

## Mid-Sized Companies Are Germany's Secret Success Story



The brand "Made in Germany" is far from dead

German big business has been hitting the headlines recently with news of job cuts and a string of corruption and tax evasion scandals. Are the successes of the country's small to medium-sized firms being overlooked?

It may not be a household name, but LLA Instruments is a world leader in its field. This relatively young Berlin-based company with its 25-strong staff produces sensors for the recycling industry.

Within milliseconds, its infrared sensors can identify different types of plastics, enabling these valuable materials to be separated from trash and reused.

The overwhelming majority of firms in Germany are small to medium-sized businesses, and they account for over 40 percent of turnover. LLA, whose products are used in recycling centers across the world, is just one of the sector's quiet successes.

*"Our success rests in having the right know-how and being able to apply it explicitly to a particular area,"* said Olaf Krenz, the firm's marketing director. *"And in a world facing a shortage of raw materials, the area that we have chosen has growth potential -- recycling."*

### Where there's muck, there's brass



Engineering remains one of the great strengths of the German economy

There's a good chance that the trash sorted by the Berlin-made sensors will be transported for recycling in waste carts made by another successful privately owned firm, OTTO environmental systems, based 100 kilometers (62 miles) away, in the Brandenburg town of Neuruppin.

It's a member of the OTTO group, the world's largest manufacturer of plastic waste containers. The concern, set up more than 70 years ago in the western German state of North Rhine-Westphalia, today employs more than 1,500 people and operates in over 52 countries.

The diversity and capacity of the German small to medium-sized business sector is unrivalled in international comparison. Environmental technology and waste management is just one of the fields in which so-called SMEs excel, according to Bernd Venohr, a professor at the Institute of Management at the Berlin School of Economics (FHW). Folding kayaks, mobile phone ring-tones and bobsleighs "made in Germany" have also managed to make it into the top three world rankings in their niche sectors.

## High-end global players



Germany remains an attractive location for many businesses

The business expert has compiled a database of approximately 1,200 high-end SMEs that are world leaders on the global market. Consumer goods manufacturers, including domestic appliance makers Miele or upscale kitchen manufacturers Bulthaup, also constitute a sizeable proportion of these firms -- many of which are family-owned. Electronics and industrial goods and services are well-represented, while one of Germany's traditional core industries, engineering, accounts for the lion's share.

Global players, as Venohr's research reveals, don't have to be big firms that have been floated on the stock market. These mid-sized players are profiting enormously from the boom in China and India. Innovation is the driving force behind these high-performing SMEs, which Venohr defines as having an annual turnover between 50 million euros (\$74.1 million) and one billion euros.

## Aggressive experts in their field

*"Typical for these firms are 'classic' products that are continually being refined," Venohr said. "I estimate that they invest between two to three times as much in research and development as comparable firms in the same sector abroad," he added.*

Good sales and marketing networks help spur on innovation.

*"The good German firms are 'aggressive,'" he said. "By that I mean they make suggestions to their customers because they know their processes a lot better. They are the worldwide experts and they can guide their customers in optimizing their products."*

## In it for the long haul



Family-owned firms may not be quite as cozy, but close enough

The financial structures of these medium-sized businesses favor these features.

*"A family-owned firm can adopt a long-term approach," Venohr said. "They do not face short-term pressure to maximize their profits."*

Building up a good sales and service network can take five to 10 years, but once it has been established a company has a great competitive advantage.

The management expert believes the ongoing debate about Germany's economy is skewed, and Germany's advantages as an industrial base ignored.

## Narrow-minded criticism?

*"The discussion is too focused on labor costs," he said. "That's an extremely distorted picture. Germany is one of the best places for producing complex products and services," Venohr said.*



German firms benefit from the country's vocational training system

There are deficits in Germany's university and schooling system that need to be addressed if Germany is to remain at the cutting edge, he conceded. But German businesses also profit from close links between business and research institutes and the dual training system that combines an apprenticeship with attendance at a vocational college.

As Germany continues to be haunted by the specter of thousands of jobs being lost as firms relocate abroad, the strong local loyalties of many of these firms is also a boon.

But Venohr warned against romanticizing the situation. Last year some 37,000 German small and medium-sized businesses went bankrupt. Many of them went out of business because the owners failed to find a family member willing or able to take over the helm.

After family-owned firms reach a certain size, the management expert advised, they should be open to recruiting managers from outside.

*"The ideal model is a family-owned firm with a long-term approach, close cooperation with staff, combined with top external expertise,"* he said.

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