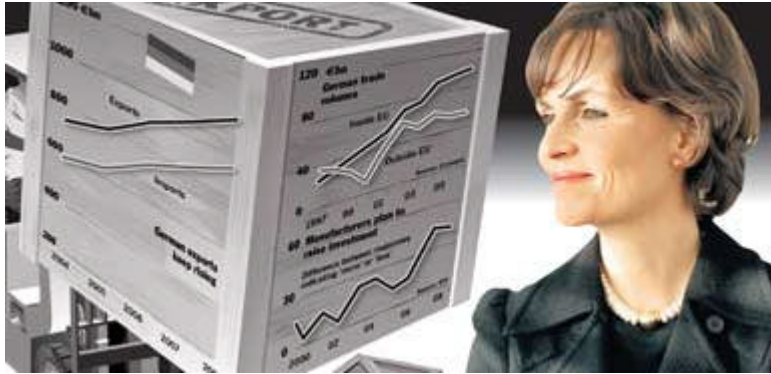


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Germany still the king of exports

Manufacturing is the key, Michael Woodhead reports from Frankfurt



Michael Woodhead

AMID the heady decadence of the Roaring Twenties in Berlin there arrived a man carrying a suitcase containing everything he owned. In his pocket he had a few Reichsmarks but barely enough for a city revelling in extravagance and extremes.

He looked provincial, which he was, and decidedly out of place. But Gustav Krone had not exchanged the blackened skyline and smokestacks of the Ruhr to abandon himself to the fleshpots of Berlin.

He was the eldest of a family of 10 children from Remscheid and was out to make his fortune. Within a few short years Krone had Berlin at his feet - the best tables in restaurants, the attention of government ministers.

Krone was no hedonist, however. Everything in his life was subservient to the telecommunications business he founded - even his own family.

He was an unforgiving authoritarian who, years later when he had made his millions, would ban his eldest son Klaus from succeeding him because he regarded him as a playboy. “[My father] was an innovator but had no university education so he studied engineering at night, knowing that the title ‘Herr Doktor Engineer’ would open doors for him,” Klaus Krone recalls. “He found a partner with money and set up the Krone company, making switching gear out of porcelain and brass.

“He started to use Bakelite, in those days regarded as a wonder material. Efficiency went up and costs went down. In a short time he had the German market entirely to himself with the Deutsche Reichspost telecommunications contract given on a handshake.”

The story of the Krone company is about the extraordinary determination of the founding family to adapt and prosper during a period in which British industry has declined to a shadow of its former self.

It is among the thousands of small to medium-sized manufacturing firms - the Mittelstand - that are the powerhouse of the German export boom today. And the Krone story is fairly typical. Many of these firms were founded in the late 19th and the early 20th centuries by entrepreneurs like the gifted Gustav.

Last year manufacturing output grew by more than 6%. Exports rose more than 8%, making Germany the world export leader, ahead of even China, for the fifth year running, with total trade of €69 billion (£758 billion). Overall, the German economy expanded in 2007 by 2.5%, with external trade accounting for 1.4% of this growth.

In the past decade exports have been responsible for 80% of German GDP growth, in contrast to Britain, where consumer spending has easily outpaced manufacturing growth.

Germany is strongest in the emerging markets. Exports to Brazil, Russia, China and India grew by 31% in 2007 from €43 billion to €63 billion. Germany has also invested heavily overseas - its manufacturing companies account for 15% of Brazil's economic output.

However, market jitters over the American economy have had an impact. "The weak dollar, rising oil prices, slowing American economy and the credit crisis are making the situation difficult for companies," said Jurgen Thumann, president of the Federation of German Industries.

Trade with America was down 6% to €73 billion last year. But America is not a big export market for most German companies and this makes many German bosses think the looming US recession will hurt them no worse than the Japanese banking crisis did a few years ago.

The EU is Germany's biggest market, about 60% of all exports. Most significant is the growth in the new eastern European member states. Combined trade with what in many cases were former territories of the old Germanic empire now exceeds that with Britain or America.

It could be argued that, 20 years after the end of communism, in terms of trade the old 19th century map of Europe is once more beginning to emerge, with Germany at the centre and Russia an increasingly significant trading partner. Throw in the German federal budget surplus of €200m and suddenly it seems the Germans are sitting pretty, astride Europe and conquering the world.

"These Mittelstand companies are owned by people who do not care for the media," said Klaus Krone. "They can be very reticent and in some cases totally unknown outside their own circle. They are not fond of public speaking or even appearing in public and have no need of the financial markets."

After his father died in 1971 Klaus Krone eventually won back control of the company but not before the majority shareholder, a Berlin bank, had almost run it into the ground.

"I was very happy to tell the banker who had ruined the company I didn't need him any longer. He offered to take on the debts for nothing and remain in control. I handed him a credit cheque for DM20m (about £8m) from another banker and thanked him for all he had done. He was quite shocked and angry," said Krone.

When he won control the company was worth DM80m. By the mid 1990s when he stepped down it was valued at DM 1 billion. Its markets had expanded worldwide, with company growth averaging 50% a year. Profits were reinvested in continually modernising the company.

Yet, according to Thatcherite dogma, the Germans should be up the creek without a paddle: for failing to encourage consumer spending, neglecting to boost service industries, not pushing home ownership, marginal interest in financial services and shareholders and failing to curb trade unions.

So how come they are doing so well for all the "wrong" reasons? Krone said: "It's not a question of who is doing it right but of different structures. The English structure was destroyed by Thatcher's confrontation with the unions and goading them into a fight. A number of manufacturers went under as a result of the chaos."

In a sense the German government's innate caution actually did business a favour. Stability was preferable to constant state meddling in the name of vote-catching modernisation.

Instead, a combination of historical precedents and a national trait of sticking to what you know has seen Germany come good at a time when Britain fears a sharp economic slowdown. The Germans have always been sceptical of the Thatcher “snake oil” medicine - it does not cure all ills. They have never accepted its universality as an article of faith as every British prime minister has since the great lady’s departure from office.

Germany’s manufacturing might is down to family-owned firms that do not subscribe to Anglo-Saxon notions of “shareholder value”. They are paternal towards their workforces, the products they make, the interests of their customers and the sustainability of their companies.

A study of more than 1,000 such firms by Bernd Venohr of the Berlin School of Economics discovered that most are among the top three world leaders in their chosen markets, from mobile-phone ring tones to steel rolling mills.

“A family-owned business can adopt a long-term approach. They do not face short-term pressure to maximise profits. Typical for these firms are classic products that are continually being refined. I estimate they invest between two and three times as much in research and development as comparable firms in the same sector abroad,” he said.

Thomas Hune of the Federation of German Industries added: “The motor industry is a good illustration. It is comprised of thousands of small companies that are the ones developing advanced technologies.

“This is not the case in Britain, where everything is outsourced. As a result, there is no core competence. The Germans have done their homework. They are competitive, efficient, innovative and, with the label ‘made in Germany’, renowned for quality.”

In his youth Heinrich Weiss resisted the temptation to become another playboy. He had the money to throw around. His family owned the SMS group, a plant construction and engineering company founded by his great-grandfather in 1871.

“You can’t become a playboy in an area where your family is a significant employer. No father wants his son known as a big spender. I lived next to the works, I knew all the people, I went to school with the children of our employees,” he said.

“I was so completely steeped in the company that there was no question - I wanted to work there, I wanted to be the boss and expand the business.”

Weiss took over from his father in 1971, making him one of the longest-serving chairmen of any German company. Weiss has taken the family firm from a medium-sized business in Dusseldorf with sales of €70m to a world market leader with an order book of € billion. Profits have doubled from €37m to €68m.

“After the war Germany had to export to survive and we have become very good at it. It was advantageous to us when the victorious Allies helped themselves to our old machinery as war reparations,” he said.

“We are not everyone’s favourite nation but everyone wants our products. Every steel company that wants a rolling mill knows the SMS group, from China to the United States. We have become the market leaders in our field.”

Weiss said small family companies were able to react quicker than conglomerates and likes to tell the story of how he beat Mannesmann - the German steel company and his main competitor at the time - to a deal in China.

“When the Chinese asked for the final price, the Mannesmann team had to return to Dusseldorf for consultations, whereas I could tell them straightaway.

“When you see what happened to Mannesmann [it was sold to Vodafone and Weiss bought the steel side] we were lucky we never went public and never gave up control of the company.” He has a horror of what could happen. “Imagine being sold to a Chinese state fund that wants to be a large steel plant owner,” he said.

“My father said you have to decide if you want to be an entrepreneur or a capitalist. An entrepreneur is like an architect. He builds up the company, makes it grow and gives work to people and makes them happy.

“This is a completely different profession to being an investor in a company. If I had been a capitalist I would have sold up and started an internet company or something.

“The shareholder approach in Britain and America means investment isn’t a priority, but dividends are. We had five big competitors in America. They have all gone because the Americans invested nothing in their businesses. I can’t understand why so much manufacturing expertise in Britain has disappeared.

“We had a subsidiary there and it was a catastrophe in quality and motivation. After 15 years of losses we had to close it. It proved impossible to have a base in Britain,” he said.

An engineer with 20 years of experience at a telecoms company remarked: “Customers buy from us because they trust us and they have been with us for a long time. They know it is quality work and their specifications will be met. Many people have gone to China because it is cheaper and had their fingers burnt because the Chinese-made product doesn’t come up to scratch.”

This close relationship with customers is a hallmark of German export companies. “They only talk to you about their problems when they have trust in the relationship,” said Nicola Leibinger-Kammuller, the boss of Trumpf, a machine-tool and high-technology company.

Trumpf began in 1923 when Christian Trumpf inherited a small engineering company. It did moderately well until the arrival in the 1950s of a brilliant young engineer, Berthold Leibinger, the son of a Stuttgart art dealer. Leibinger was the godson of Trumpf’s wife.

Through Leibinger’s inventive-ness and originality, Trumpf grew in the space of a decade from a turnover of DM1m to DM11m and doubled its work-force to 325. Leibinger went into laser-cutting technology in the 1980s but, dissatisfied with American lasers, perfected his own and turned the company into the world leader.

“We need skilled workers, an excellent research climate and reliable suppliers. In Germany we find all this,” said Leibinger-Kammuller. “It is of course an expensive location, but our employees work longer, have job security and profit-sharing. Germany is more competitive compared with our international facilities.”

In the past decade Trumpf sales have quadrupled to about €2 billion, 70% of which is earned as exports. “Our company values and principles are more to do with being a family-owned company than being German. We are not dependent on the stock market and its mechanisms. We can therefore plan and act based on our own long-term considerations,” she said.

Leibinger-Kammuller took over the firm from her father three years ago in a plot twist worthy of the old Dynasty soap opera. Leibinger waited until he was 75 before announcing his decision. “I thought about it for a long time. The problem was having too many leaders in the family rather than too few,” he said.

In the end he chose his daughter, who holds a doctorate in philosophy, over his son Peter, saying that there was more to leadership than being a good engineer. The patriarchal father took good care, though, to write a 20-page “good governance” codex for her guidance. He never tolerated mediocrity. “Once when I got a five in maths, he cancelled a holiday sailing course,” said Nicola.