



*Institute for Technology and
Innovation Management*

Chancen und Herausforderungen des indischen Marktes für deutsche “Hidden Champions”

Opportunities and Challenges for German “Hidden Champions” in India

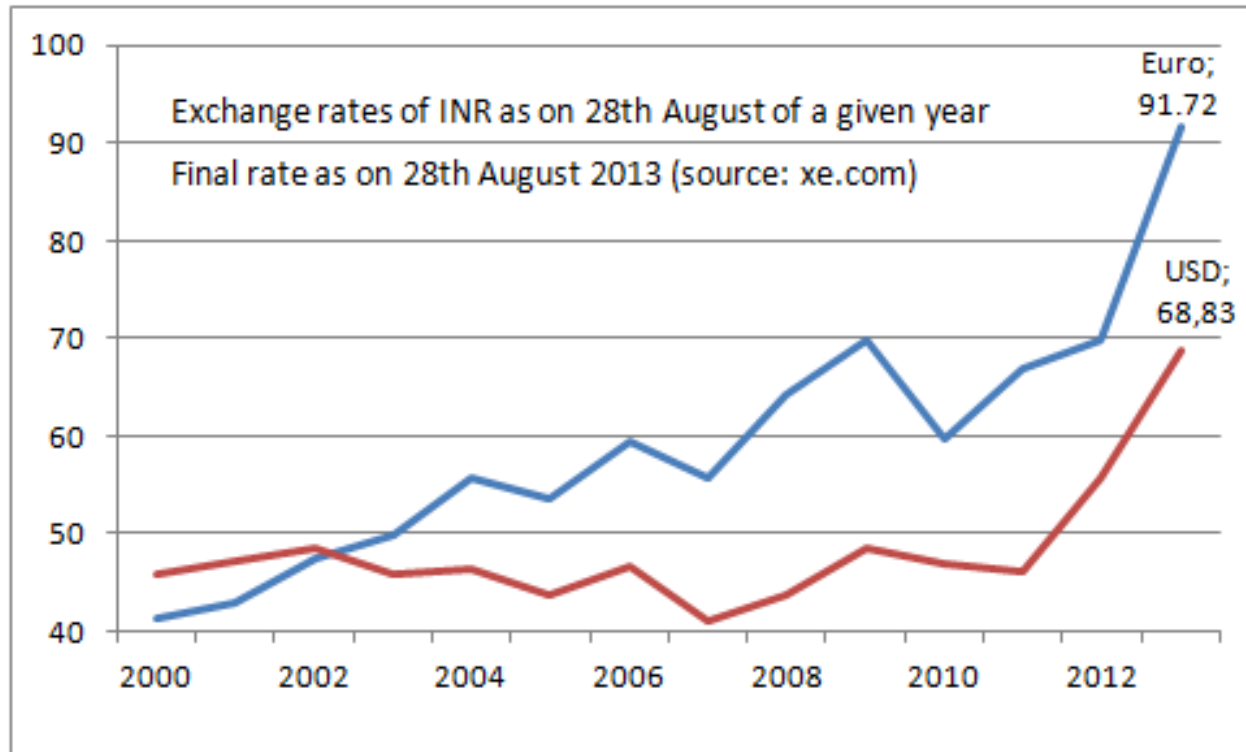
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Institute for Technology and Innovation Management
Hamburg University of Technology

10.09.2013 / Hamburg Chamber of Commerce

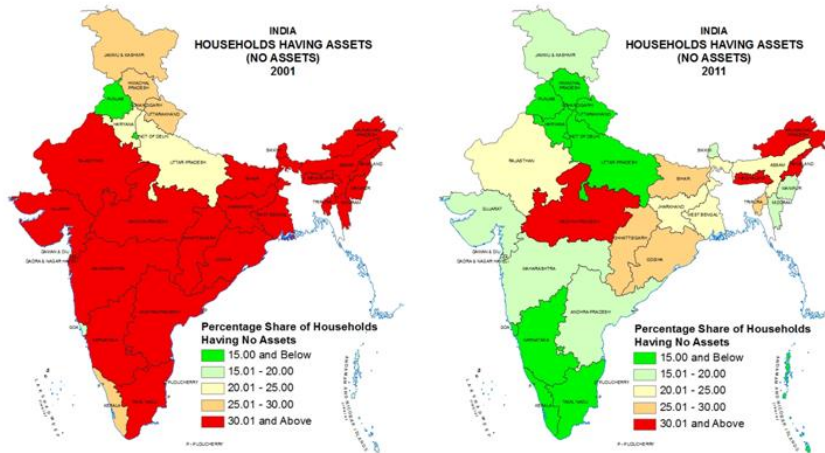
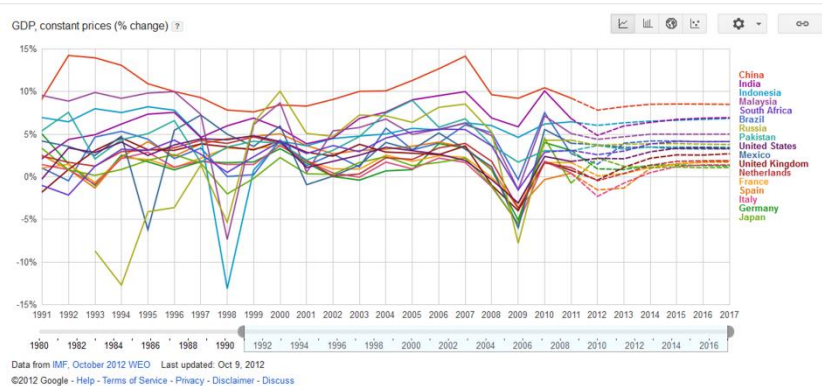
- Business opportunities & challenges in India
- German “Hidden Champions” in India
 - Key characteristics
 - Chances & challenges: A case study
 - Key results of a TUHH survey
- “Frugal innovation” as a promising market strategy
- Q&A

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- Depreciating exchange rates & high inflation (increasing cost base)
- Price-sensitive consumers; need for products with low ownership costs
- Deficits in physicals & institutional infrastructure
- Of late, perceptions of uncertainty over IPR protection

India: A country of quasi unlimited potentials!?



- Young & growing population with aspirations to consume
- Unsaturated markets
- A competitive “eco system” with highly developed market and regulatory institutions
- Scientific & engineering capabilities in public and private sectors
- The last “mega growth story” after China
- Demographic dividend also in terms of the work force size in years to come

Finances of FDI companies: 2010-11

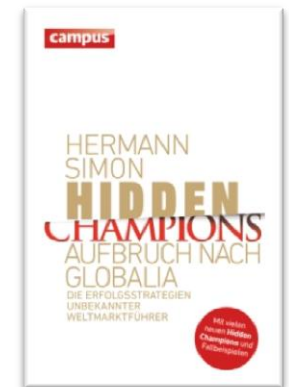
Financial performance of 745 non-governments, non-financial, FDI companies based on audited annual accounts (RBI)

Item	2009-10	2010-11
Sales	12.4%	16.0%
Value of production	11.8%	17.6%
Total Income	11.9%	16.7%
Manufacturing expenses	9.5%	21.3%
Remuneration to employees	11.4%	17.8%
EBITDA	37.4%	5.6%
Net Profits	42.4%	-1.9%

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“Hidden Champions”: Key characteristics

- The term “Hidden Champions” was popularized by works of Prof. Hermann Simon
- Hidden Champions are successful world market leaders in industrial niches (B2B)
- Three criteria to classify Hidden Champions:
 - **Market dominance:** Amongst top-3 worldwide or the No. 1 on one continent
 - **Annual turnover:** Up to € 5 billion
 - **Public awareness:** Often unknown to end-consumers and less visibility



Region	Hidden champions	No. of Hidden Champions per million inhabitants
Baden-Württemberg	302	28.0
Hamburg	45	25.0
Hesse	139	22.8
North Rhine-Westphalia	332	18.6
Bavaria	229	18.2
Rhineland-Palatinate	67	16.7
Bremen	8	14.6
Saarland	10	9.8
Schleswig-Holstein	27	9.5
Berlin	30	8.6
Lower Saxony	63	8.0
Saxony	20	4.8
Thüringen	10	4.5
Brandenburg	8	3.2
Mecklenburg-Vorpommern	4	2.4
Saxony-Anhalt	3	1.3
Germany	1307	16.0
Switzerland	110	13.9
Austria	116	13.8
Luxemburg	7	14.0
USA	366	1.2
Japan	220	1.7
China	68	0.1

- Total number of known “Hidden Champions” worldwide = 2,734
- Germany has the largest number (48%)
- Hidden Champions and the “Mittelstand” are the backbone of the German economy
- Hamburg has a high relative share of “Hidden Champions” (per million inhabitants)
- India is a relatively less researched topic in this regard

(Based on: Simon, 2012)

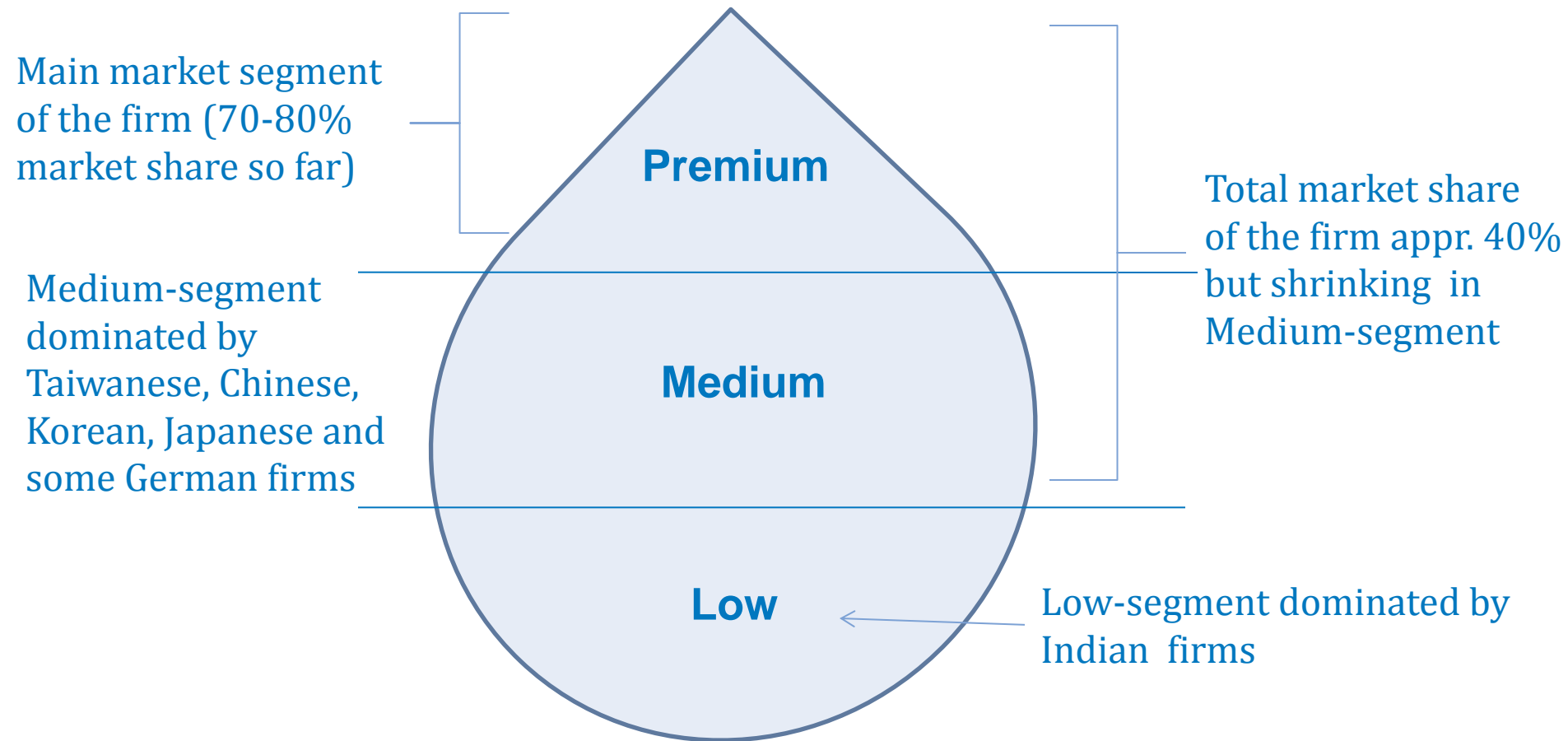


Case Background

- German Hidden Champion
- Premium Supplier of Medical Devices
- Highly Innovative in its Niche
- Market Leader in Europe, USA and Japan
- Present in Asian Markets incl. India



The Indian Market: Initial Position

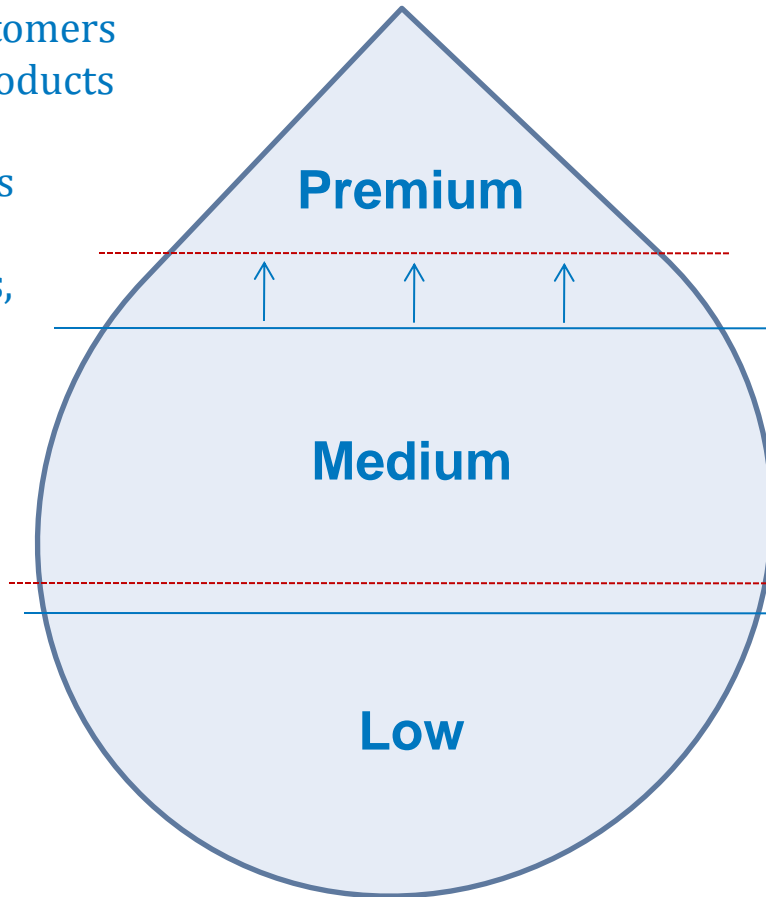


Medium-segment is growing

Growing number of customers prefer medium-price products

Especially Asian vendors increase market share due to cheaper products, more favorable cost structure

Low-segment vendors are also upgrading and therefore able to grab market share in Medium-segment



Implications for the firm:

- Market for premium-products is shrinking (but the firm will still remain #1 in this segment)
- Customers look for good quality at lower prices (price has become dominant selection criteria)
- Former USP (like longevity) are losing importance
- The firm is losing market share in growing Medium-segment because they are too expensive!
Over-engineered plus exchange rate disadvantage

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17.04.13 | Maschinenbau

Deutsche Baumaschinen zu gut für den Weltmarkt

Maschinenbauer räumen auf der Messe Trophäen ab. Von den Märkten der Schwellenländer aber werden sie verdrängt. Hier ist simple, robuste Technik gefragt – und die kommt aus anderen Ländern. *Von Carsten Dierig*



Foto: picture-alliance/ dpa/dpaweb

Tunnelbohrmaschinen für den Neubau der

Maschinen bauen können die Deutschen. Das hat sich beim Innovationspreis der weltgrößten Baumaschinenmesse Bauma in München dieser Tage wieder eindrucksvoll gezeigt. 156 Bewerber, fünf Kategorien – und am Ende stehen die Deutschen auf dem Treppchen.

Herrenknecht zum Beispiel in der Kategorie Maschine, Wirtgen bei den Komponenten oder Bauer. Böel und Liebherr in der Kategorie

ARTIKEL EMPFEHLEN

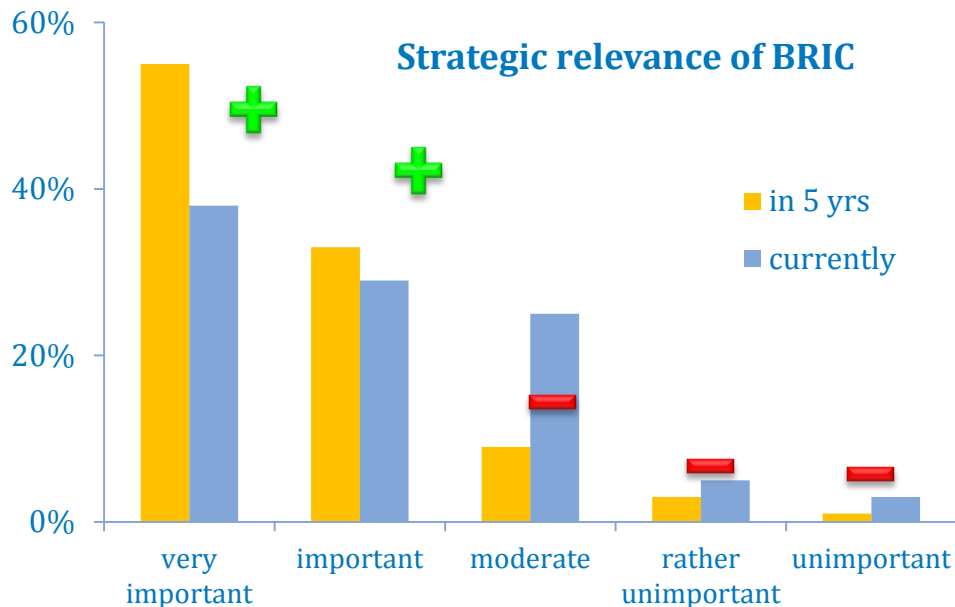


Kommentare (36) Drucken



Key results of a TUHH survey

- (An ongoing) Study of “Hidden Champions” in the BRIC countries
- Established firms (on average in business: 90 years)
- Median number of worldwide associates: 2,250
- The majority generate more than €1 billion annually

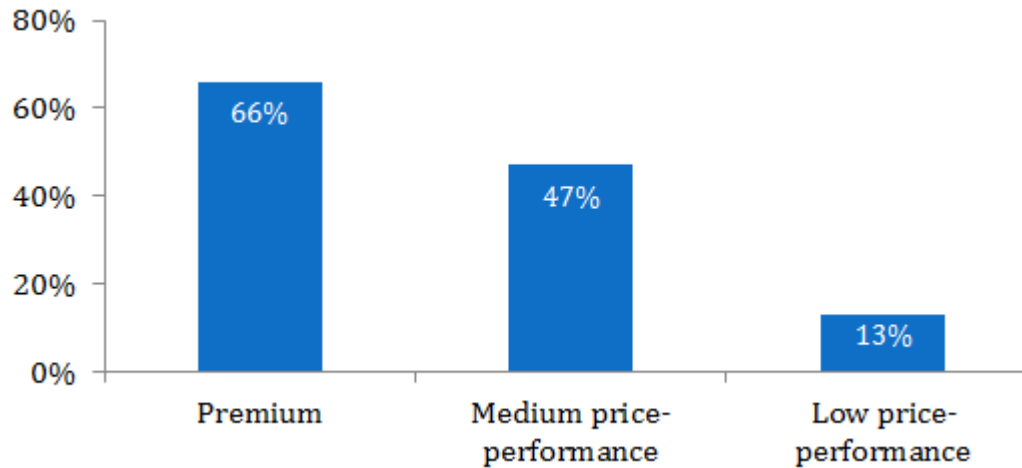


Country	Share of turnover [%]	No. of associates
Brazil	4.8	30
Russia	6.5	25
India	3.1	36
China	11.5	160

n = 53

Survey participants (Hidden Champions)

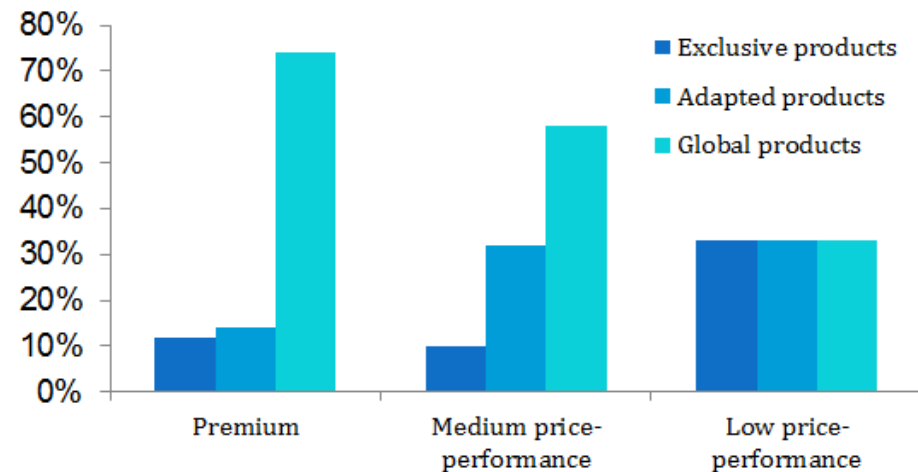




Market segments served in India

Multiple options in both cases possible

Market strategies depending on market segments



Production and R&D locations for India

	Premium segment	Medium price-performance	Low price-performance
Home country	46%	24%	-
India	3%	12%	29%
Home country and India	23%	32%	43%
Other countries	29%	32%	29%

Production locations

R&D locations

	Premium segment	Medium price-performance	Low price-performance
Home country	80%	56%	14%
India	-	-	14%
Home country and India	11%	28%	57%
Different country	3%	8%	-
Other	6%	8%	14%

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Frugal innovations for and from India





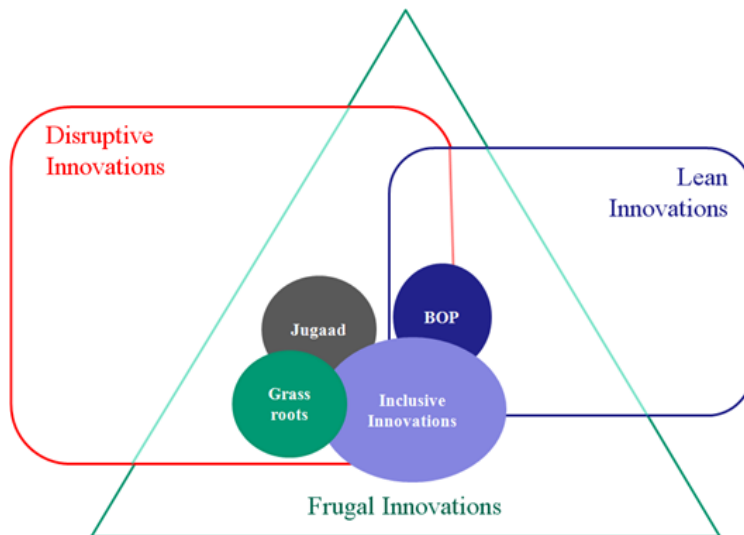
- Frugal innovations go much beyond the mere “low cost” approach targeted at end-consumers. These target the “price-sensitive” customer including in B2B areas.
- Quality perceptions and image concerns (value proposition) play a key role in the acceptance of frugal products.
- The relevance of frugal products (economic developments, environmental concerns, and ethical issues) seems to increase the appeal of such products to industrialized nations.



Definition

Frugal innovations seek to minimize the use of material and financial resources in the complete value chain with the objective of substantially reducing the cost of usage and/or ownership of a product while fulfilling or even exceeding pre-defined criteria of *acceptable* quality standards. (Based on: Tiwari and Herstatt, 2012a)

Conceptual background



Source: Tiwari and Herstatt (2012)

Basic characteristics

Affordability for “non-consumers”

High volume opportunities to compensate for “thin” margins

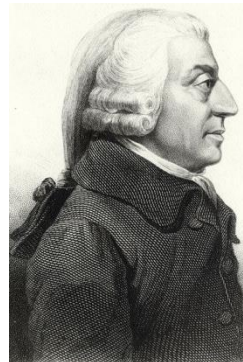
Robustness to deal with infrastructure deficiencies

Fault resistance to cope with unsophisticated users

Low costs of usage, maintenance & repair

“Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer.”

Adam Smith (1776)



- India is, and continues to remain, an attractive market for mid-sized firms, including “Hidden Champions”
- India’s strategic relevance is set to increase for this group of firms
- Local production and R&D capabilities are key to success in the Indian market (and best hedge against exchange rate volatilities)
- Frugal innovations hold the key to India’s mass markets and India can act as a “lead market” for this type of innovative products & services
- Practicing “open innovation” (not doing everything on your own) is key to reducing technology and market uncertainty in India (and lowering costs)

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- Setting up of a Center for Frugal Innovation to engage in:
 - Research
 - Education
 - Consulting
- Organization of a symposium on frugal innovation in Hamburg on 18th of November
 - Actual business practices
 - Industry/academia collaboration
- Planning to found a “panel” for dedicated research

Thank you for your attention!

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