

[ECONOMY]

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PRIDE OF A NATION

Small and medium-sized businesses are the hidden champions of German industrial success across the globe

THE GERMANS have a word for it: *Tüftler*. There's no direct translation, probably because it's a German speciality. A *Tüftler* is someone who likes performing tricky or finicky tasks.

It's not glamorous work and it requires a particular mixture of tenacity, inventiveness and obstinacy. Yet Germany's *Tüftler* have turned the received wisdoms of globalisation on their head to huge success, with distinctively old economy businesses.

Big German names like Volkswagen or Siemens attract the headlines, but it is the *Tüftler* of Germany's famous "Mittelstand", the small and medium enterprise (SME) sector, that drive Germany's – and Europe's – eco-

nomie engine. As Ireland faces stiff economic winds – chilled further by high oil prices and an unfavourable dollar exchange rate – the time has come for Irish companies to look for new partners, new markets and new innovations.

Perhaps the most overlooked opportunity is what one Berlin economics professor has christened the "hidden champions" of Germany's SME sector. There are 3,200 companies in Germany with a turnover between €50 million and €1 billion that account for 30 per cent of Germany's €969 billion export market.

Companies with turnover below €50 million account for 40 per cent of total exports.

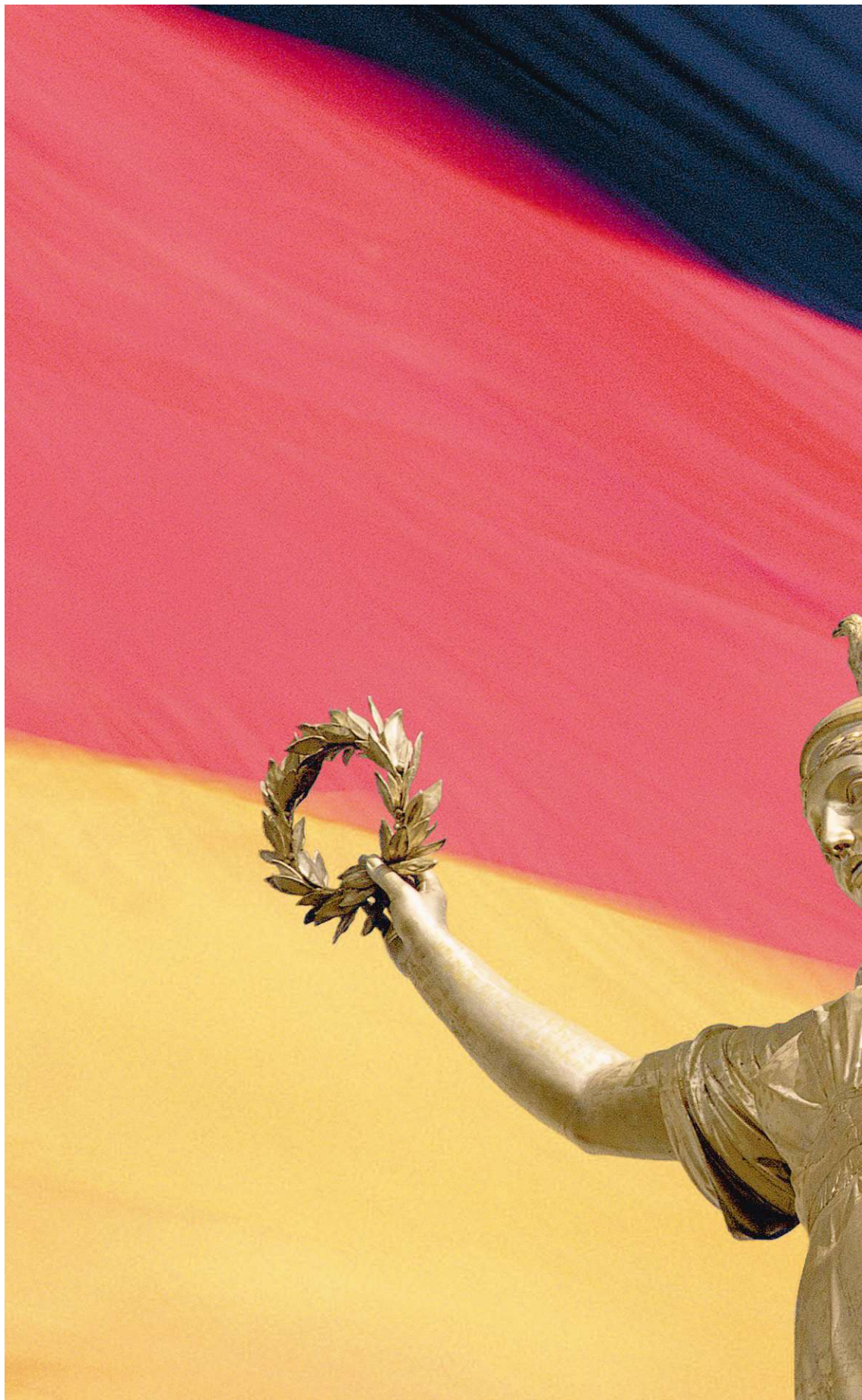
It is here that Prof Bernd Vohler of Berlin's School of Economics (FWB) has identified over 1,000 hidden champions who have made

the world their market as specialised niche players, taking Adam Smith at his word and pushing the division of labour to its logical conclusion. Perfect examples of these hidden champions are Würth, the leading industrial supplier of assembly and fastening materials worldwide, or Kärcher, the world's leading manufacturer of cleaning equipment.

With a narrow market focus and high quality product specialisation, these German companies have made themselves the dominant player in their respective sectors.

"America concentrates on the mass market and quantity, but Germany is king of niche markets," says Prof Venohr.

"There is a very German diligence, perhaps based on a permanent dissatisfaction, or the belief that things can always be improved."





Over the decades, that attitude has helped Germany's historically strong engineering sector to create a centre of excellence in the southern German region. "An engineer told me recently that you can find every part you need to build any machine in the world, all within 200km of Stuttgart," says Prof Venohr. "He's probably right," he says.

That engineering tradition permeates Germany companies right up to management level, where candidates with an engineering and science backgrounds are far more common to what Prof Venohr calls "homogenised MBA graduate thinking".

"At the Berkshire Hathaway annual meeting in Omaha this year, Warren Buffet's right-hand man Charlie Munger was asked why they were interested in buying companies in Germa-



Prof Bernd Venohr of Berlin's school of economics

ny," recalls Prof Venohr. "He said: 'Because Germany is a highly civilised nation with the smartest business people in the world'."

While the answer seems a little trite, Germany's diverse hidden champions have one common denominator: private ownership.

Located often in regional small towns, they thrive on a very German brand of "family capitalism", aided by the fact that German company law recognises what's known as "company interest", allowing owners to act in the interest of the firm and its employees.

"There is still such a thing as responsibility in German companies," says Prof Venohr. "Owners feel responsible, the company is their extended family." It seems a contradiction, then, to learn that many of these traditional family firms long ago embraced external man-

agers to hold their edge. Some 60 per cent of German SMEs have brought in external managers rather than rely on next-generation family members, compared to just 30 per cent in the US and 23 per cent in Britain.

That gives them the best of both worlds, according to Venohr – long-term stability and up-to-date management methods.

Another unique characteristic of Germany's hidden champions is their close customer relationships.

They shun agents, licences and out-sourced customer service and instead employ their own army of informed and engaged sales staff who interact with customers twice as often as larger German companies.

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“Some of our people have been in China 100 times,” one chief executive told Venohr. “We do everything ourselves . . . some of our best guys spend 80 per cent of the time travelling. That’s how we cover the world.”

Information gathered on these endless travels feeds the kind of permanent, incremental change and improvement of products and processes that can easily compete with Toyota.

Though cost intensive, the hidden champions approach to customer relations pays off – the typical German machine maker generates 75 per cent of its profits from preventative maintenance and spare parts.

Germany’s hidden champions strive to become the best in their fields, even quasi-monopolists – with products of uncontested excellence, the result of huge investment in R&D and industrious registering of patents.

They also work closely with regional technical colleges, often sponsoring programmes to get the graduates they need quickly.

This all begs the question, if these market champions are so good, why are they still hidden?

Some answers can be found in the firms themselves: German SMEs belong to a traditional business culture of modesty. Firm owners also have a healthy fear of being usurped by a rival if they attract too much attention.

But Prof Venohr lays a large portion of blame at external factors, in particular unquestioned assumptions about Germany that caused many potential partners to overlook the country in recent years.

Conservative German economists turned the recent slowdown into a cottage industry with increasingly ludicrous titles such as *Can Germany Be Saved?* and *Germany: Decline of a Superstar*.

That dovetailed nicely with the agenda of Germany’s largely conservative media and fuelled the *Schadenfreude*-filled reporting in the British press about the “sick man of Europe”.

This all required a series of false assumptions. One was that Germany was incapable of social and economic reform or that the whopping €1.25 trillion cost to date of German unification was not an investment in the east’s future, but a permanent financial drain with no gain.

It took the dramatic drop in German jobs and the resurgence of regions like Saxony, for instance, to regain its pre-war reputation for precision technology and knock those theses on the head. The German market was portrayed as unattractive because of the German consumers, caricatured in the British media as nervously squirrelling away their money for a rainy day. The economic slowdown has brought that rainy day, but for the average

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Briton, laden down with twice as much personal debt as his German cousin.

Then there is the folly of placing too much emphasis on Germany’s slow consumer spending as an indicator of economic health. Unlike Britain, Germany is not just a nation of shoppers.

As the thousands of the country’s hidden champions demonstrate, Germany has a thriving engineering sector.

Rather than educate future call-centre drones, Germany still trains and employs engineers to produce the machines that drive globalisation.

German SMEs have cracked the code of how to be successful in a globalised world with a unique model of high-value manufacturing and good, old-fashioned company governance.

Its continued lead as the world’s leading exporter and its rapid return to economic health has left many Cassandra-like columnists with egg on their face. And for Irish managers seek new opportunities, perhaps the only thing standing between them and hidden champion-style success are their own preconceptions about Germany. ■

Prof Venohr has been invited by Enterprise Ireland (EI) to deliver a workshop – “How Germany’s SMEs get ahead and stay ahead in the global economy” – at EI’s Glasnevin headquarters on June 19th

FAMILY PROFILES THE HIDDEN CHAMPIONS



WÜRT
Reinhold Würth (pictured left) is known affectionately in Germany as the “Screw King”. He became the country’s sixth richest man (and 73rd on

the Forbes list) after taking over his father’s wholesale screw business in 1954 aged 19. He turned it into a multinational with sales of €5.8 billion last year and 100,000 products from screws and fasteners to power tools and water pipes.

The company grew quickly in post-war Germany by direct sales of its products to the tradesmen who

rebuilt the country one building at a time. Now the company’s 400 wholly-owned subsidiaries operate in 86 countries.

The company’s success can be traced back to Würth, who believes that even the humble screw can always be improved. Turnover has averaged 14 per cent for the last 35 years. Würth’s philosophy: “Growth without profit is deadly. Profit without growth is deadly.”

KÄRCHER
Alfred Kärcher GmbH, a family-owned business near Stuttgart, is the world’s leading supplier of cleaning equipment.

The company had a turnover of €1.3 billion in 2006 and employs 6,500



people in 40 countries, selling over 5.5 million of its distinctive yellow and black cleaners annually in more than 160 countries.

A decade after founder Alfred Kärcher died in 1959, his widow hired outside managers. They followed the “bottleneck strategy” of German management thinker Wolfgang Mewes, concentrating all resources to solve specific “burning problems”, ignoring perceived market leaders to create a “success spiral”. Pillars of success today include a wholly-owned sales and service subsidiaries worldwide and an R&D

spend totalling 5 per cent of revenues, double that of Denmark’s Nilfisk, their closest competitor. Revenue growth has averaged 14.5 per cent over the last 30 years.