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## The German *Mittelstand*: a Glance at Germany's „Hidden Champions“

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GERMANY  
TRADE & INVEST

## 1. *The Mittelstand and Its Place in the German Economy*

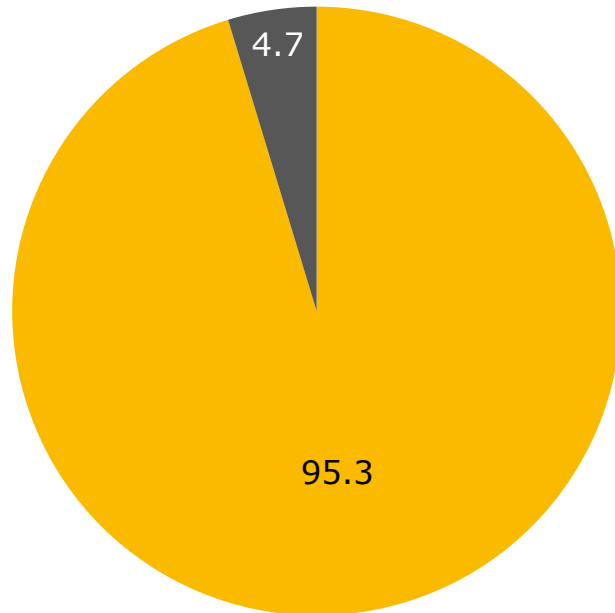
### 2. Chief Characteristics of the Mittelstand

- Export-driven
- A provider of high quality jobs
- Innovators with high rates of R & D
- Reliance on sound financial planning
- Beneficiary of supportive SME policy

### 3. Factors for Success – Lessons for U.S. firms?

The German 'Mittelstand' mainly consists of family-owned firms.

## Proportion of family-owned firms in Germany Percentage, 2010 figures

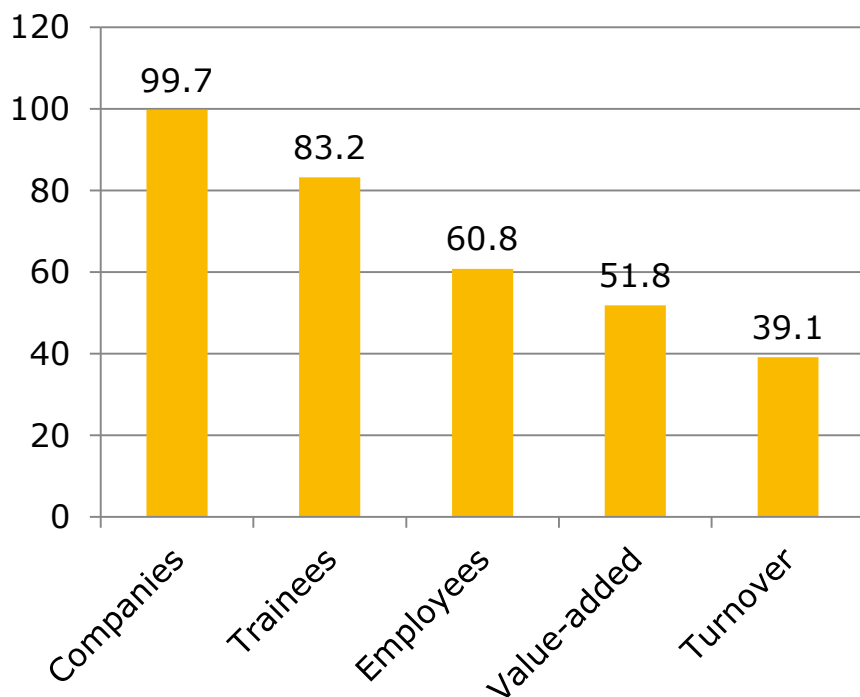


■ Family-owned companies ■ Other companies

- There were roughly 3.7 million companies in Germany in 2010, more than 99% of them classified as the German "Mittelstand".
- Roughly 95% of all German firms are family-owned. Of these, about 85% are managed by their owner.
- German Mittelstand companies take a long-term approach to business, based on stable client relations, continuity in human resource policy, and close ties to the region in which they are located.

The German Mittelstand is the backbone of the economy.

## Proportions accounted for by the German Mittelstand Percentages, 2009/2010 figures



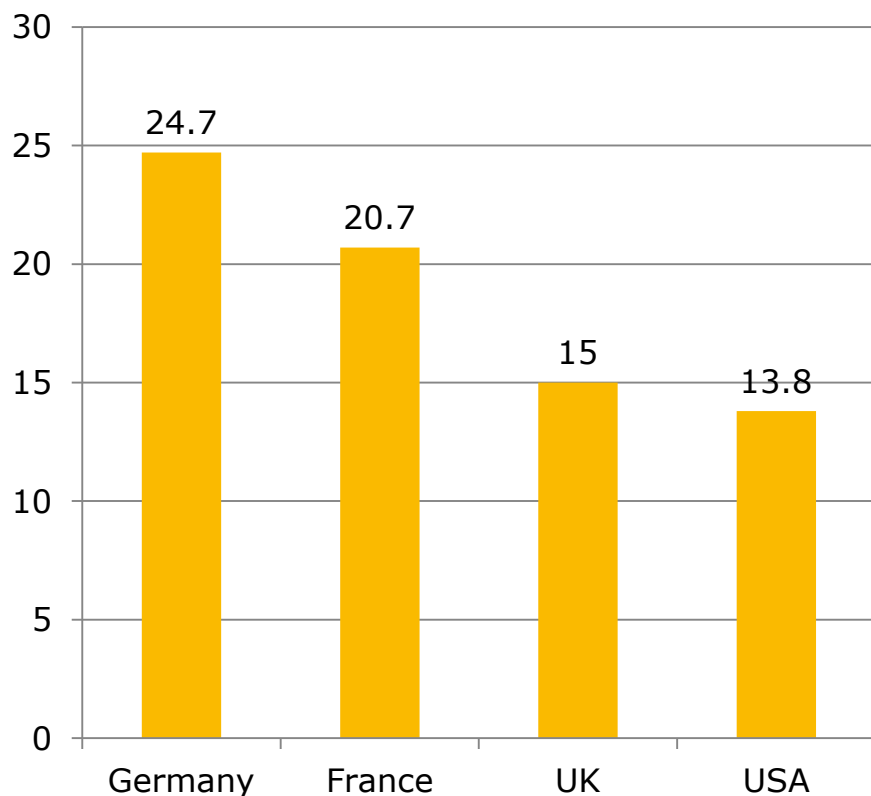
Reference size: European SME definition

Sources: IfM Bonn; Ernst & Young

- In 2010, the Mittelstand contributed almost 52% of the value added by the German economy. It accounted for around 39% of the total revenue of all German firms (2009).
- In absolute figures, the total revenue of the German Mittelstand stood at around €1.91tr in 2010 (excluding revenue of foreign subsidiaries).
- Comparison: The turnover of the 30 DAX-listed companies amounted to €1.16tr in 2010 (incl. foreign subsidiaries).

The “German Mittelstand” is especially strong in the manufacturing.

## Employees of Mittelstand in industrial sector Figures in percent, 2012 figures\*



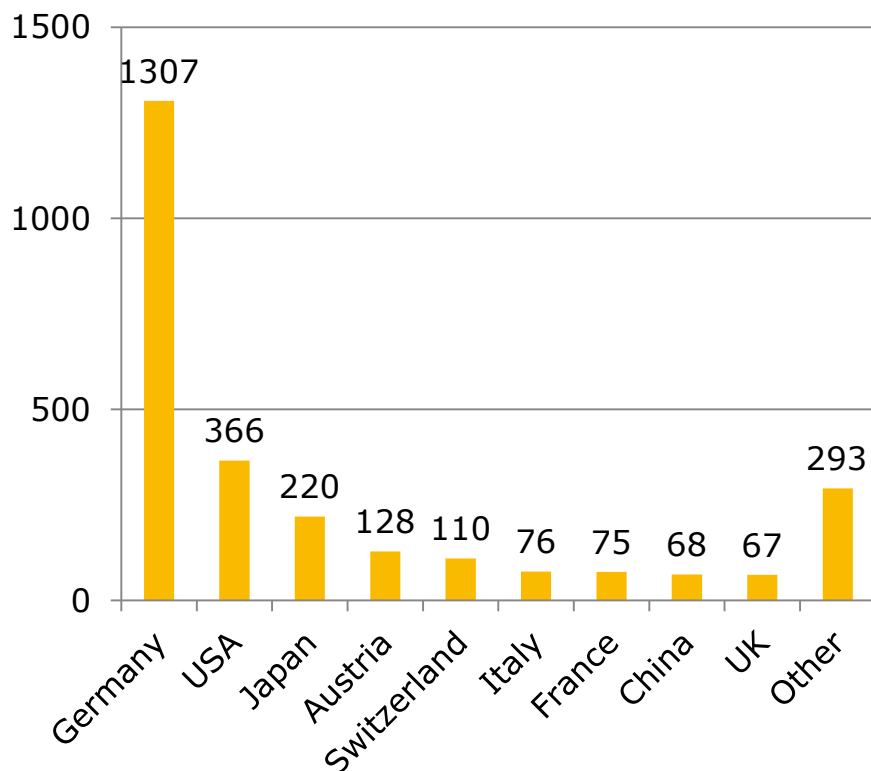
Reference size: European SME definition

Sources: European Commission (\*USA: 2009); Federal Statistical Office

- Compared with similar companies elsewhere in the world, the German Mittelstand is highly active in the industrial sector: almost a quarter of all employees work in this field – far more than in the other major industrial nations.
- The German Mittelstand is a strong supplier of capital goods to markets around the world.

## A German phenomenon: the “Hidden Champions”

### “Hidden Champions” in international comparison (2012 figures)



Sources: Simon, H.: Hidden Champions – Aufbruch nach Globalia  
Langenscheidt, F., Venohr, B.: (ed.): Lexikon der deutschen Weltmarktführer, Deutsche Standards, pp. 9-19  
Current figures: Deutsche Weltmarktführer database 2.3.1, survey of 29.06.2012

- Studies show that no other country has as many “hidden champions” as Germany: some 1,300 world market leaders from the German Mittelstand have successfully found niches for their products.
- These “hidden champions” are especially strong in the fields of electrical engineering and industrial products.

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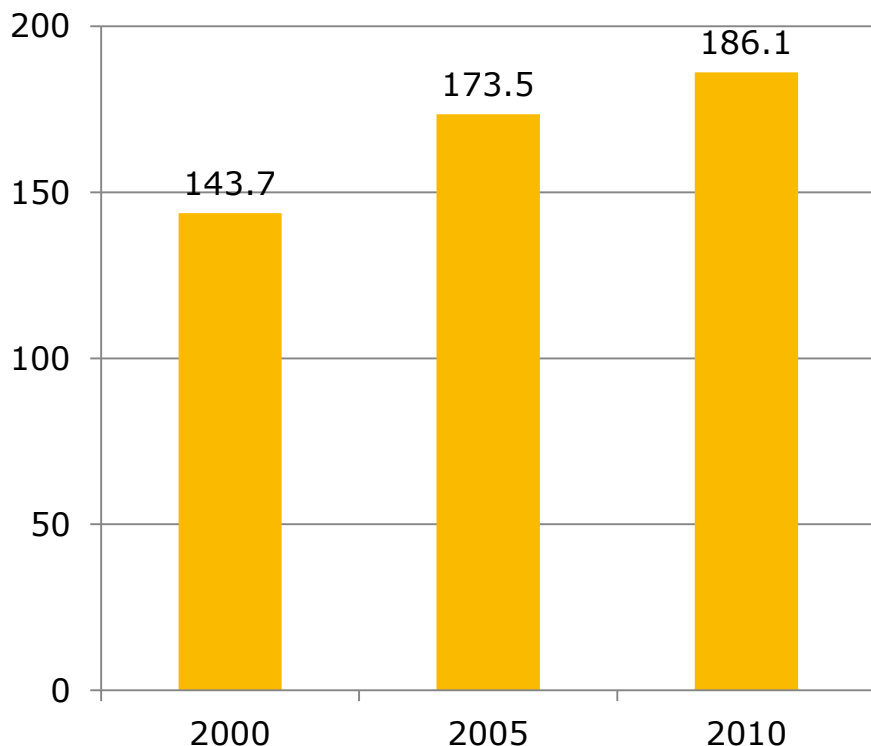
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- *A provider of high quality jobs*
- *Innovators with high rates of R & D*
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## 3. Factors for Success – Lessons for U.S. firms?

The German Mittelstand is also successful in foreign markets.

## Export revenue of "German Mittelstand" (Figures in bn, development 2000-2010)



Reference size: European SME definition

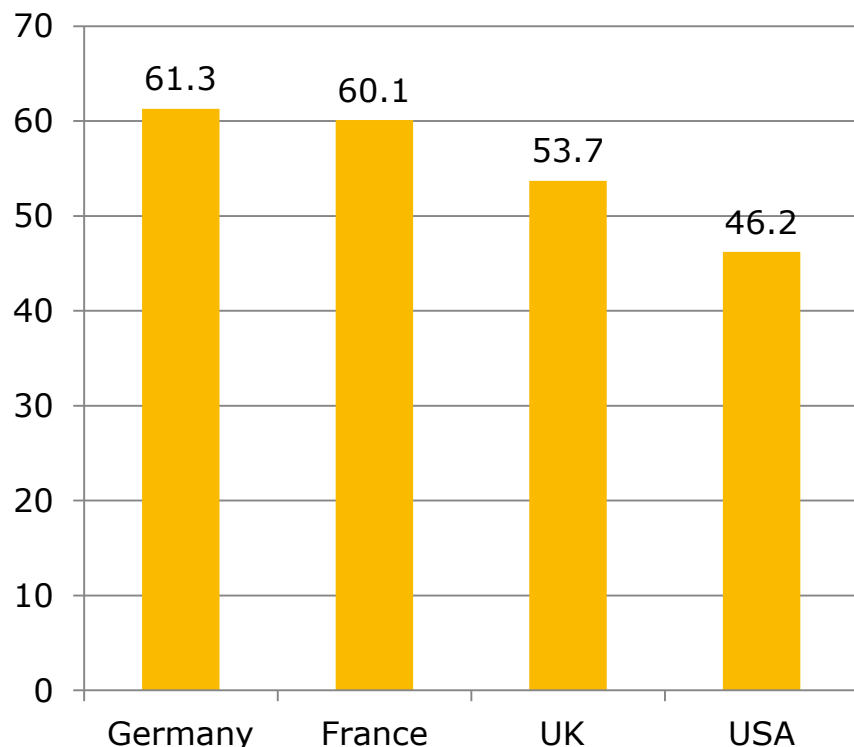
Sources: IfM Bonn; KfW

- In contrast to similar companies in other major European economies, companies from the Mittelstand enjoy strong positions in foreign markets.
- Exports recorded by the Mittelstand rose by 29.5% to €186.1bn between 2000 and 2010.
- These sales are generated by some 345,000 companies – roughly 98% of all German companies exporting goods and services.
- All together, the German Mittelstand accounted for around 19% of total exports by German firms.



The Mittelstand generates skilled, well-paying jobs.

## Employees in SMEs: international comparison Figures for 2012 in %\*



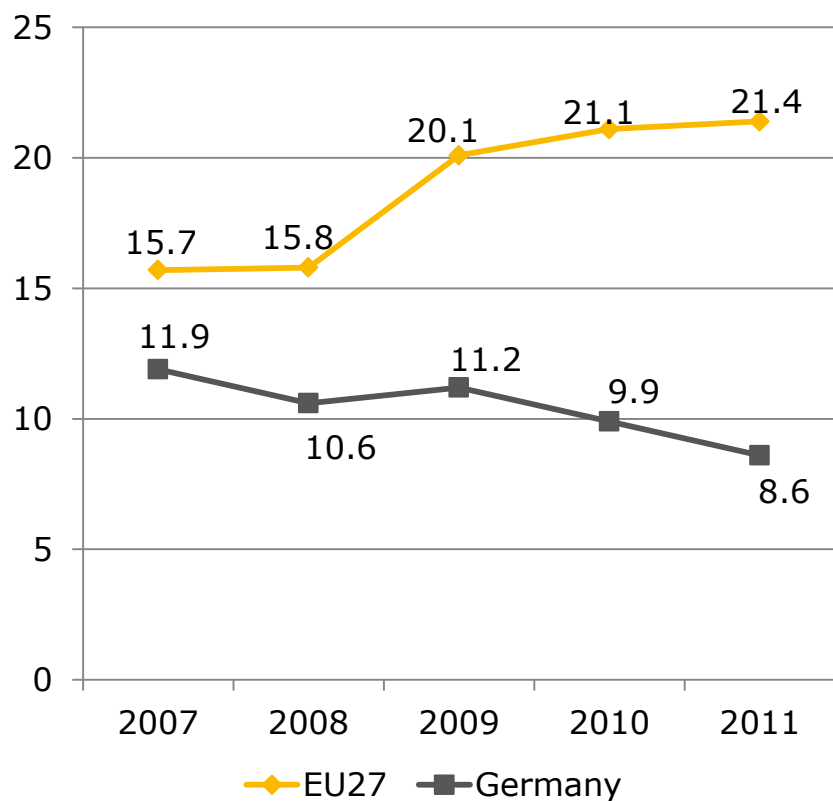
Reference size: European SME definition

Sources: European Commission (\*USA: 2009 figures)

- Approx. 13.9 million people are employed by the Mittelstand in jobs subject to social security contributions. This equates to 61.3% of all jobs, relatively high in international comparison.
- The German Mittelstand pursues a continuity-oriented approach to employment, even in times of crisis. This makes it an important job provider in Germany. Whereas large German firms cut jobs between 2008 and 2011 by 2.4%, the Mittelstand increased employment by 1.6%.

The Mittelstand helps keep youth unemployment very low.

## Youth unemployment in the international comparison Percentages



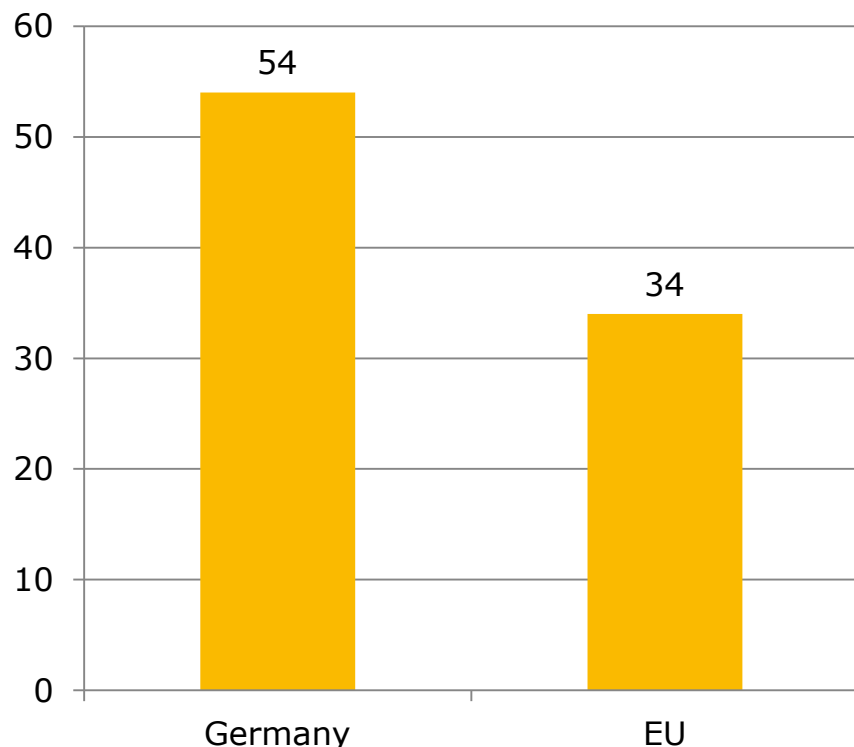
Sources: IfM Bonn; Eurostat

- Four-fifths of trainees – more than 1.35 million of the 1.62 million trainees in Germany – receive their training in the German Mittelstand (as of 2010).
- The Mittelstand is a major factor ensuring that youth unemployment is much lower in Germany than in many European countries.
- Germany's vocational training system is regarded as a model all round the world, because it guarantees high quality training and helps to meet the growing demand for skilled labor in Germany.

The “German Mittelstand” is stands out for its innovation.

## Innovative SMEs

Figures for 2010 in %



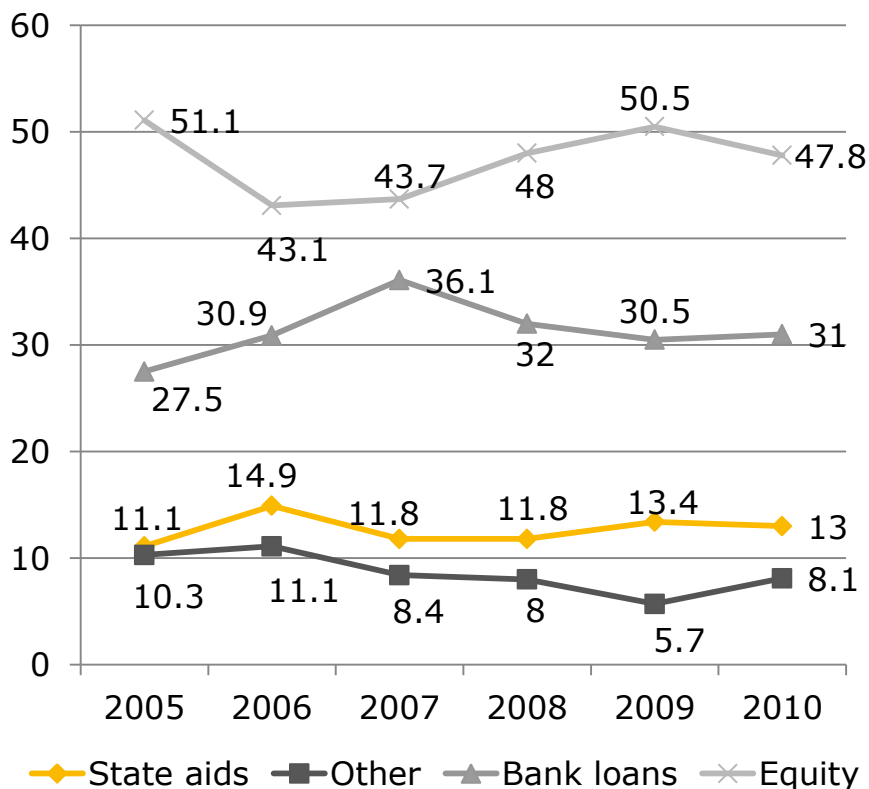
Reference size: European SME definition

Sources: Stiftverband für Deutsche Wissenschaft; Institut der deutschen Wirtschaft Köln; Eurostat

- 54% of “German Mittelstand” companies brought a product or process innovation to market in the 2008 – 2010 period – the EU average was only 34%.
- The “German Mittelstand” invested approx. €8.7m in research and development in 2010 – that equates to one-seventh of the total.
- Spending on R&D rose by around 71% between 2004 and 2010 (figure for large companies: +19%).

The “German Mittelstand” relies on sound financing models.

## Sources of finance for the Mittelstand 2010 figures as % of volume of investment



- The “German Mittelstand” finances most of its investment from its own equity (47.8%) and bank loans (31%).
- In 2010, 13% of the investment was financed via public-sector assistance.
- Least use is made of alternative forms of financing (e.g. mezzanine or venture capital): in 2010, this only happened in 8.1% of all cases.
- The equity ratio of the “German Mittelstand” has risen continuously since 2005, reaching 20.7% in 2011.

Sources: KfW-Mittelstandspanel 2011; Deutscher Sparkassen- und Giroverband (DSGV)

The German Ministry of Economics actively supports the Mittelstand by:

- Developing key technologies and promoting investment
- Boosting market opportunities abroad
- Making better use of skilled labor
- Supporting start-ups
- Facilitating financing
- Securing raw materials, improving energy and materials efficiency
- Further reduction of bureaucratic burdens affecting the Mittelstand

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## What makes the German Mittelstand so successful?

- As family-owned businesses, the Mittelstand has a long-term view in its corporate decision making.
- The Mittelstand relies on innovation to maintain a competitive edge.
- German SMEs employ sound financial models to meet capital requirements and finance investments.
- The German Mittelstand drives demand for highly skilled, productive workers.
- The Mittelstand receives substantial support from the German government.

What are the lessons for U.S. firms? What is transferable to the US experience?