

Navigator 2020 Germany



Together we thrive

Contents

- 1. Overview
 - 2. Business outlook
 - 3. Future strategy
 - 4. International trade
 - 5. Reshaping supply chains
 - 6. Sustainability
- Survey methodology

Introduction

The German government's response to COVID-19 has been impressive, both in terms of public health and fiscal support. The latest fiscal package in June included VAT cuts to boost spending and employment. Shortly before our 2020 Navigator survey opened, it also extended its short-time working scheme and relaxed its corporate insolvency law. But unemployment and corporate bankruptcies could rise when these initiatives end, hampering recovery in 2021. And as everywhere, further waves of COVID-19 pose an ongoing threat.

1. Overview



Competitiveness and **customer focus** help German businesses adapt to the new normal

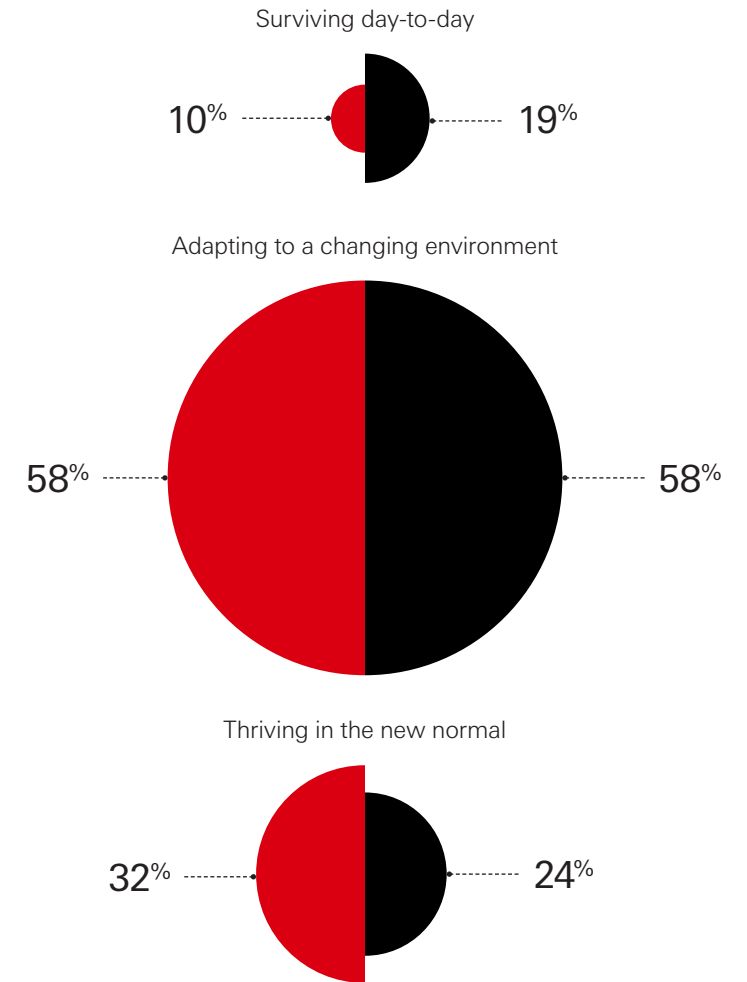
German expectations of business growth have waned in the wake of COVID-19. As a result, companies are taking a more cautious approach to future investing than their global peers. However, the proportion adapting to the new normal mirrors the global figure, achieved through focusing on entrepreneurialism, competitiveness and customer-centricity.

Looking ahead, intra-regional trade remains dominant, with fewer German businesses anticipating an upswing in international trading. Supply chains are a concern, with priority given to suppliers within home regions that can deliver fast, plus improved security, cost reduction, and lower exposure to one single market.

Although generally seen as good for business, Germany's engagement with sustainability is lower than globally. Pressure from consumers and governments, among other influences, is likely to increase the focus.

Current status of business

- Germany
- Global



2. Business outlook



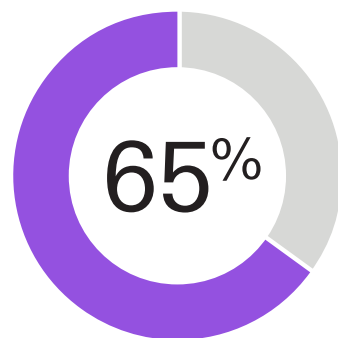
German business is **less optimistic** about future growth than its global peers

Consistent with global findings, optimism among German businesses has declined. Only 15% feel more confident than a year ago – the lowest in Europe, and half the global proportion.

Expectations of revenue growth have also fallen by 20% compared with 15% globally. What's more, the proportion of German companies that fall into the higher growth category is below the global average.

Encouragingly, more German businesses say they are thriving in the new normal than globally. They're also slightly ahead of the global average for when they might return to pre-COVID levels of profitability.

Of the strategies available to aid recovery, enable growth and increase competitiveness, German businesses intend focusing on defensive cost-cutting, pro-actively expanding to new markets and improving products and services.



of businesses expect to return to pre-COVID profitability levels by the end of 2022

Top 3 drivers of business growth



When businesses expect to return to pre-COVID levels of profitability

%

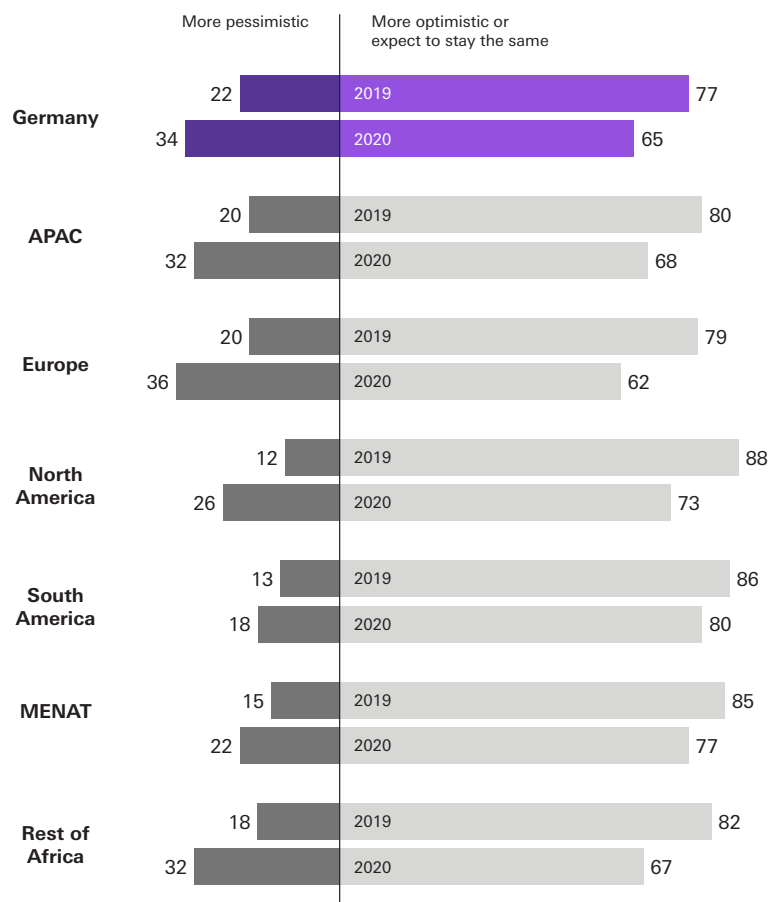


2. Business outlook (continued)



How business outlook has changed in the last 12 months*

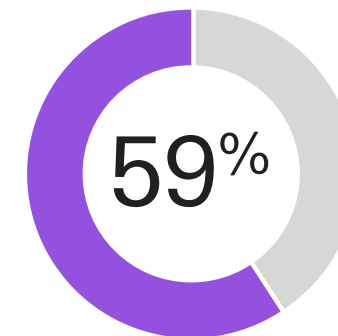
%



*Excludes businesses answering 'Don't know'

Business investment

German companies are more conservative about investing than their peers: six in ten (59%) intend increasing investment, compared with two-thirds globally and in Europe (67% and 64%). They are also cautious about the level: a third (34%) plan to increase investment by 10% or more, compared with half globally.



These businesses will focus investment on product innovation, the customer experience, employee wellbeing, expansion into new markets and marketing. But in each case the proportion is lower than globally.

Four in five companies plan to increase investment in technologies that facilitate product/service innovation, automation/operational efficiency, and targeting new customers.

of German businesses intend to increase investment in their business in the next year, despite the challenging environment

Strategies of German businesses to benefit from growth drivers and address threats



3. Future strategy

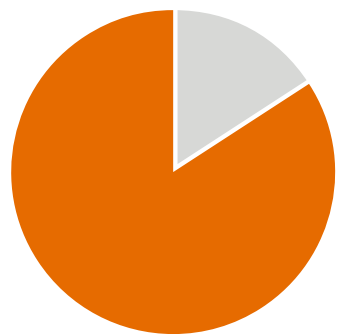


For German businesses, **entrepreneurialism** and **innovation** are key to future success

More companies in Germany have implemented changes over the last 12 months than globally, with a higher proportion of long-term/transformational changes – particularly among corporate, international and offline businesses. In line with the global position, the key reasons were cost reduction, advances in digitisation, future uncertainty, and regulatory requirements.

German businesses believe the successful companies of the future will be well-rounded and defined by innovation. More than half (55%) say that becoming more entrepreneurial will make their business more customer-centric. Half say it will make them more competitive, and just under half (45%) say it will improve their people focus.

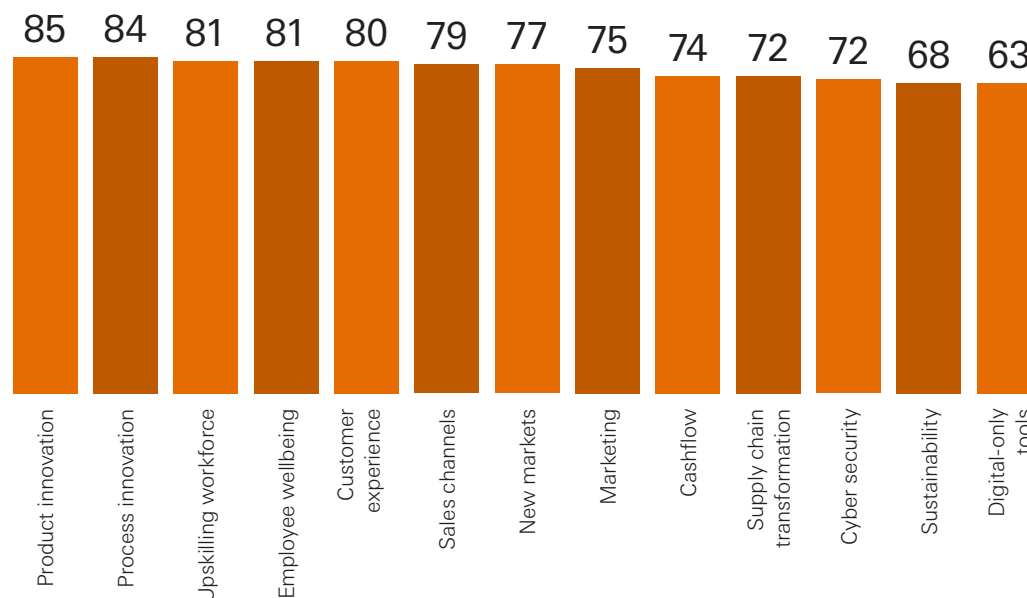
There are clear and tangible benefits to becoming more entrepreneurial: three in ten businesses in Germany believe it will lead to an increase in market share, in line with global.



84% of businesses have undergone changes in the last 12 months

Investment priorities enabling businesses to move forward

%



Top 5 facets of a successful entrepreneurial business



4. International trade

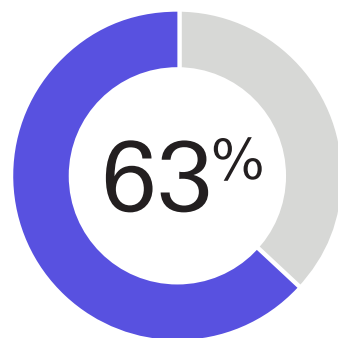


A less optimistic outlook prompts Germany to maintain focus on **intra-regional trade**

Fewer German companies think international trade has or will become more difficult than their global peers. This reflects the lower proportion (40% compared with 64% globally) who believe protectionism has increased.

Despite this, fewer businesses expect their international trade prospects over the next couple of years to be positive (63% compared with 72% globally). But sentiment appears to be improving, with more German companies not reducing external trade in the past two years, as well as not considering doing so in the next two years, than in 2019.

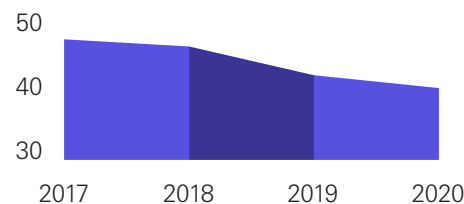
Intra-regional trade remains dominant in Germany – seven in ten businesses trade within Europe, with Austria and France the most important markets. And slightly more German companies (15%) are opting to operate domestically only than in 2019 (11%), instead of expanding internationally.



of companies expect their international trade prospects over the next 1-2 years to be positive

Protectionism

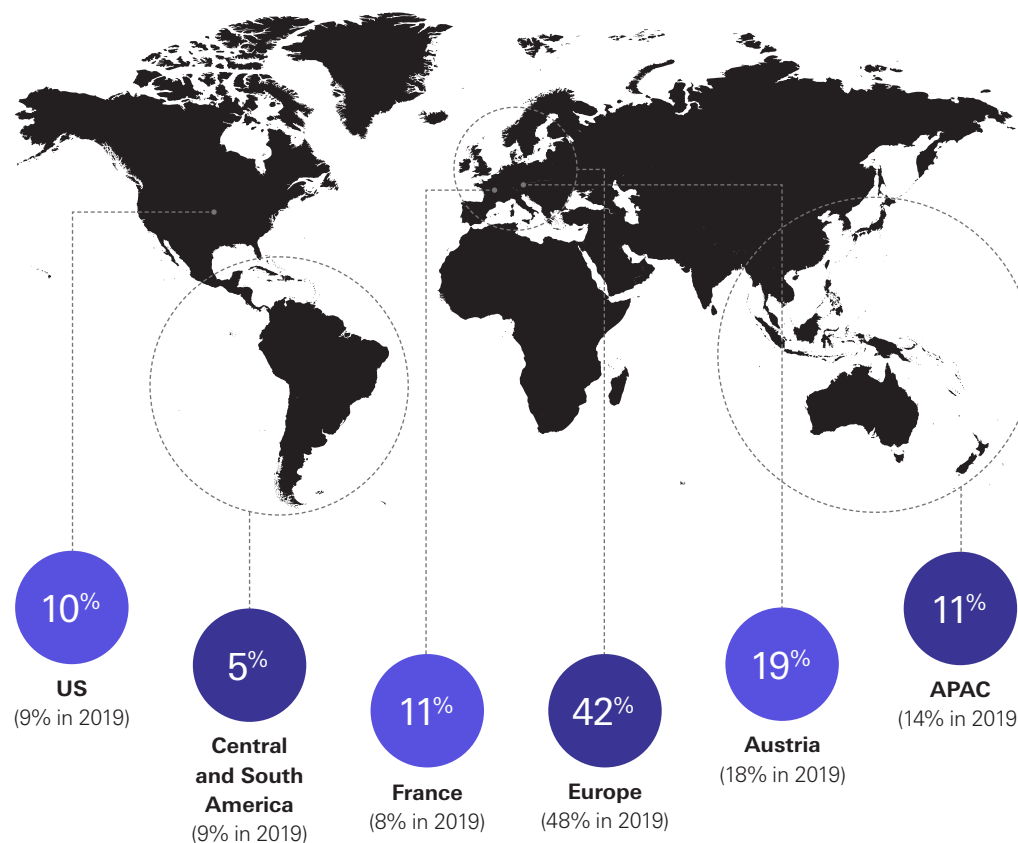
Percentage of businesses that think that countries/territories/governments are becoming more protective of their domestic businesses



Priorities for expansion in the next 3-5 years

Markets, territories and regions in which German businesses are looking to expand

● Markets & territories ● Regions



5. Reshaping supply chains



Supply-chain anxiety

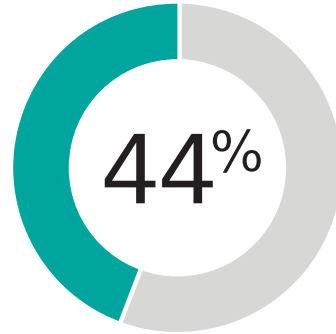
motivates companies to reassess selection criteria

Nearly nine in ten German companies (89%) have concerns about their supply chains, chiefly around increasing costs, instability and insufficient agility.

In response, they are selecting suppliers according to their operational resilience and ability to deliver quickly, as well as their use of digital/technology. Businesses have also focused on suppliers located within their home regions.

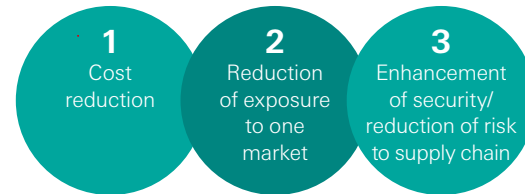
Of the companies that have made changes, slightly more have reduced their supply chain (20%) than have diversified it (17%) – the reverse of the global trend.

Looking ahead to 2021, businesses will invest in areas of the supply chain that reflect the changes they've been making. They expect these priority areas to reduce costs, as well as minimise exposure to one single market, while also improving security.



of businesses expect that reshaping their supply chain will reduce costs

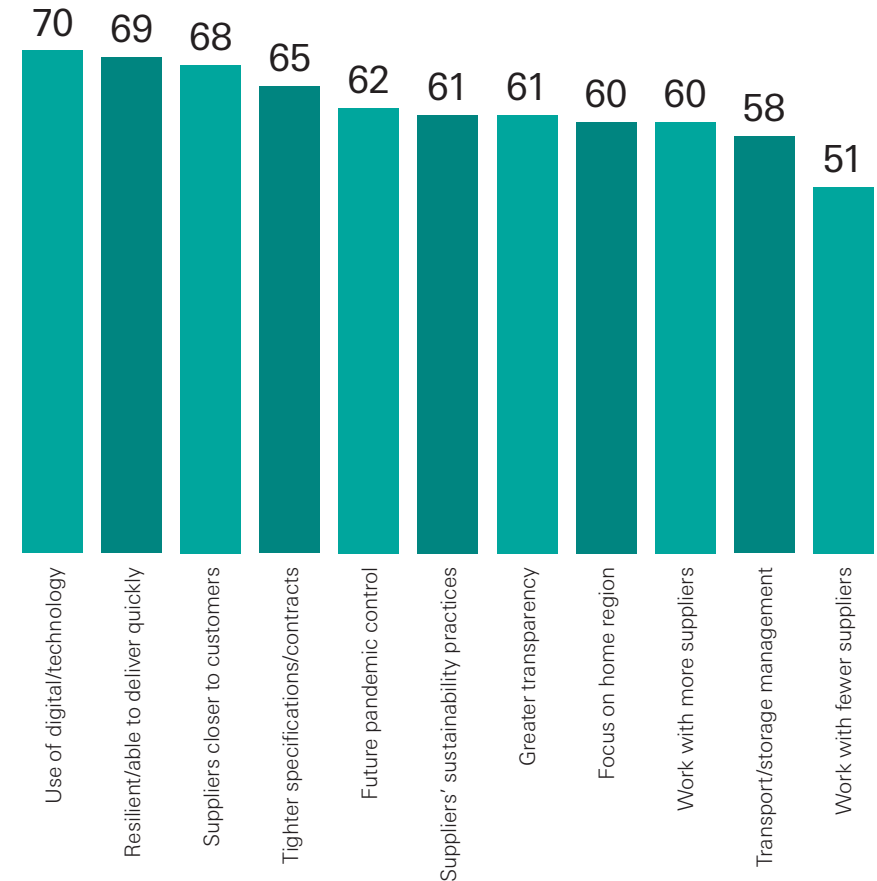
Top 3 benefits of reshaping the supply chain



Priorities for the supply chain

(Priorities immediately in 2021 and beyond)

%

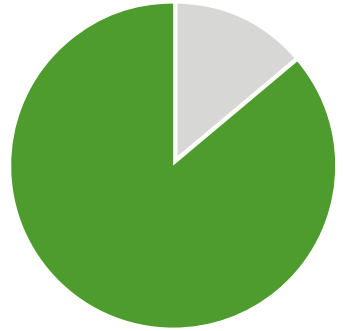


6. Sustainability



Greater focus on sustainability is expected to **benefit** German business

German companies recognise that sustainability is good for business, although less so than their global peers. And while nearly three-quarters (73%) expect an increased focus on sustainability to result in sales growth, this is also a lower proportion than their global counterparts (86%).



86%

of German companies think there are multiple opportunities for their business from improving its environmental and ethical sustainability

Approximately three-fifths of German companies have set targets for a broad range of environmental, social and governance-related (ESG) elements. Again, though, this is a lot lower than the global proportion, which stands at around three-quarters.

The metrics that have seen the biggest increases since 2019 include energy usage (almost twice the level of a year ago), labour standards, and executive salaries and compensation.

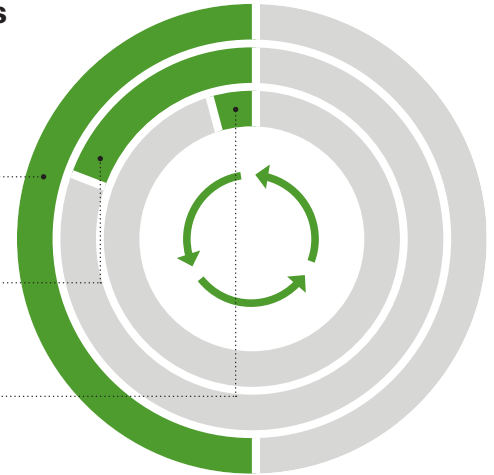
Over the year to come, businesses believe that consumers, governments and supply chains are the most likely to ramp up pressure to be sustainable.

Companies believe a greater focus on sustainability will drive growth

50% expect modest growth of up to 5%

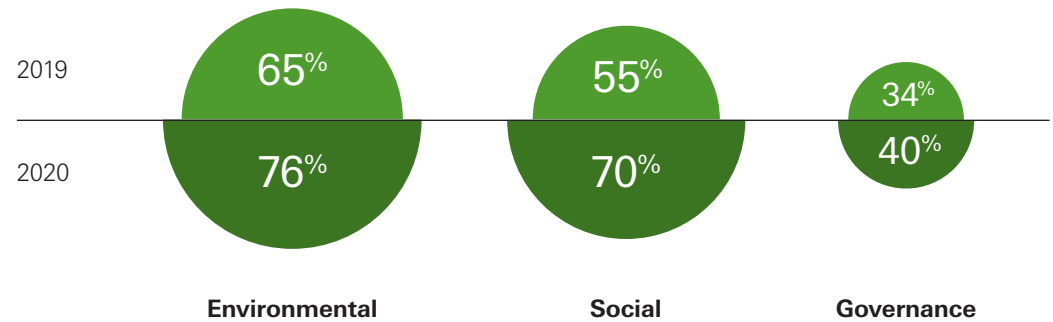
19% expect growth of between 6% and 9%

4% expect growth of 10% or more



Measuring sustainability

More companies in Germany have been measuring all 3 aspects compared with 2019



About HSBC Navigator Germany

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, future strategy, international trade, supply chains and sustainability. It is compiled from responses by decision-makers at 10,368 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 39 markets.

Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 350 businesses surveyed in Germany. Global results are based on an average of the 39 markets (using weights based on each market's share of world trade). The survey was conducted between 11th September and 7th October 2020. Interviewees were polled on a range of questions including how COVID-19 has affected their business and potential for growth. The survey represents a timely source of information on the fast-evolving international business environment.

For further information about the research please contact:

Kate Woodyatt
HSBC Global Communications
katewoodyatt@hsbc.com

Or click on
www.business.hsbc.com/navigator

Note

There may be a slight discrepancy between the sum of individual items and the total as shown in the tables due to rounding.

Whilst every effort has been made in the preparation of this report to ensure accuracy of the statistical and other content, the publishers and data suppliers cannot accept liability in respect of errors or omissions or for any losses or consequential losses arising from such errors or omissions. The information provided in this report is not intended as investment advice and investors should seek professional advice before making any investment decisions.