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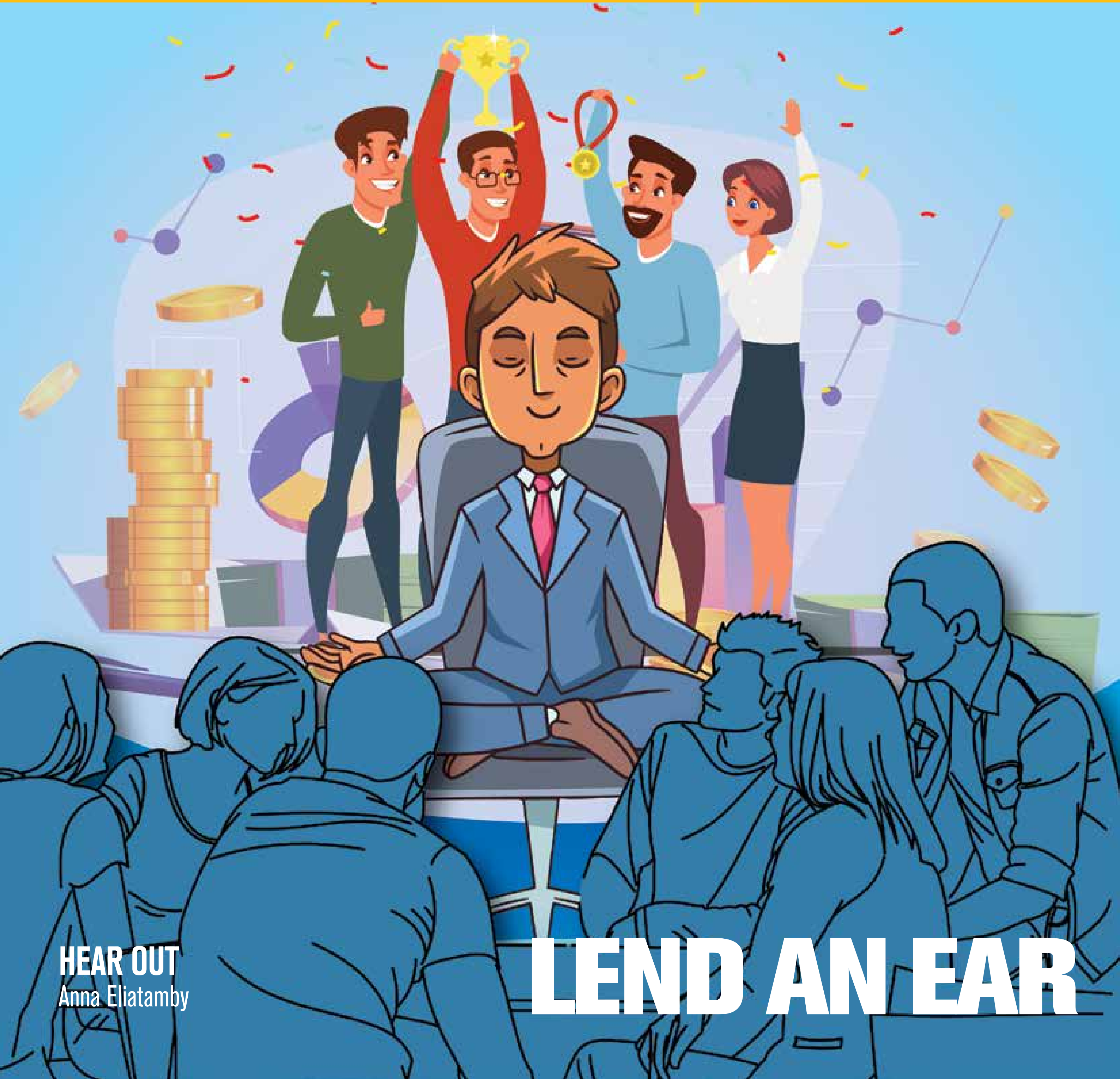
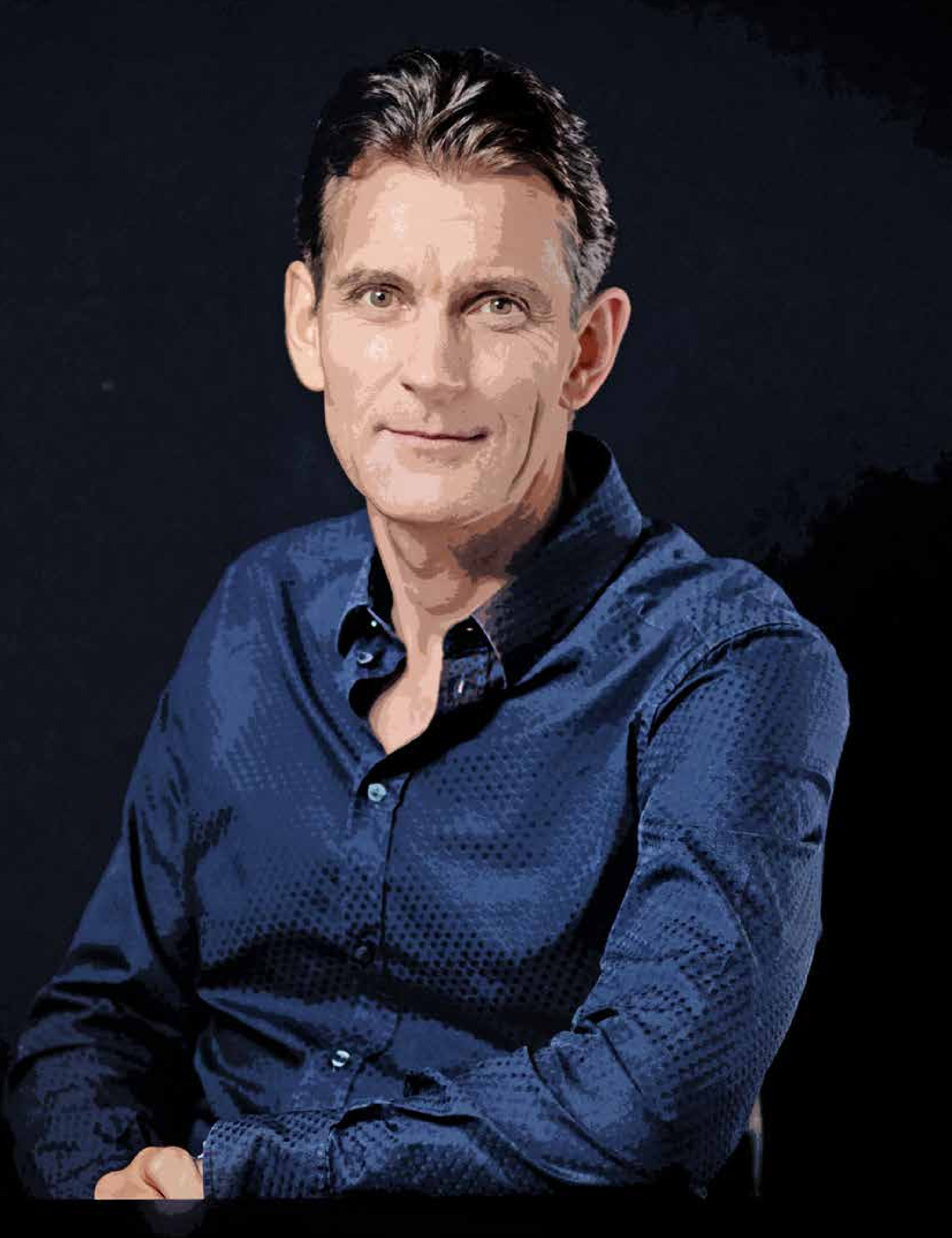


HEAR OUT
Anna Eliatamby

LEND AN EAR



Operating behind the veil of secrecy are those small and unknown, and yet, market-leading companies, that provide a wealth of unusual and invaluable business and life lessons, opines Peter Kreuz, co-founder, Rebels at Work.

MYTH BUSTER

Hidden champions

Behind the headlines about the successes and practices of successful, large companies lies a quiet, inconspicuous force from which there is a lot to learn, beyond all management trends and myths: about sustainable success and global competitiveness.

They are the pioneers, the 'Hidden Champions', and the rebels at work. Highly specialised, medium-sized companies that dominate international markets with their products and put their heart and soul into their work. "Nimble, hungry, and global" is how Businessweek magazine describes these world leaders, who generate billions in revenue and yet remain largely unknown.

These small, market-leading industrial companies have more than doubled in size over the past decade, but the most interesting thing about them: they do not follow the management trends and fads of the big corporations, but are personified myth busters.

MYTH 1: Stay lean and outsource what you can.

Nike makes its money by not following its slogan. Instead of just doing it, they just don't do it. A shoe company without shoes. And apparently a prime example of a modern corporation: gorgeous on the outside, empty on the inside. Reminds me of the Hawa Mahal...

Hidden Champions disprove this myth. Value chains all the way back to the raw materials are no exception. Faber-Castell, the German world leader in pencils, produces the wood for its pencils itself and operates huge plantations in Brazil. ChupaChups, the world leader in lollipops, has developed almost all of its machines in-house. A quarter of the Hidden Champions have a vertical integration of more than 70 per cent. Virtually everything is made in-house.

The quality standards of the Hidden Champions dictate that the production of core competencies should never be outsourced. They are convinced that uniqueness can only be created internally and cannot be bought on the market.

When it comes to non-core competencies, however, hidden champions are radical outsourcers, outsourcing virtually everything to external specialists.

MYTH 2: Better keep the best for a short time than the mediocre forever.

"If you quit now, I'll give you 2,000 Swiss francs. Do you want to stay or go?" This is the question a Swiss beverage chain asks every employee who has just completed his or her probationary period. 175,000 rupees for a good newcomer who leaves immediately. Crazy? Absolutely not! But an unconventional test of true loyalty.

Do not put all your eggs in one basket, says common sense. Hidden champions do exactly the opposite: for better or worse, they make themselves dependent on their core markets. And with great success.

Typical for Hidden Champions: In the beginning, turnover is extremely high. And that is intentional. But once employees are with the company, everything is done to keep them. At 2.7 per cent, the turnover rate is about a third of the average. They do not want the best for a short time, nor the mediocre forever. They want the best forever. And they manage to do that.

Of course, high retention and low turnover only make sense if you have the right people on board. That is why rigorous selection at the start of employment is part of the system. Loyalty to the company then becomes the root of external competitive advantages in product, quality and service.

MYTH 3: Appeal to permanent customer focus.

There is no management conference, no town hall meeting, no employee event that does not raise the issue of customer focus. And yet, in most companies, implementation is lacking.

Hidden champions are different: Here, customer proximity is a particular strength. Because they don't stop at appeals, but have

REBELS AT WORK

clearly defined rules of conduct.

'One for yes, two for no', is the motto at Metro Bank in the UK. If a customer has a problem, a complaint or a special request, any employee can solve it independently ('one for yes'). If, however, the employee believes that the customer is not right and the answer should be 'no', then it takes two, namely the additional consultation and approval of a supervisor.

At Igus, the world market leader in energy chains, it's 'KNOC', an acronym for the German phrase 'No 'NO' without the boss'. Every employee must check with his or her boss before turning down a customer request. Even if the customer asks for an energy chain with flashing pink hearts.

This rule of conduct creates a strong customer focus and reduces the workload of managers. As a bonus, many new products have been developed and many processes have been significantly improved as a result of this rule.

Appeals go unheard. Rules of conduct do not.

MYTH 4: Avoid being dependent on narrow markets and few customers.

Do not put all your eggs in one basket, says common sense. Hidden champions do exactly the opposite: for better or worse, they make themselves dependent on their core markets. And with great success.

They are specialists who combine a deep value chain with a narrow definition of the relevant market. Some virtually create their own market, with a 100 per cent market share and no real competition. Kässbohrer, for example, generates almost all of its sales with a single product: the Pistenbully, a vehicle for preparing slopes and trails.

Dependence on a single market may increase market risk, but it reduces competitive risk because all resources are concentrated. Given the large number of failed diversification attempts, a focused strategy may actually be less risky than a diversification strategy.

A strong focus forces to monitor the market closely and respond rapidly to changing customer needs or technological developments. The dependence on their market makes Hidden Champions particularly determined innovators.

MYTH 5: Beware of the difficult customers.

"I only work with customers who are smarter than me," says graphic designer Stefan Sagmeister, one of the world leaders in his niche. By "smarter," he means all those difficult clients who challenge him with ambitious assignments: the Guggenheim Museum, Lou Reed, the Talking Heads, or the Rolling Stones.

But wouldn't it make more sense to focus on ordinary customers? The average ones? The ones with low expectations? The ones who are easy to please and who communicate their satisfaction in the marketplace?

Hidden champions take the opposite approach: They focus on the most demanding and difficult customers. Customers who are unpleasant, who are never completely satisfied, and who always demand better performance. These customers are valued precisely because of their high demands. They are partners in innovation, driving new levels of excellence.

It is no wonder that 41 Hidden Champions supply Tesla and that Apple cannot do without their services. The only way to become and remain a global leader is to win and retain the world's most demanding customers.

Reading modern management literature, it would seem that the lessons to be learned are primarily—or even exclusively—from large corporations. The reality, however, is that many of the most successful companies operate behind a veil of secrecy. It is the Hidden Champions, Pioneers, and Rebels at Work that provide a wealth of unusual and invaluable lessons. Most often beyond all management fads and myths. IM

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