How German “Mittelstand” copes with COVID-19 challenges

May 2020
• **COVID-19 is, first and foremost, a major humanitarian challenge.** Thousands of health professionals are battling the virus, putting their own lives at risk. Overstretched health systems will need time and help to return to a semblance of normalcy.

• **Solving the humanitarian challenge is, of course, priority #1.** Much remains to be done globally to respond and recover, from counting the humanitarian costs of the virus, to supporting the victims and families, to finding a vaccine.

• **This document is meant to help with a narrower goal: Provide insights to SMEs during the current COVID-19 situation.** In addition to the humanitarian challenge, there are implications for the wide economy, businesses and employment.
Overview of survey parameters

Period of survey: April 24-28, 2020

522 respondents  29 questions

Respondents
70% leading employees  30% CEOs

Size of company, percent

By annual turnover
- <EUR 50 million: 32
- EUR 50-250 million: 37
- >EUR 250 million-1 billion: 20
- >EUR 1 billion: 11

By employees
- Large: >2,000 employees
- Medium: 50-250 employees
- Small: >250-2,000 employees
While 27% of German SMEs were not affected by corona, 56% are currently still not back to business as usual

What phase is your business currently in after partial relaxations of the lockdown?
German Mittelstand expects significant turnover losses in the 2nd quarter 2020

Revenue outlook in Q2 2020 among SMEs in Germany
Percent

<table>
<thead>
<tr>
<th>Sector</th>
<th>Decrease</th>
<th>Stable</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>66</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Construction</td>
<td>40</td>
<td>34</td>
<td>26</td>
</tr>
<tr>
<td>Chemicals and pharma</td>
<td>55</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td>Electrics</td>
<td>60</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>51</td>
<td>31</td>
<td>18</td>
</tr>
<tr>
<td>Healthcare</td>
<td>38</td>
<td>35</td>
<td>27</td>
</tr>
<tr>
<td>Trade</td>
<td>59</td>
<td>27</td>
<td>14</td>
</tr>
<tr>
<td>IT and telecommunication</td>
<td>54</td>
<td>17</td>
<td>29</td>
</tr>
<tr>
<td>Mechanical and plant engineering</td>
<td>80</td>
<td>13</td>
<td>7</td>
</tr>
<tr>
<td>Other</td>
<td>56</td>
<td>27</td>
<td>16</td>
</tr>
</tbody>
</table>

Note: Due to rounding, percentages may not always appear to add up to 100%.

The response of German SMEs and the global industry is consistent

**Sectors hit least** are the ones that benefit from new demand or new digital business models
- Construction
- Healthcare

**Sectors hit hardest** are the ones with significant manufacturing, where production and demand have declined, as well as the ones greatly impacted by global shutdowns
- Mechanical and plant engineering
- Automotive
SMEs believe that all of these 7 crisis levers are essential.

To what extent do you agree with the following statements regarding your company?

Percent

- We are acting anti-cyclically: 74% expecting decreases, 81% expecting increases.
- We are innovating our business due to changed customer behavior: 82% expecting decreases, 85% expecting increases.
- We invest in automatization and the Digitalization of our business model: 85% expecting decreases, 91% expecting increases.
- We are bringing core competencies back to Germany or plan to relocalize: 75% expecting decreases, 79% expecting increases.
- We transfer new working models and forms of collaboration learned during the crisis into everyday business life: 82% expecting decreases, 90% expecting increases.
- We want to participate in and/or help shape new ecosystems: 75% expecting decreases, 81% expecting increases.
- We take advantage of the special market situation and examine the acquisition of competitors: 69% expecting decreases, 84% expecting increases.
73% of companies say they are reacting anti-cyclically to the crisis, while only 17% actually initiate necessary changes

Which of the following scenarios best describes the state of your SME and your crisis response? Percent

- We have created an action list as a response to the crisis
  - SMEs expecting revenue decreases in Q2 2020: 47%
  - SMEs expecting revenue increases in Q2 2020: 48%

- We have stabilized our critical business functions
  - SMEs expecting revenue decreases in Q2 2020: 36%
  - SMEs expecting revenue increases in Q2 2020: 34%

- We have initiated necessary changes in the company to gain a competitive advantage from the crisis
  - SMEs expecting revenue decreases in Q2 2020: 17%
  - SMEs expecting revenue increases in Q2 2020: 18%
Potential winners focus on future growth opportunities

Actions for business continuity

1. What measures have you taken to ensure the continued existence of the business?
2. What measures have you taken to stabilize or increase sales?

Actions for revenue stabilization or increase

Q: What measures have you taken to ensure the continued existence of the business?
A: The chart shows the percentage of SMEs expecting revenue decreases in Q2 2020 and SMEs expecting revenue increases in Q2 2020.

- Intensive customer contact
- Extension of e-commerce
- Growth of marketing
- New sales models
- Optimization of sales
- Strengthening of receivables management
- Pricing changes
- Optimization of product management
- No special measures

1. Q: What measures have you taken to ensure the continued existence of the business?  
2. Q: What measures have you taken to stabilize or increase sales?
One of three surveyed SMEs state that digitalization has increased importance.

**Q: How does the corona crisis affect your planned or ongoing digital projects?**

<table>
<thead>
<tr>
<th>Description</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>COVID-19 is increasing pressure towards digitization while also pausing ongoing projects</td>
<td>71</td>
<td>29</td>
</tr>
<tr>
<td>COVID-19 has shown us that we need to extend our digital business models</td>
<td>84</td>
<td>16</td>
</tr>
<tr>
<td>Digital processes and solutions will become increasingly important for our business</td>
<td>88</td>
<td>12</td>
</tr>
<tr>
<td>Digitilization of processes and business models is part of our crisis strategy</td>
<td>84</td>
<td>16</td>
</tr>
</tbody>
</table>
German SMEs still pursuing their digital projects

Q: Which digital projects are you planning or are already in progress?

<table>
<thead>
<tr>
<th>Project</th>
<th>In planning</th>
<th>In progress</th>
<th>Not relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving customer and user experience</td>
<td>27</td>
<td>56</td>
<td>17</td>
</tr>
<tr>
<td>Optimization of the supply chain including production</td>
<td>24</td>
<td>47</td>
<td>29</td>
</tr>
<tr>
<td>Build a completely new business with standalone digital products and/or services</td>
<td>26</td>
<td>43</td>
<td>30</td>
</tr>
<tr>
<td>Optimizing administrative processes</td>
<td>27</td>
<td>57</td>
<td>16</td>
</tr>
<tr>
<td>Optimizing IT infrastructure and IT management</td>
<td>26</td>
<td>56</td>
<td>18</td>
</tr>
</tbody>
</table>

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Of all surveyed SMEs use a technology roadmap with advanced industry insights on competitors, suppliers, employees, customers and regulators to realize these projects.

Larger SMEs and those expecting revenue increase for Q2 tend to be leverage these more often.

- Large SMEs: 54%
- SMEs expecting revenue increase (Q2): 61%
The larger the company the higher the expectations regarding the effectiveness and value creation potential of future technologies.

Q: From which technology do you expect efficiency gains and new value creation potential in the future?

<table>
<thead>
<tr>
<th>Technology</th>
<th>Small-sized SMEs</th>
<th>Mid-sized SMEs</th>
<th>Large-sized SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process Automation</td>
<td>26</td>
<td>43</td>
<td>47</td>
</tr>
<tr>
<td>Data Analytics</td>
<td>32</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>Robotics</td>
<td>19</td>
<td>23</td>
<td>31</td>
</tr>
<tr>
<td>Internet of Things (IoT)</td>
<td>26</td>
<td>47</td>
<td>39</td>
</tr>
<tr>
<td>Edge Computing</td>
<td>10</td>
<td>16</td>
<td>21</td>
</tr>
<tr>
<td>Blockchain</td>
<td>18</td>
<td>27</td>
<td>28</td>
</tr>
<tr>
<td>Platform Technologies</td>
<td>21</td>
<td>33</td>
<td>22</td>
</tr>
<tr>
<td>5G</td>
<td>25</td>
<td>39</td>
<td>30</td>
</tr>
<tr>
<td>Augmented &amp; Virtual Reality</td>
<td>20</td>
<td>26</td>
<td>24</td>
</tr>
<tr>
<td>Artificial Intelligence (AI)</td>
<td>26</td>
<td>25</td>
<td>37</td>
</tr>
</tbody>
</table>
Flexible working models are conquering the German Mittelstand

88% of SMEs operated with mandatory in-person work before COVID-19

81% of SMEs expect that the COVID-19 crisis will make working models in their company more flexible in the long run
80% of companies believe ecosystems are profitable, and 51% expect a stronger involvement due to COVID-19

Core beliefs of >80% of organizations

Partnerships help unlock new value potentials
Ecosystems support the competitiveness of German SMEs internationally
Ecosystems lead to improvements in customer experience

The focus of the ecosystem building varies by industry, but opening new value potentials is the leading cause
M&A Market will gain traction

Q: Which of the following consolidation activities do you already pursue, are you currently planning, or are not relevant for you

Percent

<table>
<thead>
<tr>
<th>consolidation activity</th>
<th>in planning</th>
<th>in progress</th>
<th>not relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition and takeover of competitors</td>
<td>25</td>
<td>35</td>
<td>40</td>
</tr>
<tr>
<td>Strategic alliances</td>
<td>22</td>
<td>47</td>
<td>31</td>
</tr>
<tr>
<td>Cooperations</td>
<td>30</td>
<td>46</td>
<td>25</td>
</tr>
<tr>
<td>Mergers</td>
<td>20</td>
<td>33</td>
<td>46</td>
</tr>
<tr>
<td>Purchase of critical intellectual property</td>
<td>23</td>
<td>39</td>
<td>37</td>
</tr>
</tbody>
</table>

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1/2 of those companies with positive revenue prospects for Q2 act on their self supposed consolidation measures accordingly, while only <1/3 of other SMEs plan to do so.

Companies with expected revenue decline tend to state that these topics are not of relevance to them.
77% of SMEs are optimistic about the future

How optimistic are you about the future?
Percent

- 84% of optimistic SMEs expect revenue increases for Q2 2020
- 14% of optimistic SMEs expect revenue decreases for Q2 2020
- 3% of pessimistic SMEs expect revenue increases for Q2 2020
- 57% of pessimistic SMEs expect revenue decreases for Q2 2020

Source: Questions 10, 11, 3a
21% of all companies are content with the measures taken by the state

Do you wish for more support from the government?

- Percent

All companies

- No, we are content with the measures taken
- Yes, more financial measures are necessary
- Yes, more regulatory and policy measures are required

Company size

- Small (50-250 employees)
- Medium (250-2,000 employees)
- Large (>2,000 employees)

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