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EUROPEAN ASSOCIATION OF GUARANTEE INSTITUTIONS

# « Faut-il copier le Mittelstand allemand? »

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Katrin Sturm, Secrétaire Générale de l'AECM



# SMEs and Mittelstand in Germany

*“The backbone of the German Economy”*

# SMEs and Mittelstand in Germany

*SME definition according to EU recommendation 2003/361:*

Company Category	Staff headcount	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

*SME definition in Germany (IfM Bonn, since 01/01/2016):*

Company Category	Staff headcount	Turnover
Medium-sized	< 500	≤ € 50 m
Small	< 50	≤ € 10 m
Micro	< 10	≤ € 2 m

# SMEs and Mittelstand in Germany

## *Definition Mittelstand:*

No quantitative but qualitative criteria:

- Owner exercises significant personal influence,
- Carries the entrepreneurial risk and
- The company ensures the owner's personal means of income and livelihood

# SMEs and Mittelstand in Germany

## *Significance in Germany:*

- Represent 99.6% of all companies
- Provide 58.5% of jobs
- Generate 35.3% of total turnover in Germany
- Employs 82% of apprentices (vocational training)

Source: [www.bmwi.de](http://www.bmwi.de)

# SMEs and Mittelstand in Germany

## *Characteristics of SMEs and the Mittelstand:*

- Extremely diverse: family-owned companies established generations ago, trendy start-ups, self-employed people and service providers, retailers and freelancers, pioneering high-tech companies, regional suppliers and global players...
- Strong partner for large corporations across the entire value chain
- Internationally strong: some 44% export their goods or intermediate goods to other markets
- Driver of innovation and technology / 'hidden champions'
- Special business culture since managed by owner, i.e. fast decision-making, continuity, aim for long-term success, strongly attached to their region

Source: [www.bmwi.de](http://www.bmwi.de)

# SMEs and Mittelstand in Germany

## *Major challenges faced:*

- Digital transformation
- Skilled labour
- Trade conflicts
- Greening / Energy transition
- Succession / Business transfers

Source: [www.bmwi.de](http://www.bmwi.de)



# **Business Transfers: Overall situation**

# Importance of business transfers

- Demographic development
  - Baby boomers retire from working life
  - About 4 million less of working age population
- Dangers
  - Loss of know-how
  - Loss of workplaces
  - Supply gaps – especially in rural areas
  - Applies particularly to efficient companies with 5 to 19 employees

# Advantages of business transfers

- Customer base and customer record
- Staff and machines available
- Know-how (production, processes, purchasing, marketing)
- Realignment of the business possible
- Opportunity also for the companies themselves (*fresh breeze*)

# Frequent issues

- Emotional attachment of senior-entrepreneurs
- Family members not interested
- Diverging price expectations
- Successors face difficulties in accessing finance (support programmes for start-ups are not equal)
- Employees, customers or suppliers do not accept new owner
- Taxation of succession leads to
  - Marginalised retirement provision
  - Limited liquidity
  - Sale of business units



# **Business Transfers: Outcomes of studies**

# KfW Research 2019



- KfW is one of the leading promotional banks in the world
- KfW is active in Germany, Europe and throughout the world - 80 local offices and representations worldwide
- In 2018, KfW committed a total financing volume of EUR 75.5 billion. SMEs, environmental and climate protection were main-focus areas.
- In 2018, KfW had 6.376 employees

# KfW Research 2019



- About half a million entrepreneurs (16% of SMEs) face succession within next 5 years
- 62% of entrepreneurs found potential or particular successors
- Rising awareness of externals as successors (45%) – yet higher information asymmetry and transaction costs
- Number of successors decreased by 61% to 57.500 since 2001
- Rising awareness of the topic business transfers

# Association of German Chambers of Industry and Commerce (DIHK)



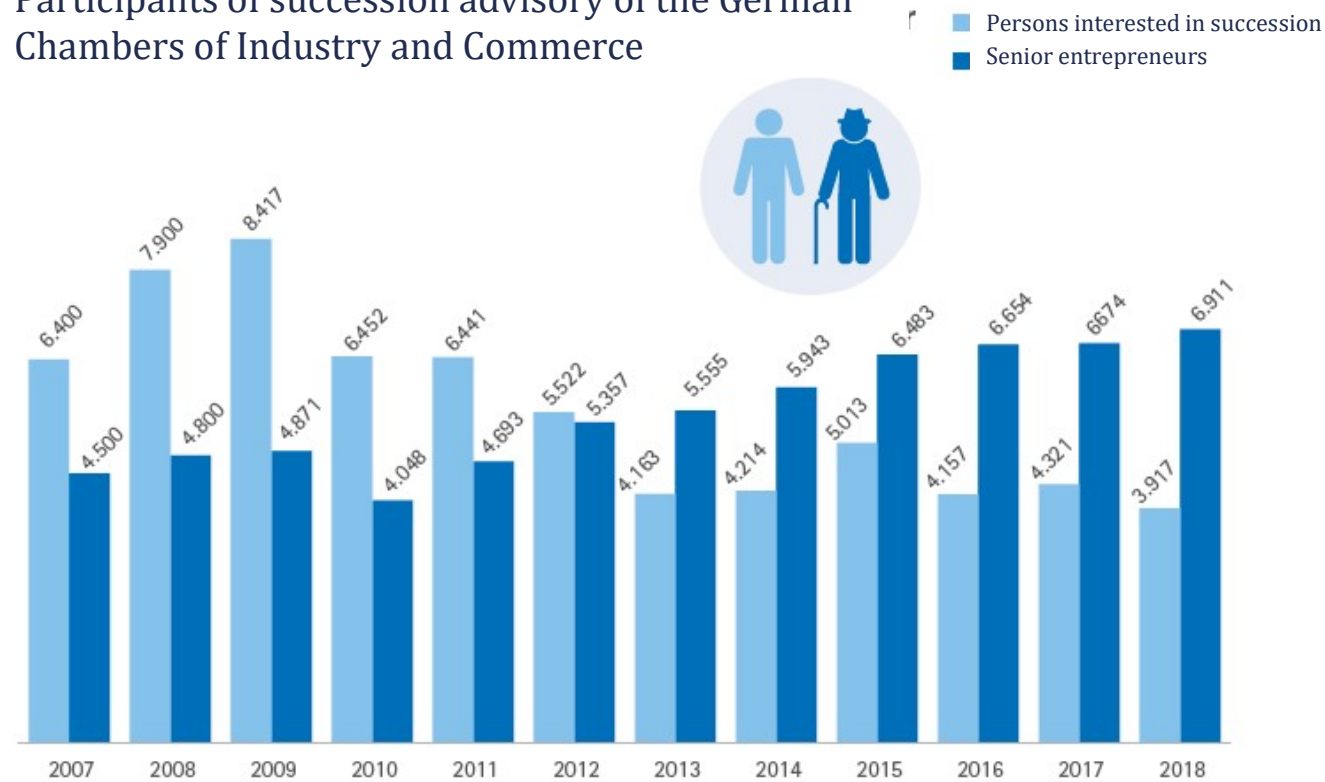
- 200 chambers across Germany
- Help senior entrepreneurs find suitable successors
- 26.000 counselling interviews per year
- Neutral and without commercial interest
- Activities in business transfer
  - Rising of awareness of business transfers
  - Events to inform entrepreneurs on the topic of business transfers
  - Succession advisory services
  - Establishment of connection between senior-entrepreneurs and potential successors

# Study of the German Chambers of Industry and Commerce 2019

- Increasing number of entrepreneurs is looking for successors:
  - 48% of owners are looking for a successor
  - In Eastern Germany 54%
- Decreasing number of persons interested in succession:
  - Difficulties in finding a suitable enterprise
  - 50% of the potential successors have not found an enterprise when starting succession advisory
  - 39% of the potential successors face difficulties in financing business transfers

# The Struggle for Business Transfers

Participants of succession advisory of the German Chambers of Industry and Commerce



Source: DIHK (2019)

# German Crafts Association (ZDH)



- 53 chambers across Germany
- Neutral advisory activities
- Organisation of company fairs
- Company assessment
- Mediation between predecessor and successor
- Qualification in case of deficits

→ More entrepreneurs than ever are prepared for business transfers

# Survey of the German Crafts Association

## (2015)

- Past ten years around 9.500 business transfers per year (before = 11.500)
  - One in four entrepreneurs plans to transfer (18%) or close (7%) the business within next 5 years
- 100,000 upcoming transfers in crafts sector within next 5 years

(crafts sector = one million mainly small and medium-sized companies and 5.5 million employees; crafts sector provides vocational training in 130 different trades)

# Succession Monitor 2019



- Edited by KCE KompetenzCentrum for Entrepreneurship and Mittelstand of the FOM University for Economics & Management Ltd
- Source of data: Business transfers supported / facilitated by 17 German guarantee banks
  - 2017: For the first time, guarantee institutions support more business transfers than start-ups
  - 2018: 52% of the guarantees provided by German guarantee institutions issued for business transfers
- Envisaged to be undertaken on an annual basis

Taken from Frühwerk, S. & Wassermann, H. (2019)

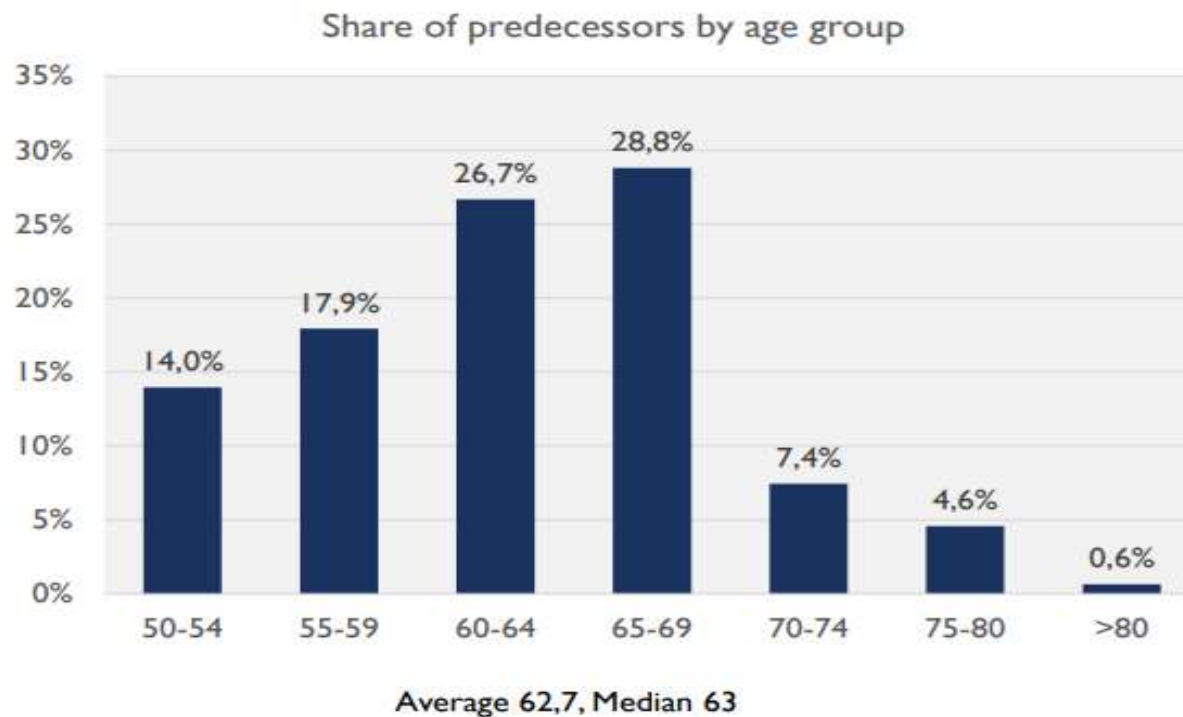
# Succession Monitor 2019

1.245 successors supported in 2018 (290 female & 955 male):



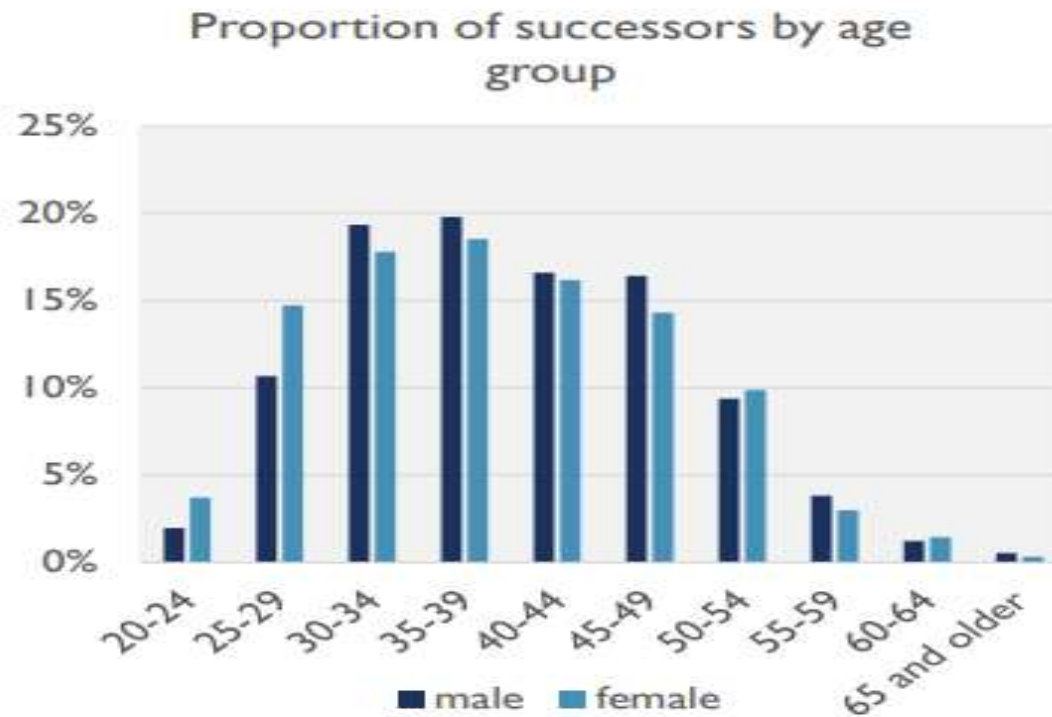
# Succession Monitor 2019

Average age of senior entrepreneurs at the time of business transfer is 62.7 years



# Succession Monitor 2019

- Average age of successors is about 39 years (23% female)





# **Guarantee institutions and business transfers**

# Guarantees for business transfers – more than one way

*Guarantee institutions support differently successors to get access to finance:*

- Covered by general activity / Within the standard guarantee programme
- As part of the start-up financing
- Programmes especially dedicated to business transfers, examples:
  - SIAGI (France): “Garanties Relais” (Bridge Guarantees), launched in 2015
  - SOCAMA (France): “Prêt SOCAMA Transmissio-Reprise”, distribué par les Banques Populaires et garanti par la SOCAMA
  - Bpifrance (France): “Bourse de la transmission”



# **The Federal Ministry for Economic Affairs and Energy**

# Facilitation of pilot projects concerning business transfers

- Announcement of the initiative in August 2019
- The Ministry supports:
  - Raising awareness of business transfers / Sensitisation of owners and matching with interested successors, example Coaches for business transfers
  - Attracting of potential successors among senior employees
  - Creation of networks of business transfers, also after succession for knowledge sharing, etc.
- Support per project in form of grants amounting to 80% of costs (beneficiary of grant has to contribute at least 20% equity)
- Only new projects over a period of max. three years
- December 2019: 30 projects

# Further activities of the Ministry in the area of business transfers



- Information offers (for free) showing possibilities for financing business transfers
- Online portal [www.next-change.org](http://www.next-change.org) of Ministry and KfW (for free) successfully matched 16.700 owners with successors
- Awareness raising among young people, women and migrants: Ministry jointly with a university in Berlin (Hochschule für Wirtschaft und Recht Berlin) offer specific modern communication and digital offers (“Succession-Wiki”, videos, business transfer schedule, internet information in several languages [www.nachfolge-in-Deutschland.de](http://www.nachfolge-in-Deutschland.de))
- Determination of company value via an online evaluation tool ([www.kmurechner.de](http://www.kmurechner.de))



# Suggested improvements

# Suggested improvements

- Promote self-employment
  - Sensitisation of pupils
  - Career orientation at secondary schools, including high schools
  - Communicate self-employment as an attractive life goal
- Equivalence to academic education and incentive to vocational training
- Adjust the legislation on data protection
- Ensure continuation of operating licenses / permits
- Revise tax regulations (inheritance tax, real estate transfer tax)
- Support counselling



**Merci beaucoup  
pour votre attention !**



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