
Hidden Champions of Belarus

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Overview

Official name:	Republic of Belarus
Type of government:	Presidential Republic
Population in 2011:	9,481,200
Land area:	207,6 km ²

History

- 1915/1918 The present-day Belarusian territory is the scene of bloody battles between German and Russian forces.
- 1918 (March 3rd) The Treaty of Brest-Litovsk is signed, marking Russia's exit from World War One.
- 1919 The Soviet Socialist Republic of Byelorussia is set up.
- 1921/1928 The Riga Peace Treaty results in the partitioning of Belarus between the Belarusian Soviet Socialist Republic and Poland. New Economic Policy (NEP) introduced across Belarus.
- 1921/1930 The Polish part of Belarus is subjected to Polonization.
- 1922 The Belarusian SSR becomes a part of the Union of the Soviet Socialist Republics (USSR).
- 1936/1940 The Great Purge. More than 86,000 Belarusians suffer political oppression and over 28,000 are sentenced to death at the Kuropaty camp near Minsk.

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1939	(September 17th) The Red Army moves into West Belarus.
1941	The start of the Great Patriotic War in Belarus. The Germans occupy all of present-day Belarus.
1945	(May) The Great Patriotic War of the Soviet peoples against the Nazi aggressors ends. Belarus becomes one of the founding members of the United Nations Organization.
1954	Belarus joins UNESCO.
1986	(April) Chernobyl Nuclear reactor disaster.
1990	Belarus declares its national sovereignty. The BSSR is formally renamed the Republic of Belarus.
1991	The USSR collapses; Belarus is proclaimed an independent republic.
1994	The first presidential elections are held and Alexander Lukashenko is elected president of Belarus.
1996	Belarusian Referendum results in the amendment of the constitution that strips parliament of key powers.
1997	Signing of the Union of Belarus and Russia.
2001	President Alexander Lukashenko is re-elected in elections described as undemocratic by Western observers.

1 Introduction: Context

With a population of nearly ten million, Belarus, was one of the most rapidly developing Soviet republics. During the 1970s and 1980s the value of fixed assets in the country grew 4.1 times, while the average growth index within the former USSR was 3.4. Between 1985 and 1989, the Belarusian economy grew at an average rate of 5.2 %, outstripped only by Moldova with its 5.7 %. This obviously increased the country's GDP per capita. At the time of restoration of Belarus's independence, the country's growth rates were only lower than those of Latvia, Estonia and Russia (Easterly 1995) (Exhibit 1).¹

The structure of the Belarusian economy was predominantly industrial. In 1989, industry accounted for 49 % of the country's GDP. This was the second highest percentage in the Soviet Union after Armenia's (55 %). At the same time, industrial production was targeting external markets, both within and outside the socialist bloc. In 1990, the export share in Belarus's GDP was 50 %—higher than in the other Soviet republics. At that time, 5.5 % of exports went to countries outside the Council of Mutual Economic Assistance (CMEA) area of centrally planned economies (De Melo et al. 1997).

¹ Source: World Bank, <http://data.worldbank.org/country>

Exhibit 1 Belarus

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP per capita (current \$US)	1,210	1,273	1,239	1,471	1,805	2,356	3,090	3,798	4,667	6,328	5,176	5,818	5,820
GDP per capita growth (annual %)	3.75	6.12	5.09	5.52	7.60	12.01	9.99	10.49	8.99	11.40	1.16	7.89	5.49
Long-term unemployment (% of total unemployment)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign direct investment, net inflows (% of GDP)	3.66	0.93	0.78	1.69	0.96	0.71	1.01	0.97	3.99	3.60	3.81	2.52	7.26
GDP (current \$US m)	12,138.49	12,736.86	12,354.82	14,594.93	17,825.44	23,141.59	30,210.09	36,961.92	45,275.71	60,763.48	49,209.52	55,211.85	55,132.08
Exports of goods and services (current \$US m)	7,186.39	8,815.28	8,246.55	9,286.39	11,614.41	15,709.98	18,064.97	22,199.81	27,592.40	37,027.90	24,865.45	29,966.73	48,456.64
Exports of goods and services (% of GDP)	59.20	69.21	66.75	63.63	65.16	67.89	59.80	60.06	60.94	60.94	50.53	54.28	87.89
Merchandise exports (current \$US m)	5,909.00	7,326.00	7,451.00	8,020.90	9,945.60	13,773.70	15,979.00	19,734.00	24,275.30	32,570.80	21,304.20	25,283.50	40,409.20

(continued)

Exhibit 1 (continued)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Merchandise exports to high-income economies (% of total merchandise exports)	18.42	19.98	20.31	26.39	32.07	34.74	42.37	44.50	39.38	36.13	35.06	26.83	n/a
Merchandise exports to developing economies in Europe & Central Asia (% of total merchandise exports)	69.84	72.18	71.47	65.47	61.79	58.61	49.51	48.92	53.70	53.78	54.34	60.33	n/a
Ores and metals exports (% of merchandise exports)	0.75	0.75	0.89	1.33	0.98	0.73	0.53	0.49	0.66	0.50	0.60	0.71	0.61
Agricultural raw materials exports (% of merchandise exports)	3.49	3.62	3.37	3.71	3.58	3.09	2.51	1.86	1.92	1.29	1.55	2.04	1.52
Food exports (% of merchandise exports)	7.46	6.75	8.01	7.68	8.26	8.35	8.25	7.49	7.26	6.71	10.68	12.64	9.40

Fuel exports (% of merchandise exports)	9.06	19.79	17.60	20.08	21.86	26.74	34.63	38.18	34.92	37.31	37.27	27.94	36.17
Manufactures exports (% of merchandise exports)	74.95	65.12	67.75	63.28	62.00	58.04	52.08	50.40	53.32	52.47	47.81	53.16	49.27
High-technology exports (% of manufactured exports)	3.54	3.83	4.08	4.29	3.76	2.85	2.70	2.79	2.77	2.43	3.13	3.04	n/a

Source: World Bank (2013)

Short of natural resources, Belarus mainly served as an R&D and production centre for the Soviet Union, and the majority of industries manufactured military applications. Vehicle engineering, electronics, optics and precision mechanics, as well as the chemical industry, were the most important export sectors. Their creation was made possible by the development of technical sciences and education, as well as a large number of research organizations. A major source of relative competitive advantage was the human factor, both in terms of cheap labour and high level of engineering competencies.

Since the time of the Soviet Union's collapse, Belarus has not implemented any substantial economic or political reforms. Up until 2006, the Belarusian authorities considered the private sector a necessary evil. Private companies experienced continuous discrimination: state-controlled pricing, high taxes, constant check-ups by numerous controlling bodies, limited access to public and private resources, and more. Belarusian courts supported the state-owned enterprises. Privatization in Belarus was shut down in 1996. According to the EBRD estimates, private enterprises generate around 30 % of GDP.

The Customs Union between Belarus and Russia, created in 1996, ensured big market opportunities for Belarusian businesses. Besides, the Belarusian private sector has always been highly visible in Ukraine, the Baltic countries, and Poland.

For the last 4 years, Belarus has been undergoing market-based reforms to promote private sector growth. In the *Doing Business 2010* survey, conducted by the World Bank in 2009, Belarus rose from 115th position in 2007 to 58th, and is in the fourth place in terms of number of implemented reforms. Belarus is now developing a new economic model that offers fairly liberal conditions for the private sector, but still preserves its Soviet economic legacy in the form of state-owned enterprises enjoying certain advantages over private ones.

Obviously, there are certain factors that hobble the Hidden Champions (HC) of Belarus: a weak financial system, uncontrolled corruption, and bureaucracy. Still, the level of corruption is lower than in other CIS countries, and Belarus can boast an advanced educational system generating a knowledgeable workforce.

Because of the long-term discrimination against private business in Belarus, companies are naturally unwilling to advertise their activities and allow outsiders to access their data. This is evident from the fact that of all the companies that took part in the HC survey, only one has revealed its real name.

In a certain way, Belarusian anti-reform politics and the institutional environment of the 1990s favoured the emergence of HCs. Firstly, the privatization shut-down dramatically narrowed entrepreneurial opportunities in Belarus, compared with those of Russia and Ukraine. Therefore green field was the only way of doing business. Secondly, the domestic market was very unstable. Pricing was strictly regulated by the state and businesses were burdened with multiple administrative check-ups. Statutory acts were introduced post factum and the tax system was onerous. Currency crises regularly hit the country. Thirdly, the production volumes

and research capabilities in Belarus were such that the local market was not able to fully accommodate them; consequently, export was a very logical recourse. And lastly, a shadowy company was the cherished goal of Belarusian entrepreneurs because it did not attract too much attention from governmental agencies trying to squeeze the last ruble out of private businesses.

Under these circumstances, two successful business models eventually emerged in Belarus. The first involves getting access to different rent sources through close cooperation with the state. The second model, adopted by our HCs, is export-oriented. A larger share of their production is sold abroad, which allows companies to protect themselves from regular currency crises, optimize their tax burden, and implement aggressive growth strategies.

Businesses applying the second model maintain a distant relationship with the state. Implementation of a tacit social agreement with the authorities (e.g. employment and export growth boost) reduces state pressure on business. Despite the success of these companies and their relative independence of the national economy, they prefer to stay under cover; hence they did not completely reveal their business logic and leadership styles during the interviews. Their success stories are not presented in such depth as those of others.

In general, HCs in Belarus are all strong leaders in the CIS region. These regional leaders can be divided into three major groups. The first includes companies manufacturing products that never existed in the former USSR, such as aluminum blinds. These businesses have been pursuing approximately similar development paths. Initially, they were engaged in importing and delivering their products to the markets of Russia, Ukraine and Belarus (RUB). Later they launched their own production in free economic zones. Production technologies were cheap and freely available in the market. Locally based manufacturing allowed a significant price reduction because of the absence of customs duties and availability of low-cost resources. According to our estimates, businesses made such profits that they were able to offer locally made products that were approximately 15 % cheaper than imports of similar quality. Such a difference in value would induce an aggressive penetration into the RUB market, allow tight control over the distribution system, and create a strong entry barrier for competitors.

The second and third groups of Belarusian HCs include companies that created their own products based on competencies that already existed in the country. In particular, the second group consists of companies that have used their expertise in launching engineering enterprises. The third group includes firms creating products based on R&D performed by Soviet research institutions. After studying the demand for locally manufactured products, they quickly turned to foreign markets.

The leaders of all companies described in the survey are engineers sharing many characteristics, such as a strong interest in production structure and processes, R&D, and a vivid entrepreneurial spirit.

Since only one company has given us permission to use its real name, we have assigned code names to the rest of them to protect their privacy.

Name	Market leadership definition	Revenues 2010 (in M€)	Revenues 2000 (in M€)	Average employees 2010
“Excavators”	First in production of truck excavators in CIS region	18	2	150
“Document scanners”	First in production of passport scanners (50 % of the CIS market and a significant market share in the European Union, Middle East and Africa)	10	2	170
“Radiation meters”	Global leader in production radiation measurement with main markets USA and EU	10.5	<1	160
“Shutters”	First in production of aluminum shutters (blinds) in RUB region	n.a.	n.a.	n.a.
STiM	First in production of two complementary products road marking machines and road marking paints in CIS region with market leadership also in Poland	20	0.8	700
“Lids”	First in production of aluminum lids in CIS region with strong presence in CEE region	50	3	1,436

Source: Authors of the chapter

2 Six Case Studies

2.1 “Lids”: Hidden Champion

Every time you remove a lid from a bottle of finely distilled Russian or Ukrainian vodka, you are very likely to be holding a lid made in Belarus. “Lids” is a producer of different types of plastic and aluminum caps for alcoholic beverage containers. Literally, the name of the company means “alcohol packaging”. The production technologies for “Lids” plastic seals are patented, and R&D has invented safe new types.

The company utilizes a hydro-seal system; there is no moving valve or ball inside to impede bottle refill. Tamper-proof evidence is accompanied by a typical click sound. The blades of the tamper-evident collar are fixed firmly onto the cap, preventing spillage into served food. “Lids” also manufactures aluminium pilfer-proof devices of different dimensions for sealing almost all types of glass bottles.

The company positions itself as the absolute leader in its field, offering a wide product portfolio and most advanced designs. “Lids” also enjoys the biggest revenue compared to its counterparts in the local market. The company’s sales revenues have been growing rapidly—from 3 to 50 million euros for the last 10

years—, mainly because of the rapid development of the Russian and Ukrainian markets.

“Lids” has expanded its production capabilities and has managed to stand up against Chinese competitors by continuous product innovation. Its current export share is reaching 90 %. The company maintains close relationships with its customers, contributing to the development of their respective brands by offering exclusive cap designs to the most important clients.

“Lids” has two sources of competitive advantage: process and product engineering, plus an impeccable customer service system. The company spends 5 % of its revenue on R&D and currently holds 67 patents.

The leader of the company is a highly motivated person, always seeking new possibilities and eager to grow professionally. His passion for what he is doing, and how he is doing it, greatly contributes to the company’s success.

As of today, the company is an indisputable leader in the CIS markets, chiefly Russia, Ukraine, Belarus, and Kazakhstan. It also has a strong presence in Central and Eastern Europe, and will continue to expand by focusing on the production of value-added seals. Western Europe also makes an attractive marketplace; therefore we can expect the company to look into that opportunity as well.

Three core lessons learned on the path to the business success are:

- (1) Choose the niche where your product can be protected from competition by innovative solutions and advanced process technologies. At the same time, be a paranoiac, attacking your competitors and strengthening your position by constant introduction of innovations.
- (2) Expand your portfolio to serve your clients better.
- (3) Invest in your critical assets: personnel, products, and customer relationships.

2.2 “Blinds (Shutters)” : Hidden Champion

Most aluminium shutters (blinds) used anywhere in the RUB region are produced by this company. Today, it is rapidly diversifying its portfolio, building a product line around its core competence in aluminium processing. Blinds remain the main product offered by the company in the RUB market.

The company was founded in 1992 by a young officer who resigned from the USSR army after the collapse of the Soviet Union. The company launch was triggered by the appearance of Latvian aluminium shutters in the USSR. The new product, totally unknown in the Soviet Union, quickly conquered the local market.

The company successfully promoted the product in Belarus, Ukraine, and Russia. In 1998, a company manufacturing shutter parts was established in a free economic zone. It enjoyed the advantage of exemption from customs duties as the production facilities were based in Belarus, and reduced costs (cheap aluminium, electricity, labour force, etc.), which allowed the company to set prices 15 % lower than those of its competitors. This ensured rapid expansion into the Russian, Ukrainian and Belarusian markets, where the company’s share reaches 80 %. The company developed quickly and steadily.

In 2001, sales amounted to slightly more than 30,000 euros. Within 10 years, they grew more than tenfold. The product portfolio was widened significantly; the company started producing aluminium goods used in construction and building equipment, such as aluminium gates, aluminium structures for building windows, and more. These additional products ensure the company's biggest overall share of RUB markets; however the share is smaller in the case of aluminium shutters. Today, the company owns five factories, each manufacturing a specific product.

During the recent crisis, the company quickly won the European Union markets and is now successfully fighting local competitors and consistently increasing its share. One of the engines of the company's success is the unique characteristics of the founder's personality. Having a military engineering background, he has a solid knowledge of many technological processes involving aluminium. Additionally, he is successfully introducing up-to-date tools of business management, and has created an effective motivation system. Employees who have previously worked for the company are in high demand in the labour market in Belarus. At the same time, the employee turnover rate is only 3 %. Staff members are proud of their company, and very loyal.

"Lids" and "Blinds" teach us the same lessons: A good strategy to succeed as a niche market leader in the CIS region is *imitation*: copying of imports that are relatively simple from a technological perspective. Because of this simplicity, you can quickly acquire technological knowledge. Your products will differ little in quality from those of foreign competitors; still, they will be cheaper because of the lower customs duties, and labour and transportation costs.

2.3 "Excavators": Hidden Champion

The company was founded in 1997. It produces excavators on truck chassis, designed to carry out repair works on extended objects. The main buyers are various pipelines and companies serving power lines. "Excavators" is the main supplier of this type of machine in the CIS.

The company employs 150 people involved in design and production. Its corporate clients are in the oil and gas sectors, power transmission line service, and construction or repair works on remote sites. Annual sales reach 20 million euros. In 10 years, sales volumes grew nearly 10 times. To date, 75 % of the company's products are exported. The only competitor, based in Slovakia, is a part of a large corporation.

Five years ago the founder of "Excavators" left his post as CEO, but continues to play an active role in the company's management, although he has started a number of other niche business projects of his own. The company remains highly competitive because of its low prices, ensured by efficient production and design. Small companies find it difficult to penetrate the market, while its size is not attractive to big firms.

To sum up: If you are operating in a capital-intensive industry with a technologically complex product, foreign or big competition will have difficulty

beating you as long as you maintain sufficient product quality. Still, this strategy will be successful only when certain conditions are met: your product should be exempted from customs duties and labour, raw material, and transport costs should be low. These advantages may not last forever. Therefore, as soon as they are gone, you should exit the business.

2.4 STiM

Overview

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Company Information

Industry:	Manufacturing of machinery and equipment
Year of establishment:	1997
Sales revenue in 2010:	€5 million (from machines), €20 million (from paints)
Sales revenue in 2000:	€800,000 million
Average number of employees in 2010:	700
Brain(s) behind the company:	The CEO, the deputy director, the finance director

2.4.1 Nature of Market Leadership

The company offers two types of products: road-marking application machines and marking paints, with market shares for machines as follows: CIS—80 %, Poland—35 %, Baltics—30 %, Belarus—60 %; and the following market shares for paints: CIS—40 %, Baltics—30 %, Poland—40 %, Belarus—60 %. The company is an indisputable leader in both segments as it has the largest turnover in the CIS region.

2.4.2 Nature of Competitive Advantage

The owner of the company believes that STiM's success stems from the fact that the company produces both paints and machines: "We understand how the machine works with paint and how the paint behaves". The company positions itself as a technical expert in road marking, and organizes seminars on the subject for the heads of public utilities and community service companies. Ensuring high-quality

standards and relatively low prices, the company successfully competes with Western European firms.

2.4.3 Core Lessons Learned on the Path to Business Success

1. Endorse innovations, invest in new technologies, and be one step ahead of your competitors.
2. Study your market segment constantly and tirelessly.
3. Do not underestimate the importance of motivation for your staff. Reward them for their excellent performance.
4. Know your product and ensure its superb quality at all times.

2.4.4 STiM: Hidden Champion

STiM (Construction Machinery and Equipment) is as old as “Excavators”. Most of the roads in RUB are marked by the machines and paints produced by STiM. This family-owned company was founded in 1997. It produces two complementary products: road-marking machines and road-marking paints. The company’s turnover in 2010 amounted to approximately 25 million euros, of which about 5 million were earned through sales of road-marking machines. In 10 years, turnover has increased more than 20 times. The company dominates the machine production market in the CIS and Baltic States, and holds a leading share in the Polish market.

The company pays close attention to the quality of its products. Each machine undergoes a full inspection, run-in period, and test cycle at the vendor’s facilities prior to its sale. Vehicle operators are rigorously trained.

To sum up: “Lids”, “Blinds”, “Excavators” and STiM teach us similar lessons: Specialize in a narrow product group that is profitable but represents only a side product for big global MNCs. They will not pay much attention to that product category. If you are operating in a capital-intensive industry with a technologically complex product, large foreign or domestic competition will have difficulty beating you as long as you maintain the quality of the products at a sufficient level, and have lower material, labour, and transportation costs, and lower taxation. The alternative is to make large investments in R&D capabilities.

2.4.5 “Radiation Meters”: Hidden Champion

If you pass by a US police officer, there is a high chance that you will see a tiny radiation measurement gadget, manufactured by “Radiation Meters”, attached to his belt. The company also produces highly sensitive radiation meters.

The company was founded in 1992 by an engineer of a Soviet research institute. Several years ago, the company founder died and the firm was inherited by his daughter, a very successful architect. Today the family shares the company ownership with the staff, and actively uses this co-ownership as a strong motivating factor for key employees.

The company produces very small and sensitive devices for measuring radiation, and promotes itself as a technology leader in the market. After the Chernobyl disaster, much attention has been paid to radiation problems; therefore the company has been most active in the Belarusian market. However, to date 99 % of its

products are intended for export. The most attractive markets for the company are those of the US and the EU. More than 10 % of the sales revenues are used for R&D.

The company owns nine patents, and several are currently being registered. The company remains highly competitive because of its attractive quality-price ratio, as well as the flexibility of its customer service. This flexibility is ensured by the close cooperation of the company's software and hardware developers.

2.4.6 “Document Scanners”: Hidden Champion

When crossing the border and presenting your passport to the border police, you can expect that the officers will use scanning devices produced by this company. The company was founded by two engineers from a Soviet research institute in 1992. It was the year of reforms in the former Soviet Union. Banks had just begun to sell foreign currency to the public. This caused an explosive demand for devices determining the authenticity of the currency. This company started producing such detectors.

The founders themselves designed and assembled the first devices. Having mastered a wide range of gadgets for determining the authenticity of currency, the company switched to the development of passport scanners. Simultaneously, a global electronic passport database was created. Today the company exports 80 % of its products. According to its management, it holds more than 50 % of the CIS market and a significant market share in the European Union, Middle East, and Africa.

The company is successful not only because it offers lower prices. The managers believe that the leading technology of their products is well ensured; the firm owns 31 patents. The company is also extremely flexible in its customer service policy. Its executives believe that the success of “Document Scanners” also stems from the close collaboration of software and hardware developers. They also say, “It is only us who own and produce the equipment for creating passport database and scanning devices”. The company is owned by its first shareholders who are still actively involved in developing new products.

“Radiation Meters” and “Document Scanners” teach us the same lesson: Keep an open mind so that you can see opportunities in the problems that you may encounter. If dealing with the Chernobyl accident or money counterfeiting, as long as you possess entrepreneurship skills and expert knowledge, you can try to come up with a solution. Soon you might be knowledgeable and powerful enough to offer these solutions to the whole world.

Conclusion

Belarusian HCs are perhaps more dissimilar than similar to Simon's HCs. In terms of similarities, they are led by strong, visionary, passionate leaders, who carry strong expert knowledge and are entrepreneurial in character. The majority of the leaders of Belarusian HCs exhibit entrepreneurial drive. Those of the 1990s may have been influenced to a significant extent by institutional circumstances, including deliberate state discrimination against the private

sector through state-controlled pricing, high taxes, constant check-ups by numerous controlling bodies, and limited access to public and private resources.

In general, HCs in Belarus manufacture technologically complex, as well as simple, products. Their strategic behavior and level of resemblance to Simon's HCs depend to a large extent on their products.

The technologically simple products—those of “Lids” and “Blinds”—did not follow a strategy strictly defined by a narrow product focus and growth through internationalization. Both started their success stories by imitating foreign products and leveraging three local advantages: lower labour costs, favourable taxation, and lower transportation costs. Their strategy can be described as use of the favourable tax regime of the CIS region, and growth through product differentiation. Usually, the new product categories added to the portfolio are technologically simple, but well aligned with the needs and demands of their target customers.

Those that have the technology and knowledge that are necessary to produce more complex products are more likely to follow a classical HC strategy. First they focus narrowly on a specific product and customer group; then they expand abroad. They usually focus on exotic products—those that big MNCs might also offer but view as minor to their business. In this way they avoid tough battles for market share in the region. This international strategy has proved to work well for the HCs. However, they are so narrowly specialized that even growth through internationalization may be limited. The question is what they will do next to create growth.

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