

# The German Mittelstand in transition – entrepreneurs and global players



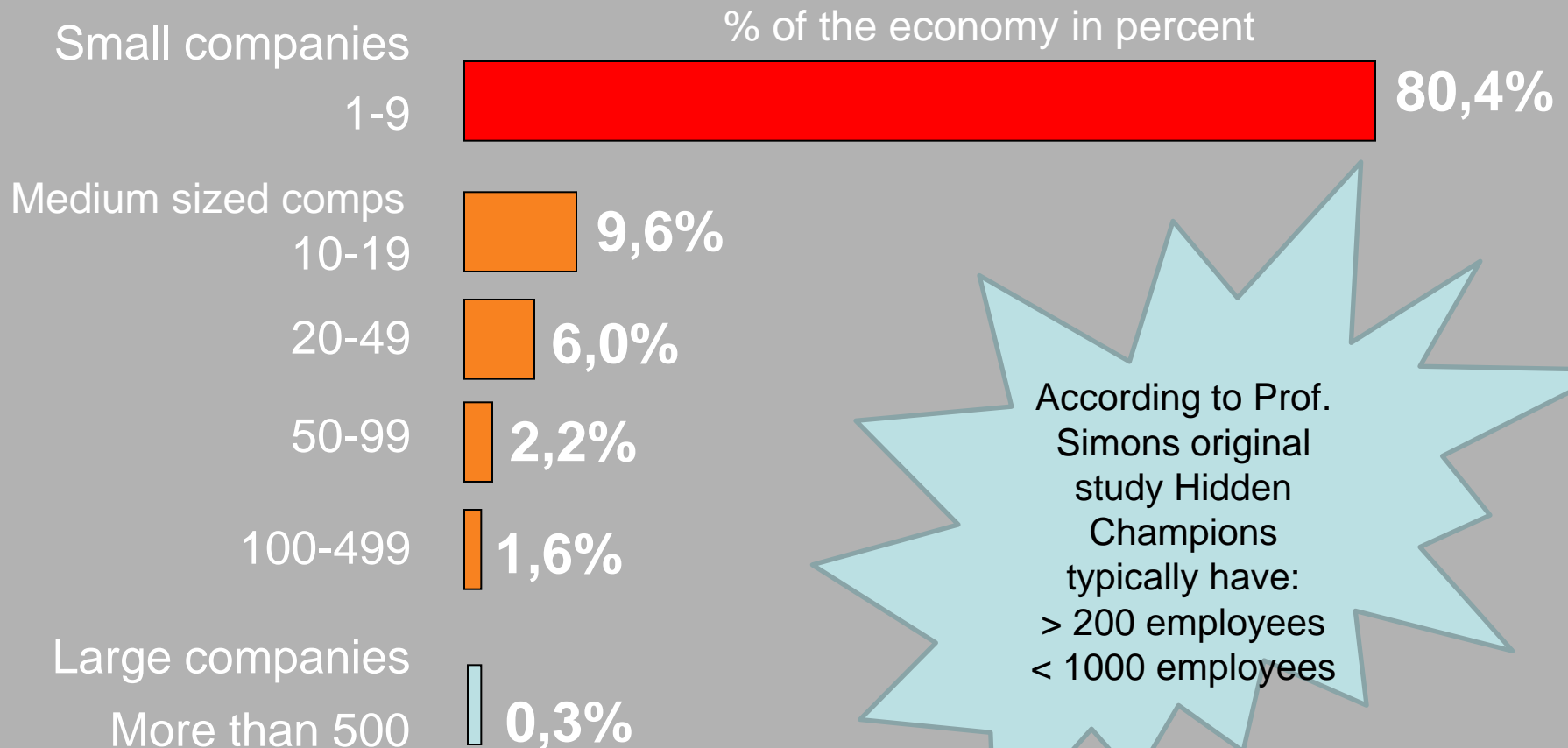
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# What is the Mittelstand?

# The Mittelstand is dominated by small and medium sized businesses.

Number of employees



According to Prof. Simons original study Hidden Champions typically have:  
> 200 employees  
< 1000 employees

# Qualitative characteristics of companies belonging to the Mittelstand - Mittelstand is MODERN

Unity of leadership function, decision making and responsibility

Flat hierarchies, thight contact between top management and employees

Local embeddedness, closeness to markets and customers

Personal relationships between company and stakeholders

## Conclusion No.1

Mittelstand is not just pure statistics, but a fundamental pillar of social market economy

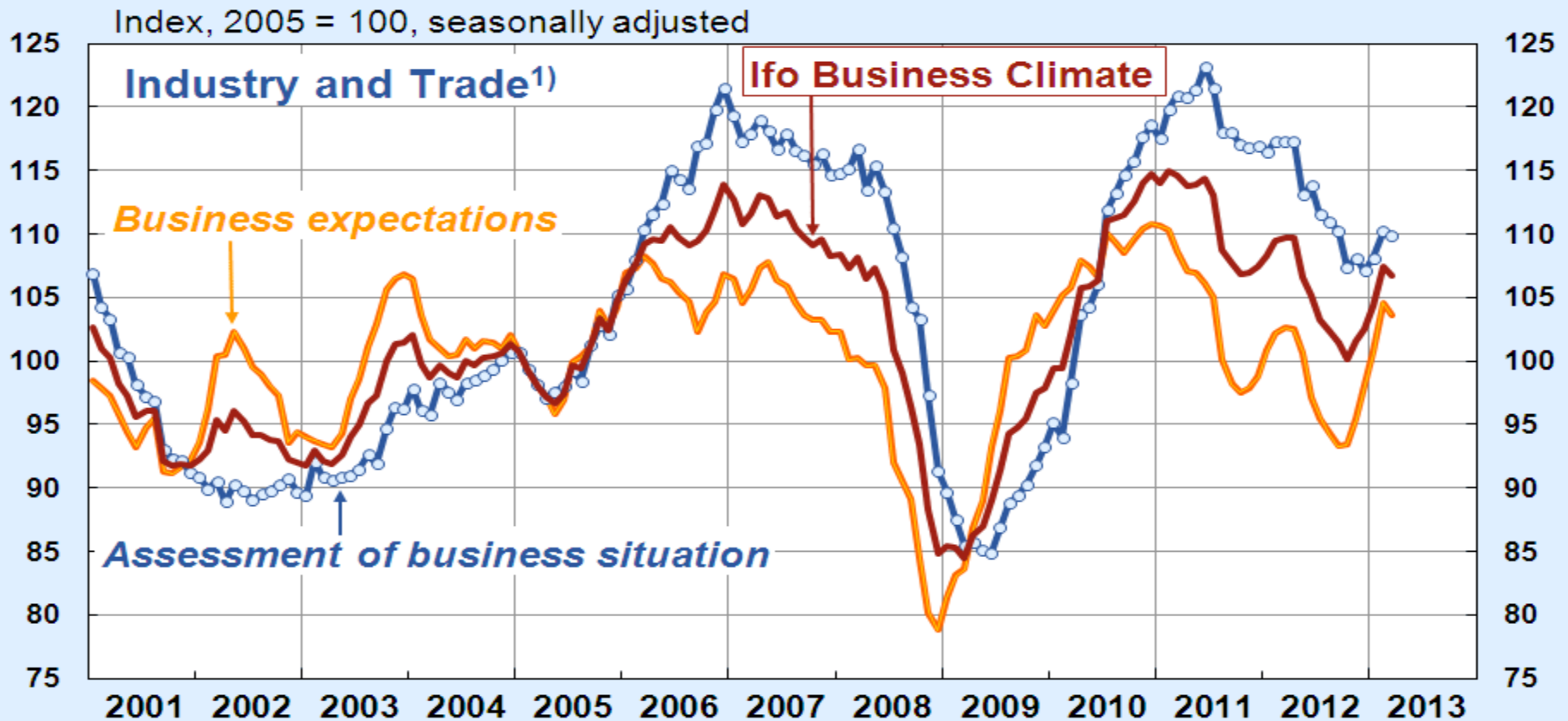
# Do we have to worry about the German Mittelstand?



Currently, the German Mittelstand profits strongly from the economic recovery since 2008

## Ifo Business Climate in Germany

Ifo Business Survey March 2013



1) Manufacturing, construction, wholesaling and retailing.

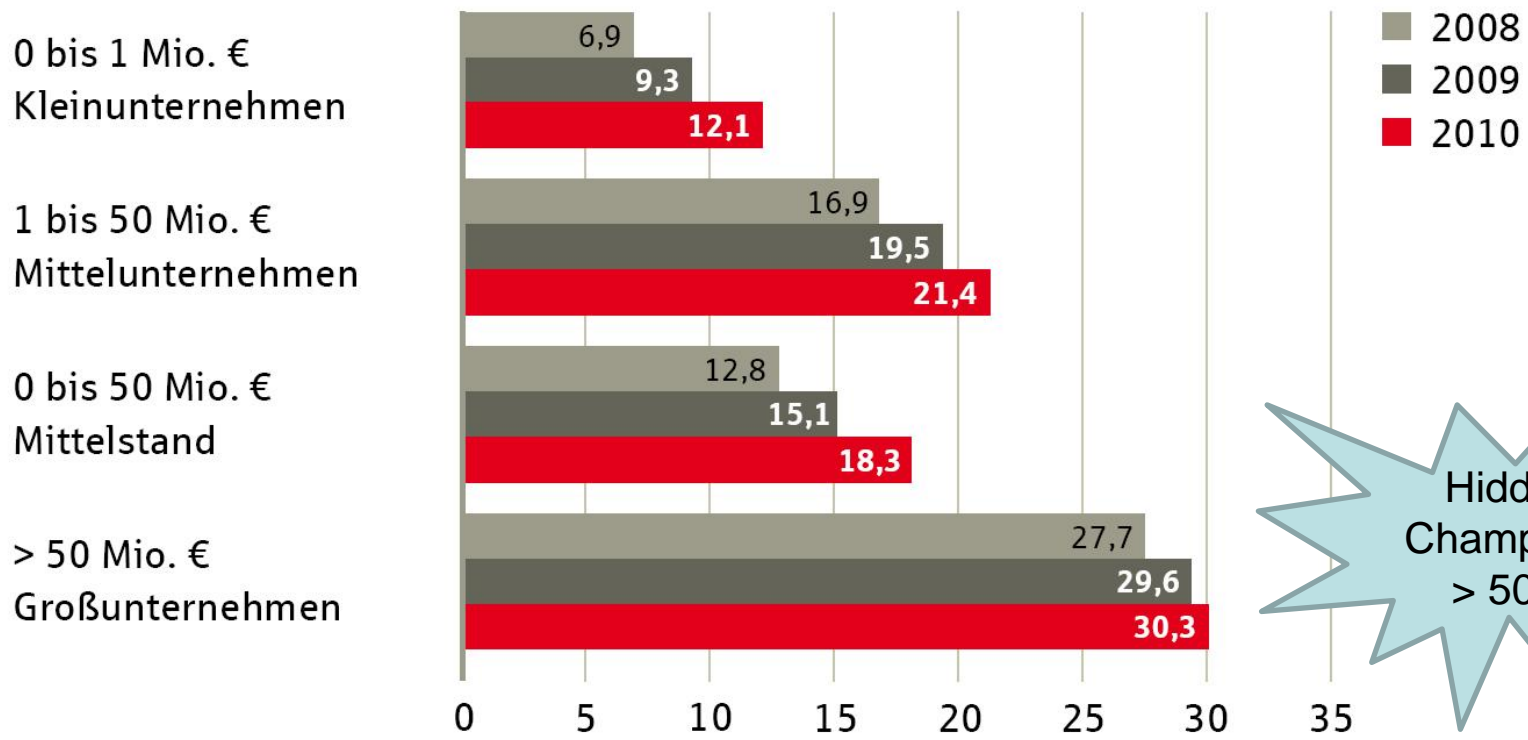
Source: Ifo Business Survey.

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➡ In addition, companies belonging to the Mittelstand have made their homework

# Firms of all size classes have increased equity ratios in the wake of the recent financial crisis and BASEL

Development of equity ratios in various revenue classes

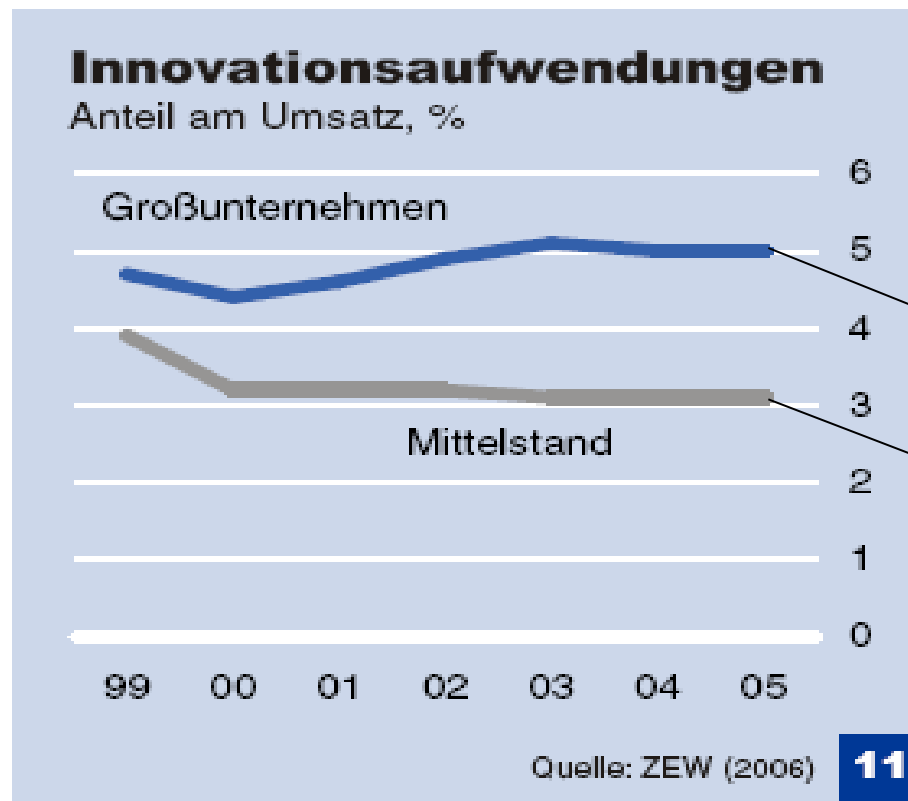


Hidden  
Champions  
> 50%



# The Mittelstand innovates – but its R&D input is lower than that of large companies

Investment in innovation as percentage of Turnover (%) between 1999 and 2005



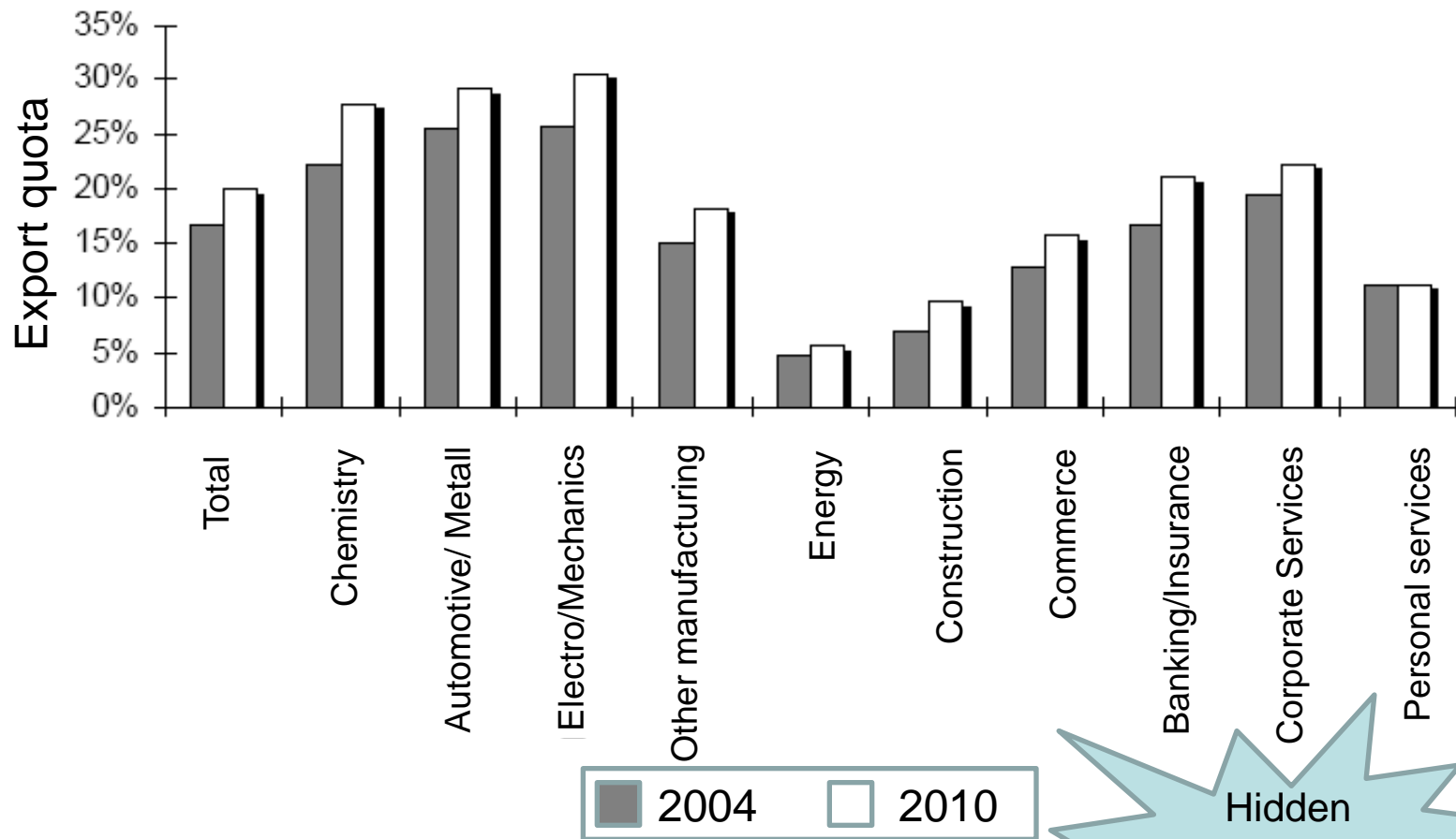
Large companies

Small & medium sized companies

Hidden  
Champions  
> 5%

# The German Mittelstand internationalizes – but there is still room for improvement

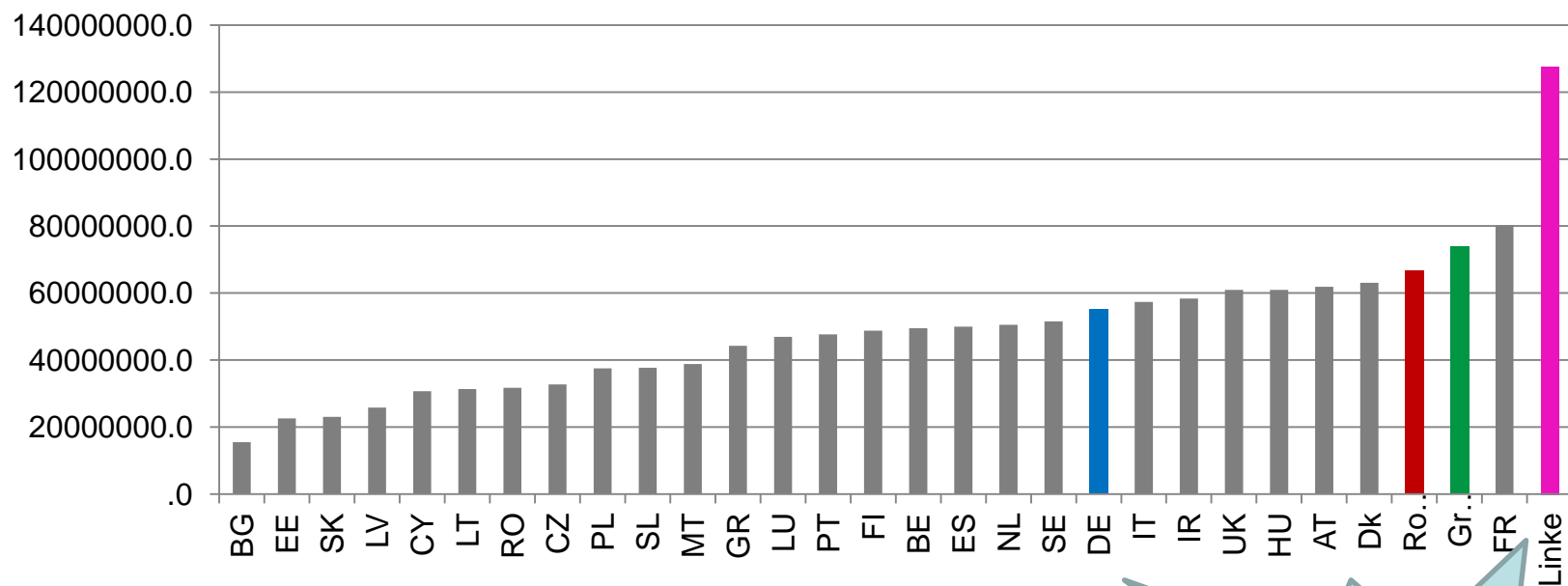
Export quota of the Mittelstand in various industries in 2004 and 2010



Hidden Champions  
> 50%

# Acute and eminent danger for established and larger German Mittelstand companies

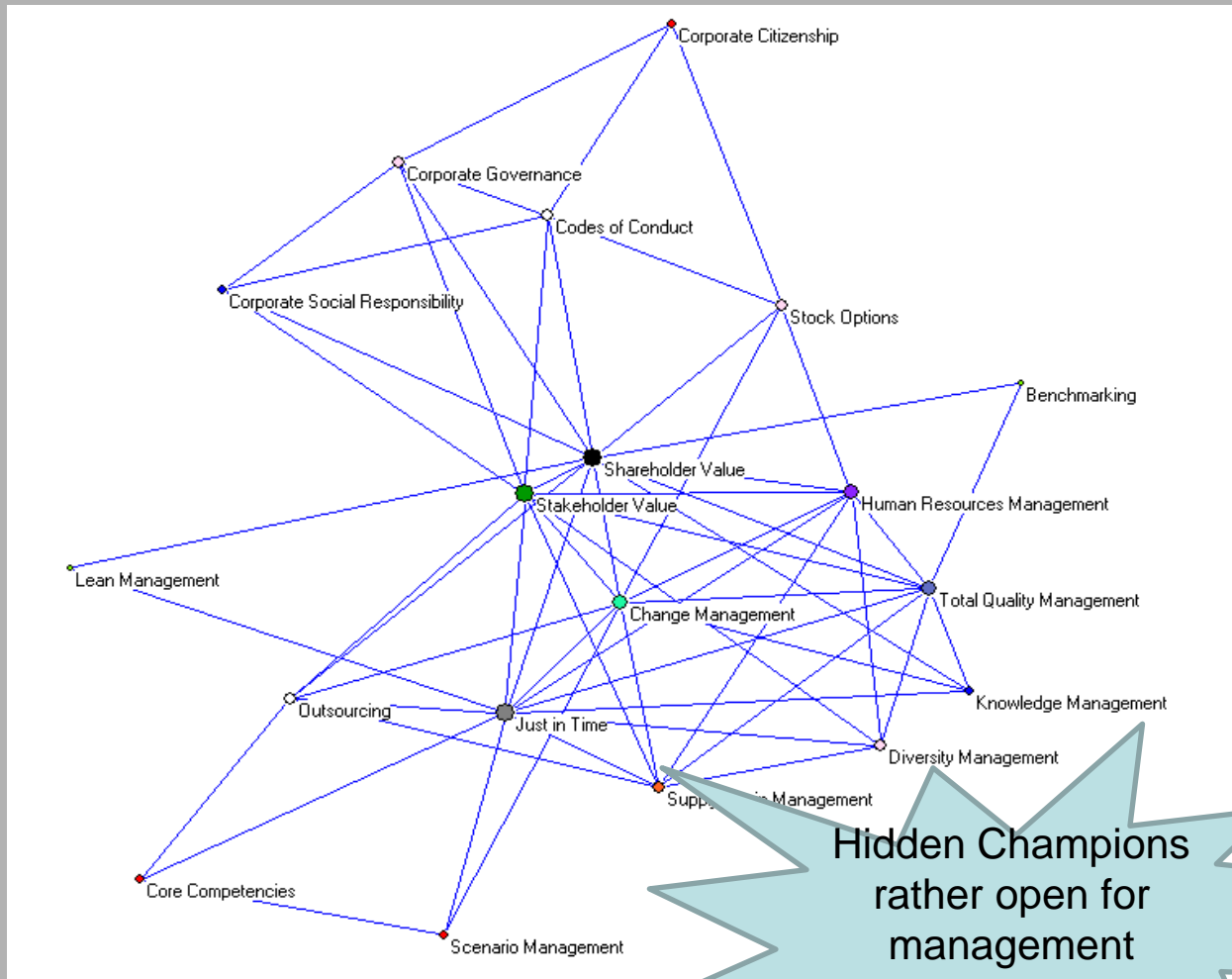
The current pre-election debate on wealth taxes in combination with inheritance taxes endanger the future prosperity of larger and older German hidden champion companies



Positioning of Germany in the Ranking of EU-27 States (simulation of effective total tax burden, corporate taxes and private taxes, 10 periods, source: Prof. Christoph Spengel, Mannheim University and ZEW)

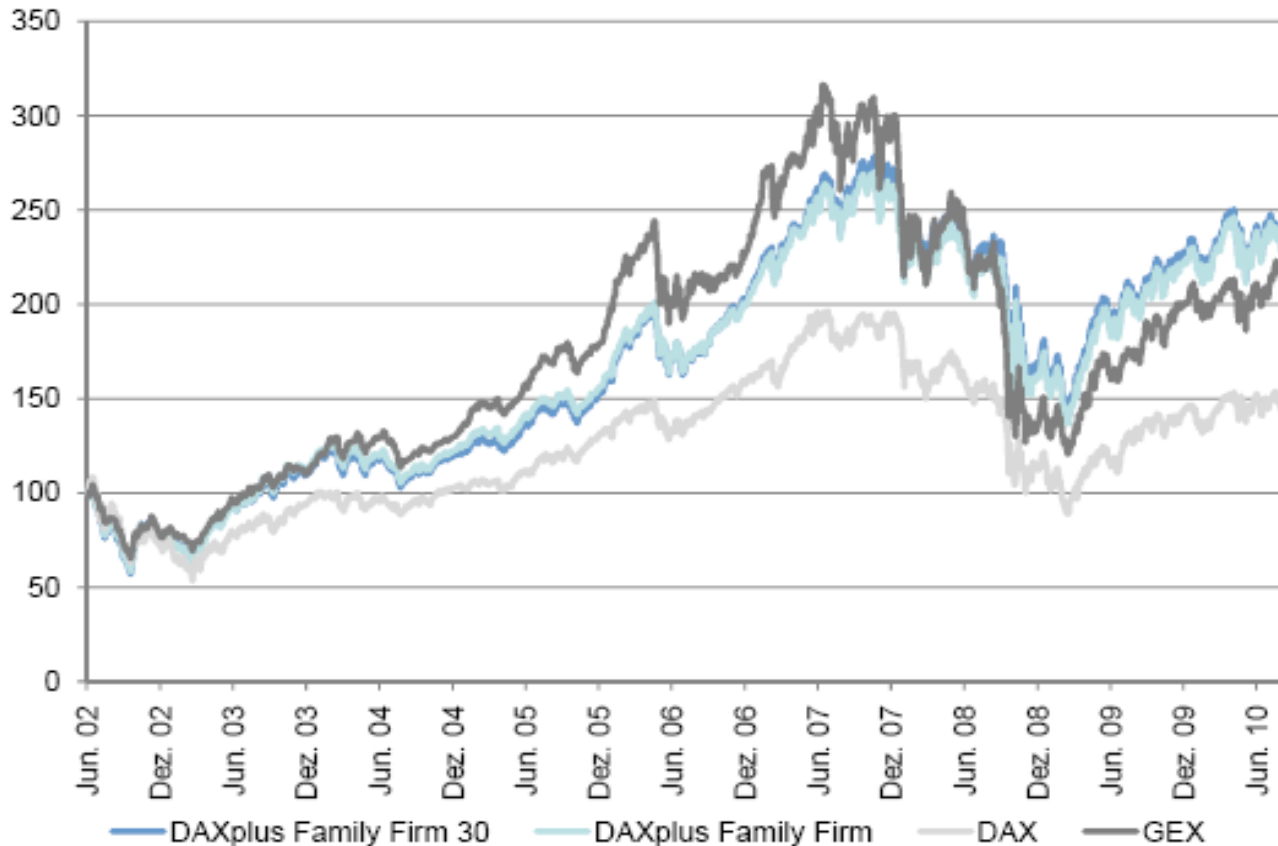
Hidden Champions particularly hurt by tax reform plans

# The Mittelstand is relatively slow in picking up new management knowledge



- A reason for this is often a lack of management talent
- Attracting high potentials will be one of the key future challenges
- The Mittelstand is skeptical against Management fads
- The Mittelstand is an economizer

# The ‚big‘ Mittelstand can keep up with DAX-corporations – Family Businesses listed in various German family business indexes (GEX) beat the DAX.



- Return in the period from 24.6.2002 to 15.9.2010

|                   |       |
|-------------------|-------|
| DAXplus Family    | 11,4% |
| DAXplus Family 30 | 11,5% |
| GEX               | 10,4% |
| DAX               | 5,2%  |

<sup>(1)</sup> Ab Beginn der Indexgewichtung auf Basis der Freefloat-Marktkapitalisierung.

## Conclusion No.2

The Mittelstand needs to professionalize  
in order to become globally competitive

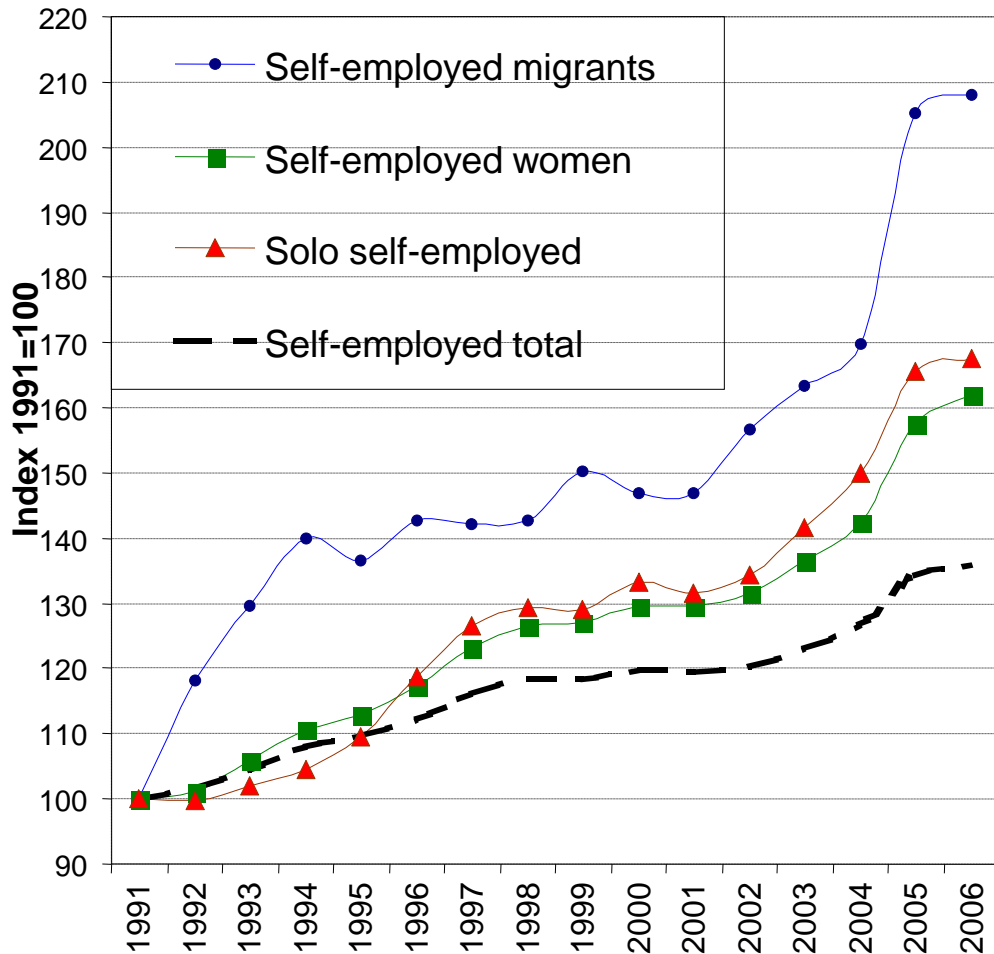
# Quo vadis – German Mittelstand?

Trend I.  
The Mittelstand is growing



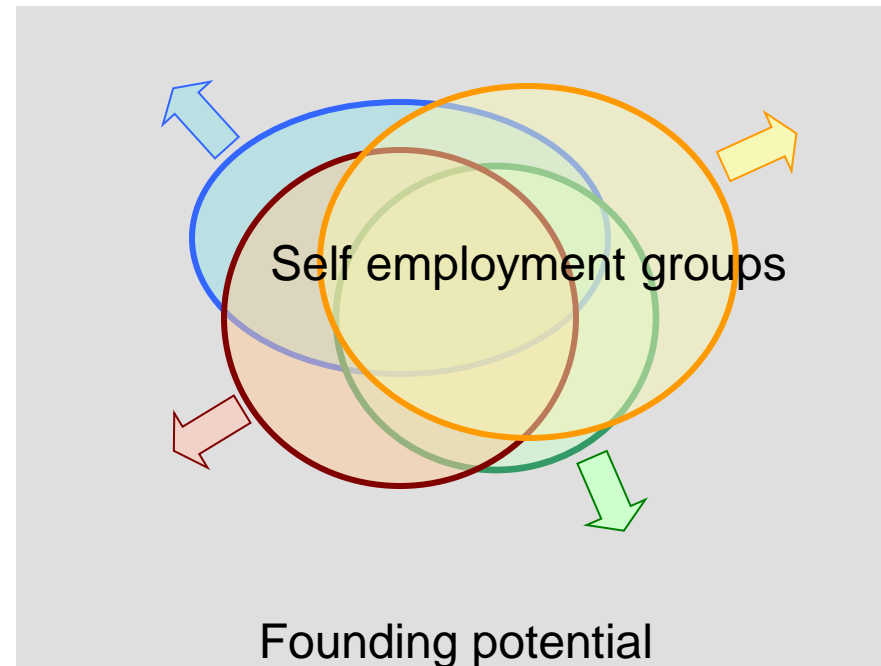
# The number of self-employed in Germany has grown significantly throughout the last 20 years. New blood needed.

Developmental index of female, foreign and solo self-employed people between 1991-2006

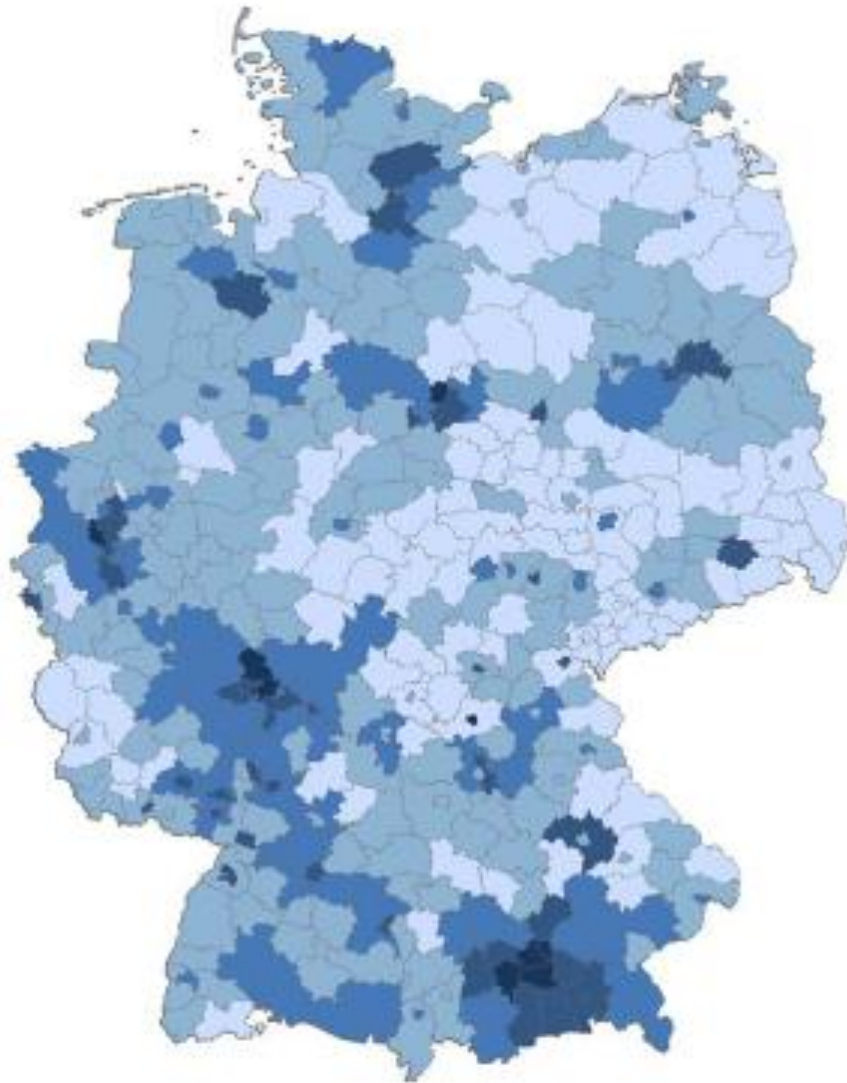


Germany (Mikrozensus 2006/2005)

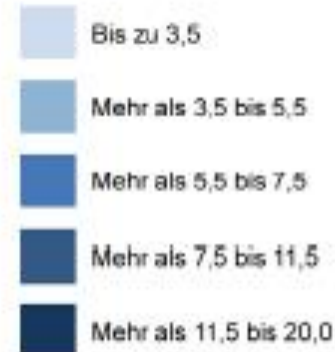
|                        |           |
|------------------------|-----------|
| Self-employed total    | 4 131 000 |
| Solo self-employed     | 2 317 000 |
| Self-employed women    | 1 264 000 |
| Self-employed migrants | 566 000   |
| S. in creative economy | 410 000   |



Founding rates of start-ups vary regionally in a significant way - Bavaria is the leading in high tech-start ups

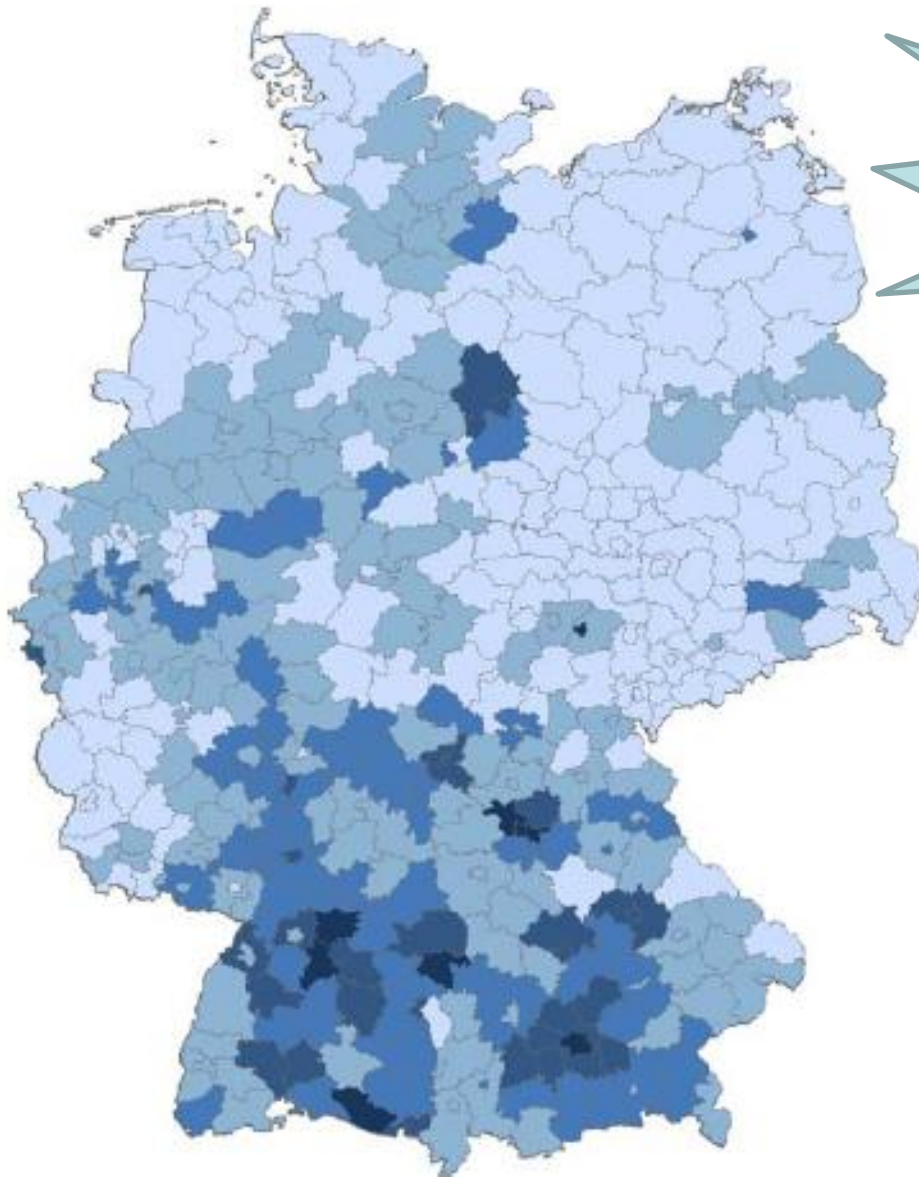


Anzahl der Gründungen in technologie- und wissensintensiven Branchen pro 10.000 Erwerbsfähige 2005-2008



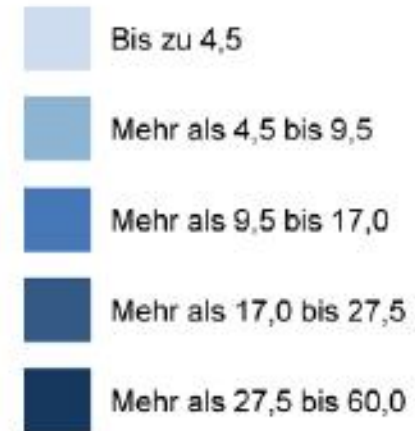
Datenquelle: Mannheimer Unternehmenspanel

# Geographical patent distribution in Germany



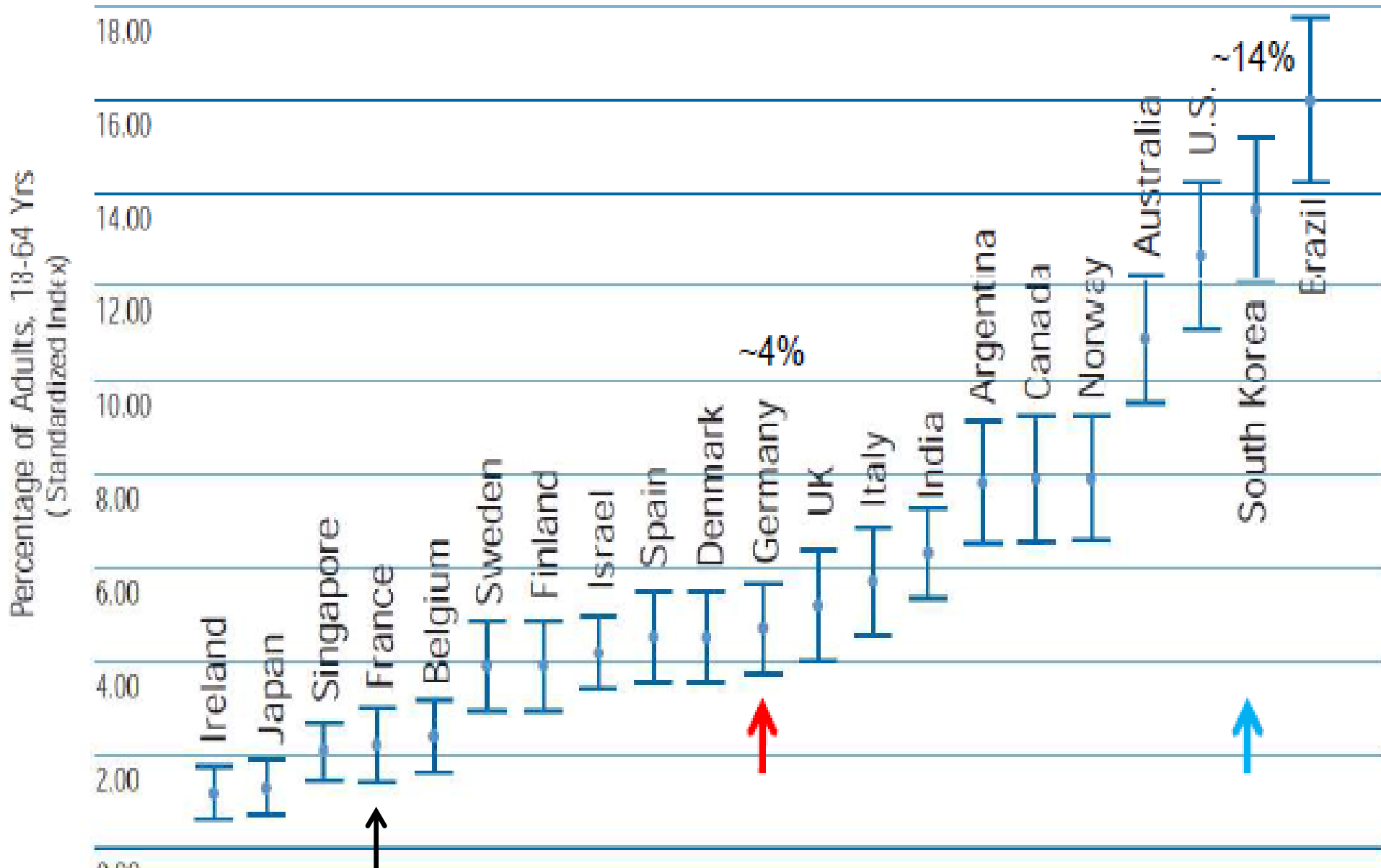
Hidden Champions  
are mostly founded in  
innovative regions.  
They rarely die.

Anzahl der Patente pro  
10.000 Erwerbsfähige 2005



Datenquelle: Patentatlas

**FIGURE 6**  
**TOTAL ENTREPRENEURIAL ACTIVITY PREVALENCE RATES**  
**(GEM TEA INDEX BY COUNTRY)**



Trend II.  
SMEs are emerging as hidden champions

# Who are the hidden champions within the German Mittelstand?



# The hidden champions within the Mittelstand:

- Formerly small-and medium-sized businesses
- Privately/family-owned
- Can be quite old
- Ambitious
- „Unimpressive“ but highly innovative products
- World market leader in a relevant niche market
- High export rates, mostly over 50%

# The hidden champion strategy.

- focus on product, service innovation and know-how







# “Hidden champions” and what makes them so successful.\*

|                  |                              |                  |
|------------------|------------------------------|------------------|
| • SAP            | Business Software            | 18 billion Euro  |
| • Fresenius      | Dialysis Services, hospitals | 18 billion Euro  |
| • Würth          | Fixing & Assembly Materials  | 8 billion Euro   |
| • Wild Gruppe    | Food ingredients (i.e.Color) | 3 billion Euro   |
| • Trumpf         | Machine Tools, Laser         | 2,5 billion Euro |
| • Fuchs Petrolub | Lubricants                   | 2 billion Euro   |
| • Kärcher        | Cleaning equipment           | 1,9 billion Euro |
| • ...            |                              |                  |

\* All companies mentioned in the first hidden champion study by Prof. Simon in 1994

 Global market leader in their product market niche

 Each of the companies has been growing continuously over the past 15 years – at least at a 10% rate

# Kärcher as an innovation leader



- founded in 1935 by swabian engineer, innovator and entrepreneur Alfred Kärcher
- famous for “Kärcher salt bath furnace”
- after WW II the company concentrates on products for the most urgent of daily needs (circular furnaces, handcarts, tractor trailers)
- breakthrough into cleaning technology in 1950 with the development of the first European hot-water pressure washer
- growth through innovation in 1974 Kärcher concentrates on high-pressure cleaning after a phase of diversification
- external management, family supervises and controls



**Winner**

► **Innovation Award 2012**

Kärcher wins the popular price  
with the Walk-behind Scrubber Drier B 80 W

**WINNER**  
**AMSTERDAM**  
**INNOVATION**  
**AWARD**  
**2012**

**OUR TOP THEMES**

- Innovation Award 2012
- Sustainability
- HDS compact class
- WD Performance Line
- The new X-Range
- Watering Range
- Space Needle

**Home & Garden**



► **Products: Home & Garden**

Kärcher cleaning equipment for home, garden and car is renowned throughout the world



► **Application advisor**

Simple short videos show you how to clean in an easier way.

**Professional**



► **Products: Professional**

High-performance units for light industrial applications



► **Business solutions**

We have the right equipment for every industry.

**Themes**



► **ecoLogic**

Yellow is the new Green!



► **WD Performance Line**

Non stop vacuum with constantly high suction power. Our new wet and dry vacuums.



► **Water dispenser WPD 100**

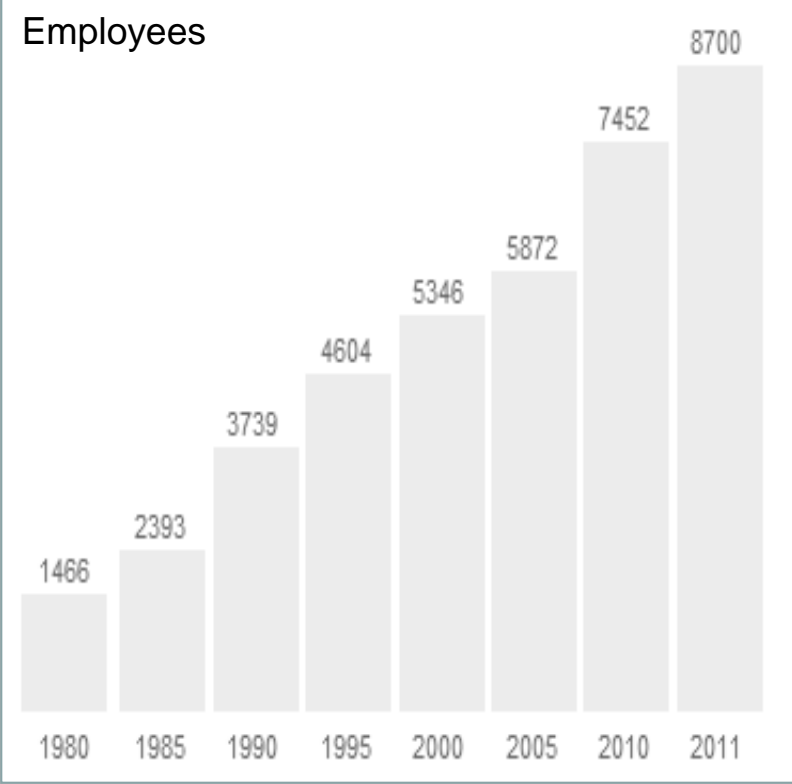
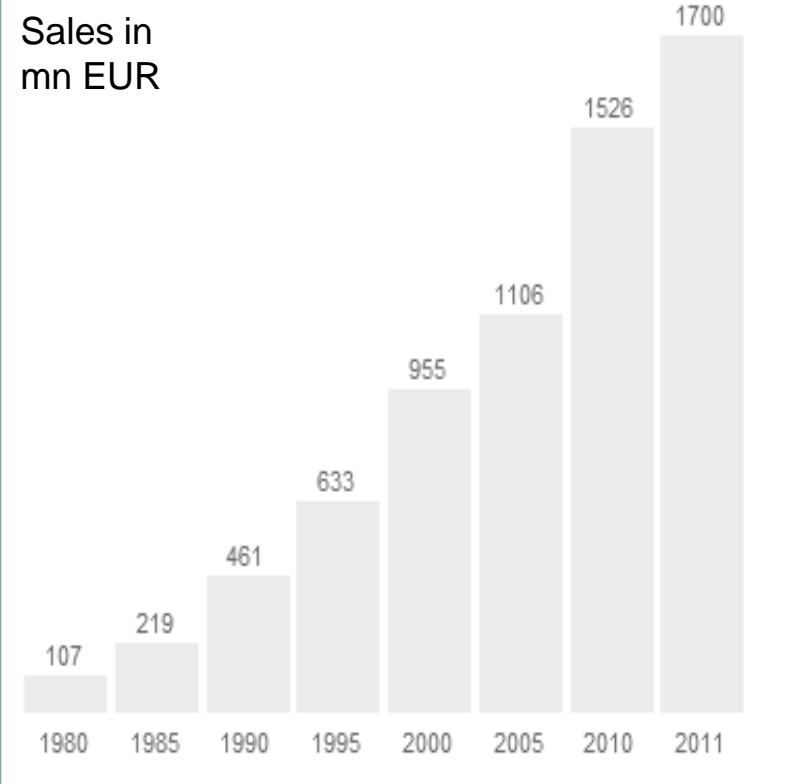
The new water dispenser WPD 100 offers every time at the push of a button premium water.



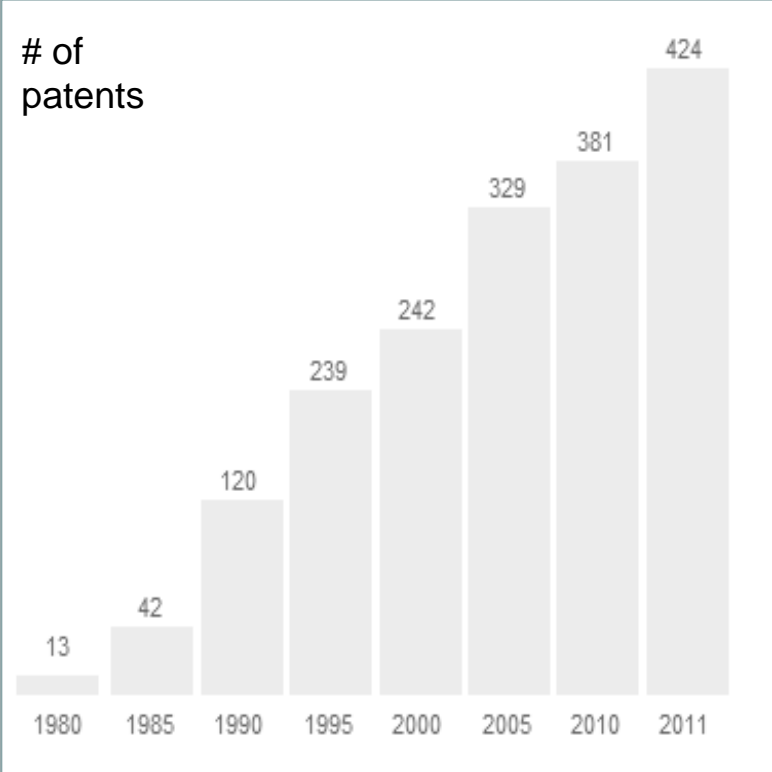
► **HDS electro**

High-pressure cleaner in the hot water special class – for exhaust-free operation.

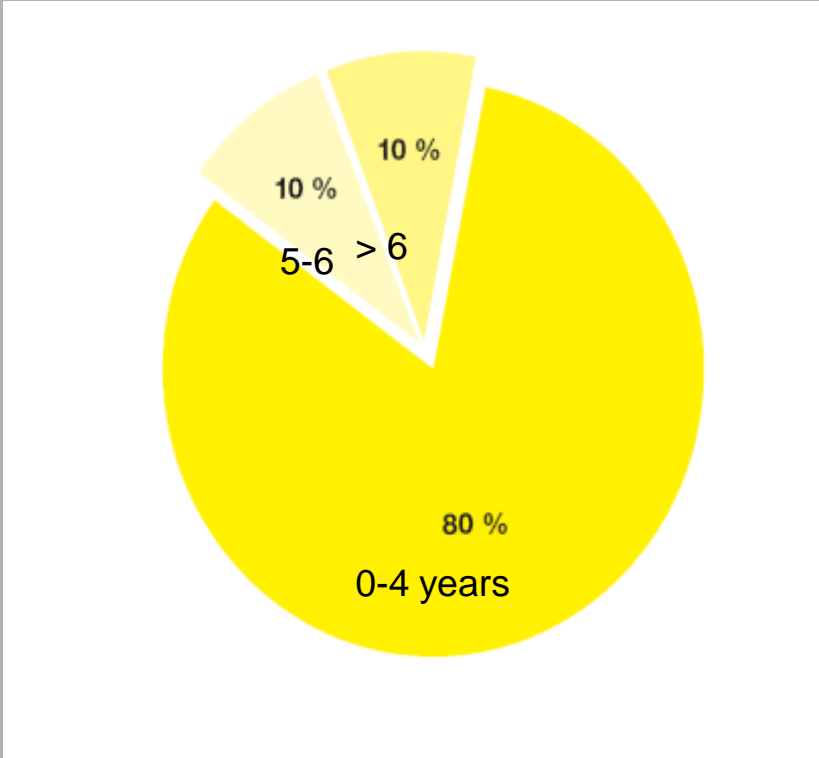
# Some Data on Kärcher



# Some Data on Kärcher



Development of patents



Age of products in years

# They have clever sponsoring, too: Kärcher cleans the world!

Brandenburger Tor, Berlin



Cleaning of 284 posts around the St. Peters Square (Vatikan)

Presidential nose cleaning  
on Mount Rushmore



Culture

## Lessons learnt from hidden champions:

- (1) Hidden Champions benefit from ownership and governance structure based on family-business and long-term relationships with key stakeholders.
- (2) On this basis, they develop long-term strategies aimed at global niche market dominance, based on strategic positioning that combines superior product quality with a focus on customer needs.
- (3) These strategies are implemented with a persistent focus on operational effectiveness of the entire value chain.

Niche specialist on success course  
FUCHS PETROLUB AG – Nischenspezialist auf Erfolgskurs



A leading lubricants supplier

FUCHS PETROLUB AG





## The leading independent lubricants manufacturer of the world



- Founded in 1931
- 2011 sales revenues: €1,668.1 million
- 2011 number of employees: 3,722 from 36 countries and 50 companies
- 34 production facilities
- 100,000 customers in more than 100 countries
- Member of the MDAX, DAXplus Family 30 and STOXX Europe 600
- **IPO in 1985**
  
- **Third generation**



FUCHS is the world market leader in strategically important and high-value business segments and niches



- Metalworking fluids

No. 2-4



- Corrosion preventives

No. 2



- Forging lubricants

No. 2

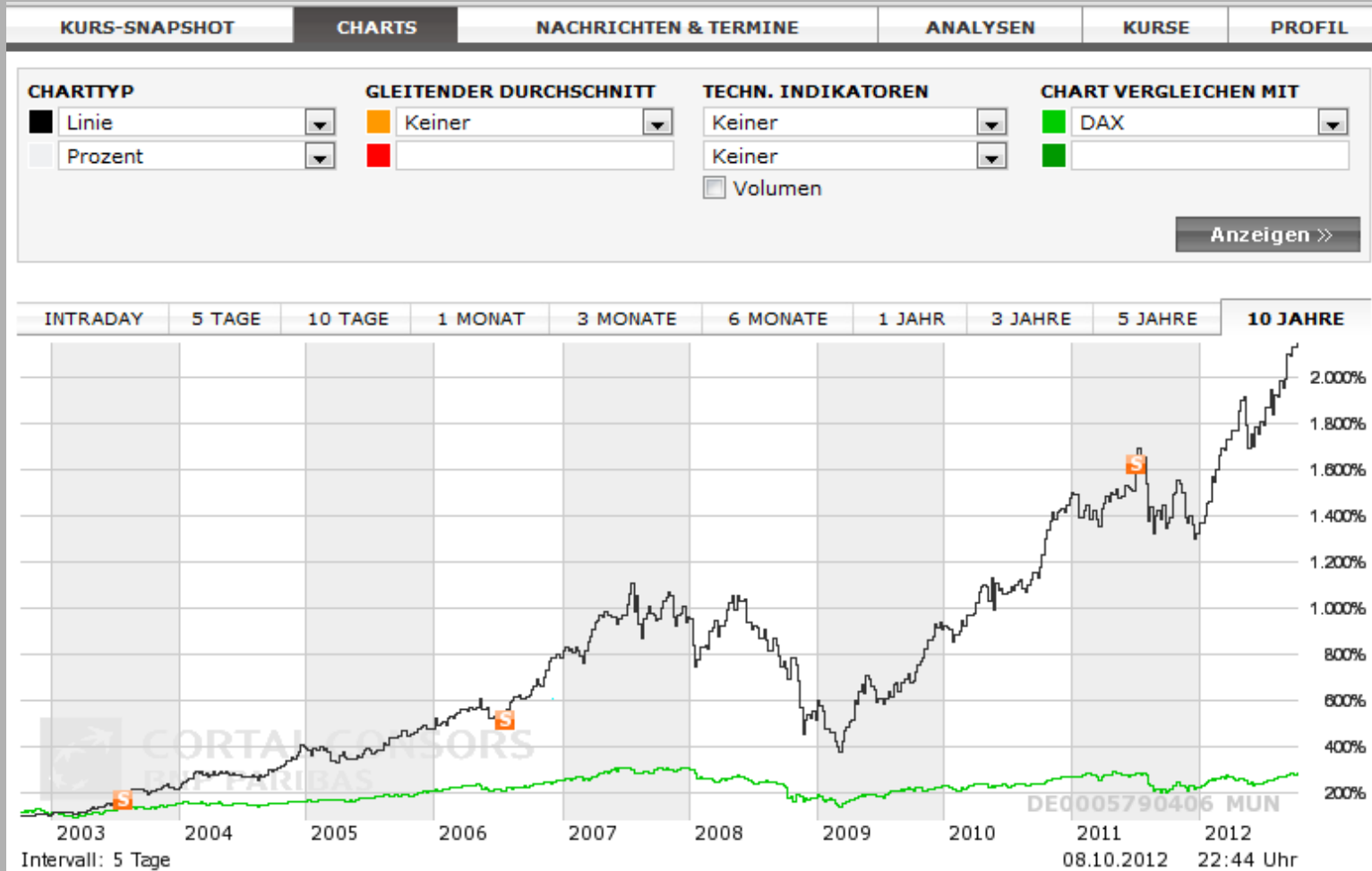


- Greases

No. 3-4



# Stock price evolution of Fuchs Petrolub AG against the DAX 30 index - outperforming over 10 years



Source: Cortal  
Conyors



Fuchs is one of the best performing stocks in Germany

**10% of total staff – more than 350 chemists, engineers and other technical experts – work in R & D around the globe and ensure technical leadership in key products and application areas.**

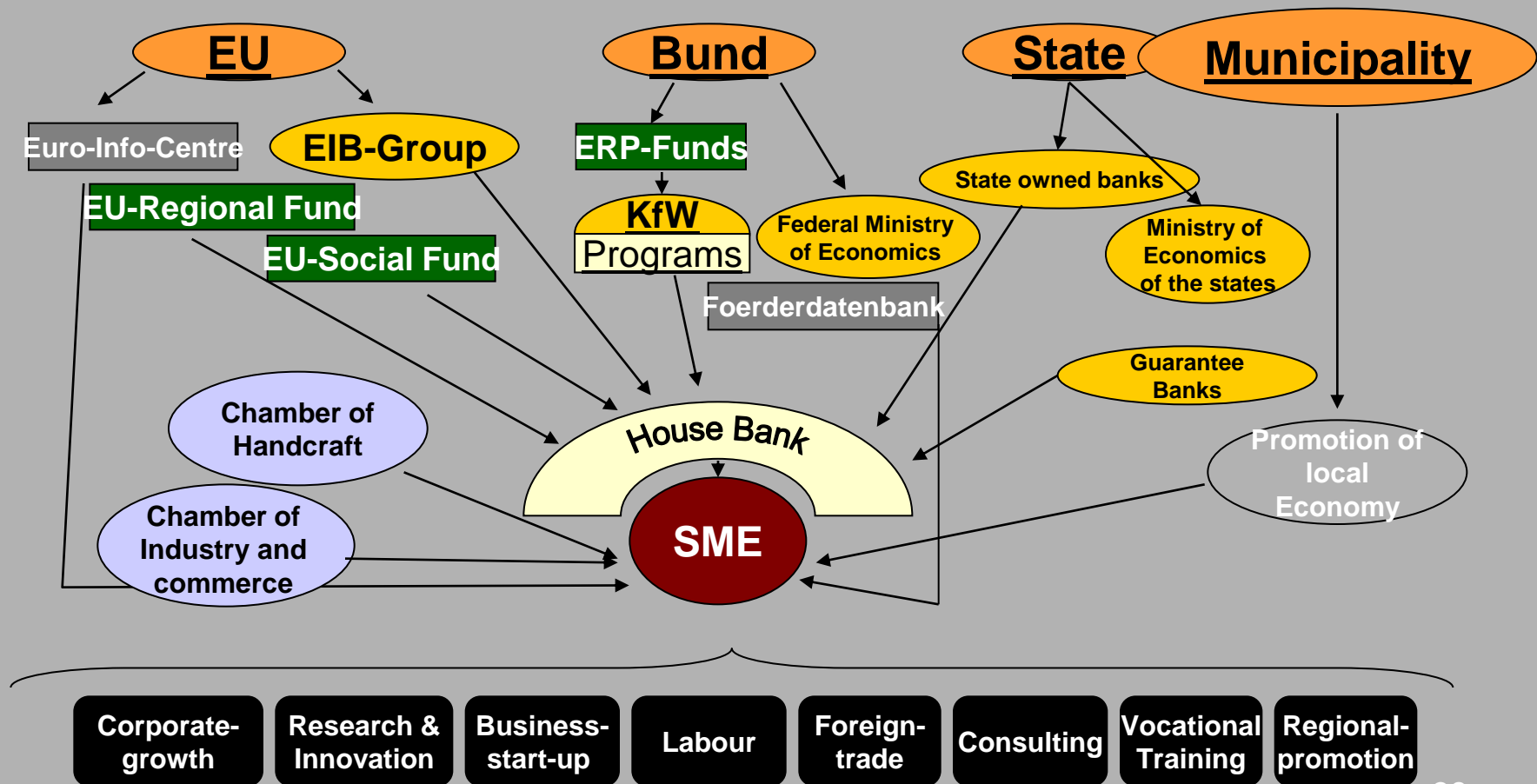




## Conclusion No. 2

One of the strengths of the German economy is its many “hidden champions”. They proof how a SME can exist and compete within global competition through outstanding performance.

# SME Promotion Institutions in Germany



Promotion of the German Mittelstand

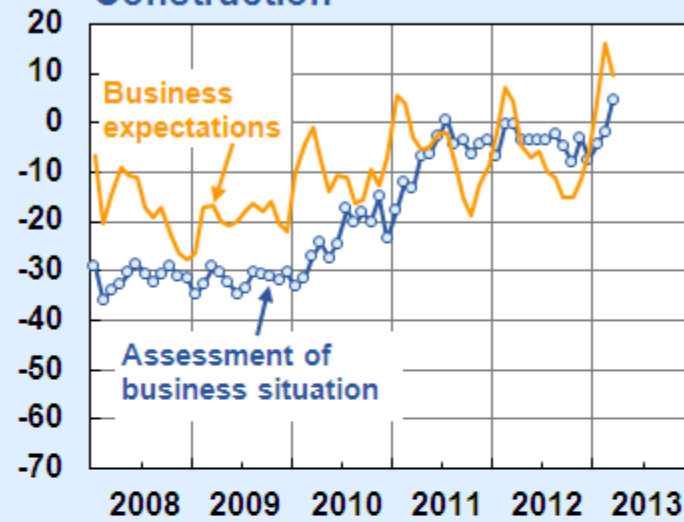
# Business Situation and Expectations by Sector

March 2013; balances, seasonally adjusted

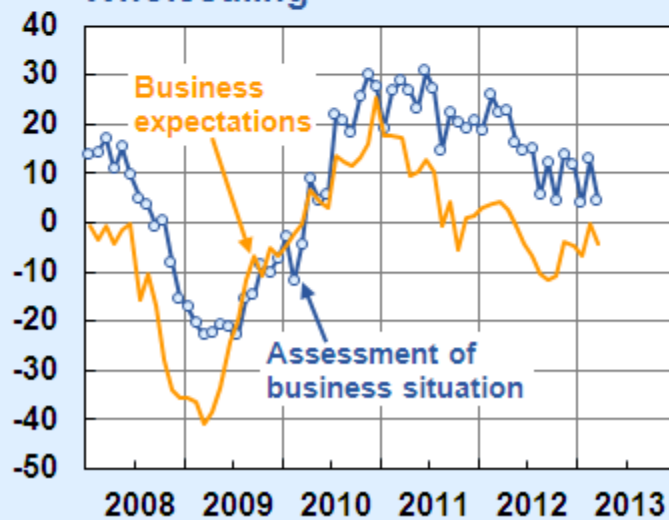
## Manufacturing Industry



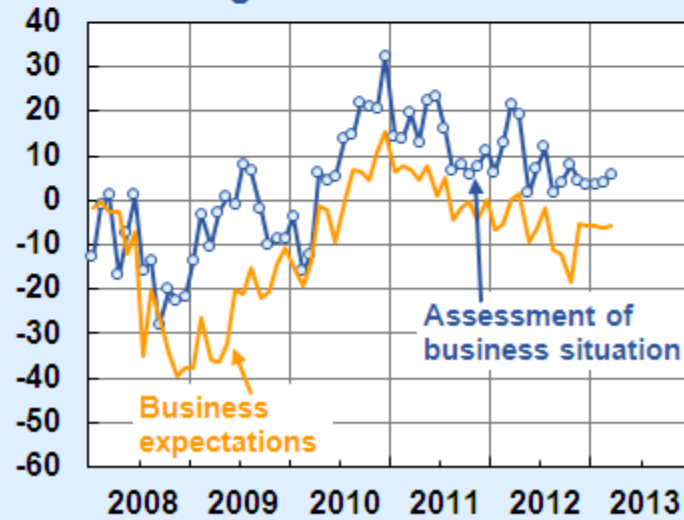
## Construction



## Wholesaling



## Retailing



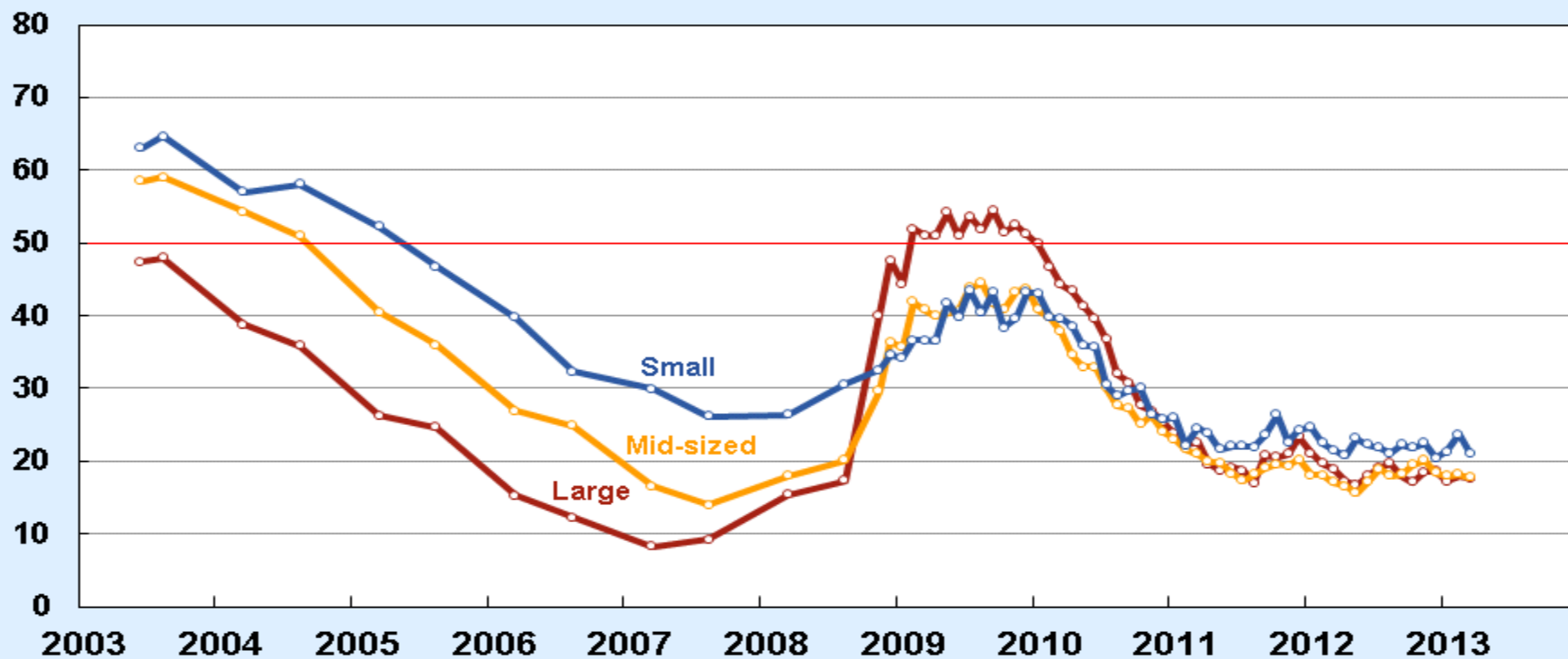


# Credit constraints which have been easing in recent years

## Credit constraints in manufacturing according to company size

Share in %\*

Ifo Business Survey March 2013



\* Share of firms that indicate that credit access is restrictive.

Source: Ifo Business Survey.

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# Some background information about who is actually part of the various indices.

## DAXplus Family

| Instrument                | Sector              | Market Cap.<br>(in Mio.) | Weight |
|---------------------------|---------------------|--------------------------|--------|
| THYSSENKRUPP AG O.N.      | Industrial          | 4.312                    | 10,4%  |
| METRO AG ST O.N.          | Retail              | 4.188                    | 10,1%  |
| SAP AG O.N.               | Software            | 3.974                    | 9,6%   |
| HENKEL AG+CO.KGAA ST O.N. | Consumer            | 3.850                    | 9,3%   |
| SYMRISE AG INH. O.N.      | Chemicals           | 2.258                    | 5,5%   |
| WACKER CHEMIE O.N.        | Chemicals           | 2.005                    | 4,8%   |
| AIXTRON AG NA O.N.        | Technology          | 1.958                    | 4,7%   |
| SOFTWARE AG O.N.          | Software            | 1.728                    | 4,2%   |
| FRESENIUS SE O.N. ST      | Pharma & Healthcare | 1.489                    | 3,6%   |
| UTD.INTERNET AG NA        | Software            | 1.377                    | 3,3%   |

## DAXplus Family 30

| Instrument                | Sector              | Market Cap.<br>(in Mio.) | Weight |
|---------------------------|---------------------|--------------------------|--------|
| THYSSENKRUPP AG O.N.      | Industrial          | 3.361                    | 10,4%  |
| METRO AG ST O.N.          | Retail              | 3.263                    | 10,1%  |
| SAP AG O.N.               | Software            | 3.088                    | 9,6%   |
| HENKEL AG+CO.KGAA ST O.N. | Consumer            | 3.001                    | 9,3%   |
| SYMRISE AG INH. O.N.      | Chemicals           | 2.258                    | 7,0%   |
| WACKER CHEMIE O.N.        | Chemicals           | 2.005                    | 6,2%   |
| AIXTRON AG NA O.N.        | Technology          | 1.958                    | 6,0%   |
| SOFTWARE AG O.N.          | Software            | 1.728                    | 5,3%   |
| FRESENIUS SE O.N. ST      | Pharma & Healthcare | 1.489                    | 4,6%   |
| UTD.INTERNET AG NA        | Software            | 1.377                    | 4,2%   |

## DAX

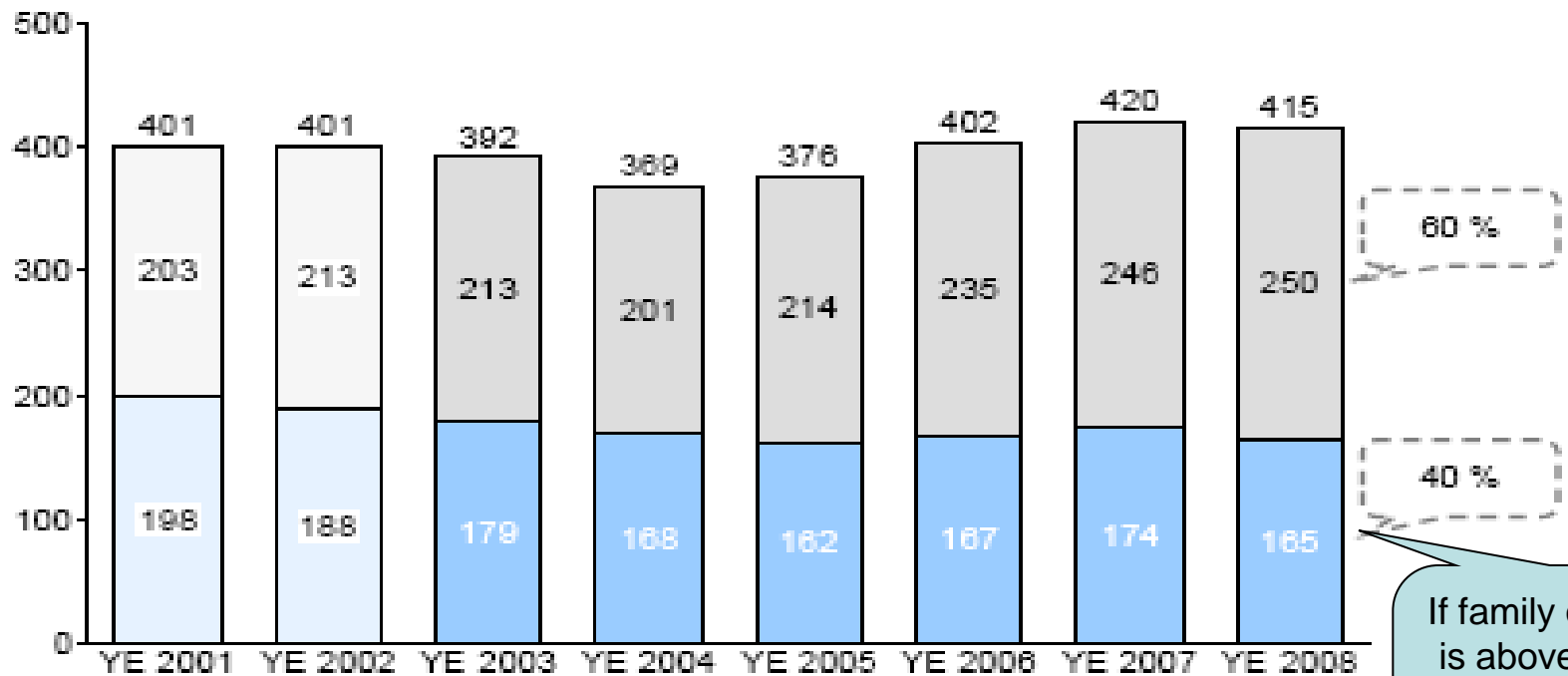
| Instrument               | Sector            | Market Cap.<br>(in Mio.) | Weight |
|--------------------------|-------------------|--------------------------|--------|
| SIEMENS AG NA            | Industrial        | 53.180                   | 10,0%  |
| BAYER AG NA              | Chemicals         | 42.224                   | 7,9%   |
| E.ON AG NA               | Utilities         | 41.255                   | 7,8%   |
| BASF SE NA O.N.          | Chemicals         | 41.120                   | 7,7%   |
| ALLIANZ SE VNA O.N.      | Insurance         | 37.863                   | 7,1%   |
| DAIMLER AG NA O.N.       | Automobile        | 35.339                   | 6,6%   |
| SAP AG O.N.              | Software          | 32.697                   | 6,1%   |
| DT.TELEKOM AG NA         | Telecommunication | 30.771                   | 5,8%   |
| DEUTSCHE BANK AG NA O.N. | Banks             | 28.588                   | 5,4%   |
| RWE AG ST O.N.           | Utilities         | 21.221                   | 4,0%   |



## GEX

| Instrument             | Sector              | Market Cap.<br>(in Mio.) | Weight |
|------------------------|---------------------|--------------------------|--------|
| SMA SOLAR TECHNOLOG    | Industrial          | k.A.                     | k.A.   |
| STROEER OUT-OF-H.AG    | Media               | k.A.                     | k.A.   |
| WACKER CHEMIE O.N.     | Chemicals           | 375                      | 10,6%  |
| FIELMANN AG O.N.       | Retail              | 358                      | 10,1%  |
| CENTROTHERM PHOTOVOLT. | Industrial          | 300                      | 8,5%   |
| BAUER AG               | Construction        | 298                      | 8,4%   |
| ASIAN BAMBOO AG INH.ON | Basic resources     | 285                      | 8,1%   |
| DELTICOM AG            | Retail              | 259                      | 7,3%   |
| WACKER NEUSON NA O.N.  | Industrial          | 230                      | 6,5%   |
| DRAEGERWERK ST.A.O.N.  | Pharma & Healthcare | 152                      | 4,3%   |

# 40% of all companies listed in the German Prime standard can be considered family firms.

Number of family firms/non family firms p.a.



 Non family firms  
 Family firms

**Comment:** The prime standard contains the top-quality stocks. Demanding requirements regarding transparency apply

If family ownership is above 25% the company is considered a family business

# The German Top 500 family firms (Rank 1 to 25)

|    | Company                                 | Location          | Employees |         |         |
|----|---|-------------------|-----------|---------|---------|
|    |   |                   | 2006      | 2007    | 2008    |
| 1  | Metro AG                                | Düsseldorf        | 264.000   | 281.000 | 290.000 |
| 2  | Robert Bosch GmbH                       | Gerlingen         | 257.754   | 267.562 | 282.758 |
| 3  | Lidl Stiftung & Co. KG                  | Neckarsulm        | 170.000   | 170.000 | 170.000 |
| 4  | Tengelmann Warenhandelsgesellschaft KG  | Mülheim a.d. Ruhr | 150.880   | 151.753 | 167.447 |
| 5  | Bertelsmann AG                          | Gütersloh         | 97.132    | 102.397 | 106.083 |
| 6  | Aldi-Gruppe                             | Essen             | 100.000   | 100.000 | 100.000 |
| 7  | Merckle-Gruppe                          | Blaubeuren        | 72.000    | 95.383  | 92.500  |
| 8  | Arcandor Aktiengesellschaft             | Essen             | 87.436    | 95.501  | 86.244  |
| 9  | INA-Holding Schaeffler KG               | Herzogenaurach    | 61.402    | 65.252  | 66.000  |
| 10 | Adolf Würth GmbH & Co. KG               | Künzelsau         | 53.201    | 61.022  | 63.000  |
| 11 | Anton Schlecker GmbH                    | Ehingen           | 51.115    | 52.000  | 55.700  |
| 12 | Henkel AG & Co. KGaA                    | Düsseldorf        | 51.716    | 52.303  | 55.513  |
| 13 | Dussmann AG & Co. KGaA                  | Berlin            | 49.227    | 51.136  | 52.706  |
| 14 | Otto GmbH & Co KG                       | Hamburg           | 55.116    | 53.051  | 52.668  |
| 15 | Franz Haniel & Cie. GmbH                | Duisburg          | 55.889    | 56.261  | 49.143  |
| 16 | Voith AG                                | Heidenheim        | 33.773    | 36.844  | 41.384  |
| 17 | C.H. Boehringer Sohn AG & Co. KG        | Ingelheim         | 38.428    | 39.800  | 41.300  |
| 18 | Klüh Service Management GmbH            | Düsseldorf        | 31.478    | 35.076  | 38.694  |
| 19 | Rethmann AG & Co. KG                    | Selm              | 29.771    | 35.111  | 37.800  |
| 20 | B. Braun Melsungen AG                   | Melsungen         | 31.127    | 35.810  | 37.601  |
| 21 | Deutsche Vermögensberatung Holding GmbH | Marburg           | 33.522    | 33.851  | 37.199  |
| 22 | Fritz Dräxlmaier GmbH & Co. KG          | Vilsbiburg        | 32.031    | 35.240  | 35.250  |
| 23 | Asklepios Kliniken GmbH                 | Königstein/Taunus | 36.000    | 34.000  | 34.500  |
| 24 | maxingvest ag                           | Hamburg           | 29.975    | 30.683  | 33.978  |
| 25 | Freudenberg & Co. KG                    | Weinheim          | 33.542    | 35.060  | 33.569  |

# The German Top 500 family firms (Rank 25 to 50)

|    | Company   | Location    | Employees |        |        |
|----|---|-------------|-----------|--------|--------|
|    |   |             | 2006      | 2007   | 2008   |
| 26 | MERCK KG auf Aktien   | Darmstadt   | 29.774    | 30.791 | 31.971 |
| 27 | dm-drogerie markt GmbH + Co. KG   | Karlsruhe   | 24.722    | 27.054 | 30.719 |
| 28 | GLOBUS Holding GmbH & Co. KG  | St. Wendel  | 27.994    | 29.247 | 30.000 |
| 29 | Heinrich Deichmann-Schuhe GmbH & Co. KG   | Essen       | 24.900    | 26.500 | 28.100 |
| 30 | Dirk Rossmann GmbH  | Burgwedel   | 15.000    | 24.000 | 26.000 |
| 31 | Piepenbrock Unternehmensgruppe GmbH + Co. KG  | Berlin      | 24.730    | 25.727 | 25.000 |
| 32 | Hella KGaA Hueck & Co.  | Lippstadt   | 24.275    | 25.451 | 24.736 |
| 33 | Dr. August Oetker KG  | Bielefeld   | 22.340    | 22.680 | 24.700 |
| 34 | Benteler AG   | Paderborn   | 21.992    | 22.938 | 24.281 |
| 35 | AVECO Holding Aktiengesellschaft  | Frankfurt   | 22.370    | 24.200 | 23.324 |
| 36 | Knauf Gips KG   | Iphofen     | 18.500    | 22.000 | 23.000 |
| 37 | Vorwerk & Co. KG  | Wuppertal   | 22.628    | 22.570 | 22.500 |
| 38 | Müller Ltd. & Co. KG  | Ulm         | 17.500    | 20.000 | 22.000 |
| 39 | Fiege Stiftung & Co. KG   | Greven      | 21.000    | 21.100 | 21.000 |
| 40 | persona service Verwaltungs AG & Co. KG   | Lüdenscheid | 17.500    | 20.500 | 20.047 |
| 41 | Behr GmbH & Co. KG  | Stuttgart   | 18.492    | 19.099 | 18.812 |
| 42 | Dachser GmbH & Co. KG   | Kempten     | 15.000    | 17.100 | 18.175 |
| 43 | Westdeutsche Allgemeine Zeitungsverlag GmbH & Co. KG Zeitschriften- und Beteiligungs KG | Essen       | 16.000    | 16.000 | 18.000 |
| 44 | Verlagsgruppe Georg von Holtzbrinck GmbH  | Stuttgart   | 15.473    | 17.086 | 17.000 |
| 45 | Miele & Cie. KG   | Gütersloh   | 15.019    | 15.949 | 16.163 |
| 46 | Dr. Alexander Wacker Familiengesellschaft mbH   | München     | 14.669    | 15.044 | 15.922 |
| 47 | I.K. Hofmann GmbH   | Nürnberg    | 10.000    | 13.000 | 15.600 |
| 48 | ATON GmbH   | Fulda       | 7.222     | 13.506 | 15.480 |
| 49 | KAEFER Isoliertechnik GmbH & Co. KG   | Bremen      | 9.100     | 12.100 | 15.000 |
| 50 | Kromberg & Schubert GmbH & Co. KG Kabel-Automobiltechnik                                | Renningen   | 14.184    | 15.340 | 15.000 |

# The economic importance of the Mittelstand in Germany is obvious.



**99,5%**  
of all companies



**70,9%**  
of all employees



**82,4%**  
of apprentices

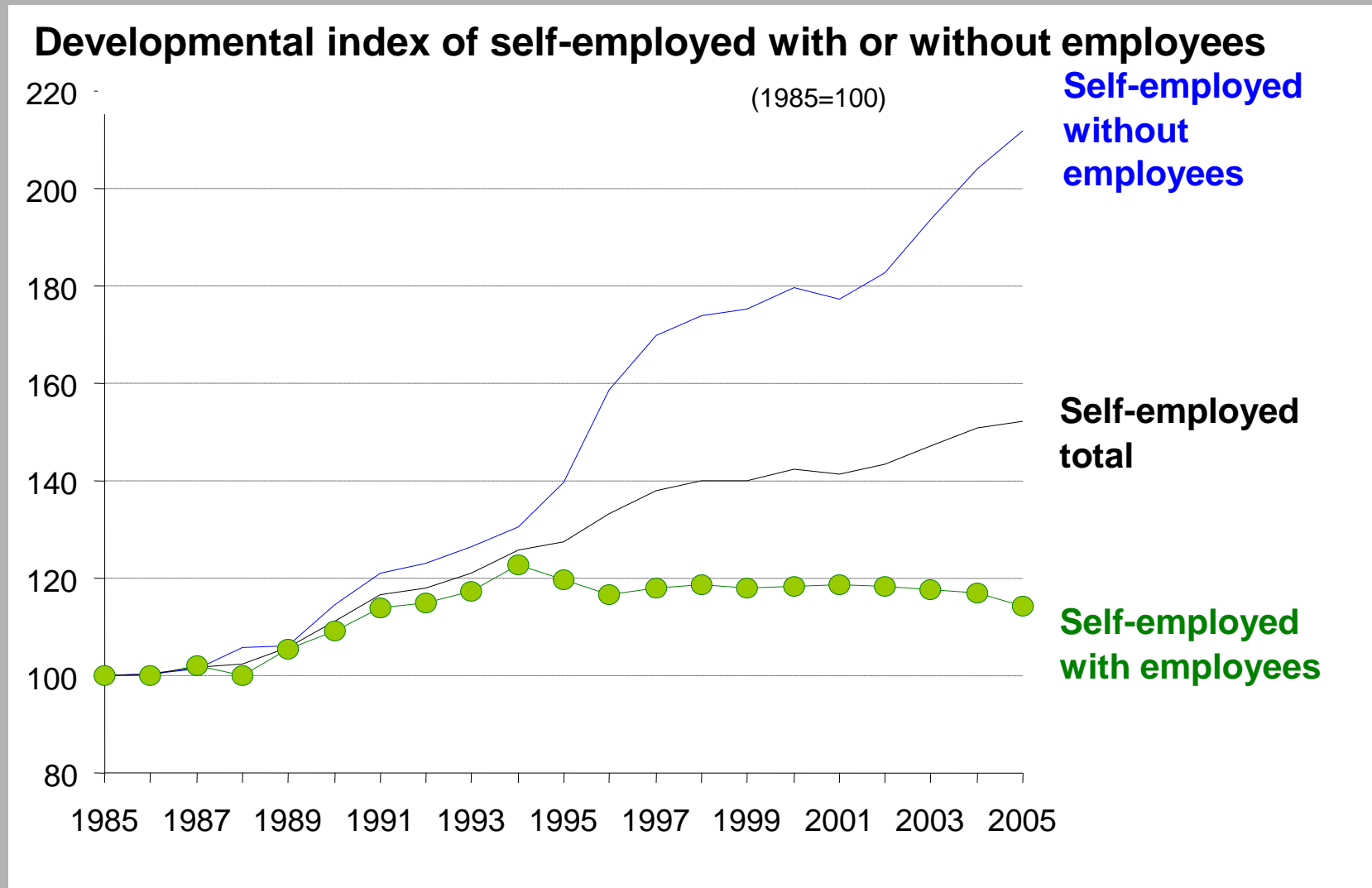


**50,2%**  
of all revenues



**55,2%**  
of business taxes

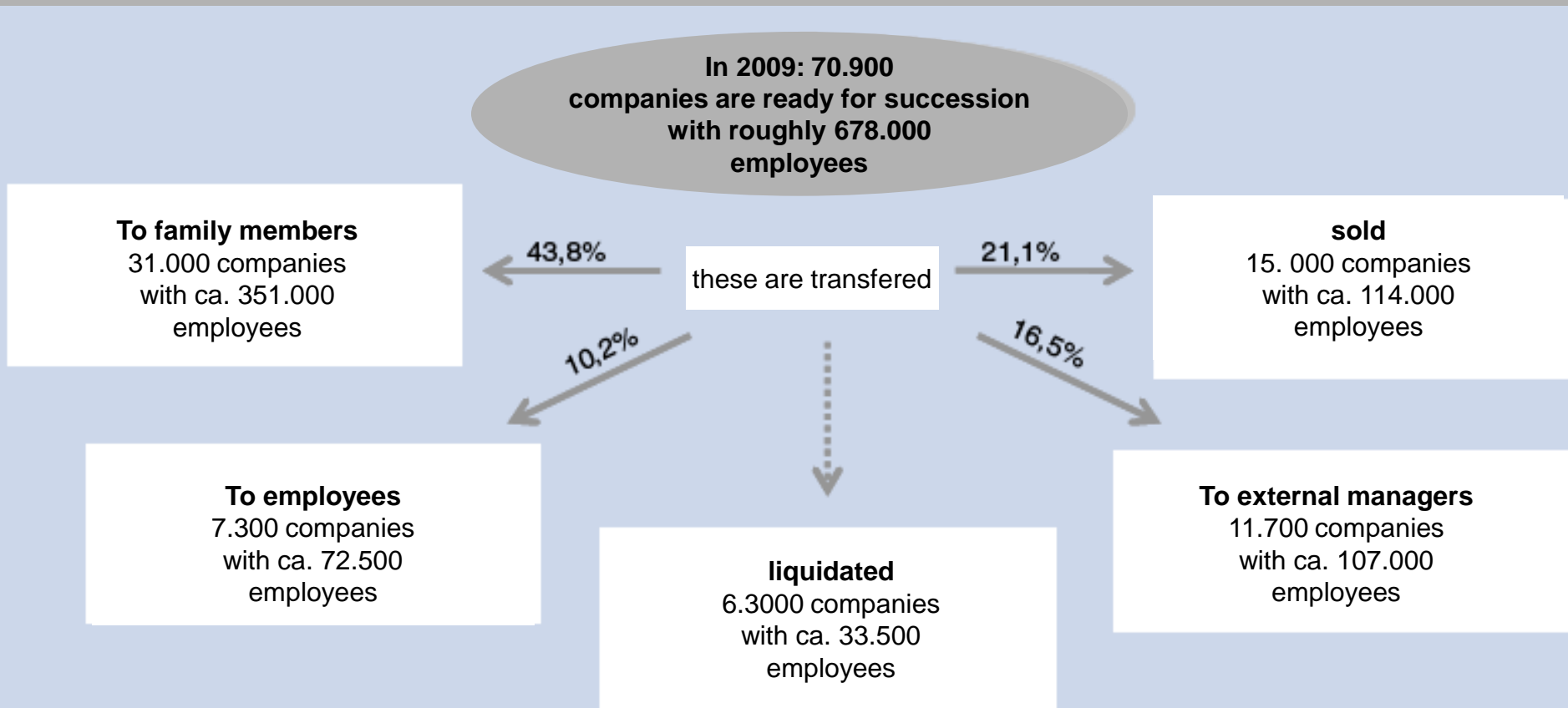
However, the number of self-employed with employees stayed more or less the same



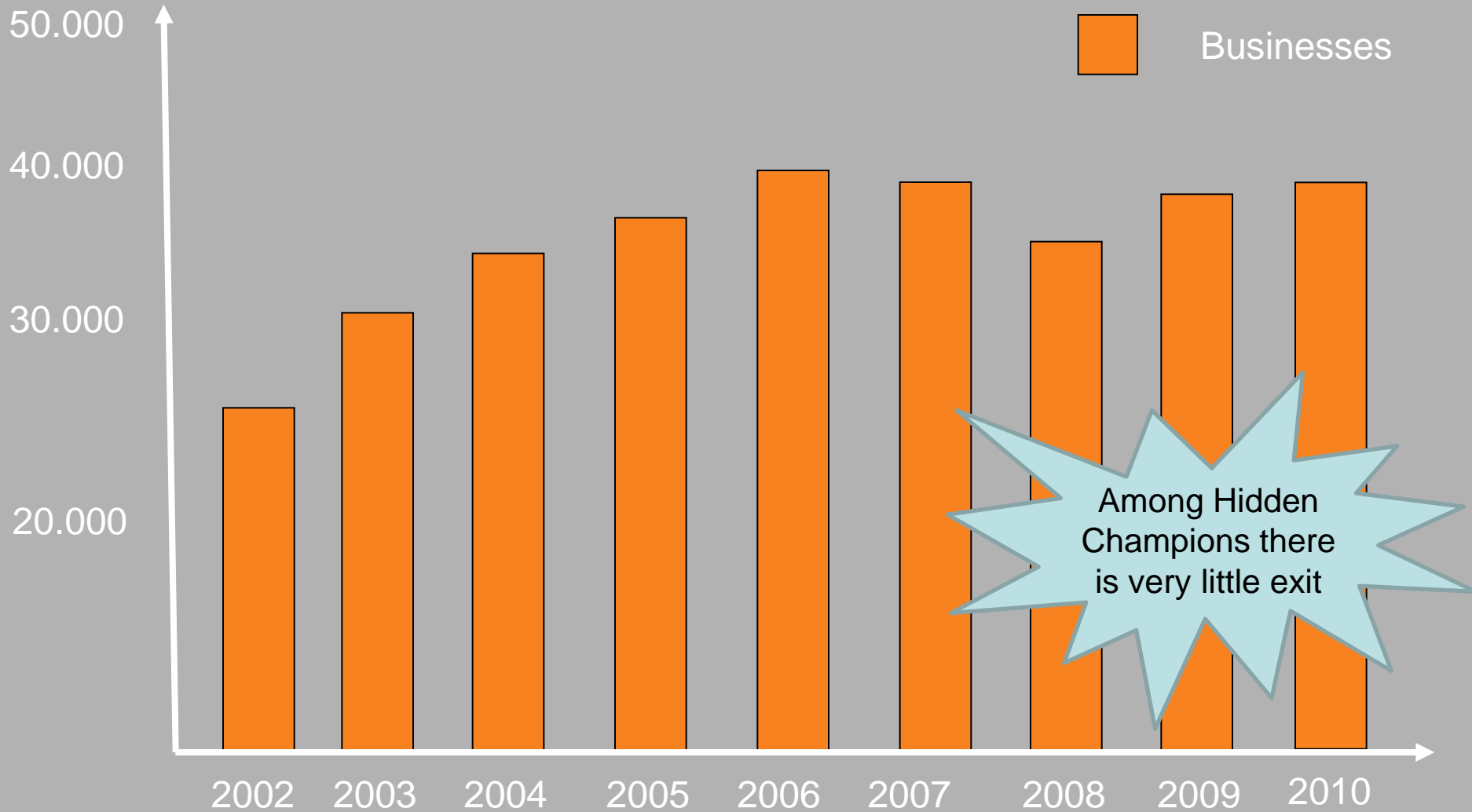
**Trend II.**  
**Changes within the population of  
Mittelstand corporations  
accelerate**



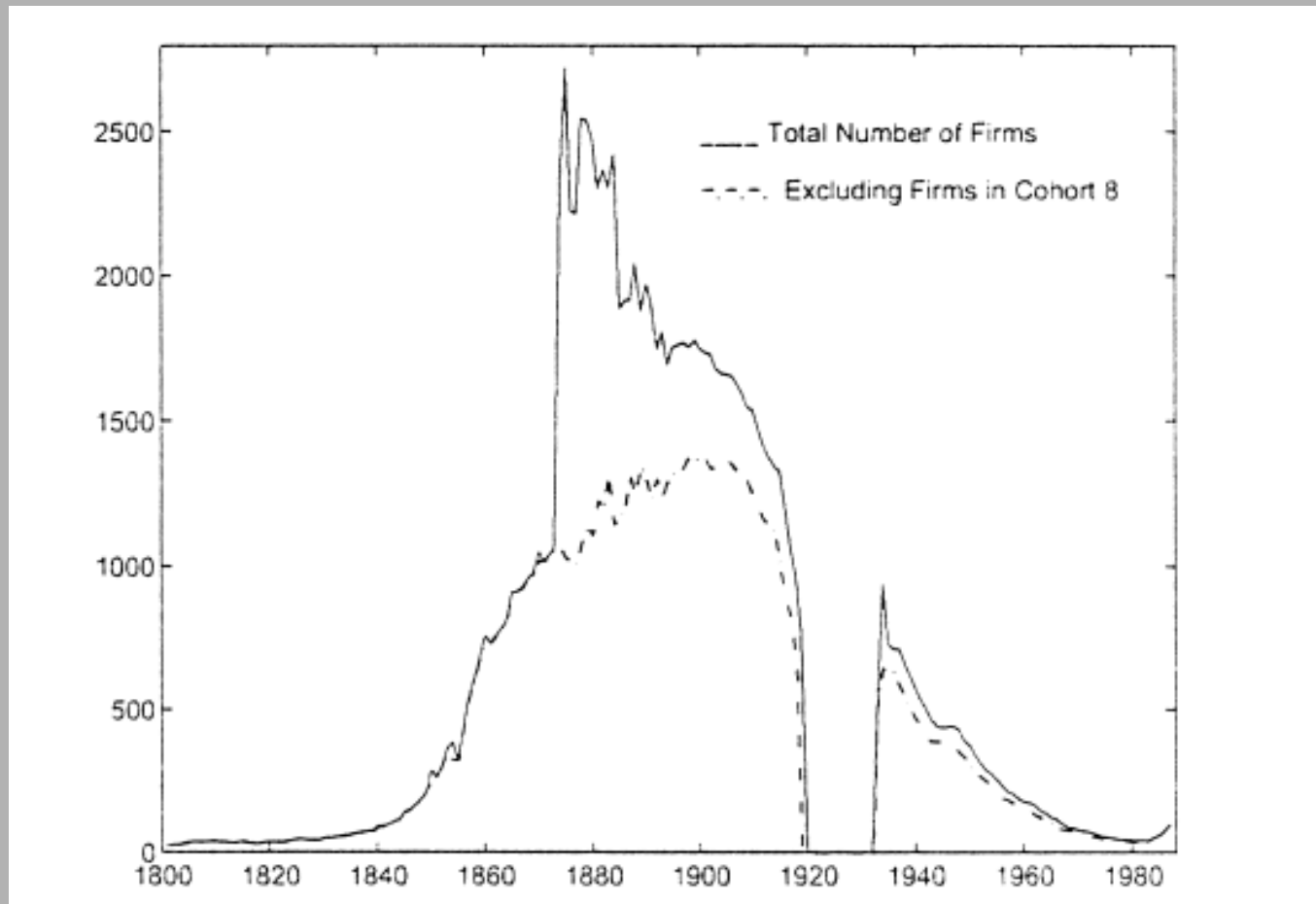
# The handing over of businesses becomes more and more important.



The number of business bankruptcies remains at a high level.



# The Mittelstand needs to understand: Industry structures change continuously – Example: American Beer Industry.



At the end of the industry life cycle there is typically a small number of large survivors and a limited number of niche players

FUCHS is strategically well positioned as we are the 9th largest lubricant company in the world\*

