

It's Fun To Be A US Company In Germany, Study Finds

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FRANKFURT — U.S. companies planning to invest in Germany now have an easy recipe for success.

Spend six to 12 months planning your market entry into Germany. Buy a German player to get a platform, rather than building your own infrastructure. Don't try to compete on price, but focus on innovation and service, aspects notoriously neglected by established German players.

And finally, don't try to become more German than the Germans themselves; it's better to keep a U.S. business culture when operating in Germany.

These are the main findings of a study conducted by the American Chamber of Commerce in Germany and U.S. consulting company Droege and Comp., Inc., released Wednesday.

"It pays if you care about profits and shareholder values, and you're bound for success if you are able to decide quickly and have a lean management structure," said Droege & Comp.'s Andreas Back, one of the authors of the study.

The study, which looked at the roughly 1,800 German subsidiaries of U.S. companies that offer some 800,000 jobs and generate around EUR540 billion in annual revenues in Germany, found that market activities of U.S. companies in Germany mainly focus on three major industries: the automotive sector, the oil, gas and energy sector and the high tech sector.

Among the biggest U.S. companies operating in Germany are Ford-Werke (G.FOR), the German arm of Ford Motor Co. (F), Adam Opel AG (G.ADO), the German subsidiary of General Motors Corp. (GM), and Exxon Mobil Corp.'s (XOM) German operation.

Some 35% of German subsidiaries of U.S. companies operate "very successfully" in Germany, the study found. The classification is based on generating at least 10% of the company's worldwide revenue in Germany, capturing a market share of more than 22% and achieving earnings before interest and taxes of more than 10.5% of sales.

"What we found is that most German subsidiaries of U.S. companies have an EBIT margin that is considerably higher than the margin of DAX companies, but still below their parent company's worldwide EBIT margin," said Droege & Comp.'s Back. "In sum, German subsidiaries of U.S. companies have a good penetration of the German market and are able to be highly profitable," Back said.

Study participants' average EBIT margin was 10.5% of revenues, almost twice as much as the 5.7% average for companies represented in Germany's blue-chip DAX index, Back said.

Almost half of the companies that operate “very successfully” in Germany started by acquiring a German business, just like the German operation of Motorola Inc. (MOT).

“We bought Robert Bosch GmbH’s (G.BOS) two-way radio system business in Germany, and that really got us started in that business as we suddenly possessed a small, but motivated workforce in Berlin,” said Norbert Quinkert, CEO of the German subsidiary of Motorola Inc.

And while almost 70% of U.S. companies planned their market entry very thoroughly, the majority of successful firms did so with a lead time of between six to 12 months, the study found.

Quality is a must, while concentrating on innovation and service tend to tip the scale in favor of U.S. companies when operating in Germany, Droege’s Back said. By contrast, “U.S. companies focusing on price as the most important differentiator are less successful,” he said.

Finally, keeping at least some of the traits of what is generally regarded as a U.S. business culture pays off as well. “While a German corporate culture is most prevalent, a more American business culture shows stronger correlation with success,” Back said.

There’s only one exception. While U.S.-style marketing and high levels of customer orientation serve you well in Germany, the salesforce should operate on the same cultural wavelength as its customers.

“Business success in Germany is the result of a typical U.S. business approach combined with a customer interface that has been adapted to the specific market requirements,” said Motorola’s Quinkert.

The conclusion for entry candidates into Germany? Carefully apply the “think global - act local” paradigm in Germany. “The U.S. business culture works well in Germany, and an overambitious local adaptation is even counterproductive,” said Droege’s Back.

But next to providing a recipe for business success in Germany, the study also showed that U.S.-German business ties aren’t hampered very much by political quarrels such as the Iraq crisis.

“U.S.-German business relations go very deep, were established a long time ago and are generally very good,” said Fred B. Irwin, president of the American Chamber of Commerce in Germany. “For us, it’s business as usual at the moment, and Iraq doesn’t play a major role in business relationships.”

Irwin said other factors like the relatively high corporate tax rates and the failure to enact necessary reforms for the jobs market weigh more heavily on U.S.-German business relationships.

Motorola’s Quinkert agreed. “It’s the business conditions that count more than political disagreements.” Quinkert said he noted some deterioration in sentiment toward an investment in Germany over the past few months.

He said the corporate tax reform originally planned for 2003 had been well received by

U.S. companies, and there was some disappointment when the reform was delayed by one year to finance the costs of the floods that hit Germany in August.

“In addition, all the back and forth on tax policy following the Sept. 22 elections didn’t help either,” Quinkert said.

And while U.S. investment into Germany has been a success story in the past - Irwin said direct investment of U.S. companies into Germany reached some EUR100 billion annually, it isn’t quite clear how it will develop in the future.

“For much of the new investment into Germany, sentiment is decisive, and the sentiment certainly has been better in the past,” Motorola’s Quinkert said.

“For us, that means we constantly have to remind our headquarters that despite all the negative news they hear from Germany, for us it’s fun to conduct business here, and to remind them that we earn good money over here.”