
Assessing the economic relevance of International Niche Market Leaders: empirical indicators and strategic reflections from the Basque Country

This article provides an updated account on international niche market leaders (INMLs) from Euskadi and its surroundings. It shows how the 'hidden champions' phenomenon is in no way a Germanic affair and that many niche players from Spain also display typical hidden champion-features. Similarly, it shows how the Basque Country forms an epicenter of this kind of firms. The paper also demonstrates the macro-economic relevance of INMLs. I.e., how they are instrumental in view of policy aims to base 20% of territorial GDP on industrial activities, to strengthen the Middle Market segment and to develop the foreign trade activities of economies. The paper also provides evidence for the argument that economies that count with above-average INML densities perform better in this regard. Finally, the paper depicts a series of challenges that INMLs face and puts these into perspective.

Este artículo proporciona una descripción actualizada de los líderes internacionales de nicho de mercado (INML) de Euskadi y sus alrededores. Muestra cómo el fenómeno de los «campeones ocultos» no es en modo alguno un asunto germánico y que muchas empresas de nicho de España también muestran características típicas de los campeones ocultos, y en el País Vasco este tipo de empresas forman un epicentro. El artículo demuestra la relevancia de los INML en los asuntos macroeconómicos, tales como: los objetivos políticos de basar el 20% del PIB territorial en actividades industriales, fortalecer el segmento de empresas del mercado mediano (*Middle Market*) y desarrollar las actividades de comercio exterior de las economías. También proporciona evidencias para argumentar que las economías que cuentan con una densidad de INML por encima del promedio tienen un mejor rendimiento en este sentido. Finalmente, el artículo describe una serie de desafíos a los que se enfrentan los INML y los pone en perspectiva.

*Artikulu honek Euskadiko eta bere inguruetako merkatu-nitxoer nazioarteko liderren (MNNL) eguneratutako deskribapena ematen du. Ezkutuko txapeldunen fenomenoak germaniari soilik dagokion afera ez dela erakusten du eta Espainiako nitxoko enpresa askok ezkutuko txapeldunen ezaugarriak dituztela. Euskadin era horretako enpresek epizentro bat osatzen dute. Artikuluak MNNLek gai makroekonomikoen ikuspegian duten garrantzia frogatzen du; besteak beste: BP-Gren %20 jarduera industrialean oinarrituta egotearen helburu politikoak, merkatu ertaineko (*Middle Market*) segmentuko enpresak indartzea eta ekonomien kanpo-merkataritzaren jarduerak garatzea. MNNLren dentsitatea batz bestekotik gorakoa duten ekonomiek zentzu horretan errendimendu hobea dutela arrazoitzeko ebidentzia ere ematen du. Azkenik, MNNLek aurre gin beharreko erronka batzuk definitzen ditu eta perspektiban jartzen ditu.*

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References

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1. INTRODUCTION

In his series of books on ‘hidden champions’, Simon (1996, 2009, 2012) points out that small and medium-sized enterprises are more important for Germany’s international business performance than its (broad) set of well-known big firms (BASF, Mercedes Benz, Siemens, etc.). As explanatory factors behind the amplitude of medium-sized firms that lead in global markets –and which form the source of origin for hidden champions– he mentions, among other aspects, their specialization in confined niche markets, their long-term commitment to developing and exploiting very narrow product-market combinations, and their preference to keep a low profile and avoid media attention.

* The author gratefully acknowledges that this paper benefited from research activities carried out for SPRI/Basque Trade & Investment (the Basque Government) and the Diputación Foral de Álava. Similarly, it is thankfully acknowledged that discussions with Bernd Venohr on niche markets and leadership in such markets, and with Alicia Coronil and José Antonio Teijelo on the Middle Market, have been very instructive for elaborating on several of the ideas and analyses in the present paper. Last but not least, the author wishes to express his sincere gratitude to all the firms that have made the analysis of the International Niche Market Leaders phenomenon possible over the past years.

Over time, multiple publications (e.g. Logue, Jarvis, Clegg and Hermens, 2015; Simon, 2017; Audretsch *et al.*, 2018) have led the reader to believe that the so-called hidden champion phenomenon and the entrepreneurial mindset and context surrounding it is a typical German(speaking) affair. Moreover, such publications often refer to (socio-cultural) features of the *Mittelstand* concept and therefore insinuate that the hidden champions species is chiefly endemic to Germanic economies.

The former might well be a misconception. To start with, not all companies that are portrayed as hidden champions in German studies are 'hidden'; think of Haribo, Miele or Kärcher. Similarly, not all hidden champions form part of the *Mittelstand*. Companies like Fresenius or Würth simply have too many employees for that. Furthermore, the family business character and the non-separation between ownership and management that is often hailed as a linking pin between (the success of) *Mittelstand* firms and hidden champions is not a *conditio sine qua non* either (think of Tetra, Nivarox, W.E.T. or Gardena).

However, many of these claims have been embraced as fact by authors that originate from non-Germanic countries. In the case of Spain, there are several examples of such reductionistic thinking.¹

According to the present article, the 'survival' or acceptance of this kind of postulation also has to do with the mistaken generalization of certain cultural stereotypes and a lack of nuance when looking at entrepreneurial traditions within nation-states. On the one hand, this leads to the assumption that Germanic-speaking entrepreneurs have a stronger ability to focus on and specialize in highly delineated skills or markets, whereas entrepreneurs from the Latin hemisphere are comparatively more dispersed (see also Ugarte, 2019). These supposed differences are largely refutable if one recurs to cross-cultural studies that, for example, look at the affinity of populations for single versus multitasking and confinement versus ubiquity. Studies on features of monochronicity and polychronicity (Hall, 1976; Adams and Van Eerde, 2010) and short-term/long-term orientation (Hofstede, 1980; 2001) across countries with a Latin or Germanic signature show that these can be much closer than is widely believed.² On the other hand, it leads to a *totum pro pars* ap-

¹ In informational sources, such thinking can be recognized in: https://elpais.com/economia/2017/03/17/actualidad/1489751683_947771.html or in declarations during a Business Breakfast of the Hellenic Spanish Chamber of Commerce, 29 April 2014, by International Director of the Instituto de la Empresa Familiar, Mr Jesus Casado, who echoed the claim that Spain only has 11 hidden champions. This claim can be found in many presentations on hidden champions, and it has been questioned by several Spanish-based scholars (see Kamp and Ruiz de Apodaca, 2015; Kamp, 2017; Perea Muñoz *et al.*, 2017). In formal academic publications, such thinking can be related to the fact that hidden champions research has gained some traction among family business researchers who consequently limit their search of hidden champions to scanning internationally successful family firms (see for instance: Tapies, J., San Roman E. and A. Gil Lopez, 100 familias que cambiaron el mundo - Las empresas familiares y la industrialización).

² Certainly, if one focuses on family-led firms or other company forms where ownership is shared among organization members.

ness cultures in assuming that economic and organizational behavior is uniform across nation-states and business culture is identical across countries. More specifically, if one looks at the case of Spain, it must be acknowledged that the business system characteristics (Whitley, 1994, 1999, 2008), the institutions of capitalism (Albert, 1991; Hall and Soskice, 2001) or the social and labor fundamentals (Maurice, Sellier and Silvestre, 1982; Lane, 1989) that underpin the Basque economy are quite different from those in other parts of the country or in Spain as a whole. The same goes for the extent to which certain parts of a country (like the Basque Country) rely on industrial activities for Gross Domestic Product compared to other parts of the same country or that country in its entirety.

In the rest of this paper these issues are further elaborated on by focusing on the presence and economic relevance of hidden champions-type firms in the Basque Country (with additional references to the situation in the rest of Spain), while also looking at certain challenges that the firms in question may be facing in the years ahead.

2. OPERATIONALIZING INTERNATIONAL NICHE MARKET LEADERS

The objective of the present paper is to consider companies with a hidden champions-like profile in the Basque Country. For that purpose, and rather than sticking to the label ‘hidden champion’, this paper makes use of the term ‘*International Niche Market Leaders*’ (INMLs) for reasons of terminological precision and methodological operationalization. For the drawbacks of using the title ‘hidden champion’ from a research perspective, see Venohr and Meyer (2007), Venohr (2010), Boga (2012), Kamp (2017) or Venohr and Kamp (2019).

INMLs refer to companies:

- that act in narrowly defined niche markets in which they are leaders in terms of market share:
 - they are either the number-one on the European continent
 - or are part of the top three on a global level
- with an outspoken international business outlook that do business across multiple borders:
 - the company’s foreign trade share (part of the company’s revenues that is obtained from sales outside its domestic market) is above 50%
- that fall into the annual turnover boundaries of the Middle Market:
 - they have an annual turnover of between 20 million and 1 billion euros³

³ See: GE Capital and Warwick Business School (2013), *The Mighty Middle: Growth and opportunity in the UK’s mid-market*, London.

- that primarily develop activities of an industrial nature and who sell their output chiefly in business-to-business (B2B) markets
 - this ensures compliance with the aspect of operating in a niche market or segment with limited visibility to the larger public.

3. INVENTORIZING INTERNATIONAL NICHE MARKET LEADERS

To determine the amount of INMLs present in the Basque Country, a triangulation of information sources and research methods was used. On the one hand, three survey rounds were held among possible INML candidates in 2014, 2016 and 2018, after which the obtained sets of answers underwent a thorough screening for completeness and consistency. Also, extensive follow-up activities with the respondents were carried out in order to obtain additional inputs i.e. to filter out (seeming) inconsistencies and to gather supplementary information to gain a better idea of the information compiled and to improve the interpretation of the data supplied. This was done via written correspondence, phone calls and on-site visits and interviews. In addition, secondary analysis on company data (such as annual reports, websites and other company-own sources) was carried out, on the one hand, and on company events, as covered by industrial market news in the general press and specialized media sources, on the other.⁴ To complete the data gathering, time series were developed on turnover figures for the survey participants via SABI (the Spanish branch of the Amadeus database of Bureau Van Dijk). In the event that there were missing turnover values for specific years in SABI, those values were solicited from the companies in question.⁵

4. PRESENCE OF INTERNATIONAL NICHE MARKET LEADERS IN THE BASQUE COUNTRY

Based on the different inquiries carried out, there were 34 companies detected that comply with the full range of the sampling framework criteria outlined under section 2.⁶ A considerable number are active in the machine tool building industry, in the supply of wine bottling accessories, in the off-shore well drilling sector, in the supply of components for automotive, eolic and electrical appliances, in electrical equipment manufacturing, in the business of locking systems, in the field of agricultural devices, and in the steel tube production branch.

⁴ This represents a bottom-up approach that contrasts with the top-down approach followed by Rammer *et al.* (2019).

⁵ In parallel, the searching and screening of INMLs in other Spanish regions has been carried out as an ongoing activity since the summer of 2015. This was principally done on the basis of desktop research.

⁶ For an idea of specific companies, see: <https://www.orkestra.deusto.es/images/investigacion/publicaciones/cuadernos/2017-26.pdf>

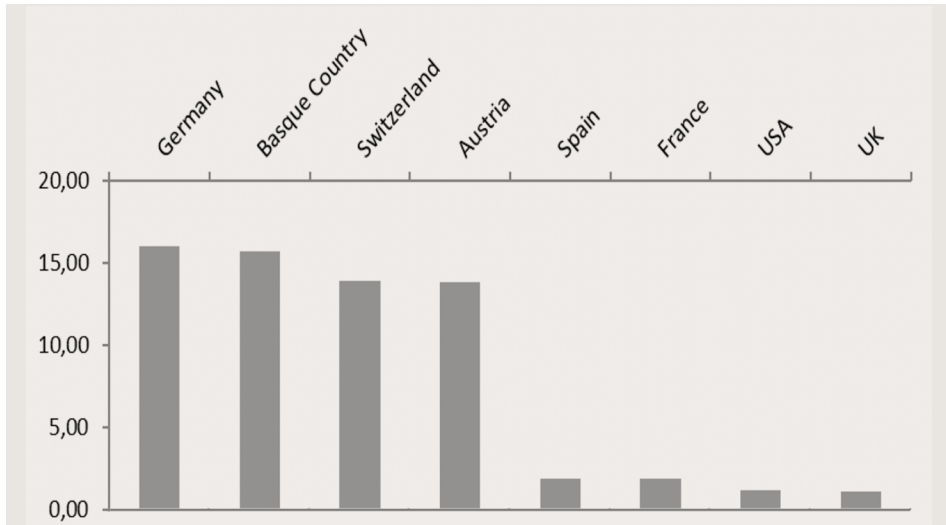
Alongside this core population of 34 INMLs, 10 cases stay below the 20 million annual turnover threshold, while complying with all the other criteria. These companies can be called sub-Middle Market INMLs.

5. BENCHMARKING THE BASQUE INMLs SITUATION

To come to a further appraisal of the quantity and relevance of the INMLs encountered in the Basque Country, in what follows a series of benchmarking exercises is presented.

A first one expresses the number of INMLs from the Basque Country in relation to the Basque population and compares the corresponding ratio to that of other territories where a mapping of hidden champions has taken place.

Figure 1. INMLS PER MILLION INHABITANTS



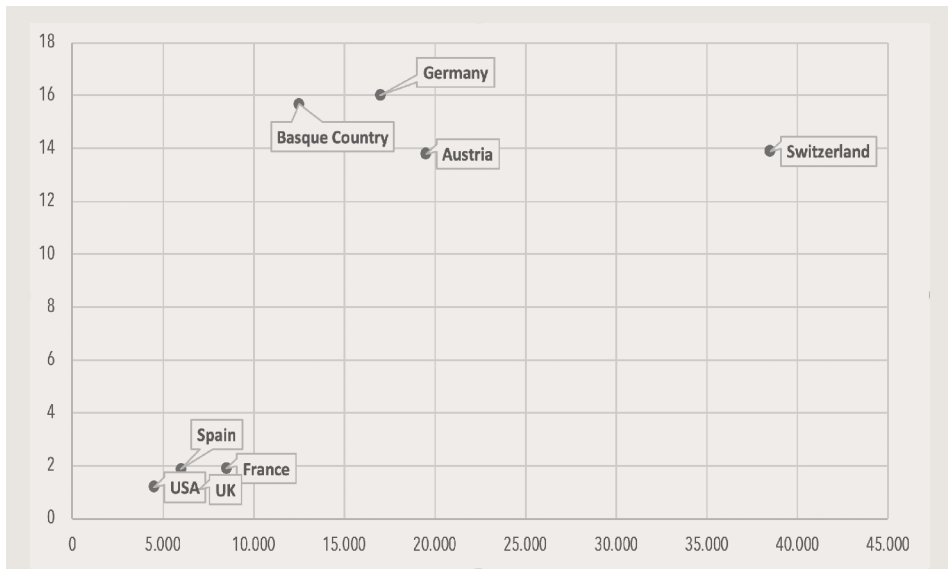
Source: Compiled by the author for the Basque Country and Spain; all other values from Simon et al. (2014).

As seen in the graph above, the Basque ratio falls into the range of values exposed by the Germanic-speaking countries of central Europe, which are supposed to be the most richly endowed with hidden champions across the globe (Simon 2009). To put these ratios into further context, the following observations apply. From a geographical perspective, the Basque Country is a NUTS 2 territory, whereas all other countries in the graph above are NUTS 1 territories (except for the USA, which is *hors category*). Consequently, if we compare the Basque ratio to that of German *Länder* (which also form NUTS 2 territories), we see how several German regions, such as Baden-Württemberg, exhibit values that remain distant from the Basque

score (i.e. 25 hidden champions per 1 million inhabitants). At the same time, it is worth highlighting that, compared to the Basque census, the German, Swiss and Austrian inventories are arguably ‘inflated’ since they include companies devoted to business-to-consumer (B2C) markets and/or companies that have an annual turnover of up to 5 billion dollars.⁷

A further relevant exercise to appraise the Basque case is to juxtapose the density of INMLs with the export value per capita in different territories, as per the following figure.

Figure 2. INMLS PER MILLION INHABITANTS VERSUS EXPORT VALUE IN USD PER CAPITA



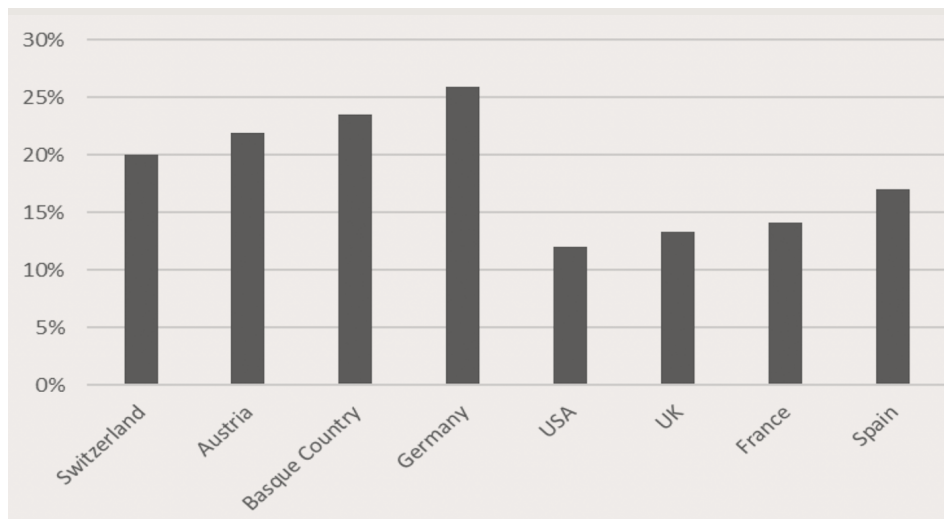
Source: Compiled by the author and based on the data behind previous table and World Bank data.

The graph above situates the Basque values close to those displayed by Germany and Austria, albeit at a considerable distance from Switzerland.⁸ In the bottom left corner, there is the cluster of France, Spain, the UK and the USA. Together, the results generate the impression that the presence of INMLs and export orientation of economies goes hand in hand.

To make further sense of the INML density in respective places, the industrial orientation of economies is also of interest.

⁷ While it can also be presumed that firms under the 20 million annual turnover threshold are included in the inventories from Germany, Switzerland and Austria.

⁸ Switzerland's high score is, to a considerable extent, the result of its trade in precious metals. No less than a quarter of its export value stems from selling gold.

Figure 3. INDUSTRIAL CONTRIBUTION TO GROSS VALUE ADDED

Source: Compiled by the author and based on the data behind previous tables and Eurostat and World Bank data.

Although the differences in the figure above are less pronounced than in previous ones, particularly between the values for Austria, the Basque Country and Germany, on the one hand, and the USA, France and the UK, on the other, there is a considerable moat. Therefore, it fuels the thinking that the industrial component of a territory's economy influences the presence of INMLs.

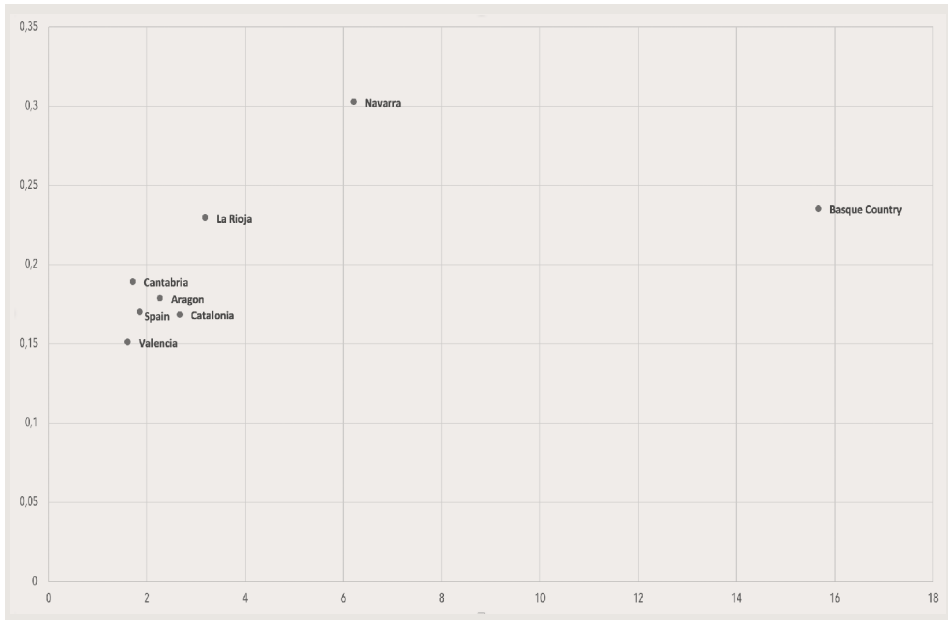
The idea that the industrial character of an economy conditions the probability of encountering INMLs can be probed by looking at a range of territories from the Northern and Eastern part of Spain and Spain as a whole.⁹

In Figure 4, we can clearly see how the Basque Country and Navarra form outliers, whereas all other territories form a type of cluster. When comparing the Basque Country and Navarra, it is striking that, in terms of industry's contribution to Gross Value Added (GVA), their scores are somewhat similar, whereas in terms of INML density there is a sharp difference.

While it would be logical to think that the latter difference may be due to a differing degree of export orientation of the respective economies (which ought to be higher in the Basque Country), Figure 5 proves this assumption wrong.

⁹ The choice for the autonomous communities in question stems from the fact that they either border the Basque Country or have a fair amount of INMLs. We cannot rule out the fact that the values for INMLs per million inhabitants outside the Basque Country are, in reality, somewhat higher, since the methods and sources deployed to trace them have not been as rigorous as the ones used for the Basque inventory. At the same time, it is unlikely that they would be significantly different from the ones presented here.

Figure 4. **INDUSTRIAL CONTRIBUTION TO GROSS VALUE ADDED VERSUS INMLS PER MILLION INHABITANTS**

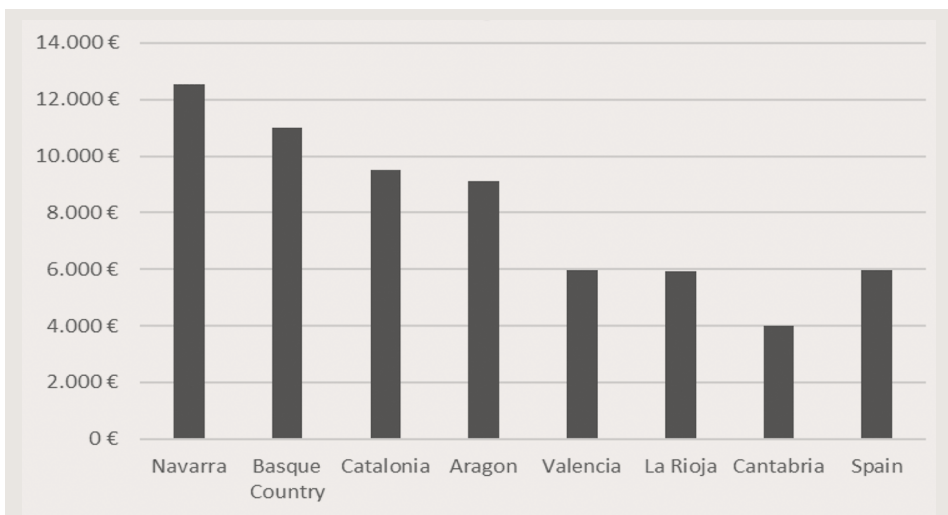


Horizontal axis: INMls per million inhabitants.

Vertical axis: Industrial Contribution to Gross Value Added.

Source: Compiled by the author and based on data from Eustat and INE.

Figure 5. **EXPORT PER CAPITA**

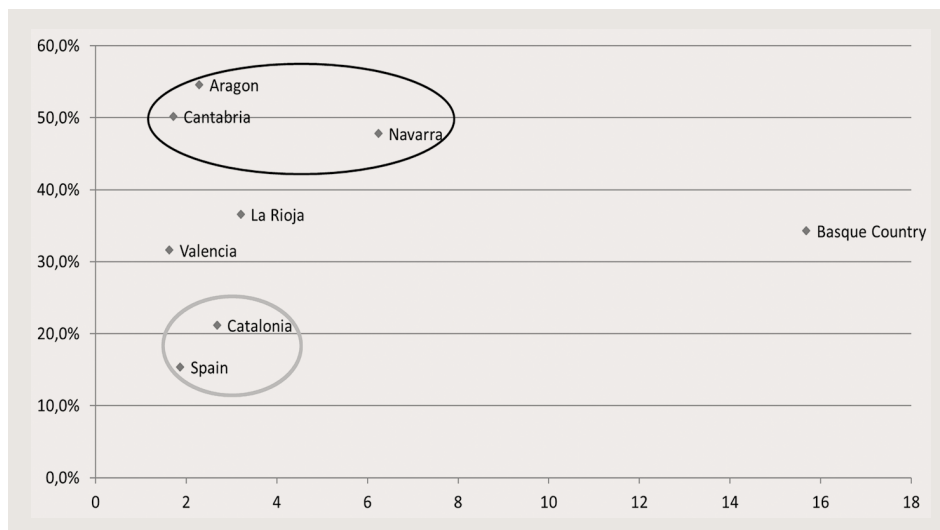


Source: Compiled by the author and based on data from ICEX, Eustat and INE.

In effect, what we see in this regard is that Navarra even outperforms the Basque Country, while also leaving other autonomous communities behind.

A further way to put the INML phenomenon into perspective is by looking at the degree to which export activity is concentrated among a small group of enterprises, or not. The next figure gives an insight into that regard.

Figure 6. CONTRIBUTION OF THE 10 MAJOR EXPORTERS TO FOREIGN TRADE VERSUS INMLS PER MILLION INHABITANTS



Horizontal axis: INMLs per million inhabitants.

Vertical axis: contribution of the 10 major exporters to foreign trade.

Source: Compiled by the author and based on data from ICEX, Eustat and INE.

In the top left corner, we find three autonomous communities where the top 10 contributors are responsible for more than 50% of the regional export business. In the bottom left corner, we find Catalonia and Spain showing rather low percentages regarding the top 10 contributors to their export activities. In the middle we find intermediate values regarding the dependency on the top 10 contributors for export for Valencia, La Rioja and the Basque Country. In terms of INMLs per million inhabitants, as we already saw in Figure 4, the graph above shows how the values for all autonomous communities and for Spain as a whole are close to one another, with the Basque Country being the exception in this respect.

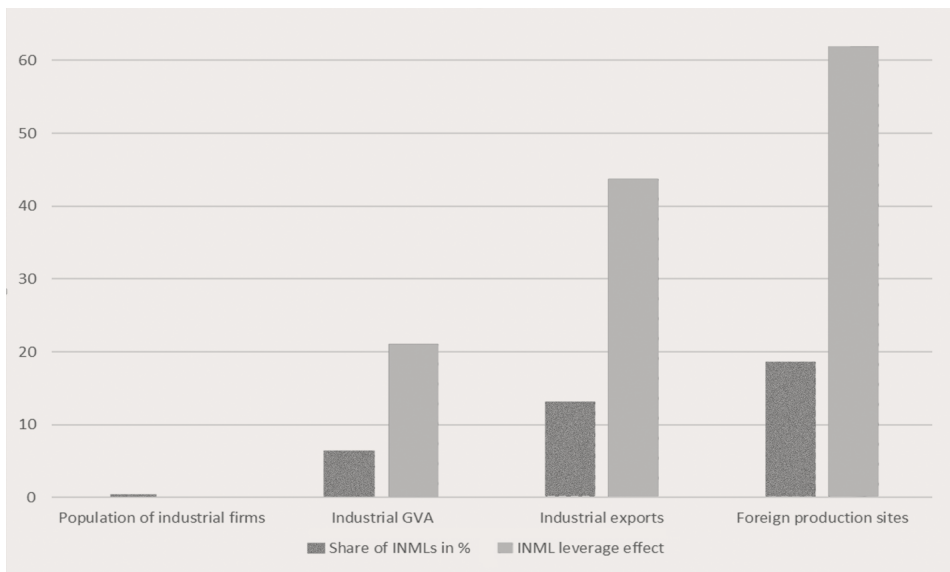
With regard to the results above, it can be postulated that in the case of regions like Navarra and Aragon, export power is strongly concentrated in the hands of a select group of companies. In particular, in these respective autonomous communities VW Navarra and Opel Figueruelas top the charts. Therefore, these are regional economies where a specific sector or big business organization acts as the pivot

within the regional export apparatus and channels most of the foreign trade. The scores of Catalonia and Spain hint at an opposing situation i.e. one where export power is much more fragmented and relies on limited contributions from a large batch of medium-sized and (very) small enterprises.

The situation in Valencia, La Rioja and the Basque Country forms middle ground between the two former extremes, arguably reflecting a situation where export power is distributed, but relies comparatively more than the other territories on Middle Market firms as the spearhead of the regional export community.

At the same time, what sets the Basque Country apart from Valencia and La Rioja are the following issues. Firstly, the Valencian economy is clearly more service-oriented than the economies of La Rioja and the Basque Country, and can thus be expected to contain less INMLs. Secondly, both La Rioja and Valencia attain rather moderate export per capita values compared to the Basque Country, which also lowers the probability of encountering INMLs.

Figure 7. **LEVERAGE EFFECTS OF INMLS WITH REGARD TO A SERIES OF MACRO-MAGNITUDES**



Source: Compiled by the author and based on data from INE, SPRI and internal inventories.

6. ASSESSING THE MACRO-ECONOMIC RELEVANCE OF BASQUE MIDDLE MARKET INMLS

The 34 cases of Middle Market INMLs obviously represent just a fraction of the total amount of industrial firms in the Basque Country. In 2015, Eustat reported a

total of 158,436 enterprises in the Basque Country, of which 10,979 were of an industrial nature. This implies that the 34 INMLs represent a mere 0.3% of the entire population of Basque industrial firms.

However, their relevance in terms of contribution to several macro-economic indicators clearly exceeds their percentage in number.

Against the backdrop that the subset of INMLs forms, a tiny minority of the entire population of industrial firms from the Basque Country, Figure 7 provides an overview of their contribution to a series of macro-economic indicators.

6.1. In terms of industrial Gross Value Added

While the share of Middle Market INMLs amongst the total population of industrial firms from the Basque Country is insignificant (0.3%) and hardly visible in Figure 7, its contribution to the Gross Value Added generated by industry exceeds 6% (see the checkered vertical bar). This implies that if we compare the two, we get to a multiplier or leverage effect above 20 (as portrayed by the bar with horizontal and vertical lines). Moreover, the contribution of the Middle Market INMLs to industry's GVA has consistently grown over time as its Compound Annual Growth Rate (CAGR) more than doubles the growth rate of the overall industrial GVA between 2011 and 2017.¹⁰

6.2. In terms of industrial foreign trade

If we look at the industrial export figures from the Basque Country in Figure 7 and compare those with the export value that the Middle Market INMLs generate, we can observe how the corresponding quotient is situated generously above the 10% mark. If we contrast this with the relative population share of the Middle Market INMLs, we get to a multiplier that is above 40.

The rate of foreign trade versus turnover among our sample of Middle Market INMLs is situated above the level of 80% (see Figure 8) and therefore clearly outperforms the average for the Basque industry (close to 35%). Therefore, it illustrates the surplus value that these firms represent for the trade balance, a surplus value that we can label as '*the INML dividend*'.

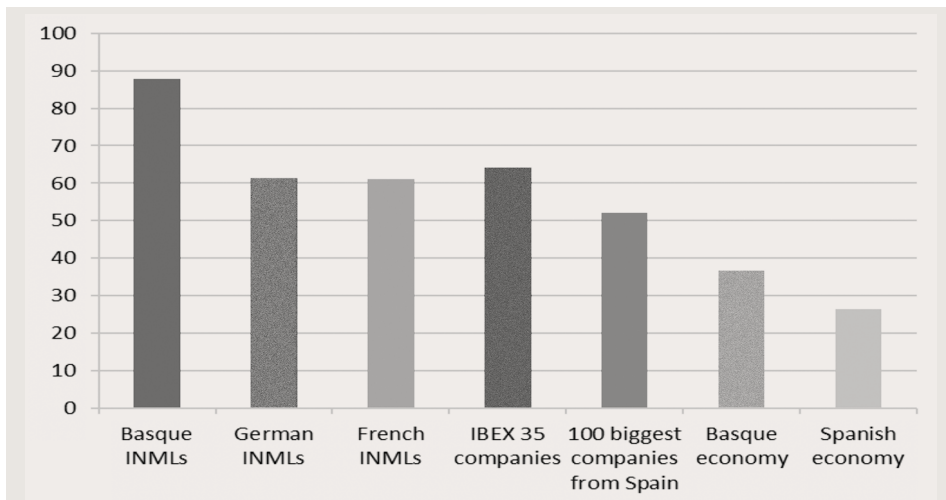
If we compare the fact that the Basque Middle Market INMLs obtain on average more than 80% of their turnover from sales in foreign markets with the export shares that hidden champions from other countries attain, then the +80%-ratio also stands out positively. Simon (2009, p. 20), for instance, calculates an average of 61.5% for his German sample of hidden champions, while Nguyen (2013, p. 44) establishes a similar average for a sample of French hidden champions (see Figure 8).

¹⁰ Moreover, compared to the growth rate of the entire Basque economy, the CAGR of the Middle Market INMLs was almost four times as high during the 2011–2017 period.

One reason for this comparatively high percentage of the Basque sample is that it is more likely that German or French hidden champions supply a greater part of their production to industrial clients from their own home base than their Basque homologues (Kamp, 2017). The size of the domestic market for industrial goods in Germany and France, and the fact that more German and French companies act as pivots in global value chains, provides logic to this reasoning.

Furthermore, also in comparison to other collectives of internationalized business from Spain, the performance of the Basque Middle Market INMLs appears as exceptional, as Figure 8 makes clear.

Figure 8. **RATIO BETWEEN EXPORT FIGURES AND TOTAL REVENUES**



Source: Compiled by the author and based on data from internal inventories, Simon (2012), Nguyen (2013), BME, Caldart and Pisani (2016), Eustat, INE and ICEX.

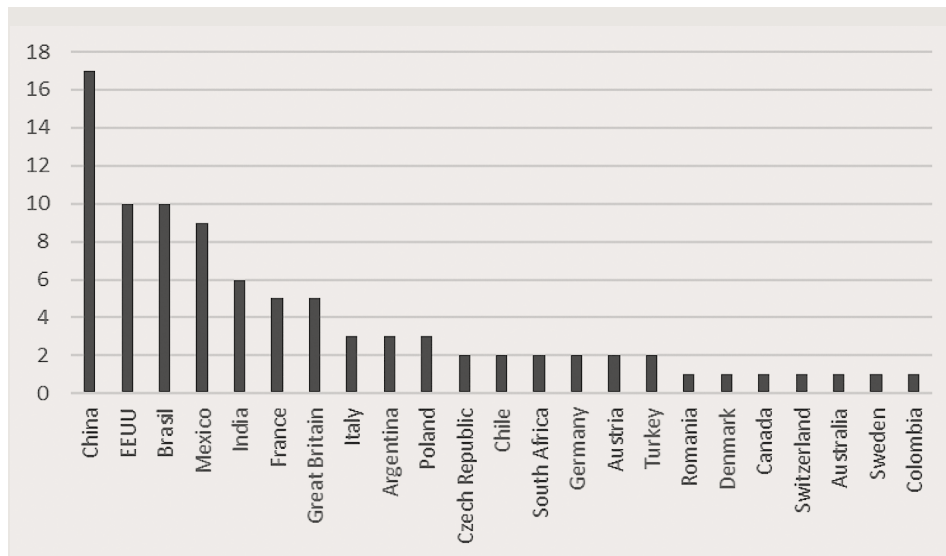
6.3. In terms of industrial foreign direct investment

When looking at foreign direct investment activity for production purposes on behalf of industrial firms from the Basque Country (see Figure 7), it turns out that the Middle Market INMLs contribute almost 20% to the total amount of manufacturing establishments that Basque firms hold abroad.¹¹ This implies a multiplier vis-à-vis their share in the population of industrial firms of around 60.

For an overview of the countries where the companies of our sample have their foreign manufacturing activity, see the following graph:

¹¹ Calculation based on an internal inventory of factories abroad under control of Middle Market INMLs and the overview of international establishments by Basque companies (see: SPRI/Gobierno Vasco, Plan de Internacionalización Empresarial 2017-2020, p. 140).

Figure 9. **COUNTRIES WHERE BASQUE MIDDLE MARKET INMLS COUNT WITH MANUFACTURING ESTABLISHMENTS**



Source: Compiled by the author and based on data from internal inventories.

The data above demonstrate that the Basque Middle Market INMLS are strongly committed to sustaining and improving their position on international markets. In parallel, they show an ambidextrous approach to internationalization in the sense that they combine low equity (export) and high equity (foreign direct investment) entry modes to foreign markets (Orkestra-IVC 2017).

If we look at the geographical spread that the analyzed firms attain via their foreign productive settlements, we see that China, the USA, Brazil and Mexico stand out. In light of the discussion on developing ‘*insidership*’ in rapidly growing markets, such as China (Venohr and Kamp, 2019), the figure above shows that the Basque Middle Market INMLS are taking these markets in their stride and most of them have reached at least stage 3 of Ohmae’s globalization model (1990)¹².

A further look at the places where the sampled companies have established production plants reveals that there are few physical settlements in ‘*next frontier*’ markets, such as Southeast Asia or Africa. This is arguably in line with the fact that most of the firms in question are B2B players that —from a geographical perspective—

¹² Ohmae (1990) argues that for firms to compete successfully on global markets, they must increasingly transfer key activities and competencies to their main foreign markets and ultimately become fully globalized. He distinguishes five stages in this regard: export only (stage 1), establishing foreign marketing, sales and service operations (stage 2), adding manufacturing activities in foreign locations (stage 3), adding R&D activities in foreign locations (stage 4), achieving complete globalization (stage 5).

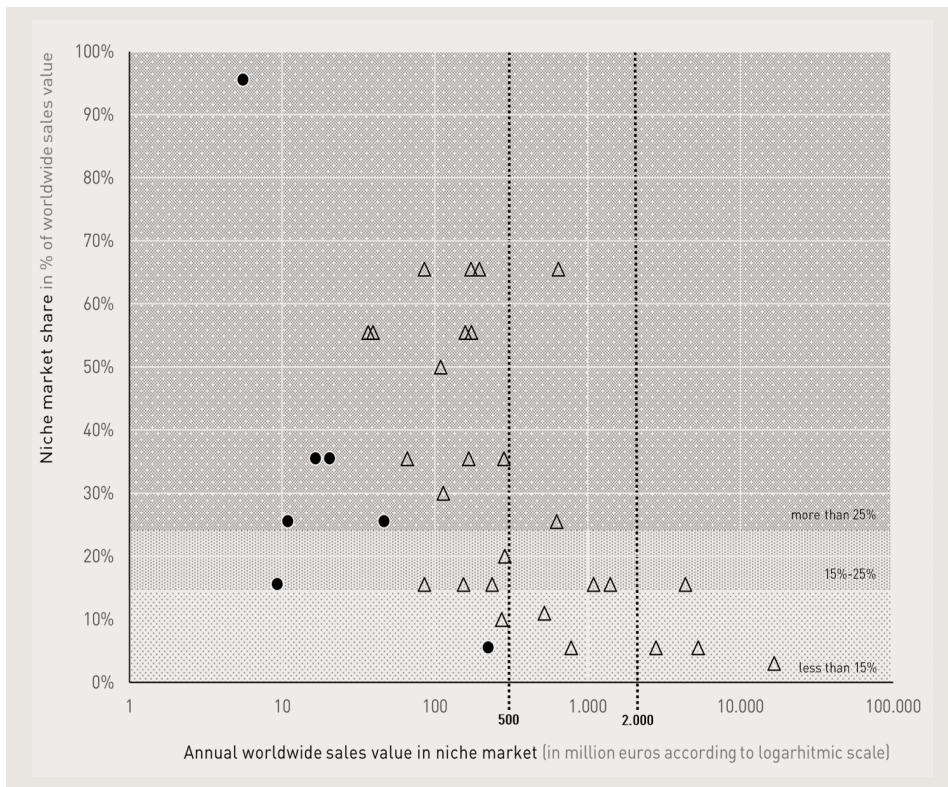
act as diligent followers (move into and exploit markets once their potential is proven; often triggered by follow-the-client dynamics) more than early or first movers (exploring new territories first-hand). For this reason, in terms of ‘*geographic ambidexterity*’, these companies may lean more towards exploitative than explorative behavior (Kamp, 2017).

7. STRATEGIC MODUS OPERANDI OF BASQUE MIDDLE MARKET INMLS

7.1. Market segmentation and niche positioning as a strategy for growth

INMLs are known for staying away from classical definitions of markets and for applying their own market delineations in an autonomous fashion. This allows them to segment and define markets in an innovative manner, often leading to ‘extreme’ forms of segmenting markets and determining target audiences.

Figure 10. MARKET SHARES OF BASQUE INMLS AND GLOBAL SALES VALUE IN THE NICHE MARKETS THEY ATTEND



Source: Compiled by the author and based on data from internal inventories.

While such a focused approach can be positive for specialization and locking in specific customer segments, it can backfire in terms of the size of the total addressable markets that these firms can target. Among others, Venohr (2010) warns of these kinds of reductionistic practices.

Consequently, and in their attempt to appear to be meaningful players in a market, there is a risk that companies narrow their market definition to such an extent that they automatically come out as the leading party.

In the terminology of Kim and Mauborgne (2005), this would turn blue oceans into blue lagoons. In association with their work, Figure 10 shows the positions of a series of Basque INMLs and their market position in terms of «the share that an INMLs holds in the worldwide sales value of the niche market that they operate in» (vertical axis) and «the worldwide sales value that goes around in the niche market in question on an annual basis» (horizontal axis).¹³

For the sake of argument, if we apply the taxonomy from Table 1 to Figure 10, we observe how most INMLs operate in lagoon-sized niche markets, whereas very few are active in niche markets the size of an ocean. In parallel, we can discern how the majority hold a substantial market share in their niches and can thus presume to be ‘swimming’ in blue-colored waters.

Table 1. **NICHE MARKET TAXONOMY IN FUNCTION OF GLOBAL SALES VALUE AND INMLs’ MARKET SHARE**

	Annual worldwide sales in niche market (< 500m euros: lagoon; 500m-2 billion euros: sea; > 2 billion euros: ocean)		
Market share of INMLs in niche market (> 25%: blue ; 15-25%: purple; < 15%: red)	Blue lagoon	Blue sea	Blue ocean
	Purple lagoon	Purple sea	Purple ocean
	Red lagoon	Red sea	Red ocean

Source: Compiled by the author.

Overall, we find that the blue lagoon is the metaphor or category that is most representative for the niche markets in which the INMLs are active (50% of the cas-

¹³ The triangles correspond to Middle Market INMLs, whereas the rounds correspond to sub-Middle Market INMLs. Nota Bene: this is the only graph in this paper where the scores of sub-Middle Market INMLs are included.

es). Next in line is the purple lagoon (approximately 15% of the cases), followed by the red ocean (almost 10% of the cases).

The fact that most cases are active in international markets of a reduced size may raise questions as regards the outlook for growth of INMLs. The posture that the respective firms adopt to address this issue can be illustrated as follows:

Niche entry

1. Go from a broad variety of product-market combinations to a focus on one or a few to foster shaping (a) pronounced niche market position(s) in the target market(s) selected. Pick your battles (fishing grounds) selectively, and fight (catch) them. Corresponding INML quote:
 - «We realized that we had to part ways with client-specified or license-based manufacturing of all kinds of items, and develop our own product line instead. We also became conscious that it would not make sense to continue with a very broad portfolio of products, and that the way forward would be to focus on a limited choice of product areas in which we could aspire to be among the best-in-class».

Niche (re)cycle

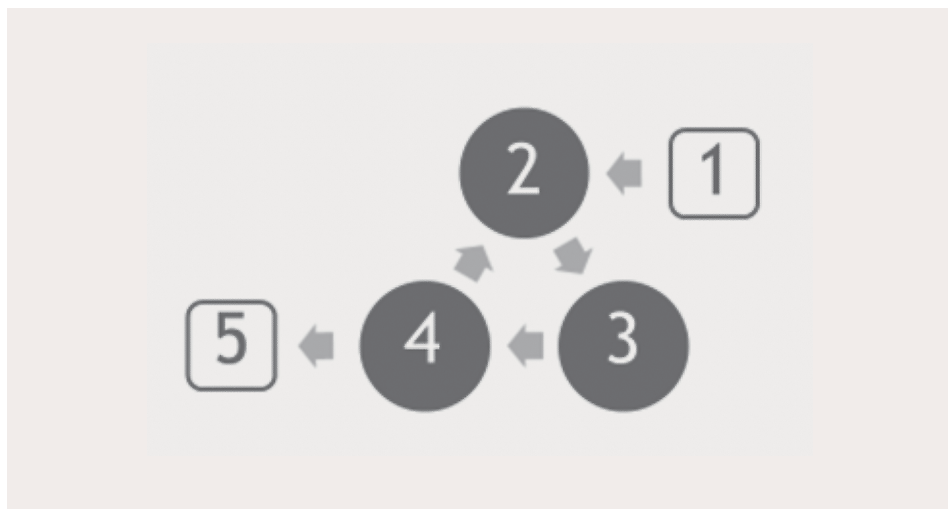
2. Reinvent and re-segment grow(i)n(g) markets and position oneself in a particular niche, also if that means that you convert yourself (temporarily) into a small fish in a small pond (lagoon). Corresponding INML quotes:
 - «Customers form an endless source of inspiration and information, and their leads always allow opening up and positioning oneself in new market spaces. Moreover, from the supply side you can contribute to shaping such market spaces and turn them into moving targets».
 - «While several of our peers responded to the mainstreaming of demand by offering standard equipment, we specialized in customized solutions. This has placed us, together with a couple of others in the world, in a league of our own and while we do not have the production scale that our bigger competitors have, we have managed to carve out a niche audience for ourselves where we can differentiate our offer and earn higher margins».
 - «Instead of operating in one big mainstream market, we chose to operate in as many niches as we can».
3. Continue in small niches and become a big player in it; turn oneself into a big fish in a small pond. Corresponding INML quote:
 - «By continuing to grow and claim a high market share in our niche market, we have changed from a friendly fish into a white shark that is able to defend its turf and discourage larger-scaled outsiders from entering the market and taking a firm foothold».

4. Expand with the niche and grow big; increase the company size as demand scales up to become a big fish in a large pond (or ocean). Corresponding INML quote:
 - «When we started rolling out our current cash cow, the size of the market did not exceed that of a bath tub. But by pushing the envelope and educating the demand side, who eventually saw the advantages of our propositions compared to the standing offer at the time, we expanded the market and grew along with it».¹⁴

Niche exit

5. Go from small niches to broader markets and grow. Sacrifice niche domination and move into markets of scale to become a small fish in a large pond (or ocean). Corresponding (ex-)INML quotes:
 - «We aim to leave the niche behind».
 - «We could have opted for being the king of the neighborhood and stay small, but we chose to spread our wings and fly into a much broader market territory, implying that we need to work our way up again».

Figure 11. **OPTIONS FOR COMPANIES TO ENTER, EXIT AND REPOSITION IN NICHE MARKETS**



Source: Designed by the author.

¹⁴ A closer look at the trajectories of the different INMLs reveals that the lion's share of them started out as pioneers in their niche markets and acted as first movers, with many of them being able to conserve their initial lead.

7.2. Global reach

The Basque Middle Market INMLs have an extensive international radius of action, which can be discerned in sections 6.2 and 6.3. To put their international profile into further context, it is possible to characterize them in line with the hidden champion *Leitmotiv* of «Deep specialization in highly specific pockets of demand» + «Broad geographic diversification of their market presence». Against that backdrop we can devise two axes that assess:

- The degree of global coverage in terms of the number of continents in which they have sales.
- The granularity of their presence in those different continents in terms of the average number of national markets to which they sell.

Together, this allows an appraisal of the global reach of the firms in question.

Based on the two axes above and the corresponding data from the Basque Middle Market INMLs, we can classify them in the following manner:

Table 2. **CATEGORIZATION OF BASQUE MIDDLE MARKET INMLs IN FUNCTION OF THEIR GLOBAL REACH**

		Global coverage	
		Limited (2 continents)	Extended (3 or more continents)
Continental granularity	High (10 countries or more per continent)	(Bi)continental players 0%	Granular globalizers 22%
	Low (up to 10 countries per continent)	Cherry-picking international firms 8%	Nearly granular globalizers 22%
			Bridgehead globalizers 46%

Source: Compiled by the author and based on data from internal inventories.

The percentages in the table above indicate that the Basque Middle Market INMLs form a subset of highly globalized companies, given that the quasi-entirety (90%) is active on a minimum of 3 continents across the globe. Moreover, apart from the fraction (8%) that is only active on 2 continents, the difference among the highly globalized firms consists of the number of national markets that they attend on average on the different continents in which they are active.

The most profoundly globalized companies form the category of ‘*granular globalizers*’. These are firms that sell in 5 to 6 continents¹⁵ and in each of them they

¹⁵ Africa, Asia, Europe, North America, South America and/or Oceania.

have sales in a minimum of 15 countries. As a result, they have achieved a broad penetration of the continental markets that they deal with. This profile is typical for companies that offer universal components with a lot of airplay or ‘general purpose technologies’¹⁶ that respond to demands and applications that can be encountered across the globe. For such offerings, demand is not concentrated in a few specific markets, but rather dispersed. This makes the global demand for these products take the form of a ‘long tail’ (Anderson, 2006; Brynjolfsson *et al.*, 2011) with a fragmented demand coming from a large number of countries.

The category of ‘*nearly granular globalizers*’ represents companies with presence on 4 to 6 continents and sales in 10 to 15 countries per continent, whereas the category of ‘*bridgehead globalizers*’ consists of companies that typically sell in 3 to 4 continents and in up to 10 countries on each of these continents. Many bridgehead globalizers operate in value chains where the next segment downstream (the customers or buyers that these bridgehead globalizers deal with) is highly oligopolized.¹⁷ The buyers from this segment tend to be large firms that centralize their production and purchasing activities in a small number of locations across the globe. As a consequence, the supplies that are targeted to these customers translate into export flows to or foreign production activities in just a few countries. Accordingly, this kind of oligopolized market also reflects the so-called Pareto rule, where approximately 20% of the clients generate some 80% of the turnover. Companies that manage to become the main (or sole) supplier to this kind of value chain segments, where only a small set of firms run the show almost automatically, set themselves up for global leadership in their field. Alternatively, bridgehead globalizers can be firms that count with a global network of distributors or sales representatives in specific countries, and hence their business is concentrated in those (national) markets.

The category of ‘*cherry-picking international firms*’ contains companies that are on their way to transforming themselves into global actors as well as firms whose products respond to a demand that is confined to specific (‘lead’) markets. These lead market players are typical *nichist* firms that satisfy the needs of users concentrated in specific spots across the world. Consequently, for them there is no need (yet) to be present with their products in all corners of the world.

Together, and based on the data presented in the table above, we can conclude that the Basque Middle Market INMLs have a considerable global reach.

¹⁶ General Purpose Technologies refer to technologies that have many different uses and are taken up across a wide range of sectors. Examples are: microprocessors, material handling systems, mechanization processes, ERPs or the internet.

¹⁷ This forms the most ‘populous’ category, which is consistent with the observation in section 6.3 that most of the firms in question are B2B players that —also from a geographical perspective— act as diligent followers of their industrial customers.

7.3. Servitization

Associated with the observation in section 7.1 that niche market companies may be inclined to narrow their market definition in order to appear as meaningful players in a specific market, there is also the risk that they identify themselves with a particular product. This can imply that they overlook the function that the goods they offer fulfill and/or the value that it generates when in use by its customers (Vargo and Lusch, 2008). This relates to the question of «*what business are you in?*» (Levitt, 1960) and is also connected to the contemporary debate around servitization. Both fuel the thought that manufacturers should evaluate whether they ought to add services to their market propositions to extend their relationship with customers and whether they should become a partner in the value creation processes of the buyers of their goods, instead of operating chiefly as an input provider.

When interpreting servitization as the process through which manufacturing companies increase the turnover percentage that stems from service delivery as a way to gain competitiveness (Vandermerwe and Rada, 1988), it appears that the Basque Middle Market INMLs are only making tentative progress in this regard. To start with, the sway that service business holds in our sample is rather small. A quarter of the consulted companies obtains no turnover at all from services and the average percentage that service business represents is between 5 and 6%. While this percentage is higher than the volume of service business amidst the total industrial turnover in the Basque Country (Kamp and Sisti, 2019), the share is low compared to the levels attained by industrial firms that are portrayed as trailblazers in servitization, such as ABB, Otis, Voith or Wärtsilä.

The modest percentages we observed among the Basque Middle Market INMLs have a variety of explanations. Firstly, it turns out that the majority of firms acknowledge that they provide (part of) their services without charging for them. Secondly, it can be observed that the companies are clearly more into providing basic services (repairs, maintenance and spare parts) than smart services.¹⁸ This may also curtail the income to be obtained from service provision. Thirdly, another widespread practice is the offering of package deals where goods and services are sold via an all-in price. In these cases, afterwards the income is often written in the books as product sale. Fourth and finally, almost 90% of the companies indicate that they solely offer services to clients that already buy products from them. This implies that the services will have a product-supporting character and may not be conceived as a business line in its own right and with the intention of building up a user audience

¹⁸ Smart services refer to knowledge- and information-intensive services, involving big data analysis and IT solutions around connected assets to enable both the monitoring of, decision-taking on and execution of the services in question (Kamp, 2018). Examples can be (Grubic et al., 2014): predictive maintenance solutions, remote control interventions, productivity/output performance management tools, energy/material consumption and idle time vigilance

of its own. This also hints at the subordinate role that service business will typically play for the companies in question.

Overall, the pace of servitization among the Basque Middle Market INMLs seems to be slow, and while this should not be so surprising among companies that may adhere to a product dominant logic (Vargo and Lusch, 2008), it may be worthwhile to develop their service businesses further.

8. FINAL REFLECTIONS AND IMPLICATIONS

The findings that have been reviewed in the present paper make it clear that the so-called hidden champions phenomenon is by no means a purely Germanic affair, and that it is also present in other economies/societies, such as the Basque Country. With a total of 34 International Niche Market Leaders of a Middle Market size (invoicing between 20 million and 1 billion euros per year), leading to a ratio of approximately 15 INMLs per million inhabitants, the Basque Country is well endowed with this company species.

The data presented across this paper also visibly demonstrate the added value of these companies for the wider –in this case Basque– economy. Both their contribution to (industrial) GVA, foreign trade and production plants abroad is above par and provides a genuine dividend to several transcendental macro-magnitudes.

At the same time, the analyses reveal certain points that deserve further attention due to their relevance for the future market and competitive strategies of INMLs:

While the subset of INMLs show a strong agility and nimbleness with regard to positioning themselves in niches that they can exploit (see ‘Niche entry’ in section 7.1), their focus on niche markets also implies that they should beware of getting locked into niches that implode over time. Figure 10 revealed that most companies operate in niches with a relatively reduced demand volume. While this means they stay under the radar of bigger firms with less interest in markets that do not move large sums of money, there is also a risk that demand in these niches dries up or becomes mainstreamed and thus comes into sight of bigger players. In such situations, and provided that INMLs want to stick to their niche posture, re-invention and re-segmenting of markets may be indicated (see ‘Niche (re)cycle’ sub 2. in section 7.1). In general, INMLs should know how to cope with niche exit strategies and/or to grow with the demand curve should their niche expand (see «Niche (re)cycle» and «Niche exit» sub 3.5 under section 7.1). Another way of dealing with volatile niche dynamics is to apply niche hopping or market alignment tactics via soft diversification and to act in related markets as if they were communicating vases.

In a similar fashion, the paper makes the relevance of servitization clear for the Basque Middle Market INMLs. Until now, companies only seem to have made a tentative start with developing their service business, and, from a sales development point-of-view, a customer proximity perspective and a general competitiveness viewpoint, they may have to crank up their activity in this regard.

Additionally, with regard to the question of internationalization, the main point for attention seems to be that although the sampled companies are highly internationalized, there may be room for a further diversification of their geographic presence across the globe. Notably 'next frontier' markets or regions, such as Southeast Asia or Africa, are currently absent in the commercial plans of many cases. In the coming years, the companies in question may want to reconsider this position.

Finally, and more as an *encore*, there is the issue of organic or non-organic growth and alliances with third parties on the part of INMLs (see also Ugarte, 2019). INML-type firms are often portrayed as favoring self-sufficiency and this may obstruct the extension of a growth path from a certain point on. Considering that markets become more and more globalized and the fact that the pace and content of global demand may become dictated in previously less important places, INMLs may have to develop a stronger insider position in such places (Venohr and Kamp, 2019), demonstrating more openness to join forces with foreign entities (e.g. in the form of Joint Ventures) and incorporating foreign talent to get to the next global level (Simon, 2012).

Consequently, INMLs might be giving up (part of) their sovereignty and *modus operandi*. The impact that this can have on their strategic course and market positioning is certainly something that deserves further monitoring and vigilance. Already in present times, (financial) alliances with third parties (either or not from foreign places) are a growing reality, as the reporting on entry of capital into INMLs and hidden champions from Germany and the Basque Country reveal.¹⁹ When referring to the current situation inside the Basque Country and Spain as a whole, our data tell us that for approximately a quarter of the Middle Market INMLs a substantial part of ownership is in the hands of external shareholders (either industrial or financial organizations).²⁰

¹⁹ <https://www.wsj.com/articles/indian-firms-go-hunting-in-germanys-mittelstand-1428697627>
https://ged-project.de/videos/competitiveness/impact_of_emerging_markets/chinese-companies-shop-for-germanys-hidden-champions/
<https://www.orkestra.deusto.es/es/actualidad/noticias-eventos/beyondcompetitiveness/1461-campeones-cotizados>

²⁰ In several cases, these external parties do not form the majority, but do, however, represent the single actor with the highest participation and/or voting rights.

The fact that many of the INMLs from the Basque Country are cooperatives can provide some counterweight to this process, whereas regions with INMLs or hidden champions that are primordially family businesses may be sensitive to ownership changes during succession planning cycles from one generation to the next.²¹

²¹ [https://www.ey.com/Publication/vwLUAssets/ey-indian-investments-in-germany/\\$FILE/ey-indian-investments-in-germany.pdf](https://www.ey.com/Publication/vwLUAssets/ey-indian-investments-in-germany/$FILE/ey-indian-investments-in-germany.pdf)

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