



Extreme Focus and the Success of Germany's Mittelstand

In a recent post on Harvard Business Review bloggers network, we discuss the extreme focus business model of Germany's famed Mittelstand:

Quick test: name one company that does one thing and does it very well. The companies that occupy the limelight are typically diversified giants that achieve growth through constant expansion into new markets and the introduction of additional product lines (just think P&G, GE, and Microsoft).

But the truth is that the really successful companies are highly focused, achieving unprecedented efficiencies by designing a business model with a razor-thin focus and learning to do the one thing really well. Many of us academics still teach an old case about Shouldice Hospital, which only treats simple cases of hernias and nothing else but does it better than anyone. A more recent example is Quidsi, the driving force behind Diapers.com web site which sells only baby consumables. Some of readers may also recall ING Direct, which is focused on a narrowly defined set of simple financial services, and Southwest Airlines, which still has one class (economy) and one aircraft type (Boeing 737).

Thanks to this extreme focus there is no need for complicated processes, expensive equipment and underutilized (and expensive) resources. As a result, Southwest Airlines turns planes around much faster than competitors, ING Direct can avoid having hundreds of physical bank locations and Shouldice can schedule surgeries in a well-oiled production process with no downtimes or waiting.

Despite these advantages, such companies are actually quite rare in much of the Western World and it is much more "normal" to see complex conglomerates in which none of the above applies.

in Germany (and to a lesser extent in other German-speaking countries).

The amazing resilience of the German economy is often attributed to its reliance on Mittelstand companies, small to medium sized enterprises. These typically family-run businesses employ more than 70% of all German employees in the private sector, and are export-oriented, making Germany the second-largest exporter in the world.

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There is a wonderful account of these companies in the book *Hidden Champions* by Hermann Simon, former INSEAD professor and now Chairman of Simon, Kucher & Partners. During a recent presentation at INSEAD Hermann described some of their common features:

- Most Hidden Champions are extremely focused in what they do. To give a few examples: Jungbunzlauer supplies citric acid for Cola-Cola worldwide (and a few other salty and sweet chemicals), TetraMin is the number one producer of fish food, Uhlmann is the world leader in packaging systems for pharmaceuticals, and Flexi is the number one manufacturer of dog leashes worldwide.
- They do one thing but they do it extremely well by achieving tremendous efficiencies, making them cost-competitive despite their location in a very expensive country.
- Due to the simplicity of their product lines, their organizations avoid complexities and intricate structures, resulting in very lean management hierarchies.
- To compensate for their razor-thin focus on just a single product (or product category), they diversify internationally and enjoy great economies of scale.

All of these characteristics make these companies perfect examples of focused business models, which seem to thrive even in harshest economic conditions. Which raises some interesting questions: **why don't we see more of these firms in other countries?** Is there something about their cultures that is hard to sustain? Does public ownership bring pressures to continually grow by going into new areas?

Whatever the answers to these questions, we do believe that **extreme focus is an often-overlooked way to innovate a business model** — for startups and established companies alike. Our own favorite US-based examples of such successful companies are Diapers.com and messenger bag manufacturer Timbuk2. What new focused company will come

next?

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