



Mirroring Made in Germany

What German Business needs

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ABSTRACT

This article aims to give an overview of what German business needs in current times. By illustrating the Made in Germany label as a perceived image in sales, specific attributes are being evaluated to explain better the challenges German businesses are currently facing: Digitization, Education, Environment, and Quality & China.

Keywords: German business environment, sales, digitization, education, quality management

Introduction

Mirror, Mirror on the Wall: Is *Made in Germany* the best of them all? The country-of-origin effect label undoubtedly upholds a key factor in purchasing decisions and thus could translate to an increase or decrease in sales of the respective country just “As any company may become a brand, a country

may become a brand too” (Apetrei & Petrușca, 2010). This brand image can be considered a critical starting point in generating leads by driving product awareness, being impacted by specific advertisements or media mentions, and influencing the next funnel steps of the Marketing Funnel, as shown in the following figure:



Diagram 1: The Marketing Funnel (Staff, 2020)

Given the direct impact of branding within this system, it ultimately leads to the customers considering the purchase of the presented product connecting its attributes in either positive or negative perception, resulting in a successful sale or failure. Since a country can be perceived as a brand, this image may be reflected within the label such as *Made in Germany*. Therefore, it is necessary to evaluate German businesses and their label interconnection in current times to conclude its impact on sales.

In general, Germany’s economy is not based on commodities that sell for the lowest price (BMW, 2019) but on processed materials, which provide a unique value to the customer. Value Based Selling (VBS) is a crucial sales strategy based on understanding your customer’s needs and effectively communicating the personal value generated by the purchase (Eggert et al., 2012), and thus has the potential to thrive in the German environment. It can be argued that revenues and profits increase by focusing on



this value generation for the customer (Pelham, 2006). One might assume that German business stereotypes create a great brand image of the country, leading to a valuable perception and boost in sales. However, at first glance, there are less apparent challenges that German businesses currently experience. In the following, Germany’s business mirror image will be evaluated, and necessary action points will be addressed accordingly, concluding with a future outlook of potential developments.

The Digital Desert of Germany

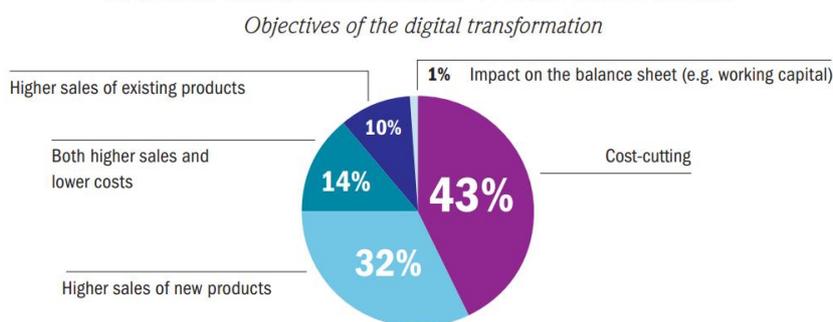
When looking in the mirror, German businesses' most visible lack – and therefore a threat to sales - would be their slow digital transformation. Thus far, the adoption of digitization within German businesses has been lagging and calls for urgent action to stay on track with the fast-evolving, worldwide economic changes. In recent studies, it has been estimated that a proper adaptation to the digital transformation within Germany can generate additional 425 billion € by 2025 (BDI, 2015). This digital boost is vital for SMEs (Small and Medium-sized Enterprises), contributing nearly half of the total economic output and providing almost 60 % of the total employment in Germany (BWMI, 2021).

Research has shown that German SMEs often need more resources to obtain know-how on proper digital business infrastructures and invest in new systems, technology, backend/frontend applications, and necessary training for employees (BMW, 2021). Furthermore, digitization is an operational necessity, enabling a company to scale in the modern age. An existing company should focus on digitizing its operation

procedures before formulating and developing a digital value proposition (Ross, 2017). The German government can be criticized since they demand digitization efforts from companies but lack digitizing their operational processes. This negatively impacts companies within its system regarding scalability and administrative processes.

A recent interview conducted with Prof. Dr. Jan Tesch, a specialist in developing modern and disruptive business models for the Bosch Group, revealed some major areas of weakness of German businesses the lack of digitization, its infrastructure, *and the inability to modernize the business model* respectively to its ever-changing business environment. Many SMEs are fear driven: fear of failing, fear of occurring too many expenses, or simply the fear of data security and the potential threats thereof. Ironically enough, the longer a business avoids change, the greater the long-term loss and anti-competitiveness increases. Germany cannot remain comfortable relying on its engineering competence, on products’ past successes, or simply continue to label current products as *Made in Germany* and hope for the betterment of the situation. Its businesses, especially SMEs, are on the edge of losing competitiveness due to the lack of digitization-related proactive activities in the past decades. Studies have shown that the continuation of innovation can be significantly improved by the level of digitalization of a business (Brynjolfsson and McElheran, 2016). Hence, the German government should emphasize digital transformation and take action to strengthen and support its SMEs. As seen in the central figure, there is still not enough focus in these regards.

MANY COMPANIES SEEM TO BE MISSING THE MAIN POINT OF THE DIGITAL TRANSFORMATION AND ARE FOCUSED ON COST-CUTTING



Source: Roland Berger, survey of 300 top managers in German industry

Diagram 2: Objectives of Digital Transformation (BDI, 2015)

Education-leading or lagging in Germany?

The next layer to Germany’s mirror image would be the evaluation of its education system which directly translates to how future business leaders are being positioned. According to a study conducted by *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)*, Germany’s strong economic position is a product of its education system and its focus on applied research, therefore it is vital to observe its trend over the years, and where it is heading (*Deutsche Gesellschaft für Internationale Zusammenarbeit, 2018*).

One of the most competitive advantages Germany has had over time is the country’s free and non-elitist university

system. However, the system has started to be perceived as rigid and outdated in recent years, and given Germany investing far less than some of its European counterparts in Education, 4.9% of GDP as opposed to 7.9% in Norway, for example, Germany’s challenge to meet the demands of the future in terms of innovation and digitization is gaining more momentum (Worldbank, 2017).

Also, in international comparison, a low portion of Germans hold a tertiary-level degree. However, this is still a higher percentage than in the past (BPP, 2021). The Bologna reform contributed to academization in Germany but at the same time led to the extinction of internationally highly regarded titles such as the German engineering diploma. Due to these and other



factors, the reputation of German education has been declining over the past 20 years.

Still, there is a silver lining. Current PISA studies show that in international comparison, education in Germany caught up in some areas. In the most recent study, German students scored significantly above the OECD average in all areas (reading, Maths, natural sciences). Being one of the main pillars of every society, education is one of the main drivers of businesses and needs to be prioritized in the German environment moving forward.

Germany's green footprint

Climate change has become the central issue of the century, explicitly impacting how businesses are managed.

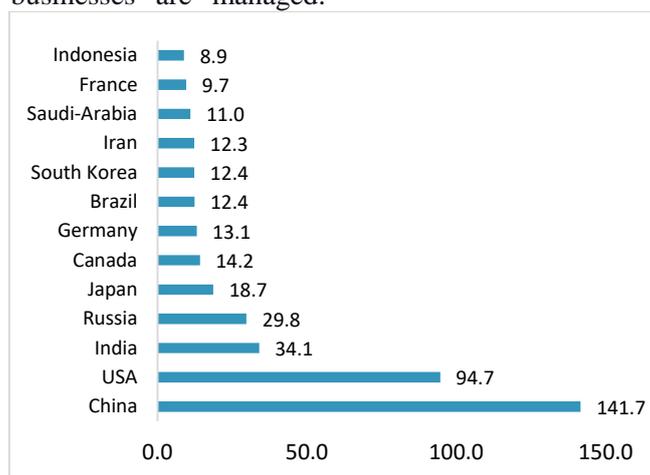


Table 1: International Comparison of Energy Consumption (Statista, 2020)

To better understand sustainability issues in Germany, an interview was conducted with Business Sustainability Consultant Marena Eirich. According to her, Germany is one of the more advanced nations concerning sustainable development. Nevertheless, the current energy mix has to be improved if reducing carbon emissions is the goal. How does Germany's current status of environment-saving measures affect its perception? Being a sustainable and environmentally friendly nation is constantly rising in importance and affects how other nations perceive a country.

Moreover, it will most likely affect the willingness to do business with a country in the foreseeable future. Therefore, despite Germany being one of the more advanced countries concerning sustainability, there is still much room for improvement if Germany wants to keep its current top-rank position. Usually, large firms come to mind when thinking about significant energy consumption. Surprisingly, SMEs account for 70% of global pollutants (OECD, 2018). In Germany, they represent 99% of all companies and 40% of the value added (Galeitzke, 2019). They have the potential to be the drivers of change when it comes to sustainable management. The truth is that business owners of SMEs face money, time, and know-how constraints when adapting a green strategy. Their biggest concern is that they cannot afford the costs of certifications compared to larger firms. By recognizing sustainability as an opportunity instead of a burden, small businesses could get more environmentally

friendly and thereby attract a growing demand of consumers willing to pay a higher price for products with a lower carbon footprint.

Germany has dramatically improved its sustainable development and overall share of renewable energy sources in its energy mix. In 2020, the overall share of renewable energy sources was 45%, which has more than doubled since 2007 (Sönnichsen, 2021). Nevertheless, Germany is consistently in the top ranks of countries with the highest energy consumption, and an increasing consumption prevents any immediate decrease in energy usage. Latter can be observed in the following graph, showing the countries with the highest energy consumption measured in exajoule. Germany is in seventh place and the only EU member country in the top ten.

China's Quality Issues-Germany's Advantage

A last look in the mirror shows that Germany is known for outstanding quality. When asked about the quality of German products, Managing Partner at Mey GmbH & Co. KG Florian Mey lays out his takeaways from 2020. Flexible production processes and regional supply chains allowed for a quick transition to mask production during the height of the pandemic, softening the blow of a global shutdown. Nevertheless, Mey has closely observed the developments in the industry. To him, quality and sustainability are rising while fast fashion is slowly moving into the background. Consumers expect products to be compatible with an environmentally conscious lifestyle, and the concept of regional production with short shipping routes plays into that. However, Mey's marketing campaigns in the past have shown that Made in Germany rarely influenced European customers in their buying decisions.

Nonetheless, he sees potential for the label in Asia. As of now, deeply rooted SMEs and engineering companies greatly benefit from China's rise. Massive machinery and industrial parts exports facilitated fruitful partnerships, especially for Germany's Mittelstand. However, due to the toll current natural- and human resource-intensive manufacturing practices take on a rapidly aging workforce and the fact that other Asian countries



can undercut China's rising wages, the Chinese government has set its sails to catch up to industrialized Countries in 10 key areas. Xi Jinping's "Made in China 2025" program seeks to put Chinese companies at the helm of technological progress in information technology, robotics, green energy and green vehicles, aerospace equipment, ocean engineering, railway equipment, power equipment, new materials, medicine and therapeutic devices, and agricultural machinery.

Consequently, it is no surprise that Germany's high-tech manufacturing heavy industry is highly exposed to China's aspirations. If successful, high-quality products made in China could reduce German exports to China and eat into German exports to other countries. To take matters into its own hands, Germany needs to implement Industrie 4.0 successfully, and Germany and the EU need to put clear limits to define the scope of cooperation.

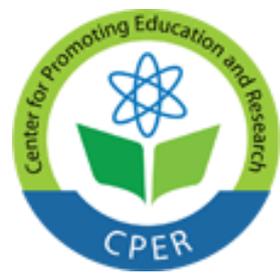
Conclusion & Future Outlook

Now, 'Mirror, Mirror on the Wall, what can Germany do to regain it all?' truly, there are several measures to be taken for German businesses to thrive in the future. As most problems do not have a simple solution, so does Germany face a complex path to betterment and improvement. However, this article has outlined the most critical challenges that, if overcome, can lead to a transformation of German businesses and a positive boost in growth and national sales. As previously discussed, these challenges are faced with Digitization, the Education System, Sustainable Development, and Product Quality. Regarding the future outlook of German businesses, there are various potential outcomes.

For Digitization, this path is relatively clear than foggy. The German government is urged to take impactful actions.

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