

# America – The Weak Spot of German Exports.

## Why Germany needs The Transatlantic Trade and Investment Partnership

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**N**egotiations with the US concerning the free trade agreement TTIP have entered into a hot phase. Supporters and opponents put forth their positions aggressively. But hardly anyone considers or is aware of how weak the German position in trade with the US actually is. Isn't Germany the super exporter? A look at total German exports indeed suggests this. In the decade 2004 to 2013, Germany is ahead of the US and second only to China. Even more impressive is a comparison of per-capita exports with other big countries (figure 1).

German exports are far ahead of other large European countries, let alone Japan or the US.

A look at target markets, however, shows a totally different situation. 57 percent of German exports continue to go to the European Union. This has not much changed in the past ten years. An analysis of exports to individual countries in terms of per capita exports of these countries' population and as a percentage of their gross domestic products reveals striking differences — and important insights (figure 2).

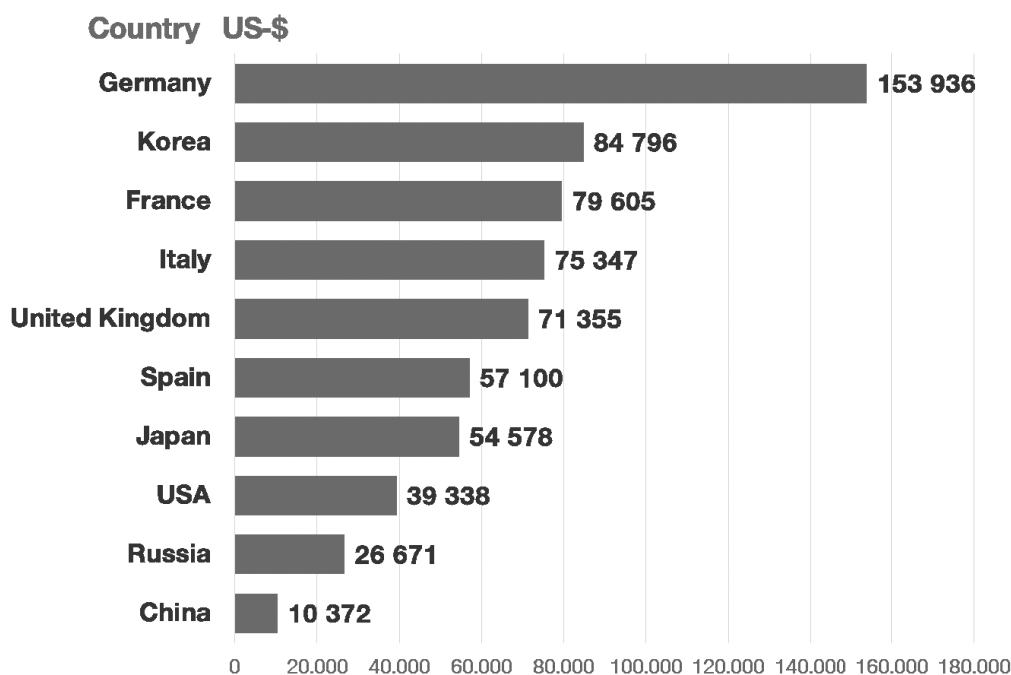


Figure 1: Per capita exports 2004–2013 in US-dollars

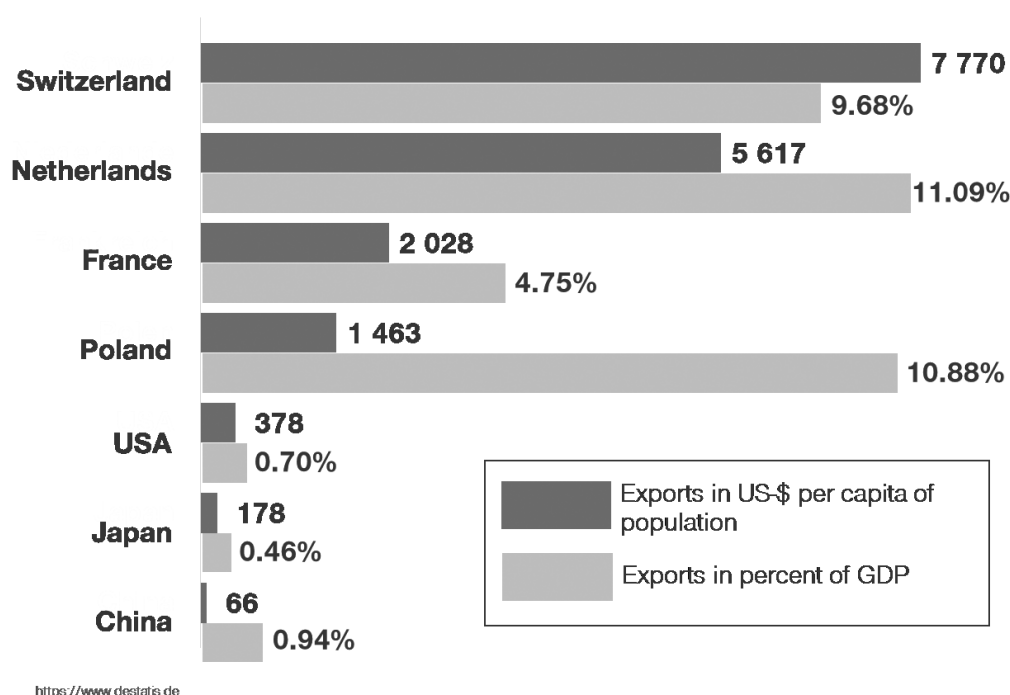


Figure 2: German exports per capita of the population and in percent of the gross domestic product of the target country, 2013

German exporters are most successful in Switzerland. On average, every Swiss bought German products for \$7,770. In relation to the Swiss gross domestic product, German exports achieved a “market share” of 9.68 percent. The term market share is not entirely accurate since the gross domestic product is the sum of the values added, not of the revenues. Even higher is the German market share in the Netherlands (11.09 percent) and in Poland (10.88 percent).

However, the world’s largest market is indisputably America. In 2013, the gross domestic product of the US was \$16,786 billion, that’s seven times the GDP of large countries such as France, the UK or Italy. And German exports to the US? In absolute terms, with \$117.5 billion, they are second only to German exports to France. But in relation to the population and the gross domestic product of the US, things look rather different. Germany receives only \$378 from the average US citizen, 81 percent less than from the average Frenchman. German per-capita exports to Poland are roughly four times higher than those to the US. And the “market share” German exporters achieve in the US stands at a tiny 0.70 percent, roughly one seventh of the French value. It may be hard to believe, but Germany’s market share of 0.94 percent in China is higher than its market share in America.

This poor performance in the world’s largest market is a serious flaw in Germany’s seemingly brilliant export performance. Of course, the optimistic view would be that there is still enormous potential for growing German exports to the US, especially with the recently weaker Euro.

Germany urgently needs the free trade agreement TTIP. It would provide German exports to the US with new stimuli and initiate a completely new phase in transatlantic trade. Thilo Brodtmann, managing director of the association of mechanical engineering, estimates that because of bureaucratic barriers German machines are currently about 20 percent more expensive than American ones.

The economic upswing in the US would be particularly lucrative for German businesses. Some German companies, especially Hidden Champions, are successful in the US, but their number is far too low. What is the difference between companies that are more and those that are less successful in the US? And why do German businesses find it so hard to improve their market position?

The successful companies went to the US early on and persevered in their endeavor despite severe obstacles. The sheer size and regional spread of the market makes it much harder to establish a market position than in smaller countries. An early market

entry is therefore crucial. From today's perspective this means that further delays will only increase the difficulties. In the future it will be harder, not easier, to make it in the America. Acquisitions will be more expensive, this is aggravated by the weak Euro. Germany needs the free trade agreement TTIP now, not in ten or twenty years.

In America you have to think big, not small. The US market is too large, too demanding and too competitive to be entered in a hesitant and tentative way. Unfortunately this is exactly what many German exporters do. To make it there you need the best managers and salespeople as well as massive resources.

The successful companies meticulously prepared their market entry and adapted their marketing strategies. A careful preparation is crucial for a market entry, be it through acquisitions or on your own. Many acquisitions went wrong because they were executed in an opportunistic and hurried manner. An extreme case is the acquisition of the reinsurer Constitution Re by Gerling, which took place after an extremely short due diligence. The "marriage in heaven" between Daimler and Chrysler falls into the same category.

Many German companies failed because they transferred their successful strategies from Germany or Europe to America without adjusting. The American market is more different from the German one than a superficial look might suggest. This is especially true for consumer goods and explains why German companies have a particularly hard time in the US market. The right locations and regional concentration are more important than in smaller countries. Most German companies go to New York and New Jersey. Short travel times to Germany and a relatively familiar environment seem to be more of a decisive factor here than the attempt to be close to the potential customers.

Finally the choice of the right management teams draws a line between the successful and the unsuccessful companies. This problem exists in all foreign markets, not only in the US. But in the US it is more difficult to attract top talent to a German subsidiary. A free trade agreement would lead the economies closer to each other and facilitate the access to American management talent.

To sum it up: TTIP would give German entrepreneurs the chance to finally grab the huge potentials of the US market. It would be stupid not to make use of this opportunity.

## КНИЖНАЯ ПОЛКА



### Скрытые чемпионы XXI века. Стратегия успеха неизвестных лидеров мирового рынка

Симон Герман

Мировой бестселлер представляет собой книгу знаменитого экономиста и маркетолога Германа Симона, посвященную компаниям — скрытым чемпионам. Эти фирмы трудятся, как правило, в узких рыночных нишах, но в сфере своей специализации не знают себе равных. Выяснилось, что в XXI веке, принесшем с собой глобализацию экономики и взрыв инновационной деятельности, скрытые чемпионы не только не уступают своим конкурентам, но и активно теснят их. Специальная глава посвящена скрытым чемпионам в России. Предназначена для экономистов-практиков, в первую очередь для руководителей малых и средних предприятий. Рассчитана на студентов бакалавриата экономических направлений, слушателей программ MBA, магистрантов, аспирантов и преподавателей.