Hidden Champions from Romania

Bogdan Rusu

Overview

Official name:	Romania
Type of government:	Unitary semi-presidential republic
Population in 2012:	19,043,767
Land area:	238,391 km^2

History

1914/1920	Romania enters World War I on the side of the Allied Triple Entente. The Central Powers conquer most of the country inflicting heavy losses on the Romanian army. The Entente powers give Transylvania to Romania by the Treaty of Trianon.
1940	The Soviet Union occupies northern Bukovina and Bessarabia. Hungary occupies northern Transylvania, and Bulgaria occupies southern Dobruja. After 1940, Ion Antonescu and the Iron Guard share power in Romania.
1939/1945	Romania enters World War II on the side of the Axis powers.
1944	Romania changes sides and joins the Allies
1947	The Communist government forces King Michael I to leave the country. Romania is proclaimed a republic but it remains under the control of the USSR until the 1950s.

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1989	Nicolae Ceauşescu makes Romania a police state and imposes a cult of personality, which leads to the Romanian Revolution. After Ceauşescu, the National Salvation Front, led by Ion Iliescu restores order and democracy.
1990/1996	Socialist parties govern Romania.
1993	Romania applies for membership of the European Union.
2000	Social Democrats return to power with Iliescu.
2004	Traian Băsescu elected president. Romania joins NATO.
2007	(January 1st) Romania joins the European Union.

1 Introduction: Context

In 2012 there were about 19.0 million Romanians (National Institute of Statistics 2012, p.1) living in an area of 238,391 km^2. Romania borders on Hungary, Serbia, Bulgaria, Ukraine, the Republic of Moldova and the Black Sea. It is one of the poorest countries in the EU with a GDP per capita of 5,800 euros in 2010 (Eurostat 2013). Following the EU pattern, the vast majority of Romanian enterprises are SMEs, less that 1 % being large companies (National Institute of Statistics 2013). The latter are distributed across most industrial sectors, including mining, hydro-electric and nuclear energy production, aerospace, automotive, metallurgical, chemical, aluminium production, wood processing, textile and IT, to name just a few. Romania is also known in the EU for its great natural resources and a growing tourism industry, with key attractions including the Carpathian Mountains, the Danube Delta, and the resorts and beaches of the Black Sea. More information can be found in Exhibit 1.

Iacob (2002, pp. 50–52) provides an in-depth analysis of Romanian transformation. The country became independent in 1878 and completed its unity only in 1918, and therefore had to transform itself and continue to modernize so as to become competitive in Europe. The first key economic reform was the transfer of nearly 25 % of the Romania's monastery-owned land to the state in December 1863. Other measures initiated by the state include bureaucratization (such as creating modern institutions) and involvement in the economic life through the 1887 law that encouraged industry and the construction of railroads, which generated high industrial growth. These significant developments reflected in the number of mechanized enterprises (from 45 in 1862 to 16,916 in 1939), crude oil extraction (which increased 8,400 % in 1905 as compared to 1866, reaching over 8.7 million tons in 1936), railroad constructions and installed telephones.

Since 1919 there have been three major changes periods. The first was an integration process of the united provinces and economic development (1918–1928). The second was marked by the profound transformation from capitalism to socialism (1945–1962) and the last commenced in 1989: a transformation back to capitalism and modernization in terms of EU integration (Iacob 2002, p. 57).

Exhibit 1 Core economic indicators

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP per capita (current $US)	1,583.85	1,650.97	1,815.51	2,101.74	2,736.97	3,481.20	4,572.05	5,681.09	7,856.48	9,497.95	7,650.96	7,686.92	7,539.26
GDP per capita growth (annual %)	−1.04	2.23	7.19	6.69	5.50	8.69	4.42	8.13	6.20	8.09	−6.43	−0.74	2.56
Long-term unemployment (% of total unemployment)	45.20	49.20	48.60	56.50	61.50	59.00	56.30	57.80	50.00	41.30	31.60	34.90	41.90
Foreign direct investment, net inflows (% of GDP)	2.92	2.80	2.88	2.50	3.10	8.53	6.94	9.34	6.08	6.78	3.00	1.94	1.40
GDP (current $US m)	35,592.34	37,052.64	40,180.75	45,824.53	59,507.35	75,489.44	98,913.39	122,641.51	169,282.49	204,335.23	164,345.72	164,792.25	182,610.66
Exports of goods and services (current $US m)	9,972.26	12,113.00	13,418.00	16,223.00	20,646.00	27,121.12	32,565.02	36,246.54	52,010.58	62,181.63	50,292.03	58,371.88	73,106.47
Exports of goods and services (% of GDP)	28.02	32.69	33.39	35.40	34.69	35.93	32.92	29.55	30.72	30.43	30.60	35.42	40.03
Merchandise exports (current $US m)	8,518.12	10,411.98	11,393.84	13,876.55	17,662.28	23,553.22	27,687.54	32,457.88	40,488.20	49,534.99	40,567.20	49,498.85	63,0116.64
Merchandise exports to high-income economies (% of total merchandise exports)	79.73	77.63	82.14	84.27	83.34	81.31	76.87	75.80	76.28	73.21	77.09	75.49	75.08

(continued)

Exhibit 1 (continued)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Merchandise exports to developing economies in Europe & Central Asia (% of total merchandise exports)	11.66	14.26	10.23	8.46	10.07	12.97	15.25	16.34	17.65	19.82	16.14	18.26	18.15
Ores and metals exports (% of merchandise exports)	5.27	6.92	4.89	4.24	4.15	4.68	3.93	5.25	5.22	4.75	3.61	4.24	4.14
Agricultural raw materials exports (% of merchandise exports)	4.88	4.85	3.66	3.27	3.14	2.84	2.29	2.17	2.00	1.59	1.83	2.04	2.14
Food exports (% of merchandise exports)	5.52	3.13	3.71	3.07	3.15	3.03	2.95	3.27	3.72	6.18	7.42	8.07	8.55
Fuel exports (% of merchandise exports)	4.86	7.16	6.21	7.91	6.47	6.73	10.64	9.98	7.52	9.11	5.89	5.20	5.48
Manufactures exports (% of merchandise exports)	78.47	77.28	81.04	81.05	82.53	82.31	79.54	79.25	79.77	76.53	79.00	78.54	77.79
High-technology exports (% of manufactured exports)	3.55	5.87	6.14	3.80	3.97	3.72	3.84	4.83	3.48	6.69	9.11	10.95	10.18

Source: World Bank (2013)

Verdery (1991) explains the economic development and political implications in Romania and its relations with the countries within the Eastern European Block and Union of Soviet Socialist Republics (USSR). For 2 decades after 1947, the communist regime in Romania with Soviet support embraced a forced industrialization program (p. 103). As a result, Romania exported not only agricultural products but equipment and machineries produced by the newly developed industries. Therefore, Czechoslovakia and Eastern Germany complained about this competition (p. 105) that led to a proposal of specialization of exports for the countries within the Eastern Bloc. Romania rejected its “agricultural role”, which would have stopped its industrial development and refused to “subordinate national needs to a supranational planning body in which others would dictate the form of the country’s economy” (p.105).

Dăianu (1999, pp. 227–244) provides an in-depth analysis of the dynamics of disequilibria affecting Romania, commencing with the communist period. The intense industrialization financed by loans led in the early 1989’s to a large external debt (about 10 billion US). Ceauşescu’s decision to reject economic reforms for a market economy that could increase competitiveness, and his strong desire to repay all the depth in advance, led to “shock therapy” trough severe restrictions of internal consumption and investments, including imports of industrial equipment and machineries as well as consumer goods from Western countries (p. 228). These decisions affected the population that had money; it was difficult to find goods of good quality. The Romanian population had high hopes of immediate improvement of the standard of living after the revolution of 1989 and a high level of intolerance to further austerity measures (p. 231). In a very short time, Romania experienced a unique phenomenon among Eastern European countries: after owning over 2.8 billion US dollars before December 1989, it had a deficit of over 1.5 billion a year later. There were two important consequences: First, there was no cultural understanding or acceptance of a market economy and, second, no funds were available for start-up entrepreneurs. However, those who saw opportunities set up their own businesses to satisfy identified market needs, importing Western consumer goods as a start.

The National Salvation Front (NFS), led by Ion Iliescu, started a political revolution at the end of 1989 as a rejection of socialism and Ceauşescu. It became violent because Romanians did not want simply to change the political system but wished to be free and transform the entire society (Library of Congress – Federal Research Division 2006).

Aiming to integrate into the EU, Romania had to adjust itself to function efficiently and effectively within the new structures. The key problems that had to be solved included: “a new macroeconomic equilibrium and keeping inflation under control, restructuring enterprises, [and a] new budgetary system” (Ioviţu 1999, p. 16). It also implied “a gradual transfer of a part of national sovereignty towards a common institution that thus gains a supranational character” (Maha 2002, p. 66) such as customs, free trade zones and harmonization of laws, rules, and regulations.

The constitution was revised to enable the supremacy of EU law after the accession. Albi (2005, p. 103) noted that "[Romania's] constitutional amendment procedure is the most rigid amongst all the countries".

There are several factors that contributed to the slow introduction of economic reforms: a lack of experience with economic reforms during Ceauşescu's regime, Ion Iliescu's education and beliefs, and the population's rejection of further austerity. Most of the large companies remained the property of the state and some of the small businesses were partially privatized "leaving 70 % share of the firms in state ownership" (David-Barrett 2008, p. 9).

Aiming to join the European Union, Romania commenced negotiations in February 2000, which drove the will to follow the accession process and implement the necessary reforms for convergence on economic, institutional, legislative, social and political level (Dumitru 2008, p. 15). Romania's economic growth was partly due to the high amounts of foreign direct investment that was positively influenced by the lifting of the restriction to purchase land and property by foreign companies and investors in October 2003 (David-Barrett 2008, p. 12) (see Exhibit 2).

In 2008 Romania had one of the lowest average monthly labor cost in EU "€365, compared to an average €842 in the CEE-8, and €3,431 in the EU-15" (David-Barrett 2008, p. 12). That proved attractive to important investors, such as Renault, Ford, Nokia and Mittal Steel, to name just a few. Further significant inflows of direct investment were generated by the sale of the state's 62 % stake of Banca Comercială Română to Austria's Erste Bank and the 46 % stake of Romtelecom to Greece's COSMOTE.

Romania has many Hidden Champions (HCs), but some of them became visible to big companies seeking growth in Romania and abroad; these larger companies have acquired HCs and integrated them into their group. Such examples are RADIX, which was bought by Ness Technologies (Vasile 2005). Bit Defender became a partner of Microsoft after it was nominated the world's best-buy antivirus software; and Nestlé bought Waffles Joe.

Some of the identified and interviewed HCs from Romania are listed in alphabetic order in Exhibit 3 below. The list is short; we could not identify all Romanian HCs due to the physical distance across Romania. In addition, time constraints for the owners and managers also prevented us reaching a large number of HCs. While the number of companies interviewed is small, all of them have been able to enhance their market leadership both in their domestic market and abroad, hence we decided to treat them as regional champions, or champions that may become regional leaders.

Exhibit 2 Foreign direct investments attracted by Romania 2004–2010

FDI Value (€b)						
2004	2005	2006	2007	2008	2009	2010
5.183	5.213	9.056	7.25	9.496	3.49	2.22

Source: National Bank of Romania (2012), Balance of Payments

Exhibit 3 Romanian hidden champions

Name	Market leadership definition	Revenue 2009 (in €m)	Revenue 2000 (in €m)	Employees 2009
Gliga	Biggest provider of stringed instruments for school students, professionals, and maestros, and related high quality accessories through the internet	2.68	1.48	176
Greapfruit	Largest designer of mainly internet solutions for building up client's identity, recognition, and reputation in Romania; now spreading abroad	0.69	0.005	40
ELECTRA group	Biggest manufacturer of interphone in Romania; now spreading abroad, and also diversifying to alarm-system solutions for residential developers	3.11	0.52	140

Source: Authors of the chapter (http://www.mfinante.ro)

2 Three Case Studies

2.1 Gliga String Instruments

Overview

Address:	Str. Pandurilor 120, Reghin, Mureş County, Romania
Tel:	+40265511011
Email:	office@gliga.ro
Web:	http://www.gliga.ro

Company Information

Industry:	Manufacture of stringed musical instruments
Year of establishment:	1991
Sales revenue in 2009:	€3.8 million
Sales revenue in 2000:	€1.48 million
Average number employees in 2009:	500
Brain(s) behind the company:	Founder Vasile Gliga and CEO Elena Gliga

2.1.1 Nature of Market Leadership

There are *the* stringed instruments made by master luthiers from Italy, France, and Germany, but there is also a market for other fine instruments. Gliga is the largest producer of stringed instruments in Europe, covering all four main categories of the market: School, Student, Professional, and Maestro, from 1/32 to 4/4.

2.1.2 Nature of Competitive Advantage

Gliga's competitive advantage is twofold: the craftsmanship of its employees, and the quality of wood used in production. Employees demonstrate consistent skills and responsibility developed over time. Competitors have difficulty accessing the same high quality wood, including that which has been in storage for decades.

2.1.3 Core Lessons Learned on the Path to Business Success

1. Growing a brand takes time, perseverance, responsibility, craftsmanship, and seriousness. A certain amount of adversity and hardship constitute a positive factor as it strengthens your position and persuades you to export 98 % of your output across the world, providing you with more protection during hard economic times.
2. When constrained in terms of growth, do not give up. Think positive and innovate to open up a new niche for customized products. Skilled staff with a positive attitude who never say, "this can't be done", create value for both retailers and end users.
3. Act as a socially responsible company by providing care for the community. Your employees will be proud, and they will be envied by other community members who recognize your achievements.

2.1.4 Gliga String Instruments: Hidden Champion

The violin is one of the most virtuous instruments, providing the artist with the opportunity to fill your soul with intense emotions, but it also puts him or her through many years of disciplined practice. A musical career requires changing to a better class of instrument three or four times before reaching master level. And this is what Gliga does best: supplying stringed instruments suitable for music from early learning to peak performance.

Romania is the largest producer of musical instruments in Europe in terms of the number of units manufactured. Apart from Gliga, there are five other producers in Reghin, and a factory, Hora S.A., that has a large product portfolio.

Whilst manufacturing excellent instruments at school, student, professional and maestro levels, Gliga is competing with premium brands and great luthiers from Italy, Germany or France, not on price but on quality. The company has differentiated itself from Chinese instruments through consistent quality, personalized made-to-order maestro instruments, access to high quality aged and rare wood and their maestro class instruments are finding their way into the great orchestras of the world.

Vasile Gliga grew up in Transylvania's Gurghiului Mountains where high-quality wood is available for stringed instruments. He had an unusual start in life that drove determination and craftsmanship. At the age of 18 years, he was forced to leave high school and start working as an apprentice, sculpturing the necks of violins on the same shop floor as his wife. He had to work through university to support his family, and learned from other skilled luthiers how to make all parts and assemble violins. In 1991, the family decided to open up their own business and started a two-man company. By 2009 it was manufacturing 40,000 instruments per year. Over 98 % of the instruments comply with Stradivari vibration length standards.

There are two main factors that influence an instrument's quality: the wood and the craftsmanship. Violins are made of spruce (the top) and flamed maple (the back, the neck and the ribs). The more curly the wood grain, the higher the value of the instrument from which it is made because of its rare occurrence in the tree (maybe 1 tree in 1000 having this "defect"). It provides personality. Beyond rarity, the wood for professional instruments should be allowed to dry naturally for a minimum of 3–5 years, reaching 10–20 years for maestro class. The aging process of the wood provides a better sound. Only 10 out of the 250 employees may work on maestro-level instruments. Entry level instruments require 50 h spread over 3 months, compared to 300 h spread over a 1-year period for professional instruments.

Gliga manufactures violins, violas, cellos and double basses, but also cases and bows, in sizes from 1/32 to 4/4, and covers all four main market categories for stringed instruments: beginning (school level), intermediate, advanced (student level), professional and maestro. All are handmade and finished in oil or nitro varnish (for the beginning level) and ebony accessories (or maple accessories for special orders), with a price range from 100 to 3,000 euros.

In the very early days, production consisted of a maximum of only two master-class instruments every month. Later it increased to ten instruments per month. But there was no room for error, due to the rarity of flamed maple with its excellent qualities. With a weak brand name, Gliga had to sell up to 90 % of its output as unfinished parts and whole instruments to high-end producers. These were assembled, finished, and sold under their brand name. Now this percentage has dropped to around 20 %.

In the last decade the world market for stringed instruments has decreased. Every year there are fewer children likely to embrace classical music while computers and the Internet modify social norms and behaviours. The beginning, intermediate, or advanced-level instruments wear relatively quickly compared to professional and masters' instruments, which are manufactured to last several generations, maybe up to several hundreds of years. Employees must demonstrate the serious responsibility and skills required to deliver stringed instruments with consistently high quality.

Gliga exports 98 % of its production: over 50 % to the USA, over 25 % to Europe, 10 % to Japan, 10 % to Australia, and the remainder to a small number of customers in Thailand, Singapore, Taiwan, and Malaysia. Gliga also sells on the Internet through its virtual shop, where each instrument is depicted in ten pictures that disappear from the website after purchase. Instruments can be returned within 7 days if customers are not completely satisfied.

Exports have grown through direct contact with retailers. Since 1993, when Gliga attended the most prestigious musical exhibitions in Europe and USA, trust has gradually developed through personal relations and "gentlemen's agreements" based on firm orders via e-mail or phone. On occasion, a small number of artists need instruments that have a particular look on stage. Gliga has the ability to fulfill any special requirements, such as extra sculpturing, paint, or varnish; or an instrument can be pyrographed to the artist's specifications.

"For the artist, the instrument must look extraordinarily good to start with", said Vasile Gliga, "but it must also be ready to sing perfectly from the moment he or she puts hands on it; the craftsmanship and the sound of the instrument both being very important. If the strings are a few tenths of a millimetre higher, or the distances are not perfect, then it will not fit in the artist's hand. The set-up of the instrument [i.e., bridge, tailpiece, fingerboard, pegs, soundpost, strings] is a very important issue".

Gliga has exhibited extraordinary social responsibility and care for the community by funding the Mirona nursery and elementary school for children of company employees, and for children throughout Romania. The school integrates "Violin Dances", a dancesport club. It has received many prizes from various championships in the UK, USA, Germany, Singapore, Denmark and China.

While concerned about the future, Vasile Gliga is content with his competitive position and the overall development of the company, especially during hard economic times. "Honesty, altruism, perseverance, passion, and the desire to excel in work; these are the virtues most of us aim for in all stages of our lives. And they all impact on the way we do business, where striving for excellence is vital".

There are some lessons to be learned from Gliga: When constrained in terms of growth, innovate and open up a new niche for customized products, consolidate your relationship with both retailers and end users, whether they are a school, a student, a professional or a master, and never say, "this can't be done". Act as a socially responsible company by providing care for the community. Last but not least, if your products compete with others at a similar price/quality ratio, bypass the wholesaler and even the retailer, and sell directly through the Internet. If you have a high-quality product, you will succeed in gaining the trust of buyers.

2.2 Grapefruit

Overview

Address: Bd. Poitiers nr.16, Iasi, Romania
Tel: +40332882993
Email: office@grapefruit.ro
Web: http://www.grapefruit.ro

Company Information

Industry:	Branding industry
Year of establishment:	1999
Sales revenues in 2009:	€0.69 million
Sales revenues in 2000:	€5,000
Average number employees in 2009:	40
Brain(s) behind the company:	CEO Marius Ursache; founded by Marius Ursache, Stefan Liute and Laurian Gridinoc

2.2.1 Nature of Market Leadership

Grapefruit is a leading consultant in marketing, advertising, and image design for clients (usually big domestic and foreign companies). This market is vulnerable to economic recessions; however, Grapefruit has managed to provide unprecedented quality of service, resulting in its leading position in terms of turnover.

2.2.2 Nature of Competitive Advantage

The core of the company's competitive advantage resides in designing solutions that not only enhance company image but also provide an extended user experience based on three key principles applied to everything that the company does: (1) Identifying what is relevant to the end-user as this shows knowledge of the client's needs, (2) building trust and credibility through actions, and (3), design, which involves solving real end-user problems until someone who is online gets to the flow state when using that application.

2.2.3 Core Lessons Learned on the Path to Business Success

1. Find what is relevant to the end-users by using research that provides a deep understanding of their behaviour, needs and desires. Apply this research as the only way to design the right features for the product.
2. Focus on passionate and loyal customers in designing product features, and not on those who use the product or application only occasionally.
3. Master your business perspective in three categories: As a *designer and strategist* who gets his hands "dirty" well above the elbows; as *manager* who must organize and keep people happy, and keep budgets under control; and an *entrepreneur* who must move away from the previous two to find a vision and gather appropriate resources to generate value.

2.2.4 Grapefruit: Hidden Champion

Every time you see a well-made company logo, it evokes an image of professionalism and quality. If you recognize it, you may be persuaded to use the company's products and feel associated with that particular brand, or at least talk and dream about it. If you wish to develop such a brand for your company, Grapefruit is a business structured to solve the issue. Grapefruit, being a service company, is not a typical HC but does show some HC characteristics; it creates the majority of its revenue abroad while providing a service to foreign MNCs.

The company was set up by Marius Ursache, an MD by training, with a real talent for drawing and a passion for details. He started working part time as a graphic artist at age 14, and later on at 17 he landed a full-time job as a cartoonist and graphic artist with a media company in Iasi. After 5-years in this field, his talent enabled him to enhance his skills through a summer holiday job in the UK in 1998, and also through a 4-month contract with a design agency in the USA the following year. It was there that he realized he wanted to return to Romania and open up his own company—Grapefruit Design (later shortened to ‘Grapefruit’)—with two other good friends; an IT specialist and software developer, and a very bright strategist and communicator.

Mr. Ursache defines Grapefruit’s industry category as “professional services” (branding), which includes marketing consultancy, advertising, and design. Based on turnover figures from the Ministry of Finance website, Grapefruit was the largest branding company in Romania in 2009. Branding is not a clear-cut niche. There are some specialized companies such as Brand Taylors, Brandient, BrandFusion, and Grapefruit, in a market that is estimated to be worth 3–4 million euros in Romania. However, advertising agencies also offer branding services that not only include brand strategies, visual identity and package design, but also communication strategies and digital branding in online and mobile environments; indeed, anything that has an impact in brand creation and development. This extended market is estimated to be worth 20 million euros per year; not big, yet quite lucrative since it does not bear much of the input costs. It is only labour intensive, and labour in Romania is internationally competitive both in terms of price and quality.

Back in 2000, the three friends did not imagine the growth that was to come in the next decade. They were honest and passionate, and they benefited from what Marius had brought back from the USA: managerial expertise, exquisite client service, and honesty, as fundamental values with which to run the company. At the time, Romanian firms were not ready for Grapefruit’s services. For the first couple of years they found customers from abroad through the Internet, or through recommendations. But wherever excellence occurs, reputation follows. The first major Romanian customer was Connex, one of the largest mobile phone operators (later bought by Vodafone), following an article about Grapefruit in Biz Magazine. Working with Connex brought higher visibility on the Romanian market, which further opened them to new Romanian clients. Such achievement deserves even higher merit considering that Grapefruit was not based in Bucharest but in Iasi. They opened the Bucharest office only in 2006, after 6 years.

By that time, Marius had recognized a problem: the more choices an end user or customer is willing to consider, the less loyal he becomes, regardless of the level of advertising. Therefore, the way to maintain market share is not necessarily to expand the client’s advertising and promotion budgets on discounted products, but to redesign the company product as a core component of the brand. He looked at iPhone’s growth since 2007 in a market previously dominated by Nokia, Blackberry and other players; a growth based not primarily on technology (such as processor speed, screen resolution and internal memory) but on the context and content people use the phones for, which is normally business or personal. In a similar way, Grapefruit started developing user-friendly, customized applications that effectively deal with different user problems.

By designing solutions for the end-user's problems that were better than those of the competition, while at the same time satisfying client's needs, Grapefruit soon had a competitive edge and seized the leading position. "We do a lot of research at the beginning of each project", said Mr. Ursache. "We analyse what is happening and which brands and products our client is competing with. We do a benchmarking analysis, find out who are the end users, and interview them and identify specific behaviours for each meaningful group. In order to solve the problems efficiently and effectively and satisfy specific needs, we segment customers into very narrow groups. We focus on the behaviour of each group and pay special attention to those who are the most passionate and loyal to our client's brand. They are the ones who provide the most meaningful feedback, spread the 'good word', and enhance product reputation. They are prophets; chief messengers who can help build brand recognition effectively. We work with them".

This approach proved to increase the effectiveness of branding, so the company soon attracted bigger business, including ING Romania, Dacia (part of the Renault Group), E.ON Energie, and Phillip Morris. For example, Grapefruit has optimized ING's Internet Banking application, Home'Bank, and they have transformed the brand of Dacia by designing the country's website, Bautozar.ro, for used cars. The design considerably improved Dacia's advantage over their competitors, whose websites were not as user-friendly. In particular, Grapefruit's contribution lies in defining search criteria which better match the needs and aspirations of the buyer in an online environment. A specific problem for competing websites is that in many cases they list cars that have been already sold. Grapefruit's design has resolved this issue; all listings automatically expire after 2 weeks, but there is a simplified process for reregistering cars not sold in that period.

Overall, Grapefruit's key competitive advantage lies in designing solutions that not only enhance an image "as packaging" but provide key improvements to the customer experience through the initial research and analysis phase to an appropriate strategy, solutions that range from visual identities to package designs, communication plans and materials, and digital and mobile presentations and tools.

Over the last decade, Grapefruit's market has evolved through consumer education. Shaping the customer through education has proven to work in the company's favour, in spite of increasing competition. However, the Grapefruit team, with its passion for things well done, has also needed to transform its own mentality on occasions. "I have to constantly change my perspective over this business; as it were, to wear alternately one of three hats: The *design consultant*, who gets his hands "dirty" well above the elbow; the *manager*, who must organize and keep the team and clients happy, keep budgets under control, and keep projects running; and the *entrepreneur*, who must move away from the previous two to find a vision for the future and gather appropriate resources to generate value. It took us about 6 years to evolve from the stage where if one of us was missing then the organization would stagger to a more stable business", Marius Ursache emphasized.

Despite the successes of the past, Grapefruit is not yet pleased with its market leader position. It is looking to continue its adaptation process and expand its business over the border. "The passion for novel successes is all but death".

What specific lessons does Grapefruit teach us? Find what is relevant to the end user, focus on the most passionate and loyal customers when designing product features, and do not view your own business statically—your identity should not be fixed. Hence, the CEO should regularly shift perspectives when thinking about the business: How would you act as a consultant to the business? How would you act as a manager, and how would you act as an entrepreneur? Merge the three perspectives whenever you can.

2.3 ELECTRA

Overview

Address:	Bd. Chimiei nr.8, Iasi, Romania
Tel:	+40232214370
Email:	office@electra.ro
Web:	http://www.electra.ro

Company Information

Industry:	Manufacture of consumer electronic products. Electric and electronic industry, Manufacturing of machines and electronic equipment, printed circuits and electronic assemblies
Year of establishment:	1991
Sales revenues in 2009 (for the Group):	€3.11 million
Sales revenues in 2000:	€0.52 million
Average number employees in 2009:	140
Brain(s) behind the company:	CEO and founder Marian Berdan

2.3.1 Nature of Market Leadership

ELECTRA manufactures high-quality interphones and other related security system solutions for a wide range of buildings, ranging from single villas to large residential compounds. The company currently covers nearly 70 % of the Romanian market. Recently, since the domestic market could not provide enough of growth opportunities, the company has started to grow internationally.

2.3.2 Nature of Competitive Advantage

The core of ELECTRA's competitive advantage is based on three interlinked factors: innovation, quality, and Romania-based manufacturing. Innovations go beyond aesthetic and functional features and include vertical integration to a better product and market control. In particular, vertical integration and strong R&D are implemented through strategic partnerships with German and US companies. Next, the company stopped its reliance on Chinese imports. Third, in cooperation with strategic partners it developed its own radio frequency identification technology and thus opened up the market for apartment alarm systems with a programmable card tag. All these activities are in preparation for the company to find a way into the EU interphones market.

2.3.3 Core Lessons Learned on the Path to Business Success

1. Make consistent efforts to outgrow competitors when the market expands, through provision of better value to end users for both product and associated service. It may prove difficult to do so because you may not see the reason to work hard while the market expands by itself during economic growth.
2. Opportunities cannot grow if you do not prepare for them. Investment in R&D opens doors to strategic alliances and partners that have a mutual interest in your development in both internal and international markets.
3. Take care of people. Loyal, dedicated and skilful workers, who enthusiastically put their minds and souls into the company, help it to sail through the rough waters of an economic crisis and on to new opportunities.

2.3.4 ELECTRA: Hidden Champion

Whether you live in a house or a block of flats, you probably use an interphone when someone comes to visit, providing you with the comfort of hearing and even seeing your guest. And that is what ELECTRA does best: constructing the interphones. In short, it solves security needs for apartment owners. Its products are used by nearly 70 % of Romanians already; and now the company is step by step expanding into Europe. Customers purchase ELECTRA's devices through independent local companies who install and service them. The Romanian market of nearly 3.5 million apartments grew rapidly up until 2006, enabling the company to manufacture and sell up to 25,000 units per month at that time. ELECTRA found enough growth opportunities at home, so there was no immediate need to expand abroad.

Compared to the products of their competition, ELECTRA's interphones were considered good value for money: robust devices with good performance and fast service, all at a reasonable price, which convinced customers to purchase them. But then, aesthetic appearance became a factor also. While their interphones had excellent functional design and reliability, they were not aesthetically appealing. So, in 2009, Marian Berdan added a new requirement—the product should look good. Consequently, the R&D team stopped a product, just before its launch, to add an aesthetic dimension to it. They designed a minimalist and futuristic touch monitor with a flat panel. This new product used US and German technology; however it was only one tenth of the cost of similar products from the West.

The company stimulated growth through expanding the technological and aesthetic variability of its products, with both analogic and digital solutions. While analog systems are solely based on audio, and can be used only in individual houses or apartments, digital technology enables the flexibility and interconnectivity required for both individual units *and* residential compounds consisting of several blocks of flats. Digital interphones, though more expensive, can cover up to 1,000 apartments and hence create lower costs per apartment. However, the sale of higher-priced multi-apartment digital and lower-priced single-apartment analog interphones is not straightforward. "When selling a product, you must know the individual and the address, enabling effective segmentation of appropriate product features. However, in the same apartment block there may be a retired person with a limited budget, someone with small children, and businesspersons. If we want to address these diverse individuals, we need to design a system, either digital or analogical, that serves all the needs well, even if in one product".

In order to enhance quality, ELECTRA invested in better machinery that provided both higher quality and higher production speed, which led to increased capacity and less waste. And in 2008, for technical and strategic reasons, the company split into three entities: ELECTRA, Printed Circuit Boards (PCB ELECTRA), and Electronic Manufacturing Services (EMS ELECTRA), thus enhancing the group's competitive position. PCB and EMS started to generate a larger turnover from external customers—some from the EU—compared to internal orders.

On the technical side, PCB specializes in chemical processes for circuit boards, mostly developed for specific suppliers and customers. EMS specializes in electronic, electromechanical, and metallurgical processes in components and parts-soldering, which is very different from the interphone business. In general, both businesses are pretty much independent of each other. On the strategic side, splitting the business enabled better control of critical operations and greater flexibility. Such flexibility was required for better management of strategic partnerships, two with German companies and one from the USA. One of the German partners bought 15 % of EMS, and, with the other ELECTRA, developed its radio frequency identification technology. Now the group has about 140 employees, half in ELECTRA, and about 35 at both PCB ELECTRA and EMS ELECTRA. The development of radio frequency identification technology also opened up the market for apartment alarm systems and the challenge to connect the video-door phone to the internet, provide security and control access. The ability to offer alarm systems, along with a radical leap in the aesthetics of digital interphones, made ELECTRA much more interesting to residential developers.

ELECTRA is by no means the cheapest interphone company, but rather the one that has the vision to build its business further through R&D strategic partnerships with the West. This vision has elevated ELECTRA's business to a new level by offering an integrated system solution (interphones + alarm system) to the construction industry. However, construction and residential development is perhaps still in a neutral stage, and the company has also been subject to the financial crisis. “However”, said Mr. Berdan, “I am doing very well considering the crisis. I believe that in the future it may be even a little bit easier, especially if we find a way into the German market. We are a company that learns and innovates continuously”.

To sum up: ELECTRA, with Marian Berdan as its captain, has the ability to take advantage of positive as well as negative trends in the environment. The company outgrew its competitors by offering superior value for money as well as offering more aesthetically appealing products when the market expanded. However, even when the crisis loomed, ELECTRA continued to invest nearly 15 % of its turnover in R&D and set up strategic partnerships to expand its business. Nowadays, the company not only has state-of-the-art generations of interphones but also offers alarm systems, and residential developers can see even more value in doing business with them.

Conclusion

The Romanian economy is dissimilar to the Western (German) economy; hence our HCs do not resemble much those discussed by Simon. Though different, the companies presented here are among the most successful companies in Romania, able to carve their niche markets and establish leadership in them. Till 2008, the growth of the Romanian economy was sufficient to offer these companies enough growth opportunities at home; therefore their international endeavors started to mostly after 2008. From this perspective, their relatively weak international market position is understandable. But in future, we can expect that their portion of the international business pie will be considerably larger. Why?

Firstly, they are set up and run by passionate, strong, committed leaders, who set their goals and business priorities very high. All of them state great goals for the future, and their past leadership behaviour shows that they are willing to go a long way to meet these goals.

Next, though on average they do not invest so much in R&D (except ELECTRA) they are by all standards very inventive, especially in sales and marketing activities. They have sufficient entrepreneurial ability to try out risky sales approaches; for example, the sale of violins through the internet, which has paid off well for Gliga. Bearing in mind that the majority of markets today are saturated with consumer goods and supply considerably exceeds demand, the ability to market, sell and distribute your products and services seems to be the most important factor, and all three companies presented here are very good at that. Indeed, Grapefruit is to some extent in the business of advising companies on the skill of promoting and selling their products, particularly through virtual platforms.

In terms of product characteristics, all of these companies started with superior price/performance ratios partly because they were leveraging with lower labour costs. In consequent stages they added more and more value to their products and services by focusing also on aesthetic dimensions and offering more holistic products and service solutions.

Perhaps the most important lesson that can be grasped from our Romanian Hidden Champions is their capacity to learn. The most amazing thing is how well they are able to scan the market and adjust to it quickly. If they fail, they fail for a lack of learning. And out of all the capabilities they have, this learning ability is the best predictor of their future success.

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