon: In 1987, a distinguished professor at Harvard asked me, "Why are the Germans so successful in exporting?" My first reaction was that it must be thanks to Mercedes, BMW, Siemens, Large German companies such as BASF have a reputation. As I researched further, I realized that there are a large number of medium-sized "global market leaders" in Germany that contribute significantly to German exports, however, these companies are not well known. So, in 1990 I decided to call them "hidden champions," a name that's intentionally contradictory: champions are usually known, not "hidden." A Hidden Champion consists of three criteria: The company is the top three in global market sales or the champion in its location, has less than \$5 billion in revenue, and is rarely known to the public outside its segment.

Reporter: What are the driving forces and obstacles faced by invisible champion companies?

Hermann Simon: Hidden champions represent niche markets in the economy. If there are 20,000 separable markets in the world, only about 100 of them are large markets dominated by well-known companies, the rest are small niche markets, and these markets have a global market leader - the hidden champion. These companies have undergone a lot of changes over the past 30 years, and the main driving force behind making them ten times larger than they were in 1990 is globalization. Another very important driver is innovation. Although innovation mainly occurs in industrial products and processes invisible to consumers, it is undeniable that the contribution of hidden champion companies to technological progress is huge.

When a company exceeds \$5 billion in revenue, it is no longer defined as a hidden champion. \$5 billion may seem like too much for a mid-sized company, but it has to be seen in the larger context of the global economy. Companies on the Fortune 500 list have an average revenue of \$64 billion, and even small companies still have more than \$25 billion in revenue. Compared to the truly global giants, there is a new category of mid-sized companies It is hidden from the public, business school experts, and journalists. Today, there are many companies with \$20-30 million in revenue that were hidden champions many years ago. As I mentioned above, the main drivers behind this extraordinary growth are globalization and innovation.

At the same time, we also see some hidden champions facing decline. On the one hand, the biggest threat comes from the breakthrough innovation of competitors, which hidden champions cannot follow.

Reporter: How to reasonably interpret the three pillars of invisible champion companies?

Hermann Simon: Hidden champion companies have three pillars: being the best motivation, focus, and globalization. First, you must have the motivation to be the best. German hidden champion STIHL is a global leader in the chainsaw industry, and their goal is "either we become the best or we don't do it." Mackevision, one of the world leaders in computer graphics (CGI), makes it clear: "Our The goal is to be the number one computer-generated imagery in the world."

How to be the best? Focus! Focus on building a world-class company.

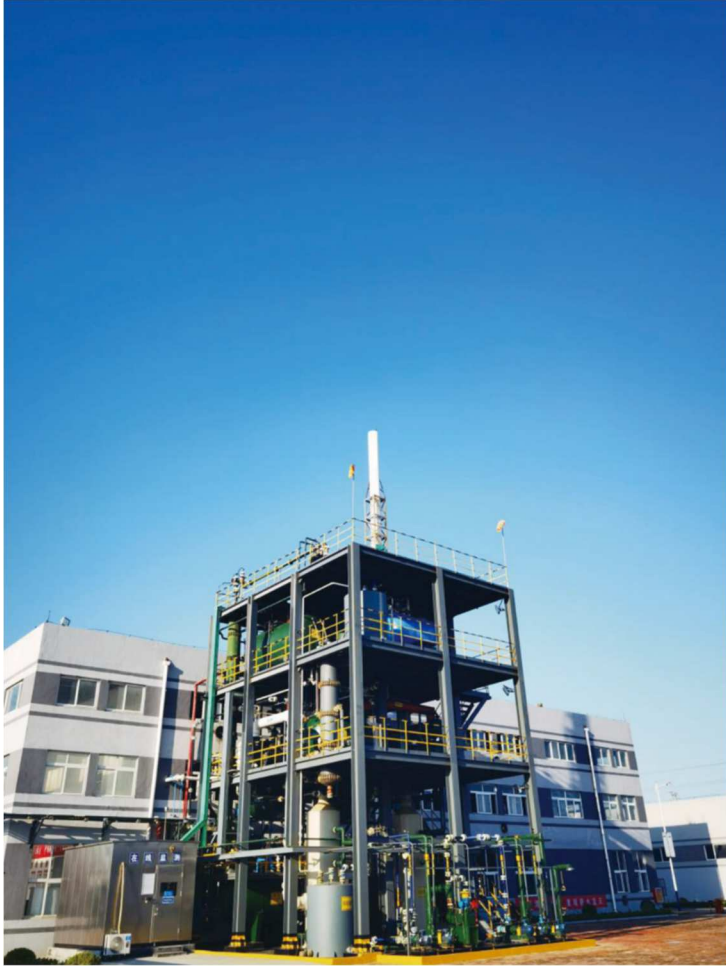
"We have always had one customer, and we will have only one customer in the future: the pharmaceutical industry. We only do one thing, and we do it right," says Uhlmann, global leader in pharmaceutical packaging. Flexi, the global market leader in retractable dog leashes, shows Learn how ambition and focus go hand in hand: "We're only focused on one thing, but we're doing it better than anyone else." Of course, focus limits market size to some extent. If Flexi is only sold in one market, it is destined to be a small market, and if it is sold globally, the market becomes even larger.

02

How to Achieve China's Hidden Champion Enterprise

Reporter: What profound impact does the breakthrough innovation of invisible champion companies have on the current Chinese market?

Hermann Simon: Hidden champions have great significance and impact on economic development. 68% of China's exports come from medium-sized companies, not large ones. The proportion in Germany is similar, at about two-thirds. Sustainability is currently a prominent issue facing corporate development. To give an example of the breakthrough innovation of the Hidden Champion company: the production of a cotton shirt typically consumes 2700 liters of water and 6 square meters of fabric, a shirt made of wood fibers, the so-called cellulose, is produced by Hidden Champions. Produced by Lenzing, it consumes only 180 liters of water and 0.6 square meters of fabric.



Many hidden champion companies have been born in China, and they have achieved outstanding results in their respective fields. The picture shows Shandong Xurui New Materials Co., Ltd. in the field of building and home appliance fire protection products, which has been recognized as a national-level specialized, refined and new "little giant" and an invisible champion enterprise in Shandong Province.

The Chinese market has huge potential. At present, Germany has about 1,500 hidden champion companies, which is the country with the largest number of hidden champion companies. At the same time, we are also seeing a rapid increase in the number of companies on China's Hidden Champions list. I believe that these "global market leaders" will make a huge contribution to China's future economic growth. The driving force behind this is entrepreneurship and the drive to "be the best".

Reporter: In your opinion, what are the "bottlenecks" that Chinese invisible champion companies have encountered in the process of globalization?

Hermann Simon: Today, the low-cost advantage that China has has gradually

disappeared, and an impressive change I have observed is the number of talents, such as the number of R&D personnel.

For example, Carl Zeiss, a global leader in optics and optoelectronics, has 3,100 R&D employees, while Hikvision, a similarly sized Chinese company, has 9,300 R&D employees, an indicator of China's innovation capabilities. However, on the issue of globalization, China's hidden champion enterprises are still in a relatively early stage of development. German hidden champion companies usually have more than 50 subsidiaries internationally, while Chinese hidden champion companies often have less than 10 subsidiaries.

what does that mean? Although Chinese companies have developed well in terms of innovation, they must catch up with globalization. This usually takes many years, and the "bottleneck" is human resources. Therefore, talents are the key that hidden champion companies need to face in the process of globalization. To build a global enterprise, it is necessary to have talents who can establish subsidiaries outside the country.

Reporter: What do you think of the entrepreneurial spirit embodied in hidden champion companies?

Hermann Simon: I think the significant contribution of these entrepreneurs can create high-quality work value and give employees excellent work conditions, thereby achieving low employee turnover, which is a very important feature of hidden champion companies. I have published many articles on the value that hidden champion companies can bring to the development of a region. Most hidden champion companies are not located in big cities, but in rural areas, where they add value to social life while making an important contribution to economic growth.

Reporter: Do you have any suggestions for the development path of China's invisible champion enterprises?

Hermann Simon: Any hidden champion company needs to start from a city or region. If an entrepreneur has the ambition to lead the company to the best and achieve its goals accordingly, then the probability of this company's success is relatively high. high. I have a clear piece of advice to focus on, be rooted in what you really know and know, grow through regional expansion, don't rush to diversify. The development path of invisible champion companies in China should be gradually expanding from one city to the next city and the next province, so as to enter the entire Chinese market. Only when we start small, do our best, and lay a solid foundation for conquering the Chinese market, will we develop to the world.

03

Innovation and talent are eternal topics

Reporter: How to judge whether the hidden champion company has reached the growth limit? How to avoid getting stuck with hitting the cap?

Hermann Simon: I can't see the so-called "growth ceiling." Hidden champions are dedicated, professional, and have high potential for innovation. I think they have the opportunity to grow with globalization. Unlike many large corporations or Internet companies in China, the annual growth rate of Hidden Champions is not astonishing, but it is still growing steadily. If you keep growing at four or five percent, the potential is huge. I prefer continuous growth to staggering growth in a year or two. One thing Hidden Champions must do to avoid getting into trouble: Innovate! Innovate! Innovate!

Reporter: How do hidden champion companies correctly view the indicator of "growth rate"?

Hermann Simon: Even if a company can achieve annual growth rates of 20% or more in a few years, that doesn't mean it has the potential to do so in the long term. Hidden champions need to focus on the drivers of data growth, not the numbers themselves. Talents - This is an issue that hidden champion companies need to pay attention to, looking for high-quality and highly motivated talents around the world. The annual employee turnover rate of German Hidden Champions is 2.7%, and the advantages of reducing employee turnover are obvious. A company must be an employer that attracts top talent and has the ability to retain young people while developing them.

In this regard, the turnover rate of Chinese employees is very high and challenging. For a company to have world-class capabilities and build stable relationships with customers, it will need to retain employees who have worked for many years and are loyal to the company. In my opinion, hidden champion companies should work hard to cultivate talent. Long-term oriented and committed employees are the foundation of a company's eventual global corporate culture.

Reporter: What preparations do hidden champion companies need to do to cope with the development of globalization?

Hermann Simon: I think the only way to grow and defend market leadership is permanent innovation, and the biggest challenge in the process is finding the right market. We have learned that two German companies have already moved their mining technology competence centers from Germany to China. The mining industry is almost non-existent in Germany, but the industry is still very important in China. This case shows that R&D, manufacturing, service and other links must be reconfigured to maximize the value of the entire industry chain.

Not long ago, I held a meeting with about 100 Chinese auto suppliers who wanted to establish manufacturing in Germany. On the one hand, German companies operate more than 2,000 factories in China, many of which are hidden champions; on the other hand,

Chinese companies have only 4 green factories in Germany. As a result, there will be huge investment waves in both directions.

Reporter: What suggestions do you have for the future development of hidden champion companies?

Hermann Simon: I don't think the underlying strategy of Hidden Champions has to change. First of all, to be the best company - this will be a very important starting point, and focusing on familiar territory will not diminish its importance in the market. Due to focus on making a market smaller, at the same time, expanding the market through globalization. Therefore, the hidden champion enterprise needs to have excellent ability to master a field. If a company is not good at what it does, it will not become an invisible champion in a field, which requires a good training system and innovative spirit to support it. Secondly, the willingness to innovate and the courage to go global are the driving force behind the development of hidden champion companies in the future. Finally, the understanding and cultivation of talents cannot be ignored. In the process of globalization, it is very important to cultivate the ability of young talents to hold important positions. Exchanges and internships can greatly strengthen the cultivation of this ability. This is why it is seen as a key prerequisite for future Hidden Champions.

(Thanks to Yang Yian, co-author of the second edition of "The Hidden Champion: Pioneer of Future Globalization" for his special support for this interview)

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