

## Strategy

# Staying on track towards technology

During the pandemic, Germany’s Mittelstand caught up on its digital deficits.  
Now experts are warning against complacency.

Thomas Luther, Düsseldorf – During the corona pandemic, many small and medium-sized enterprises (SMEs) in Germany used the situation as a chance to digitalise successfully. That is the conclusion reached by Cisco’s SMB Digital Maturity Study, according to which German SMEs rank fourth in the international digitalisation index. “In itself, that’s a good result,” comments Katharina Jessa, Director Small and Medium Enterprises and Member of the Executive Board at Cisco Germany. However, she also sees that many possibilities for expediting digitalisation and taking advantage of opportunities remain unused.

Her observations have shown that other countries are one step further. “Although there has been a huge digital boost here in Germany too, that mainly applies to processes,” says the Cisco expert. “However, especially when it comes to investing in new technologies and new skills, there’s still plenty of catching up to do, but the same goes for having the courage to embrace change as well.”

But what strategies should SMEs adopt in order to tackle this challenge? Niko Mohr, a partner at McKinsey, recommends that SMEs respond to disruptions by shifting value creation into the realm of software. “Only 6% of German Mittelstand companies focus on future technologies beyond the actual hardware,” says the SME expert. “And yet profitability is under pressure – on the one hand because in most cases only incremental product improvements are offered rather than genuine innovations, and that often doesn’t permit any substantial price differentiation, resulting in cost pressure. On the other hand, attractive margins are increasingly migrating to data- and software-driven business models.”

Agricultural equipment dealer Kotschenreuther is one example of how SMEs can conduct the digital expansion of their business model successfully. Based in northern Bavaria and with a workforce of approx. 190 employees, the company serves its customers in the forestry and agricultural sector with six sites and two partner firms. Its business territory covers an area of more than 400 square kilometres. Since the pandemic began, site and workshop managers have consistently held their meetings via video conference. “That enables us to exchange views and ideas even at short notice,” says head of customer service Michael Prager.

First and foremost, however, the direct benefits of digitalisation are making themselves felt in customer service. “Although we still have to repair the machinery on site, we can obtain the error codes via remote access, so the fitter can take the right parts with them straight away. It’s also possible to get the equipment up and running again remotely with the manufacturer’s operations centre,” says Prager. But the machinery also sends automatic notifications if the onboard sensors detect imminent damage as a result of wear and tear or if maintenance is required. “Then, thanks to the ‘Expert Alerts’ we can approach the customer proactively and arrange an appointment – ideally so that the machinery can be serviced during an idle period to avoid unnecessary downtime,” explains the head of customer service.

By the same token, customers from the agricultural sector have access to the agronomic data collected by the machinery, enabling them for example to use the correct amount of fertiliser and optimise the cultivation of their fields. Offering its customers

such valuable services helps Kotschenreuther secure their loyalty. In sales too, the machinery dealer has better access because the data serves as a basis for offering accessory equipment and add-on services that are a perfect fit with the customer's needs or for determining that, based on utilisation, the machinery is too small to deliver the required performance.

"The corona pandemic definitely accelerated the development of our digitalisation journey," says Eugen Kotschenreuther, the company's CEO. "If we keep this pace up, it will result in new possibilities for our offering and, by extension, for farmers too. Thanks to artificial intelligence and empirical data from the machinery, we can offer round-the-clock customer service in real time."

Cisco's Katharina Jessa has meanwhile identified company culture as an important area of investment in relation to digital transformation. "Far-reaching changes can only be as good as the way they're adopted by your own team. As far as the workforce is concerned, that takes understanding, acceptance and training," she says. Stefan Mauersberger, a partner at international HR consultancy Kincentric, also advocates a change in companies' digital culture: "We're seeing that although company culture is a good fit with the old world in many places, it's not prepared for a radical change. At the same time, we know that plans for digital change often fail because of the culture aspect. It's not just major corporations that need to react immediately, the Mittelstand does too." For Raoul Nacke, global CEO of consultancy Eric Salmon & Partners, that's why it's necessary to switch to a digital management logic, especially in the beginning: "From the perspective of the person with

overall responsibility or the owner, it's essential to take a long hard look at the company's management. The question is: Do I have the right team to make the most of the opportunities digitalisation offers and achieve the goals we've set ourselves?"

But there's still a lot to do in terms of processes as well. The corona pandemic made that abundantly clear – it was like a catalyst. "In a lot of companies I'm still seeing a marked tendency to have bits of paper everywhere, for instance," says Gregor Stöckler, CEO and co-founder of technology consultancy Datavard. "As a result, they continue to be heavily dependent on the physical presence of their staff, because in offices or areas like the logistics sector a lot of things are still being written down on paper."

But the crisis has also shown that global supply chains have led to dependencies, and that's resulted in risks that are still there even after corona. "That's why the change companies need to make by means of digitalisation is an increase in their response speed," recommends Stöckler.

The consultant advises firms who are framing their digitalisation strategy to focus on the essentials and apply the 80/20 rule systematically. "It's better to take small, rapid steps towards realistically feasible goals than to be overly ambitious, set the bar too high and then be demotivated when things fail." He believes SMEs in particular are well advised not to see digital heroes as the benchmark: "That just causes more pressure rather than helping, because in many cases examples like that are only transferable to a limited extent and only distract firms from their own focus."