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MAKING YOUR MARK -

THE BUSINESS ENVIRONMENT IN GERMANY

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INTRODUCTION

Nature of the market:

The outstanding feature of the market in the Federal Republic of Germany (FRG) is that it is one where the consumer or buyer is looking to purchase products of a high standard, and at German prices. Germans have been educated to be quality conscious because they have constantly been told that high quality is the main selling point of the goods which they themselves produce. At the same time, the German purchaser is a very sophisticated 'value engineer', extraordinarily adept at making subconscious price/value trade-offs when buying.

The market in the FRG is an open market, and one in which there has never been a 'Buy German' campaign since 1945.

It is a lucrative market but one which is difficult to penetrate. Germans have no shortage of goods to choose from because domestic industry provides almost universal coverage, and foreign suppliers have not been slow to discover the rich potential of the market.

For the British exporter, the German market is especially difficult because, as recent research has revealed*, he has to contend with the unfortunate image of British suppliers in Western Europe, including the FRG.

FACTS AND FIGURES

Land area:

The sovereign territory of the Federal Republic of Germany covers 248,630 square kilometres, 54% of which

* 'The Image and Reputation of British Suppliers in Western Europe', P.W. Turnbull, in European Journal of Marketing, Volume 19, No.6, 1985

is agricultural land and 29% forests. The longest north-south distance is 853 kilometres, and longest west-east 453 kilometres. A strongly-fortified border strip measuring 1,381 kilometres separates the FRG from the German Democratic Republic (GDR).

Population:

The population of the FRG and West Berlin was estimated in 1985 at 61,035,000 including almost five million foreigners. Since 1974, the population has been declining slowly by approximately 200,000 persons per year. With 10.1 births per 1,000 inhabitants per year, the FRG has the lowest birthrate in the world. The average number of children per woman is only 1.4 and if the decline continues at the same rate the population is expected to fall by three million by 1990.

Moreover, the population of the FRG is ageing. There are already 3.5 people over the age of 61 to every 10 of working age; by the year 2030 this ratio will be 6.5 to 10 if present trends continue.

Main cities:

The major centres of population (in 000) as at the end of September, 1984 were:

West Berlin	1,852	Dortmund	585
Hamburg	1,600	Stuttgart	563
Munich (<u>München</u>)	1,277	Duisburg	528
Cologne (<u>Köln</u>)	932	Düsseldorf	571
Essen	629	Bremen	535
Frankfurt/Main	605	Hanover (<u>Hannover</u>)	518

Climate:

Temperate

Language:

German

Weights and measures:

Metric system

Holidays:

The public holidays celebrated throughout the FRG do not always coincide with those in the UK. There are also a number of regional public holidays. Moreover, annual holiday entitlement for 77% of employees was in excess of five weeks even in 1981.

Summer holiday periods for schools vary from one federal state (Bundesland) to another in an attempt to avoid overcrowding on German motorways (Autobahnen). They also rotate on an annual basis so that no state can claim that it is always allocated the worst of the weather.

Germans are determined to make the maximum use of their leisure time, and this means that it is essential for the British businessman in the German market to possess precise information about his German partner's holiday arrangements.

Currency:

Deutsche Mark (DM) = 100 Pfennig

Time:

One hour or two hours ahead of GMT depending on time of year. UK businesses should note that many German companies start work at 07.00 and finish at 15.30 local time. It is therefore advisable to restrict telephone calls from the UK to the FRG to mornings only.

POLITICAL ENVIRONMENT

Federal system:

The FRG consists of the ten federal states (Bundesländer) of Baden-Württemberg, Bavaria (Bayern), Bremen, Hamburg, Hesse (Hessen), Lower Saxony (Niedersachsen), North-Rhine Westphalia (Nordrhein-Westfalen), Rhineland - Palatinate (Rheinland-Pfalz), Saarland and Schleswig-Holstein. In addition, there is the city of West Berlin which retains a special status but is fully integrated in the legal and economic system of the FRG.

The federal system is not only a reaction to past abuses of power by central government but also recognises the historical roots of Germany. Each of the federal states and West Berlin has its own constitution, parliament, government, administrative agencies and independent courts.

The different regions of the FRG are very distinctive and perhaps more individualistic in nature and taste than the various parts of the UK. Regional preferences must therefore be given serious consideration by any British company operating in the market in any part of the FRG.

Central powers:

The Basic Law (Grundgesetz), or provisional Federal Constitution, is binding upon all the states, and the Federal Parliament is responsible for major legislation and policy, particularly in such areas as defence, foreign affairs and finance.

Political parties:

The major parties in the FRG are the Christian Democratic Union (CDU) and, in Bavaria, its sister party, the Christian Social Union (CSU), the Social Democratic Party of Germany (SPD), the Free Democratic Party (FDP), and the Greens.

Central government:

A centre-right coalition between the CDU/CSU and the FDP, led by Dr. Helmut Kohl, came to power in the Federal Parliament in October 1982, after the defeat of Helmut Schmidt's Social Democrats. It should be noted that the FRG has the most successful ecology party in Europe, the Greens, who polled 8.3% of votes and obtained 44 seats in the 1987 federal elections.

Not only the Greens but the vast majority of Germans are concerned about dying forests and polluted rivers, so a

British manufacturer exporting to the FRG would have to ensure that his goods are what the Germans call environment-friendly (umweltfreundlich).

SOCIAL ENVIRONMENT

Order and the law:

Society in the FRG is ordered and orderly: it is a society in which there are rules and systems governing most aspects of life. Indeed, it may well be true that, whereas the general attitude of the British is that they are free to do whatever the law does not specifically forbid, the Germans assume that anything not specifically permitted by the law is forbidden (verboten). Germans appear to feel comfortable when order prevails even if this means being encompassed by rules and regulations.

The laws governing the conduct of business in the FRG are enshrined for the most part in the Commercial Code (Handelsgesetzbuch), and German companies employ vast numbers of law graduates to ensure that neither they nor their business partners infringe any of the laws. Indeed, a legal background is held in such high esteem by German firms that some 20% of the members of their management boards (Vorstandsmitglieder) trained as lawyers.

Bearing in mind the litigious tendencies of Germans in general and the legalistic attitudes displayed by some German companies, the British businessman would be advised to acquaint himself with those facets of the law which affect his dealings with the FRG. It could be disastrous for him to assume that what is regarded as standard commercial practice in the UK will find legal acceptance in the German environment.

A useful source of information on such matters is the Legal Department of the German Chamber of Industry and Commerce in London.

High performance:

Many Germans pride themselves on belonging to what they call a high performance or achievement society (Leistungsgesellschaft). This aspect of contemporary German society finds its expression in several aspects of life but it is perhaps most pronounced in education and business.

Children attending Primary School (Grundschule) from the ages of six to ten are expected to work hard, bring home good school reports and, if possible, be selected for a place at Grammar School (Gymnasium). Here they will eventually take six or seven subjects at 'A' level (Abitur) before entering university. But even the 64% of children failing to be chosen for a Grammar School do not cease to compete, or begin to underachieve. They realise only too well that they have to continue to perform if they are to obtain a position as an apprentice (Lehrstelle) in a good company at the end of their school careers.

Equally, their parents work hard and with meticulous thoroughness in their firms. Even the best-qualified young talents entering German companies cannot hope to impress their superiors other than by their successful performance.

Not unnaturally, the German businessman expects from his foreign partner this same commitment to high performance through hard work and attention to detail.

Affluence:

As a consequence of their achievements, most Germans enjoy the rewards of an affluent society (Wohlstandsgesellschaft). Although there is no absence of thrift in the FRG, with average savings per household

constituting 13% of disposable income, these same households are nonetheless equipped with a dazzling array of consumer durables. In 1983, 94% of all households possessed a television set, 88% a telephone, 83% a washing machine, 65% a car, 65% a freezer and 24% a washing-up machine. It would appear that Germans are quite unabashed about showing off the spoils of their achievements.

At the same time, it should be pointed out that only 36% of German families either own or are buying their home as compared to a figure of 63% in the UK. Indeed, residential property has recently been a very bad investment in the FRG. There were in 1987 more than one million empty houses or flats, and over the past decade property prices have stagnated or even fallen in some areas. What is more, the decline in the property market has been masked by the growth of one-person households: a third of the homes in the FRG have only one inhabitant.

Leisure:

A further clearly-discernible trend in the FRG over recent years has been the one towards the leisure society (Freizeitgesellschaft). Even in 1982, actual annual hours put in by the average German industrial worker were 1,773 as compared to 1,833 in the UK and 2,101 in Japan. In 1984, the German metal workers went on strike for seven weeks for a 35-hour week, the outcome of the strike being a compromise which sees the official working week reduced to 38.5 hours. Moreover, polls carried out among young people confirm that they no longer believe that they should work long hours and produce ever more. They are increasingly unwilling to sacrifice leisure time for more money.

The older generations are appalled at what they see as a decline in the German hard-work ethic among the young.

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They remember the 'rubble women' passing bricks from hand to hand to rebuild a country devastated by war; men who put in long hours in factories and produced an economic miracle (Wirtschaftswunder); union leaders that sat down with the bosses, not to argue over shorter working hours, but to plot strategies for greater efficiency. However, the older generations can still console themselves with the thought that, despite the growth of leisure, productivity per capita in the FRG is superior to that in Japan. The good old German work ethic may not be quite what it was but the high performance society is still very much intact.

ECONOMIC ENVIRONMENT

Macroeconomic scene:

The FRG has a social market, or mixed, economy which is the third largest in the non-Communist world. In 1984, the economy began to expand again, with real growth GNP averaging approximately 3% over the next three years. The principal source of growth was domestic demand in 1986 and 1987.

The rate of inflation in the FRG was 2.4% in 1984, 2.2% in 1985, and prices actually fell by 0.3% in 1986. These impressive figures reflect not only the Deutsche Bundesbank's tight control of the money supply but also a widespread German fear of inflation. Having suffered the traumas of hyper-inflation twice this century, the Germans are determined to keep their domestic rate of inflation as low as possible. At the same time, they do not wish to import inflation. Therefore, any attempt by a foreign supplier to export his own rising domestic costs to the FRG will encounter very stiff resistance.

In 1985 and 1986, the FRG achieved record current account surpluses of DM 38.9 and DM 77.8 billion.

In common with most Western European countries, unemployment has remained for the FRG an almost intractable problem. The figures for 1984, 1985 and 1986 show some 9.0%, 9.1% and 8.7% of the workforce on the unemployment register.

Structure:

Over recent years, the structure of the German economy has undergone a number of significant changes. The contribution of agriculture to GDP has fallen steadily to approximately 2%. Similarly, industry's contribution dropped from 47.7% of GDP in 1979 to 42.6% in 1985. Services other than commerce and transport have compensated for the decline in agriculture and manufacturing industry, and if government and administration are included, the FRG has become predominantly a service sector economy.

Despite the impression given by the raw GDP data that manufacturing is contributing an ever-lower percentage of total output, it nonetheless remains the backbone of the German economy. In the FRG, there is almost universal coverage of capital and consumer products. The country's bedrock industries are mechanical engineering, vehicle building, electrical engineering, precision instruments and optical goods, food, and chemicals.

In 1984, the FRG had 36,392 companies registered in the manufacturing sector. Fewer than 500 companies employed over 500 workers, and the greatest concentration of companies, particularly in engineering, was among those with between 20 and 100 workers. The ownership structure is predominantly private but government has holdings in over 900 companies, among them Volkswagen and Veba.

The main industrial area is the Ruhr, the centre of the iron, steel and coal industries. But it is here that the decline in the smokestack industries has been most heavily felt over recent years. If the demise of shipbuilding on the northern coast is also taken into account, the focal point of industrial power is seen to be shifting towards the south, especially towards Hesse and Bavaria. It is therefore not surprising that, with the majority of sunrise industries also emerging in Baden-Württemberg and Bavaria, the Germans are beginning to speak of a North-South Divide.

Foreign trade:

It has already been noted that the FRG enjoyed record current account surpluses in 1985 and 1986. These were due mainly to record surpluses in the balance of visible trade, with invisibles showing a growing deficit.

In 1985, exports rose by 10% in value terms, with 5.9% of this deriving from increases in the volume of goods sold. Imports rose by 6.8%, of which 4.2% was due to increases in import volumes. The terms of trade improved slightly in 1985 as a result of the fall in the value of the dollar and a subsequent fall in raw material prices.

In 1986, the FRG's trade surplus reached a massive DM 112 billion. The surplus was due to a large degree to a sharp drop in import prices which began in the final quarter of 1985. The nominal figures reveal that the FRG exported goods worth DM 526.4 billion. Her main exports were road vehicles, chemicals, machinery, iron and steel. Imports in 1986 totalled DM 414.2 billion, the principal goods being petroleum and petroleum products, iron and steel, non-ferrous metals, electrical machinery, road vehicles, and clothing.

Detailed information on the German economy can be obtained from 'Country Profile West Germany', which

appears annually, and the quarterly 'Country Report West Germany', both of which are published by the EIU (Economist Intelligence Unit).

Anglo-German trade:

Although the UK balance of trade with the FRG showed a rising surplus in favour of the Germans from 1983 to 1985, the British share of the German import market actually rose over the same period from 7% to 8%. In 1986, it dropped back to 7.2% with the fall in the oil price being the factor responsible. In 1985, unrefined petroleum constituted 29% of total German imports from the UK as compared to only 16% in 1986. The FRG imports some 60% of its energy requirements, and the UK provided 28% of total imports in 1986, thus remaining the country's largest supplier of oil. If oil products are excluded from the calculations, UK market share increased only slightly, from 6.2% to 6.3%, during the 1985/1986 period. UK exports of computers, office machinery, aircraft, motor vehicles, electrical engineering products, and pharmaceuticals were the major items involved.

The average value of the £ against the DM fell by 15.9% from 1985 to 1986 when it was worth DM 3.184.

Further information on German imports from the UK and British goods and services with major export potential to the FRG is provided by 'Focus Germany' published by the BOTB (British Overseas Trade Board).

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STRATEGIES

Market strategy:

To be successful in the German market, the British supplier must be not only as good as his German or foreign competitors, he must be better. This means that he must excel in terms of product quality, new product technology, general technical competence, customer orientation, commercial competence, delivery performance, and after-sales service.

Before entering the market, the British supplier must adopt a strategic approach. The strategy should begin with in-depth market research, using both British and German sources of information: a quick visit to just one trade fair will not suffice.

The decision to go into the market must also be accompanied by one to allocate adequate resources: again, it is just not enough to have a representative on the road in the FRG if he is not backed up by staff at head office or if priority is constantly being given to domestic orders.

Market strategy must also embrace serious considerations of pricing policy. Products which command premium prices in the UK as market leaders will probably not command these same premiums in the FRG. Therefore, it is not enough to 'convert' sterling prices into DM. Nor should the DM price of the product be allowed to drift upwards as a result of sterling fluctuations or UK inflation. A British exporter to the FRG, faced with rising domestic costs, might be advised to bite the bullet and trim profit margins rather than risk losing market share.

Conversely a pricing strategy which sees prices pitched too low on the German market will not meet with success either. In the past, some British companies unable to meet

German quality standards have entered the market with prices which were lower than German price levels. The outcome has been unsuccessful because the German purchaser has a habit of seeing prices which are too low as indicative of a lower-quality product, and with so much disposable income he does not have to buy what he perceives as low quality. In the long term, there is no alternative but to take what the market defines as quality as given.

There is obviously no simple recipe available for successful distribution strategy in the FRG because circumstances vary from company to company. Depending on corporate policy, the size of the UK operation, the nature of the product concerned and a number of other variables, the decision will be taken to sell directly from the UK; to appoint a German agent or distributor; to operate from a warehouse in the FRG; or to set up a manufacturing facility there.

If it is decided to appoint an agent or distributor, great care should be taken in the final choice. The agent or distributor should not be given the contract just because he is available. Is he a quality agent? Who else does he represent? Is the quality of the other products handled by him commensurate with that from the British supplier? Where does the agent or distributor operate now? A German agent might agree to a franchise to sell all over the FRG when in practice his real trading area is one of the smaller states. In fact, different agents or distributors might be needed for different states or regions in order to cater for their distinctive and individualistic tastes. Indeed, German commercial law recognizes this by allowing a supplier to appoint geographically exclusive distributors for different regions.

All technical products must be in metric units and in conformity with German safety and technical standards.

Sales literature should be accompanied at minimum by a good and accurate translation of the product's most important data.

No matter how good the market strategy, instant results should not be expected from an initial involvement in the FRG. A medium-term commitment to the market will be required, embracing strategic thinking, hard work and tenacity, before rewards are forthcoming in this demanding environment.

German companies feel that they have had to work hard and long to nurture their export markets: they perceive little reason to make life easy for their importers.

Visit strategy:

The British businessman travelling in the FRG can expect to encounter a high degree of professionalism in all his dealings with his German partners, from managing directors and purchasing managers to sales staff. His negotiations will be with people who have either studied a discipline which is related directly to business and management or who have taken an apprenticeship in their chosen function. Many will have done both. Quite naturally, Germans expect and appreciate professionalism from their business partners.

The success or failure of a business trip to the FRG will be determined by the thoroughness of the planning preceding the visit. It is essential for the British supplier not only to know in advance what he wishes to achieve from a business trip but how he is going to achieve it. This means he must embark on his visit with a clearly-defined visit strategy.

Appointments at individual companies must be confirmed in writing in advance: unannounced visits will not be welcomed. A good supply of visiting cards should be taken along (and not left behind in the other suit in the hotel bedroom). It should also be remembered that German purchasing managers are accustomed to being fêted, so a healthy expense account is an essential prerequisite.

The German businessman has a reputation for tough bargaining but also for straightforward bargaining. He will come to the negotiating table armed with a negotiating strategy, and it usually does not take long to deduce what his strategy is. By contrast, the British businessman has acquired a reputation in the FRG, deserved or not, for 'playing it by ear'. This should be resisted as it tends to be dismissed by Germans as unprofessional (nicht seriös). However, the British habit of bringing humour into the toughest of negotiations is appreciated, so it is advisable not to leave one's sense of humour back at Heathrow!

The results of negotiations with German business partners should be confirmed immediately in writing. Often letters from German companies bear two signatures: the one at bottom left is from a so-called Prokurist, without whose signature the letter would not be binding on the German company; the other at the bottom right is from the Sachbearbeiter. Replies should be addressed to the latter because this is the person actually responsible for dealing with the matter in hand.

Finally, a word about language: it is just not true that all German businessmen speak English. Moreover, some German purchasing managers who do speak English have been known to adopt the attitude: 'Why should I put

myself at a disadvantage in our negotiations by speaking your language? After all, you are trying to sell to me'. It would therefore appear obvious that the better the British supplier can speak German, the greater his chances of success in the market in the FRG. Courtesy alone surely dictates that the most monoglot Briton should be capable of producing Guten Tag and Auf Wiedersehen.

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