

Asia Business 3.0 – Chance and Challenge for German Mittelstand Companies

German-Indian Round Table, Berlin

Prof. Dr. Gert Bruche, December 5, 201

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Gert Bruche: About me

- Founding Partner, BGM Associates GmbH
Strategy and Transaction Advisors for Life Sciences (Berlin-Seoul)
- Chairman of the Board, Asia-Pacific Forum Berlin e.V.
- Professor of International Management
Berlin School of Economics and Law (HWR Berlin)

Previous

Business/Industry:

- Schering AG: Director Global Marketing SBU Diagnostics; MD of Schering China Ltd. (5 yrs); Corp. Strategy Advisor
- Consultant: in Asia to Corporates (KOR, PRC, HKG, SP), Exec trainings in SP (NTU)

University/Research

- HWR Berlin: Dean & VP, India Coordinator, MBA w. Chinese and Indian universities; Guest Prof (e.g. SIU Pune, India); WZB: Head of Policy Research Group (5yrs).
Research/publications: Asian ‚Emerging MNCs‘ and ‚Innovation in Asia‘, Medical markets

United Nations

- UNDP: Programme Officer in Ankara, Turkey (3yrs)

Dipl. Ing. (TU Berlin), Dr. rer pol, FU Berlin

„Asia Business 3.0“: an emerging multipolar market

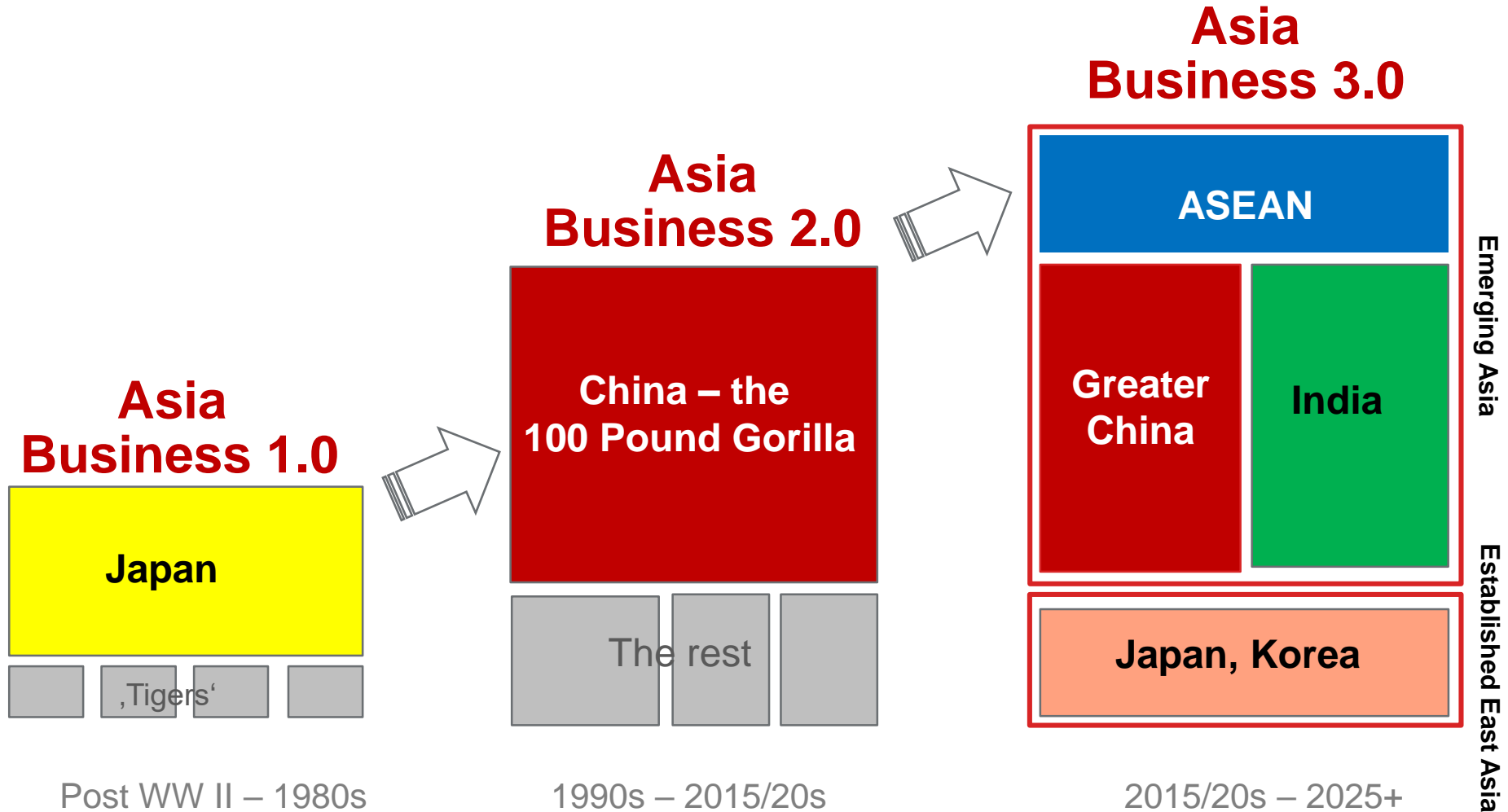
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graph TD; A[„Asia Business 3.0“: an emerging multipolar market] --> B[The „mid-market“ challenge]; A --> C[The new players]; B --> D[Asia: „second home“ for German Mittelstand?]; C --> D;
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The „mid-market“
challenge

The new
players

Asia: „second home“ for German Mittelstand?

Asia Business 3.0 should increasingly be seen as multipolar with four Business Regions



The four Asian Business Regions are all important, but different in size and dynamics

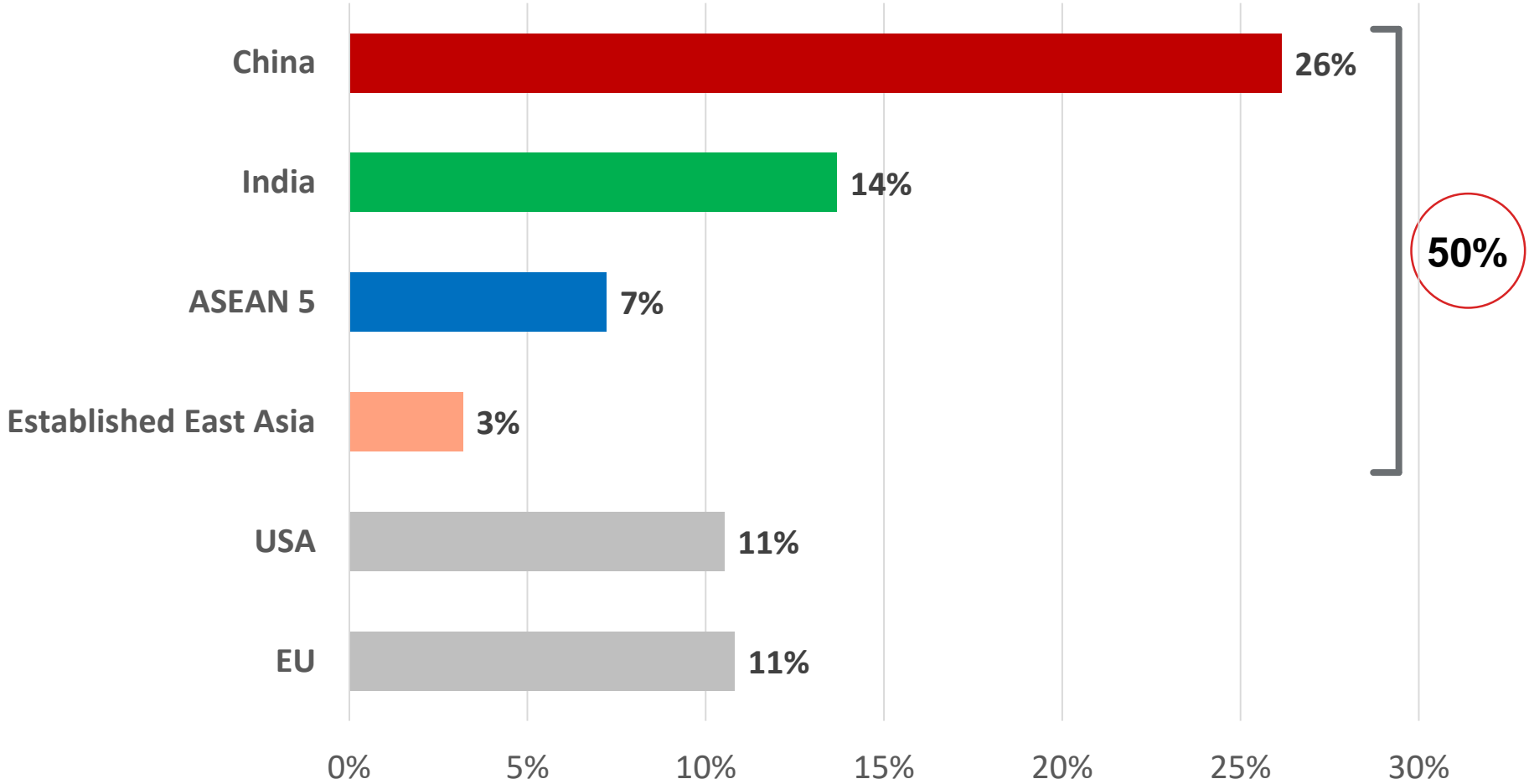
	Emerging Asia			Established East Asia (Jap / Kor)	EU	USA
	China	India	ASEAN 5*			
Population (2016e)	1,379	1,310	556	178	509	324
GDP per capita (\$, PPP) (2015)	12,880	5,855	10,381	37,718	38,107	56,084
GDP (Tr \$, PPP)*** (2015)	19.7	8.0	6.1	6.7	19.3	18.0
Average GDP growth**** rate (2010-2015)	8.3	7.3	4.4	JAP 1.4 KOR 3.6	1.3	2.7

* Indonesia, Thailand, Malaysia, Phillippines, Vietnam

Source, IMF: World Economic Outlook Database, October 2016, own calculations

50% of global growth will come from Asia

Share of GDP in estimated global GDP growth 2016-2021



Source, IMF: World Economic Outlook Database, October 2016, own calculations

There are five ,change drivers‘ of Asia Business 3.0

1 Rising Cost in China

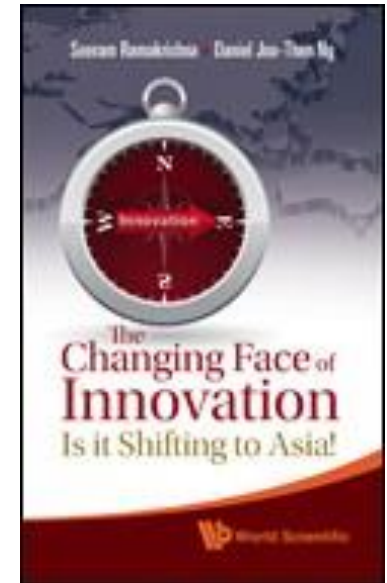
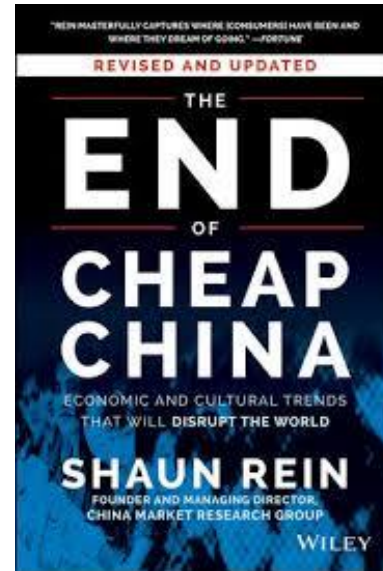
2 Growing consumer class and urbanization

3 Mid markets and ,good enough products‘

4 Chinese and other challengers in Asia and worldwide

5 Shift of innovation to Emerging Asia

Today



Tomorrow



* <http://www.kiplinger.com/article/business/T019-C021-S001-middle-class-spenders-will-lead-global-growth.htm>

In addressing growth opportunities country/regional risk should be considered

Ease of Doing Business Index

Worst performance

	Rank 2016	Progress/setback
Singapore	2	▲
Hongkong	4	▲
Korea (Rep.)	5	▲
Taiwan	11	▲
Malaysia	23	▼
Japan	34	▲
Thailand	46	▲
China	78	▲
Vietnam	82	▲
Indonesia	91	▲
Philippines	99	▲
India	130	▲ (from 131)

Getting Credit: 44

Starting Business: 89

Construction permits: 177

Modi's target:
Breaking into top 50 by 2018

Construction permits: 185

World Bank: Ease-of-Doing-Business Index, June 2016 (www.doingbusiness.org/rankings)

Implications for ‚Mittelstand‘ strategies‘: # 1

- **„(Emerging) Asia“ is ‚must be‘ market for German Mittelstand in the next decade**
- **China remains key, but cost will and protectionism may rise so that overdependence on China may become a risk which could be addressed through intra-Asian diversification**
- **ASEAN strategies must address single countries AND a future AEC at the same time**
- **Larger Mittelstand companies‘ strategy should be based on ‚multipolar Asia‘, with localisation AND intra-Asian integration elements**
- **Small Mittelstand companies should have a strategy of how to cover Asia (and in which sequence to enter/penetrate single countries)**



Implikationen für die ‚Mittelstand-Strategie‘: # 1

- Die Asiatischen Wachstumsmärkte sind (weiterhin) ein ‚muss‘ für Deutsche Mittelständler im nächsten Jahrzehnt**
- China bleibt wichtig, aber Kostensteigerungen und das Risiko von Protektionismus nehmen zu. Eine zu große Abhängigkeit vom chinesischen Markt kann durch intra-asiatische Diversifikation verringert werden (Asia Business 3.0)**
- Strategien in und für ASEAN Länder sollten sowohl die Einzellandebene anzielen, aber auch bereits die Entwicklung hin zur AEC strategisch berücksichtigen**
- Größere Mittelständler sollten eine kongruente ‚multipolare‘ Asienstrategie haben, mit Lokalisierung in einzelnen Märkten UND intraasiatischer Integration**
- Sehr kleine Mittelständler sollten ein klare Länderstrategie entwickeln (hinsichtlich der Sequenz des Markteintritts bzw. der Marktdurchdringung)**

„Asia Business 3.0“: an emerging multipolar market



The „mid-market“
challenge

The new
players

Asia: „second home“ for German Mittelstand?

What do we mean by 'mid-market segment' in emerging markets?

Premium segment

Example:
machine-tool
equipment

- Market share ~10-30% (of tot. market value)
- Complex machines, long life span, tailor-made single machines or lines, 24/7 service
- Dominated by foreign premium manufacturers

Mid-market segment (good enough products)

- Market share ~30-40%
- Basic features, reduced flexibility, lower automation level, standard or slightly customized single machines or lines, 24/7 service. Prices 30-50% below premium segment
- Dominated by local manufacturers (or imports from Taiwan or Korea)

Low end segment

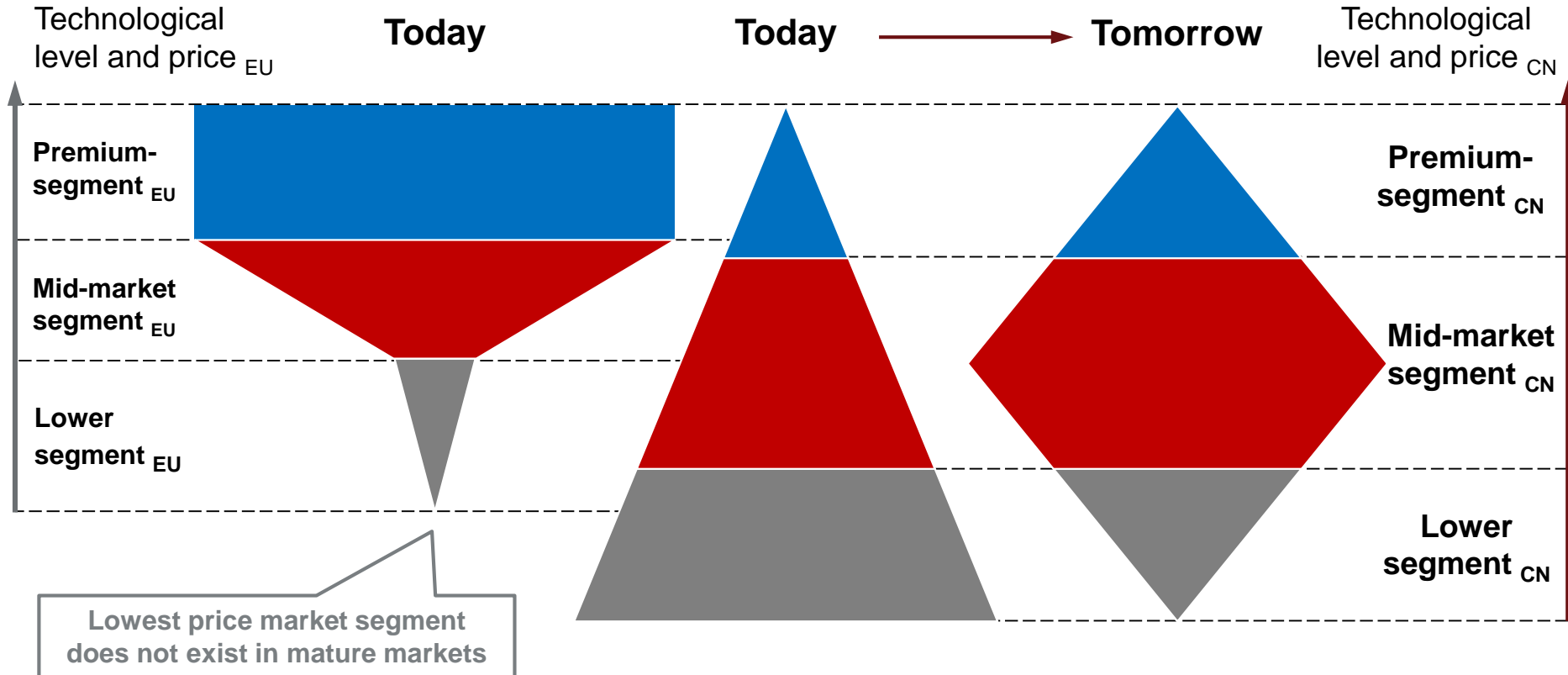
- Market share ~30-60%
- Minimal features for simple tasks, limited life span, less precision, fewer safety features, limited flexibility and process stability, standard single machines, less than 24/7 service
- Prices 30-50% under mid-market segment
- Completely dominated by locals

Source: Albeck, Wolfgang; Woywode, Michael: Absatzmarkt China – "Mittleres Marktsegment" als Wachstumsmotor für den Maschinenbau? Presentation at VDMA-Fachverband Elektrische Automation 21.02.2014

Growth opportunity in mid-market segment in next 5-10 years

Mature markets (e.g. EU)

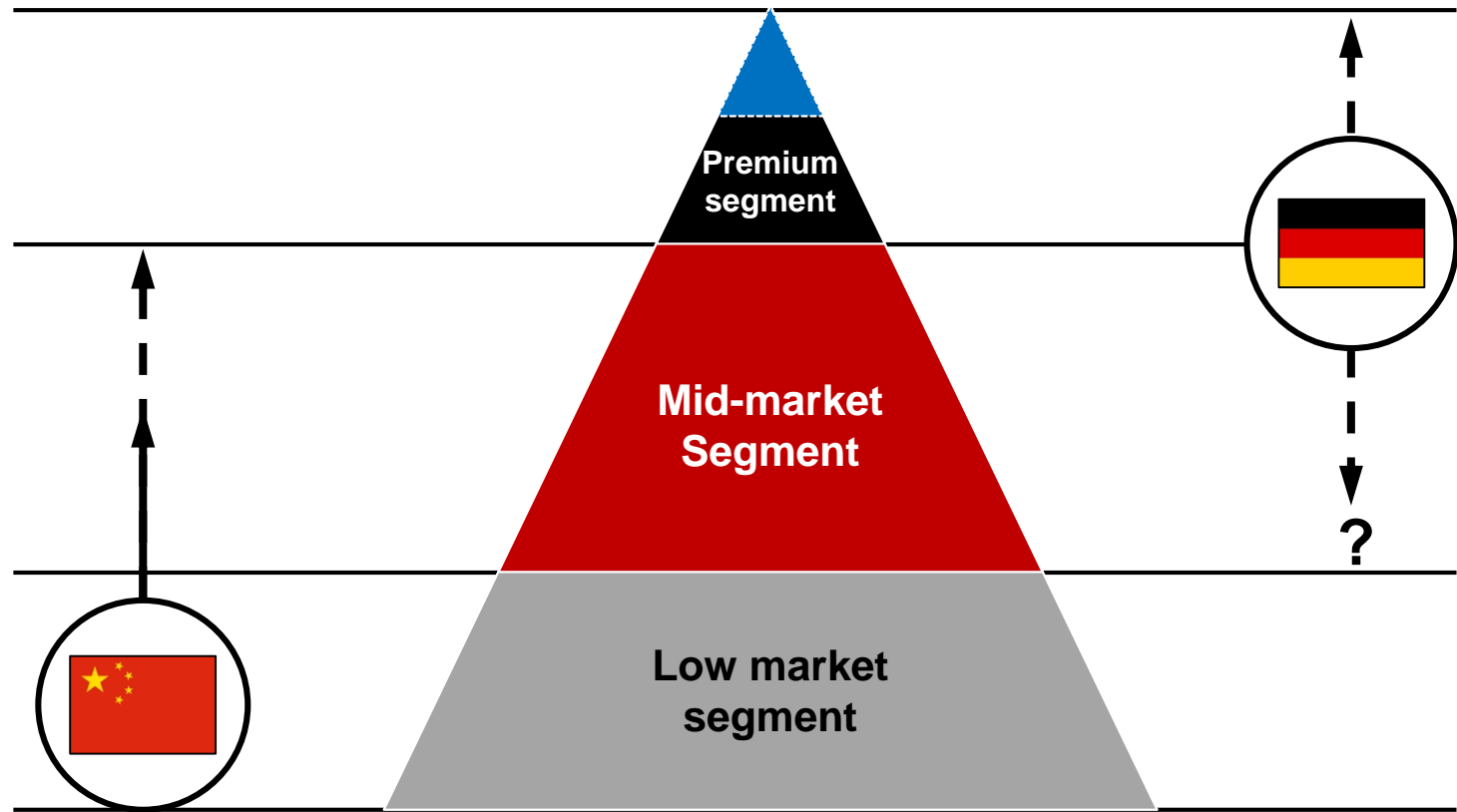
Emerging Markets (e.g. China, India, ASEAN)



Source: Albeck, Wolfgang; Woywode, Michael: Absatzmarkt China – "Mittleres Marktsegment" als Wachstumsmotor für den Maschinenbau? Presentation at VDMA-Fachverband Elektrische Automation 21.02.2014, p. 9 and 19

Possible scenario: loss of the mid-market segment – pushing German companies into a ‚super niche‘

Markt segments China, India, ASEAN, Brazil, Nigeria, etc.]



Source: Jullens, John: China – Recent Developments and Mid-Term Outlook. Presentation at Northwestern University Evanston/Chikago USA, 31.10.2013 p. 12; Albeck, Wolfgang; Woywode, Michael: Absatzmarkt China – "Mittleres Marktsegment" als Wachstumsmotor für den Maschinenbau? Presentation at VDMA-Fachverband Elektrische Automation 21.02.2014, p. 12

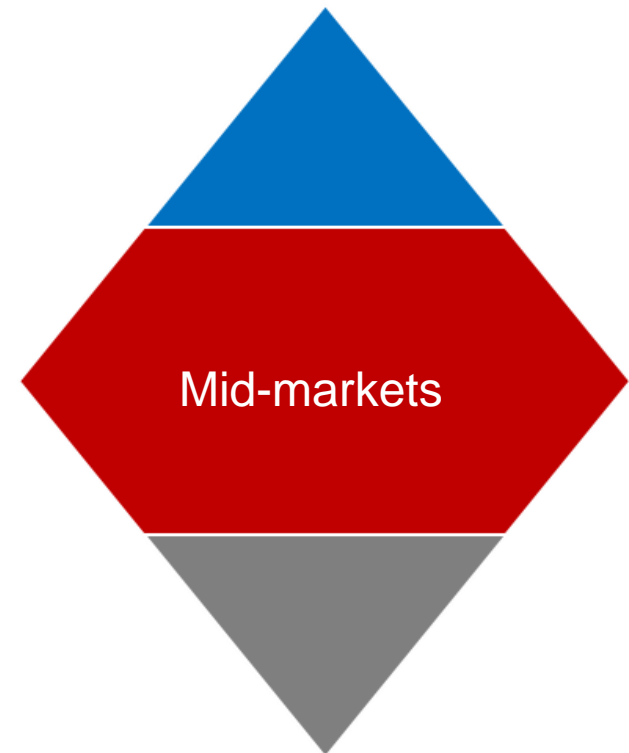
Mid-markets in India: already lost for German Mittelstand?

In 2015, Imports to India, USD billion

■ Machinery imports from China:	10,6
■ Machinery imports from Germany:	3,5
■ Machinery imports from the US:	3,0

■ Electronic imports from China:	19,3
■ Electronic imports from Germany:	1,3
■ Electronic imports from the US:	1,6

■ Medical equipment from China:	1,3
■ Medical equipment from Germany:	0,9
■ Medical equipment from the US:	1,4



Source: www.worldsrichestcountries.com/top-india-imports.html

The mid-market challenge affects various industrial segments where Germany is strong, and can be addressed in various ways

Machine tools

Construction machinery

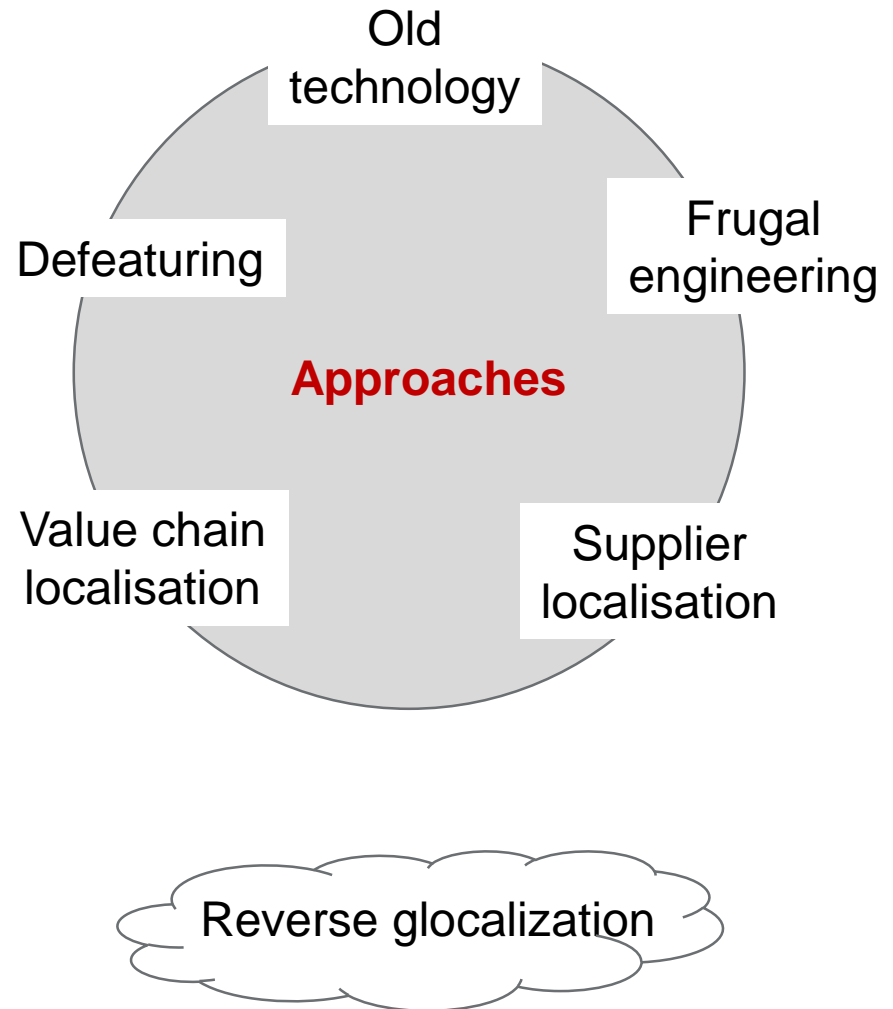
Building technologies

Medical devices

Chemicals (industrial, speciality)

Transport (trucks, small utility vehicles)

Others...



Active mid-market strategy in B2B: the example of Trumpf

Example

- Trumpf – one of the world’s biggest providers of machine tools (machine tools, power tools, laser technology, electronics). Rev. 2,8 bn EUR
- 2004: Start of manufacturing in China (Taicang)
- 2013: Acquires Chinese machine tool company JFY (Yangzhou)
- Trumpf China covers premium segment, JFY covers mid-market segment



“In order to succeed in mid-market segments one needs the courage for a ‘good-enough approach’. That means one has to omit features and accept larger tolerances...We see no big risk for us as we go for a clear ‘dual-brand strategy. The strict separation is important, technologically, in service and sales.”

Mathias Kammüller, MD of Trumpf GmbH & Co KG

Source: Interview with Mathias Kammüller, ‘Trumpf in China: Wir fahren eine ganz klare Zwei-Marke-Strategie. OWC Verlag Aussenwirtschaft, 30. Juni 2014

Implications for Mittelstand's strategies # 2

- **The ,mid-market segment' (in relevant fields for German industry) grows faster than premium or low end**
- **As a result, in emerging economies, German companies are gradually losing share in important segments**
- **Mid-market segments provide a ,springboard' for the new players from emerging markets for later ,trading-up into premium'**
- **In order to maintain a leading position the ,mid-market challenge' needs to be addressed by German Mittelstand**
- **There are already good examples of ,dual strategies' by Mittelstand and by large German companies**
- **[NB: Industry 4.0 is no substitute for action in mid-market segments in the next 5-10 years, maybe partially complementary]**



Implikationen für die ‚Mittelstand-Strategie‘: # 2

- **Das ‚mittlere Marktsegment‘ (in für die deutsche Industrie relevanten Sektoren) wächst auch im nächsten Jahrzehnt rascher als das Premiumsegment (oder das ‚low end‘ Segment)**
- **Als unmittelbare Folge können deutsche (B2B) Firmen mehr und mehr Anteile in den neuen Märkten verlieren**
- **Die Expansion im Mittelsegment ist ein ‚Sprungbrett‘ für Wettbewerber aus Emerging Markets zum späteren Vorstoß in Premiumsegmente**
- **Um ihre weltweiten Führungspositionen zu sichern müssen die deutschen Mittelständler die ‚Mittelmarkt-Herausforderung‘ strategisch adressieren**
- **Es gibt bereits vielfältige Beispiele für ‚Mittelsegment-Strategien durch deutsche Großunternehmen und Mittelstands-Champions**
- **[NB: Industrie 4.0 ist kein Ersatz für das Handeln in Mittelmarktsegmenten in den nächsten 5-10 Jahren, es könnte eher komplementär sein]**

Asia Business 3.0: Chance and Challenge for German Mittelstand Co's

„Asia Business 3.0“: an emerging multipolar market

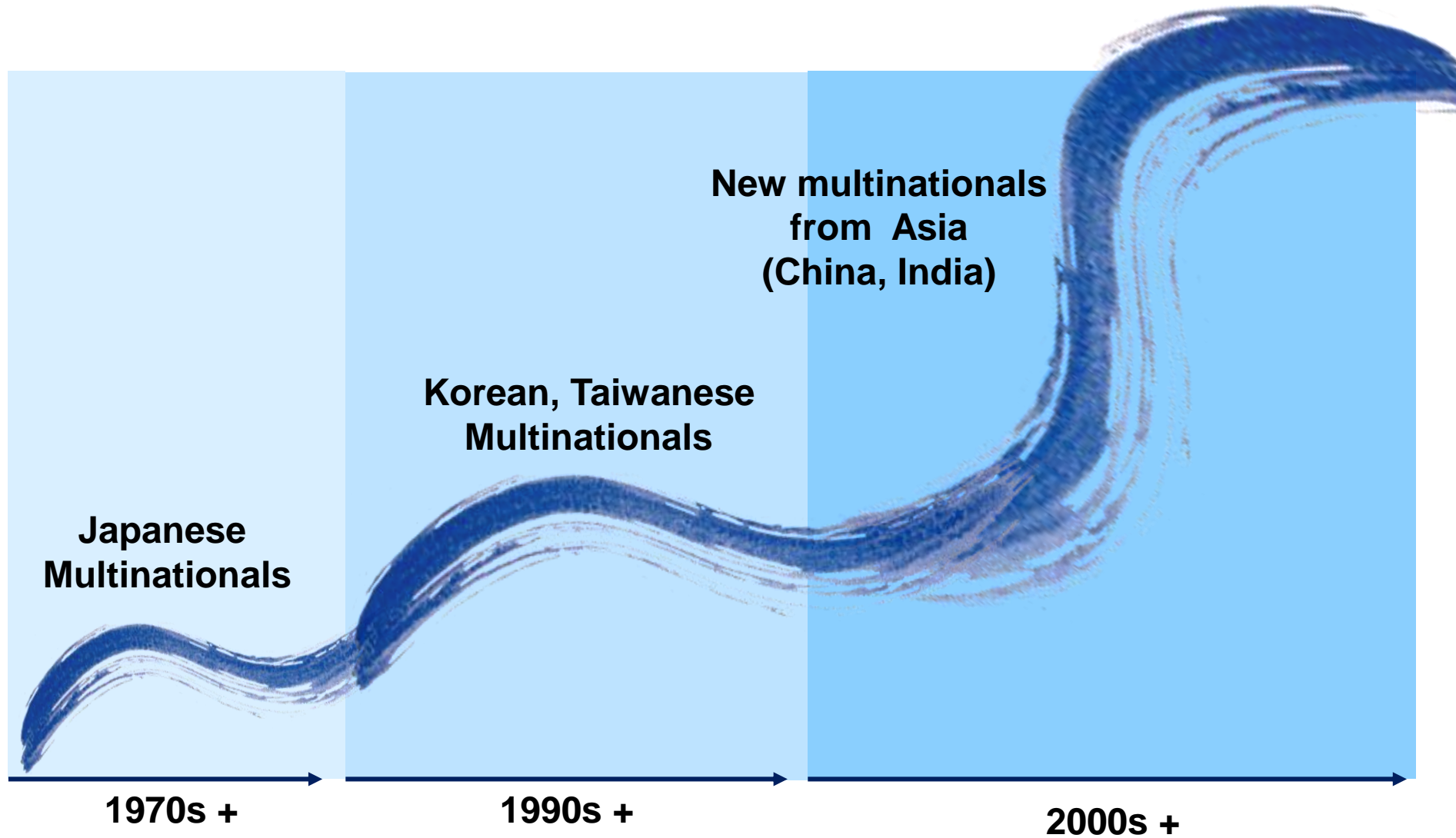


The „mid-market“
challenge

The new
players

Asia: „second home“ for German Mittelstand?

Three waves from Asia: arrival of a Tsunami?

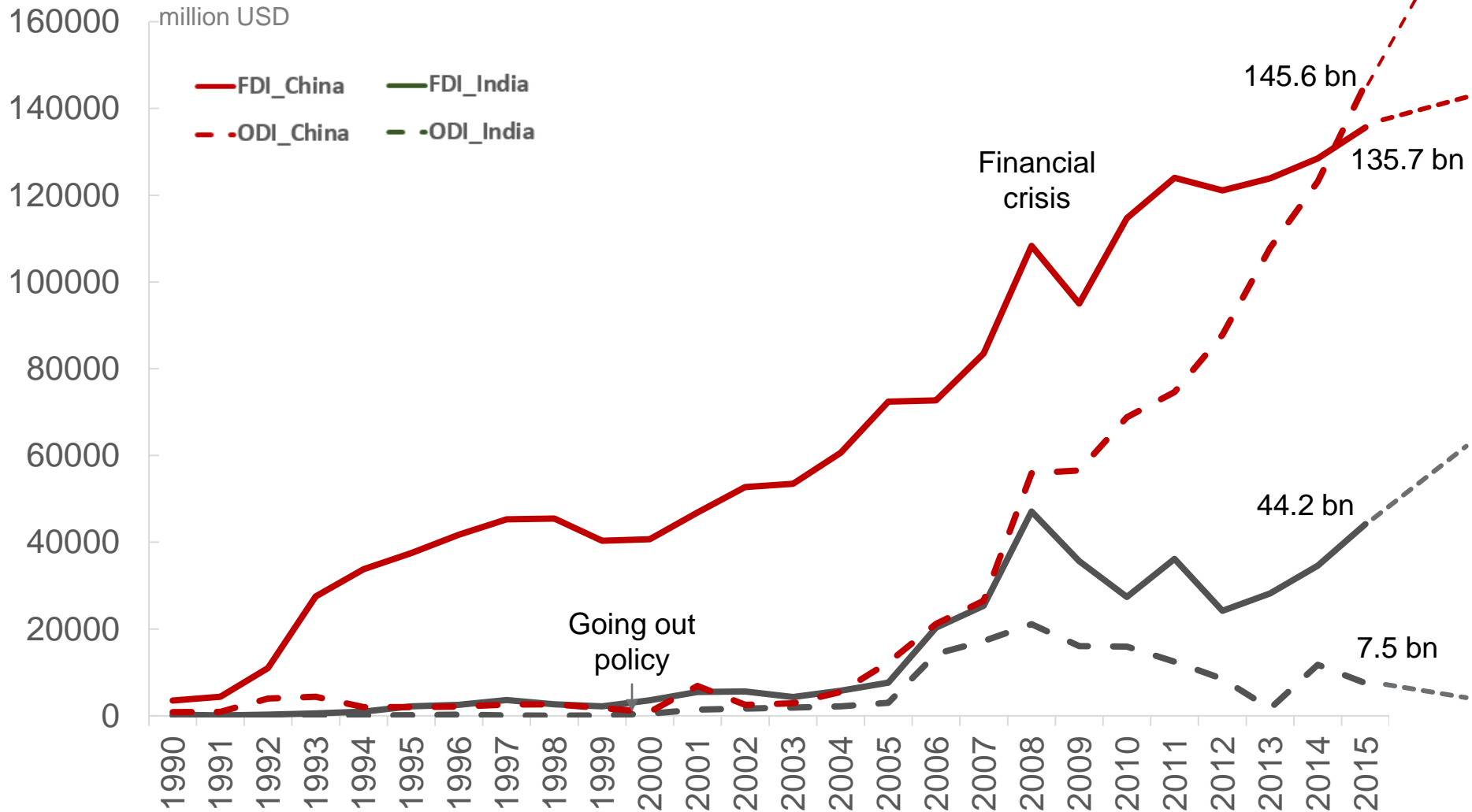


Source: own illustration

How many of these companies do you know ... already?

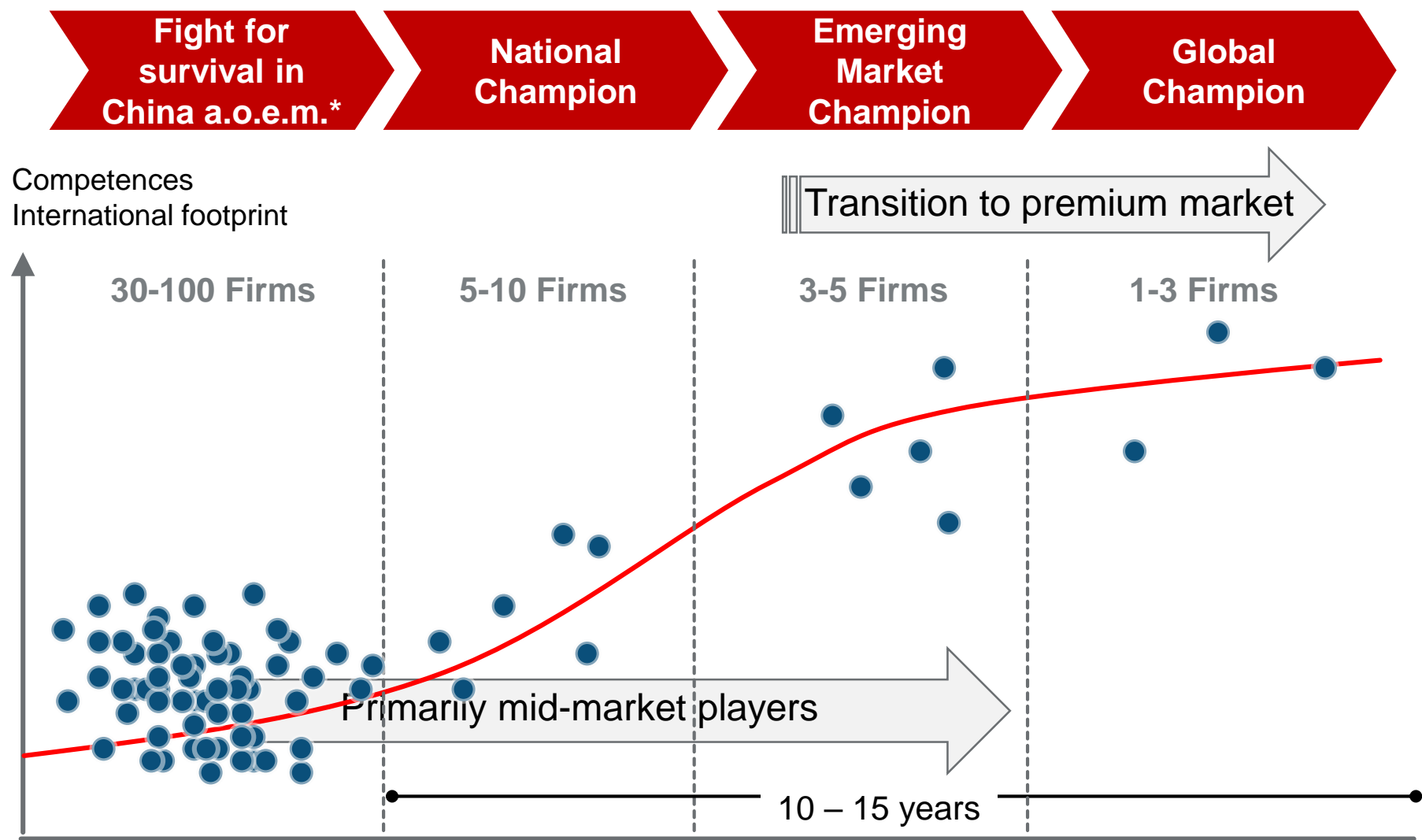


China's outward FDI has grown very fast, India's has not yet recovered



Sources: UNCTAD 2016, MOFCOM 2016

There is a typical path for the new players from emerging countries to become global champions

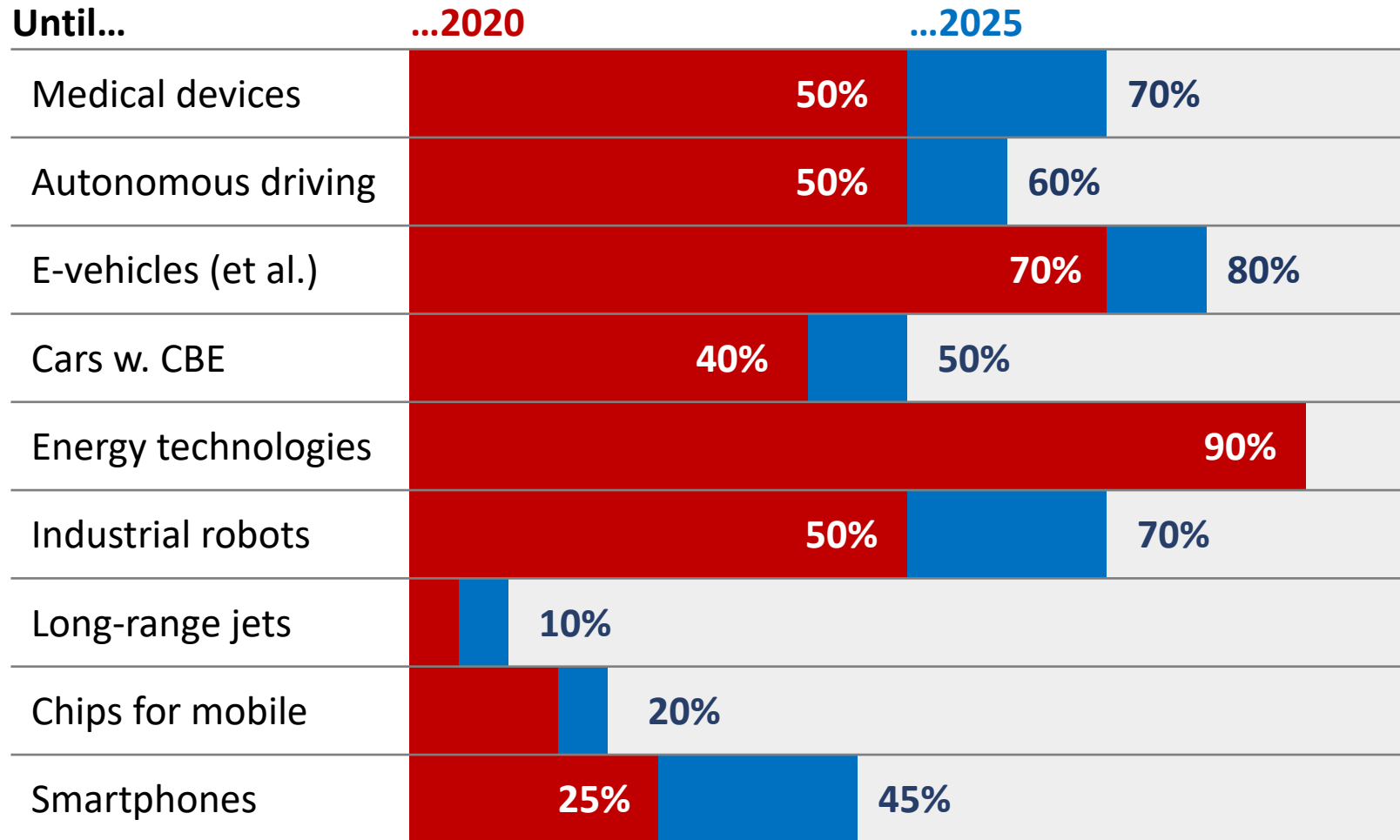


Source: Adjusted and extended from : BCG (2011) Duelling with Dragons

* and other emerging markets

'Made in China' 2025 formulates ambitious goals for local firms



Target market shares for local firms in the Chinese market:



• Sources: Merics, 2015. <http://www.merics.org/de/merics-analysen/newsletterchina-update/china-update-392015/>

With M&A in Germany the new players from China acquire premium assets

Examples

Year	Target	Acquirer/Co-Owner	Field
2016	Osram 	IDG Capital, MLS, Yiwu State-Owned Assets Center	Leading position: High end LED
2016	Aixtron 	Fujian Grand Chip Investment Fund	L. pos.: Special semiconductor machinery
2016	Krauss-Maffei	Chem China (SOE)	L. pos: Pl./ rubber machinery
2016	Kuka	Midea	# 2-3 Robotics
2016	Bochumer Ver.	China Railway Stock Corp. (SOE)	# 1 Wheelset systems
2015	Manz	Shanghai Electric Group (SOE)	L. pos: Solar/battery machin.
2012	Schwing	XCMG (SOE)	L. pos. Concrete pumps
2012	Putzmeister	Sany	# 1 Concrete pumps
2012	Kion	Weichai P.	# 2 Forklifts
2012	Kiekert	CNGC Hebei (SOE)	# 1 Car closure systems
2008	Vensys	Goldwind (SOE)	# 1 Gearless w. turbines
2005	Waldrich Coburg	BJ No 1 M. Tools (SOE)	L. pos: Large mach. tools
2004	Dürkkopp Adler	SGSB Shangong (SOE)	Strong brand in ind. sewing machines

India
Largest: RePower / Suzlon: resold at discount 2015 to PE). Indian M&A went down after peak in 2006-11

Source: various  = currently under review by Government authorities SOE: State owned, partially or fully

Implikationen for Mittelstand's strategies # 3

- **The new players can rely on their position in the mid-market segments and often on the support of their government**
- **,Made in China 2025' aims to strengthen local companies in important high-tech markets for them (often important for German companies too)**
- **Through M&A they acquire technology, distribution and brand assets as a catch-up and trading up strategy**
- **[Indian companies, after some earlier initial impressive moves, have so far not come back in strategic asset seeking acquisitions]**
- **German Mittelstand companies must develop a strategic answer to the challenge which may include cooperation and competition at the same time**



Implikationen für die ‚Mittelstand-Strategie‘: # 3

- Die neuen Spieler haben Reserven basierend auf ihren Erfolgen in den Mittelmarkt-Segmenten und genießen oft staatliche Unterstützung
- ‚Made in China 2025‘ unterstützt sie zusätzlich bei der Gewinnung von Führungspositionen in High-Tech-Zukunftsmärkten (häufig wichtige Märkte auch für deutsche Firmen)
- Durch M&A (u.a. in Deutschland) erwerben sie Technologien und Marken, die den Aufholprozess beschleunigen und den Vorstoß ins Premiumsegment ermöglichen.
- [Indische Herausforderer-Firmen haben nach zwischenzeitlich starken Bewegungen noch nicht in den ‚Akquisitionsmodus‘ zurückgefunden]
- Deutsche Mittelständler in wichtigen Sektoren müssen sich der Herausforderung stellen und Kooperations- wie auch Wettbewerbsstrategien entwickeln

Asia Business 3.0: Chance and Challenge for German Mittelstand Co's

„Asia Business 3.0“: an emerging multipolar market

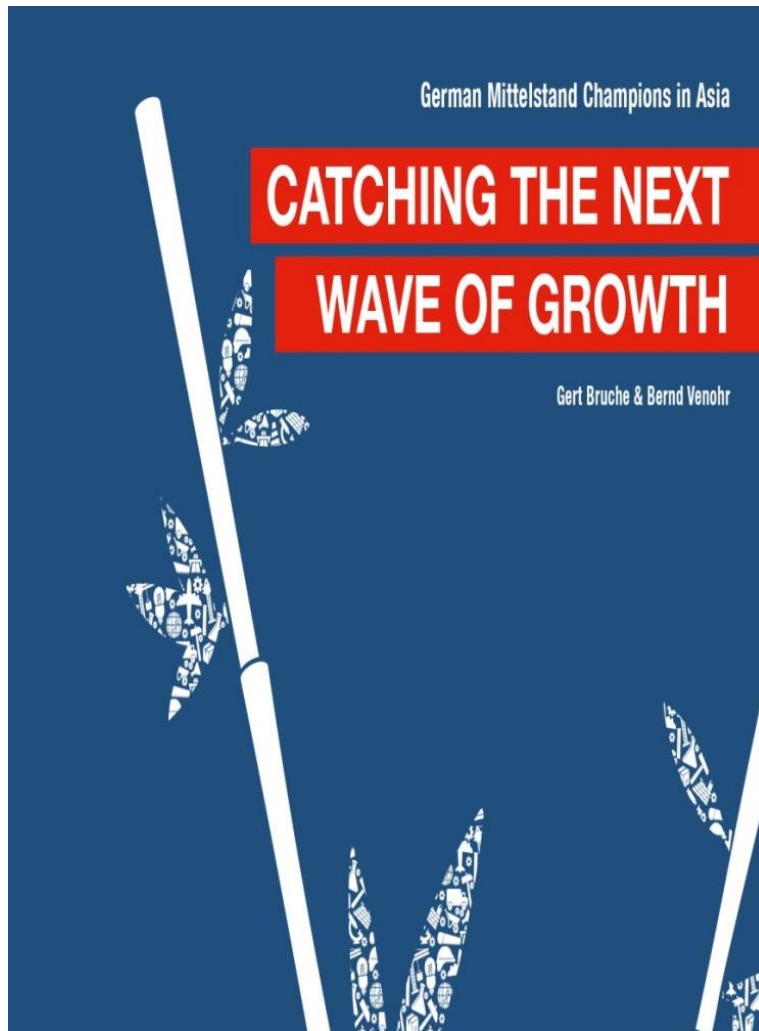


The premium vs.
„mid-market“ challenge

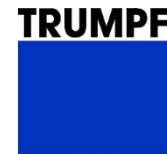
The new
players

Asia: „second home“ for German Mittelstand?

We studied German Mittelstand Champions' (GMCs) strategies in Asia



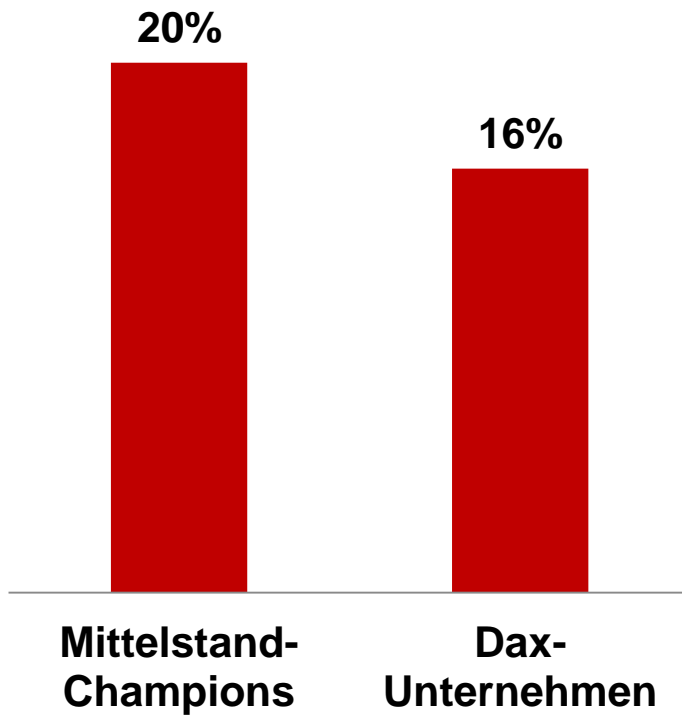
- **Surveyed 100 companies**
 - 22 personal interviews (Owner or C-Suite)
 - 80 firms in online-survey (Senior Execs w responsibility for Asia)
- **Participating companies (selection)**



Published in October 2015, jointly with Prof. Bernd Venohr

German Mittelstand Champions are already very active in Asia

Share of revenue from Asia
(2014)



German companies with
own subsidiaries



Source: Survey, Statista, AHK China, AHK India, ACRA SG

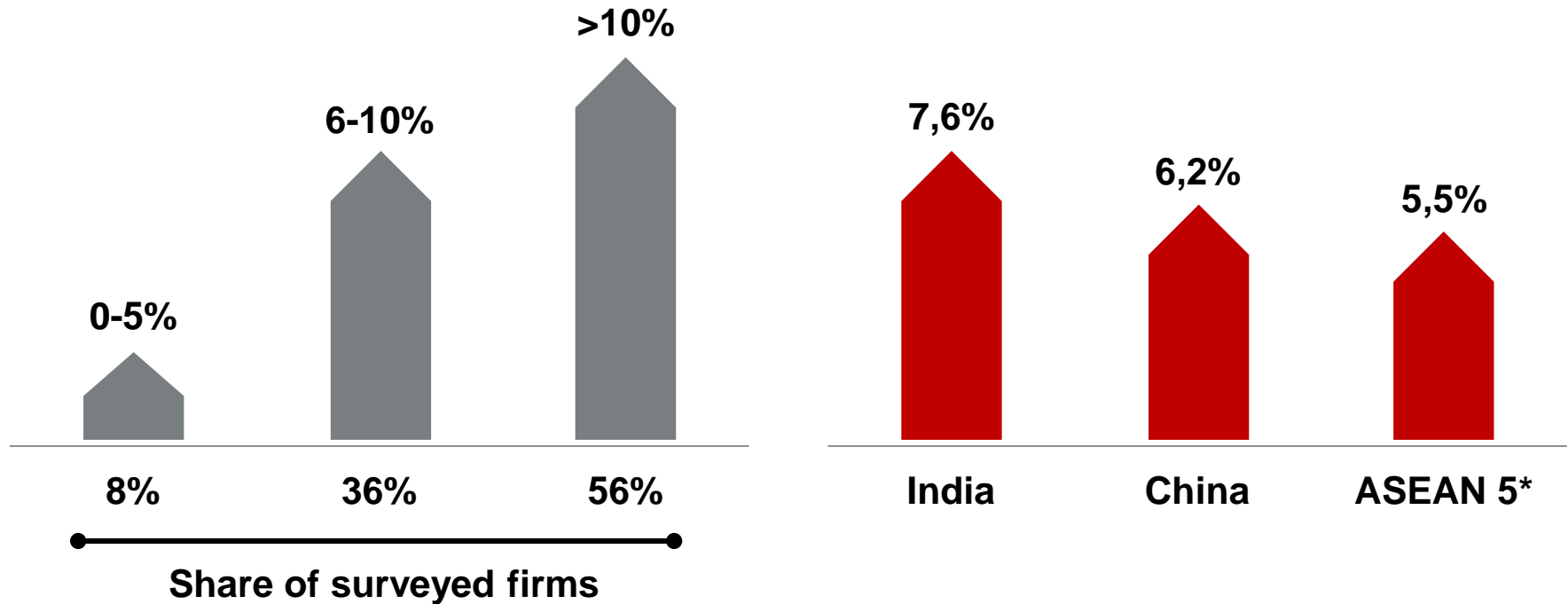
GMCs have ambitious sales growth targets for Asia

GMCs plan for strong revenue growth in Asia...

... which is above projected annual GDP growth

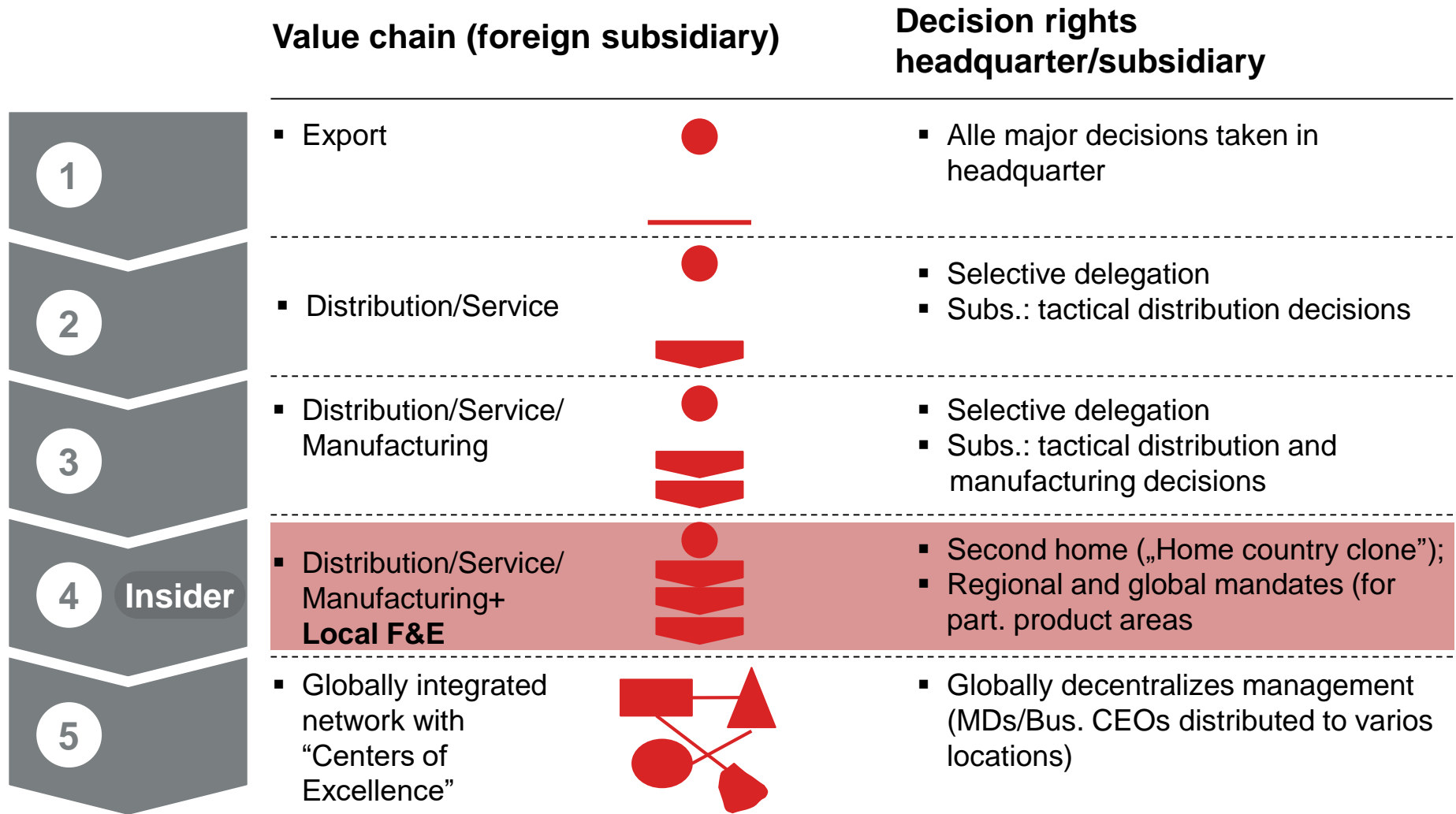
Expected annual revenue growth for the next three years

GDP Growth 2015e- 2020e

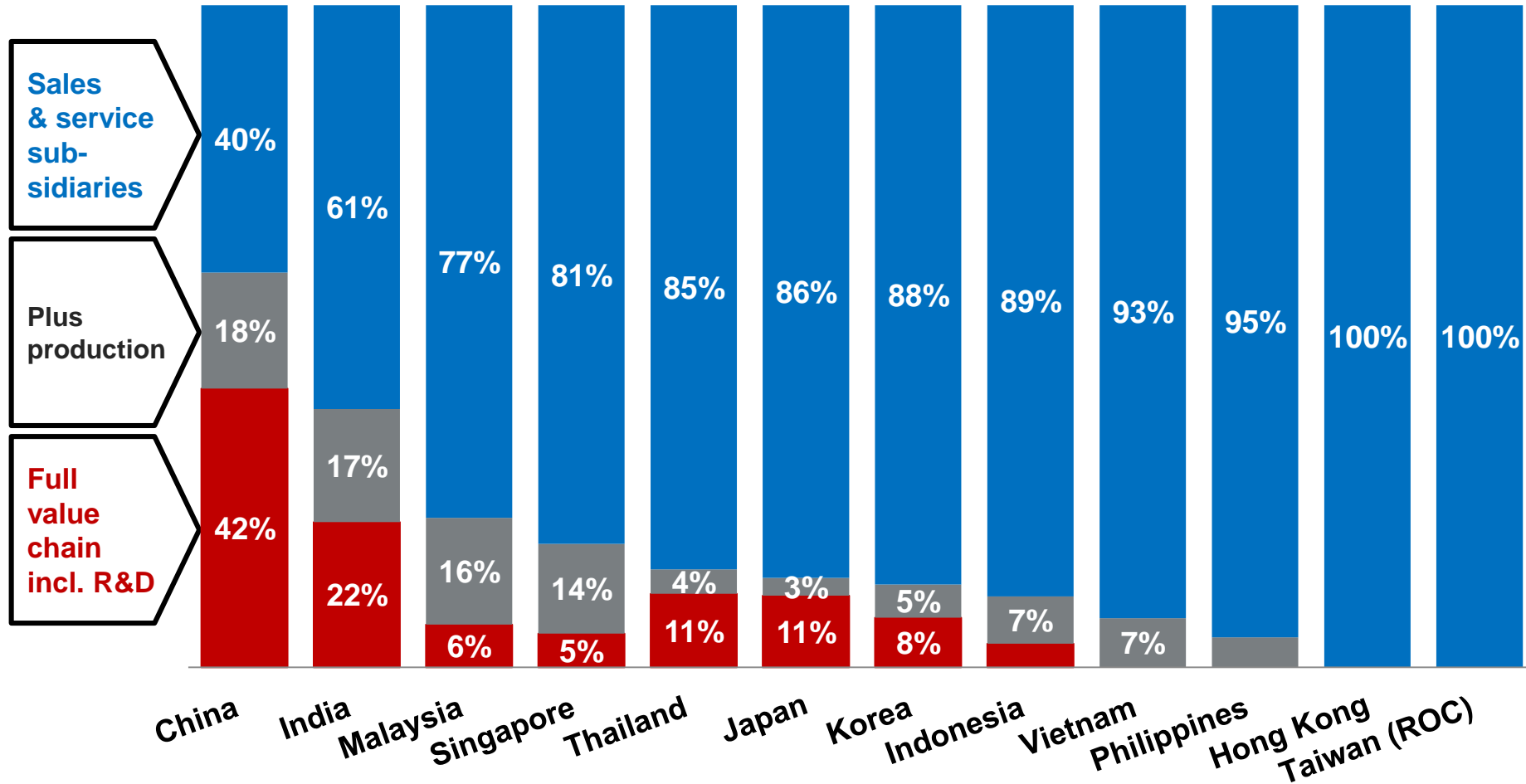


Source: Survey

In order to compete with the new players GMCs have to become 'insiders' (and also address mid-markets)



The focus of GMCs' Asian subsidiaries is often still on ,sales & service' (except in China)



Source: Survey

Many GMCs have already a ,regional structure‘

Bias in our survey!

Locations		Roles of Singapore
▪ Singapore:	45	▪ Asia Headquarter
▪ China:	12	▪ ASEAN Headquarter
▪ Japan:	3	▪ Second home base: R&D / Infrastructure / High Value Manufacturing; Integrated value chain with surrounding Asean countries
▪ Thailand:	2	▪ R&D: No 3 location after China and India for German companies
▪ India:	1	▪ Global Headquarter: Specific industries, e.g. logistics, water etc.
▪ Korea:	1	
▪ Malaysia:	1	

Source: Survey



Implications for Mittelstand companies # 4

- **German Mittelstand Champions generate a significant sales share from Asia, and they have ambitious growth target for the next years in Asia**
- **Except for China, localising of the value chain beyond sales & service is still in its infancy (and even more so for smaller Mittelstand firms)**
- **In order to maintain their strong global position (also in view of the new players) they need to become insiders in multipolar Asia through value chain localisation**
- **This will also facilitate a better approach to the ‚mid-market challenge‘**
- **Eventually ‚Asia‘ should become a ‚second home‘ for many larger Mittelstand companies (and maybe also for smaller ones)**
- **As part of a ‚second home‘ strategy Mittelstand companies must decide on their regional organization structure in Asia**



Implikationen für die Mittelstand – Strategie: # 4

- **Deutsche Mittelstand Champions generieren bereits wesentliche Umsatzanteile in Asien und haben ehrgeizige Umsatzziele für die Region**
- **Mit der Ausnahme von China ist die ‚Lokalisierung‘ der Wertschöpfung (und Produkte) noch in den Anfängen – Kernfunktionen vor Ort sind Vertrieb und Service**
- **Um ihre oft weltweiten Führungspositionen zu verteidigen müssen sie durch Wertschöpfungslokalisierung Insider in einem zunehmend multipolaren Asien werden**
- **Dadurch können sie auch der Herausforderung der ‚Mittelmärkte‘ begegnen**
- **Am Ende kann ‚Asien‘ zum ‚zweiten Heimatmarkt‘ für größere (aber auch für mittlere und kleinere) Mittelständler werden**
- **Im Rahmen der ‚second home‘ Strategie ist die Frage der regionalen Organisation zu entscheiden (Regionales Headquarter?)**

Asia Business 3.0: General recommendations

Prepare for and address multipolar market with adapted strategies



Adress the mid-market challenge

Address challenge from new players through cooperation and competition

Localize your value chain with a view to establish ,second home‘ in Asia

धन्यवाद

