

New markets, new opportunities – internationalisation as a driver of growth

UnternehmerPerspektiven

The bank at your side



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How do SMEs see their prospects abroad? What markets are currently particularly attractive? What does the euro crisis mean for activities in foreign markets? This year, the Commerzbank SME initiative put these and other interesting questions not only to 4,000 SMEs, but also to economists at German universities and decision makers at German companies' foreign sites, making this the most comprehensive study since the Commerzbank initiative *UnternehmerPerspektiven* was set up.



Key survey data

Sample size:	4,000 companies
Small SMEs:	2,785 companies (annual turnover of 2.5 to 12.5 million euros)
Mid-sized SMEs:	1,050 companies (annual turnover of 12.5 to 100 million euros)
Large SMEs:	165 companies (annual turnover above 100 million euros)
German companies' foreign sites	
Participants:	145 managers of branches, subsidiaries or joint ventures
Economists	
Participants	145 lecturers in economics at German universities

The results of selected questions are comparable with the results from 2007.



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SMEs expect massive political and economic fallout from the euro crisis

“New markets, new opportunities – internationalisation as a driver of growth”

“One in five jobs is dependent on export”, “The euro crisis and German policies have lessened sympathy for Germany overseas”, “Dependency on China is constantly growing”. These are the kind of messages that we hear and read about German companies in international competition almost daily. Let me put it this way: this is a very German view of things. We tend to be cautious and see the risks before the opportunities. That’s also true of SMEs. This way of viewing things has definitely protected us from various setbacks and is one of the secrets behind German SMEs’ success. However, what has made us strong also has its drawbacks. We need to make sure that this attitude doesn’t cause us to start doubting the principle of economic growth in these uncertain times. According to our current study, 88 per cent of German companies are of the view that we need to be prepared for limited growth. A good two thirds believe that there may be financial bottlenecks. Almost as many anticipate severe fluctuations in demand and half of companies expect payment defaults. The number of firms which operate abroad has risen only marginally. And just nine per cent of companies that have focused solely on the German market to date are considering expanding overseas. Five years ago that number was just under a quarter.

So is the environment unfavourable for internationalisation in the German SME sector? Not at all. The economists’ responses speak a different language. German SMEs make the greatest use of economies of scale in Europe and are the most internationalised – both within and beyond Europe’s borders. More than 32,000 German companies currently operate abroad. 50 per cent of German companies sell abroad and 50 per cent procure products from abroad. Turnover outside the domestic market is increasing consistently again and has therefore recovered well from the 2009 crisis. Companies with international operations tend to be expanding their business and growing.

How can we explain these different perspectives? Companies seeking to expand internationally start in related countries such as the Netherlands or Austria and gradually extend their international portfolio based on their experience. However, companies with the potential to internationalise are currently cautious as they consider the situation in Europe – especially Central and Southern Europe – to be unpromising and lack the confidence to leap straight into Asia. You could say that this is holding up the process of internationalisation. This was not the case in our 2007 survey. Back then, those who had not yet taken the first step were more willing to internationalise because the framework



Markus Beumer
Member of the Board of Managing Directors
of Commerzbank AG

conditions in Europe were considerably better. These companies are now also benefiting from their experiences and are considerably less dependent on the European markets. They can also grow in Asia, Russia and America. Car makers in Germany and France are good examples – those who have a strong European presence but have not yet entered the growth markets are experiencing difficulties in terms of growth. Conversely, growth markets such as Russia and China have enabled German car makers to weather the crisis in Europe.

We therefore need to give those companies who are still hesitating the courage to embark on internationalisation. They need more support so that they don't necessarily have to navigate the learning curve via our neighbours in Central and Southern Europe, but have enough knowledge to be able to go one step further.

The question is, who can give them that kind of support? The survey shows that SME owners start by approaching other business contacts that they know well. Companies need to talk about what helped them and how they made their way. Sharing experiences is irreplaceable. This process needs to be organised and its intensity increased. Chambers of commerce, agencies for foreign trade and not least we banks need to support companies with our knowledge and resources. What is important for business owners is that they know their advisers and partners, that these are from their own region and that it is possible to build up a relationship of trust with the people involved. Confidence is the key if we don't want to lose the momentum for growth through internationalisation.

Companies with international operations also confirm that it is right to risk taking the step. Their international competitiveness is increasing, they are appreciated abroad for quality, technology and innovation, and they are considerably improving their local service and marketing. However, we hear far too little in public about just how good overseas activities can be for companies and how they can shore up their domestic operations. Complaints are more common than praise. This is noticed particularly by those who are not yet active abroad. What we need are more ambassadors for the success of overseas strategies. More courage to encourage.



Markus Beumer

Member of the Board of Managing Directors
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Keeping Germany moving as a centre of business activity



Ulrich Grillo
President of the Federation of German Industry
(BDI) and patron of this study

The export prowess of German industrial SMEs is a blessing. As suppliers of goods that are in demand and providers of product support services, they can take advantage of opportunities in places where the economy is experiencing dynamic growth of a kind that we in Western Europe have not seen for a long time. For 2013, the export prospects for German businesses are therefore once again positive on the whole. That is why Germany's economic performance is defying the recession in the eurozone, despite the fact that firms are faced with sluggish growth and modest economic prospects here. After a fall in GDP in the fourth quarter, the German economy grew by 0.9 per cent in 2012. That is low compared to the growth of previous years, but remarkable in the European context. The Federation of German Industry (BDI) anticipates growth in exports of at least three per cent this year.

Despite their strong performance in international business, SMEs are also facing substantial challenges. On the one hand, many business owners fear that the eurozone's economy will not improve appreciably in the coming years. On the other, growth in the markets that are currently booming, such as China, is not limitless. Last year, economic growth there was weaker than in the previous 13 years.

It is true of China and other growing markets that growth is accompanied by massive industrialisation in the countries themselves. If, as in China, local conditions are favourable (for instance thanks to low energy costs), this not only produces a potential market for German industry, but Chinese companies – new competitors on the world market – can also grow.

We are rightly proud of Germany as a centre of business and industrial activity. However, we mustn't rest on our laurels. The markets won't come to us. German business owners cannot rely on their products being successful. They need to tap into the potential offered by various markets. They mustn't shy away from the possible obstacles in new markets and need to be prepared to respond to cultural differences. A comparison with the *UnternehmerPerspektiven* study of 2007 shows that SMEs are now a step further along this road. German businesses have recognised how important it is to engage with conditions, opportunities and expectations in the respective country in order to succeed on foreign markets.

The entrepreneurial freedom offered by Germany as an industrialised nation is another key factor for international success. Only if competitive conditions prevail here can companies grow, risk stepping into foreign markets and participate in international business. Successful internationalisation calls not only for flexibility on the part of businesses, but also freedom from market restrictions.

For many years, the UnternehmerPerspektiven initiative has successfully drawn attention to the concerns of business owners. Solutions are explored in a dialogue between business owners, the political sphere, academia, professional associations and the bank. That is why it is an honour for me to support this work as a patron. The initiative's success lies in no small part in its surveys, which provide concrete data that enables a sound discussion to be conducted. I look forward to this discussion – and hope you enjoy reading this study.



Ulrich Grillo

President of the Federation of German Industry
(Bundesverband Deutsche Industrie e. V.)

More momentum for the world's markets

Markus
Beumer



German SMEs continue to eye Europe with concern and fear. Will the euro crisis result in financing problems? Do we need to get used to strongly fluctuating demand in the long term? Will “flying blind” and insecurity become a permanent state? These are not ideal conditions to strike out boldly and bravely to foreign markets within and outside Europe. In actual fact, the framework conditions really aren't so bad: money is cheaper than ever, access to rapidly growing markets is becoming increasingly easy and German SMEs have weathered the euro crisis comparatively well. However, banks are imposing more and more conditions on lenders, the euro crisis has not yet been overcome and persistent uncertainty regarding the macroeconomic environment is depressing the mood.

Anton F.
Börner



This can be seen in statements by German business owners, of whom 88 per cent consider limited growth to be a possibility. The fact that SMEs are obviously so concerned is far from a good thing. If businesses believe that they may have to adjust to limited growth, they will do so sooner or later. The principle of caution, which characterises SMEs in Germany in particular and has served them well, risks deteriorating into timidity. However, if we question the country's economists, they confirm that the framework conditions are far from ideal, but taking a long-term view of economic events they also see the coming opportunities. It appears that SMEs have lost sight of this to an extent.

Rüdiger A.
Günther



A number of examples show how companies can positively and successfully overcome current challenges when branching out into foreign markets. Joint ventures and cooperative partnerships with companies from Germany offer opportunities to conquer markets together and by doing so to cushion risks or financial burdens. In Germany we need to learn to trust each other more, to think differently and to tread new paths. Only by doing so can we play a part on the international stage and continue to exploit our opportunities for growth. This is because German companies are frequently too small to tackle large challenges by themselves. Many specialists who are world leaders in their segment cannot deal with the demand if customers in growing markets are looking for integrated full solutions. In that case new ideas are called for as to how these individual offerings can be bundled and such development and sales processes can be managed.

Dr Ulrike
Rondorf



Prof. Dr Rüdiger
Kabst



The clusters formed by foreign trade agencies are one possible way of cushioning the push into foreign markets. However, on the domestic level too, more companies should be thinking about who their partners could be.

The fact that even more companies than five years ago are concerned that intellectual property cannot be adequately protected is an alarm signal. Although the Chinese, eager copiers, recently said that they will tackle the problem seriously, SMEs do not appear to have much faith in these assurances. The safest protection against product piracy and plagiarism will therefore remain staying one step ahead of the competition abroad.

“Made in Germany” is more than a promise of quality. The study also confirms that emphatically. German business owners know that their companies and products are also in demand because they are more innovative, technically more sophisticated and – above all – because they are developed and manufactured under German management. This represents a huge opportunity. Whilst it may be possible to copy products, process and management skills remain culturally dependent to a large degree and are not so easy to imitate. Nonetheless, we mustn’t rest on our laurels. We also shouldn’t labour under the illusion that the whole world knows Germany and wants German products. Europe is also becoming increasingly important as a production centre.

So what we need moving forwards for the successful internationalisation of German companies is a new way of thinking within SMEs, as well as our undisputed strength and wide range of top-class services. We need to build greater trust amongst ourselves and have more courage to seek fortune and success outside Europe as well as within it. We have no doubt that we are still in a strong position to do this, regardless of the euro crisis.

The UnternehmerPerspektiven committee



Dr Jürgen
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Summary

SMEs expect massive political fallout from the euro crisis

Many SMEs are concerned about the state of the eurozone. In the medium term, the insolvency of individual euro nations and the break-up of the eurozone is anticipated. While German economists share these fears, they are more optimistic overall and are less expectant of changes involving regulatory policy.

50 per cent of companies anticipate the insolvency of individual euro nations, and 18 per cent expect a break-up of the eurozone. In this respect companies and academics largely agree. 58 per cent of SMEs fear more protectionism in Europe, 48 per cent fear the loss of the political capacity to act in the EU and 30 per cent fear a reduction in export surpluses.

The economists are less pessimistic, and hardly anyone imagines that the EU will act to curb exports.

German companies anticipate a weak economy around the world

SMEs and academics anticipate a persistently weak economy over the coming years. Two thirds of the companies surveyed fear difficulties in terms of financing. On top of this come concerns about inflation, fluctuating demand and frequent defaults on payment. Economists have a more optimistic view of the future than business owners.

81 per cent of business owners anticipate a weak economy in the eurozone for the next three to five years. 56 per cent expect the same trend in the global economy. Irrespective of sector and size, 68 per cent of SMEs see themselves faced with growing financing problems. The

academics do not share this view.

Further contributing to the sense of uncertainty are the fear of severe fluctuations in demand (64 per cent), rising inflation in the eurozone (60 per cent) and increasing defaults on payments in international trade (52 per cent).

The limits on growth are becoming an issue – followed by the call for more foreign trade outside the EU

SMEs foresee limits to economic growth. However, all the signs point towards exports remaining strong. Reducing Germany's surpluses is not an option for any company. A moderate wage level should be retained to guarantee competitiveness at the international level.

88 per cent of SMEs expect limits to growth. At the same time, 85 per cent call for more intensive foreign trade beyond the eurozone. Only 26 per cent want more imports as well to strengthen the purchasing power of foreign countries. Less than half of the academics foresee limits to growth. Aside from the demand for higher wages to kick-start the domestic economy (32 per cent), they see little need for change across the German economy. 68 per cent of SMEs and 46 per cent of economists argue for a moderate wage level to retain Germany's international competitiveness.

SMEs are split: growth for companies with successful international operations – caution among those taking the first step overseas

A good 50 per cent of all SMEs sell their products and services overseas. This figure

is comparable to 2007. Significantly fewer companies are planning to branch out overseas than in 2007. A two-tier system is emerging: on the one hand, companies with a purely national business model who have ruled out or postponed internationalisation; on the other hand, companies with international operations who are successfully expanding their activities abroad.

For 55 per cent of companies, international sales are part of their everyday business – that is just one percentage point more than in 2007. For larger SMEs the figure is 74 per cent. There are also significant differences between sectors. The manufacturing industry has the largest percentage of internationalised companies (75 per cent), followed by wholesale (55 per cent). In construction and retail, only 25 per cent of companies sell abroad. Just nine per cent of companies that operate at a purely national level are currently considering the opportunities of selling to markets beyond German borders. As recently as 2007, this figure stood at 23 per cent.

Companies with the potential for overseas business are putting their plans on hold

The majority of SMEs that do not sell abroad are satisfied with their German business model. These companies do not usually perceive there to be any risk in foregoing foreign business.

For 36 per cent of all SMEs, there is no question of operating overseas. 93 per cent of this group is made up of smaller SMEs. 80 per cent of them are of the view that foregoing foreign business poses no

risk to them. In 2007, only 63 per cent held this view. Just four per cent believe that their concentration on the domestic market could become a problem in the next five years.

Almost one in ten companies sees potential overseas based on the sector it operates in. However, many consider the framework conditions to be difficult. Currently, other European countries are not very attractive as a sales market. This hampers entry into international business overall.

Nine per cent of SMEs state that they have concrete plans to trade abroad or that this is an option. 61 per cent of them say that their products are increasingly being traded internationally (an increase of 26 percentage points since 2007). 38 per cent are of the view that an international presence is expected of them. Conversely, just 28 per cent consider the prerequisites for foreign business to be favourable.

69 per cent of companies that are planning a step towards internationalisation expect that things will become tighter on the German market in future. However, even more of them anticipate a weak economy in the eurozone as a whole (82 per cent). Yet many companies, especially smaller ones, want to gain experience in other European countries first. If companies do not take this initial step into other European countries because the risks are considered too high, the rest of what is known as the “establishment chain” of internationalisation is broken.

Companies with international operations are on a growth trajectory: SMEs are increasingly conquering markets beyond Europe and strengthening their foreign presence

Europe remains a central market, although nowadays trade with the BRIC states is frequently is the norm. Two thirds of all German SMEs with international operations are taking advantage of growth opportunities outside Europe, North America and Japan. Companies are better networked locally than in 2007. The percentage of companies with long-term cooperative partnerships, branches and subsidiaries abroad has risen.

53 per cent of SMEs, i.e. almost all who generate revenue abroad (55 per cent), sell their products and services in the eurozone. Further trading partners are the non-euro EU Member States (46 per cent) and Switzerland (44 per cent). 29 per cent of those surveyed have customers in North America, and 17 per cent in Japan. 17 per cent of all companies sell exclusively to markets in established economies. 38 per cent of SMEs also serve customers in the BRIC states and other emerging countries. Owners of SMEs are strengthening their position locally and have increased all forms of collaboration in comparison to 2007: one in three SMEs has contractual ties to overseas partners (increase from 19 to 33 per cent). A quarter (increase from 21 to 25 per cent) operate their own site abroad.

The international competitiveness of German companies continues to increase

German businesses are regarded around the world as a leading force in quality and innovation – even more so than in 2007. Companies consider themselves to have improved in terms of service and consultancy. For many SMEs the only room for improvement is in marketing German products and services abroad. Firms with international operations have become considerably more confident overall. The business concepts have proven themselves, market orientation remains the utmost priority.

83 per cent of companies that sell abroad say that their customers appreciate the higher quality (an increase of nine percentage points as compared to 2007), especially in the manufacturing industry. 75 per cent regard themselves to be leaders in innovation and technology, while 73 per cent believe that they are also strongly positioned in service and consultancy. There is potential in the area of marketing and distribution: 49 per cent of respondents consider German companies to be merely average in this respect and 40 per cent consider them to be above average. 49 per cent state that German products and services do not compete well on price as compared to the foreign competition.

Confidence is up: 75 per cent trust their intuition more and are learning step by step in the process. 69 per cent –

ten percentage points more than in 2007 – are building on their tried and tested business concepts. 60 per cent are emphasising their own unique selling points more, 11 percentage points more than in 2007.

Companies with international operations increasingly perceive difficulties in overseas business over which they have little influence. They name trading barriers, currency risks and problems protecting intellectual property. Financing issues tend to be the exception.

A lack of legal certainty, legal obstacles and trading barriers are the most frequently cited difficulties (58 per cent). Currency crises are an obstacle for 50 per cent, compared with 38 per cent five years ago. For 40 per cent of all companies that sell abroad, the protection of intellectual property is a significant challenge. That is no less than 13 percentage points more than 2007. Companies that sell to the BRIC states and emerging economies are particularly sensitive to this problem.

Global sourcing is becoming standard

Almost half of all SMEs buy products or services abroad. Procurement frequently takes place not only in other European countries, but also in the BRIC states and other distant markets. One in five German SMEs manufactures overseas themselves.

48 per cent of all SMEs procure products or services abroad or have them manufactured there. A sector comparison shows that wholesalers (61 per cent) and the manufacturing industry (57 per cent) procure overseas most frequently, while the construction sector very rarely sources abroad (25 per cent). 26 per cent of all companies take advantage of the international division of labour exclusively on the procurement side and do not themselves sell abroad.

45 per cent of all SMEs, and thus almost all companies with international procurement (48 per cent), procure in the eurozone, and 30 per cent also source goods and services from EU Member States which do not use the euro. Only 17 per cent restrict themselves to the established economies in Europe, North America and Japan. 31 per cent of companies procure throughout the world. China is the most popular trading partner (25 per cent), followed by India (12 per cent) and Russia (seven per cent).

21 per cent of all SMEs produce goods or complete preliminary manufacturing abroad. A further ten per cent are planning corresponding activities. Large companies with a turnover of over EUR 100 million are the biggest overseas manufacturers (56 per cent).

Competitive advantages from products “made in Germany” and “managed in Germany”

Companies that procure or manufacture abroad leverage the benefits for structuring prices and product range. International customers place particular emphasis on the fact that a German company guarantees quality and manages the production process.

For 53 per cent of those surveyed, a key benefit of global sourcing is the low price. 56 per cent are able to expand their product range through international procurement, 39 per cent see it as improving their image and 21 per cent of respondents report better quality.

International customers are keen to make sure that a German company manages the production process. 79 per cent of companies that sell abroad have had this experience. Actually producing goods or services in Germany only ranks second (63 per cent). The tag “made in Germany” is enhanced by “managed in Germany”. Innovative companies from mechanical engineering, the metal and electrical industry and the chemical and pharmaceutical industry emphasise the significance of process management.

The strategic potential of foreign sites: more than just market access

One in four SMEs has at least one foreign site that primarily serves the purpose of opening up the market. In that context, staff training and intercultural understanding are key factors for success. Investment decisions and a strategic approach to the local market harbour the

greatest potential for conflict between HQ and the foreign site.

25 per cent of companies today have at least one foreign site (five percentage points up on 2007). This figure is 65 per cent for companies with a turnover of more than EUR 100 million per year. The manufacturing industry in particular (up seven percentage points) and the service sector (up eight percentage points) have extended their presence abroad. Foreign sites tend to be rare in the construction industry (ten per cent) and retail (five per cent).

For German SMEs, foreign sites are primarily a means of accessing regional sales markets (96 per cent) and increasing customer retention (83 per cent). Cost reduction is another central function of the foreign sites in terms of procurement, labour and personnel costs.

The foreign sites see further potential benefits. 59 per cent cite better access to qualified personnel (five percentage points more than the German sample) and to strategic cooperative partners (31 percentage points higher). Around three quarters of all company HQs and foreign sites agree that they need to overcome bureaucratic hurdles and comply with consistent quality standards abroad. Personnel issues are more important for the foreign sites than for the German HQs: for 82 per cent the recruitment of suitable employees is a central challenge (13 percentage points more than for German HQs), along with intercultural

understanding for 71 per cent (eight percentage points higher). From the German perspective, there is potential for conflict between the company's HQ and the foreign site in determining the regional business strategy (52 per cent), decisions about investments (47 per cent) and assessing market opportunities (46 per cent).

Criticism of banks and savings banks is on the decline, but German SMEs are calling for them to do more for small businesses

As compared to 2007, criticism of banks and savings banks is on the decline. A third of companies still consider the German banking system to be too weakly positioned to support German companies' activities abroad. The economists surveyed do not share this opinion. They agree with the SMEs that banks and savings banks lack commitment to the internationalisation of smaller companies. The companies see room for improvement in strategic advice above all.

Whilst in 2007 44 per cent of all companies believed that the German banking system was too weakly positioned to adequately support SMEs abroad, this figure stood at just 32 per cent at the beginning of 2013. 27 per cent do not consider their banking partners to be adequately equipped for the challenges of international business (38 per cent in 2007).

However, 49 per cent have the impression that they are of little interest to financial service providers on account of their size. Only 16 per cent of economists

criticise the German banks' international positioning and 15 per cent have doubts about the competence of companies' banking partners. That said, 49 per cent agree that banks and savings banks do too little for small SMEs.

Companies with international operations see room for improvement in strategic advice, specifically in the assessment of risks (52 per cent), information about foreign markets (47 per cent), understanding individual business strategies (47 per cent) and developing individual solutions for countries with difficult political or economic conditions (46 per cent). Criticism of operational competence is less common. The most frequent problems are in safeguarding against currency risks (45 per cent) and overseas payment transactions in general (43 per cent). 42 per cent of companies would like their bank to have a stronger regional presence abroad. In terms of financing, only 38 per cent of SMEs express this wish.

The surveyed foreign sites are more satisfied with their banking partners overall. However, they expect individual solutions for difficult countries from their banking partner more frequently (eight percentage points higher than the figure for German companies) and a stronger local presence (eight percentage points higher).

I. The economic environment

SMEs expect massive political and economic fallout from the euro crisis.



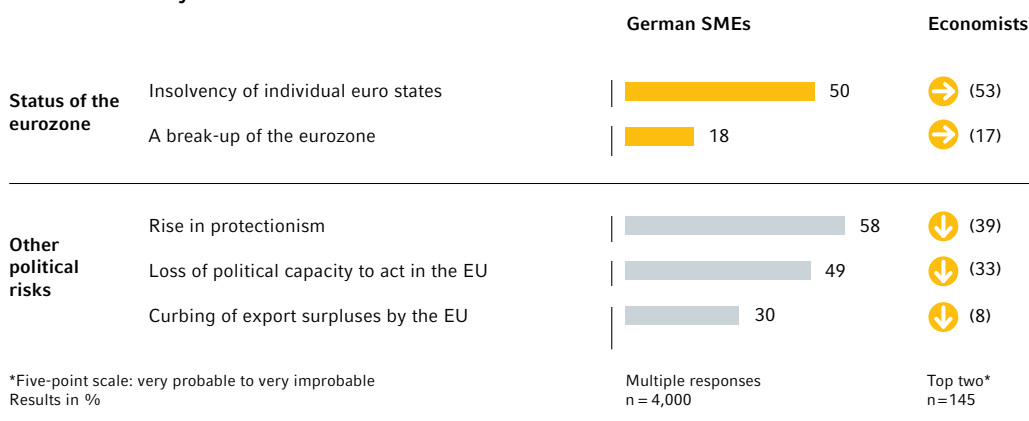
SMEs anticipate massive political fallout from the euro crisis

German companies are eyeing the political situation in Europe with concern: 50 per cent of those surveyed anticipate the insolvency of individual euro states in the medium term, and almost one in five expects the eurozone to break up within the next three to five years. German economists share these fears about the state of the eurozone. However, the view that protectionism will increase in individual states or that the EU will lose political room to manoeuvre is considerably less prevalent than among business owners.

The euro crisis is continuing to influence the economic framework in 2013. Thus, if German companies are considering doing business abroad, they need to ask themselves what scenarios they can expect in the medium term. That is no mean feat in politically and economically uncertain times, and the responses are correspondingly cautious to pessimistic.

Many SMEs are concerned about the state of the eurozone (figure 1). 50 per cent even anticipate that the next three to five years will see the insolvency of several euro states, while 18 per cent consider the a break-up of the eurozone to be probable. The companies and economists agree on these points (right-hand column)¹⁾.

1. What consequences do you expect the euro and financial crisis to have in the next three to five years?



1) The economists were surveyed online using a slightly different scale. The percentage results are therefore not directly comparable; the arrows indicate the tendency of the responses in each case.

Furthermore, SMEs perceive a number of further regulatory risks as a result of the euro crisis: 58 per cent fear a rise in protectionism, almost half anticipate a loss of political capacity to act in the EU and no less than 30 per cent expect that the EU will actually intervene with regulatory measures to curb export surpluses in the future. Is the German economy's export prowess under threat? A considerably smaller number of economists believe it is. In particular, very few economists can envisage the EU doing anything to curb exports.

German companies have little hope that the economy will recover quickly

The outlook is cautious. Following the euro crisis, SMEs and academics expect a persistently weak economy in the next three to five years – primarily in the eurozone but also at global level. Two out of three companies fear that it will be difficult to finance projects. This is accompanied by concerns such as inflation, fluctuating demand and frequent defaults on payment. The economists have a much more optimistic view of the future than business owners.

2. What consequences do you expect the euro and financial crisis to have in the next three to five years?



The euro crisis and its economic consequences will not be overcome quickly. That is the unanimous view amongst all respondents (figure 2). 81 per cent of business owners anticipate a weak economy in the eurozone for the next three to five years. 56 per cent believe that the global economy will also exhibit weak growth. It is food for thought that a good two thirds (68 per cent) of SMEs anticipate growing financing problems – regardless of their sector and size

(not shown on the diagram). The academics do not share this fear. They clearly assume that the banks and savings banks are in a position to adequately furnish SMEs with capital. But that is not all: significant fluctuations in demand (64 per cent), rising inflation in the eurozone (60 per cent) and increasing payment defaults in international business (52 per cent) are a cause of considerable concern for large numbers of SMEs.



Hartmut Schauerte, Regional Chairman of the CDU party's SME and Business Association (Mittelstands- und Wirtschaftsvereinigung) in North Rhine-Westphalia

What can politicians do to turn around the pessimistic mood among SMEs regarding the limits to growth to ensure it doesn't become a self-fulfilling prophecy?

Economic development mirrors demographic trends. A long period of quantitative growth, marked by the rising demand of a constantly growing population, has come to an end. I am convinced that we are now facing many decades of qualitative growth. That means an increase in quality of life. In both cases innovations, efficiency and quality are crucial factors. In that respect German companies are amongst the best in the world.

Is companies' fear of increasing financing problems justified or is it a result of excessive caution?

This fear is not justified. Considering the ageing world population whose pensions rely to a large extent on capital coverage, the supply of capital will tend to outstrip demand. SMEs are constantly on the lookout for good investments – and that also means credit.

A glance at the different sectors shows that construction and retail in particular – two segments that are more stragglers than pioneers when it comes to expanding overseas – have no plans for internationalisation. What could be the reasons for this?

Their reservations are understandable to a certain extent. Firstly, because retail and construction have a strong domestic market where they perform strongly in all regions. And secondly, because services tend to be harder to export than the production of goods. Nonetheless, the advantages in terms of efficiency and systems that both sectors boast should play a stronger role in globalisation because they generate additional export opportunities for the economy as a whole that go beyond their own value. German retail chains, for example, can also be pioneers for the sale of German products.

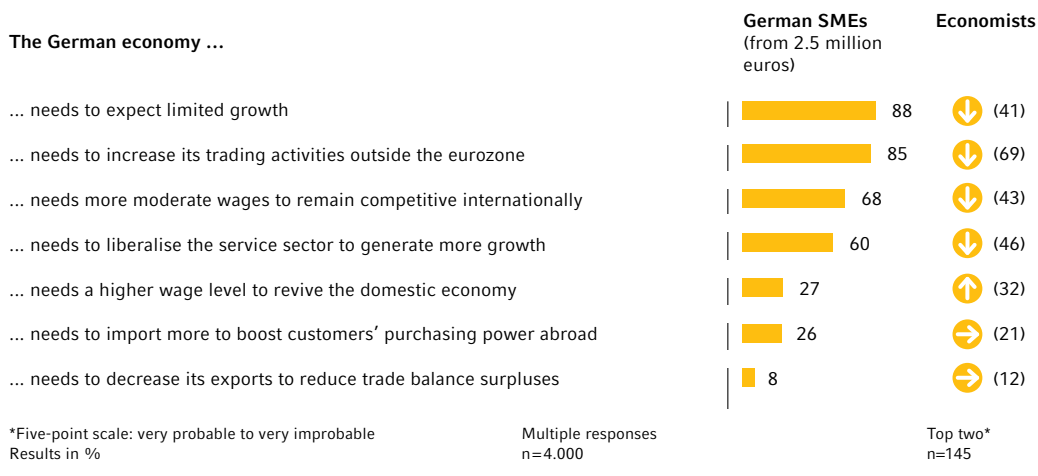
The limits to growth are becoming an issue, followed by the call for more foreign trade outside the EU

Almost all SMEs are of the view that we need to be prepared for limited economic growth – an attitude that is considerably less common amongst economists. Companies are also convinced that Germany not only needs to step up foreign trade beyond the eurozone, but that it also requires more internal investment. Only very few respondents consider reducing Germany’s export surpluses to be an option. On the subject of wages, most SMEs argue in favour of a moderate level and international competitiveness.

88 per cent of SMEs anticipate limited growth (figure 3) – and this view is held consistently across all size categories and sectors (not shown on the diagram). It can be assumed that this refers primarily to growth in Europe, because at the same time SMEs call for foreign trade outside the eurozone (85 per cent) to be

ramped up. That is particularly true of exports because just 26 per cent of business owners surveyed demand higher imports which would strengthen purchasing power abroad. It therefore appears that companies readily accept the prospect of further trade balance surpluses.

3. How does our economy need to change in future to overcome the challenges of the euro crisis?



Far fewer economists see the dangers of limited growth. Aside from calling for higher wages to kick-start the domestic economy (32 per cent), they see less need for change across the board to enable the German economy to overcome the euro crisis. Their weighting is also different. Their top priority is more foreign trade (69 per cent), with a liberalisation of the service sector coming in at second place to create more domestic growth (46 per cent).

On the wages issue, 68 per cent of SMEs and 43 per cent of economists argue for a moderate level so that Germany can remain competitive internationally.

Yet 27 per cent of companies and no less than 32 per cent of economists took the opposite, demand-oriented position: they support higher wages to revive the domestic economy.

Dr Ulrike Rondorf,
Research, Commerzbank AG



85 per cent of companies are of the view that Germany needs to intensify its foreign trade beyond the eurozone. Reducing the German export surpluses is not an option. Can that turn out well from an economic perspective?

I agree with those who don't see there being an issue with Germany's high export surpluses. They stem from the pronounced competitiveness of our industry. Given the bleak demographic outlook, German companies are well advised not to rely on domestic demand alone. However, German export surpluses are expected to fall over the coming years as wages rise after years of pay restraint, which boosts domestic demand. At the same time, this would cause Germany to become less competitive, curbing export growth.

The study found that the process of internationalisation was being held up – significantly fewer companies are planning to branch out abroad in the foreseeable future. What are the economic consequences of this cautious behaviour?

The uncertainty emanating from the sovereign debt crisis in the eurozone has caused companies to become more cautious, especially given that our immediate European neighbours have been hit particularly hard by the crisis. This affects their willingness to invest abroad. The ultimate price of a low division of labour in Europe is low growth.

Whilst 88 per cent of SMEs state that economic growth has its limits, only 41 per cent of the economists surveyed share this view. How do you explain this significant difference?

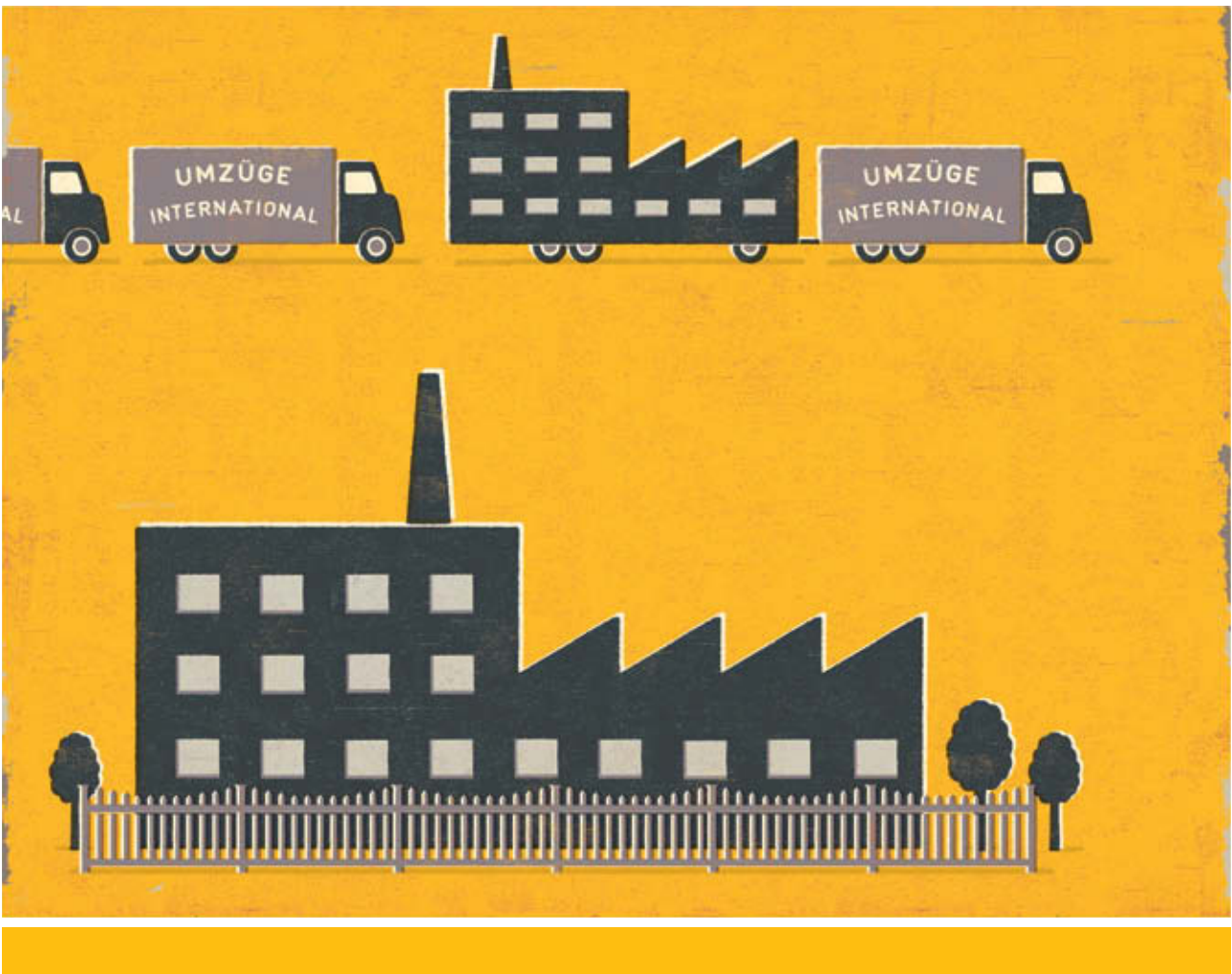
I think that the business owners' assessment is in line with broader public opinion, which rejects the constant push towards more growth and bigger profits. The majority of economists, on the other hand, do not believe that the economy should have to make do with lower growth because they equate that with higher rates of unemployment and lower prosperity.

The study shows that most companies which export abroad are based in the west and south of Germany. The east mainly manufactures and works for the German market. What conclusions can be drawn from that?

This mirrors the very different economic structures in the various parts of Germany. Geographical reasons also played a part in large industrial companies' decisions to locate their headquarters in the south and west of Germany as they have stronger international networks than other sectors.

II. International sales

SMEs are split: growth for companies with successful international operations – caution among those taking the first step overseas.



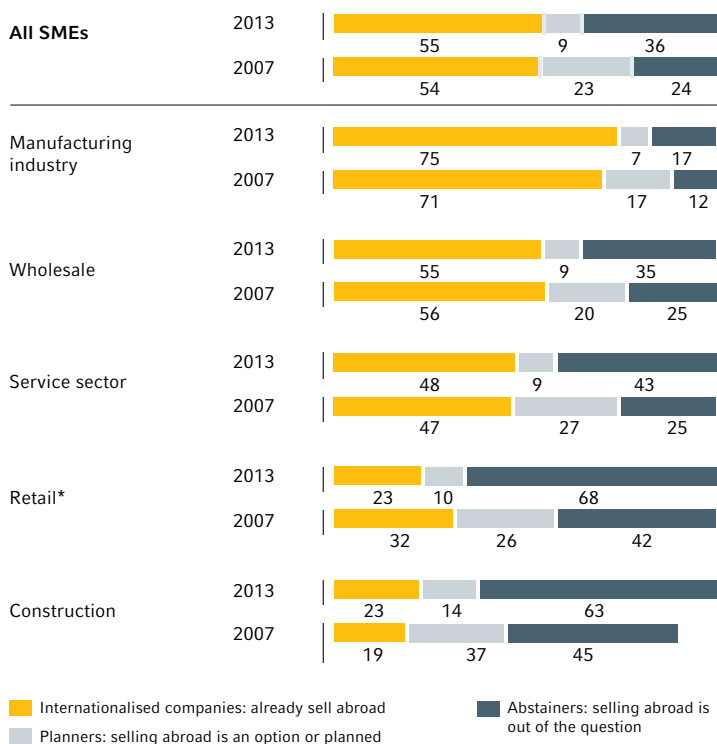
SMEs are split: growth for those with experience, hesitancy amongst newcomers

Over half of all SMEs surveyed also sell their products and services overseas, similar to 2007's figure. Far fewer companies are planning brand-new operations overseas than five years ago, however. A two-tier system is emerging: on the one hand companies with a purely national business model who currently rule out or are postponing internationalisation; on the other hand, companies who already operate internationally and are expanding their activities abroad.

For 55 per cent of companies with an annual turnover in excess of 2.5 million euros, international sales form part of their daily business. In larger companies this proportion is considerably higher: 74 per cent of these companies export overseas (not shown on the diagram). The left (yellow) area of figure 4 shows the percentage of companies that sell abroad, while the right area represents the proportion of companies that only sell on domestic markets (light and dark grey). The whole of the SME sector is depicted at the top of the diagram. Beneath that is a breakdown showing the individual sectors.

As expected, the manufacturing industry is the most internationalised (75 per cent), followed by wholesale in second position (55 per cent). By contrast, selling abroad is the exception in construction and retail: three quarters of the companies here operate exclusively on the German market.

4. Are products or services sold abroad?



*Note: 97 per cent of the retail sector is made up of companies with a turnover of between 2.5 and 50 million euros

Results in %

A comparison with 2007 (the bottom bar in each case) shows that over recent years the number of companies which have made the move into foreign sales markets has hardly grown – the increase is just one percentage point. We can assume that very few companies have started overseas business from scratch in times of financial crisis when the euro is also in trouble, or that they have already suspended their activities.

It is striking that the share of retail companies that sell internationally has fallen by nine percentage points as compared to 2007. One explanation for this is that 97 per cent of this group is made up of companies with an annual turnover of between 2.5 and 50 million. In recent years, there has been a trend among small and mid-sized retailers towards concentrating on regional and national markets once again. They do not mirror the globalisation of major retail corporations and the associated concentration of foreign turnover.

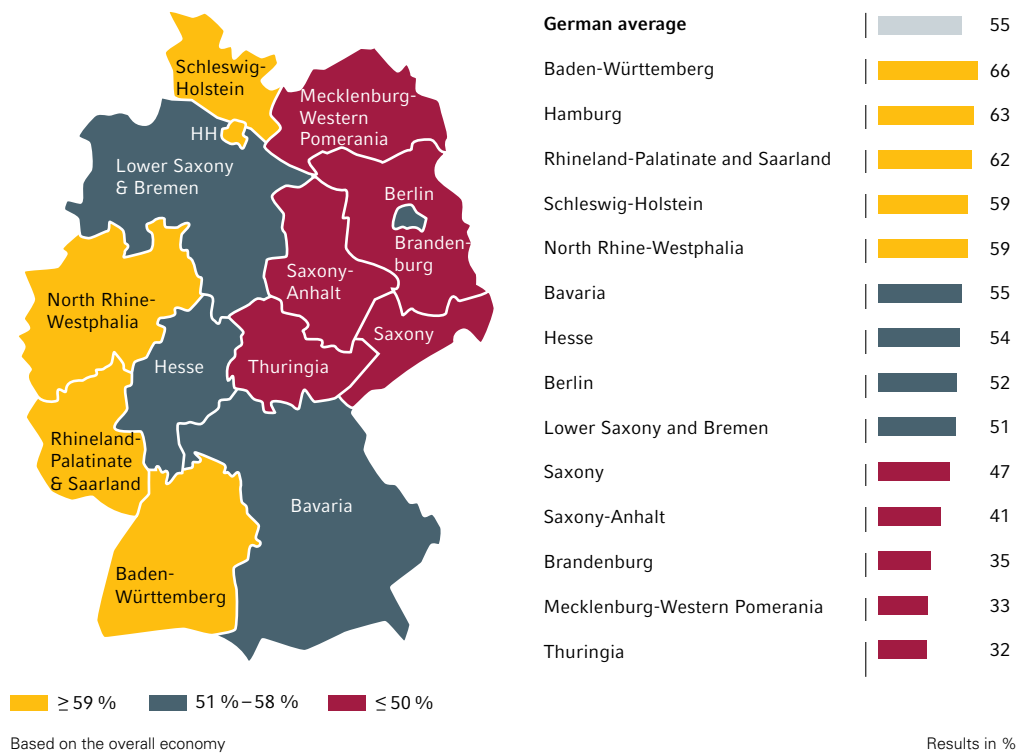
Only a few companies that operate at a purely national level are currently thinking about opportunities on sales markets outside Germany's borders. Just nine per cent of those surveyed state that selling abroad is an option or something they are planning to do. The proportion of these "planners" was 23 per cent in 2007 – corresponding to a fall of 14 percentage points.

Export prowess in the west and south of Germany

A regional comparison shows that an above-average number of companies in the industrial strongholds in the west and south of Germany sell their products and services on international markets. Top of the pile is Baden-Württemberg, followed by Hamburg, Rhineland-Palatinate and Saarland, Schleswig-Holstein and North Rhine-Westphalia (figure 5).

This proportion is lower in eastern Germany. Size also plays a part: small and mid-sized companies export less and are more common in the east of Germany than in the west.

5. Percentage of companies that also sell products or services abroad





Prof. Dr Rüdiger Kabst,
Professor of Business Studies,
University of Paderborn

What are SMEs afraid of when they say they fear financing problems due to the euro crisis?

They don't mean a fundamental financing shortfall. There is ample evidence that there is no such thing. Rather, their concerns reflect the high level of uncertainty perceived by SMEs. Certain lenders – in particular foreign banks – have distanced themselves from the German market, and the German banks also have their own challenges to face. This impression may be enhanced by more stringent reporting and rating routines. Added to this is the general uncertainty about economic development which is causing both equity providers and lenders to act more cautiously. Conversely, German SMEs in particular have substantially increased their equity base over the last ten years and thus not only strengthened their internal financing capacity, but also their own creditworthiness. Thus, it is not financing challenges that are currently hindering the foreign expansion of Germany's thoroughly healthy SME sector, but rather economic uncertainty.

How do SMEs set about internationalising their business?

The Uppsala internationalisation theory – the most commonly used analytical basis amongst academics – sets out the following internationalisation pattern. SMEs begin their foreign activities in countries that are culturally and geographically close to their own and only expand to more distant countries when they have gained this experience. In today's

uncertain times, this is where the problem lies. Companies that do not yet operate internationally would initially seek to branch out into neighbouring European countries to minimise the risk. However, it is these markets that are stagnating and currently offer no prospects. This holds up the process of internationalisation for potential internationalisers.

Most companies tread the path to foreign markets alone. They then enter into local partnerships and cooperation agreements – that is the tried and tested method which is still on the rise. How could firms use cooperative partnerships with German companies as another means of ensuring their success abroad?

The question for SMEs is: what are they lacking for successful internationalisation? If it's knowledge of the foreign market or distribution channels abroad, cooperating with a partner who is at home on the foreign market makes sense. However, if it is a matter of limited resources (as is typical of SMEs) which, for example, makes it too risky and costly to set up a foreign production site on their own, setting one up along with other German SMEs in a regional cluster may be the way to go. Furthermore, collaborating with an experienced firm or a company that is upstream or downstream in the supply chain could be an option. Whatever the case, the crucial question is what the SMEs are lacking permanently or temporarily for successful internationalisation. They should embark on the search for a partner with this in mind.

Companies with the potential for overseas business are putting their plans on hold

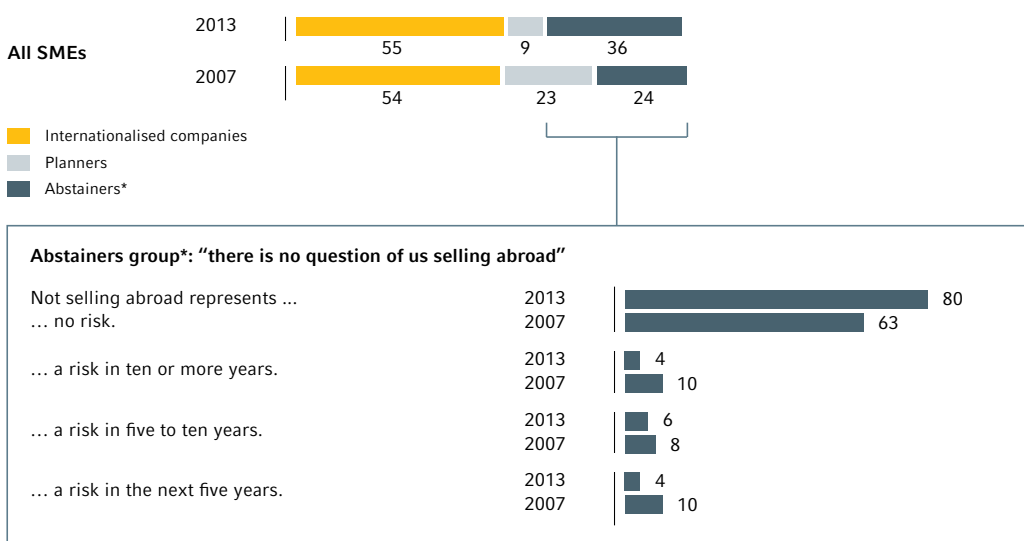
The majority of SMEs that do not sell abroad are satisfied with their German business model. These companies do not usually perceive there to be any risk in foregoing foreign business.

Not every SME needs to go abroad to stay in business: a good third – 36 per cent of all SMEs – say that there is no question whatsoever of them operating overseas. 93 per cent of this group, termed “abstainers” here, is made up of companies that are classified as small SMEs in this study. As a rule, they are happy with their purely domestic business model (figure 6): 80 per cent of them are of the view that foregoing foreign business poses no risk to them. In 2007, considerably fewer compa-

nies were so unconcerned (63 per cent). Only four per cent of the abstainers believe that their concentration on the domestic market could become a problem in the next five years.

One explanation may be the positive development of overall construction activity and the persistently robust domestic demand in retail: both sectors focus particularly strongly on the German sales market (cf. figure 4).

6. What significance would foreign business have for nationally focused companies?



*Note: 93 per cent of the abstainers group is made up of companies with a turnover of between 2.5 and 50 million euros. Of the hundred missing: no response

2013 n=1,525
2007 n=953

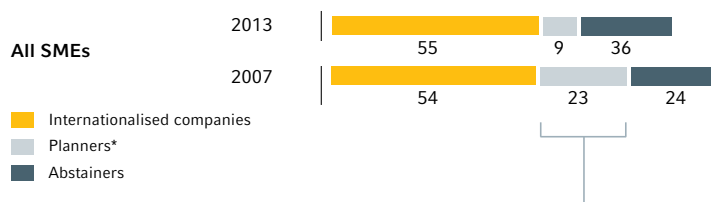
Almost one in ten companies sees potential on overseas markets based on the sector it operates in. However, many consider the current framework conditions to be difficult. Business owners and managers are primarily hesitant due to the unforeseeable consequences of the euro crisis. Other European countries are not very attractive as sales markets at present, and the usual “establishment chain” of internationalisation – first gather experience in Europe then in the rest of the world – is therefore broken.

Nine per cent of SMEs state that they have concrete plans to trade abroad or that this is an option. 94 per cent of this group of “planners” is made up of small SMEs (figure 7).

Their products are increasingly being traded overseas – confirmed by 61 per cent of these companies. The proportion of those discovering opportunities abroad as a result of market development has substantially increased as compared to 2007 (up 26 percentage points). 38 per cent of planners are also experiencing a certain level of pressure to internationalise. They state that an international presence is specifically expected of them – this percentage has almost doubled since 2007.

However, planner companies are also aware of the difficulties. Only 28 per cent, and thus ten percentage points less than in 2007, believe that the prevailing conditions for foreign business are currently favourable.

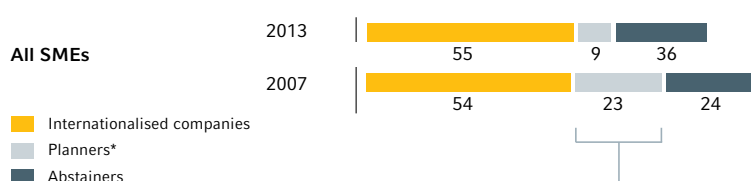
7. What incentives are there for nationally focused companies to internationalise?



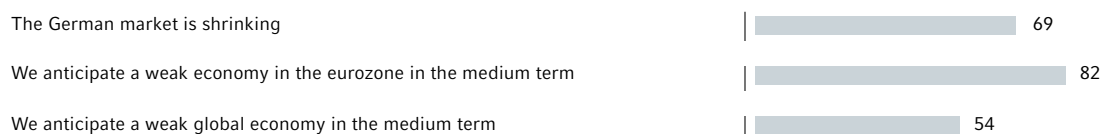
*Note: 94 per cent of the planners group is made up of companies with a turnover of between 2.5 and 50 million euros
Multiple responses

2013 n=336
2007 n=896

8. Economic expectations of nationally focused companies



Planners group*: "selling abroad is an option for us/is being planned"



* Note: 94 per cent of the planners group is made up of companies with a turnover of between 2.5 and 50 million euros

n= 336

Results in %

Pessimism also prevails with respect to the framework conditions. It remains to be seen whether companies will utilise the internationalisation potential that is actually there.

Europe's less than encouraging macroeconomic prospects are one of the main reasons why companies are so hesitant (figure 8). Internationalisation planners assume that conditions on the German market will become more difficult in future (69 per cent), which could increase pressure and trigger trading overseas. Yet there is an even higher expectation amongst companies that the economy will remain weak throughout the eurozone (82 per cent).

European countries are an important factor in the dynamics of internationalisation. Small companies in particular want to gather experience in neighbouring European countries with strong cultural and economic similarities. That gives them the confidence to venture into more unknown territory. But if they fail to take the first step into other European countries, the standard internationalisation process – known by academics as the establishment chain – is broken. The opportunities on more distant markets go to waste. This is because small and medium-sized companies in particular often do not dare to step straight into markets beyond Europe.



Anton F. Börner, President of the Federation of German Wholesale, Foreign Trade and Services (Bundesverband Großhandel, Außenhandel und Dienstleistungen e. V.)

50 per cent of those surveyed anticipate the insolvency of several euro states in the medium term, and no less than 18 per cent expect the eurozone to break up within the next three to five years. A similar percentage of economists surveyed shares these serious concerns. How do you explain that?

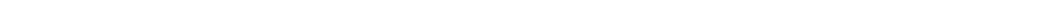
We need to take these fears seriously, but they don't help us in the slightest. The only answer to global megatrends, twinned with growing competitive pressure as China gains in strength and the USA makes a comeback, lies in a strong Europe and a secure euro. We need to approach the integration, deepening and widening of Europe politically, economically and socially, keeping our cultural and national identity intact. People are not worried because they have reservations about Europe; in many cases, they are uncertain about the extent of the sovereign debt crisis and its effects.

Compared to the 2007 study, the current survey shows that internationalisation among German businesses is stagnating. What is more, the number of firms considering internationalisation has decreased substantially. What would be your advice to companies with potential for growth abroad but who are currently holding back?

I say that the demographics send a clear message: if you are looking for long-term growth, you can't afford to close off access to the world markets. It is not necessarily a contradiction to say that such business decisions require proper preparation – or that we don't think every company should necessarily go somewhere like China or Brazil at any cost.

Despite all the economic and political concerns, business owners who operate internationally radiate confidence. Where do you see the biggest challenges for these companies in the coming years?

Without a doubt, the biggest challenges are the increasing legal and bureaucratic obstacles that need to be overcome nowadays before you can start trading abroad. They are far too demanding for SMEs in particular. In this respect, the right balance has not yet been struck between security and freedom, the customer's need for transparent information and excessive red tape.



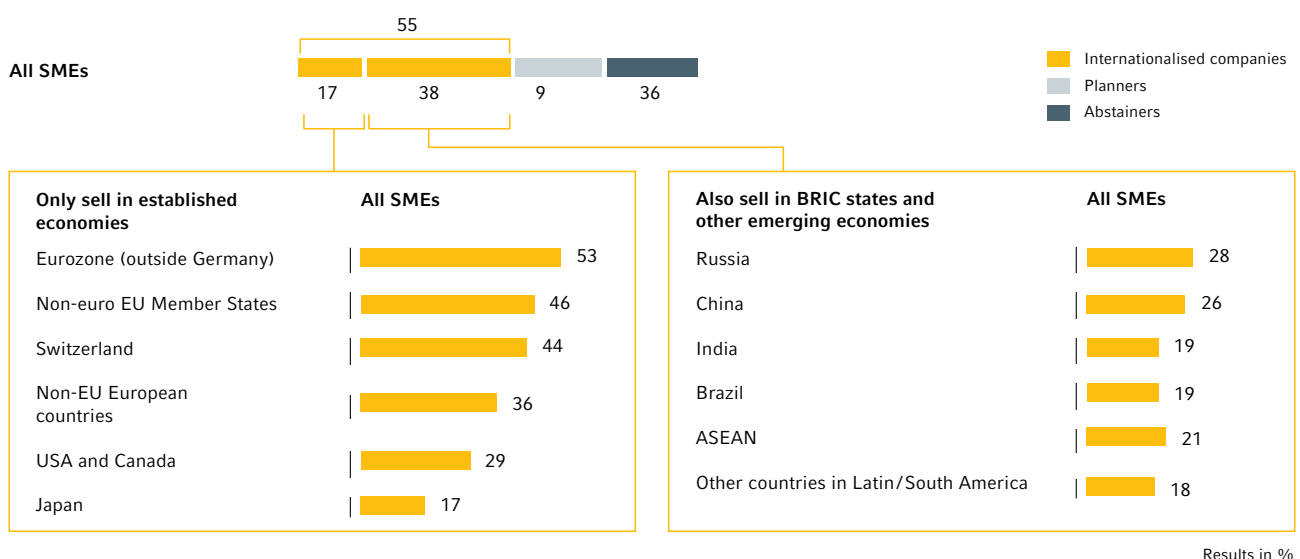
Companies with international operations on a growth trajectory

SMEs are conquering market after market. Europe remains a central arena, although nowadays trade with the BRIC states is frequently the norm. Two thirds of companies with international operations also sell in other emerging markets. They are also strengthening their presence abroad as compared to 2007.

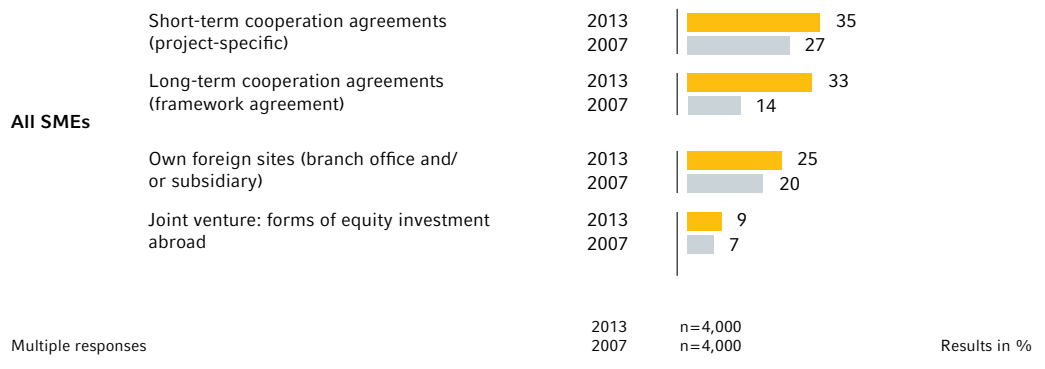
53 per cent of SMEs, i.e. almost all who sell abroad (55 per cent in figure 8), sell their products and services in the eurozone (figure 9). Other popular trading partners are the non-euro EU Member States (46 per cent) and Switzerland (44 per cent). A considerable 29 per cent of those surveyed have customers in North America, and 17 per cent trade in Japan. 17 per cent of all companies sell exclusively in the markets of these established economies (left diagram).

However, SMEs have long since conquered other sales markets. 38 per cent of the SMEs also serve customers in the BRIC states and other emerging economies. This means that a good two thirds of the companies which sell abroad are exploiting growth opportunities beyond Europe, North America and Japan.

9. Which of the following countries or regions are sales markets for your company



10. In what form does your company maintain business relationships abroad?



SMEs are growing across national boundaries: companies have formed stronger local networks. In comparison to 2007, there are considerably more long-term cooperative partnerships, branches and subsidiaries overseas.

SMEs are increasingly also at home abroad. They are strengthening their position locally and have increased all forms of collaboration in comparison to 2007 (figure 10). That is particularly true of long-term cooperation agreements, with more than twice as many

as five years ago. One in three SMEs now has contractual ties to foreign partners (increase from 19 to 33 per cent).

Direct presence abroad has also increased substantially. One in four companies, as opposed to one in five in 2007, maintains its own overseas presence in the form of a branch or a legally independent subsidiary. The export-only model – manufacture in Germany and then sell abroad – has clearly had its day.

The international competitiveness of German companies continues to increase

The German export industry is regarded around the world as a leader in quality and innovation – even more so now than in 2007. It has improved in terms of service and consultancy. Many companies still consider there to be room for improvement in the way German products and services are marketed abroad. Competitive prices remain a central challenge for the vast majority.

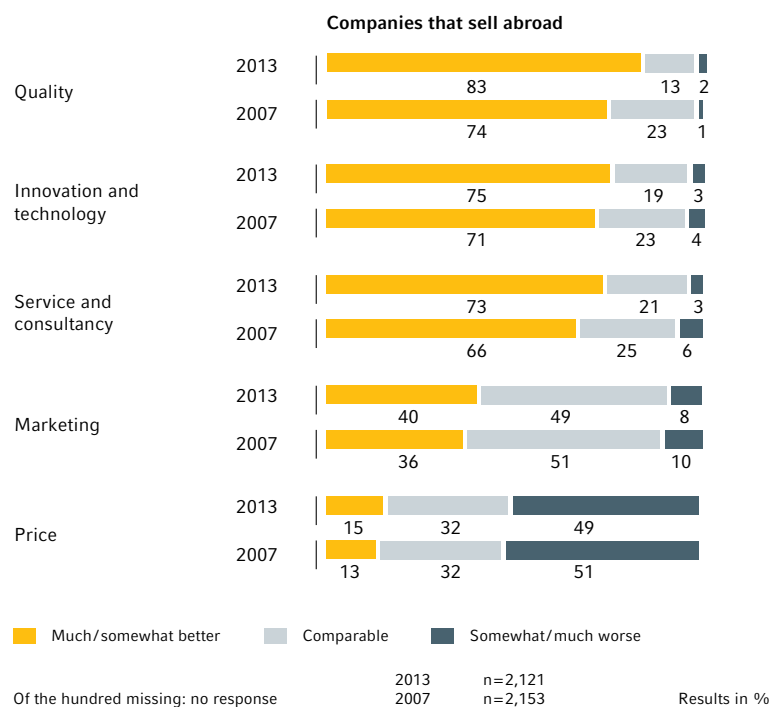
SMEs feel bolstered and competitive on their foreign markets. 83 per cent of companies that sell abroad are of the view that German companies can offer better quality than their foreign competitors (figure 11). As companies see it, quality leadership has been improved as compared to 2007 (cf. upper diagram, up nine percentage points). The manufacturing industry in particular is aware of the high esteem in which the quality of German products is held (not shown on the diagram).

Three quarters of all companies with overseas experience in the survey see themselves as international leaders in terms of innovation and technology. It is also heartening that an increasing number of companies consider themselves to be in a strong position as regards service and consultancy (73 per cent).

There is potential for improvement in marketing and distribution. 49 per cent of those surveyed with international experience consider German companies to be merely average in the marketing of their products and services, and 40 per cent consider them to be above average. This comparatively critical view has hardly changed since 2007.

In the face of such quality and innovation, the central challenge relates to the high price bracket: 49 per cent of those surveyed believe that German products and services perform less well in terms of price than their foreign competition.

11. How do German companies perform in comparison to foreign competitors?





Dr Jürgen Meffert,
Director, McKinsey & Company Inc.

Cautious to sceptical expectations as regards SMEs' planned foreign activities are an obvious effect of the euro crisis. Is there a risk of the internationalisation process being held up?

Of course, a widespread crisis in the real economy like the euro crisis will curb all kinds of corporate expansion projects in the short term. This applies both domestically and abroad. However – and this is confirmed by this 13th edition of *UnternehmerPerspektiven* – German SMEs have understood that strong regional diversification and growth outside their own national boundaries is fundamental if they want to hold their own in today's globalised world. This is also confirmed by a recent McKinsey study in which internationalisation is identified as success factor number one. So we don't have to worry about the process of internationalisation being held up.

What market entry strategies do you consider to be promising?

German SMEs should continue to build up their international networks. Local presence is very important, both by means of cooperation agreements and branches or subsidiaries abroad. The tag "managed in Germany" can be a good lever in this respect. Production in Germany is no longer considered the be-all and end-all on the international stage. Instead, it is important to customers that a German company guarantees the product quality and/or manages the production process. Furthermore,

companies can and should be able to enter the market comparatively easily by focusing on service ("services as a strategy") and gradually building up their foreign presence.

The study clearly shows that problems with product piracy are affecting an increasing number of SMEs and causing concern. There are frequently calls for companies to become faster and better innovators. Is that at all possible and, if so, how?

Experience shows that rapid innovation cycles are the best protection against product piracy. Germany is a leader when it comes to R&D and innovations. Time and again it is SMEs who are the driving force behind new technologies. I therefore don't see any urgent need for action in this area. Product quality, on the other hand, is an important element of this discussion. In today's globalised world, an innovation often doesn't have a long shelf life – perfected products, on the other hand, tend to be difficult for competitors to attack. Offering services can therefore also offset the risk of product piracy. Quality product service is not just a simple market entry channel, it is also difficult to copy and therefore an attractive strategy for companies at the beginning of their internationalisation process.

Companies with international operations have become considerably more confident. Their business concepts have proven themselves; market orientation remains the utmost priority.

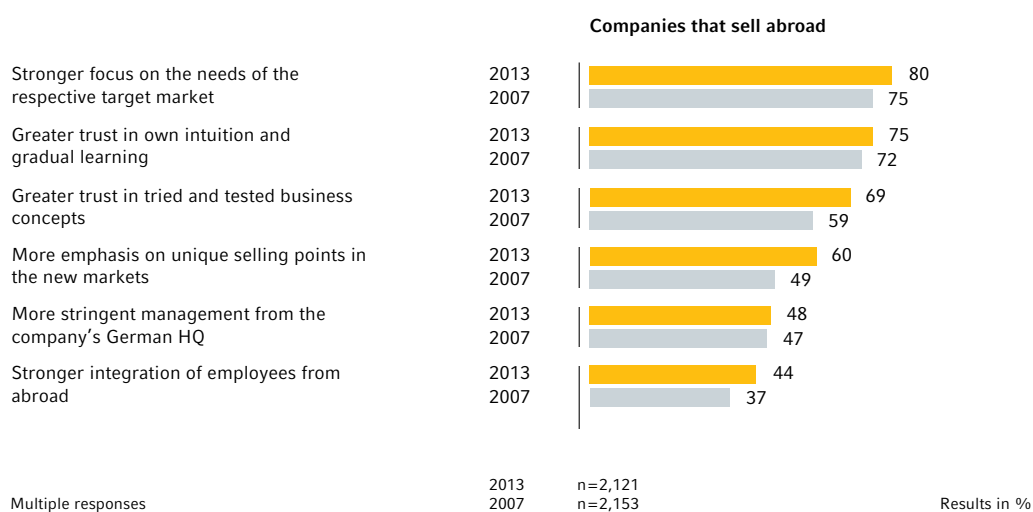
SMEs learn quickly and are constantly adapting to the changes in their target countries. Market orientation is and remains paramount: 80 per cent of companies that sell abroad state that they are now more strongly focused on the requirements of the respective target markets than before (figure 12).

It is notable that companies have become considerably more confident as compared to 2007: 75 per cent have found that they can

place greater trust in their intuition and learn gradually during the process. 69 per cent – ten percentage points more than in 2007 – expect to be able to build on their tried and tested business concepts. 60 per cent (up 11 percentage points on 2007) want to place greater emphasis on their own unique selling points.

SMEs are clearly more likely to trust their inner compass than before – probably not least given the increasingly unpredictable and volatile framework conditions.

12. What were the main adjustments that your company made in the course of internationalisation?

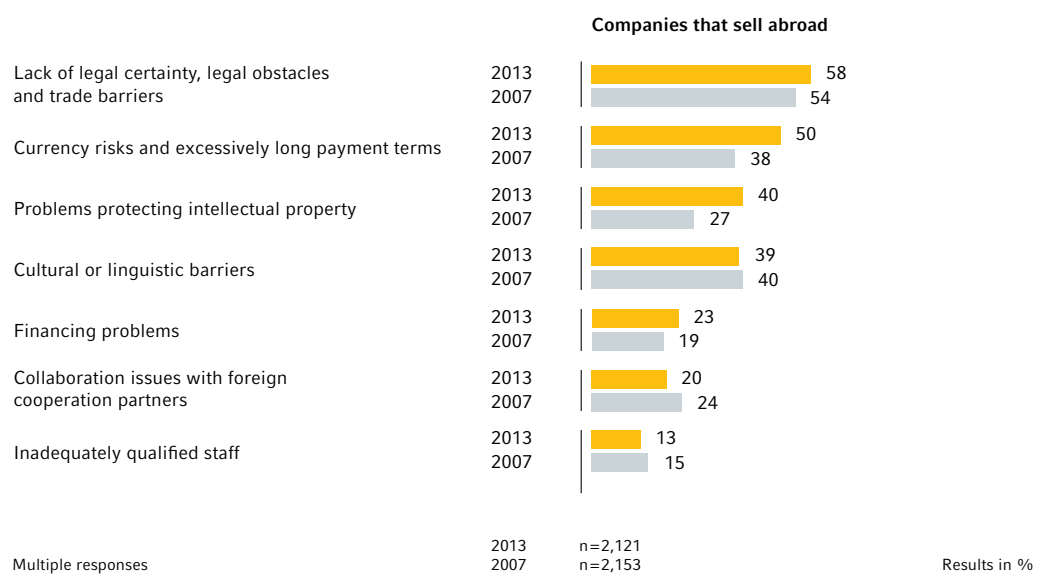


More companies with international operations perceive difficulties that they themselves are unable to influence than they did five years ago. They name trading barriers, currency risks and problems protecting intellectual property. Financing issues tend to be the exception.

External challenges over which companies have little influence are increasingly hampering their international activities (figure 13). A lack of legal certainty, legal obstacles and trading barriers are the most frequently cited difficulties (58 per cent). Given the currency fluctuations in the wake of the financial crisis, it is hardly surprising that currency risks have also risen steeply as compared to 2007: today half of companies list them as a problem, compare to just 38 per cent five years ago. This affects large companies in particular (not shown on the diagram).

The topic of product piracy has – wrongly – become sidelined in the public debate. For SMEs, protecting intellectual property is a significant challenge that is becoming ever more important: 40 per cent of companies that sell abroad – an increase of 13 percentage points compared to 2007 – consider this to be one of the greatest difficulties in international business. Despite all public assurances, for example by China, companies that sell to BRIC states and emerging markets are particularly sensitive to this problem (not shown on the diagram).

13. What are the greatest difficulties for companies in international business?



III. International procurement and production

The international competitiveness of German companies continues to increase.



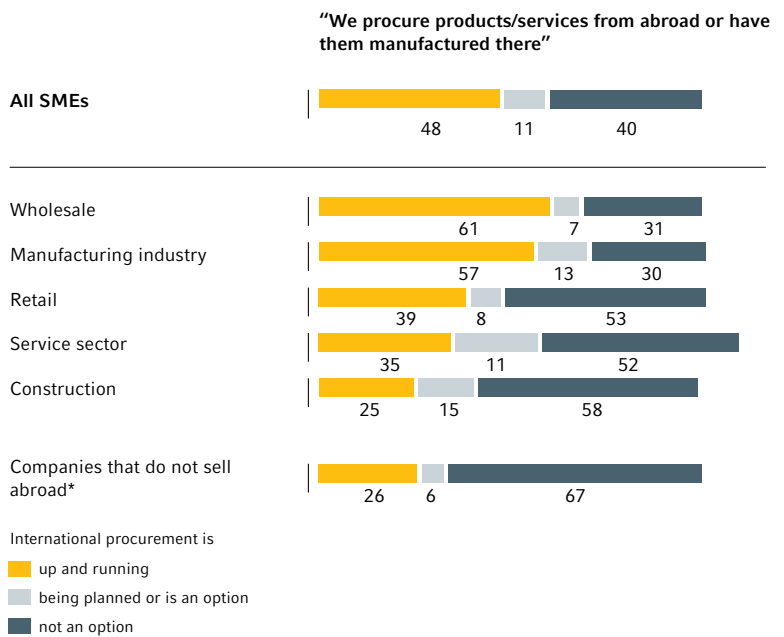
Global sourcing is becoming standard

Almost half of all SMEs buy products or services from abroad. The internationalisation of this part of the value chain also matters to those who do not sell abroad: they can benefit from purchasing overseas.

Almost half of SMEs (48 per cent) procure products or services abroad or have them manufactured there (figure 14). A good quarter, 26 per cent, take advantage of the international division of labour exclusively on the procurement side and do not sell abroad themselves. The picture is similar to that for selling products and services overseas in that the number of firms in the planning phase is negligible. Just 11 per cent of companies that do not yet buy or produce overseas are currently considering this as an option. We can assume that factors such as currency risks put them off buying from countries outside Europe.

The sector breakdown shows that wholesalers (61 per cent) and the manufacturing industry (57 per cent) procure overseas most frequently. The construction sector, on the other hand, does so very rarely (25 per cent) and clearly prefers to source building materials from abroad via intermediaries.

14. Do companies procure products or services abroad or have them manufactured there?



Of the hundred missing: no response

n=1,525

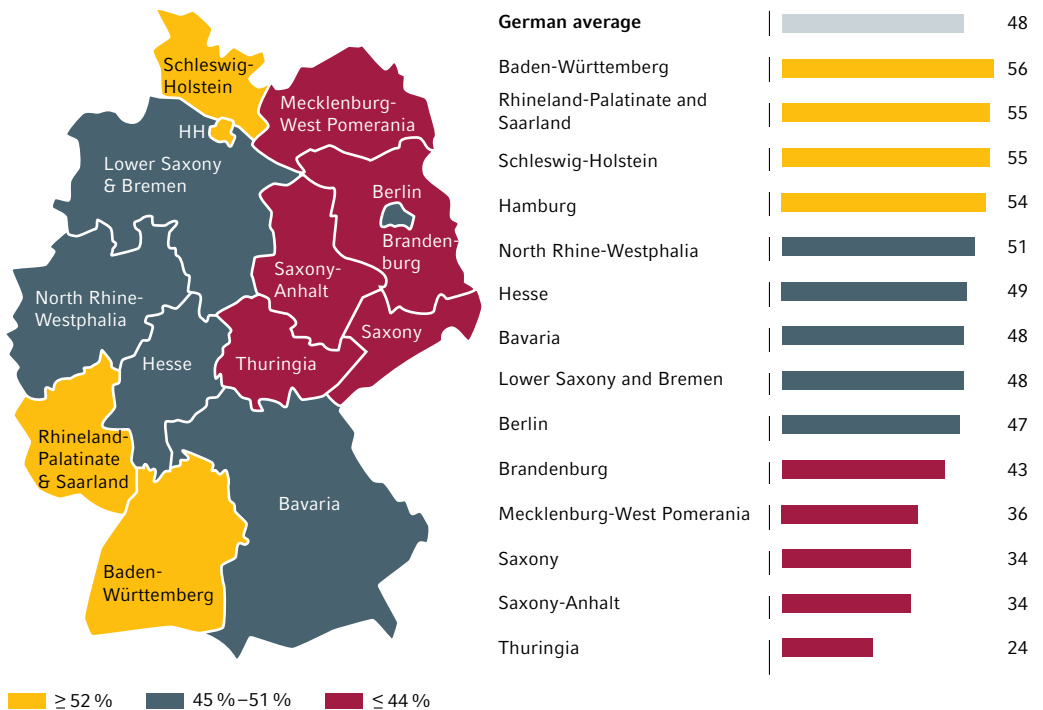
Results in %

Companies from the extreme north and south-west of Germany are most likely to buy from abroad.

A regional comparison shows that companies from the more manufacturing-intensive German federal states are most likely to procure from abroad. In the north these are Schleswig-

Holstein and Hamburg, in the south-west Baden-Württemberg, Rhineland-Palatinate and Saarland (figure 15). With the exception of Berlin, there are fewer companies with international procurement activities in the federal states to the east.

15. Percentage of companies that also procure products or services abroad



Based on all businesses

Results in %

Rüdiger A. Günther,
Chief Financial Officer of Jenoptik AG, Jena



The study shows that the vast majority of SMEs expect the euro crisis to have negative consequences for politics and the economy. How do you explain that?

SMEs are worried about their very existence, whilst economists can observe the world from the comparatively safe vantage point of a public-sector employee or civil servant. Owners of SMEs have to fight for their companies every day, and usually also put their own financial security on the line. Academics don't feel whether the euro is doing well or badly as acutely as business owners. And even if the crisis isn't severe enough to threaten business owners' livelihoods, they take precautions and act cautiously so as not to jeopardise their commercial legacy. In this situation, academia and politics are only of limited use, starting with the fact that hardly anyone can explain how this crisis came about. And then diametrically opposing suggestions are put forward as to how the euro crisis and its consequences should be dealt with. Added to this is the fact that SMEs themselves can do very little to really change the situation. Usually, the mark of a businessperson is that they proactively tackle issues to resolve them. However, that's not

possible with the euro crisis, leaving business owners out in the cold. Even voting doesn't help because all the parties are pretty much making the same vague suggestions about how the euro crisis is to be overcome. That feeds uncertainty. This situation is economically, politically and sociologically highly explosive.

What can and should successful internationalisers do to encourage companies that have yet to make the leap?

The most effective and persuasive method is for SMEs who have successfully expanded abroad to report on their experiences – orchestrated by local trade associations, chambers of commerce and business promotion programmes. These experiences can be passed on in the form of mentorships, or joint trips to the target countries can be organised. Also, workshops that report back on all facets of trading abroad help SMEs that are still to make the move overseas. The focus must always be on sharing experiences with those who have had the same concerns and difficulties. Only an SME owner can talk credibly about how to identify and solve problems and successfully make the move abroad.

Would it be an option for companies to join forces with other firms to make the move abroad and who could manage such a process?

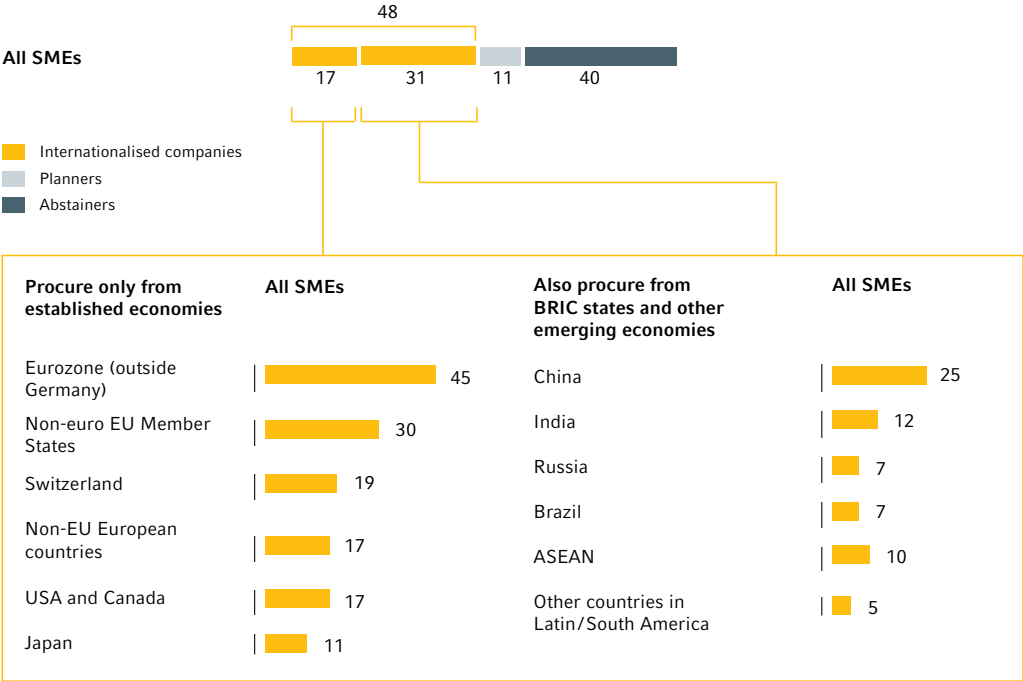
In SMEs there is sadly too much caution around opening up to others, even fellow business owners. That naturally makes any form of cooperation difficult. If this desire to go it alone could be replaced by more of a team spirit, that would be a good starting point for sharing the risks of the move overseas. That is not necessarily the same thing as joining forces with a competitor – it could just mean developing joint processes and using synergies, for example when making contact with banks or tackling tax issues. Such processes could be initiated by chambers of commerce, embassies and associations, but also by banks – all of whom could provide a forum for the necessary discussions.

Globalisation has arrived in the purchasing departments of SMEs. Procurement frequently takes place not only in other European countries, but also in the BRIC states and other distant markets.

The EU is and will remain the central procurement market for companies (figure 16). 45 per cent of all SMEs – and thus almost all companies that buy from abroad (48 per cent) – procure directly in the eurozone themselves, and 30 per cent also source goods and services from non-euro EU Member States (right-hand table).

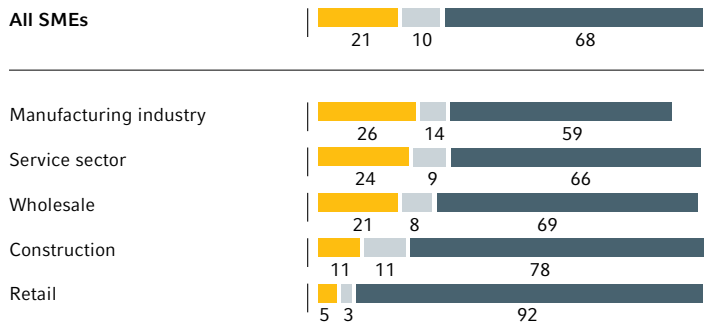
However, the diversification described above is becoming part of everyday life not only in sales, but also in purchasing for SMEs. Only 17 per cent of all companies restrict their procurement activities to the established economies in Europe, North America and Japan (left-hand diagram). A much larger proportion (31 per cent, right-hand diagram) procures products, raw materials and services from around the world. China is the most popular trading partner (25 per cent), followed by India (12 per cent) and Russia (seven per cent).

16. From which of the following countries or regions does your company procure products or services?



17. Do the companies manufacture abroad themselves?

“We manufacture products/services abroad”



Own production abroad is
■ up and running ■ being planned or is an option ■ not an option

Of the hundred missing: no response

Results in %

One in five German SMEs manufactures overseas themselves.

21 per cent of SMEs with an annual turnover of over 2.5 million euros produce goods or complete preliminary manufacturing abroad. A further ten per cent are planning corresponding activities (figure 17).

A look at the sector analysis shows, as expected, that companies in the manufacturing sector are most likely to produce goods overseas (26 per cent). What is more remarkable, however, is that a relatively large number of companies from the service sector (24 per cent) have services or preliminary services performed beyond their national boundaries. Wholesalers also commonly manufacture abroad (21 per cent). Just five per cent of all retailers do, however. Trading companies with international operations have clearly extended their value chains by setting up their own production sites.

The bigger the company, the more likely it is to operate a production plant abroad. Overall, 56 per cent of all companies with a turnover in excess of 100 million euros do so.

Competitive advantages from products “made in Germany” and “managed in Germany”

Companies that buy or manufacture overseas benefit from keener prices and can offer an expanded product range. Global sourcing thus not only produces cost benefits, but also other competitive advantages.

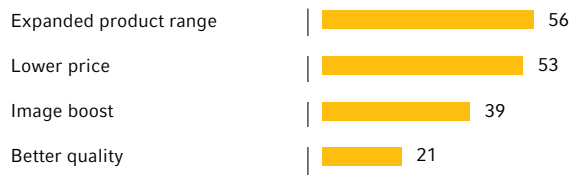
SMEs that procure or manufacture products abroad themselves state that it has many positive effects for their product range on the German market.

Attractive prices are a key benefit of global sourcing, according to 53 per cent of the companies (figure 18). Even more business owners, namely 56 per cent, can offer an expanded product range on the domestic market thanks to international procurement. No less than 39 per cent believe that overseas procurement and manufacturing boosts their image. This may also be a consequence of enhancing their product range.

Collaboration with international suppliers can cause problems in terms of quality assurance. Yet a considerable 21 per cent of those surveyed report that the opposite is true and that quality is improved as a result of international procurement.

18. What are the effects of manufacturing or outsourcing manufacturing abroad on your product range on the German market?

Companies that procure and/or manufacture abroad



n=2,009

Results in %

Production in Germany is still important, but it is no longer the sole factor in the high acceptance of German products on international markets. International customers set particular store by the fact that a German company guarantees quality and manages the production process. The tag “made in Germany” is enhanced by “managed in Germany”.

The study shows that large parts of the SME sector have now internationalised their entire value chain – including procurement and manufacturing. What does the good old quality pledge “made in Germany” mean these days?

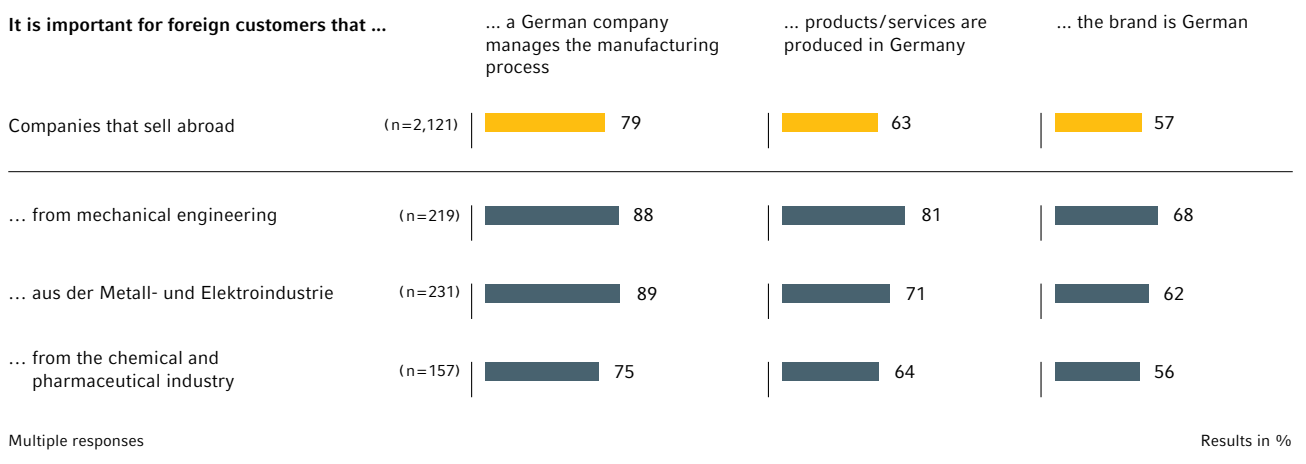
79 per cent of companies that sell abroad have noticed that their international customers in particular set great store by the fact that a German company manages the production process (figure 19, top bar). Actually manufacturing products or services in Germany only ranks

second (63 per cent). International customers therefore primarily appreciate process management and quality assurance by a German company: “managed in Germany” therefore enhances the tag “made in Germany”.

An analysis of selected sectors confirms these findings. Innovative companies from mechanical engineering, the metal and electrical industry and the chemical and pharmaceutical industry also emphasise the significance of process management.

SMEs ascribe comparatively little significance to German-made branding. However, large companies, which are generally more likely to sell branded products, are correspondingly more emphatic that the tag “made in Germany” has special value (not shown on the diagram).

19. What is the significance of the tag “made in Germany” for international customers?



Dr Peter Bartels,
Member of the Board of Managing Directors
of PricewaterhouseCoopers AG



SMEs are much more pessimistic in their assessment of some aspects of the euro crisis's consequences than economists. Is this a certain degree of calculated pessimism or do business owners have greater insight from their hands-on business experience which justifies this negative outlook?

The SMEs' considerably more critical assessments are hardly a surprise if we remember the economic ups and downs of recent years. The unpredictability of financial and economic policy is causing high levels of uncertainty. Added to this is the fact that many countries have recently erected trade barriers. Companies feel the effects of this straight away.

The results of the study pose the question as to how future-proof companies are if they come from a strongly internationalised sector but then don't go in that direction. Can such companies keep afloat in the long term if they limit themselves solely to the local market?

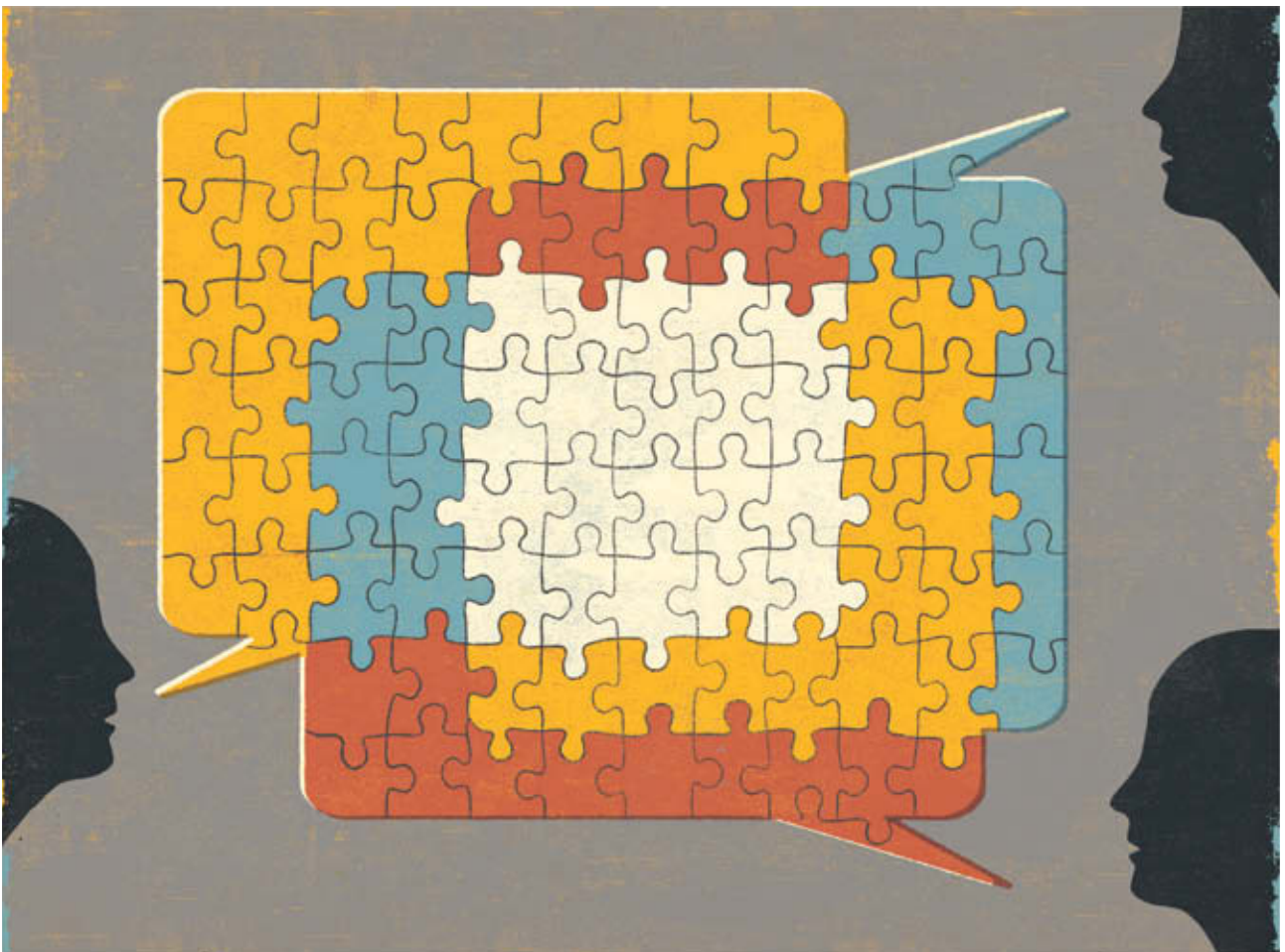
It may indeed be expedient in the short term to opt out of internationalisation to avoid risks. That said, given the limits to growth that we are increasingly coming up against in Germany, a permanently national focus in internationally orientated sectors should certainly be viewed critically. However, taking the step abroad requires skills and resources and ties up capacity in the long term. Small companies in particular can continue to grow nationally through regional expansion or by extending their product range.

What are the benefits for companies that have taken the step into markets beyond Europe quickly and resolutely?

The benefits are clear: companies gain independence from the economic development of a single economic area such as Europe and are therefore more immune to the euro crisis. They can also capitalise on the benefits of the international division of labour and reduce costs.

IV. Corporate management at foreign sites

Intercultural understanding is a key factor.



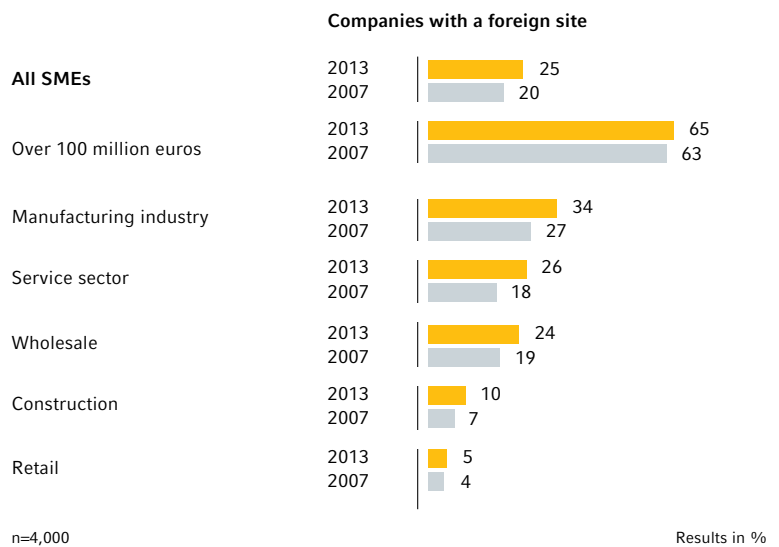
The strategic potential of foreign sites goes beyond market access alone

One in four SMEs has at least one foreign site. In 2007, the figure was one in five. Two thirds of large SMEs have their own presence abroad.

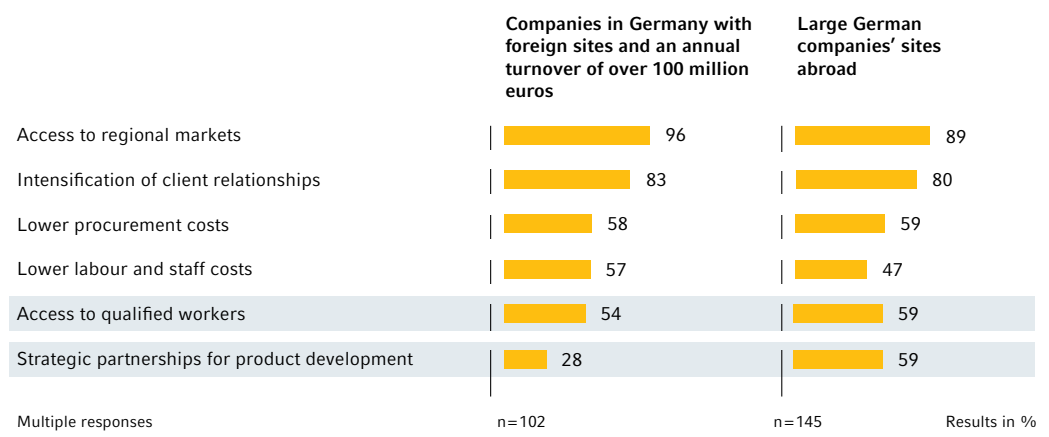
Having a presence abroad is no longer the exception for SMEs. 25 per cent of companies with a turnover of over 2.5 million euros have at least one foreign site (figure 20). This proportion has risen sharply since 2007 (cf. right-hand diagram, up five percentage points), soaring by 25 per cent. This figure is as high as 65 per cent for companies with a turnover of more than 100 million euros per year.

The manufacturing industry (up seven percentage points) and the service sector (up eight percentage points) have exhibited particularly high growth rates. Foreign sites are less common in the construction sector (ten per cent) and retail (five per cent), with no significant increase since 2007.

20. In what form does your company maintain business relationships abroad?



21. How does operating its own foreign sites benefit your company?



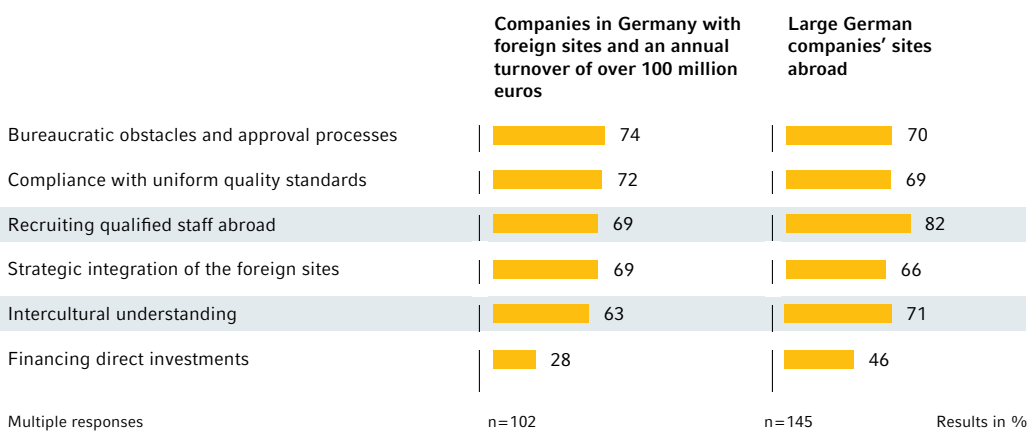
The main purpose of a local presence is market access. The foreign sites stress that there is further strategic potential to be leveraged in the areas of HR and R&D. "Soft" issues such as staff training and intercultural understanding are considered key factors for success abroad. Investment decisions and the strategic approach to the local market harbour the greatest potential for conflict between HQ and the foreign site.

The study placed a special focus on the operation of foreign sites. To this end, managers on the ground at German companies' international sites were specifically questioned (right-hand diagram in each case). These responses are based on practical experiences abroad. The German parent companies are exclusively larger SMEs with an annual turnover of over 100 million euros. To enable comparability, the responses by large companies with foreign sites were extracted from the total German

sample (left-hand diagram in each case). For German SMEs, foreign sites are primarily a means of accessing foreign sales markets (96 per cent) and therefore also increasing customer retention (83 per cent). These two factors are also particularly important from the perspective of the foreign sites (figure 21). Cost reduction is another key function of the foreign sites, in terms of both procurement and labour/personnel costs.

It is interesting that the foreign sites do not only see their benefits in sales and reducing costs; they also cite further strategic potential. 59 per cent see advantages in terms of access to qualified staff – that is a notable five percentage points more than the German sample. The foreign sites also have a very different view of the value of strategic partnerships for product development. Just 28 per cent of German HQs list this as an advantage, compared to more than twice as many sites abroad (59

22. What are the central challenges in operating foreign locations?



per cent). German HQs are less likely to see – and probably more likely to underestimate – the associated opportunities, for example overcoming a lack of specialist staff and better sales prospects.

Around three quarters of all company HQs and foreign sites agree that they need to deal with bureaucratic hurdles and that it is not always easy to comply with consistent quality standards abroad (figure 22). However, supposedly soft HR issues are considered to be more important overseas: the recruitment of suitable employees is a major challenge for 82 per cent (13 percentage points more than in the German sample), as is intercultural understanding for 71 per cent (eight percentage points higher). From the perspective of local subsidiaries and branches, these are key factors for corporate success abroad.

From the German perspective, the biggest potential for conflict between the company's HQ and the foreign site stems from determining the regional business strategy abroad (52 per cent), decisions about foreign investments (47 per cent) and assessing market opportunities abroad (46 per cent).



Dr Manfred Wittenstein,
Chairman of the Board of Managing Directors
of Wittenstein AG

SMEs do not expect the strong fluctuations in demand to subside in the next three to five years. What does that mean for a German SME with ambitions to expand internationally?

It is precisely these ambitions that represent a great opportunity. Companies that are internationalising, or are already in the globalisation phase, are not only better able to exploit their existing global market potential and increase turnover; they can also use this regional growth to spread the risk of more severe fluctuations in demand across a wider area. Economic development does not happen at the same pace across the world, and if things are going badly in one region, another may be booming. That's when it's good to have as many irons in the fire as possible.

Why are companies so fixated on Europe for their first step into foreign markets? Or to put it differently: why do so few companies manage to operate at a satisfactory level in the growth zones?

Firstly, it's normal for many businesses to develop from the inside outwards – that is, starting from a strong, established position on their home market and branching out to their closest foreign neighbours in an initial internationalisation step. There's nothing wrong with that per se, because companies can gather a lot of experience that will help them on more distant

markets, such as those in Asia. However, as geographical distance increases, so do cultural differences. In my experience, these difficulties by far outweigh the other challenges, such as business differences or the logistical dimension. And they are particularly apparent in the search for suitable management capabilities.

Large German companies' foreign sites see recruiting qualified personnel abroad as a key challenge (82 per cent). Bases in Germany name this issue much less frequently (69 per cent). What is your experience in that respect as an international business owner?

Both figures are pretty high and they show how important it is to find the right people – both at home and abroad. I wouldn't look for reasons for the difference in the figures because they are simply too complex. But from my experience, I would like to confirm that finding suitable candidates and ensuring that both sides' expectations are aligned is more difficult at foreign sites which are less established and less well developed. Running recruitment activities from an office in Germany is even more difficult, and I would completely advise against doing so for certain roles. Added to this is the fact that the supply of workers abroad may not necessarily be a good fit for the requirements and structures that underlie the expanding company's business in terms of their qualifications and cultural background.

23. Where is there potential for conflict between HQ and the foreign site?

	Companies in Germany with foreign sites and an annual turnover of over 100 million euros	Large German companies' sites abroad	
Agreeing on regional business strategies	52	38	
Deciding on investments abroad	47	36	
Assessing market opportunities abroad	46	38	
Selecting business partners and suppliers abroad	35	30	
Appointing managers for the foreign site	26	31	
Choosing the local banking partner	25	22	
Multiple responses	n=102	n=145	Results in %

The respondents at the foreign sites also see these aspects of strategic market development as being the most common cause for discussion, albeit to a much lesser extent (figure 23).

V. The role of the financial industry

More support and advice for smaller SMEs is required.



Criticism of banks is on the decline, but there are calls for them to do more for small businesses

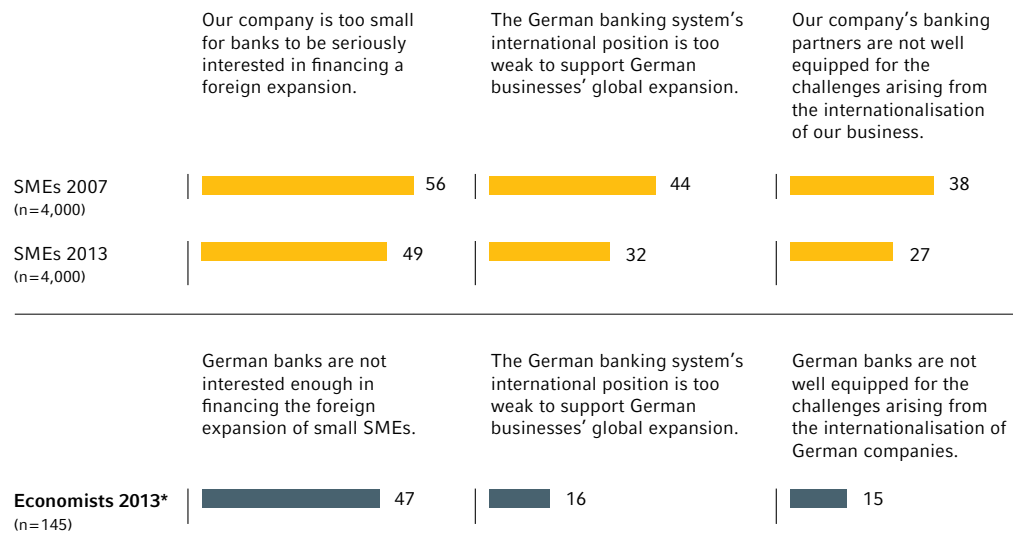
Compared to 2007, criticism of financial institutions is on the decline. A third of companies still consider the German banking system to be too weakly positioned to support German businesses' international expansion. The economists surveyed do not share this opinion. However, like the SMEs, they do criticise the fact that banks and savings banks aren't particularly interested in the internationalisation of small companies. The firms primarily see room for improvement in strategic consultation: assessing risks, understanding foreign markets and developing international business strategies.

SMEs' criticism of banks and savings banks is on the wane – despite the euro crisis and its effects (figure 24). Whilst in 2007 44 per cent of all companies were of the view that the German banking system was too weakly positioned to adequately support SMEs abroad, just 32 per cent expressed this opinion at the end of 2012 (middle column). 27 per cent do not consider their banking partners to be adequately equipped for the requirements of international business; but here, too, banks and savings banks have improved considerably as compared to 2007. However, as in 2007,

there is criticism that banks and savings banks do too little for small businesses. 49 per cent of SMEs have the impression that they are of little interest to financial service providers on account of their size.

The economists bring this finding into sharp relief (bottom line). Although they are less likely to criticise the international orientation of the German banking sector and the competence of companies' banking partners, they reinforce the fact that banks and savings banks do too little for smaller SMEs.

24. To what extent do you agree with the following statements about the banking sector in Germany?



*Top two = five-point scale: fully agree to fully disagree
Multiple responses (selection)

Markus Beumer,
Member of the Board of Managing Directors
of Commerzbank AG



What does the fact that “made in Germany” now clearly comprises process management mean for German companies’ quality-driven branding?

I consider it to be a great opportunity. And it shows where German SMEs still have an international competitive edge. Companies need to build on this. On the one hand, that means supporting training and professional development to ensure that the right skills are always on hand where they are needed. On the other, it means not only optimising process management for their own corporate system, but also utilising it for network thinking, partnerships and joint ventures. That also protects against the risk of product piracy. Specialist knowledge, advanced technology, speed and management skills are German SMEs’ assets. If these are cultivated and developed, German companies will remain leading players in the international arena.

Based on the results, what do you think business owners expect from banks?

A good SME-focused bank needs to be very aware of the wishes and concerns of its corporate clients. Relationship management is absolutely paramount in this context. Once customers’ needs and foreign potential have been fully analysed, banks need to offer ongoing

advice and support from the home market and at the foreign site. Customers rightly demand both from their banking partners. For its part, the bank needs to have the requisite expertise on hand and constantly update it. This includes a knowledge of the local market in particular. Those are the bare essentials. The icing on the cake is when the bank is in a position to support experience sharing amongst companies and assist them in identifying suitable partners.

How can companies’ banking partners best help their customers to expand abroad during the uncertainty caused by the euro crisis? Is a local presence or good advice more important?

A bank for SMEs must be able to provide both. Almost two thirds of German companies have extended their activities abroad in the last five years. That’s a lot, and Commerzbank is supporting SMEs in this important step both from Germany and locally. Our own internationalisation strategy is closely linked to that of our customers. We are represented at around 60 locations in over 50 countries. We are the market leader for foreign trade stemming from Germany: in 2012, Commerzbank handled more letters of credit opened in favour of German exporters than any other bank.

25. In what areas do your banking partners need to improve when it comes to international business?

	Companies with international business operations	Foreign sites
Assessing the risks of international business	52	39
Providing information about foreign markets	47	46
Understanding individual international business strategies	47	32
Developing tailor-made solutions for difficult countries	46	54
Safeguarding against currency risks	45	26
Foreign payment transactions in general	43	32
Maintaining a regional presence in the individual foreign markets	42	50
Safeguarding against export risks	40	19
Financing direct investments abroad	38	41
Safeguarding against import risks	32	17
Specifically in the switch to SEPA	26	10
Results in %	Multiple responses	n=2,865
		n=145

Where can and should banks and savings banks make improvements if they want to support SMEs optimally in their expansion abroad (figure 25)? Companies with international operations primarily see room for improvement in strategic advice: assessing risks (52 per cent), providing information about foreign markets (47 per cent), understanding individual business strategies (47 per cent) and developing tailor-made solutions for countries in which foreign business tends to be regarded as difficult (46 per cent).

Criticism of operational competence is less commonly expressed. The most frequent problems are in safeguarding against currency risks (45 per cent) and in overseas payment

transactions in general (43 per cent). 42 per cent of companies would like their bank to have a stronger regional presence abroad. Comparatively few respondents listed room for improvement in financing (38 per cent of SMEs).

The surveyed foreign sites are more satisfied with their banking partners overall. They see less need for optimisation in almost all areas. However, they are more likely to demand tailor-made solutions from their banking partner for countries in which foreign business is considered difficult and a stronger local presence (both eight percentage points higher than the average).

Portrait of the Unternehmer-Perspektiven SME initiative

The name says it all: the UnternehmerPerspektiven (business owners' perspectives) initiative examines current topics that concern SMEs. It seeks to provide answers to key challenges and offer a fresh outlook. It also provides business owners, economists and representatives of professional associations, academia and politics with a platform for sharing their views and experiences. The initiative, backed by Commerzbank's Corporate Banking division, considers itself to be firmly rooted in the real business world of SMEs – after all, no one knows what concerns business owners more than other business owners. The initiative chooses its topical issues and questions by liaising directly with people on the front line of business, primarily through personal discussions with company owners, academics, policy-makers, representatives of professional associations and Commerzbank employees.

Studies produce facts

The initiative focuses first and foremost on current business issues. The opinion polling institute TNS Infratest regularly surveys 4,000 companies on behalf of UnternehmerPerspektiven, meaning that the studies are based on one of the largest SME surveys in Germany. That guarantees a broad, solid data set and also enables subgroup analyses, for instance by company size, region or sector. For the

current 13th study, economists and decision makers at German companies' foreign sites were also surveyed. The documentation of the surveys' findings offers more than just data because the results are interpreted by the committee behind the initiative, new issues are highlighted and public awareness is drawn to points for discussion.

The committee behind the initiative

A committee was set up specifically for the initiative which consists of eminent individuals. It is their job to identify important topics, set the initiative's agenda and comment on the outcome of the surveys. The members of the committee are: Anton F. Börner, President of the Federation of German Wholesale, Foreign Trade and Services, Hartmut Schauerte, Regional Chairman of the CDU party's SME and Business Association (Mittelstands- und Wirtschaftsvereinigung) in North Rhine-Westphalia, Rüdiger A. Günther, Chief Financial Officer of Jenoptik AG, Jena, Dr Jürgen Meffert, Director at McKinsey & Company Inc., Dr Peter Bartels, Member of the Board of Managing Directors of PricewaterhouseCoopers AG, Dr Manfred Wittenstein, CEO of Wittenstein AG, and Markus Beumer, Member of the Board of Managing Directors of Commerzbank AG. The permanent committee is assisted by a changing academic committee made up of experts in the subject of the respective study.

Media activities and dialogue events

The outcomes of the studies form the basis for media activities and national dialogue events throughout Germany. Each study's findings are presented to the public by means of media partnerships, a national press conference and numerous regional press meetings.

Following the publication of each study's outcomes, dialogue events are held in the various regions. This involves the regional branches inviting guests from business, politics and academia to take part in large panel discussions. The results of the study are presented, evaluated and considered from a range of perspectives. This entertaining format combines information with the opportunity to engage in discussions and network. The initiative also utilises a second, local event format which is even more strongly focused on sharing personal opinions. At these local events, regional branches of Commerzbank invite business owners to evenings with a keynote speech followed by a chaired discussion.

Overview of previous studies

- February 2006: "Wirtschaft in Bewegung" (Business in flux)
- September 2006: "Qualifiziertes Personal als Schlüsselressource" (Qualified staff as a key resource)
- March 2007: "Innovation als Erfolgsfaktor im Mittelstand" (Innovation as a factor for SMEs' success)
- October 2007: "Wachstum durch Internationalisierung" (Growth through internationalisation)
- May 2008: "Klimaschutz – Chancen und Herausforderungen für den Mittelstand" (Climate protection – opportunities and challenges for SMEs)
- October 2008: "Wirtschaft im Wertewandel" (Businesses' shifting values)
- May 2009: "Abschied vom Jugendwahn? Unternehmerische Strategien für den demografischen Wandel" (Farewell to the obsession with youth? Commercial strategies for changing demographics)
- April 2010: "Mittelstand in der Krise – Umsteuern für den Aufschwung?" (SMEs in crisis – time to change course to boost business?)
- October 2010: "Der Mittelstand und seine Banken" (SMEs and their banks)
- May 2011: "Frauen und Männer an der Spitze: So führt der deutsche Mittelstand" (Women and men at the top: how German SMEs approach management)
- October 2011: "Rohstoffe und Energie: Risiken umkämpfter Ressourcen" (Raw materials and energy: the risks of hotly contested resources)
- May 2012: "Gute Schulden, schlechte Schulden: Unternehmertum in unsicheren Zeiten" (Good debts, bad debts: running a business in uncertain times)
- April 2013: "Neue Märkte, neue Chancen – Wachstumsmotor Internationalisierung" (New markets, new opportunities – internationalisation as a driver of growth)

For further information, see

www.unternehmerperspektiven.de

Survey design and structural data

SME survey in Germany

Method:

Telephone interviews (CATI) lasting approximately 20 minutes

Period of survey:

29 October 2012 to 20 December 2012

Performed by: TNS Infratest

Respondents, sample and population:

During the survey, top executives from 4,000 companies with an annual turnover of at least 2.5 million euros were questioned. Company size was determined based on VAT statistics.

Company sizes:

- Small SMEs: 2,785 companies (annual turnover of between 2.5 and 12.5 million euros)
- Mid-sized SMEs: 1,050 companies (annual turnover of between 12.5 and 100 million euros)
- Large SMEs: 165 companies (annual turnover of over 100 million euros)

The survey is representative of SMEs with an annual turnover of over 2.5 million euros.

Unless otherwise specified, the basis of the results presented is the total population (n = 4,000).

The results of selected questions are comparable with the results from 2007.

Regional segmentation:

UnternehmerPerspektiven is also representative at regional level. Certain regions were given greater or lesser weight and the regions of Lower Saxony and Bremen were grouped together, as were Rhineland-Palatinate and Saarland.

Below is an unweighted breakdown of the respondent figures:

Region	Companies
● Baden-Württemberg	590
● Bavaria	692
● Berlin	89
● Brandenburg	104
● Hamburg	127
● Hesse	313
● Mecklenburg-Western Pomerania	75
● Lower Saxony and Bremen	378
● North Rhine-Westphalia	850
● Rhineland-Palatinate and Saarland	208
● Schleswig-Holstein	127
● Saxony	218
● Saxony-Anhalt	106
● Thuringia	125

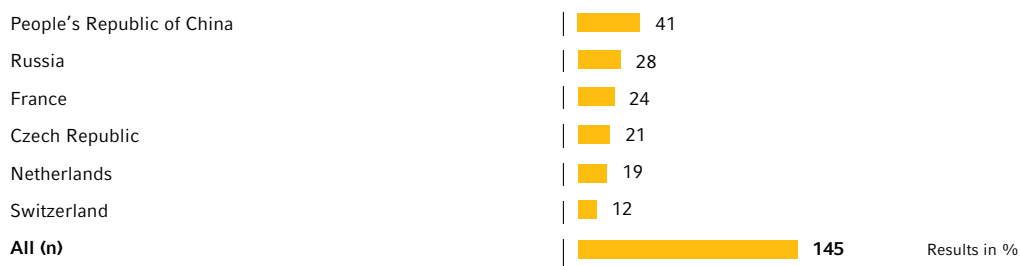
26. Representativity for companies with an annual turnover of over 2.5 million euros



27. Professional standing of academic respondents (in per cent)



28. Number of respondents by country



Additional surveys for the purpose of comparing opinions

Economists

Participants: 145 lecturers in economics at German universities

Method: Online survey (which is why the scaling is different in some cases)

Period of survey:

29 November 2012 to 21 January 2013

German companies' foreign sites

Participants: 145 managers of branches, subsidiaries or joint ventures

Method: Telephone interviews (CATI) lasting 15 minutes

Period of survey:

19 November 2012 to 14 December 2012

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UnternehmerPerspektiven on XING

What could be better suited than social media for the efficient management and expansion of business contacts? That's why UnternehmerPerspektiven is on XING, Germany's leading business network.

If you are the owner and decision maker in an SME, the exclusive UnternehmerPerspektiven group gives you the opportunity to explore the topics dealt with by the initiative in greater depth, contribute to the debate, and extend or consolidate your network.

As a group member, you will enjoy direct access to additional information about the UnternehmerPerspektiven corporate banking initiative. After the event, you will have the opportunity to continue discussions, cultivate contacts – and browse through photos of the event via a link almost straight away.

Register at
<http://commerzbank-mittelstand.xing.com>

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