



Business Destination Germany 2022

Focus topic: The German Mittelstand
Survey



The German “Mittelstand” – out of sight small and medium-sized global champions

Due to the innovative strength of small and medium-sized companies with up to 500 employees (SMEs), the term “German Mittelstand” is interpreted internationally as a promise of quality. The structure of the German economy is significantly shaped by this group of companies, which in number comprise around 99 percent of German companies and provide a good 60% of all jobs that are subject to social insurance. The medium-sized structure is an essential characteristic of Germany. Despite the strong anchoring of many medium-sized companies in their regions, many of them are intensely active in global markets. According to the DIHK, more than 50% of medium-sized companies are directly involved in international value chains.

The hallmark of German SMEs is the high density of market leaders, especially those in more rural regions or far away from German metropolises. In comparison, economic activity in centrally governed states – such as France or England – is essentially more concentrated in their capital. In a worldwide comparison, German SMEs have a disproportionately high number of so-called “hidden global champions” who are world economy market leaders in niches without being known to a wider audience. According to government estimates, Germany holds the top position in the world – ahead even of the United States – with 1,400 to 1,600 of these innovative companies. The Mittelstand structure is supported by state governments and fits in with their objective of maintaining and promoting the regional economy through specialized development agencies.

BioNTech from Mainz is a good example of such a hidden champion. Even before the pandemic, it was the global market leader in its niche due to its highly innovative products, although at the time only experts took notice of it. BioNTech’s goal was to develop a new method (Messenger-RNA) by which the mode of action of the active ingredient is based on the specific tumor characteristics of the patient in question. The artificially developed mRNA should inform the body’s own cells about the appearance of hostile cancer cells in order to produce its own antibodies as a weapon against them. Under pressure because of the Corona pandemic, BioNTech succeeded in transferring this method to the development of vaccines at breathtaking speed. The FAZ recently pointed out that the success, for which BioNTech in particular received media attention, was only possible thanks to an excellent, cross-company, informal network of German medium-sized companies. The development of the

enormous production capacities, as well as the tailor-made delivery of certain preliminary products – such as lipids – was the result of the rapid interlinking of production steps across company boundaries.³³ This example illustrates one element of the success of many German medium-sized companies: enormous flexibility and excellent networking – even across company lines – have made it possible to transfer existing know-how to combat new problems at high speed.

Of the 6,900 family-run companies that contacted the DIHK in 2020 to sell their business for reasons of age, less than half have found a potential successor. The Corona pandemic has exacerbated the problem, as the sale value of the companies was lessened in this phase and the problem with the search for a successor worsened as a consequence. Many senior bosses, therefore, apparently postponed decisions about handing over the company. This is shown by figures from the Chamber of Commerce: The number of consultations on corporate succession fell by 71% between March and October 2020 compared to the same period of the previous year. Every second IHK expects further declines in company succession in their region compared to the previous year.³⁴ To what extent this will actually lead directly to companies closing down is difficult to predict. Of the senior entrepreneurs who have sought advice since the beginning of the pandemic, at least 20–30 percent³⁵ are considering giving up their business in view of the problem of finding a successor at the right price.

The attractiveness of individual sectors for investors certainly varies. Even prior to the pandemic, brick-and-mortar retail and hotel and restaurant businesses were less in demand. Only 22 percent of potential company successors who were advised by the Chamber of Industry and Commerce stated an interest in the retail trade and only 14 percent the hotel and catering industry. Given the decline in sales during the pandemic, interest in companies in these industries is likely to continue to decline. Fortunately, industrial companies were at least on 45 percent of potential successors' wish lists in 2019. Corona is unlikely to have changed this, especially since when it comes to electromobility German medium-sized companies can be trusted to have a significant impact on the development of future-oriented technologies.

Even globally successful family businesses often have difficulties handing over their business from one generation to the next. Although the vast majority of these companies are aware that the succession cannot succeed without precise rules and planning, many seem to find it difficult to hand over their company to the next generation. Accordingly, foreign investors do have opportunities to fill this void and take over hidden champions.

“Major corporations around the world are increasingly looking for characteristics and values that are a long-standing part of the family business DNA: Long-term orientation, a sense of purpose and social responsibility are typical elements of purpose-driven family business leadership. But also family-run companies are increasingly challenged to strengthen these characteristics for their future business success. A growing awareness, especially, of the environmental impact of business, operations, products and services might require a more integrated strategic approach compared to the often more philanthropic traditional understanding of social responsibility.”



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³³ BioNTechs unbekannte Helfer, Frankfurter Allgemeine Zeitung, August 4, 2021

³⁴ DIHK-Report 2020

³⁵ The 20–30 percent refers to the survey results of 13 IHKs for which more detailed survey results are available.

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