The German technology industry

Opportunities in a more open supply chain

Policy and trends
Facts and figures
The Netherlands as supplier
Changes in the value chain creating opportunities
Building a long-term relationship takes time
Colophon

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The Netherlands has been named the Partner Country for this year’s Hannover Messe, the world’s premier industrial trade fair. The Netherlands’ status as Partner Country gives Dutch companies an excellent opportunity jointly to showcase their knowledge and expertise. Various joint initiatives from the sector, supported also by the government, will be on show in Hannover.

The German technology industry continues to dominate in Europe. The combined turnover of the German electrical engineering, mechanical engineering and automotive sectors alone will be €800 billion this year. Germany is profiting greatly from rising demand in the fast-growing economies and has been focusing specifically on innovation for years. A current example of this are the efforts being made as part of Industrie 4.0, which heralds the next revolution in machines and production processes. Dutch businesses can and should seize these opportunities to connect more closely with Germany.

In this ‘Germany’ study, ING aims to highlight the importance of Germany for the Dutch technology industry, and also the importance of industry for the Dutch economy as a whole. We believe that the Dutch technology industry can double in size by 2030, provided that opportunities are capitalised on. Some of these opportunities present themselves in Germany.

ING adopts a sectoral approach. By specialising in the manufacturing industry, also at a regional level, our aim is to remain close to parties in the sector. This study has helped us to deepen our knowledge and enhanced our understanding of the sector, which will enable us to match our services as closely as possible to the needs of manufacturers.

This document is an initiative of ING, but could not have been written without the cooperation and input of a large number of companies and organisations in the sector. We would like to thank everyone who agreed to give interviews. Our special thanks go to FME-CWM, Metaalunie, NEVAT and Brainport Industries.

Roland Boekhout
CEO ING DiBa
Board Member, Dutch-German Chamber of Commerce
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Vision – opportunities on the doorstep

Germany: an enormous industrial sector on the doorstep
The German manufacturing sector generates added value of more than €500 billion. By comparison, the added value delivered by Dutch manufacturing is slightly less than €70 billion. The turnover of the German technology industry (electrical engineering, mechanical engineering and the automotive sector) alone will grow to over €900 billion during this decade. Specific developments such as the Energiewende and Industrie 4.0 offer targeted opportunities for Dutch SMEs. Dutch suppliers in the rubber, plastics and metal industries currently generate turnover of €6 billion in Germany. With a more intensive effort and sharper focus on German industry, a doubling of turnover in Germany in the coming ten years is feasible.

Most added value to be generated in specialist mechanical engineering
At the moment, the Netherlands focuses on the region of North Rhine-Westphalia, which accounts for no less than 45% of Dutch exports to Germany. The greatest opportunities for Dutch industrial suppliers lie in providing goods and services to the specialist mechanical engineering and electrical engineering companies. In these sectors, Dutch high-tech suppliers could deliver permanent added value, something that will be more difficult, although not impossible, in the automotive chain (where margins are traditionally very tight). The southern regions of Baden-Wurttemberg and Bavaria are dominant in the electrical and mechanical engineering sectors. Since distance is still an important factor in doing business, Hessen and North Rhine-Westphalia (which actually has a larger mechanical engineering sector than Bavaria) will continue to attract Dutch companies looking for opportunities for growth, especially smaller suppliers.

Trends are positive
There are plenty of opportunities in Germany, but seizing them is another matter. German industrial companies, especially in the electrical and mechanical engineering sectors, have a reputation for performing much of their own production. In addition, their suppliers are often “close to home”. Nevertheless, there is a trend towards outsourcing more work to suppliers, including foreign suppliers, which could benefit Dutch companies. The ratio of total purchases of products and services to turnover has risen from around 55% in 1995 to 60% now in the German mechanical engineering sector, and from 63% to 73% in the automotive sector.
Vision – seizing opportunities takes time

**Competition is intense**
The competition for business from German Original Equipment Manufacturers (OEMs) is intense. German companies that used to supply only components are moving up in the value chain and increasingly becoming module builders, and ultimately even system suppliers. This is the role with the greatest added value for a supplier and the position in the chain that a large proportion of Dutch suppliers aspire to. There is also heavy competition from other neighbouring countries in southern Germany. More than 40% of Swiss exports to Germany go to Baden-Württemberg, and Bavaria accounts for more than 40% of Austrian exports to Germany. Besides the shorter distances to southern Germany, these countries have the further advantage of being German-speaking. The ability to speak German is essential for conducting business successfully with the German tech industry.

**‘Dutch’ qualities can ultimately make the difference**
German companies place central importance on chain management in the process of outsourcing and reducing the number of suppliers. Key qualities for suppliers are: reliability, predictability, flexibility and efficiency. These are qualities in which Dutch manufacturing enterprises generally excel. In the Netherlands, the high-tech chain has developed strongly during recent years via the model of open innovation. For the most complex technological innovations this is a powerful model that can also benefit German enterprises. However, it is important first to work according to German wishes and requirements when doing business with German companies. Confidence grows after many years of cooperation, and it is then that the added value of particularly ‘Dutch’ qualities can be exploited.

**Scaling up of marketing is crucial for success**
To seize opportunities in Germany, ambitious entrepreneurs are required. However, public authorities, trade associations and business clusters have an important role to play in helping businesses to take the initial steps and increasing the Netherlands’ visibility in Germany, particularly in South Germany. Although positive moves are already being made in that direction, the policy needs to be intensified. For success in Germany, businesses must have a focused strategy and commitment. It will often take years of effort, including time and money, before they secure any business. It is essential for anyone wanting to do business with Germany to adopt German processes and follow German customs.
Introduction

Despite the euro crisis, the German economy is still performing relatively well, not least because of the strong industrial base that has existed in Germany for decades. German car makers and mechanical engineering firms are now taking full advantage of the growing prosperity in the emerging markets beyond Europe, and are additionally gaining market share in Europe. The Dutch technology industry, suppliers in the metal, rubber and plastics sectors and technical service providers are benefiting from this, but it is evident that the potential has yet to be fully utilised. German manufacturers are increasingly turning to the east, but also still to the country’s southern neighbours, to find their suppliers. Besides analysing this trend, this report looks in more depth at the structure and future of German manufacturing and the possibilities for Dutch industry to strengthen its position in Germany. Chapter 1 looks at the background to Germany’s and the German industry’s current success as well as several important developments, such as the Energiewende and Industrie 4.0.

Chapter 2 presents the structure of the German technology industry in figures. Chapter 3 discusses the Netherlands’ role as a supplier. Chapter 4 explores the changes that occur in the supply chain and the opportunities they offer, with the main focus on the German automotive industry and the mechanical and electrical engineering industries. The final chapter outlines some of the practical aspects of doing business in Germany and discusses ways in which the Netherlands could expand its role as supplier.
Policy and trends

- Germany – engine of the Euro zone
- Germany’s position unchallenged due to industry’s organisational and innovative strength
- Energiewende: ambitious targets
- ...offer opportunities for Dutch technology industry
- Industrie 4.0 to remain a world leader

Population: 80.5 million

Size of German economy: € 2,666 billion (21% of EU)

Share of manufacturing in German economy: 22% (Netherlands 13%)

Source: Statistisches Bundesamt, CBS, figures 2012
The German economy was badly affected by the financial and economic crisis and the standstill in the global economy at the end of 2008. Contrary to what many people had thought, however, the German economy recovered quickly, indeed more quickly than most other countries in the Euro zone. Fears that the German economy would again become the ‘sick man of Europe’ – as in the early years of the monetary union – proved illusory.

In the last few years the German economy has once again become the engine of growth for the Euro zone. The economy is currently reaping the rewards of the structural reforms in the labour and product markets and the improvements of the government finances that were carried out in the first decade of this century, but also of the reforms and restructuring by businesses and in industry.

Just over ten years ago there was still a lot of criticism of the German economic model. Economic growth still relied too much on heavy industry and the country was lagging behind in the areas of ICT and services, it was argued. The close ties between the government, the banks and the business sectors formed a major obstacle to foreign investment and further growth. Germany’s recipe for success in overcoming these problems was not a radical transformation of the economy, but a gradual adjustment. The most important elements of the reforms were to introduce greater flexibility in the labour market and in wage negotiations and restructuring in the business sector. German companies went through a period of debt reduction, wage moderation and outsourcing to Central and Eastern Europe. At the same time, companies and the government responded alertly to positive trends and the demand for German products in Asia, particularly China.

Thanks to the reforms, in recent years the German economy has been able to profit greatly from the demand for industrial goods in emerging countries, as well as from new government investments in developed countries like the United States. The wide diversification of the German export industry, both in terms of products and markets, is an important factor in the strong growth of recent years. With unemployment falling and domestic investment increasing, domestic demand is now also making a significant contribution to growth. Naturally, even Germany is not immune to the European debt crisis, but in structural terms Germany is well positioned to profit from growth in the world economy.
**Policy and trends**

**Germany’s position unchallenged due to industry’s organisational and innovative strength**

Germany will remain one of the world’s leading industrial countries in the coming years. Germany’s organisational and innovative strength and its industrial culture are major strengths and together ensure, among other things, that spending on R&D is relatively high (see table).

### German government policy: consistent support of industry

Although the companies themselves deserve most of the credit for the strength of German manufacturing, the German government also plays a role in strengthening the country’s position. The government’s official policy is to keep intervention to a minimum and to allow companies to grow by reducing the regulatory burden. ‘Planungssicherheit’ and ‘ein günstiges Innovationsklima’ are key terms in government policy.

The High-Tech Strategy 2020 describes Germany’s priorities in the field of technology during this decade. As part of that strategy, some sectors can be assisted with direct or indirect subsidies during the start-up phase. For SMEs, for example, there is the ‘Zentrales Innovationsprogramm Mittelstand’ (ZIM), which has provided more than €3.1 billion to promote technological development by the SME sector since mid-2008. A feature of German policy is that the budget for the programme has been increased annually during the economic crisis. The annual budget for the ZIM is now €500 million, compared with €300 million in 2008.

One of the central focal points of Germany’s High-Tech Strategy is energy. Germany leads the world in the transition to sustainable energy generation through its ‘Energiewende’.

### Investment and culture keep Germany at the top

Germany’s position unchallenged due to industry’s organisational and innovative strength

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**Focal points of Germany’s high-tech strategy**

- Health
- Mobility
- Climate / energy
- Safety
- Communication

Source: OECD
Energiewende: ambitious targets

Germany leading transition
Europe is abandoning the revenue model based on high energy consumption and low energy prices. Industry is facing a transition to greener and more energy-efficient products and processes. Germany leads the way in this transition, and has set the bar high with its Energiewende. Some important long-term goals (2050) are:
- 80-95% reduction in greenhouse gas emissions;
- 60% share of renewable sources of energy in energy generation;
- 50% increase in energy efficiency;
- a significant increase in R&D efforts targeted at these areas.

It is important that the Netherlands connects further to these initiatives. A more unified approach should lead to further integration of the energy markets, more effective integration of infrastructure and greater collaboration in the field of renewable energy and energy innovation.

Significant investments
This offers Dutch businesses excellent opportunities for growth in Germany, including in the following areas:
- offshore wind energy: There are new plans to install wind turbines along the coast of northern Germany. The Dutch offshore industry can capitalise on these opportunities;
- solar energy: Dutch companies that develop machines and technology for solar energy can benefit from the sustained demand in Germany, and other countries, for solar panels;
- energy-efficient machines: the energy-intensive German industry would reap benefits from investing in energy-efficient machines in terms of reduced greenhouse gas emissions and enhanced productivity. Dutch machine manufacturers and suppliers can capitalise on this;
- infrastructure: an increased share of renewable energy places new, high demands on energy infrastructure. Energy networks in Germany and the rest of Europe must be linked together and be modernised, and therefore demand considerable investments.
...offer opportunities for Dutch technology industry

Dutch energy know-how offers opportunities for growth in Germany

The investments that accompany the Energiewende offer opportunities for Dutch suppliers. Innovation is essential, and many companies in the Dutch technology industry offer this in abundance. Dutch companies that are successful in Germany deliver quality that stands comparison with the famed German quality, and in terms of creativity and sharing ideas with customers, the Dutch technology industry may even have an edge. As the technical aspects of renewable sources of energy are not yet fully developed, there are also opportunities in the area of ‘traditional’ energy. So long as the storage of wind and solar energy continues to pose a problem, investments in decentralised energy supply, such as combined heat and power, or cogeneration, will remain. The Netherlands has knowledge and experience in this field thanks to the investments in greenhouse farming sector.

Discom (Alblasserdam, The Netherlands)
Discom designs and manufactures exhaust systems. The energy market is one of Discom’s specialities, and Germany is an important sales market in this regard. Discom develops tailored systems for power stations, temporary and emergency power systems and CHP installations. Noise reduction, emission limitation and reuse of waste heat are the focal points in these efforts. The Energiewende offers opportunities for growth, mainly because the storage of wind and solar energy still poses particular problems. The investments being made in decentralised energy supply, in particular CHP installations, offer opportunities for growth for Dutch SMEs such as Discom.

HeatMatrix (Rotterdam, The Netherlands)
HeatMatrix is a young, innovative company that has developed a new plastic heat exchanger. The heat exchanger can be used for waste heat recovery and to increase the efficiency of industrial boilers, furnaces, biomass ovens, industrial dryers and spray dryers, among other things. Application of the new plastic heat exchanger can achieve energy savings of 3-6% for industrial boilers and savings of 20-25% are achievable for industrial dryers. Germany’s commitment to the Energiewende and its focus on energy efficiency have made it the principal export market for HeatMatrix.

HeatMatrix is one of the winners of the ‘Oranje Handelsmissie-fonds’, an initiative of SME Netherlands (MKB-Nederland), KLM and ING, which aims to support businesses in realising their international ambitions.
Industrie 4.0 to remain a world leader

German national programme Industrie 4.0 as a source of inspiration for the Netherlands A further significant development in Germany is the Industrie 4.0 programme. The fragmentation of customer needs and rapid globalisation are placing new demands on industry. In order to benefit from this and to be able to win the competitive battle with emerging industrial countries in the long term, it is essential that production be radically modernised. This prompted the German industry to launch the national programme Industrie 4.0 in which companies, knowledge institutions and public authorities combine forces and commit to generating the necessary R&D investments. This programme also provides handholds for Dutch industrial companies. And even more importantly, new sales opportunities in Germany.

Reinforcing German-Dutch ties at the Hannover Messe
Industrie 4.0 provides a vision of increased productivity thanks to ‘smart factories’ with intelligent, efficient ‘zero-defect’ processes and new production technologies. Large-scale digitisation and automation of the manufacturing industry can pave the way for a surge of innovation aimed at enabling smarter, more flexible production. These smart factories facilitate more efficient consumption of energy and raw materials and better interaction between manufacturer, chain partners and customers. The Hannover Messe, whose theme this year is Integrated Industry – NEXT STEPS, offers high-quality industrial businesses, including those who may not yet already be active in this field, an ideal opportunity to learn about the latest developments in this field and to forge new German-Dutch partnerships.

Step-by-step development
Industrie 4.0 represents a course to be worked towards step by step, with the aid of technological innovations. In recent years many companies have committed to implementing LEAN manufacturing, enabling production processes to be further automated and perfected.

Despite these enhancements, many good opportunities still exist for making the production process even more intelligent in terms of design. The use of sensors, algorithms and modelling of large amounts of data is enabling the first steps to be taken towards making machines self-learning and self-regulating. So in addition to hardware, the software component in production will also increase further as a result. Until such time as various machines are able to operate Entirely independently, this technology simplifies the process of allowing the operator to communicate more quickly and directly with plant parts. The main challenge in the coming years is to ensure that parties within the chain are willing to share these data with each other and that communication within the chain is further automated. The Netherlands traditionally has a relatively open way of working together, making it likely that these steps can and will be successfully taken in the Dutch industry, or internationally with the involvement of Dutch parties.

Initiatives in the Netherlands
The Netherlands boasts various initiatives that can be compared with Industrie 4.0. The north of the Netherlands plays an important role with the recently launched programme entitled ‘Northern Netherlands’: Region of Smart Factories’ formed by a consortium of large companies (Philips, Fokker, TenCate), SMEs, knowledge institutions (such as the University of Twente and the University of Groningen) and various public bodies. Brainport Industries is experimenting with sharing data in the production chain to make factories and production processes smarter. The survey that appeared in April 2014 conducted by TNO in collaboration with FME, the Ministry of Economic Affairs, VNO-NCW and the Chamber of Commerce underlines the clear importance assigned to the issue in the Netherlands also.
German technology industry: facts and figures

Chapter 2.

- More than 60% of German manufacturing concentrated in three federal states
- Technology industry dominates German manufacturing
- OEMs increasingly purchase from international suppliers
- German tech industry’s foothold in rapidly growing markets
- Tech industry concentrated in southern and western Germany
- Strong regions becoming stronger
German technology industry: facts and figures

More than 60% of German manufacturing concentrated in three federal states

The added value of German manufacturing was almost €530 billion in 2012, the majority being created in Bavaria and Baden-Württemberg, with North Rhine-Westphalia not far behind. In 2011, North Rhine-Westphalia was still the largest industrial region. Each of these three ‘Bundesländer’ has an industrial sector that is more than half the size of the entire sector in the Netherlands. The share of manufacturing in the German economy is almost 22%, compared with 13% in the Netherlands.

Source: Statistisches Bundesamt, CBS, ING Economics Department
Technology industry dominates German manufacturing

German technology industry: facts and figures

Technology industry dominates German manufacturing

Turnover of German tech industry has increased towards € 800 billion in 2013

German manufacturing is dominated by the tech industry. The automotive sector and the mechanical and electrical engineering industries together account for 44% of the turnover of German manufacturing. Including suppliers in the rubber, plastics and metals industries, the figure rises to 61%, and turnover of € 1,057 billion in 2012. In other words, it is an enormous industrial market right on the Netherlands’ doorstep.

Provided the European economy shows some recovery, the turnover of the mechanical engineering and automotive sectors can be expected to grow by 3% during 2014. The combined turnover of these sectors and the electrical engineering industry will come close to € 800 billion this year. In the coming years, Germany will continue to profit from demand in the rapidly emerging economies, despite a trend towards local-for-local production (in Asia, for Asia). Furthermore, there is a certain cachet to capital goods bearing the ‘Made in Germany’ label. The tech industry’s turnover will probably pass the € 900 billion mark in the course of this decade.

Source: Statistisches Bundesamt, ING Economics Department
OEMs increasingly purchase from international suppliers

**OEMs secure more than 60% of their turnover abroad, suppliers the same percentage in the domestic market**

The mechanical engineering and automotive sectors secure more than 60% of their turnover abroad. Suppliers in Germany also benefit indirectly from this. By contrast, the suppliers in the rubber, plastics and metal industries earn 60% to 70% of their turnover in Germany itself, from sales to the large automotive companies, electrical engineering companies and the numerous mechanical engineering firms.

A shift is occurring, however. German manufacturers are importing more and more of the products and services they need to generate their multibillion turnover (see graph). This shift is being driven by the rise of Asia as a production location and by the advancing European integration. That latter factor has also created scope for Dutch companies.

### Domestic and foreign sales of six technology sectors in 2012

- **Transport equipment industry**: 64% foreign sales, 36% domestic sales
- **Mechanical engineering**: 68% foreign sales, 32% domestic sales
- **Electrical engineering industry**: 49% foreign sales, 51% domestic sales
- **Metal working**: 62% foreign sales, 38% domestic sales
- **Base metals**: 61% foreign sales, 39% domestic sales
- **Rubber, plastics**: 62% foreign sales, 38% domestic sales

Source: Statistisches Bundesamt, ING Economics Department

### Imports / total procurement of goods & services, 1995-2011

- **Mechanical engineering**
- **Electrical engineering industry**
- **Transport equipment industry**
German tech industry’s foothold in rapidly growing markets

German tech industry’s export markets, 2012

Automotive

- Europe 59%
- Asia 17%
- N. and S. America 19%
- Other 5%

Mechanical engineering

- Europe 53%
- Asia 27%
- N. and S. America 15%
- Other 5%

Electrical engineering industry (2011)

- Europe 66%
- Asia 20%
- N. and S. America 12%
- Other 2%

Source: VDA, VDMA, ZVEI

More than 20% of German tech exports destined for Asian market

German tech industry’s economic strength lies in the strong mix of products and export markets. The automotive sector and mechanical and electrical engineering industries all export a relatively large share of their output to the fast-growing economies. For example, more than 20% of the exports go to Asia. Europe will remain the largest market and is performing relatively well. For example, the share increased in 2012, while exports to Asia came under pressure. So, it is mainly the diversity of export markets that is the force behind the German technology industry.
German technology industry: facts and figures

Tech industry concentrated in southern and western Germany

Type of manufacturing differs greatly from one state to another

The export-oriented OEMs are based mainly in the south of Germany. Baden-Württemberg has the largest mechanical engineering sector, while Bavaria is the largest state in terms of car production, although Lower Saxony/Bremen is an important region because of the presence of Volkswagen and Mercedes. North Rhine-Westphalia has historically been dominated by the metal industry, a trend that has been driven by the presence of raw materials in the Ruhr region.

The region nevertheless shows positive developments and it gained market share during 2012 in the electrical engineering sector, while the mechanical engineering sector remains larger than in Bavaria.

Within these industries, specific high-tech sectors, which offer prospects for the high-quality Dutch technology industry, are often clustered. OEMs in the medical technology sector, for example, tend to be clustered in Baden-Württemberg, around Stuttgart as well as to the south of that city, while the semiconductor industry is more heavily represented around Munich as well as in Saxony. (O)LED manufacturers tend to be located along a line stretching from Hessen to Baden-Württemberg.

Source: Statistisches Bundesamt, ING Economics Department

Turnover share by state of four manufacturing branches, 2012

Turnover share

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<td>Transport equipment</td>
<td>€ 393 billion</td>
<td>North Rhine-Westphalia 28%</td>
</tr>
<tr>
<td>industry</td>
<td></td>
<td>Baden-Württemberg 21%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bavaria 24%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rhineland Palatinate / Saarland 5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bremen / Lower Saxony 4%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hessen 5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Saxony 3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Thuringia 3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Berlin-Brandenburg 3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Saxony-Anhalt 3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Schleswig-Holstein / Hamburg 2%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mecklenburg-Western Pomerania 2%</td>
</tr>
</tbody>
</table>

1. Our thanks to the analysis conducted by BOM / Brainport Industries
Strong regions becoming stronger

Regional future perspectives

Greatest opportunities in South Germany, North Rhine-Westphalia more interesting for smaller suppliers

The significant (global) trend of strong regions growing faster than neighbouring regions also applies in Germany. In Germany, the future prospects are brightest for South Germany, but also for specific regions in Hessen, North Rhine-Westphalia and Lower Saxony. Focus sectors for future growth are in South Germany (control systems engineering, car making, mechanical engineering, biotech, ICT). From a high-tech perspective, and taking the factor of distance into account, particularly in northern Baden-Württemberg there is potential for growth for the Netherlands. Based on the relationship between Dutch exports and economic size, the region with the greatest potential is Bavaria. North Rhine-Westphalia will continue to be worthwhile, particularly for small Dutch companies seeking to expand in Germany.

Another important factor in relation to South Germany is that the head offices of many German OEMs are located in the region, so decisions on purchasing by business units in other parts of Germany are often made there.

Source: Prognos 2013, ING Economics Department
The Netherlands as supplier

- Focus in the Netherlands is on North Rhine-Westphalia
- Germany – the gateway to emerging markets
- Germany is Dutch industry’s major export market
- Germany is sourcing more and more technological products from Central and Eastern Europe
- Focus of car makers shifting from West to East
Focus in the Netherlands is on North Rhine-Westphalia

45% of Dutch exports to Germany go to North Rhine-Westphalia

North Rhine-Westphalia is the most popular market for the Netherlands, accounting for 45% of Dutch exports to Germany. Almost 40% of those exports consist of gas, oil products and cokes, driven in part by the steel industry in the Ruhr region.

Relatively small role for southern Germany

Slightly more than 20% of Dutch exports to Germany go to the economically thriving southern region (Baden-Württemberg/ Bavaria). Given the economic importance of this region, which represents almost a third of the German economy, Dutch companies are not fully exploiting the opportunities it offers.
Germany – the gateway to emerging markets

Indirect exports to regions, 2012

Opportunities for growth of indirect exports to emerging markets

The previous chapter highlighted German industry’s sharp focus on exports and its penetration of the world’s rapidly growing economies. Via this indirect channel, Dutch products are also reaching the emerging markets. Of the €52 billion in Dutch products that are exported to Germany, goods worth €2 billion and €1.5 billion ultimately find their way to emerging countries in Europe and Asia, respectively. For Dutch suppliers, the German technology industry serves as a gateway to the rapidly growing regions.

Source: ING Economics Department, Vrije Universiteit
Germany is Dutch industry’s major export market

Exports to Germany in 2012, by sector and Germany’s share in total exports

<table>
<thead>
<tr>
<th>Sector</th>
<th>1996 Value (€ billion)</th>
<th>1996 Share</th>
<th>2012 Value (€ billion)</th>
<th>2012 Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agrifood</td>
<td>7.8</td>
<td>30%</td>
<td>13.0</td>
<td>24%</td>
</tr>
<tr>
<td>Oil, fuels, gas</td>
<td>4.6</td>
<td>52%</td>
<td>15.0</td>
<td>26%</td>
</tr>
<tr>
<td>Chemical products</td>
<td>3.5</td>
<td>20%</td>
<td>9.0</td>
<td>18%</td>
</tr>
<tr>
<td>Rubber, plastic and metal</td>
<td>3.7</td>
<td>30%</td>
<td>6.0</td>
<td>22%</td>
</tr>
<tr>
<td>technology products</td>
<td>3.4</td>
<td>17%</td>
<td>6.5</td>
<td>14%</td>
</tr>
<tr>
<td>Other</td>
<td>2.4</td>
<td>25%</td>
<td>2.4</td>
<td>22%</td>
</tr>
<tr>
<td>Total Dutch product</td>
<td>25.4</td>
<td>27%</td>
<td>51.9</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: CBS, ING Economics Department, Vrije University

Germany has been Dutch industry’s leading market for decades

Germany has been Dutch industry’s most important market for decades. Exports of “Dutch product” amounted to almost € 52 billion in 2012. The agrifood and oil and gas industries (the latter grown by price increases) are the largest exporters, but exports by the chemical and tech industry (and suppliers) are also substantial.

Germany accounts for 27% of supply industry’s turnover

The significance of Germany’s tech industry is clear from Germany’s large share of exports (27%) by the rubber, plastics and metal industry. By contrast, Germany’s share of exports by the technology industry is actually small, because large OEMs like ASML, Philips and Vanderlande already secure a lot of their turnover in the emerging markets. Nonetheless, German manufacturing industry still offers plenty of opportunities for specialist mechanical engineering firms to increase their turnover, for example with sales of metalworking machines and in the field of automation.
Germany is sourcing more and more technological products from Central and Eastern Europe

Eastern Europe’s role has grown so far at the expense of Western Europe

During the past twenty years, Western European countries’ role in supplying goods and products to Germany has clearly weakened in favour of Eastern Europe. Imports of technological products from Asia have also grown more strongly. In recent years a further trend has become evident, and is expected to continue. While Eastern Europe is growing in importance, this is no longer at the expense of Western Europe, but rather of Asia. Production in Asia will increasingly be for its own region, while Eastern Europe is expected to remain a low-wage region for the foreseeable future, supplying many goods and services to the German technology industry in the coming years. Western Europe, including the Netherlands, will become established as a more high-quality supplier. With this in mind, the creeping trend of outsourcing (see page 33), coupled with the increasingly international purchasing policy of German industry (see page 17) offers opportunities.
Focus of car makers shifting from West to East

Share of European countries in German imports of car parts, 1996 and 2011

Five-fold increase in share of Poland, Czech Republic and Slovakia as suppliers to automotive industry
With European integration, Central and Eastern European countries have rapidly assumed a prominent role as suppliers to the German automotive sector. In 1996 Poland, the Czech Republic and Slovakia had a combined share of 6% in Germany’s imports of car parts. That share has risen to 32%. Wage cost differentials with Western Europe and those countries’ industrial culture have fostered the shift.

The Netherlands slipping slightly, the United Kingdom and France heavily
All of the relevant West European countries are losing market share in imports of car parts to Germany, but Great Britain and France stand out with their shares declining from 11% to 3% and 17% to 9%, respectively. The emergence of Central and Eastern Europe has also clearly damaged Austria’s competitive position (14% to 8%). The Netherlands’ share has dropped from 2.8% to 2.3%.

Source: UNCTAD, figures based on product group SITC 784
Chapter 4.

Changes in the value chain creating opportunities

- Different chain, different opportunities
- Outsourcing has proceeded furthest in automotive chain
- International competition between car manufacturers creating pressure on margins in the supply chain
- SMEs are the backbone of the mechanical and electrical engineering sectors
- Significant vertical integration in mechanical and electrical engineering sectors
- Gradual shift in the direction of the ‘automotive’ chain
- German suppliers of components moving up in the chain
- Clustering specialisms, perfecting internal processes
Changes in the value chain creating opportunities

**Different chain, different opportunities**

**Major differences between automotive and mechanical engineering/electrical engineering**

Apart from the enormous scale of the German tech industry, Dutch suppliers can also benefit from developments in the supply chain. Closer inspection of this dimension reveals that a distinction has to be made between the automotive chain, on the one hand, and the electrical and mechanical engineering industries, on the other. We will first evaluate the automotive sector, which has a relatively small number of large OEMs. These companies rely on various large tier-1 suppliers, which is part of the reason why procurement costs are relatively high in relation to turnover (69%). The wage cost component (15%) is relatively small because of the partial automation of the production and assembly process; the large production runs and the high level of outsourcing.

**Source:** Statistisches Bundesamt
Outsourcing has proceeded furthest in automotive chain

Increasingly intensive cooperation in automotive chain
Processes are distributed more widely through the automotive chain. ‘Early vendor involvement’, whereby producers consult suppliers in their planning at an early stage, is well established in the automotive chain. A steel company like Tata Steel, for example, will be involved in designing the body of a new model of car. Apart from Tata Steel, the Netherlands has a number of other tier-1 suppliers to the automotive industry, such as Brabant Alucast and Inalfa. Furthermore, the combination VDL/NedCar and BMW is proof that the Netherlands still plays a role in the automotive market.

For the Netherlands, growth in this segment is more likely to come from these companies increasing their turnover than from new companies entering the market as tier-1 suppliers, particularly because of the trend among car makers to concentrate on doing more business with fewer suppliers. At the same time, however, that trend will create more opportunities for Dutch tier-2 and tier-3 suppliers to profit from the growth in the German auto sector. For companies in the field of materials development, one of the trends to keep an eye on is the growing use of plastics in car production.
Changes in the value chain creating opportunities

International competition between car manufacturers creating pressure on margins in the supply chain

Production by suppliers, profit for auto manufacturers?
Although the turnover and potential growth in the automotive chain are attractive for Dutch companies, less appealing is the pressure on margins in the supply chain. The intensity of the international competition in the automotive market means that every car manufacturer needs a well-oiled chain behind it. The car makers are listed companies and increasing profits is therefore another aspect of the competition between them. Chain optimisation is a crucial factor in this, and price plays an important role. It is not unusual for suppliers to be required to reduce their prices.

Germany of great importance to Brinks Metaalbewerking:
Brinks Metaalbewerking produces components for various branches of industry. The company has a turnover of €22 million, generating 50% of it in the automotive chain. Brinks produces in batches ranging from 10,000 to 300,000 units and can do so efficiently thanks to extensive automation (including multi-spindle machining).

Germany is the company’s leading market, accounting for 60% of its turnover. Trade fairs (Hanover) have been an important initial point of contact with customers. In Brinks’ experience, practical aspects such as promptness and clean, orderly production sites can be decisive factors in the final decision of a potential German client. Existing business relations appreciate Brinks Metaal’s willingness to think about precisely what they need. Clients develop a product and the drawing, but Brinks reviews how it can be improved in terms of process management, choice of materials and associated risk of rejection.

The German market will remain important for Brinks in the coming years, although it is trying to reduce its dependency on the automotive market because of the severe pressure on margins in that chain.
SMEs are the backbone of the mechanical and electrical engineering sectors

Share of companies and turnover, by sector, according to size of company (employees), 2011

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>Electrical engineering</th>
<th>Mechanical engineering</th>
<th>Automotive</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Companies</td>
<td>Turnover</td>
<td>Companies</td>
</tr>
<tr>
<td>0 to 100</td>
<td>63% of the companies</td>
<td>12% of the turnover</td>
<td>64%</td>
</tr>
<tr>
<td>100 to 500</td>
<td>30%</td>
<td>30%</td>
<td>37%</td>
</tr>
<tr>
<td>more than 500</td>
<td>7%</td>
<td>7%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Opportunities in SME sector
On the following pages we look in more depth at the electrical engineering and mechanical engineering industries. The German ‘Mittelstand’, small and medium-sized companies, often family-owned, play an important role in these industries and together generate a large part of the sector’s turnover. We are talking here about medium-sized by German standards, since these companies can easily have a turnover of €1 or €2 billion. The combined turnover of companies with fewer than 500 employees in the two sectors will be close to €200 billion this year.

It is precisely this large group of family-run companies in Germany that seems to represent largely virgin territory for Dutch suppliers.
Significant vertical integration in mechanical and electrical engineering sectors

Supply chain German electrotechnical and mechanical engineering


Crisis and focus on R&D accelerate trend towards outsourcing
German mechanical engineering firms and (family-owned) businesses in the electrical engineering industry carry out a lot of activities themselves. Following established processes, German manufacturers build (niche) products that are market leaders around the world. In some mechanical engineering plants vast areas are devoted to machines for cutting sheets of steel to the precise dimensions required for their ultimate use in complex high-tech end products. Although the processes are efficient, this practice makes the companies vulnerable and inflexible. The crisis in 2009 made many German manufacturers aware of that threat and prompted them to engage in more strategic outsourcing. That represents an ideal opportunity for Dutch companies to strengthen their position as suppliers in Germany.
4 Changes in the value chain creating opportunities

Gradual shift in the direction of the ‘automotive’ chain

Outsourcing is increasing slowly but surely

The total volume of products and services purchased is rising steadily in relation to turnover, also in the mechanical and electrical engineering industries (see table). Slowly but surely, the mechanical and electrical engineering chain is transforming itself along the lines of the automotive chain. This process has progressed furthest among large mechanical and electrical engineering companies; the SME sector has only followed the trend to a limited extent up to now but even among companies in this sector the process will continue. The need for German manufacturers to focus on developing high-tech products and specialisation to remain ahead of China (and to survive) means that a larger share of their investment budget will be devoted to research and product development. Funds devoted to research cannot be invested in expansion or modernisation of production capacity, so the demand for production partners will grow.

Procurement of goods & services / total sales, 1995-2011

- Mechanical engineering
- Electrical engineering industry
- Transport equipment industry

Source: Statistisches Bundesamt
Changes in the value chain creating opportunities

German suppliers of components moving up in the chain

Märkisches Werk: a tier-2 supplier that is becoming a system supplier
Märkisches Werk (turnover approx. € 75 million) in Halver in Germany produces inlet and exhaust valves for engines, ranging from small valves with applications in motor sport (20 grammes) to very large valves for ocean tankers (2 metres, 350 kg.). Europe is its main market (55%), but the German-made products are also sold in the US (30%) and Asia (15%). One of the technological challenges it faces is to find new materials and coatings that can meet the different requirements arising from the growing use of alternative fuels (gas) and mixtures.

Märkisches Werk performs many parts of the production process itself. Nevertheless, the crisis in 2009 has prompted a change of course. To be able to offer customers a better proposition, Märkisches Werk has started focussing on cylinder-head systems and is slowly transforming itself from a supplier of components to a system supplier. In this way, engine builders will have to deal with fewer suppliers and can do business with a single specialist. This will create new possibilities for Dutch manufacturers of components to secure a role as supplier to Märkisches Werk. For Märkisches Werk, positive aspects of Dutch companies are their know-how and their willingness to provide input in the process of product development, an aspect in which German companies are by nature more conservative.

German suppliers are following the trend
The trend towards outsourcing is opening doors for suppliers, both of components and slowly but surely also of modules and systems. However, the changes occurring in the chain are also creating new competition from Germany itself. German companies that formerly produced components want to ascend the added-value ladder and evolve into module builders or system suppliers (see box). But that in turn will create opportunities for Dutch metal companies or companies in the rubber and plastics industry that can supply specific components to these companies.
4 Changes in the value chain creating opportunities

Clustering specialisms, perfecting internal processes

Bons & Evers: the benefits of one-stop shopping

Bons & Evers Holding in Borne (675 employees, group turnover of around € 175 million) consists of six companies. Two of the companies are established in the Netherlands: Bons & Evers Metaalperswerk in Borne, which specialises in hot forging of brass products, and LDM in Drunen, which was acquired on 1 June 2012 and produces brass and copper rods and billets. Two companies are based in Germany (semi-manufactures from brass and aluminium), one in France (semi-manufactures from copper) and one in Hungary (semi-manufactures from aluminium). The group secures around 40% of its turnover in the German market.

An important trend, particularly among clients in the automotive chain and the large customers in the electrical engineering segment, is for closer cooperation with chain partners in product development.

The trend towards using fewer suppliers also creates opportunities for Bons & Evers, whose business model allows the client to buy all its brass, aluminium and copper components from a single source (one-stop shopping). The automotive industry recognises the benefits of this model and is a frontrunner in taking advantage of it. Several manufacturers of electrical equipment have followed that example and save handling by purchasing copper and aluminium products as a package, for example. The sales processes are still separate (local sales people, separate contracts for each product group), but the growing demand from clients for one-stop shopping and a single sales contract can be met by further optimising the inter-company processes within the group.

Trend towards fewer suppliers will enhance prospects for companies with one-stop shopping for a wide range of products

Finally, there is the important, and within the technology industry widespread, trend among OEMs and tier-1 suppliers to rely on fewer suppliers. Although this can form an obstacle for new suppliers trying to enter the market, it also creates opportunities for companies that can provide a wide assortment of products, either independently or in partnership with other suppliers.

Many companies with a wide product assortment that they manufacture in different establishments still have separate marketing strategies for the individual products. The end customer has to deal with different sellers, receives invoices from different establishments and has to contact different people in the event of problems with deliveries. Component suppliers that are able to design their internal processes in such a way that the end customer has a single point of contact will benefit from the trend among end manufacturers to use fewer suppliers.

German manufacturers with worldwide operations regard a global presence as a major bonus in its suppliers

Companies with locations around the world are also in a favourable position. Global sourcing is a growing phenomenon among German industrial companies with production facilities on different continents. Although production and supply is organised regionally, procurement is centralised. This applies not only for large companies with a multibillion turnover, but also for companies with worldwide production locations and a turnover of, say, € 100 million. German OEMs also prefer their partners to have a global presence.
Building a long-term relationship takes time

- ‘Dutch’ characteristics are potentially a good match for demands of German technology industry
- Strategy and commitment are absolutely crucial
- Follow the German process
- Be ‘German’
- Support in achieving Dutch success in Germany
‘Dutch’ characteristics are potentially a good match for demands of German technology industry

“The flexibility of the Dutch is a good thing when it comes to technological aspects or responding to unexpected peaks in demand, but it is not so good when they deliver 90% and say “the rest will arrive next week”.

“For Germans, reliability means total reliability.”

Strengths of Dutch suppliers match the requirements of manufacturers...

Chain management is a priority for German companies in the process of outsourcing and reducing the number of suppliers. Key terms for suppliers are: reliability, predictability, flexibility and efficiency. On average, Dutch industrial companies rate highly on these factors, certainly in relation to East European and Asian competitors. For example, the level of automation, and consequently of productivity, is high in the Netherlands and the Netherlands possesses substantial technological know-how in various market segments. Germans certainly know how to appreciate technological know-how.

In the Netherlands, the high-tech chain has developed strongly during recent years via the model of ‘open innovation’. For the most complex technological innovations this is a powerful model that can also benefit German enterprises. Cooperation is essential in the efforts forming part of Industrie 4.0, and it is precisely here that Dutch businesses can play an important role.

However, it is important first to work according to German wishes and requirements when doing business with German companies. Confidence grows after many years of cooperation, and it is then that the added value of particularly ‘Dutch’ qualities can be exploited.

…but how to expand the customer base in Germany?

Further increasing Dutch sales in Germany will take a considerable effort, both by companies acting alone and through joint initiatives. For individual companies, it is very important to remain conscious of differences in culture and practices. New joint initiatives (by trade associations, the government and the business sector) are needed to raise the visibility of the Dutch supply industry in Germany.

German companies about Dutch suppliers

“Know-how is outstanding.”

“They are more inclined to think out-of-the-box. That is not so common in Germany.”

“Agreed delivery deadlines are not always met.”

“Many potential suppliers in Germany actively approach us, we hear little from the Netherlands.”

“Building a long-term relationship takes time”
Building a long-term relationship takes time

**Strategy and commitment are absolutely crucial**

“Success in the German market is impossible without a strategy and a long-term commitment.”

“I made the initial contact with at least 40% of my German customers at a trade fair.”

“The turnover that Dutch companies expect to secure in Germany can generally be divided by two and the time it will take multiplied by two.”

**Export success calls for strategic focus and commitment**

Essential requirements for doing business successfully in Germany is to have a well thought-out strategy, focus and the willingness and ability to invest the necessary time, money and energy in the new market over a period of years.

**Trade fairs and conferences remain important for taking the first steps**

Trade fairs are still important events for establishing contact with potential customers in Germany. Germany hosts many major trade fairs for specific branches of manufacturing industry. The EMO in Hanover is a major event, but the Landesmesse Stuttgart and Messe Berlin are also important. Conferences and trade missions organised by Dutch government bodies (agencies, a consulate or the embassy), the German-Dutch Chamber of Commerce or consultants like Gateway to Germany can also provide valuable assistance in making initial introductions.

**No fixed formula for success**

Some companies choose to take matters into their own hands and conquer the German market independently. There have been some successes, but it takes time. Other companies choose the path of hiring a German seller or agent. A seller/agent who knows the market well and already has the necessary contacts is a very valuable asset. When it comes to marketing, however, there is no fixed formula for success.

Forming a German ‘GmbH’ can ultimately have its advantages: the company is closer to the customer and having a production site in Germany can sometimes help a company to gain a better understanding of the end customer and the problems facing German industry, for example in the area of regulation or industrial relations. Nevertheless, it is certainly possible for companies to have success supplying from the Netherlands.
Building a long-term relationship takes time

Follow the German process

**German process is sacrosanct**
The key business processes are sacrosanct to Germans. The procurement process also follows established lines and a Dutch company will have to adhere rigidly to them. The decision-makers will generally not be in attendance at an initial meeting, although that may not be apparent. The point is to disregard that and concentrate on giving a good presentation. The most important aspects in that context are to be prompt, to be well groomed and to address the technical aspects of your product or service. There will be more of such meetings before you finally meet a person with the authority to make a decision, but even then it may not actually generate business. The magic word is persistence, but in practice that is the point on which many Dutch companies fall short.

**German companies take their time**
Despite the many capabilities of the Dutch tech industry, German manufacturers, which naturally have enormous capabilities themselves, are not necessarily eager for everything that the Netherlands has to offer. First of all, Dutch suppliers have to clearly understand where their potential clients stand, for example in the process of purchasing and outsourcing. German companies refer to outsourcing of ‘Baugruppen’, but for Germans this does not always mean the same thing as what the Dutch refer to as ‘systems’. The simple fact is that German companies are cautious about outsourcing and often start by assigning relatively straightforward work. For Dutch companies that want to enter the German market, however, that work will often represent the first step in a relationship that they can then build on. Once a German OEM trusts its supplier, it will eventually ask it to do more, both in terms of volume and complexity, and companies will also become more intensively involved in the development phase. As already mentioned, the trend is positive: more work is being outsourced, also to other countries, and the relationship between customer and supplier is becoming closer.

**Semecs Group (Uden, the Netherlands)**
The Semecs Group operates on the EMS market, a global market for the design, testing, manufacture and distribution of electronics and electronic applications. Design and testing programmes of and for the products are developed and conducted in the Netherlands. Production takes place in a state-of-the-art factory in Slovakia. Customers are to be found in various industrial sectors and the medical and automotive sectors, among other areas. Consequently, Germany is a very important market for Semecs and accounts for more than half of all the group’s sales. The group’s success in Germany can be explained by its long-term commitment to maintaining an office in Heidelberg employing people with German as their mother tongue (and also speaking local dialects). While sales skills are important, technical expertise and knowledge are just as significant. Semecs has been able to establish a position in Germany by fully meeting its customers’ specifications and by committing 100% to complying with extensive procedures, which can appear cumbersome to the Dutch mind. The company is now involved as early as in the engineering phase by OEMs and first tier suppliers. This is always subject, however, to the set of rules and procedures drawn up by the German partners.
Building a long-term relationship takes time

**Be ‘German’**

A contract is a contract, and that is taken literally

Address people formally, use titles

Prepare for meetings in detail, be punctual and do not go beyond the agreed time

Place emphasis on technical aspects

Spruce yourself up

Know who you are talking to (don’t comment if it is not a decision-maker)

Remain conscious of the organisation’s hierarchy

Keep work and private strictly separate

Invest in contacts, including good personal grooming

Germans love their own region

Tidiness in production location is greatly appreciated by visiting (purchasing) director

Mention references, certificates, prizes won

**ING**
5 Building a long-term relationship takes time

Support in achieving Dutch success in Germany

Public and private organisations on hand to help Dutch companies achieve success in Germany

There are various organisations that provide support for companies considering a move into Germany, and above all those wanting to look beyond North Rhine-Westphalia. Public agencies that provide valuable assistance are Netherlands Enterprise Agency and, in particular, the Dutch network of diplomatic missions in Germany, including the embassy in Berlin, the consulates in Munich and Dusseldorf and the Netherlands Business Support Offices in Frankfurt, Hamburg, Leipzig and Stuttgart. In addition to carrying out business partner scans and identifying market opportunities for business, ‘Holland branding’ is an increasingly important aspect of the missions’ role. South Germany is one of the regions they focus on and, as already mentioned, this is the region where the greatest opportunities lie and where the Netherlands should have larger market share. Apart from the diplomatic network, the German-Dutch Chamber of Commerce provide various forms of support, including advice on legal issues. There are also some private organisations that can provide advice to companies planning to expand in Germany, such as Gateway to Germany, a consultancy firm that also organises trade missions and so-called ‘Zuliefertreffen’.

Continuity necessary for strengthening the Netherlands’ position

Trade associations and consortia such as Brainport Industries also play an important role in increasing the exposure of Dutch industrial companies in Germany. A good example is its prominent presence at the Hanover Messe (April 2012 and 2014). Continuity is a crucial element of this, especially in Germany. It will take years even for government efforts targeted at South Germany to really bear fruit.
Tremendous opportunities, effort required
The enormous and successful technology industry in Germany obviously offers opportunities for Dutch suppliers. Grasping these opportunities depends, first and foremost, on the ambition, commitment and vision of businesses themselves. But it is also important for trade associations and public authorities to scale up their activities in order to raise the Netherlands’ profile as an industrial country.

Strong position as supplier to Germany impossible without a strong industrial base
Industry’s ties with Germany can only be strengthened if the industrial base in the Netherlands is sustained. The biggest challenges in preserving the strength of Dutch industry were outlined in the 2011 report ‘My Industry 2030: Holland’s going to make it’. Attention to addressing the four challenges that were identified - the supply of first-rate staff, the level of investment in and return on R&D activities, increasing the flexibility of business operations and the availability of raw materials - must continue unabated.
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FME-CWM
HeatMatrix
Metaalunie
Metaalunie
NEVAT
Solid Semecs
Solid Semecs
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Johan Spijksma
Patrick Walison
Marco Oomen
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Theo Koster
Marcellus Ros
Jan-Frederik Kalee
prof.dr.ir. Ton van den Boogaard
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