

Market Germany – a Business Guide

add2biz has prepared this document to help the smaller firm in its research and subsequent penetration of the German market.

This should not be regarded as an exhaustive list of *dos* and *don'ts*, but should nevertheless provide executives with some practical tips about winning business in this demanding market.



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Background to Germany

History

At the end of the Second World War Germany was divided up between the Allied Powers into four occupation zones. France, UK and the USA controlled the three western zones, and the former Soviet Union the eastern zone. Out of this the two new German states were to emerge – the Federal Republic of Germany and the German Democratic Republic, more frequently referred to as West and East Germany respectively.

For the next 45 years Germany remained divided and the two superpowers confronted one another along this new border between the two new countries. Whereas West Germany prospered and became the economic powerhouse of Europe, East Germany lagged behind. With the fall of the Berlin wall in November 1989 and the end of the Cold War the two countries united on 3 October 1990.

Berlin immediately became the capital of the reunified Germany, although the government remained in Bonn until 1999. Historians refer to the period since 1990 as the Berlin Republic.

Geography

Germany is situated in the heart of Europe surrounded by nine countries: to the west lie the three BeNeLux countries and France; Denmark in the north; Austria and Switzerland in the south; and the Czech Republic and Poland to the east.

Germany covers an area of approximately 357,000 km² (133,744 square miles). The northern region comprises a low coastal plain, with the central and southern regions being more mountainous and covered by forest.

The river Rhine, which extends some 865km inside Germany, is navigable and used widely for freight traffic. Duisburg, in the Ruhr area of Germany, has Europe's largest inland port.

Political Structure

Germany is a federal republic composed of sixteen states or *Länder*. The Federal government shares constitutional powers with the *Länder* and this is known as the *Grundgesetz* (basic law). If Germans are asked what makes them proud about their country, they will most likely cite this legal constitution.

The Federal government takes charge of foreign and defence policy, environmental protection and has primary responsibility for public finances and the economy. The *Länder*, which elect their own parliaments, are responsible for education, healthcare and the police.

Germany is the largest contributor to the budget of the European Union (providing 27%) and third largest contributor to the United Nations (providing 8%).

Regionalism

Do not make the mistake of treating Germany as one market! Throughout the country there are differences in lifestyle and temperament. Whereas there remains an east-west division even after 26 years of unification, there is also a north-south rivalry with the northerners labelling the southerners lazy and the southerners considering the northerners to be dull.

Although Germany's capital city is Berlin, this is not the centre of commerce and other regions maintain their importance. Frankfurt is, of course, the financial capital. As a result of this decentralisation Germany has acquired excellent transport networks and it is relatively easy to get about.

The names of the sixteen *Länder* are listed below in descending order of population size.

Federal state (<i>Land</i>)	Capital (<i>Hauptstadt</i>)	Population (millions)	Area (km ²)
North Rhine-Westphalia	Düsseldorf	18.1	34,043
Bavaria	Munich	12.4	70,549
Baden-Württemberg	Stuttgart	10.7	35,752
Lower Saxony	Hanover	8.0	47,618
Hesse	Wiesbaden	6.1	21,115
Saxony	Dresden	4.3	18,416
Rhineland-Palatinate	Mainz	4.1	19,847
Berlin	Berlin	3.4	892
Schleswig-Holstein	Kiel	2.8	15,763
Brandenburg	Potsdam	2.6	29,477
Saxony-Anhalt	Magdeburg	2.5	20,445
Thuringia	Erfurt	2.2	16,172
Hamburg	Hamburg	1.7	755
Mecklenburg-West Pomerania	Schwerin	1.7	23,174
Saarland	Saarbrücken	1.1	2,569
Bremen	Bremen	0,7	404
TOTAL		82.4	356,991

Economy and Trade

Germany is the largest economy in Europe and the fourth largest in the world after the USA, China and Japan, and has a GDP of US\$ 3.46 trillion.

In 2014, Germany recorded the highest trade surplus in the world, US\$ 285 billion, making it the largest capital exporter globally. With US\$ 1.28 trillion Germany was the world's largest exporter of goods and services in the same year.

70% of Germany's GDP comes from the service sector, 29.1% from industry and 0.9% from agriculture.

Industry

Whereas large German companies such as BASF, BMW, Daimler, Siemens and Volkswagen are known the world over, it is the *Mittelstand* or medium-sized companies, often family-owned, which form the backbone of German industry.

There is a much closer relationship between the banks and industry. With industrial shareholding often under the control of the banks they wield enormous influence in the boardroom. For this reason it may be more difficult to enter the German market via acquisition.

German industry covers numerous sectors, some of which are listed below:

Aerospace

The German aerospace industry is the third largest in Europe after the UK and France. The sector specialises in structures, cabin systems, engines and maintenance, repair and operations (MRO) and has grown by an average of 8% per year since the mid-1990s. With sales of EUR 4.6bn 15% of is reinvested in research and development.

Agriculture

With 285,000 businesses Germany is the second largest producer in the EU. Turnover in 2013 amounted to EUR 7.55bn.

Automotive

Germany is home to 41 automobile assembly and engine production plants with a capacity of over one third of total automobile production in Europe. In 2015 the sector generated sales of EUR 404bn and invested EUR 20.6bn in R&D in Germany alone.

Chemicals

Germany has the largest chemicals sector in Europe and the fourth largest worldwide. The sector turns over EUR 201bn and expends EUR 9.6bn in R&D. The sector comprises 3,750 companies, 96% of which are SMEs, and employs 434,000 people.

Germany accounts for 35% of Europe's production of plastics generating. The sector's 6,940 companies generate revenues of EUR 90bn and employ 375,000 staff.

Consumer goods

The sector turns over EUR 400bn, of which EUR 33bn worth of goods were purchased online in 2013. E-commerce is on the rise.

Creative industries

In the games sector annual growth over the next four years is expected to exceed 10%.

Electronics & microtechnology

The sector turned over EUR 178bn in 2015, of which EUR 87bn originated in the domestic market. In the same year the industry invested EUR 15.5bn in R&D.

Energy

Germany effectively invented the renewable (largely wind and solar/photovoltaic) energy sector. In addition to producing energy Germany also focuses on energy efficiency and storage.

Environment

Combining raw material efficiency, recycling and sustainable water technologies the sector has revenues of EUR 118bn and employs 390,000 people.

Healthcare

With sales of EUR 315bn Germany is the largest market in Europe and third largest worldwide after the USA and Japan. Germany has also 900 biotechnology companies.

ICT

Germany is the largest market in Europe and fourth largest worldwide with sales of EUR 150bn.

Business Structures

There are various forms of business organisations in Germany. The most common are those with *AG* and *GmbH* after their names, which loosely correlate to the British *PLC* and *Ltd.* respectively.

In addition to these, however, there are other forms of business organisation, which the exporter may come across. These include the general commercial partnership (*Offene Handelsgesellschaft*) and the limited commercial partnership (*Kommanditgesellschaft*), together with variations such as the *GmbH & Co. KG*, which is a limited partnership with a company as a general partner.

The *Unternehmergeellschaft*, often referred to as a *Mini-GmbH* or *1-Euro GmbH*, does not require share capital of EUR 25,000. The *UG* has gained popularity with business start-ups and has largely displaced the legal form of the British limited company.

The Product

Design

Germans are very discriminating buyers and expect the best. It is not enough to provide a “me too” product. Exporters who do not devote sufficient attention to design will pay heavily. The Germans value design highly and are prepared to pay for it.

Is your product design suitable for the German market?

Technical Standards

The CE marking is required to demonstrate that the product conforms to the essential requirements of the applicable EU directives. By affixing the CE marking to a product, a manufacturer declares that the product meets all the legal requirements for CE marking and can be sold throughout the European Economic Area (EEA).



Germans often like to see that products have been tested by TÜV and the “geprüfte Sicherheit” stamp placed on products. The addition of such German testing stamps would appear to be more for marketing purposes and to assure Germans that the products are actually of the desired quality.



Whereas compliance is mandatory, testing is not. But as the Germans say: trust is good; control is better.

Can you comply with different technical standards?

Packaging

Obviously there are design implications and exporters should address packaging from this standpoint. All details must be in German and include, according to the product, a list of constituents and the manufacturer’s address. On foodstuffs “best before” (*mindestens haltbar bis*) dates are mandatory.

Packaging, however, extends beyond aesthetics. For environmental protection purposes manufacturers should seek to reduce unnecessary packaging and ensure that what is used may be recycled.

Have you addressed packaging requirements?

Researching the Market

There are numerous sources of free information to help build up a picture of the German market in general and your industrial sector specifically.

Foreign trade agencies wishing to support their countries' exports to Germany often publish market research reports and highlight the opportunities. Exporters may wish to check the website of the [US Commercial Service in Germany](#) for details.

Other sources include the various German trade associations which often publish reports on the state of the industry and its member companies. For a list check www.verbaende.com.

Other websites to peruse may be found towards the end of this document.

When compiling your report you need to break the data down into the following categories about the market:

- Size
- Structure
- Share
- Development
- Customers
- Competition

Existing customers, especially those within a multi-national group, may well be able to offer advice.

Also check with your suppliers to see how their business is going and if they have any indications about other markets.

Employees in your company may well have worked or lived in Germany before and possibly speak the language. They may not necessarily be in your sales & marketing department.

Also consult business colleagues, members of local export associations, public sector support for international trade as well as your bank. They may not know your specific sector, but they may be able to offer advice on the German market.



Marketing in Germany

If you do not demonstrate commitment and are not prepared to provide the highest quality, the keenest price and the necessary (pre-sales) service, you will unlikely make inroads into this demanding market. For those prepared to do their homework, the market offers great opportunities.

To be successful in Germany you have to present something different, and ideally innovative. Germany is not a market for your excess production. There is a plethora of competitors and you have to find the niche market for your offering.

Communication

It is certainly true that many well-educated Germans speak good English. Whether they wish to work in English, especially if your competitor can conduct business in German, is another matter.

Initially you should make the effort to write in German. This may cost a little more time and money, but this is the start of building what will hopefully be a long-term and profitable relationship. Often as not your German counterpart will quickly move to English, but you have shown courtesy and respect.

Even if you cannot speak German and need to hire a translator/interpreter (arrange in advance via your country's embassy or consulate), it pays dividends if you take the time to learn a few phrases in the language before you visit.

Even if your counterpart speaks good English, reserve the telephone for emergencies. Send an email instead and avoid any misunderstandings caused by a bad line and a strong accent.

Can you correspond in German?

Trade Fairs

Germany invented the trade fair, and today almost two-thirds of the world's major shows still take place here. Most large German cities will host a trade fair sometime during the year.

Do not see these shows as being just German. In many cases they are the European, if not the world, events which just happen to take place in Germany. View the shows as opportunities for meeting clients from wider geographies.

Not only do they afford an opportunity to see the competition and what is on offer, you will likely meet potential customers and sales intermediaries at the event.

A trade fair often provides an opportunity to visit the market for the first time.

Check the website of [AUMA](#) for details of German trade shows.

Later on you may wish to exhibit your own products at a trade fair in Germany. This will be viewed by German clients that you are taking the market seriously. The cost may be prohibitive for the smaller firm and it may be prudent to join forces with your trade association or chamber of commerce organising stands for its members.

Pricing

Your research should also attempt to determine the market price for your product. Obtaining this information, especially for industrial products, is not always easy. Do not simply convert your home currency price into euros.

Having a high price may rule out success; and so may a low price, as the German buyer may associate this with lower quality.

Are your prices competitive?

Proposals

Unless the enquiry specifies certain terms and conditions, you will be advised to quote in euros inclusive of delivery charges. Send a quotation in your domestic currency on an ex-works basis and you may have already lost, even if the price may be competitive.

Have you decided upon the method of payment?

Have you arranged to cover for foreign exchange risk?

Have you obtained a credit rating on your customer?

Check with the international office of your bank for advice on foreign exchange and payment methods. Providing you give them sufficient time your bank should also be able to arrange credit ratings for your clients.

Have you calculated the cost of shipping the goods?

Names of reputable freight forwarding companies may be obtained from local export association or support organisation.

Have you arranged insurance?

Unless you are shipping frequently and in large quantities your forwarder may obtain better quotes.

If quoting payment terms other than documentary letter of credit, you may wish to arrange credit insurance.

You would be well advised to submit a proposal rather than just a quotation. Your prospective German customer wants to know about your experiences with other clients and ability to fulfil the order. Even if your prices are competitive, the customer needs to be convinced that the total costs will be equally attractive.

The Ten Commandments

Thou shalt:

- 1) Be committed – not just involved
- 2) Plan properly
- 3) Avoid ambiguity
- 4) Be punctual, prepared and patient
- 5) Maintain frequent contact – no armchair exporters
- 6) Allocate appropriate resources
- 7) Support thy intermediaries
- 8) Demonstrate pre-sales service
- 9) Think customer, partner and relationship
- 10) Convince the customer that thou should be entrusted with the business

Market Entry

The smaller exporter is strongly advised to tackle just one or perhaps two regions of the country at the beginning. If errors are made, they may be corrected before moving to other parts of the country.

Germany is not for the faint-hearted. The exporter needs to adopt a medium-term strategy for this market.

Are you prepared to allocate the necessary resources?

Although selling direct to German customers is certainly permissible from abroad it is hardly ideal, unless you have very few customers and are prepared to spend a great deal of time in the market place developing the accounts.

The vast majority of companies trading in Germany use commercial agents to handle their business. Indeed, it is reported that around two-thirds of all trade in Germany is undertaken via agents.

Owing to the regional nature and highly decentralised structure in Germany it is uncommon to find one agent capable of handling the whole country. Depending upon the industry and geographic dispersion of the customer base, between four to seven agents may be required to cover the entire country effectively.

Some agents may collaborate to form an association of mutual interest (*Interessengemeinschaft*) to handle the whole country. The advantage of this arrangement is that the exporter only has to deal with one agent who subcontracts the work.

German agents tend to be professional and can be left, for the most part, to their own devices. Nevertheless, it is strongly recommended that the principal visit his customers with his agent on a regular basis. This demonstrates that you are committed and wish to support.

Instead of agents which take a commission on the sale, another route to market is via distributors. Here the intermediary buys the product, takes ownership and resells in his own name.

Finding the Agent

Various bodies can help you find agents and distributors. The overseas German chamber of commerce is one source; and your own country's commercial staff based in the embassy and consulates in Germany may also offer assistance. There are an estimated 70,000 commission agents in Germany.

You should also ask the customers themselves, when you meet, whom they recommend. The customers will certainly be buying complementary products and could well suggest names of agents.

Another source is the [CDH](#), the German agents' trade association. They have approximately 20,000 members and are perhaps more suited for finding those handling consumer products. For capital goods the agents are more likely to be members of their industrial trade associations.

Another possibility is [Handelsvertreter.de](#).

The EU also has an online portal for introducing potential business partners. Details may be found [here](#).

Finding distributors is somewhat easier as they are often registered companies and there are several online databases for this purpose (see Sources of Information towards the end of this document).

Have you obtained lists of possible intermediaries?

German Agency Law

Finding a commission agent willing to accept anything but German law in the contract is very rare; and an agent prepared to accept a foreign law is probably not much use.

The German law favours the agent. As the agent is not party to the contract, i.e. he accepts a commission on the sale of the product, he is not on his own right (unlike a distributor) and his continued income is based on working for the principal.

The key point lies in the event of the termination of the agreement. If the agent has built up goodwill for the principal and future sales can be attributed to the agent's efforts, then the agent is entitled to compensation for loss of income. This payment to the agent can amount to one year's commission based upon the average of the last five years or life of the agreement, if shorter.

Before recruiting commission agents in Germany you should make yourself fully aware of the legal position.

Recruiting an Agent

As it is becoming more difficult to hire and fire commission agents, think carefully before signing an agreement.

Ideally work on an unofficial basis for the first six months. A German agent may be prepared to do this, but may demand a retainer, in addition to sales commissions, during this period to ensure commitment from the principal.

When choosing an agent there are several factors you need to consider. You need to determine which principals he already represents. If too few, it may be that suppliers have decided against employing him. It may be that the firm/individual is relatively new and hungry, which could well offset any lack of experience.

Are there any potential conflicts?

Can you obtain references from these principals?

Is there a degree of specialisation?

You need to determine which other products and suppliers he is handling. Even if he is not promoting competitive products, you will still be competing with the other principals for the agent's time.

Does he know the main customers in his region?

Do they know him?

How large is his territory?

Beware the agent who claims to cover the entire country. Realistically an agent would cover a couple of federal states or perhaps neighbouring postcodes (see postcode map of Germany at the end of this document).

Does he have the resources to do the job effectively?

Can he confirm information you have already obtained?

Does he speak English?

For some this may be the most important factor. If the agent, however, is an expert in his field and can open the doors to prospective clients, then a way may be found to overcome this disadvantage. That said, even if you speak perfect German, it may be necessary for someone else in your company to communicate with the agent from time to time.

The Agreement

Eventually you will enter into a formal agreement with your agent. Here are some issues which need to be addressed.

How long is the agreement to be valid?

Assuming you have already worked on an unofficial basis for, say, six months you may propose a formal agreement for twelve months. If you have not worked together, then the agent will most

likely counter by saying that it takes to establish relationships and develop sales in the market and ask you for a longer contract to demonstrate commitment on your part.

Does the agreement grant the agent exclusivity?

How you view this will depend upon how thoroughly the agent can cover the territory and develop the business. It may transpire that you already have business with some large clients in the territory and are prepared to handle them directly. Then you must specify that these clients are to be excluded.

What is the size of the territory and the product range?

What is the size of the commission and when will it be paid?

Your agent will obviously want shorter accounting periods to improve his cash flow.

Will the agent carry consignment stocks?

How much promotion and technical support will you provide?

This is where you can demonstrate your commitment both to the agent and the market by visiting customers together.

Will you meet the costs of training the agent in your product technology?

How will costs associated with after-sales servicing be covered?

This will depend upon the product, but your agent will not want the expense of going back and forth to customers.

Will orders be placed with the agent directly and without the involvement of the principal?

Or will the customer send the original documents to you with only copies to the agent?

Cultural Differences

If one had to summarise the differences in two sentences it would be thus:

**In the Germanic culture everything is forbidden, except that which is permitted.
In the Anglo-Saxon culture everything is permitted, except that which is forbidden.**

The following is just a guide. For every rule there is an exception and the visitor to Germany will come across alternative ways of doing things. Being different does not equate with being wrong, and a foreigner, as you will be in this country, would be well advised to remember the rule about when in Rome...

Punctuality

The Germans are sticklers for punctuality. Rather than arrive early and sit at the reception, Germans would prefer to drive around for a few minutes and arrive on the dot.

If visiting larger companies and for the first time, make certain you arrive at the right entrance. Do not fill in all the paperwork only to find out you should be elsewhere.

Attire

At meetings you should avoid removing your jackets, unless it is an extremely hot day and your hosts are dressed similarly. The image in the Anglo-Saxon culture of rolling up one's sleeves shows someone getting down to work. The opposite would be true for the Germans who could well consider this to be relaxing.

Formality

The use of first names in business is still uncommon in Germany. When speaking English some, especially younger, Germans may try to adapt to your culture. But if you are speaking to senior management, be formal and use the person's correct title *Herr* or *Frau*, followed by *Doktor* if appropriate, and surname. If speaking in German, use the *Sie* form at all times.

The hierarchical structure is highly respected in the Germanic culture. Read the person's business card and look for titles. Unlike in the Anglo-Saxon culture where academic qualifications are often placed after one's name, the Germans put their academic titles in front of their names. A popular German first name is not *Dipl.*!

Business meetings tend to be formal and you will probably find yourself in discussions with groups of managers. Germans often keep matters close to their chests, and a good sign that they

are interested in a deal is their persistence. They will not continue a meeting any longer than is necessary.

Status

The engineer, especially in an engineering company, will have a far higher status than the marketing or financial specialist and will tend to advance faster up the corporate ladder. If you have a scientific or technical qualification you would do well to let the Germans know about it. You will be respected far more.

Humour

In Germany, humour is not a laughing matter. The Germans can certainly enjoy a good joke or see the funny side just as much as anyone else. In the office, however, they tend to be more serious and do not feel comfortable being frivolous about, what they consider to be, important matters. Irony can often be misunderstood.

Germans tend to compartmentalise their lives with humour reserved for out of work hours. Whereas the Anglo-Saxon may feel that a joke breaks the ice and puts everyone at ease, the opposite may be the case with the Germans, who may be slightly embarrassed. As we learn about their culture, however, they do the same with others. A degree of humour even during tough negotiations is appreciated – but do not go too far!

Entertainment

Being taken out for business lunch is not expected by the German buyer – at least not at the outset. Most companies will have their own canteens – and generally of a high standard – to which you may very well find yourself invited.

Later on you may well entertain a client in a restaurant. Whereas credit cards and paying with plastic are becoming the norm, settling the bill in cash will not raise eyebrows.

Planning the Trip

Before addressing the logistics of the trip think carefully about what realistically may be achieved. Build in the odd half-day to allow for the unexpected. Amateurism is not admired; so prepare for the meetings.

As well as the traditional holidays such as Easter, Christmas and New Year, Germans have many other public holidays. Also there are regional differences throughout the country and the visitor should check that there are no local holidays.

Holiday	Date	Location
Epiphany	6 January	Baden-Württemberg, Bavaria & Saxony-Anhalt
Labour day	1 May	National
Ascension Day	5 May	National
Whitsuntide	16 May	National
Assumption Day	15 August	Bavaria & Saarland
German Unity Day	3 October	National
Reformation Day	31 October	Eastern federal states
All Saints' Day	1 November	Baden-Württemberg, Bavaria, NRW, Rhineland-Palatinate & Saarland
Penance Day	16 November	Saxony

Although personnel in German companies do not go on holiday all at the same time, many of them may wish to be present at meetings, thereby making it difficult to arrange appointments. July-August is for this reason not the best time to visit.

Are there any public holidays during your proposed visit?

Is there an appropriate trade fair to attend?

Are trade missions available?

Appointments may be made from 8am onwards, but try and avoid Friday afternoons. Many German companies, especially those in the south, stop work at lunchtime on Fridays.

Have you arranged to visit your local embassy or consulate?

This is advisable, especially for your first trip, as the local staff can help enormously.

Have you confirmed all appointments in writing?

Appendices

Useful websites

Information source	Website
add2biz	www.add2biz.com
Air Berlin	www.airberlin.com
American Chamber of Commerce in Germany	www.amcham.de
British Chamber of Commerce in Germany	www.bccg.de
Bundesanzeiger	www.bundesanzeiger.de
CE marking	http://ec.europa.eu/growth/single-market/ce-marking/index_en.htm
Company register	www.unternehmensregister.de
Deutsche Bahn	www.bahn.de
Die Welt	www.welt.de
Euromonitor	www.euromonitor.com/germany
Europages	www.europages.de
Federal Statistics Office	www.destatis.de
Focus	www.focus.de
German agents' trade association	http://en.cdh.de
German airports	www.german-airports.de
German export database	www.deutsche-exportdatenbank.de
Germany Trade & Invest	www.gtai.de
Handelsblatt	www.handelsblatt.com
Kompass	www.kompass.com
Lufthansa	www.lufthansa.com
Spiegel	www.spiegel.de
Techniksuchmaschine	www.techniksuchmaschine.de
Trade associations	www.verbaende.com
Trade journals	www.fachzeitschriften-portal.de
Trade shows	www.auma.de
TÜV Rheinland	www.tuv.com
UKTI Germany	www.gov.uk/government/world/organisations/uk-trade-investment-germany
US Commercial Service in Germany	www.export.gov/germany
Wer liefert was	www.wlw.de
Wer zu wem	www.wer-zu-wem.de

Postcode Map of Germany

