Helping the Mittelstand capitalise on trade opportunities

Germany's Mittelstand provides the backbone of its economy, yet with the international trade landscape undergoing significant change, the sector faces a number of challenges. Daniela Eder discusses the impact of globalisation and digitisation and how banks can help Mittelstand companies grasp the opportunities provided by the evolving trade landscape

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It is widely accepted that Germany's small- and medium-sized companies (SMEs), collectively known as the Mittelstand, are the driving force behind the world's fourth largest economy. Indeed, the Mittelstand makes up 99.6% of Germany's 3.7 million companies, accounts for 80% of its workforce[1] and represents over 50% of its economic output.[2]

The sector comprises an array of innovative businesses across a wide variety of industries, with many enjoying highly specialised, niche market leadership positions. Companies are primarily family-owned and while many are based in small communities, they have big visions and a global outlook, with a large proportion active in foreign markets and heavily export-focused.

Indeed, Mittelstand businesses account for 68% of German exports[3] and even on the smaller end of the scale (companies with turnovers of less than €10m) cross-border activity is prevalent, with a quarter of these companies exporting over 40% of their goods and services.[4]

With its extensive range of international companies, equipped with technical proficiency, expert knowledge and an established reputation for quality service and products, Germany's Mittelstand undoubtedly has a hugely successful economic model, and has subsequently long been viewed as a blueprint for sterling business strategy and practice.

The trading landscape is undergoing significant change however, and if the Mittelstand are to continue to flourish, they will require the right support to transact with proficiency as the market evolves.

Export uncertainty

Certainly, Germany owes a great deal of its success to the prowess of the innovative and globally ambitious Mittelstand. Yet with a great deal of German companies specialising in the production of distinct parts and machinery that help to make other goods (think drilling equipment, premium enamel wire, wood machinery, measuring tools for the auto sector, and steel face plates for machines, for instance), much of Germany's economic strength is reliant upon the strength of manufacturing sectors overseas.

The slowdown in China's growth is therefore of particular concern to Germany and the Mittelstand. Indeed, China is Germany's fourth-largest export destination, with China purchasing €71bn of German goods in 2015[5]. But as China cuts back on its purchasing of high-quality capital goods for use in manufacturing, as well as commodity goods,[6] there are fears that this could have a detrimental effect on thousands of Mittelstand exporters. Indeed, recent figures have shown that German exports to China as a whole decreased by 4.3% year-on-year from January to November 2015 – the biggest drop in over two decades[7].

A changing world

However, with global trade volumes predicted to nearly quadruple by 2030,[8] there are certainly opportunities to be leveraged. But success will rely on Mittelstand companies adapting to the evolving landscape.

There are two important factors that must be considered in this respect. First, globalisation is seeing emerging markets playing an increasingly important role in global trade. Second, innovation in the trading industry is occurring at a rapid rate. Technological advancements are bringing new trade processing capabilities to our fingertips, with real-time data access, enhanced visibility and traceability of documents and flows now regarded as the norm.

Certainly, digitisation is fuelling expectations for speed, efficiency and transparency across the trade sector, and the Mittelstand are obliged to meet such expectations.

Indeed, while the "made in Germany" label may stand companies in good stead in terms of quality, if they are unable to address all the requirements of the modern day customer, they may be at risk from competing firms that can.

Facilitating growth potential

For the Mittelstand to be positioned to thrive in the changing market and grasp the opportunities of globalisation to the full, they need to be able to maintain their exceptional levels of service in the evolving trade space in terms of new demands, and feel confident securing new opportunities in foreign markets. There is therefore significant demand on the local banks to provide the technology capabilities, as well as the support and guidance the Mittelstand need to leverage the full extent of the export opportunities on offer.

Germany's Sparkassen (savings banks) are key partners for the Mittelstand in this respect.
Yet, as local banks look to facilitate growing trade horizons and evolving demands, this can be easier said than done due to the substantial technological investment into new, flexible platforms required – a situation only exacerbated during this period of heightened regulatory requirements and associated cost pressures.

But there is a risk if local banks are unable to innovate and meet these changing needs, Germany's champion sector, the Mittelstand, could struggle to find the support it needs to confidently tap into new opportunities and new trading corridors.

Collaboration between local banks and specialist global trade services providers can be an ideal solution. Through these non-compete partnerships, local banks can leverage the cutting-edge, multi-currency platforms and international reach of global banks to help German SMEs thrive in this increasingly cross-border, and increasingly efficient world of trade. This can be achieved without the need for significant investment into product or platform development.

The benefits of local-global alliances extend far beyond those of technology. Indeed, local market expertise and access are also crucial for businesses undertaking trade in unfamiliar countries. For instance, the partnership between Helaba, the G25 (a group consisting of the 25 largest Sparkassen in Germany) and BNY Mellon, which was established in September 2014, is specifically designed to help generate new trade flows for Mittelstand companies with the Asia-Pacific region (APAC).

BNY Mellon uses its correspondent banking network to promote brands across APAC, with the aim of enabling German companies to drive export growth in these new and exciting markets (whilst Helaba and the Sparkassen route letters of credit from German importers via BNY Mellon's branch network).

The next stage of this initiative is to involve greater numbers of Sparkassen to allow more Mittelstand businesses to benefit. Certainly, such local-global alliances can offer end-clients efficient and reliable technological capabilities and a truly global reach, thereby catering to growing demand for emerging market connectivity.

The Mittelstand is a pillar of the German economy and a sector that must be supported as it looks to expand and capitalise on the international opportunities on offer. It is through such partnerships and the sharing of expertise and capabilities that banks will be able to help bolster the work of Mittelstand companies and drive their export growth, helping to ensure the Mittelstand's success story continues, regardless of the changing demands of the trade landscape.

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