

Chapter 15

Export Modes

International trade, e.g. the exchange of goods and services across national boundaries through exporting or importing, is the most traditional form of international business activity and still plays a major role in the world economy. Exporting can be organised in a variety of ways. This Chapter discusses export channels, practices and procedures.

Historical and Empirical Relevance of Exporting

Looking briefly at the history of international trade, three periods can be identified (Seyoum 2014, pp. 1-3): the ancient period, the colonial period and the present (post-1900).

International trade started around 2500 BC (*ancient period*). The *colonial period* (1500-1900) can be divided into two sub-periods. The first phase (until 1750) was characterised by national monopolies controlling commerce between colonies and the mother country and granting private companies, such as the *English East India Company* or the *Dutch East India Company*, a monopoly trade in the colonies. The second phase is characterised by more commercial considerations, initiated by the *Industrial Revolution*.

From 1900 until the outbreak of World War I, there was a further development in international trade, followed by the disrupted trading links, state intervention and restrictive economic policies in the post-World War I period. To avoid a repeat of this situation, the allied countries established the *International Monetary Fund* (IMF) and the *International Bank for Reconstruction and Development* (IBRD) before the end of World War II, followed by the *General Agreement on Tariffs and Trade* (GATT) in 1947 to enable the free flow of goods among countries (see Chapter 7).

The economic importance of international trade is shown in Figure 15.1: the development of global merchandise exports from 1980 to 2013.

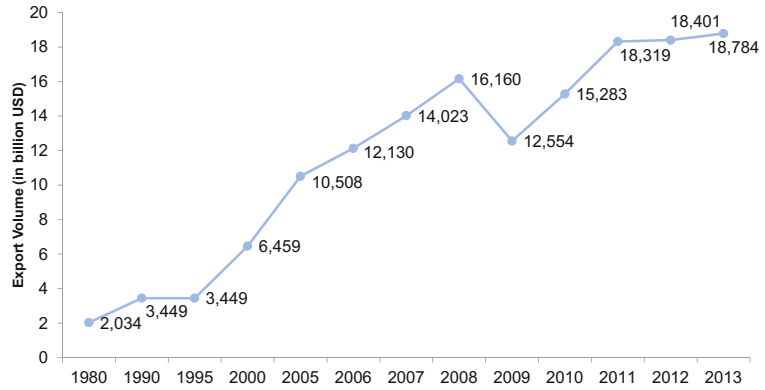
*Ancient and
Colonial
Period*

*Period 1900
to the Present*

*Economic
Importance*

Figure 15.1

Global Merchandise Exports from 1980 to 2013 (in billion USD)

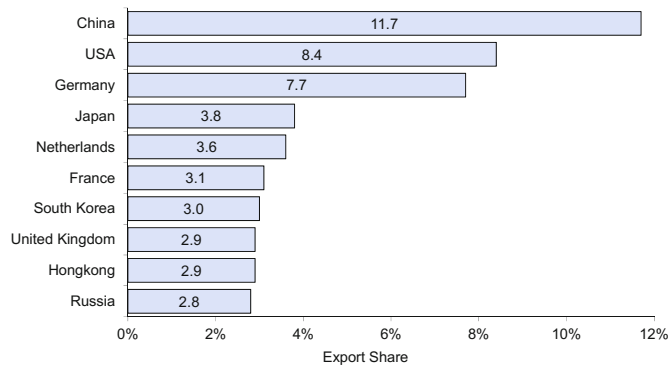


Source: WTO World Trade Report 2014.

The leading export countries in terms of merchandise trade are presented in Figure 15.2. Since 2009 China has been No. 1 in global merchandise exports.

Figure 15.2

Leading Export Countries (Merchandise Trade): Share of World Trade 2013 (in %)



Source: WTO World Trade Report 2014.

Exporting is usually a company's first type of foreign business operation because it involves the least commitment of resources and the least degree of

risk (see also Chapter 14). In the *process of internationalising* business operations, a second dimension, of exports can be identified. *Cross-border value creation* combined with foreign direct investment (FDI) leads to integrated networks (see Chapter 1), in which different subsidiaries are interlinked: Parts and components are produced in country A, exported to country B, in which they are assembled together with components coming from country C and the final products are sold to countries D, E, F, etc.. The economic effect of this *new global structure* of value creation processes is shown in Figure 15.3. Except during the financial crises of 2009, the growth in world trade has been higher than the growth of world production.

Growth of World Trade and World Production (in %)

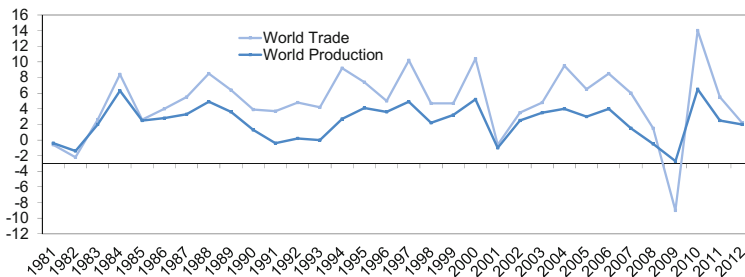


Figure 15.3

Source: WTO World Trade Report 2013.

Channels of Distribution

Exporting can be realised through two principal channels of distribution: indirect or direct channels. In *indirect export modes* a firm uses independent export organisations located in its own country. “In indirect exporting the sale is like a domestic sale; in fact the firm is not really engaging in global marketing, because its products are carried abroad by others. Such an approach to exporting is most likely to be appropriate for a firm with limited international expansion objectives” (Hollensen 2014, p. 349). *Direct exporting* means that a firm sells directly to foreign distributors, trading companies or final customers (buyers). Direct export could also be achieved through agents located in a foreign country. “Indirect exporting is associated with poor control, inadequate feedback, and shorter time to market than does direct exporting. Direct exporting requires a higher level of investment in

*Indirect and
Direct Chan-
nels*

financial, technical, and other resources than indirect exporting” (Seyoum 2014, p. 86).

Indirect Channels

For indirect channels, several types of *intermediaries* can be differentiated:

- exporters that sell on behalf of a manufacturer, e.g. *manufacturer’s exports agents* or *export management companies*
- exporters that buy for their foreign/overseas customers, e.g. *export commission agents*, representing foreign buyers such as large industrial users
- exporters that buy and sell for their own accounts, e.g. *export merchants* or *international trading companies (ITCs)*.

Besides these basic types there is a further indirect channel: cooperative exporters. These are firms, predominantly manufacturers, which sell other companies’ products in foreign markets together with their own (Ball et al. 2013).

International Trading Companies

International trading companies are firms that not only buy products or act as an export intermediary but also import, invest, manufacture or engage in *countertrading* (the trading of goods for other goods, instead of money). They usually operate across many national markets and handle a variety of products (Mühlbacher/Leih/Dahringer 2006, p. 416). Traditional trading companies include the Japanese *Sogo Shosha*, e.g. *Mitsubishi* and *Mitsui*, or the *Chaebol* from South Korea, such as *Daewoo*, *Hyundai* and *Samsung*. In European countries their origins can be traced back to the colonial period, such as the *English East India Company*, the *Dutch East India Company* and the *French East India Company*.

In the context of globalisation and outsourcing (see Chapter 16) new players have emerged: *market expansion services (MES) providers*. This new industry offers specialised services that help companies expand efficiently and effectively into new markets, especially in Asia: “MES providers help companies increase their market share, improve market coverage and deepen market penetration – while naturally also freeing up resources, lowering the fixed cost base and reducing operational complexity. In effect, market expansion services have emerged as the high end of the outsourcing landscape.” (DKSH/Roland Berger 2013, p. 9).

Types of Intermediaries

Sogo Shosha and Chaebol

Market Expansion Services

A leading market expansion services provider is *DKSH*, with a focus on Asia. *DKSH* has a nearly 150-year-long tradition of doing business in and with Asia, and is deeply rooted in communities and business across Asia-Pacific.

Direct Channels

A manufacturer has different options for selling its products directly to foreign countries:

- direct selling from the home country
- selling through agents and distributors
- selling through resident sales representatives, foreign sales branches and foreign sales subsidiaries.

Cooperative direct export modes also exist, e.g. export marketing groups. They are frequently found among small and medium-sized enterprises (SMEs) to support initial foreign market entry, because many such firms do not have adequate management and marketing resources available.

Direct Selling from the Home Country

A firm may sell directly to a foreign manufacturer, retailer or consumer through catalogue sales/telephone or domestic-based sales representatives, i.e., domestic employees of the exporting firm traveling abroad to perform the sales function.

This export mode often leads to the establishment of an *export department* (see also Chapter 11). “This is not actually a form of market entry; rather, it is an internal response to the need or desire to move into new country-markets or regions. Located within the home organisation, the export department is responsible for international sales and possibly shipping, advertising, credit evaluation, and other activities related to operating in foreign markets” (Mühlbacher/Leih/Dahringer 2006, p. 418).

The growing importance or use of the Internet (*E-Business* or *E-Commerce*) is dramatically increasing the direct sale of products and/or services to private or commercial customers (*B2C* and *B2B*).

Direct Selling through Agents and Distributors

Agents are independent companies that sell to customers on behalf of the manufacturer. The agents are not employees of the home organisation; they

work on a *commission basis*. Usually they do not stock the products; the manufacturer (exporter) ships the merchandise directly to the customers.

An *exclusive agent* has exclusive rights to specified territories; *non-exclusive agents* handle a variety of goods. Distributors are *independent merchants*. They buy on their own accounts, stock the products and are free to select their own customers and run their own marketing programmes.

Resident Sales Representatives, Foreign Sales Branch and Foreign Sales Subsidiaries

The common feature of these modes is that the sales function is transferred to the foreign market. *Resident sales representatives* display a greater market or customer commitment than using domestic-based sales representatives. A *foreign sales branch* or *formal branch office* is an institutional extension of this export mode. The resident salespersons are assigned to this sales office, which is a legal part of the exporting company. Usually, taxation of profits takes place in the manufacturer's country.

A *wholly-owned sales subsidiary* often results from the positive development of the firm. The sales office will be transferred to a local company owned and operated by a foreign company under the laws and taxation of the host country (Hollensen 2014, p. 401).

The simplest form of market presence is a *representation office*. The task of the representation office is to make contact with potential customers, form a network of important stakeholders and gather market information. The office does not make direct sales and has no individual legal status. Usually it is not taxed.

The advantages and disadvantages of these different export modes (indirect vs. direct exporting) are shown in Table 15.1.

Advantages and Disadvantages of Export Modes

Table 15.1

Export Mode	Advantages	Disadvantages
Indirect Exporting	<ul style="list-style-type: none"> ◆ limited commitment and investment required ◆ minimal risk (market, political) ◆ little or no involvement or export experience needed ◆ suitable for firms with limited resources ◆ good way to test-market products, develop goodwill, and allow clients to become familiar with firm's tradename 	<ul style="list-style-type: none"> ◆ no control over marketing mix elements other than the product ◆ an additional domestic member in the distribution chain may add costs ◆ lack of contact with the market ◆ lower profit margin due to commissions and other payment to intermediaries ◆ limited contact/feedback from end users ◆ limited/no opportunity to learn international business know-how and develop marketing contacts ◆ difficulties in taking over the business after the relationship has ended.
Direct exporting - Domestic-Based Sales Representatives - Agents/Distributors - Resident Sales Representatives/Foreign Sales Branches/Foreign Sales Subsidiaries	<ul style="list-style-type: none"> ◆ better control of sales activities compared to independent intermediaries ◆ access to market experience ◆ shorter distribution chain (compared to indirect exporting) ◆ acquisition of market knowledge ◆ more control over marketing mix (especially with agents) ◆ local service support available ◆ full control of operation ◆ direct acquisition of market knowledge 	<ul style="list-style-type: none"> ◆ high travel expenses ◆ little control over market price and lack of distribution control (especially with distributors) ◆ some investment in sales organisation required (contact with distributors or agents) ◆ cultural differences, providing communication problems ◆ initial capital investment required (subsidiary) ◆ less flexibility (subsidiary) ◆ high risk (market, political) ◆ taxation problems

Source: Adapted from Hollensen 2014, p. 362, p. 398; Seyoum 2014, p. 94.

Export Performance Analysis

There is a broad literature analysing the performance of exporting in comparison with other foreign entry or operation modes along with the performance of the different sub-modes, e.g. direct or indirect exports (see, e.g., Morschett 2007, pp. 102-103; Zentes/Swoboda/Schramm-Klein 2013, pp. 285-287). Several *literature reviews* (see, e.g., Leonidou/Katsikeas/Coudounaris 2010, p. 86) and *meta analyses* (see, e.g., Morschett 2007; Morschett/Schramm-Klein/Swoboda 2010) discuss the partly contradictory findings of empirical studies.

Countertrade

Countertrade describes a variety of *commercial agreements* in which a seller or exporter delivers products (goods, services, technology) and agrees to a *reciprocal purchasing obligation* with the buyer or importer in terms of full or partial percentage of the sales value.

Barter

“The origins of countertrade can be traced to ancient times, when international trade was based on the free exchange of goods. Barter flourished in Northern Mesopotamia as early as 3000 BC, when inhabitants traded in textiles and metals” (Seyoum 2014, p. 259). Even today, in a *money economy*, countertrade still continues as a medium of exchange. Present-day countertrade is more than the use of simple *barter*. Countertrade includes the exchange of currency or goods and services between two or more countries, including *third parties*, e.g. international trading companies, which operate as an intermediary. They acquire the purchasing obligation from the exporter and sell the countertrade products for their own accounts.

Benefits

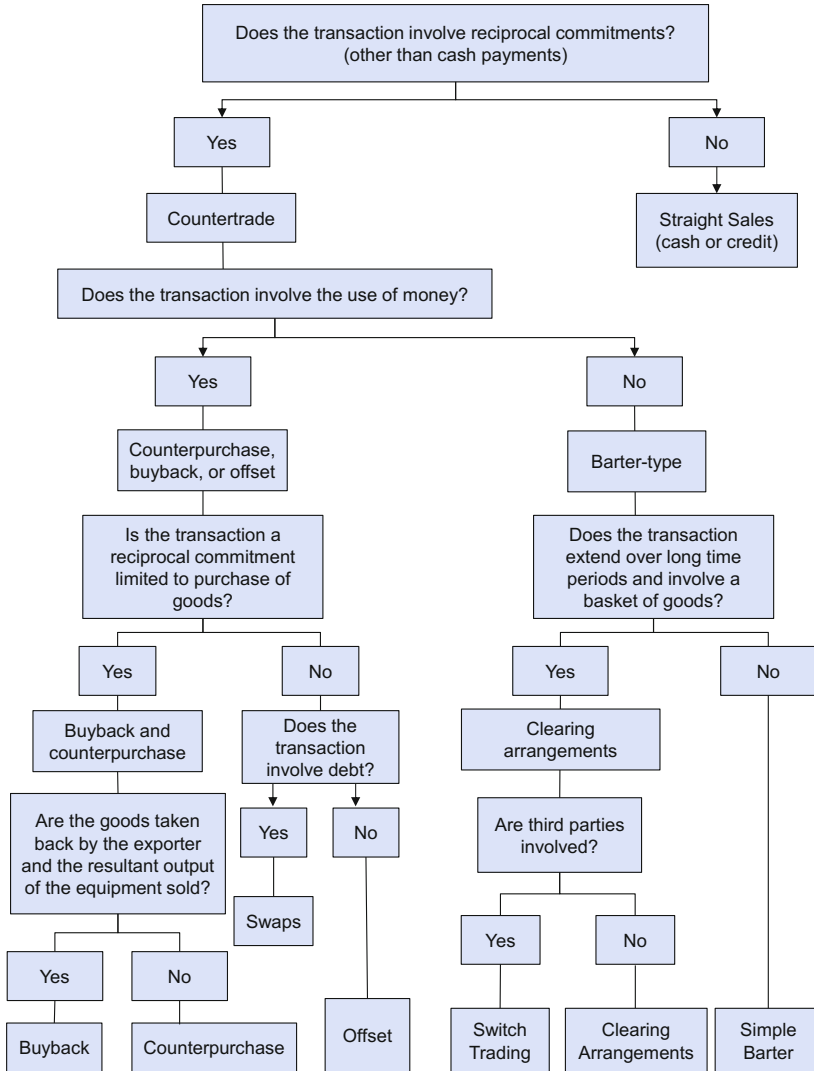
The most important benefits of countertrade are (Seyoum 2014, pp. 260-261):

- for buyers or importers: access to modern technology as well as diminishing balance-of-payments difficulties
- for seller or exporters: increase in sales opportunities as well as access to sources of supply (e.g. natural resources or raw materials).

Figure 15.4 shows a classification of countertrade transactions.

Forms of Countertrade

Figure 15.4



Source: Seyoum 2014, p. 263.

Procedures and Techniques

Executing *cross-border transactions*, such as exporting or importing, means handling a variety of complex legal, contractual and financial factors. Essential elements include:

- the fixing of prices, currencies, delivery terms and methods of payment
- the fixing of tasks, costs and risks associated with transportation and delivery of goods.

Trade Terms

Incoterms

Trade terms define the *method of delivery* of goods sold and the responsibilities of the parties involved, i.e. the seller or exporter and the buyer or importer. They also help in the *calculation* of the sales prices and/or the comparison of purchase prices. The most important trade terms are those developed by the *International Chamber of Commerce (ICC)*, the *Incoterms (International Commercial Terms)*. Incoterms have existed since 1936, with seven revisions, and are a set of rules rather than laws. *Incoterms 2010*, the most recent revision, consists of eleven terms, briefly characterised in Table 15.2.

Incoterms 2010: Division of Costs, Licences, Formalities and Risks

Table 15.2

Term	Transport	Transport Insurance	Clearance	Taxes	Export license	Import license	Transfer of risk
EXW (Ex-Works)	buyer	buyer (although not obligated to insure)	buyer	buyer	buyer	buyer	when goods are placed at the disposal of the buyer
FCA (Free Carrier)	buyer	buyer (although not obligated to insure)	buyer	buyer	seller	buyer	upon seller's delivery to the carrier at the named place
FAS (Free Alongside Ship)	buyer	buyer (although not obligated to insure)	buyer	buyer	seller	buyer	when goods are placed alongside the ship
FOB (Free on Board)	buyer	buyer	buyer	buyer	seller	buyer	when goods are placed on board the vessel at the port of departure
CFR (Cost and Freight)	seller	buyer (although not obligated to insure)	buyer	buyer	seller	buyer	when goods are placed on board the vessel at the port of departure
CIF (Cost, Insurance and Freight)	seller	seller	buyer	buyer	seller	buyer	when goods are placed on board the vessel at the port of departure
CPT (Carriage Paid To)	seller	buyer	buyer	buyer	seller	buyer	upon seller's delivery to the main carrier at the place of departure
CIP (Carriage and Insurance Paid To)	seller	seller	buyer	buyer	seller	buyer	upon seller's delivery to the main carrier at the place of departure
DAT (Delivered At Terminal)	seller	seller	buyer	buyer	seller	buyer	when the goods are unloaded from the arriving vehicle (not cleared) and are at the buyer's disposal at the agreed place of destination
DAP (Delivered At Place)	seller	seller (although not obligated to insure)	buyer	buyer	seller	buyer	when the goods are placed at the buyer's disposal at the agreed destination (not unloaded and not cleared)
DDP (Delivered Duty Paid)	seller	seller (although not obligated to insure)	seller	seller	seller	seller	when goods cleared and duty paid (not unloaded) are placed at the buyer's disposal at the agreed destination

Source: ICC Germany 2013.

Conclusion and Outlook

Exporting and importing, i.e. the exchange of goods and services across national boundaries, is the most traditional form of international business activity. International trade has played a major role in both *economic history* and *world history*. International trade is still of great and growing importance to the global economy. Global merchandise and service exports will continue to grow.

Over the past few decades a shift in the *direction of trade* can be observed. Trade among industrial market economies has been the dominant pattern. The dynamic growth of developing countries, especially the so-called *emerging countries*, has led to an enormous increase in trade with and among these developing nations.

*New Directions
of Trade*

Exporting is also the first type of foreign business operation undertaken by most companies from emerging countries developing into *emerging market multinationals*. Exporting will continue to play an important role in industrial market economies. It is the first step toward entering new markets, such as emerging countries.

Further Reading

ALBAUM, G.; DUERR, E. (2011): *International Marketing & Export Management*, 7th ed., Harlow, Pearson.

JOHNSON, T.E.; DONNA, L.B. (2010): *Export/Import Procedures and Documentation*, Osborne, McGraw-Hill Professional.

SEYOUM, B. (2014): *Export-Import Theory, Practices and Procedures*, 3rd ed., New York, Routledge.

Case Study: Herrenknecht*

Profile, History and Status Quo

Herrenknecht is a German manufacturer of tunnel-drilling machines, headquartered in Allmannsweier near Schwanau, Germany. The professionally managed family enterprise is the *global market leader* in mechanised tunneling for tunnel infrastructures, as well as for underground energy sources and raw material extractions. As of 2013, it is the only company in its respective field that delivers cutting-edge tunnel-drilling machines for all ground conditions and in all diameters, ranging from 0.10 to 19 meters.

The company's origins date back to 1975 when *Martin Herrenknecht* established the eponymous engineering company in a small office in Lahr, Germany. Over the next two years, *Herrenknecht* and its six employees developed the MH1 to MH3 machine models for pipe jacking in loose soils, and in 1977 *Herrenknecht GmbH* (i.e. a limited liability company) was founded. In 1980, the company relocated its office to Schwanau, where its first assembly plant was opened. During the 1980s, *Herrenknecht* launched various devel-

* Sources used for this case study include the website <http://www.herrenknecht.com>, various company reports, investor-relations presentations as well as explicitly cited sources.

opments, e.g. micro machines for non-accessible tunnel diameters or the so-called “mixshield generation” for larger tunnel diameters. In 1984, the company opened its first subsidiary abroad in Sunderland, England. The manufacturer continued its growth by acquiring the shares of *Maschinen- und Stahlbau GmbH* in Dresden, Germany in 1991. In 1998, *Herrenknecht GmbH* was converted into a non-listed joint stock company (*Herrenknecht AG*). This conversion was followed by the founding of diverse subsidiaries around the world. In the meantime, *Herrenknecht* has become market leader in mechanised tunnelling technology. In 2005, the company reached record sales, surpassing 500 million EUR. Two years later, the tunnel manufacturer received inflow orders passing the one billion EUR mark for the first time. As of 2010, the company holds the world record for the construction of the largest tunnel-drilling machine. 2011 was another year of new records: Order inflow increased by 25% to 1,143 million EUR and sales increased by 9% to 1,017 million EUR.

In 2013, with some 4,800 employees (including trainees and temporary workers) the enterprise enjoys a stable position with sales of 1,051 million EUR and an order inflow of 1,082 EUR. All aforementioned data is shown in Table 15.3.

Selected Data of Herrenknecht (2008 to 2013)

Table 15.3

	2008	2009	2010	2011	2012	2013
Sales (in million EUR)	926	866	935	1,017	1,147	1,051
Order inflow (in million EUR)	939	908	916	1,143	1,051	1,082
Number of staff*	3,831	3,960	4,154	5,635	5,079	4,777

*including trainees and temporary workers

Source: Herrenknecht 2014.

Thanks to their positive business development, *Herrenknecht* has gained considerable significance in the German industry sector.

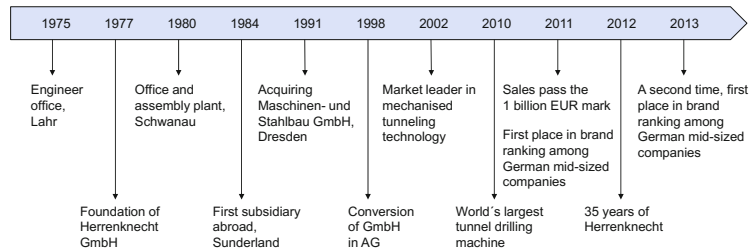
According to a 2013 brand study commissioned by the German business magazine *WirtschaftsWoche*, *Herrenknecht* occupies the top position among German world market leaders in the mid-sized business sector. Compared to 2011, when *Herrenknecht* was also in first place, the company has further increased its performance, and is the most valuable business-to-business brand among these German companies.

No. 1 in Brand Ranking

Figure 15.5 provides a summary of the *milestones* in *Herrenknecht's history*, from its foundation up to 2013.

Figure 15.5

Milestones in Herrenknecht's History (1975 to 2013)



Source: Herrenknecht 2014.

Core Markets and Brands

Core Markets

The *Herrenknecht Group*, which operationally consists of *Herrenknecht AG*, numerous subsidiaries and associated companies working in related fields, offers full range solutions in three core markets:

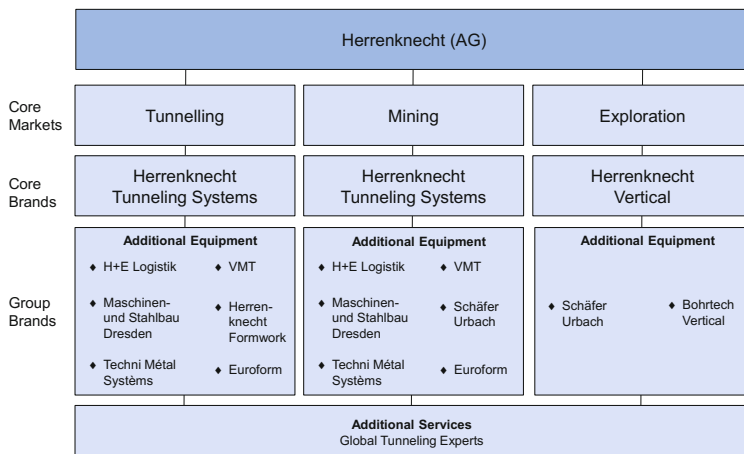
- *Herrenknecht Tunnelling* can be divided into traffic tunnelling and utility tunnelling. *Traffic tunnelling* refers to all technical solutions for modern infrastructure. It includes the construction of efficient road tunnels, transregional and transnational railway networks and efficient metro networks. *Utility tunnelling* comprises all technologies for efficient underground supply tunnelling systems, e.g. construction and installation of water and sewage systems, pipelines, conduits for power, Internet and telephone lines as well as headrace tunnels for hydropower plants.
- *Herrenknecht Mining* concerns the company's mechanised tunnelling operations for constructing cutting-edge underground mining infrastructures. In light of the growing world demand for ore, extracting underground raw material deposits at great depths is gaining in importance. *Herrenknecht* supplies an entire range of innovative solutions based on proven technology to serve this field.
- *Herrenknecht Exploration* comprises the company's technical innovations to explore and develop new energy deposits, which are mostly located in difficult to access areas. It encompasses the optimisation of drilling ecology for geothermal energy, as well as the exploration and development of new raw material reservoirs with advanced technologies.

Core Brands

As illustrated in Figure 15.6, the *Herrenknecht's* tunnelling and mining market is dominated by the core brand called *Herrenknecht Tunneling Systems*, while exploration is dominated by the *Herrenknecht Vertical* brand, which exclusively develops and manufactures deep drilling systems to explore energy resources at extreme depths. *Herrenknecht Vertical*, which was founded in 2005, is one of the company's most impressive innovations. Instead of the horizontal tunnelling usually employed in tunnelling processes, *Herrenknecht* seized the opportunity to transfer its competencies to vertical drilling, especially for geothermal purposes, which show extremely strong promise. Thus, *Herrenknecht* added a complete new growth market to its portfolio.

Core Markets and Brands

Figure 15.6



Source: Herrenknecht 2014.

Worldwide Operations

Herrenknecht is currently working on 850 infrastructure projects for supply and disposal tunnels worldwide. As of 2013, exports account for 95% of *Herrenknecht's* global business. In doing so, the manufacturer uses various subsidiaries and sales representatives in Germany and abroad. At time of writing, the enterprise group owns 78 subsidiaries – including the Netherlands, Australia, New Zealand, China, France, Great Britain, India, Iran, Italy, Malaysia, Russia, Singapore, Spain, Switzerland, Thailand, Ukraine, the United Arab Emirates, the United States and Venezuela.

Subsidiaries and Representatives

Export Modes

Along with these subsidiaries, *Herrenknecht* maintains partnerships with a dozen companies, including *Anakon*, *Bohrtec* (Germany), *Hodapp Hispanica* (Spain), *HS Tunnel-Engineering* (Switzerland) and *Commodore Cement Industries* (United Arab Emirates). With a presence in 38 countries, *Herrenknecht* holds a world market share of over 70%.

Numerous distribution and service locations on all continents support the company in providing a comprehensive range of services close to the project site and the customer.

Table 15.4 shows *Herrenknecht's worldwide operations*, divided into distribution, service and production locations. It clearly shows that, despite its international business, the German headquarters is still of paramount importance. The main production locations are still based in Germany – not least because the quality label “*Made in Germany*” is applied to all *Herrenknecht* technology.

Table 15.4

Worldwide Operations (2014)

Region	Country	Number of distribution locations	Number of service locations	Number of production locations	Region	Country	Number of distribution locations	Number of service locations	Number of production locations
Africa & Middle East	Egypt	1			Europe	Italy	3	2	1
	Qatar	1	1			Netherlands	2	2	
	Saudi Arabia	1	1			Portugal	1		
	South Africa	1				Romania	1		
	United Arab Emirates	2	2	1		Russia	2	2	
Asia	China	2	7	4		Spain	1	1	
	India	1	1	1		Sweden	1		
	Indonesia	2				Switzerland	3	2	1
	Malaysia	1				Turkey	1		
	Singapore	1	1			Ukraine	1	1	
	South Korea	1			United Kingdom	1	1		
	Thailand	1	1		Northern America	Canada	1		
Australia & Oceania	Australia	2	1			United States	1	1	1
Central America	Mexico	2	1		South America	Argentina	2	1	
	Panama	1	1			Brazil	1	1	
Europe	Azerbaijan	1				Chile	1	1	
	Bulgaria	1				Colombia	1	1	
	France	2	1	1		Peru	1		
	Germany	9	8	8		Venezuela	1	1	

Source: Herrenknecht 2014.

Herrenknecht's Position in the German Export Market

With its eight production plants in the German cities of Schwanau (3 plants), Alsdorf, Bochum, Dresden, Ratingen and Bruchsal, *Herrenknecht* offers and supplies integrated tunnelling solutions, including project-specific equipment, as well as service packages to customers from all over the world. Continuous process innovations, which are mainly driven by the R&D department in Schwanau, as well as consistent knowledge transfer to local markets, have supported the company in the internationalisation of its business.

With this strong track record for innovation, *Herrenknecht*, as previously mentioned, leads the list of the German mid-sized companies. This elite tier known as “hidden champions” was identified by *Simon* (1996; 2009; 2012) as the driver of Germany's export success (for reference: Germany was market leader in world exports from 2003 to 2008, and is still one of the main export countries).

Herrenknecht belongs to this elite tier because it meets many of the criteria suggested for a typical hidden champion (*Simon* 2012, p. 83). These criteria are: belonging to the top three in their global market, or No. 1 on their continent (determined by market share), having revenues below 5 billion USD and being little known to the general public.

Like *Herrenknecht*, most of these exceptionally successful mid-sized companies are family-owned businesses with headquarters based in small towns. The extraordinary relevance of these hidden champions lies in their export strength, as they account for about 25% of German exports and have created over a million new jobs in the last ten years. With their high export ratios, they contribute significantly to their country's balance sheet and are often more successful than average. *Herrenknecht's* impressive track records in innovation over the last 35 years, as well as its customer loyalty due to its global presence are further examples. With its increasingly global market share, *Herrenknecht* has also created a massive wave of new innovations. Compared to China and the United States, where exports are dominated by highly visible traditional internationalisers, German exports are determined by a huge number of hidden champions like *Herrenknecht*.

From Export to Offshore Production

Despite the aforementioned relevance of Germany as *Herrenknecht's* main production location, the company has expanded its production geographically in recent years.

Herrenknecht's selective production expansion is shown in Figure 15.7. While in its first twenty years *Herrenknecht* grew through domestic production and

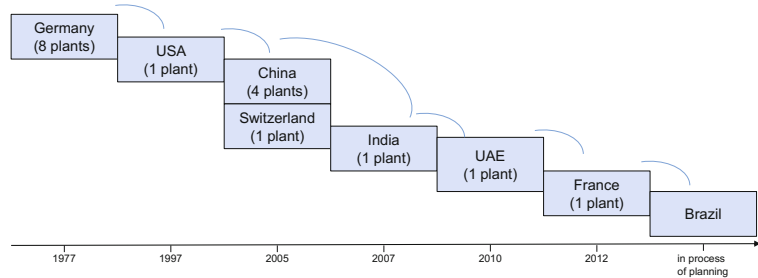
Herrenknecht as a Hidden Champion

Characteristics of Hidden Champions

exporting, the opening of the US production facility in 1997, and more importantly the opening of further production facilities beginning in 2005 in China, Switzerland, India, the United Arab Emirates and France are testament to a new wave of *production expansion*.

Figure 15.7

Selective Production Expansion



Source: Adapted from Herrenknecht 2014.

The Asian market is of paramount importance. Both China and India are “among the key markets in the Asia-Pacific region, due to its enormous demand” (Herrenknecht 2014). In order to provide projects and customers with high quality and reliable tunnelling technology according to schedules, the company has established several production facilities in China and India.

China

The first manufacturing location for the assembly of tunnelling equipment in China was opened in Guangzhou in 2005. This was followed by a new assembly plant opened in Nansha in 2006. In 2007, and later in 2011, *Herrenknecht* opened production facilities in Chengdu, which is one of the world’s fastest growing cities (Forbes 2010). Compared to Germany, where almost 95% of *Herrenknecht’s* products are exported, most of the products and machines manufactured in China remain in the Chinese market. Manufacturing in China offers great advantages to *Herrenknecht* and its customers. Among other things, Asian contacts are more familiar with local conditions in the Asia-Pacific region, costs are reduced through shorter transportation times and the availability of equipment can be optimised. Even though *Herrenknecht* “still produces electronic and hydraulic equipment at its main plant in Schwanau, but domestic sales would not have been sufficient to keep the operation running at full capacity” (Spiegel Online 2010). To ensure that all assembly plants fulfil the same quality standards used in Schwanau, a team of experts is regularly sent to offshore production facilities to locally monitor the production and train staff on site.

India

Herrenknecht is building up production facilities in India for the same reasons as in China. In 2007, *Herrenknecht* opened an assembly plant in Chennai, the biggest industrial centre in South India. Within the 3,000 square metre plant, the company assembled the EPB (Earth Pressure Balance) shields that were delivered to the Delhi Metro for construction of their new metro tunnel system (The Economic Times 2012). Furthermore, India is developing an expanding horizontal drilling rigs market, which is used for trenchless laying of oil and gas pipelines. Thus more and more construction companies are turning to horizontal drilling rig equipment made by *Herrenknecht*, whereby products are partly imported from *Herrenknecht* in Germany and partly produced on site.

Besides China and India, Brazil is also increasingly important as a production site for *Herrenknecht*. The company has announced plans to establish an assembly plant in Brazil to export its equipment to the rest of Latin America and Africa.

Brazil

Summary and Outlook

With experience from more than 2,300 global projects, *Herrenknecht* is the leading provider of holistic technical solutions in mechanised tunnelling. Exporting plays a major role in *Herrenknecht's* story of success, but at the same time their “Made in Germany” label is still of paramount importance. However, *Herrenknecht* is also expanding its production geographically as markets like China or India become more important. The overall goal, laid down in the company’s vision statement, is to maintain their position as “the leading premium supplier worldwide for all-round technology solutions in mechanized tunnelling for tunnel infrastructures of all kinds, as well as for underground energy sources and raw materials extraction” (Herrenknecht 2014). In line with this vision, the combination of its technology-based product leadership with close customer relationships provides the basis for a further positive development of this family enterprise.

Questions

1. *Herrenknecht* uses different methods to sell its products to foreign countries. Describe the different distribution channels and discuss why the specific channels are applied. What are the main advantages and disadvantages of other direct and indirect distribution channels?
2. Although the *hidden champion* concept is attracting increasing attention all over the world, its prevalence in Germany suggests it as a German phenomenon. Describe the hidden champion concept, discuss why

Germany has so many of them, and elaborate some lessons other companies can learn from hidden champions.

3. Exporting is usually the first step for foreign operations, and *Herrenknecht* was no exception. Analyse and describe why nowadays the company not only exports its products from its headquarters in Schwanaue to China or India, but also produces there on site.

Hints

1. See, e.g., Hollensen 2014 or Seyoum 2014.
2. See, e.g., Simon 2009; 2012.

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