



German American  
Chambers of Commerce  
Deutsch-Amerikanische  
Handelskammern



REPRESENTATIVE  
of German Industry + Trade

# German American Business Outlook 2015

Marc Winterhoff, Partner  
Roland Berger Strategy Consultants

**Roland Berger**  
Strategy Consultants

New York City – December 8, 2014



# German American Business Outlook 2015

## Introductory remarks



In the fall of 2014, the German American Chambers of Commerce (GACCs – AHK USA), the Representative of German Industry & Trade (RGIT), and Roland Berger Strategy Consultants, for the sixth time, conducted a survey of German subsidiaries in the U.S.: the German American Business Outlook 2015

---



1,100 headquarters of German subsidiaries in the US were approached, senior management from various industries responded, mainly from the traditional German Mittelstand (85%)

---



The purpose of the survey was to gauge respondents' opinions on the current business conditions and future outlook

# The GABO survey is designed to draw insights on the current state and future expectations of German-American businesses

## Survey structure

**1** State of the Business

---

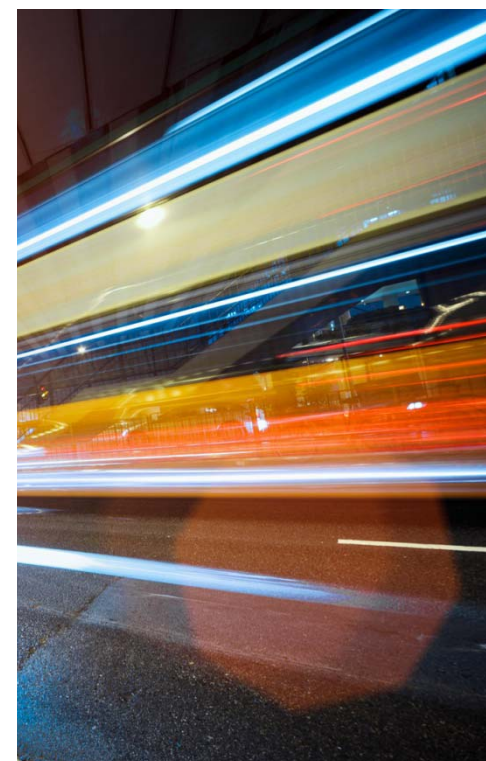
**2** Focus on the U.S. market

---

**3** Future Expectations of German-American Businesses

---

**4** Perspectives on "Industry 4.0," Skills, and TTIP



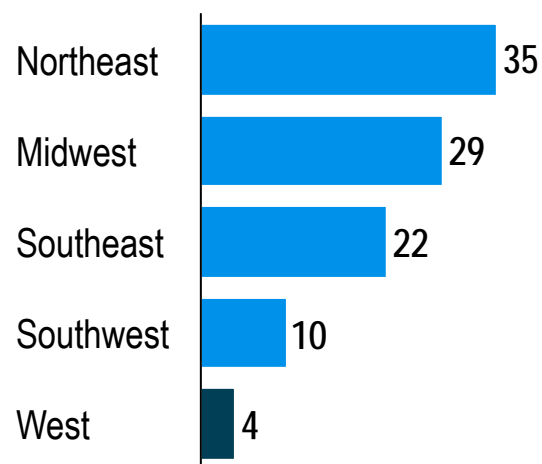
Survey consistency has maintained to draw insightful trends over the years



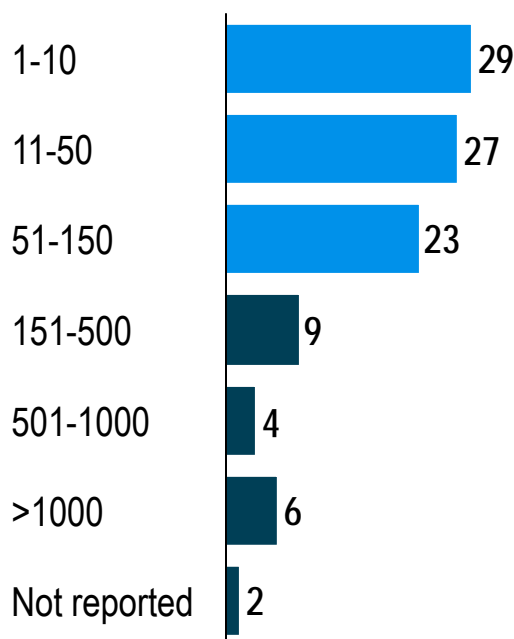
# Respondents represented a comprehensive spectrum of regions and industries, primarily SMEs in Automotive and Manufacturing

## Study participant breakdown

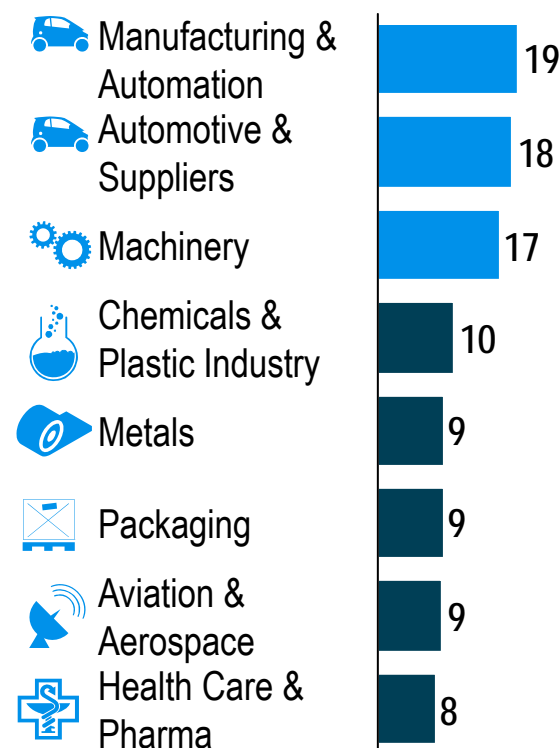
### By region [%]



### By company size<sup>1)</sup> [%]



### By industry<sup>2)</sup> [%]

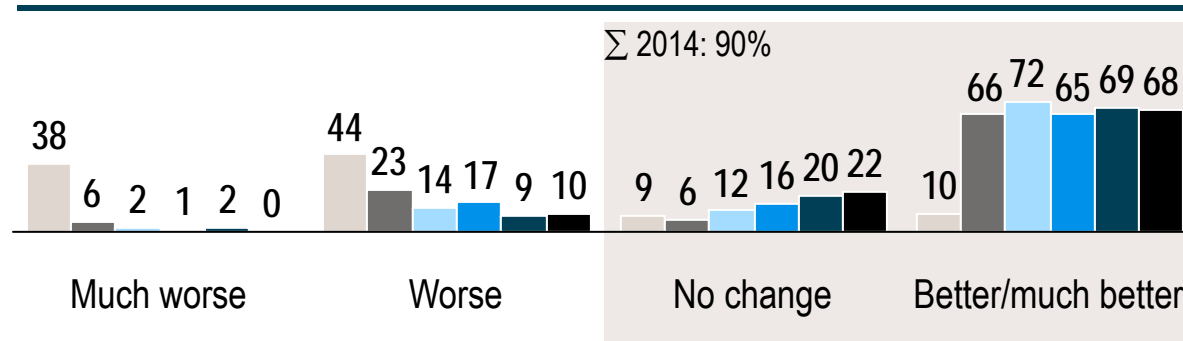


1) Based on employee count; 2) Respondents can be present in more than one industry, top 8 of 46 Industries shown – results normalized to 100%

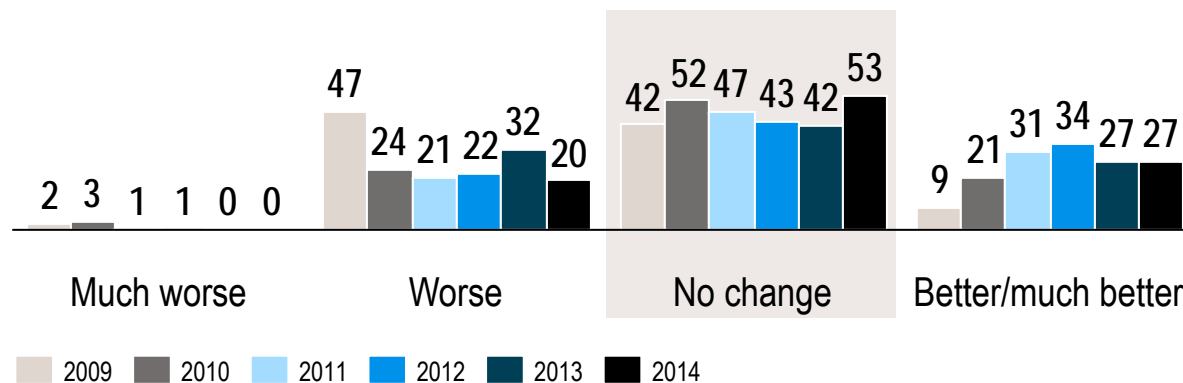
# Despite stagnating price levels, German-American companies report another strong year of volume growth

Sales volumes and prices (2009-2014)

## Change in sales volumes [%]



## Change in sales price [%]



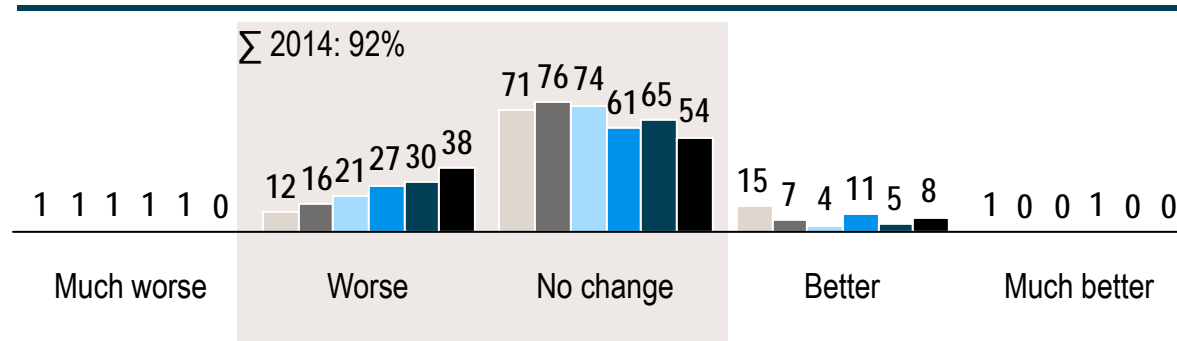
## Insights

- > 90% of companies report same or much better sales volumes, continuing their recovery from the economic slowdown
- > Majority of companies have not experienced much change in price levels since last year

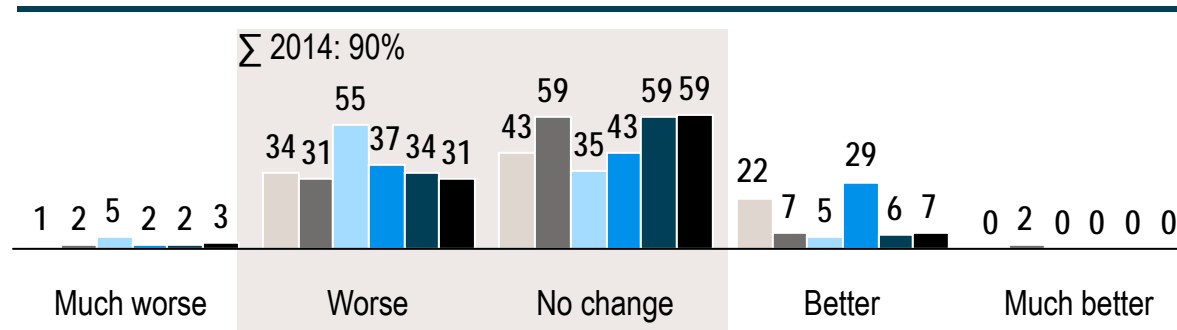
However, labor costs have consistently increased over the past 5 years, while non-labor costs have continued to worsen as well

Labor and non-labor costs (2009-2014)

### Change in labor costs [%]



### Change in non-labor costs<sup>1)</sup> [%]



2009 2010 2011 2012 2013 2014

1) Non-labor costs = raw material costs and costs of semi-finished and finished goods

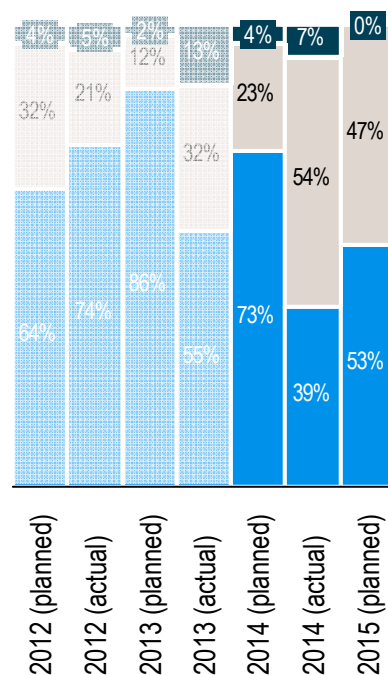
### Insights

- > Labor costs are increasing, likely due to upward wage pressure as a result of the economic recovery
- > However, non-labor costs showed signs of stabilization in 2014

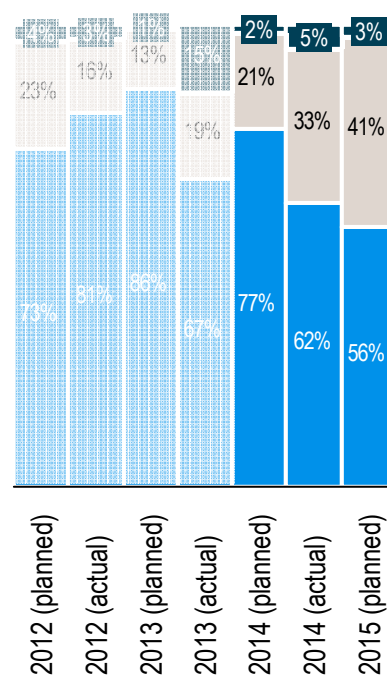
# As a result, companies did not hire as much as planned in 2014 – But most plan to increase or maintain headcount in 2015

Headcount change by company size [employees]

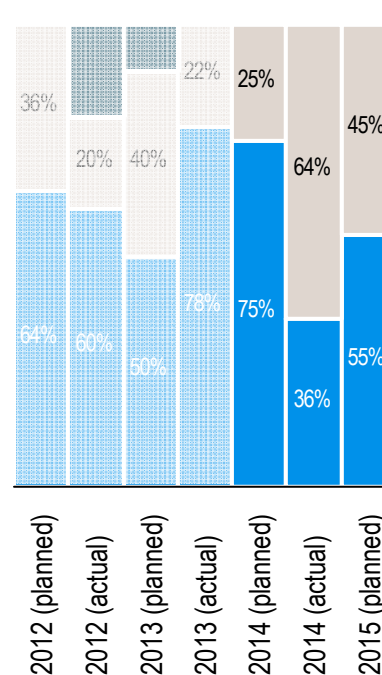
## 0-50



## 51-500



## 501+



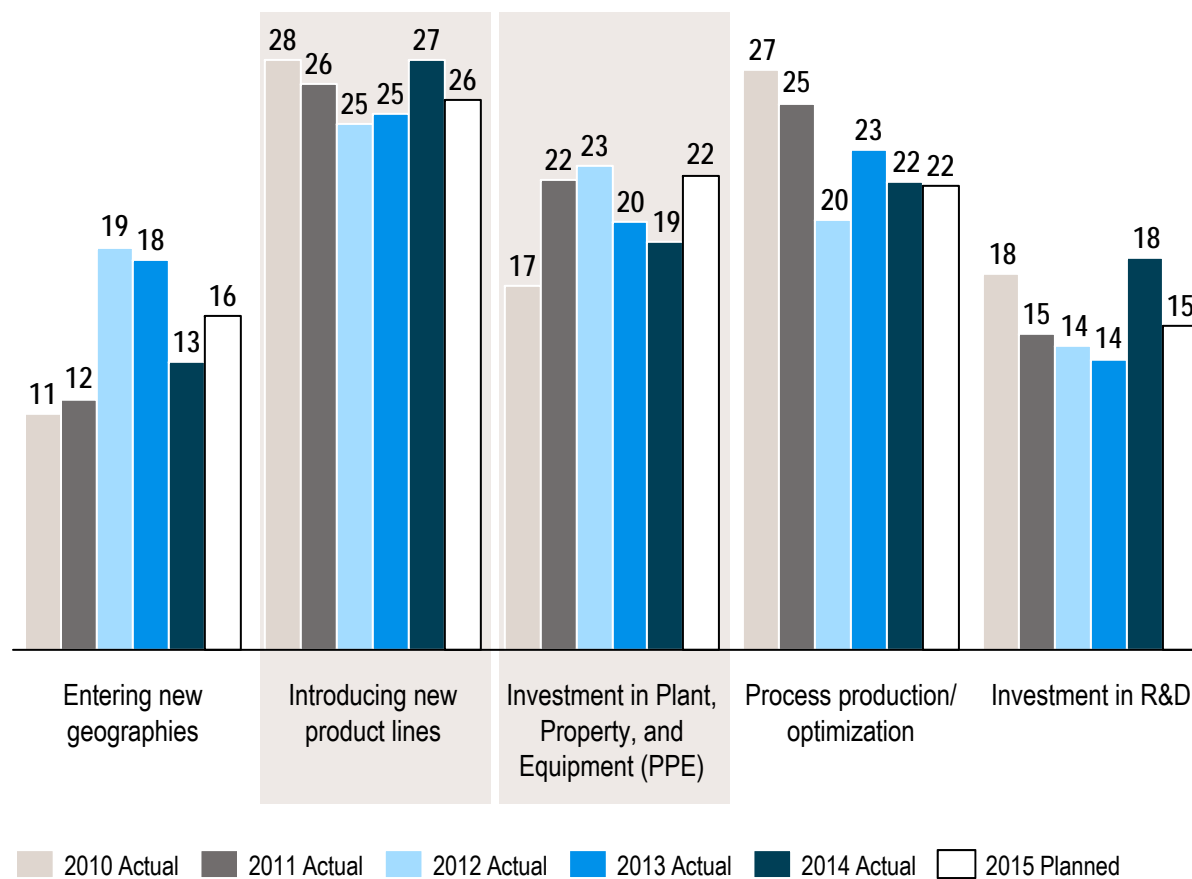
Reduction No change Increase

## Insights

- > Just over 50% of companies plan to increase their workforce in 2015, down from 75% in 2014
- > Large companies hired less than expected, a complete reversal of what happened in 2013
- > 2014 saw slightly more workforce reduction than was planned for

# Introducing new product lines remains the most popular strategic initiative of 2014 and planned for 2015

Strategic initiatives<sup>1)</sup> [%]



1) Multiple responses allowed, normalized results to 100%

## Insights

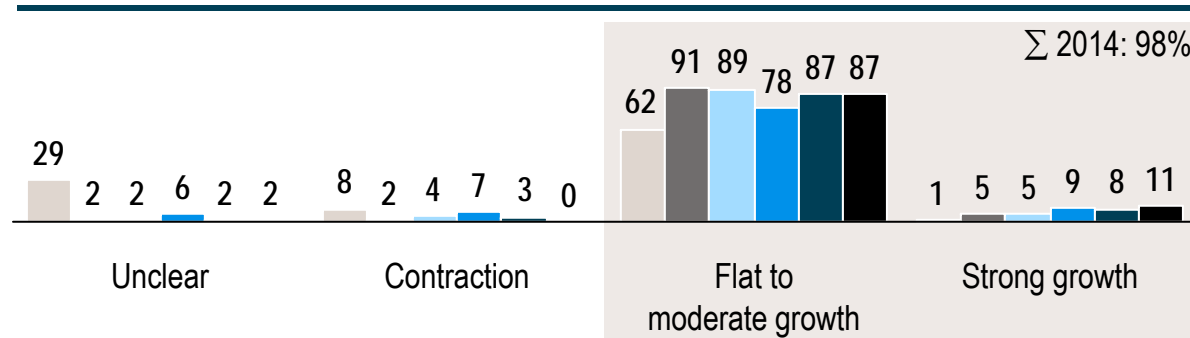
- > Half of respondents forecast a moderate-to-strong increase in capital expenditures in 2015
- > New product lines, investment in PPE and process optimization remain most popular initiatives in 2015 – Investment in R&D reduced noticeably



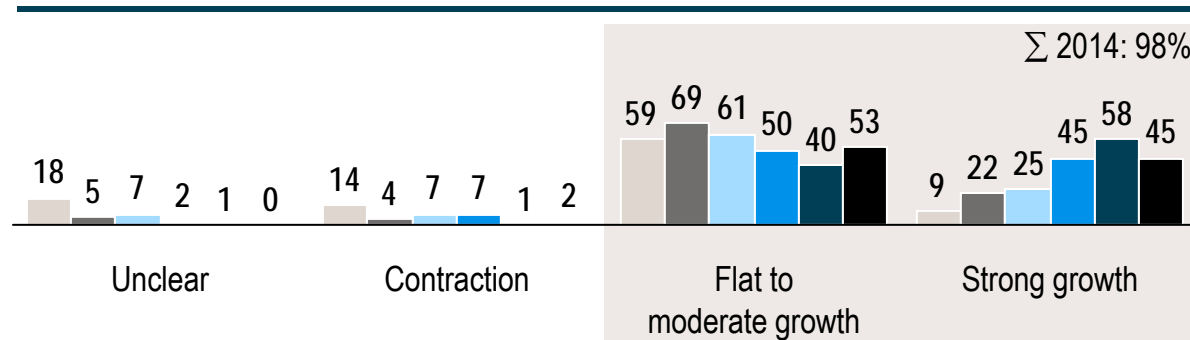
# German-American companies continue to be confident that their own growth will outpace that of the U.S. economy

## Macroeconomic and microeconomic outlook

### U.S. growth outlook<sup>1)</sup> [%]



### Own business growth outlook<sup>1)</sup> [%]



2009 2010 2011 2012 2013 2014

1) Flat is defined as <1%, moderate is defined as + 1-3%, while strong is defined as + >3%

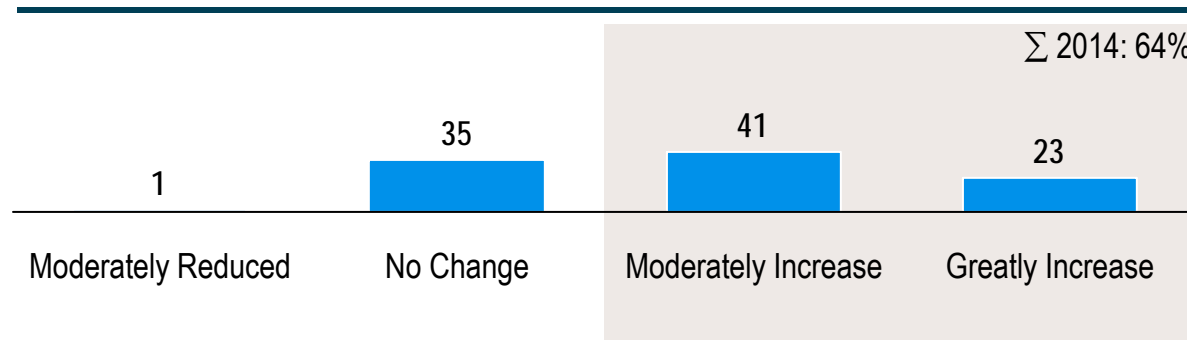
### Insights

- > Overall, 98% of respondents expect U.S. economic growth
- > 98% of respondents anticipate flat to strong growth for their business in 2015
- > Companies believe that their own businesses will grow at a pace greater than the U.S. economy

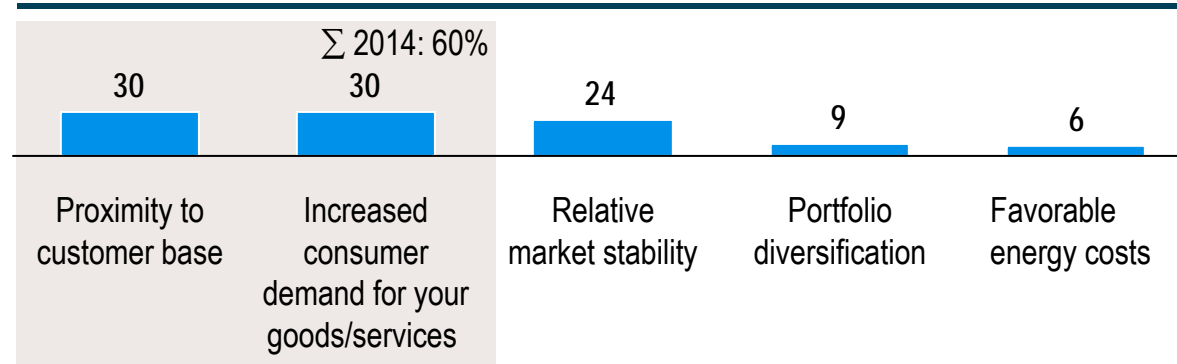
# Access to the U.S. market and consumer base continues to attract investment from German-American companies

Strategic focus and future investment in the U.S.

## Strategic focus on U.S. since last year<sup>1)</sup> [%]



## Top reasons for future investment in the U.S. [%]



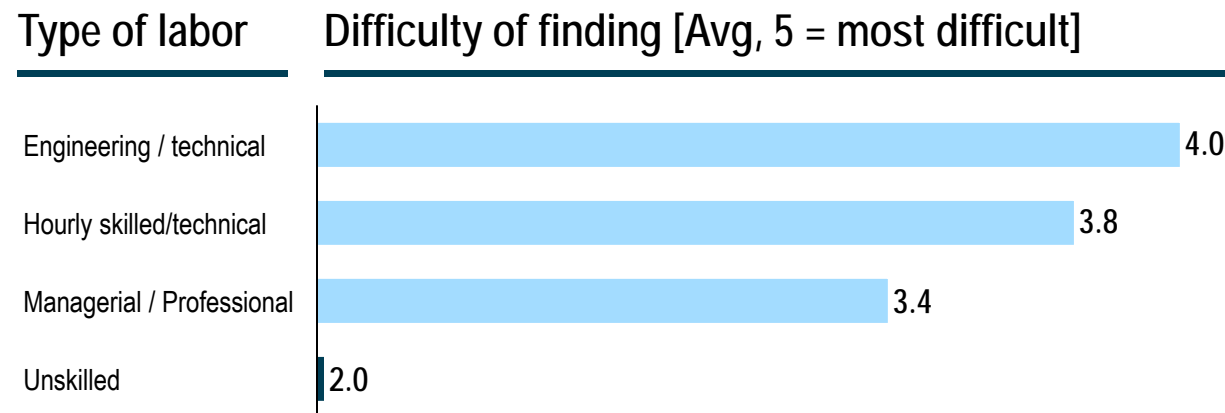
## Insights

- > Majority of respondent companies have moderately or greatly increased their strategic focus on the U.S. in 2014
- > Investment in the U.S. is predominantly driven by the opportunity to be closer to the customer base and increasing product demand

1) Multiple responses allowed, normalized results to 100%

# Many companies experience difficulty in accessing highly skilled labor and prefer to train employees in-house

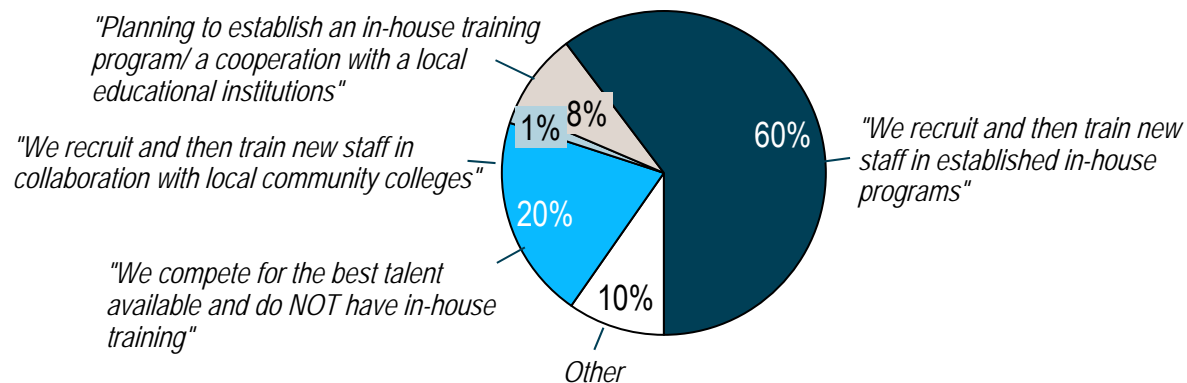
## Labor accessibility



## Insights

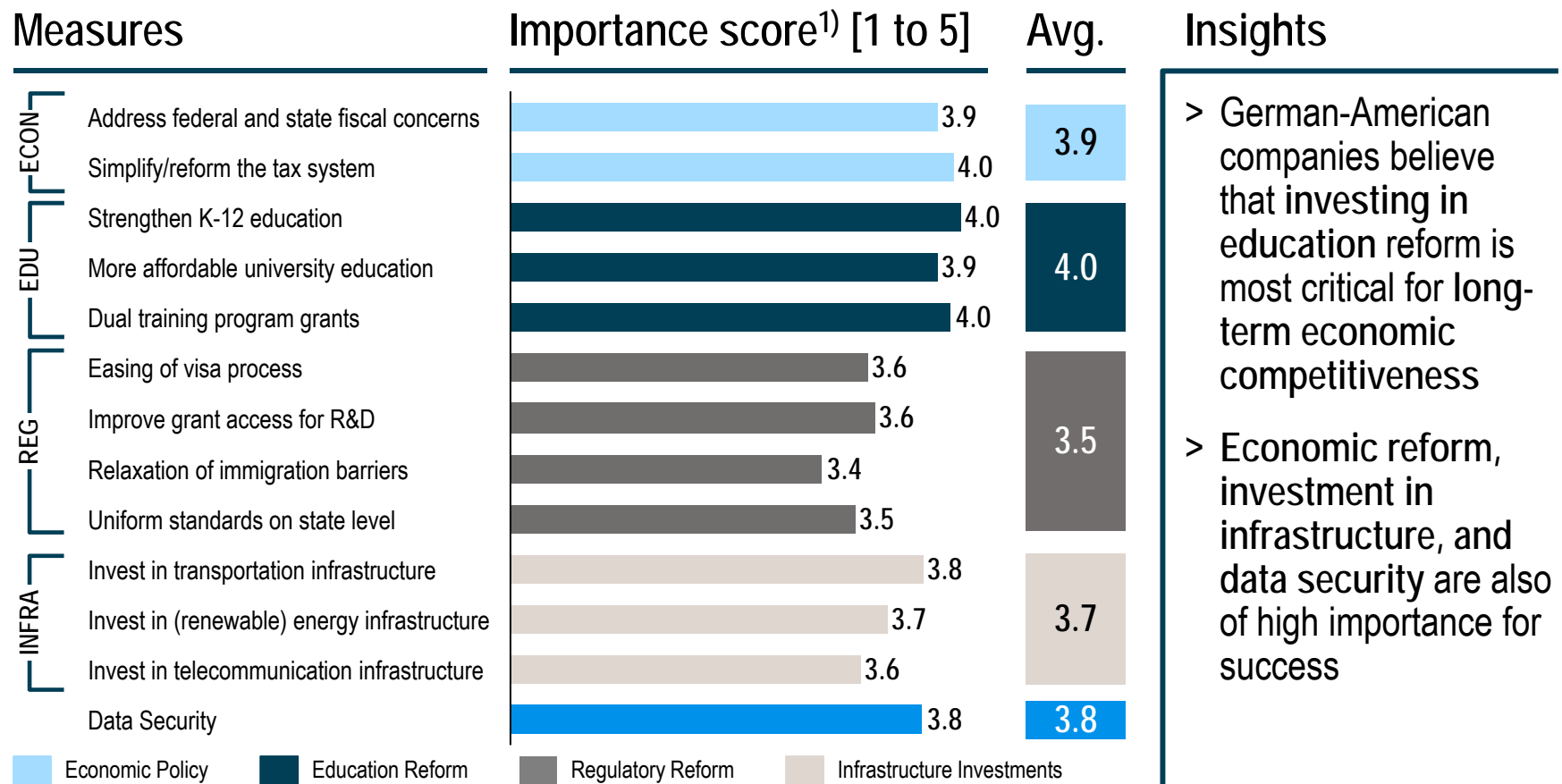
- > 65% of respondents reported to have difficulties finding candidates with the right level of education
- > Respondents on average indicated that it was most difficult to find labor with engineering or technical expertise

## How do you compensate for skill shortages in the US? [%]



# Education and economic related reform are regarded as the most critical factors for sustained economic growth

## Relative importance of regulatory reforms

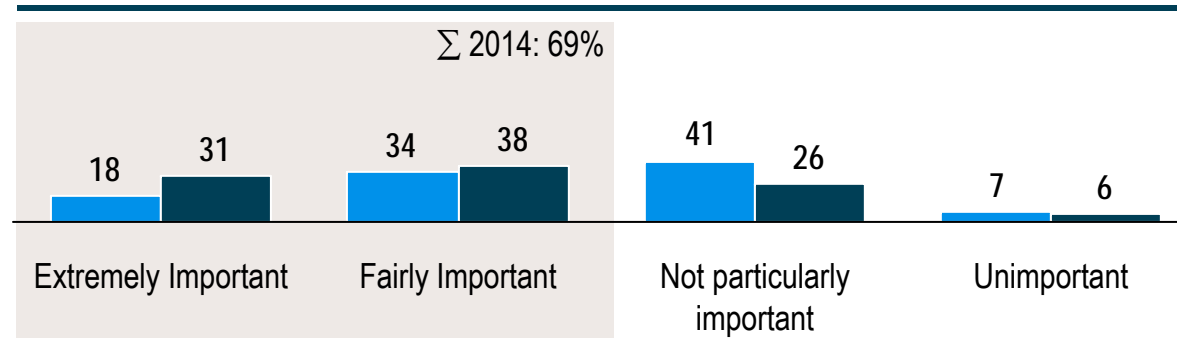


1) 1 = least important, 5 = most important

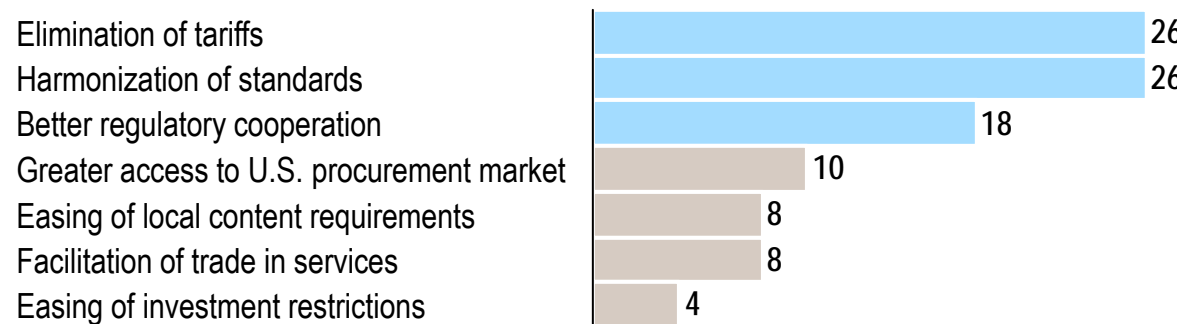
# TTIP is gaining importance in the minds of respondents, particularly as means of reducing transatlantic complexity

## Transatlantic Trade and Investment Partnership (TTIP)

### Relative importance of TTIP to respondents [%]



### Greatest potential benefits of TTIP [%]<sup>1)</sup>



■ 2013 ■ 2014

1) Multiple responses allowed, normalized results to 100%

### Insights

- > Majority of respondents believe that TTIP is either extremely or fairly important to their company
- > Elimination of tariffs and increased standardization are viewed to be the most influential anticipated benefits of TTIP





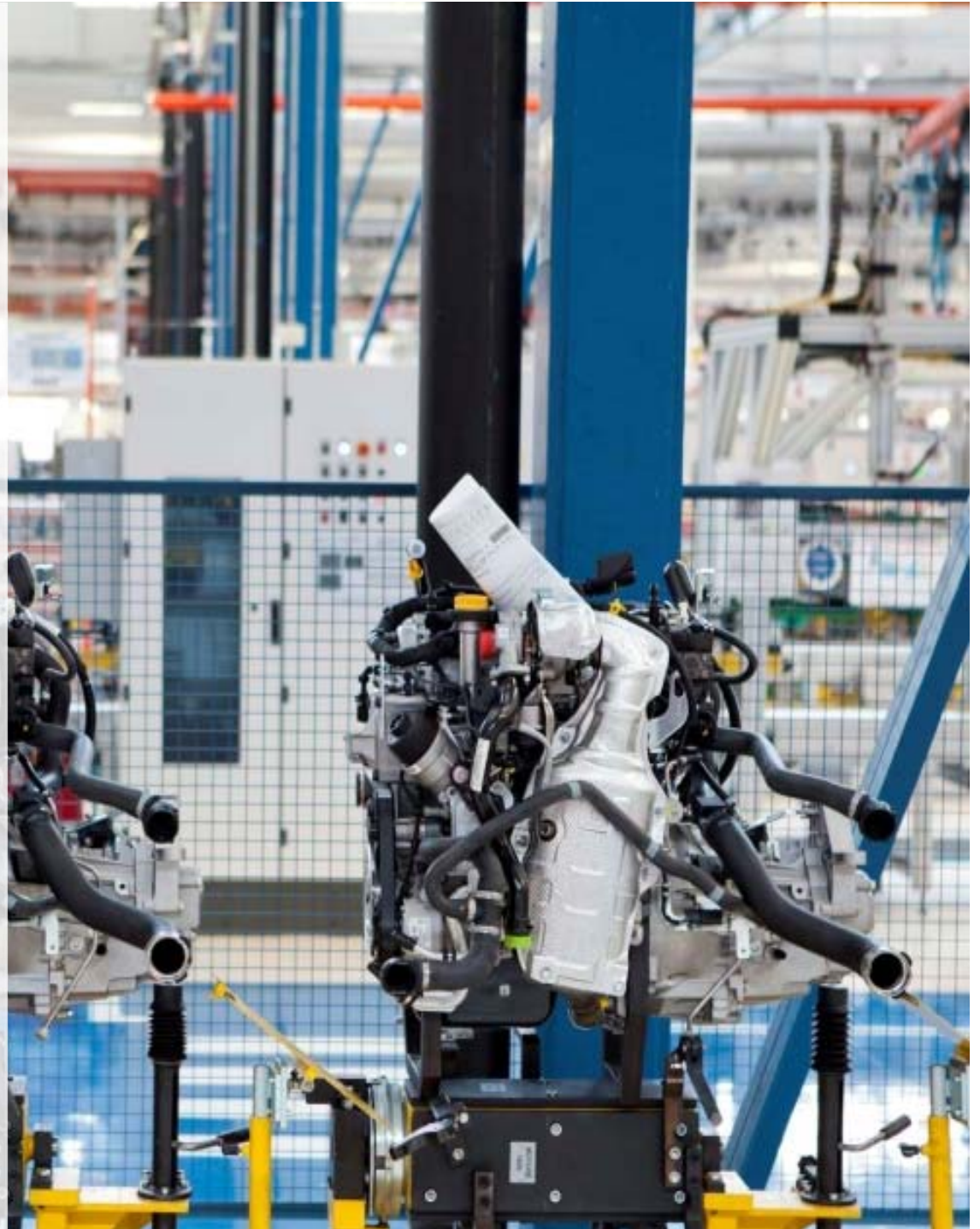
German American  
Chambers of Commerce  
Deutsch-Amerikanische  
Handelskammern



**REPRESENTATIVE**  
of German Industry + Trade

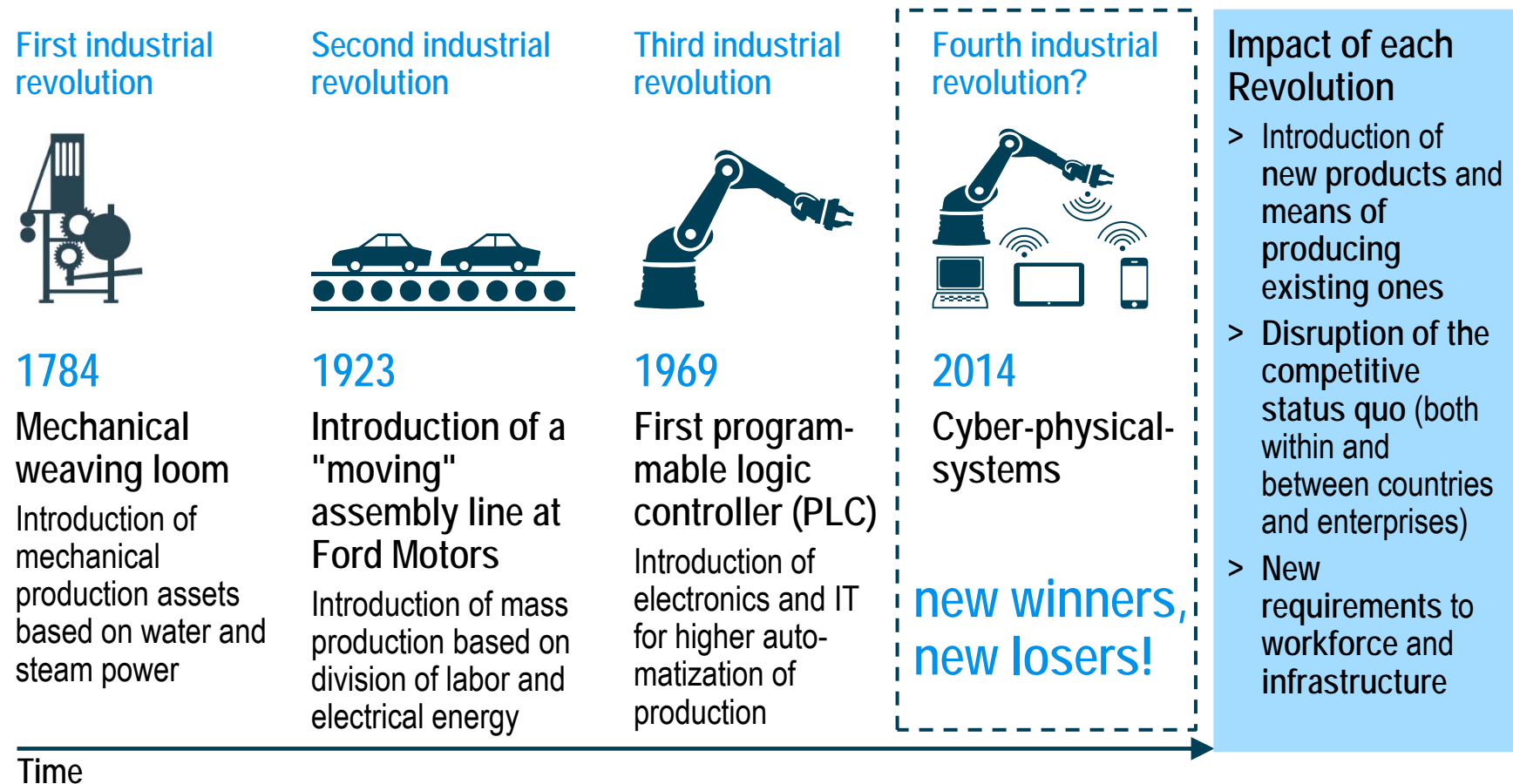
## Special on Industry 4.0

**Roland Berger**  
Strategy Consultants



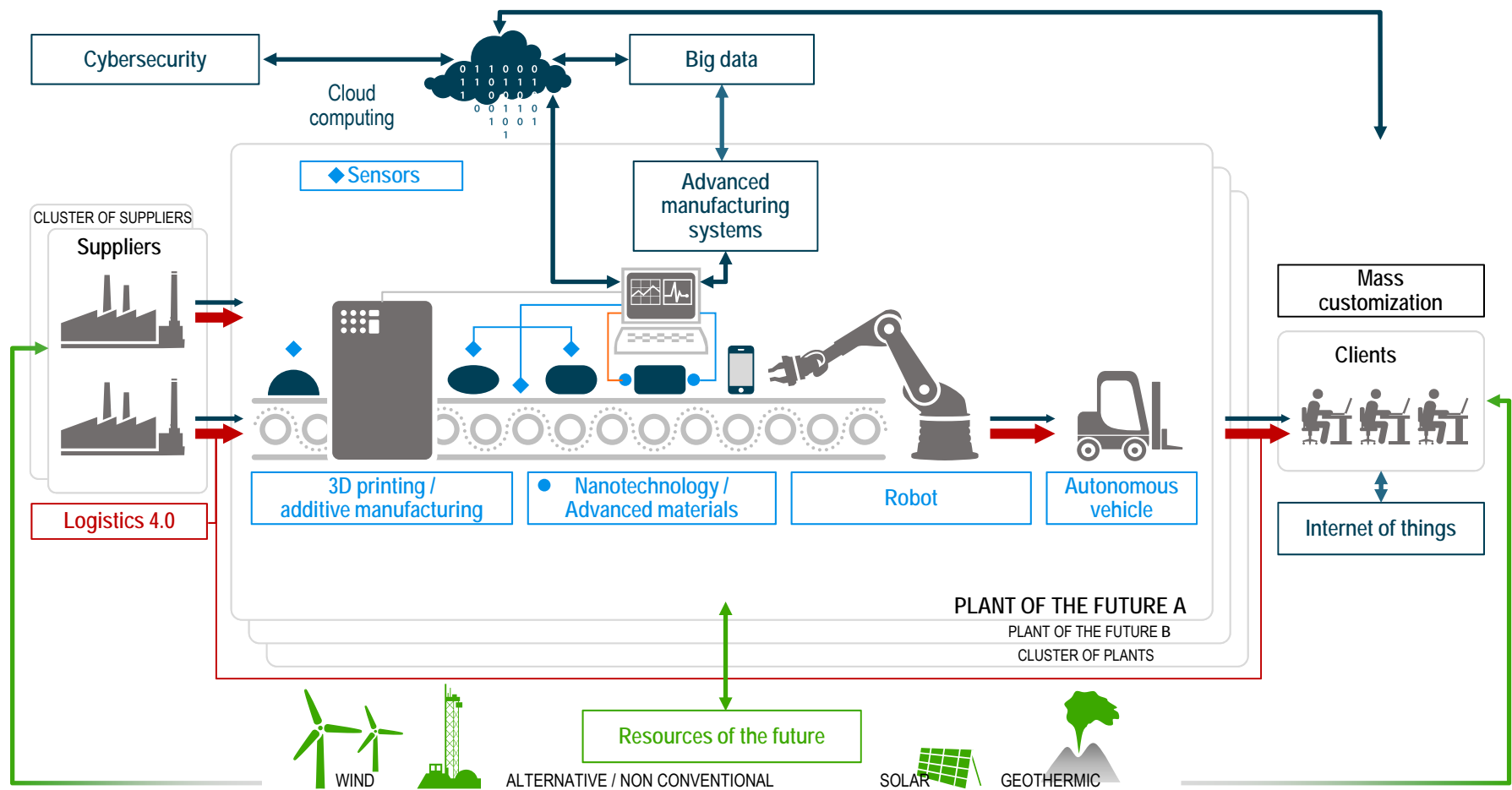
# Industry 4.0's "Cyber-physical" systems will transform the economy, forming the basis of the next industrial revolution

## Development stages of industrial manufacturing



# As a result, Industry 4.0 will radically change the relationships across the value chain

## Factory 4.0 – Overview (example)



# In the consumer goods sector, Industry 4.0 solutions have already supported the creation of new business models

## Serial production of individualized products

### Traditional solution



- > High number of pre-customized basic cereals all-year available in supermarkets
- > Time-limited offer of special cereal editions
- > Take-over of good selling special editions into the permanent product portfolio
- > Independent R&D department for development of new cereals and downstream product testing

### Industry 4.0 solution by **mymuesli**



- > Full flexible production process enables 566 bn different cereal compilations
- > Integrated value chain through production information on barcodes printed on the can (smart product)
- > Social sharing of customized cereals – Best selling cereals are taken-over into the permanent product portfolio
- > Internet-based sales platform and flagship stores in selected cities

### Benefits

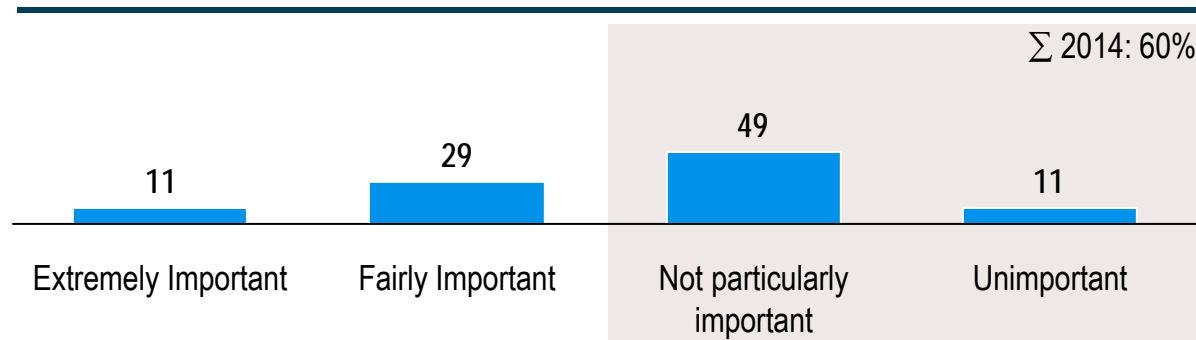
- > Series production of individualized customer products
- > Single production line with very high utilization
- > No R&D cost
- > Direct market data analysis with very low financial risk of failed product launches



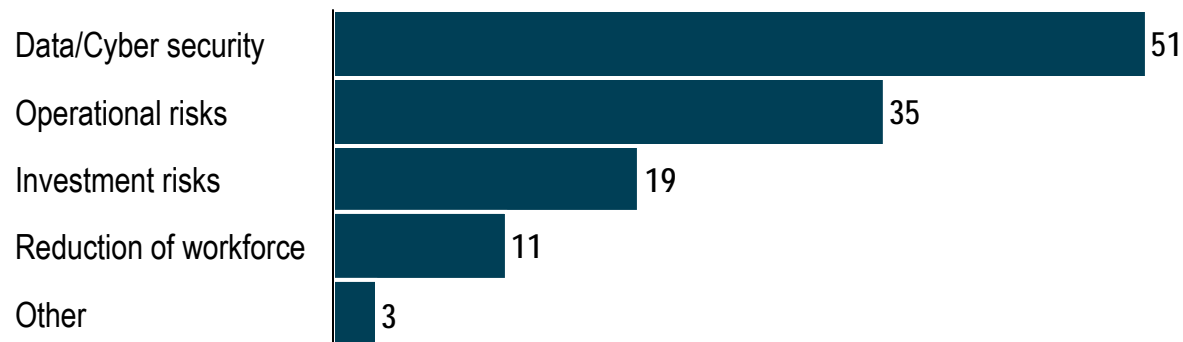
# Despite its increasing global popularity, majority of respondents do not yet see Industry 4.0 as relevant

## Attitudes towards industry 4.0

### Relative Importance of Industry 4.0 to respondents [%]



### Risks associated with Industry 4.0 [%]<sup>1)</sup>



1) Multiple responses allowed, normalized results to 100%

Source: German American Business Outlook 2015

### Insights

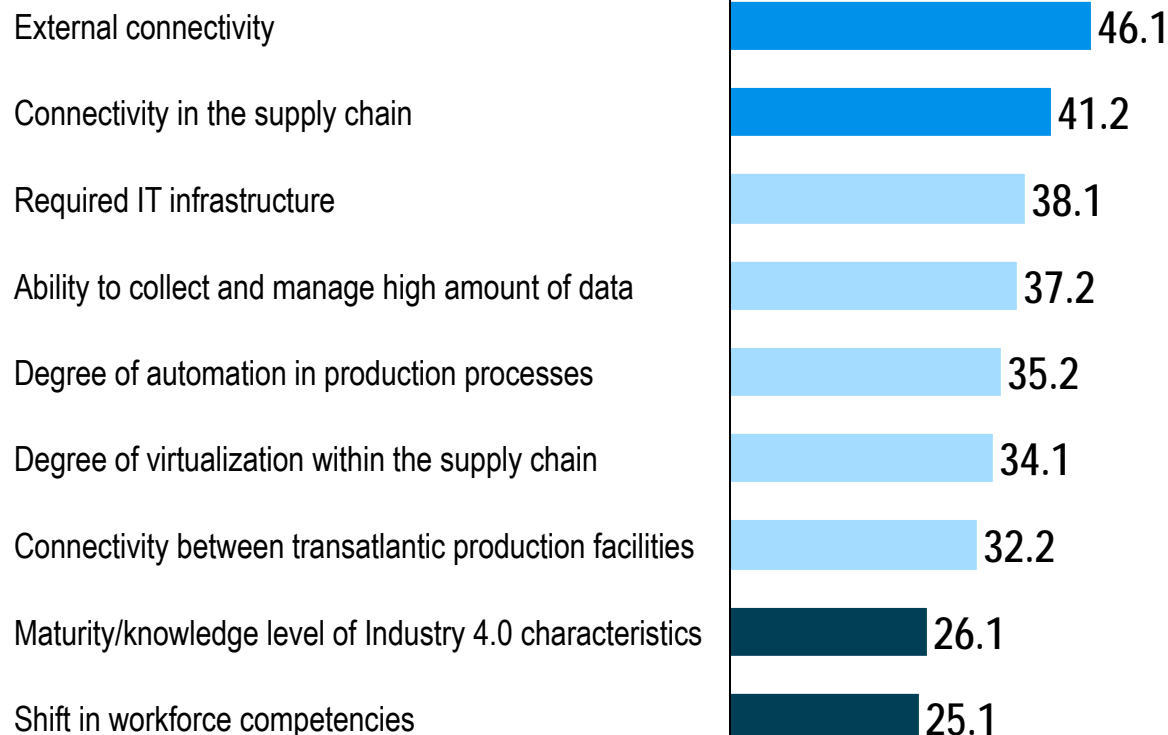
- > Companies are reluctant to implement Industry 4.0 practices because of concerns surrounding data security and new operational processes
- > Despite the possibility for considerable changes to manufacturing employment, potential reductions in workforce are not seen as major risks to Industry 4.0 adoption



## However, enhanced connectivity between businesses through Industry 4.0 is seen as a majority opportunity

### Opportunities of Industry 4.0

#### % who ranked opportunity as important



#### Insights

- > External and internal connectivity is regarded as the most significant opportunity of Industry 4.0
- > This ranges from enhanced communication with suppliers, service providers, and clients to enhanced IT integration and connectivity in the supply chain

# German-American companies are enjoying continued success in the U.S. and are generally optimistic about future growth

## Summary

- 1 State of Business** Revenue of German-American businesses appear to have mostly improved – access to candidates with the right skill set continues to be an issue, many firms hired less than expected in 2014

---

- 2 Focus on U.S. market** Firms are optimistic about growth prospects and plan to increase U.S. investment, largely driven by a positive outlook on the U.S. economy – headcount growth will mostly rely on in-house training programs

---

- 3 Future expectations of German-American businesses** A Transatlantic Trade and Investment Partnership agreement is seen as increasingly important to firms hoping to see an elimination of tariffs, harmonization of standards and better regulatory cooperation

---

- 4 Perspectives on "Industry 4.0"** While many companies remain unsure of the importance, implications, and possibilities from Industry 4.0, a handful are capitalizing on the opportunity to gain a competitive advantage

## Participating organizations:



German American  
Chambers of Commerce  
Deutsch-Amerikanische  
Handelskammern

With their 3 main offices in Atlanta, Chicago, and New York and branch offices in Detroit, Houston, New York, Philadelphia and San Francisco, the GACCs (AHK USA) have approximately 2,500 members from all industries. The GACCs offer a broad spectrum of activities and services for the German-American business community. Fostering bilateral trade and investment, and the provision of consulting services are among the key tasks. The GACCs, coordinated and supported by the German Association of Chambers of Industry and Commerce (DIHK), are an integral part of the network of German Chambers of Commerce Abroad with 130 offices in 90 countries around the globe.



**REPRESENTATIVE**  
of German Industry + Trade

The Representative of German Industry and Trade (RGIT) is the liaison office of the Federation of German Industries (BDI) and the Association of German Chambers of Industry and Commerce (DIHK) in Washington. RGIT represents the interests of the German business community vis-à-vis Congress, the US administration and the international organizations based in Washington, D.C. We report regularly on economically significant developments as well as legislative activities in the US and provide our partners in the United States with information on German business.

**Roland Berger**  
Strategy Consultants

Founded in 1967, Roland Berger is one of the world's leading strategy consultancies. With 50 offices in 36 countries, the company has 2,400 employees contributing to its successful operations in all major international markets. The strategy consultancy is an independent partnership exclusively owned by about 220 Partners.

## Your contacts:



German American  
Chambers of Commerce  
Deutsch-Amerikanische  
Handelskammern

German American Chamber of Commerce, Inc. – AHK USA-New York

Nicola Michels

75 Broad Street, 21st Floor, New York, NY 10004

T +1 (212) 956-1770 | F +1 (212) 074-8867

[nmichels@gaccny.com](mailto:nmichels@gaccny.com) | [www.gaccny.com](http://www.gaccny.com)

German American Chamber of Commerce of the Midwest, Inc. – AHK USA-Chicago

Jayne Riemer-Chishty

321 N Clark Street, Suite 1425, Chicago, IL 60654

T +1 (312) 494-2169 | F +1 (312) 644-0738

[riemer-chishty@gaccmidwest.org](mailto:riemer-chishty@gaccmidwest.org) | [www.gaccmidwest.org](http://www.gaccmidwest.org)

German American Chamber of Commerce of the Southern United States, Inc. – AHK USA-Atlanta

Stefanie Jehlitschka

1170 Howell Mill Rd, Suite 300 Atlanta, GA 30318

T +1 (404) 586-6803 | F +1 (404) 586-6820

[sjehlitschka@gaccsouth.com](mailto:sjehlitschka@gaccsouth.com) | [www.gaccsouth.com](http://www.gaccsouth.com)



**REPRESENTATIVE**  
of German Industry + Trade

Representative of German Industry + Trade

Dr. Thomas Zielke

1776 I Street, N.W., Suite 1000, Washington, D.C. 20006

T +1 (202) 659-6831 | F (202) 659-4779

[thzielke@rgit-usa.com](mailto:thzielke@rgit-usa.com) | [www.rgit-usa.com](http://www.rgit-usa.com)

**Roland Berger**  
Strategy Consultants

Roland Berger Strategy Consultants LLC

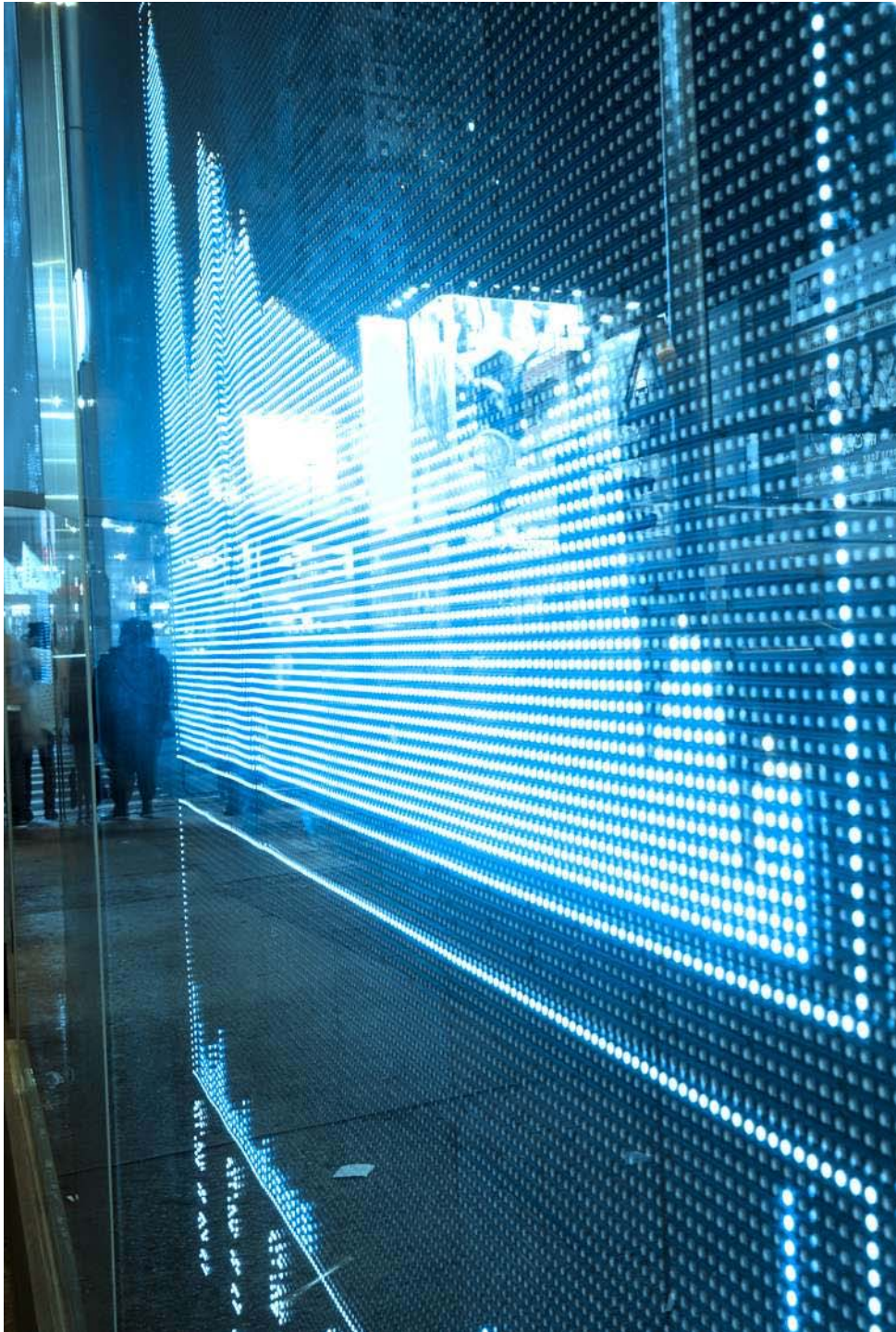
Marc Winterhoff, Partner

37000 Woodward Avenue, Suite 200, Bloomfield Hills, MI 48304

T +1 (248) 729-5000 | F +1 (248) 649-1794

[Marc.Winterhoff@rolandberger.com](mailto:Marc.Winterhoff@rolandberger.com) | [www.rolandberger.us](http://www.rolandberger.us)





German American  
Chambers of Commerce  
Deutsch-Amerikanische  
Handelskammern



**REPRESENTATIVE**  
of German Industry + Trade

Thank you for your  
participation in the  
2015 German American  
Business Outlook!

**Roland Berger**  
Strategy Consultants