



A Study of Innovation and Internationalization Strategies by a Hidden Champion Firm in Korea: The Case of CAP Corporation*

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Abstract

Purpose – This case study analyzes the internationalization strategy and innovation strategy as key factors contributing to the business success of CAP, a small and medium-sized manufacturing company in Korea producing auto parts such as wipers. This study describes the diversification strategies conducted by CAP Corporation and highlights the company's core competencies that have largely contributed to their global competitive success.

Research design, data, and methodology – This paper provides in-depth case study on how CAP was able to grow into a hidden champion company, focusing on their strategies since its establishment. In particular, by analyzing the success factors centering on CAP's aggressive innovation strategy and internationalization strategy, it presents guidelines for small and medium-sized enterprises in Asian countries to become a Hidden Champion company.

Result – CAP's product technology has successfully established innovative system on their product called 'vertebra spring' to distribute uniform pressure to the rubber to ensure performance as well as durability of their products. In order to continue benefiting from utilizing core competence and to continue pursuing technological advancement in the wiper industry, CAP has launched a wide range of products (flat blade, conventional blade, hybrid blade) applicable to 95% of the vehicle in the market.

Conclusion – Taken together, CAP has many aspects of a hidden champion company by investing in R&D up to 8% of its annual sales to R&D investment even during the crises situation. This number is about 3.36 times higher than the average ratio of listed companies in Korea. Furthermore, the leadership of the management team as well as their vision toward the global market and strong commitment to innovation enabled CAP to become the world's fifth-largest wiper and Asia's No. 1 wiper manufacturer.

Keywords: SMEs, Hidden Champion, Internationalization, Innovation strategy

1. Introduction

In 1995, Corea Autoparts Producing Corporation, CAP hereafter, made its first business step in the auto parts makers industry as a wiper manufacturer in Korea. Early on, the company was registered and established as Samsun Precision company focusing its business on supplying equipment components to Samsung Motors in Korea. In the early 90s, CAP was barely known within the auto parts makers industry. To overcome this issue, the company has conducted a number of strategic activities. First, it has redefined its marketing strategy. The company's focus has been shifted to meeting the safety responsibilities by providing the best wiper manufacturing technology in the industry. Second, aggressive sales strategic approach was considered as part of the strategy. Finally, significant business development and practices such as market diversification through new product development have been implemented by its top management as part of the fast growth strategy to be well established in the auto parts makers industry. As a result, the company increases its sales by an average of 30% every year after expanding its business activities in the 20s (Yim, 2011).

In addition, CAP has pursued an active globalization strategy. In August 2000, CAP signed its first major internationalization contract with ICHIKOH industries a manufacturer of electric parts of automobile to develop new wiper for NISSAN in Japan. In 2001, the company started to diversify to Europe by signing another business contract with Metaldyne for the auto parts in U.K. This has created the need to conduct an integrated global strategy for the company and it renamed its brand name to CAP Corporation as what it is known today in 2003. After gaining a momentum from their early success in global markets with over \$100 million export, CAP continued to pursue the ambition of becoming a global player by actively expanding to U.S., Germany, China, Japan, Vietnam during the 2000s.

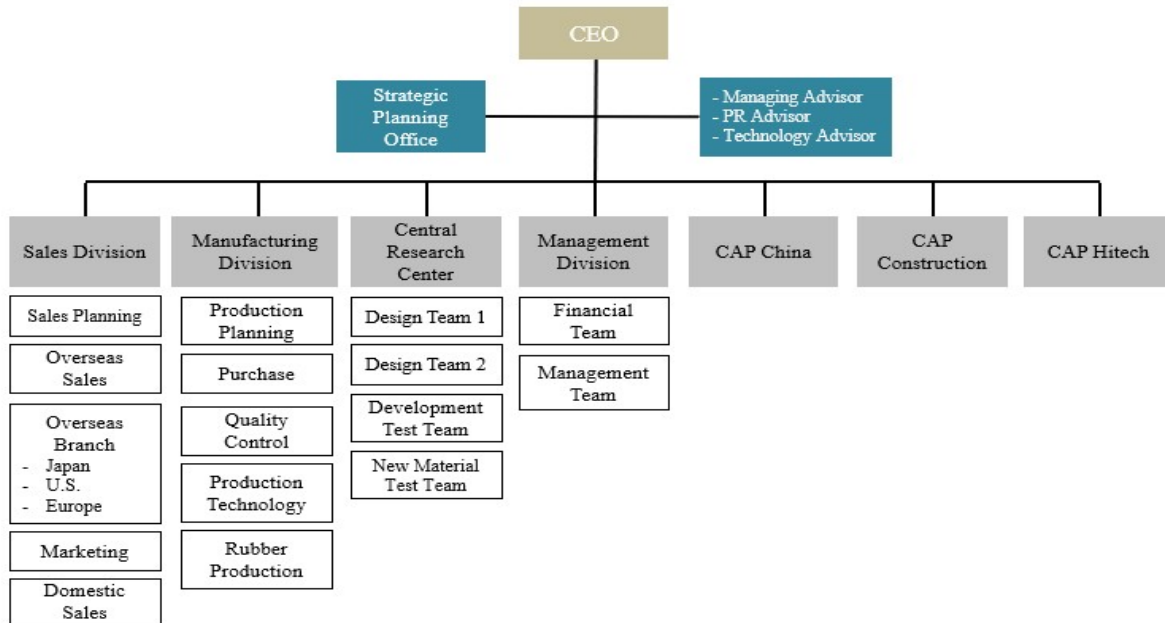
In 2008, Herman Simon introduced CAP as one of the 'Hidden Champion' companies in Korea when he wrote a book about a small but globally strong company with strong competencies. Herman Simon explains in his book that 'Hidden champions' are relatively small but highly successful companies that are concealed behind a curtain of inconspicuousness, invisibility, and sometimes secrecy to the general public.

CAP uses its advanced technological knowledge to manufacture one of the best wiper products in the industry with the most achieved conventional and hybrid blade innovation technology. In the mid of 2016, CAP has developed best-selling SC1 innovative blade to sustain their growth in the industry and their leadership position in the global market, especially in the USA by being the third (3rd) market players as a wiper manufacturing company right behind BOSCH and VALEO.

2. Company Profile

CAP, which is headquartered in Sangju-city, Gyeongsangbuk-do, is an original equipment manufacturer in the Autoparts producing industry. The company is best known for its wiper's product. The company has first operated with 315 staffs in its establishment. Park (2010) describes an improvement of the company's performance since its establishment, such as 487 employees with an increase in sales up to 53 percent. In addition, CAP's total assets increase up to 60% with over \$100 million, exported products in 2011 as a result of a substantial investment made to open branches in China and Vietnam. CAP has engaged several contractual relationships with leading retailers such as Walmart and car manufacturers (Chrysler, Hyundai) as new options for their expansion strategies. Furthermore, CAP Corporation started operating under new management in 2012 and has appointed Young-ho, Kim as the company's president. The company continues to grow rapidly and part of its goal is to continuously seek for the partnership to expand their products and lead the auto parts wiper manufacturer industry.

Figure 1: Organizational structure of CAP



Source: Park (2010)

3. Global Financial Crisis and its Overcoming story

The Asian financial crisis of 1997 was a period of financial crisis that gripped most of Asian countries and raised fears of a worldwide economic meltdown. As the crisis spread, most of Southeast and Northeast Asia countries saw slumping currencies, devalued stock markets, other asset prices, and a precipitous rise in private debt. South Korea was one of the countries most affected by the crisis. Large companies as well as small and medium-sized enterprises in the Korean market had progressively seen their businesses collapsing as the country foreign-debt rose as high as 40% (Blustein, 2001).

Samsung Motors, which was the major business trade partner of CAP with up to 90 percent of the company's sales, closed down its car production and suspended all trade contract between both companies. CAP suffered a major economic loss, their sales had significantly declined. Therefore, changing the company's business strategic approach appeared to be critical for its long run. To overcome this crisis, the company converts most of its human resources into a sales force to sell its unsold products, which was intended to hand over to Samsung Motors. The research and development department (R&D) as well as top executive manager, they all joined the salesforce to sell their unsold products in the street, to private company as well as private citizen. The result was outstanding. Within 2 months, CAP's employees sold 40 thousand units of their product by engaging in direct selling. Furthermore, this direct selling process helped the company's wiper blade to gain the general public's trust. This was a revolution in CAP's marketing strategy activities, the leadership and motivation of its personnel helped the company to overcome the financial crisis. Despite the suspended contract with its major business partner Samsung motors, CAP surprisingly managed to achieve growth in the wiper business industry. Although, the financial crisis was a critical challenge, it came with an opportunity for CAP. It could broaden its partnership by diversifying its business partners and internationalized in the 2000s with its original manufactured equipment. In 2008, CAP registered 744 billion won of sales, in which 30% of the sale were made in the domestic market and 70% in the global market. The company was successful and made a major impact on the global market as a strong wiper manufacturing company, but soon enough a great financial depression stood against its prime (Blustein, 2001).

A decade after the Asian financial crisis, in 2008, the outlook for the financial system could not have been worse. Markets were plunging and layoffs were mounting. The global financial crisis played a significant role in the failure of key businesses, declines in consumer wealth and a downturn in economic activity. The global financial crisis hit the Korean economy in two ways. First, the sudden reversal of capital flow dried up the domestic and international liquidity. Second, the global contraction of demand reduced Korea's export by over 40% in the fourth quarter of 2008, Park (2010).




CAP Corporation experienced its second financial difficulties as 70 percent of sales come from the global market. This time, the financial crisis was so severe and has deeply affected the company financial ability and it went bankrupted. To recover from the financial crisis, the company had to sell its market share. In May 2010, IMM1 had bought for 600 billion won, 93% of the company shares and took over the control of CAP Corporation. Since then, the new management team from IMM redefined the core business activities of the company by essentially focusing on the manufacturing and sales of its main product (wipers). The new managers managed the employees' expenses and suspended unnecessary bonuses, allowances, premiums, saving up to 5 billion won. Knowing that changes and innovation bring conflict, the new management team anticipated employees' resistance and fear by motivational behavior, upstream to downstream greetings (sign of respect in Korean culture) every morning and ensure work safety for all employees. Besides, emphasis was directed towards the research and development (R&D) department to develop new technology and a wide range of wipers product lines.

Finally, after financial crises, CAP was able to increase its growth through successful entrepreneurship and managerial leadership both in the domestic and global market. Without a well-planned strategic activity and an efficient management system lead by the new leadership team, the company would have still been struggling from the financial crisis and losing its global market position in the industry.

3.1. Innovation Strategy

Lately defined as a hidden champion and mostly seen as one of the world's efficient wiper manufacturing companies, CAP is constantly striving to bring new products, as well as leadership and strategic innovation that are truly game-changing. CAP Corporation's innovative strategy is designed to enhance their market and technology development, consumer experience and keep the competition in check. Simon (2009) argue that the hidden champions' innovations are both market and technology driven. CAP has consistently been seeking for technological update in their manufacturing process with an ambition to beat large corporations such as Bosch and Valeo SA in the wiper manufacturing industry. Along with its market-leading technology, CAP has always emphasized on the fact that its innovative product technology should be designed while understanding the customers' needs.

Table 1: Reliability Test for CAP's products

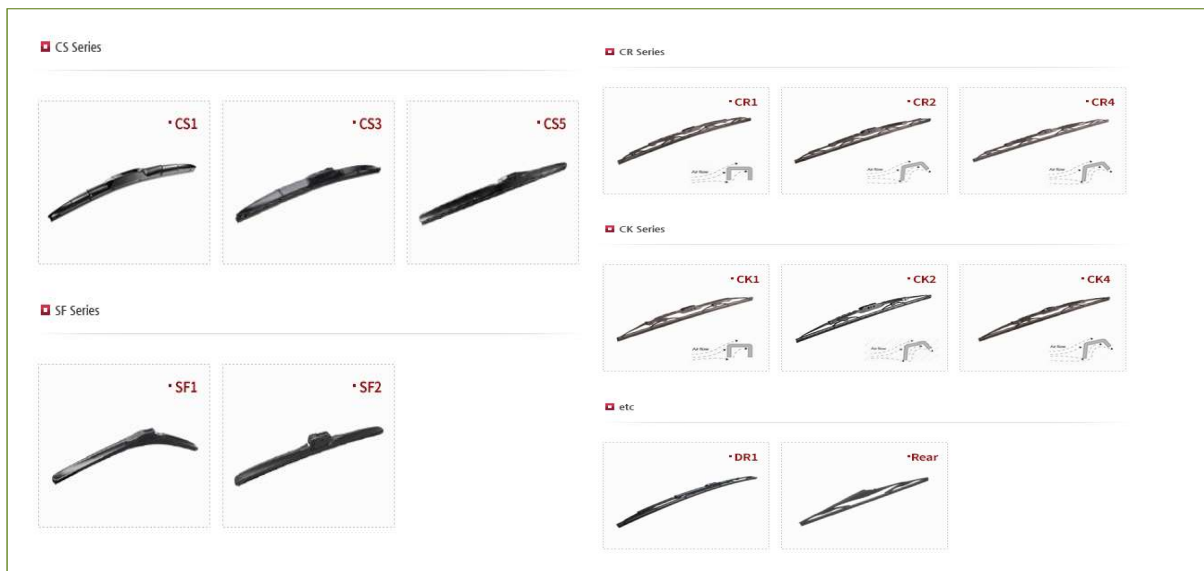
			
Type	Rubber blade extrusion machine	Reliability test	Durability test
Feature	This extruder machine is unique to CAP which improves the process quality of its extracted rubber with a sensitive technique.	This type of reliability test ensures both the artistic design and the connector resistance as well as correct fitting.	The test checks the rubber durability and reliability by employing speed, load level, and the accelerated test, which improve the anti-wind lift at high speed.

Source: CAP homepage

Product innovation is at the heart of CAP's business success. The company operates one headquarter in Korea, two plants in China and Vietnam and several research centers around the globe in Europe, America, and Asia to conduct its innovative experiments to offer a leading technology in wiper blades. CAP Corporation's innovative strategy emphasized on the quality and reliability of their wiper blades with distinguishing technology such as a superior corrosion resistance, a correct fitting of wiper's connector and a reliability test for its products (Table1).

At the beginning of its business activities in 1995, CAP Corporation was defined as an auto parts manufacturing industry which aimed at working on the entire car component. They developed various type of product line such as engine pipe, Stamping, rear wiper blade, wiper blade, and snow covers to penetrate the Korean domestic market. The company objective was to become a competitive company with a global vision that emphasized 'producing the world's best wipers blade' in the words of the company's CEO Young-Ho Kim. By 2000s, the company shifted its focus on mainly producing wiper blades which have contributed to its local and international establishment in the original equipment industry. CAP's global recognition was successfully sealed in 2008, after the company had overcome its second financial crisis (see crisis 1997; 2008). They made the decision to focus their activities on essentially manufacturing their keys product, wipers, and improve its quality and technology. This achievement was reached by investing 8% of their global sales revenue in the research and development department (Park, 2010). CAP's R&D investment is quite significant compared to BOSCH, the world number one wiper producer and VALEO world's number two manufacturer, especially considering the CAP's small size.

Figure2: Types of CAP wipers



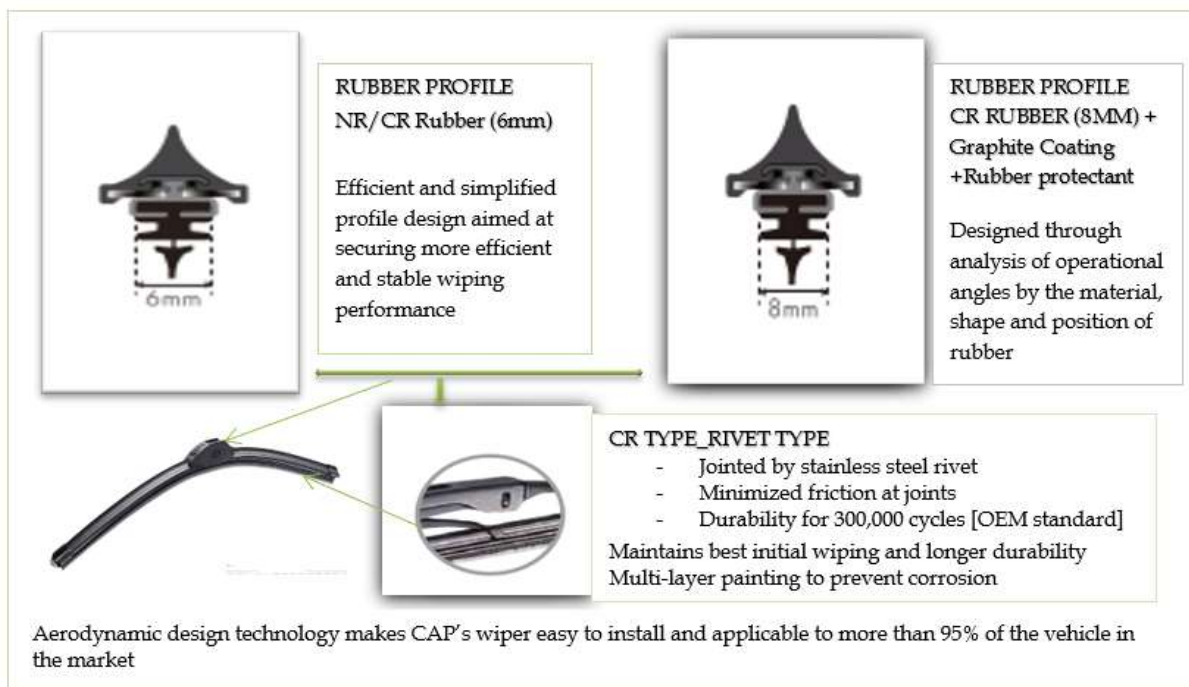
Source: CAP homepage

The company's core competence is in their technology which was gained through an extensive investment in its R&D to manufacture wipers by using natural rubber designed to increase the product's wiping quality, safety, and efficiency. According to Prahalad and Hamel (1990), core competence is the "the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies." CAP has invested consistently in its R&D department to create wipers that embrace the latest technology in order to provide best value to their customers. On average, Hidden champions devote 6% of their turnover to R&D (Guinchard 2015); CAP devotes 8% of its sales revenue to invest in the research and development department in order to make its innovative ideas achievable. Besides, their product technology has successfully established innovative system on their product called 'vertebra spring' to distribute uniform pressure to the rubber to ensure performance as well as durability of their products. In order to continue benefiting from utilizing core competence and to continue pursuing technological advancement in the wiper industry, CAP has launched a wide range of products (flat blade, conventional blade, hybrid blade) applicable to 95% of the vehicle in the market. Their product lines have outstanding quality with

the aerodynamic flat profile design, friction reduction, and the superior corrosion resistance, which have allowed them a market-leading position in the global market.

In sum, this pattern of innovation has improved the dynamic of the wiper blade, significantly reduced noise and improved the durability of the rubber (Figure3). Moreover, while BOSCH, CAP's biggest competitor in the United States wiper market, only provide a simple technology for its connector adapter, CAP has invented a connector to ease installation and correct fitting problem by optimizing the multi-function adapter of its wipers. This ultimately increases the efficiency and quality of its product line. Such outcome demonstrates that reinforcing the technology through continuous research and development has contributed to the successful growth and quality of CAP's wipers in the global market.

Figure3: CAP's innovation



Source: CAP homepage

When design principles are applied to technology, strategy, and innovation; the success rate for innovation dramatically improves. One of the key factors that demonstrate the innovation strategy of CAP Corporation is the conceptual design approach of its wipers and its ability to apply specific technology to the range of its products. Throughout the conceptualization of its “Flat Blade” as compared to the “Conventional Wiper” [figure 8], the company has improved the aerodynamic design and simplified the product attributes (rubber, body spring, and spoiler) to ensure its quality and durability. The benefits provided from the revolutionary technology design, increase the durability of rubber, improved the speed, the wiping performance and prevent the corrosion of the product. The design technology has improved the leading advantage of the company in the market from the global competitive prospective. The technology level reached by the research department has been a game changing for the new generation of wipers launch in the global market. The innovative design achieved has also contributed to the global recognition and growing profit generated from sales. In May 2011, CAP Corporation was appointed as World-Class 300 by the Korean Ministry of knowledge and Economy, an achievement which acknowledge the company performance in manufacturing wiper blades using the best resources and latest technology.

Figure 4: Blade Technology



Sorting	FLAT BLADE	CONVENTIONAL WIPER
Structure	No frame	Tournament
durability	By making the distribution of pressure even, reduce the friction on the rubber, increasing the durability of rubber, through reduced number of parts, reduce the looseness between parts.	Because of uneven pressure distribution, the friction on the rubber increases, resulting in shorter life-span looseness occurs because of too many parts.

Source: CAP homepage

This improve technological achievement is the result of an excessive investment in the research and development department. Every year CAP invests 8 percent of its annual sales revenue (based on the 2006 annual report) to push its technology and science research to manufacture high quality and reliable wiper blades. The company technological level and product development are underpinned by various patent portfolios to drive their success and growth.

3.2. Internationalization Strategy

Hidden champions show strong presence in the global market. Rather than staying in domestic market, CAP has chosen globalization as the second pillar in their strategy, since these markets are of course much larger than their domestic market (Simon, 2009; Guinchard, 2015).

Through the mid-2000s, CAP was experiencing its first entry to the international market and has successfully restructured its business activity to specialize on its wipers production. The globalization was implemented after the company got stranded in poor and unprofitable domestic market during global financial crises. CAP's choice to go international was to seize growth opportunity. They had a vision and set up a long-term objective based on 'competitiveness and sustainable growth' to have a better global performance. In fact, CAP has clearly expressed an international ambition from the beginning of 2000 with over 70% of their manufactured wipers exported overseas. Furthermore, they increase their contractual business partners internationally (Figure 6) and do not hesitate to focus on supplying very specialized market with their products. The Hidden champions combine specialization in product and know-how with global selling and marketing (Simon, 2009). For CAP, being internationally recognized as one of the best wiper company was a clear ambition drafted at the early stage of their step in the international arena. This ambition has been supported with a significant investment in the R&D department to improve their production knowledge and get specialized in innovative design. They have provided training support to their employees and enabled an outstanding marketing support to their global customers. The strategy has mainly been customer-centric expressed by meeting one on one with customers to provide technical support, and visit the client on request no matter where his geographical location is on the globe.

For such global market integration, CAP has implemented various types of entry mode like contract manufacturing, joint venture in France, direct investment in countries like China and Vietnam, and direct exporting in US, Canada, Europe and many others. Each one of the entry mode was a successful achievement recorded in the company's internationalization strategy.

Figure 6: CAP Internationalization

Years	Country	International mode of entry
2000	Japan	Contract with ICHIKO
2001	United Kingdom	Contract with Metaldyne
2001	Japan	Contract with II-Dong motors
2003	U.S	Direct exporting (supply Chrysler)
2004	China	Direct investment (china plant)
2006	Mexico	Indirect sales (Wal-Mart)
2007	USA; China; France	-Contract with Daimler Chrysler; -OEM wiper BOSCH; - joint venture with Nobel
2011	China	Direct investment (establish branch)
2014	Vietnam	Direct investment (establish plant)

Source: CAP homepage

Their successful implementation strategies to enter into large markets have helped the company to supply its product in over thirty (30) countries. This achievement to venture in the global market has contributed to increase the company's turnover and get few awards nomination. In 2008, CAP was nominated potential wiper arm supplier by RBNA in the US; this nomination was a result of \$50 million achievement of export. Moreover, in 2011, the company improved its performance by exporting \$100 million of its wiper blade and was awarded 'global hidden champion grand prize' by KASME.

Figure 7: CAP Corporation overseas markets

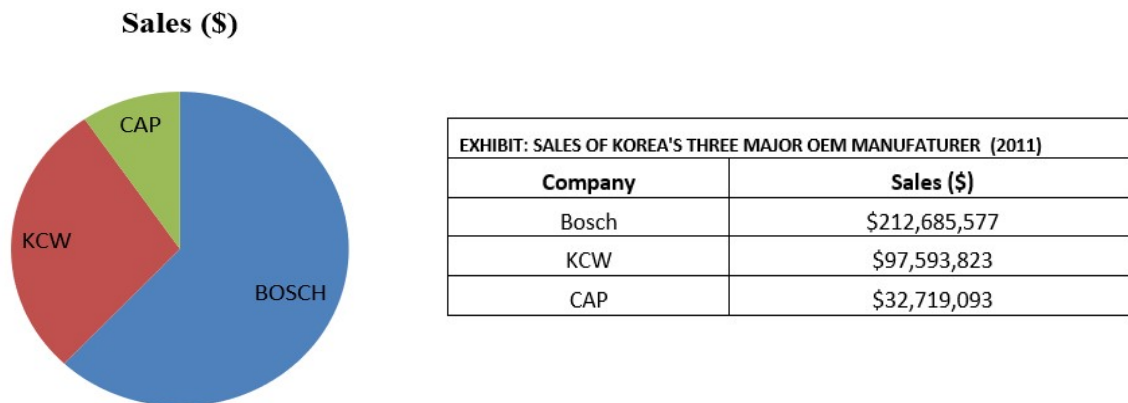


Source: CAP homepage

As a result of its successful internationalization, CAP is supplying 5 percent of the global market and has the third largest market in the United State (Park, 2010). They also develop close relationships with their customers, in the word of (Guinchard, 2015) "Hidden champions have a spirit of proximity with customers". Finally, CAP demonstrates solid perseverance and organizational agility to meet the international requirement to be successful.

3.3. Domestic Market Strategy

Originally, CAP focused on OEM (original equipment manufacturer) activities in Korean domestic market just as most of other small and medium companies in Korea. In the early 2000s, the company had a successful business advertisement on KBS (a local TV channel in Korea) which enables achieving business contracts with various business partners such as Hyundai, Doowon in the domestic market. In addition, CAP has implemented a closer marketing strategy with their business partners, which aimed at providing “business support and technical care” in the words of the firm’s manager Young-Ho Kim. Thus, understanding that customers should be at the center of every decision making and selling process. This closer relationship strategy is described as a key model of success to hidden champion by (Simon, Guinchar, 2008). The management teams frequently met with their clients to build a trust during the partnership. This process has helped them to build a strong reputation in the local market as a trusted business partner to work with. Furthermore, CAP has engaged in activities which emphasized the social responsibilities toward local market. As an example, the company supported other small business owners to achieve their growth, employed disable and elders and provided equal chances for employment for people out of jail. Their engagement to be socially responsible was crowned by an award as a “Star company” by Daegu-city (Korea) which defines a company’s commitment to outstanding support services, innovation, and education services etc. The company’s integration in its domestic market has helped to increase its local sales to 4.93 million units with a share growth of 34% in 2014. Figure 4 and Figure 5 describe the company’s market share in its domestic market compared to the major leading competitors and also highlight its market positioning, compared to large counterparts such as BOSCH and KCW.



Source: DART, <https://dart.fss.or.kr>

Figure 4: Sales of Three Major Wiper Manufactures in Korea

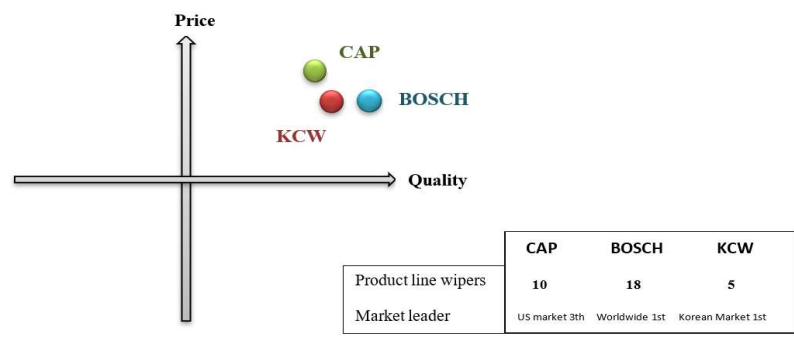


Figure 5: CAP Market Positioning in Korean Market

4. Conclusion

This case study analyzes the reasons why CAP, a small-sized manufacturing company in Korea could show its presence in competition with large conglomerates and was able to succeed in the global market. CAP has emerged as a global player in 10 years since its establishment due to its continuous R&D efforts and active global expanding strategy. In addition, the leadership of the management team as well as their vision toward the global market and strong commitment to innovation enabled CAP to become the world's fifth-largest wiper and Asia's No. 1 wiper manufacturer (Park, 2010).

Taken together, CAP has many aspects of a hidden champion company, leading the global market without much publicity. CAP, which continued to invest in R&D even in a crisis situation, invested 8% of its annual sales to R&D investment, which is about 3.36 times higher than the average ratio of listed companies in Korea which is about 2.38% (Park, 2010). In addition, in order to differentiate from competitors, CAP successfully developed a wiper that has superior durability and performance and successfully targets the niche market. Due to their diversification strategies pursued by the management team, CAP could stand out in the domestic and global markets in a relatively short amount of time since its establishment.

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