

## How do hidden champions dominate niche markets through innovation?

*Hidden champions and technological innovation: insights from patent analysis*

HANNES W. LAMPE · JÖRN BLOCK · TOM WILLEKE · THOMAS CLAUSS · AND HOLGER STEINMETZ

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**H**idden champions are among the most fascinating phenomena in business. These companies, often mid-sized and unknown to the general public, lead global markets in highly specialized niches. Originating largely from Germany's Mittelstand, hidden champions represent a distinct innovation model. They focus on excelling in specific technological domains, often outperforming larger competitors while remaining under the radar. Despite their relatively small size, they boast a high degree of innovation, leveraging expertise, close customer relationships, and a disciplined approach to operations.

This article investigates how hidden champions approach technological innovation, what sets them apart from comparable firms, and what lessons their strategies provide for businesses aspiring to achieve similar success. Using patent data from German manufacturing firms, this study delves into the innovation processes, outputs, and strategic implications of these remarkable companies.

### WHAT WE STUDIED

To understand the innovation dynamics of hidden champions, the study analyzed data from 4,677 German manufacturing firms, including 865 hidden champions identified based on their niche market leadership. Patent applications served as a proxy for measuring technological innovation.

Key questions guiding the analysis included:

- Do hidden champions produce more innovative output compared to their peers?
- How do their innovations differ in depth, breadth, novelty, and impact?

- Are hidden champions overly reliant on internal sources of knowledge?

A capability-based framework was applied, focusing on three defining competencies of hidden champions:

1. **Niche Marketing Capability:** The ability to focus on highly specific customer needs in niche markets.
2. **Internationalization Capability:** Effectively leveraging global markets to expand reach and scale.
3. **Integration Capability:** High levels of vertical integration to maintain quality and control.

### KEY INSIGHTS

#### 1. Higher Innovation Output, But Not Efficiency

Hidden champions produce significantly more innovations than comparable firms, as evidenced by their patent applications. However, this does not mean they achieve these outputs more efficiently. Unlike the common assumption that these firms achieve superior results with fewer resources, the study found that hidden champions use resources at a comparable rate to their peers. This finding highlights the investment intensity required to maintain technological leadership in niche markets.

#### 2. Depth Over Breadth in Innovation

The technological innovations of hidden champions exhibit remarkable depth. These firms focus on developing advanced expertise within specific technological fields, reinforcing their dominance in niche markets. However, this specialization often comes at the expense of technological breadth. Hidden champions are less likely to diversify across multiple

technological domains, potentially limiting their adaptability to emerging trends outside their core competencies.

### **3. Inward Knowledge Orientation**

One of the most distinct traits of hidden champions is their inward focus. They rely heavily on internal sources of technological knowledge, emphasizing control over the innovation process. This inward orientation supports their specialization and ensures high-quality outputs. However, it also means that hidden champions may miss opportunities to incorporate external ideas or collaborate with other innovative firms, which could broaden their innovation capabilities.

### **4. Mixed Results on Novelty and Impact**

Despite their reputation for innovation, hidden champions do not consistently produce highly novel or impactful innovations compared to their peers. Their strengths lie in incremental improvements and refinement rather than in radical, disruptive breakthroughs. This finding challenges the perception that hidden champions lead through revolutionary innovations, instead suggesting that they excel in refining and perfecting existing technologies.

## **TAKEAWAYS**

### ***Prioritize Technological Depth for Competitive Edge***

Hidden champions achieve success by excelling in their chosen niches. Businesses aiming to emulate their model should focus on developing deep expertise within specific technological domains. This approach not only creates competitive advantages but also builds resilience against larger competitors who may lack the same depth of knowledge.

### ***Balance Internal Expertise with External Collaboration***

While hidden champions demonstrate the value of internal innovation, over-reliance on internal knowledge can be a double-edged sword. Engaging with external collaborators, such as research institutions or other firms, can infuse fresh ideas and perspectives. Open innovation models may help hidden champions expand their technological breadth without diluting their core strengths.

### ***Watch Out for Over-Specialization***

Specialization is a cornerstone of hidden champions' success, but it can also lead to stagnation. Firms must continuously evaluate whether their focus on incremental improvements might be leaving them vulnerable to market disruptions or technological shifts. Diversifying innovation efforts within adjacent fields or industries can mitigate this risk.

## **IMPACT**

The innovation strategies of hidden champions offer a compelling alternative to the Silicon Valley model of broad-based, disruptive innovation. By focusing on depth and quality, hidden champions have carved out a unique place in the global market. However, their approach is not without challenges. In an increasingly interconnected world, the ability to balance specialization with collaboration and adaptability will determine whether hidden champions can sustain their leadership in the long run.

## **RECOMMENDATIONS**

### ***Develop Adaptive Innovation Strategies***

Hidden champions should continue leveraging their deep expertise but remain flexible enough to pivot when market conditions change. This adaptability may require reevaluating the balance between incremental and transformative innovation.

### ***Embrace Open Innovation Ecosystems***

To stay competitive, hidden champions must integrate external collaborations into their innovation processes. This includes partnering with research institutions, universities, and even competitors to gain access to diverse knowledge pools.

### ***Focus on Future-Proofing Core Capabilities***

Investments in digital transformation and interdisciplinary research can ensure that hidden champions remain relevant in an era of rapid technological evolution. Emphasizing cross-functional innovation teams may also help broaden their perspectives.

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## CEFEO AUTHORS



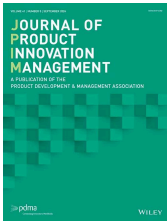
**Jörn Block**

*Affiliated Professor*

*University of Trier*

block@uni-trier.de

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