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The keys to the success of the Hidden Champions

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What are the elements that define a Hidden Champion on the global level?

Stéphan Guinchard: Hidden Champions are mostly companies of small or medium size that are leaders in their market. We defined three criteria: they are among the top 3 in the world or are number one on their continent, they generate less than €3 billion in turnover, and they are relatively unknown to the general public.

In the framework of our worldwide study, we were able to identify nearly 3000 companies in the world using these criteria. We nevertheless observed that they were particularly numerous in German-speaking countries: Germany, Austria and Switzerland.

Hidden Champions remain, unfortunately, too scarce in France.

In the German Mittelstand alone, 1300 were identified. We also found many in Scandinavia, as well as in northern Italy. Hidden Champions remain, unfortunately, too scarce in France.

What international examples illustrate this family of companies in particular?

I would mention Würth, the world leader in fastening screws (Germany); McIlhenny, the inventor of Tabasco sauce (United-States); Gallagher, the herd fencing specialist (New-Zealand); Essel Propack, the rolled toothpaste tube manufacturer controlling one third of the global market (India); Hamamatsu Photonics, the light source specialist (Japan); Babolat, the tennis racket string manufacturer (France); Cornilleau (France), who design and manufacture ping-pong tables and rackets.

Can you describe a typical portrait of a Hidden Champion?

The «average» Hidden Champion has an annual turnover of €326M, including 61% from export, and employs a staff of 2037. It devotes 6% of its turnover to R&D. Finally, roughly 70% of the Hidden Champions are family-owned, especially in Europe. This is a dominating factor in Germany and in France.

Do you find similar strategies from one Hidden Champion to another?

Yes, the strategies of the Hidden Champions have several common characteristics, that we have summarized in a diagram (see across). It is striking to see that the heads of these companies all have a vision, a strong ambition, and in fact a clearly expressed international ambition from the start. This leadership is illustrated by the considerable growth objectives they set, up to more than 20% per year, adhered to by the employees. To return to the example of a group like Würth, it was able to surpass key thresholds that had a galvanizing role with the teams, the driving force behind its success.

How is this ambitious vision translated in terms of activity?

Well, the Hidden Champions don’t hesitate to focus on very specialized markets. For example, automotive fastening screws for factory assembly or clay pigeon launchers. The scope is thus very narrow and very precisely defined: it can be based on the customer’s applications/usage/needs (63%), a product/technology (42%), a target customer segment/group of customers (55%) or other criteria such as the price level (24%), quality level (22%), region/geographic area (14%).

When we ask these companies, the answers range from «We focus on what we do best», to «We operate in a niche market», to «We operate in depth, not breadth», which places the emphasis on their strong integration of the value chain. «We remain concentrated on what we do, with no diversification». 
Hidden Champions go and explore the entire world, and propose their products where their customers are located.

The choice to go international in order to seize growth opportunities is the number one growth driver for Hidden Champions. Their experience shows that it is better to expand geographically in a narrow market than to position yourself in several markets in the same geographic area.

We also see that Hidden Champions penetrate foreign markets very early on in their development, and prefer to do it alone. The choice to internationalize the business is a long process that takes place over several generations, requiring a vision, long-term objectives, and solid perseverance.

What type of customer relationships do the Hidden Champions create?

They develop close relationships with their customers and a high degree of proximity thanks to subsidiaries that they own themselves, and they also demonstrate organizational agility. Within a Hidden Champion, proximity with the customer is everyone’s business, starting with the boss, who goes to visit customers himself accompanied by the executive committee. He is regularly in the field and visits his customers’ industrial sites. He is thus aware of their needs, their difficulties and their positioning.

This spirit of «proximity with the customer» is also reflected in the employees’ attitude, in the organization of the company, based on decentralization, and in the portfolio of «product» and «service» offers, or increasingly, «system» or «solution» offers.

Hidden Champions build their strategy by observing that of their customers, and thus identify new niches to develop. They don’t hesitate to knock on the door of the most demanding customers, since they need motivating challenges to echo their success ambitions. And if you can do less, you can do more.

Their relationships with their customers are solid and interactive: for over 70% of their customers, the product offered by the Hidden Champion is key. Another observation: roughly two thirds of the customers commit to their supplier for the long term, representing the greatest strength of the Hidden Champions. And these same customers often demand a high level of information and quality of advice from their supplier. The percentage of employees with regular contacts with customers is five times higher at a Hidden Champion than in a larger company.

To reach their growth objectives, do Hidden Champions use any particular recipes?

One of the levers that Hidden Champions use to maintain their leadership is innovation. On average, Hidden Champions devote 6% of their turnover to R&D, and 25% of them devote more than 10% of their turnover. These figures must be compared with the general average for companies, which is about 3%. It represents a huge effort for a company, and especially a small one. Being ahead in the race also means anticipating the trends.

Germany is the leader in terms of the number of patents filed, notably by large groups. As for the Americans, they are very good at translating an idea into business, whether it’s patented or not. In France, the biggest issue seems to lie in marketing the innovations, more than innovation itself.

Innovators do not sufficiently examine the business potential of their ideas: what value is created for the customers? What usage value will they derive from the value delivered to customers? For example, the idea is to sell one’s difference as a technological leader in a given market.

This would be a key lever in France to recreate wealth: to better translate innovations into income and jobs. Good examples here include Clextral, specializing in dual-screw extrusion, or Poclain, producing hydraulic transmissions for the construction, civil engineering or agricultural sectors. Their positions as technological leaders allow these companies to enjoy a higher price position: this is not an issue for their customers, who fully benefit from the extra performance delivered.
arrived in their position at a young age. And there is considerable continuity in the company management: the heads of these Hidden Champions remain in their position on average for 20 years while in large groups the average is barely above 6 years.

Globalization and the growing complexity of business require increasingly professional, sophisticated management: today, the leaders of these Hidden Champions have a higher educational level than their predecessors. As for the women executives, often members of the founding family, they play a more important role here than in large groups.

The company ARaymond is a perfect illustration of these very close ties between a company and its founding family: all of the descendants of the founder continue to be named «A. Raymond»: Albert-Pierre, Antoine...

Are there exogenous factors conducive to the growth of these Hidden Champions?

Yes, certain factors can stimulate the development of the Hidden Champions: people often refer in France to «ecosystems», others refer to the right size of the German «Länder», or the stable framework conditions in Switzerland. However, there is no miracle recipe to protect oneself from recessions or generate growth.

Access to financing, an efficient vocational training system, and a generally positive environment for entrepreneurs and company managers are critical elements to enable a company to flourish and grow.

Do these companies contribute to the export performance of their country?

Yes, they do! And more so than the large groups, which only contribute to it partially. The crucial difference observed between China and Germany and the other countries is the role of medium-sized companies: 68% of China’s exports are carried out by companies with less than 2000 employees, and roughly 70% of Germany’s exports come from Mittelstand companies. These companies, and particularly the Hidden Champions, explain why Germany has a better export performance.

If France had the same density of Hidden Champions as Germany, their total number would be around 900, while their actual number today is estimated at around 400. This would represent 100 billion additional euros in exports — enough to make the trade balance positive — and a million additional jobs.

Two approaches aimed at the same objective of excellence.

The study of the Hidden Champions – SMEs and intermediate-sized companies that succeed — highlights a pathway of growth towards sustainable, profitable performance. The diagnosis required for the label produces a snapshot of where the company is situated in order to draw up a tailor-made roadmap and pathway of excellence to reach its objectives. These two approaches — totally independent from each other — have interesting parallels.
How do Hidden Champions deal with their competitors?

Their strategies emphasize their superiority in terms of performance rather than lower prices. The competitive advantage based on higher quality is even the key element behind their leading position in the market. These companies offer «premium» rather than low cost.

A typical Hidden Champion faces a limited number of competitors, i.e. on average six competitors at the international scale. Nearly 60% of the Hidden Champions have no more than ten competitors, and only 12.8% must face more than twenty. The «oligopolistic» nature of certain Hidden Champions results from their specialized approach and the very precise definition of their markets, and the entry barriers that they build up over time thanks to their innovation, and also to their customer proximity.

The positioning of the Hidden Champions is largely due to additional product attributes such as advice or the ease of its integration in systems. Combined with a strong innovation capacity, these competitive advantages are difficult to imitate and long-lasting; they create additional barriers for new competitors. It’s harder to enter the market of a Hidden Champion today than in the past! However, price is the Hidden Champions’ most serious weakness; maintaining the price-value balance remains a tricky exercise. Their «value» approach does not exempt the Hidden Champions from the need to closely control costs, but these companies usually have a culture of frugality and efficiency anyway. Thus Laporte, an official supplier for the Olympics, succeeds in producing its clay pigeon equipment in France, for export to... China, ever since their success at the Beijing Olympics.

Can you define a working environment specific to Hidden Champions?

They are small companies driven by a true growth project, companies that innovate. These companies are therefore conducive to human fulfillment. A world leader making a very technical part will make a lot of efforts to keep its development team.

In these companies, the staff is very highly committed. Hidden Champions enjoy strong employee loyalty and very little turnover.

For Hidden Champions, there is always more work than the manpower available, meaning that they are constantly understaffed, which boosts productivity. Moreover, the company culture is built around strong performance – more developed than in larger groups – and a high level of qualification.

The ambitious vision of the entrepreneur-boss has a motivational impact on the employees. These shared objectives are reflected in a high level of commitment. Absenteeism and staff turnover are very low. Thus company expertise is preserved, recruiting costs are lower, and training investments have a better payback. Deriving a benefit from the human capital becomes possible, creating a virtuous cycle.

Furthermore, most of these companies are installed in rural areas, where there is no other employment alternative. Everyone therefore has something to gain, thanks to a relationship of constructive cooperation.

How do their executives’ profiles influence the success of the Hidden Champions?

70% of the Hidden Champions are family-owned companies. Two thirds of them are still managed by the same founding family. Today, however, the number of executives related to the founding family has a tendency to decrease. Their executives are characterized by a strong identification with their company and their mission. Management in these companies is authoritarian with respect to principles, but participatory and flexible concerning details. The CEOs often
French society requires a profound cultural change. The difficulties of France are not only a question of cost competitiveness. Simply reducing costs will not suffice to make French companies sustainably more competitive. It will also be necessary to deploy strategies more closely linked to innovation, proposals with higher value, reinforced customer proximity, a better quality-price ratio, and a more international outlook.

“We can only regret the general lack of understanding of the business world in France, which does not attract the interest of the general public. We need another approach to the economy that breaks away from gloom and encourages pride in our companies," explains Stéphan Guinchard. This psychological barrier is compounded by the lack of attention paid to apprenticeships, along with another weakness, the fact that the value of manual professions is not recognized.

France’s assets include its engineering—the key to innovation—the agricultural and agro food tradition, luxury goods, mechanics, and large technological projects.

The challenge is to help French SMEs to reach the size of ETI (Intermediate sized companies). To reach this goal, we need banks that work closer to the field, and more investment supporting the growth of SMEs. In Scandinavia and in Germany, the terrain is more favorable to Hidden Champions, since investing in the local economy is well anchored in the habits of these countries.

France must really promote its medium-sized companies and count less upon its large groups. It has several high-performing Hidden Champions: Bénéteau for sailboats, Haemmerlin for wheelbarrows, and Rossignol Technology², active in the automotive industry and one of the world leaders in brake control rods.

Companies like these have succeeded in dominating their markets at the European and global scale while remaining located in France, and maintaining French-based production units and research centers.

Key figures

150
The number of Hidden Champions identified in France, yet the real total is estimated at around 400.

900
The number of Hidden Champions that France would have if it had the same density of intermediate-sized companies as Germany.

1307
The number of medium-sized German companies that created a million new jobs in the past ten years.

² A company with the Mont-Blanc Excellence Industries label