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Unternehmer

Perspektiven

EINE INITIATIVE DER COMMERZBANK

COMMERZBANK

The bank at your side



**How safe are the markets?
Managing risks in international business**

At our customers' side on the world's markets



Internationalisation is in the DNA of many German companies. The consistent proportion of companies with international operations over the years of our SME study is clear evidence of this. Nevertheless, trade disputes, Brexit and the tense relationship between the USA and the EU are inevitably impacting the German economy. You might think that these would be difficult times for reliability on the world's markets – and yet a whole raft of successful companies are proving that striking out beyond Germany is still the right course for them. The weak euro cannot be the only reason for this. Our surveys conducted in 2007 and 2013 showed that the share of exporting companies was well in excess of 50 per cent. However, SMEs have the potential for international growth. What is holding the companies back? What can we, as a bank, do to encourage them?

To me, the key seems to be evaluating the risks. We asked companies that have the potential for internationalisation what challenges and risks they anticipate. Then we asked the exporters what problems they actually faced or face. In some cases the difference is striking. In fact, the things that companies fear occur much less frequently and are less severe. This shows us how important it is to provide objective information about the risks and to assist wherever we can.

We have used our international presence to support companies in their commercial activities on the global markets for as long as we have existed.

You, our customers, are at the heart of everything – not us and not our products. As confirmed by our study, every sector, every company, needs its own specific solution. We have not been able to identify any trends in terms of the challenges or offer any panaceas for successfully tackling risks and vulnerabilities.

This is not surprising. Companies that opted to move into the UK a few years ago face completely different challenges from those that chose to expand into France first of all. Those facing the consequences of the diesel crisis in the automotive sector need to tackle different issues from those supplying plant to China. In my opinion, careful scrutiny is what constitutes the strength of a good banking partner: identifying where the obstacles are, working together to classify issues by urgency, then locating pragmatic and viable solutions. Then, and only then, do our products and financial services come into play. This customer-centricity is part of our corporate culture as a bank. We have been familiar with the issues faced by SMEs for many decades: we work with our clients to eradicate currency uncertainty, default risks and bureaucratic obstacles. I am delighted to be able to discuss that with you, our customers and experts, this year. Current events on the global stage will form the backdrop for this.

Kind regards,

Michael Reuther
Member of the Board of Managing Directors of Commerzbank AG

More confidence in the country and the world



What a start to the year! Growth forecasts down, Brexit postponed until October, unhelpful threats of ever more punitive tariffs. It is not easy to deal in optimism at the moment. However, there is actually nothing to complain about. Thus far, the German export industry is holding its own in these turbulent times, the automotive sector is back on track, German products are in demand for their quality and competitiveness, and the global economy is likely to keep growing. So in fact everything is well positioned – it is just that the current political and economic events around us are making their mark.

We need to stay alert as well: quality issues in German car making, questions surrounding what the next (electric) car will even be, difficulties around digitalisation, acquisition-happy Chinese state funds and the unresolved challenges of climate change which are associated with questions of energy supply. However, any alarmism is misplaced. Instead, the wise approach is to establish who can solve which issues. On the political level, it's up to the German Federal Government and the EU. The trade disputes between Europe and the USA are a burning issue for German companies. Tariffs and trade embargoes must not impair trade in key technologies around the world. That serves no one – not even those who impose the tariffs and embargoes. Companies rightly expect the political world to restore security where insecurity currently prevails.

However, we should take heart when we see how many companies have an international focus.

We can't solve the shortage of skilled workers in Germany simply with more students. In IT-related fields, for example, it is the students from India who bring immense knowledge and potential to Germany. Conversely, young German professionals take it for granted that they will go abroad and bring fresh, new ideas from there back to their own company.

Growth in Germany alone is not an option for most companies. Rather, we need to give encouragement to those who have not yet taken their first steps into foreign markets or those that could expand their current commitment. German companies can avail themselves of traditional foreign trade operators if they are not keen to set up their own distribution networks in small and difficult markets. As well as this, the network of German Chambers of Commerce Abroad is an excellent tool for promoting foreign trade. It is important to use these networks of foreign trade operators and German Chambers of Commerce Abroad to make the risks of foreign trade more manageable. These local partners have decades of expertise in doing business in foreign markets. Let's work on that and, above all, learn from one another. We have a platform for sharing experiences here: with the Unternehmerperspektiven initiatives and associated network events.

Kind regards,

Dr. Holger Bingmann
President of the Federation of German Wholesale, Foreign Trade and Service (Bundesverband Großhandel, Außenhandel und Dienstleistungen, BGA)

Learning from those who've been successful



Michael Reuther



Dr. Manfred Wittenstein



Marika Lulay



Dr. Holger Bingmann

The proportion of companies who want to do business overseas is lower than in our surveys conducted six and twelve years ago. Thankfully, the internationalisation rate among German SMEs has remained the same. We see that export companies do not regard the risks to be as high, even in today's turbulent conditions, as companies who are still hesitant about taking their first step into foreign markets. Large and export-heavy companies are clearly not deterred by protectionism and planning uncertainty in their target markets.

This is the third time that the internationalisation of SMEs has been the focus of a study by our Unternehmerperspektiven initiative. In 2007, the mood among companies was euphoric. Many were keen to internationalise, but did not really know how to do so successfully. Issues included cultural differences, worries about plagiarism and financing concerns. In 2013, the organisational challenges had become much less of an issue, but many companies were still affected by the financial and economic crisis. They were not sure whether their business model would work abroad. In 2019, we are again seeing companies hesitating to take the leap into foreign markets despite the potential. Are entrepreneurs and managers being influenced by current geopolitical turbulences – or at least by the associated coverage? Some are feeling the concrete effects of major economic issues

such as the diesel crisis, climate change, trade barriers and Brexit on their own business. However, international competition has also become tougher and faster. Former emerging economies like China have gone a long way towards catching up technologically and are playing a key role in international competition.

So how does successful internationalisation work in 2019? We have not been able to derive straightforward answers to this question from the figures. External, often uncontrollable factors make it difficult for companies to pursue medium to long-term strategies. We regard learning from successful exporters and “internationalisers” to be a key part of the solution. How do they deal with planning uncertainty caused by political turbulences? What specific steps do they take to protect their intellectual property? How do they deal with regulatory obstacles? A further observation from the study is that a clear majority of companies see bureaucratic obstacles as slowing down internationalisation. Negative experiences with export permits or constantly changing rules mean that they would rather concentrate on Germany or the well-regulated EU single market. At the same time, some obstacles are significantly overestimated. This is clear from a comparison with those companies that have successfully prevailed in countries outside Europe. The German Chambers of Commerce Abroad and trade associations are needed as partners and champions here. The opportunities



Prof. Dr. Rüdiger Kabst



Dr. Peter Bartels



Rüdiger A. Günther



Bettina Meyer



Hartmut Schauerte



Dr. Jürgen Meffert

Learning from those who've been successful



Michael Reuther



Dr. Manfred Wittenstein



Marika Lulay



Dr. Holger Bingmann

are clear: German products are competitive and their high quality makes them sought after around the world. "Made in Germany" is still a key factor in the internationalisation of SMEs in 2019. Banks, too, have a key role to play. Part of their job is to provide more intensive advice to companies on hedging currency or default risks. Of course, they're also needed to provide local services and support along with financing.



Prof. Dr. Rüdiger Kabst



Dr. Peter Bartels



Rüdiger A. Günther



Bettina Meyer

Our guiding principle is that we can do a lot for SMEs, but not with a scattergun approach. The political world needs to do its bit to improve the underlying conditions. At the same time, those of us like banks or the German Chambers of Commerce Abroad who are here to support SMEs should be doing everything we can to assist entrepreneurs and managers in their ambitions to grow in the world's markets.



Hartmut Schauerte



Dr. Jürgen Meffert

The panel of experts for the Unternehmerperspektiven initiative



Status quo: internationalisation since the financial crisis



I. Status quo: internationalisation since the financial crisis

Internationalisation stable among German SMEs

The world is in flux – economically and politically. Hardly a day goes by where countries and markets around the world don't make headlines. However, the good news is that internationalisation among German companies remains high. The proportion of exporting companies is about the same as in the first internationalisation study by *Unternehmerperspektiven*, conducted in 2007. Figures produced by economists also show that global trade and the global economy remain evenly balanced today. At present, key drivers of internationalisation are primarily the high competitiveness and demand for German products overseas, digitalisation and favourable financing conditions.

Status quo in 2019: Internationalisation is in the DNA of many German companies.

The current risks in foreign business are primarily due to (economic and) political issues.



Status in 2013: German companies are successful overseas.

However, the financial crisis has left its marks: not all companies are sure that their business model will work abroad.

Status in 2007:

Internationalisation as a driver of growth is in demand. Lack of empirical values and concerns about plagiarism or cultural barriers are nonetheless causing some companies to hesitate.

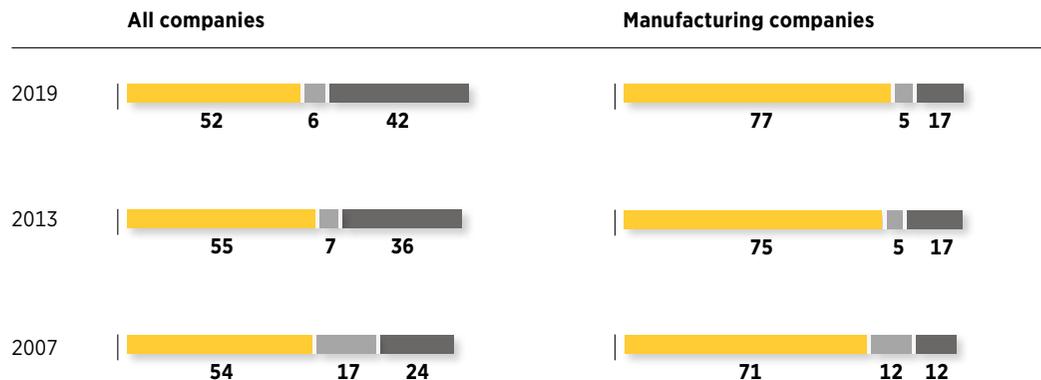


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Sale of products or services abroad



■ is already happening ■ is an option ■ is out of the question

Results as %, values to make up 100: don't know/no answer
Basis 2019: n = 2,000 surveyed companies, 2013: n = 4,002 surveyed companies, 2007: n = 4,000 surveyed companies

Level of internationalisation stable since 2007

The proportion of companies with overseas revenues has hardly changed since 2007. Overall, 52 per cent of companies sell products or services abroad, rising to 77 per cent for manufacturing companies. Unlike in 2007, today only six per cent of companies have plans for embarking on new foreign business.

Other diagrams



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Opportunities and potential for internationalisation from perspective of exporters



Figures as %, basis: n = 1,033 surveyed companies that sell products or services abroad

Competitiveness as a strong driver of internationalisation

“Made in Germany” remains attractive. In exporters’ experience, German products are competitive. Digitalisation and favourable financing conditions facilitate the creation and cultivation of international business relationships. The demand for German products often depends on the sector: German machines, chemical and pharmaceutical products, and corporate services are particularly sought after.

Other diagrams

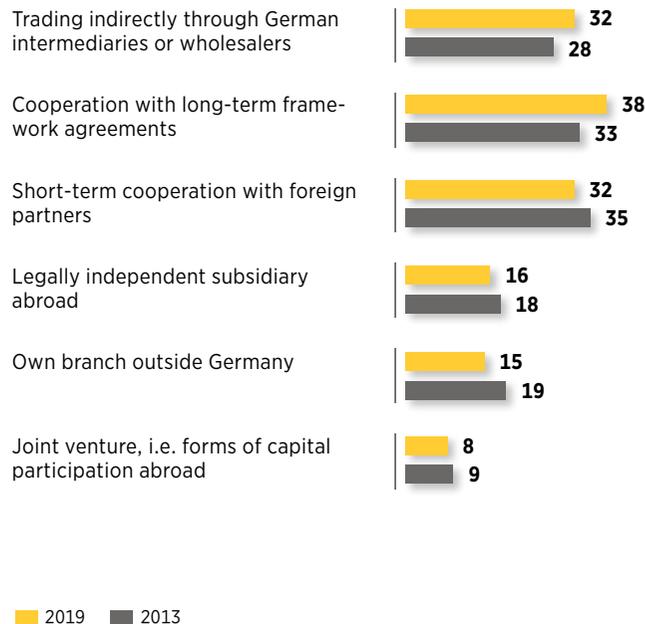


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Other opportunities for internationalisation (alongside sales)



21% of all companies and 61% of companies with an annual turnover of more than €100 million have a location abroad.

Significantly fewer solo efforts on international markets

The comparison between 2013 and 2019 shows that companies have become bolder: they are entering into significantly more long-term cooperation agreements, whilst the number of companies with subsidiaries, overseas branches and joint ventures is declining. A third of companies trade via intermediaries or wholesalers.

Figures in %, basis 2019: n = 2,000 surveyed companies, 2013: n = 4,002 surveyed companies

Other diagrams

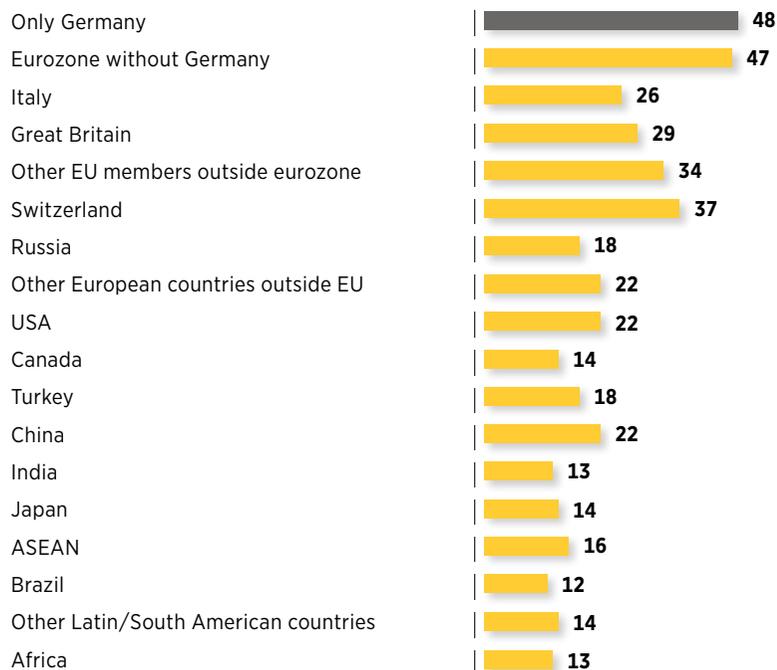


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Sales markets (basis: all companies)



Figures in %, basis: n = 2,000 surveyed companies

Sales markets: eurozone in top position

Over half of all companies export their products abroad. At 47 per cent, the eurozone is the most popular sales market, followed by Switzerland and other EU member states outside the eurozone. In addition, countries on all continents are among the target regions of German SMEs. The companies also operate in regions where economic development is uncertain, such as the UK, Italy, the USA and China.

Other diagrams





Turbulent times: economic and political framework conditions





II. Turbulent times: economic and political framework conditions

Turbulence in economic policy is changing the international market

In 2019, economic policy is setting the tempo: trade disputes, unilateral policy moves and crisis scenarios are creating uncertainty in foreign business. The dilemma is that each company and each sector faces different challenges. However, there is an interesting paradigm shift in terms of assessing trade partners: SMEs are classifying previously stable economies as less reliable. Meanwhile, emerging economic powers are afforded more trust.

Over the next two years companies are expecting **restrictions on foreign business as a result of** increasing trade barriers.



SMEs are experiencing **the effects of the diesel crisis and climate change**. The automotive and food industries are particularly hard hit.



Reliable trading partners? **SMEs fear negative consequences** of increasing protectionism. They consider developing economies such as China or Russia to be more reliable than traditional economic partners.



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Developments to be expected in the next one to two years

		Companies over €100 million	Exporters
Lower planning security on the whole	64	75	70
Generally gloomier economic outlook	61	73	65
Increasing trade barriers in existing foreign markets	37	55	52
Lower demand on the German market	37	46	37
Decline in sales in existing foreign markets	25	30	37
Positive effects for German companies due to trade conflicts between other countries, e.g. between the USA and China	20	25	24

Figures in %, basis: n = 2,000 surveyed companies

Planning security and trade barriers

Current political uncertainties are urging caution among companies. Just under two thirds expect that it will be more difficult to plan overseas business within the next one to two years. Large exporting companies also fear increasing trade barriers. Strong export sectors such as mechanical engineering or the chemical and pharmaceutical industries are particularly hard hit.

Other diagrams

1

2

3

4



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Effects of current events and developments (1/2: political events)



■ Negative impact ■ Positive impact

Figures in %, basis: n = 2,000 surveyed companies

Other diagrams

1

2

3

4

Challenges are as individual as the companies

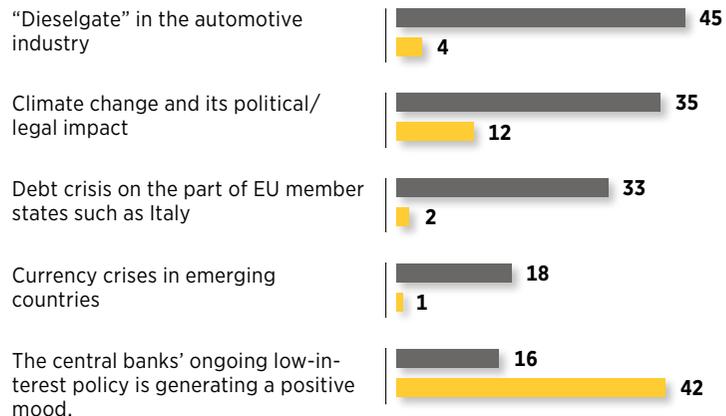
There is no doubt that the current situation is making life difficult for companies abroad. The extent to which they are affected by political events depends largely on the companies' positioning, how big they are, the sector they operate in and what their business model looks like. Those with an international location or high export volumes fear trade disputes and Brexit.

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Effects of current events and developments (2/2: other events)



■ Negative impact ■ Positive impact

Figures in %, basis: n = 2,000 surveyed companies

Other diagrams



Internationalisation of crises

In a global age, crises don’t stop at national boundaries. SMEs are seeing themselves increasingly confronted by the effects of the diesel issue, climate change, and debt and currency crises. Some two thirds of companies in the automotive industry and the transport and logistics sector are feeling the negative impact of the diesel scandal. Companies in the food/drinks and tobacco industry feel especially impacted by climate change. Less surprising is the fact that the central banks’ ongoing low-interest policy is creating a positive mood.

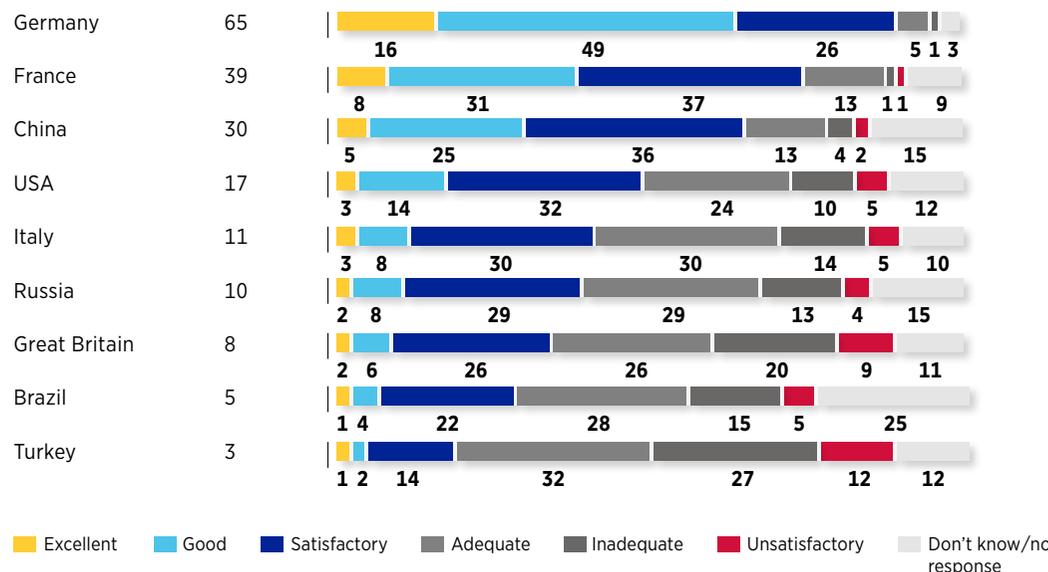
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Assessment of the politico-economic framework conditions of selected countries

Top box
(excellent or good)



Figures in %, basis 2019: n = 2,000 surveyed companies

Paradigm shift with trading partners

Countries previously regarded as reliable are sliding down the ranking and making room for developing economies. Loss of trust is particularly apparent with Great Britain, which German SMEs consider to be even less reliable than China and Russia. However, companies with a local presence assess the situation less dramatically. This applies, for example, to China and the USA (not shown in the diagram).

Other diagrams





Close to the wind: strategies of exporting companies





III. Close to the wind: strategies of exporting companies

Tailor-made solutions for companies of any size

SMEs are as agile as ever, adjusting their foreign strategy to changed conditions. Smaller SMEs are focusing on their core products and the domestic market, while larger companies favour innovation and international diversification. There is no one-size-fits-all approach to coping with the growing uncertainties in international business. Possible solutions depend too heavily on the markets and products companies rely on for their business.

To pastures new:
larger companies and export-heavy sectors are tapping **new overseas markets, including in emerging countries.**



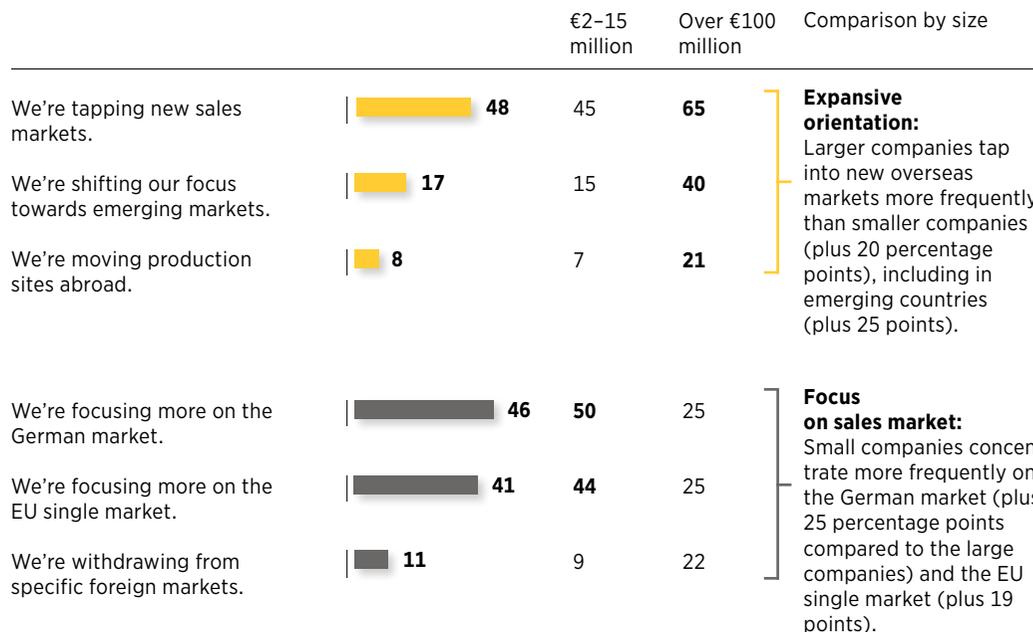
Back to the tried and tested:
small companies and sectors with smaller export volumes are concentrating on the **German and European single market.**

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Amendment of foreign activities at exporting companies



Figures as %, basis: n = 1,033 surveyed companies that sell products or services abroad

Other diagrams



Clear tendencies in regional orientation

Larger companies with an annual turnover above €100 million have an expansive presence abroad. They are more likely to enter new foreign markets than small companies and also transfer production sites more frequently. Conversely, half of smaller SMEs concentrate on the German domestic market. The same applies to the sectors: strong export sectors (e.g. manufacturing) engage in high levels of regional diversification; those less involved in export (e.g. retail) focus more on the domestic market.

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Amendment of foreign activities at exporting companies

New sales

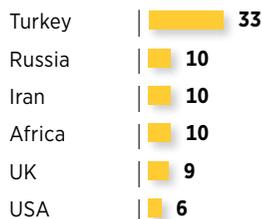
Exporting companies that are entering **new overseas markets** (n = 599) are most frequently planning this in the following countries (top 6):



Figures as %, basis: n = 599 surveyed companies that sell products or services abroad and are entering new foreign markets (or want to)

Withdrawal from sales markets

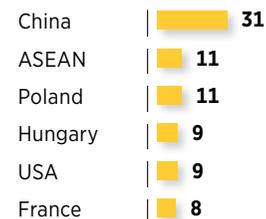
Exporting companies that are withdrawing **from overseas markets** (n = 171) are most frequently planning this for the following countries (top 6):



Figures as %, basis: n = 171 surveyed companies that sell products or services abroad and are withdrawing from foreign markets (or want to)

Transfer of locations

Companies with an international location that **want to transfer** a site (n = 115) are moving most frequently to the following countries (top 6):



Figures in %, basis: n = 115 surveyed companies that have one or more foreign locations and are transferring a site (or want to)

Exporters in flux: old markets, new markets

Exporters are discovering new markets overseas, e.g. in India and the USA (14 per cent each) and China (twelve per cent). In terms of a continental comparison, European countries lead the field on 49 per cent. Asian countries (excluding China) follow on 37 per cent. Companies that have trading relationships with Turkey are most likely to be planning to withdraw from a sales market. Where companies are seeking to transfer their location, 31 per cent of SMEs trust the economic framework conditions in China.

Other diagrams

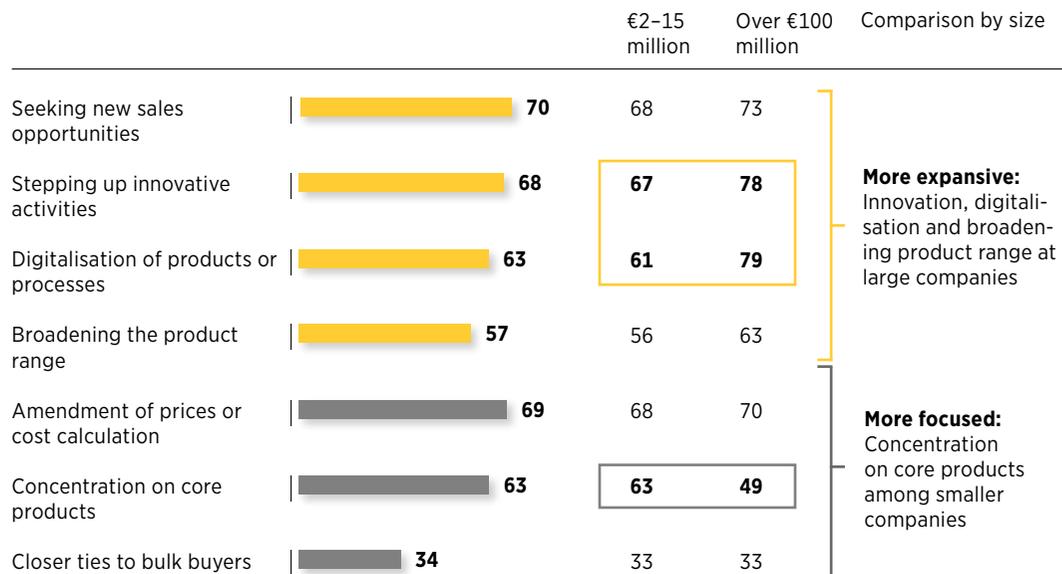


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Adjustments to business strategy by exporters



Figures as %, basis: n = 1,033 surveyed companies that sell products or services abroad

Digitalisation and innovation as drivers of internationalisation

Large companies deploy different business strategies than small ones. Larger SMEs pursue a more expansive approach: more than three quarters are pursuing digitalisation and intensifying their innovativeness. Smaller SMEs stick with what they know: their own core products. Regardless of their size, 57 per cent of all companies are nonetheless seeking to broaden their product range.

Other diagrams





Overestimated risks: non-exporting companies



IV. Overestimated risks: non-exporting companies

Learning from those with experience – managing the risks

Companies that do not export are frequently put off foreign business by stereotypical risks. They see their intellectual property in jeopardy, fear losses from defaults by customers or are worried about cultural differences. However, when companies which are successful internationally are asked about their biggest challenges, they state bureaucratic requirements, political unpredictability, and price and currency fluctuations. It is clear that non-exporters regard some operational problems as more severe than SMEs which actually have a local presence. Companies seeking to make their first move into foreign business can therefore take their lead from experienced exporters and benefit from their experience. Further assistance with risk management is available from banking partners, chambers of commerce and associations.

Political instability and bureaucratic requirements mainly impact companies with high export volumes.



When entering international markets, non-exporting companies fear for the safety of their **patents** and expect higher default risks on the part of their customers.

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Problems in international business for exporting companies



Figures as %, basis: n = 1,033 surveyed companies that sell products or services abroad

Other diagrams

1

2

Operational challenges matter more than cultural ones

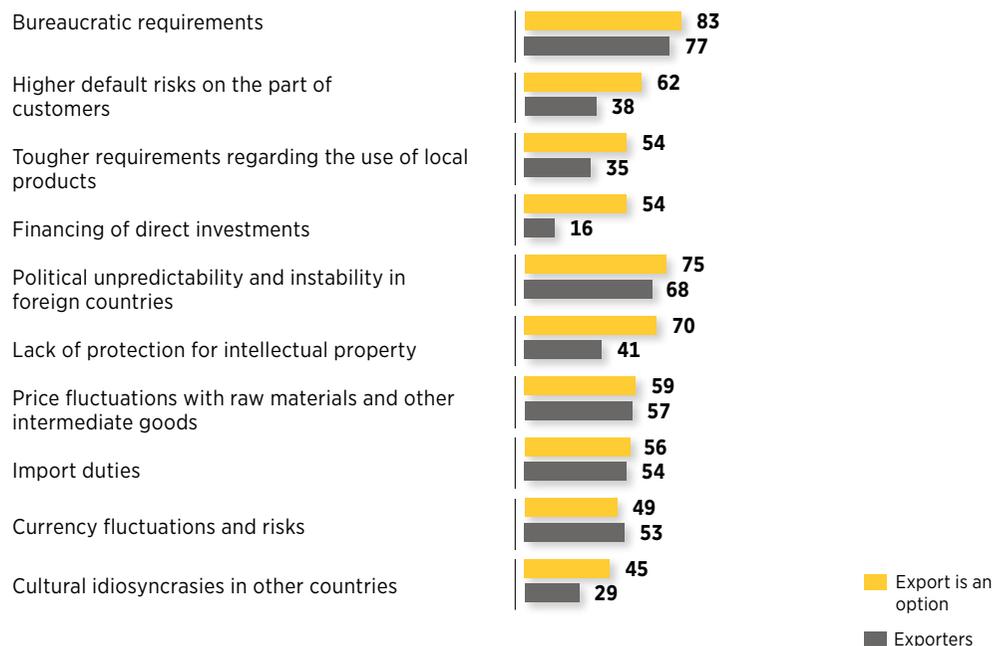
The ranking of issues in international commerce shows two things. First: companies are struggling with the altered politico-economic situation in many countries. Second: internationalisation is significantly easier within Europe than elsewhere. A sector comparison shows that import duties cause problems mainly for the food industry and mechanical engineering. The food, drinks and tobacco industry is primarily affected by price fluctuations for raw materials (not shown on the diagram).

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Expected barriers in international business (companies with untapped export potential)



Figures in %, basis: n = 1,033 surveyed exporters; 135 companies for which export is an option

Other diagrams

1

2

Companies with export potential overestimate the challenges

Non-exporting companies particularly fear default risks on the customer's part, local rules and regulations, and also issues with financing – all of which are risks that can be resolved with the right support from third parties. Meanwhile, companies that are not yet involved in exports are fairly realistic in their assessment of politically driven operating issues such as instability, price fluctuations and import duties, as the comparison with the exporters shows.



Support desired: banking partners, politics and successful exporters





V. Support desired: banking partners, politics and successful exporters

Strong together – SMEs and their banks

SMEs rely on outside support to successfully manage the risks of foreign business. They frequently turn to banks for assistance with operational matters: implementing rules and regulations, risk assessment and the digitalisation of processes. Companies trading with difficult countries expect advice tailored specifically to them. Financial instruments help increase yields and reduce risks. On the international stage, the political world is also required to act: it needs to advocate the politicoeconomic interests of German companies more strongly.

More than just a finance partner: SMEs expect **operational support and tailored advice** from their banks when it comes to foreign business.



Good financial management produces higher yields: exporters with high satisfaction levels **improve their profitability** thanks to their awareness of financial risks.



The political world needs to set things straight: when it comes to the economic dispute with the US, most German companies want a **common European approach**.

V. Support desired: banking partners, politics and successful exporters

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Need for banks to optimise their international business support from the perspective of exporting companies



Figures as %, basis: n = 1,033 surveyed companies that sell products or services abroad

Central issues in banking: rules, regulations and digitalisation

It transpires that German SMEs often struggle with operational challenges overseas. Support from banks is needed: companies primarily seek assistance from their financial partners with regard to rules and regulations, risk assessment and digitalisation. The use of blockchain technologies is becoming increasingly interesting. This decentralised database enables vulnerabilities to be automatically identified in the supply chain, payment transactions and other business processes, for example. In future, this technology will make trading significantly easier.

Other diagrams

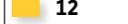


V. Support desired: banking partners, politics and successful exporters

Strong together – SMEs and their banks

SMEs rely on outside support to successfully manage the risks of foreign business. They frequently turn to banks for assistance with operational matters: implementing rules and regulations, risk assessment and the digitalisation of processes. Companies trading with difficult countries expect advice tailored specifically to them. Financial instruments help increase yields and reduce risks. On the international stage, the political world is also required to act: it needs to advocate the politico-economic interests of German companies more strongly.

Instruments used in financial management

		€2–15 million	€15–100 million	Over €100 million	All exporters	Particularly satisfied exporters*
Hedging of payment and default risks	 50	48	57	67	57	60
Hedging of interest rate risks	 25	24	28	47	29	35
Hedging of currency risks	 23	20	26	50	34	40
Hedging of commodity risks	 12	11	16	26	14	14

Large enterprises use financial instruments more often than smaller SMEs to hedge financial risks.

The comparison with particularly satisfied exporters shows that the instruments can certainly contribute to good levels of profitability.

Large companies with higher risk awareness

Half of SMEs hedge against financial risks. It is striking that smaller companies are less risk-conscious in their actions than the larger companies. Exporters that are particularly happy with their profitability rely on hedging, thereby benefiting from these instruments. Many other companies still seem to underestimate this benefit.

Figures in %, basis: n = 2,000 surveyed companies

*Exporting companies that are extremely or very satisfied with the **profitability of their foreign business** (self-assessment based on question no. 2), basis: n = 182 surveyed companies

Other diagrams

1

2

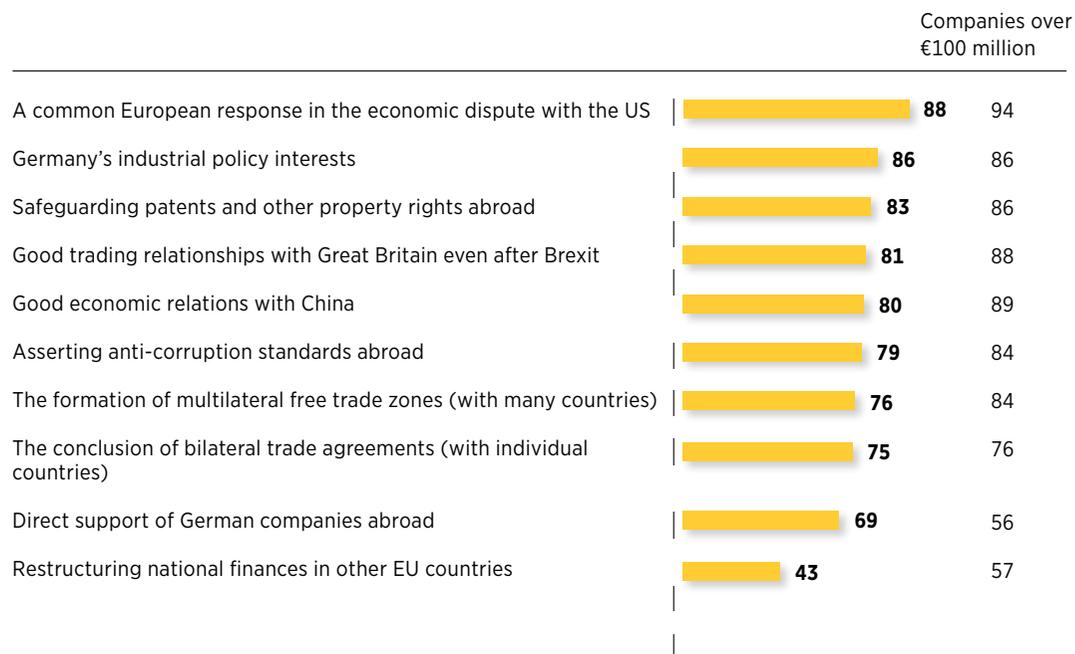
3

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Expectations for policymakers to be stronger advocates for:



Figures in %, basis: n = 2,000 surveyed companies

Who's first? Political action needed

German SMEs are clear that policymakers need to be stronger advocates for German and European interests in the international context. Companies expect more action from political actors, especially regarding the economic dispute with the US and the consequences of Brexit. Large companies are even keener to put the politico-economic onus on the political sphere. Among other things, they are more likely to demand good economic relations with China.

Other diagrams

1

2

3

VI. Study design

Representativeness of SMEs with annual revenues above €2 million

During the survey, top executives from 2,000 companies with an annual turnover of at least €2 million were questioned. The distribution by size was performed in a representative manner using VAT statistics.

Method:
Telephone interviews (CATI) lasting approximately 20 minutes

Period of survey:
November 2018 to February 2019

Conducted by:
forsa

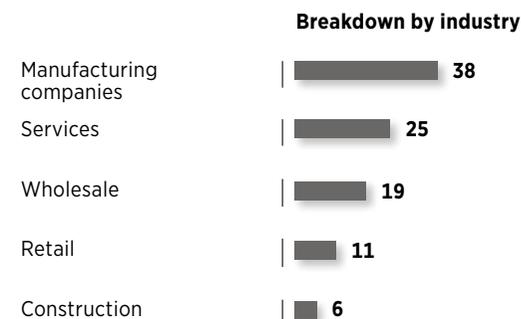
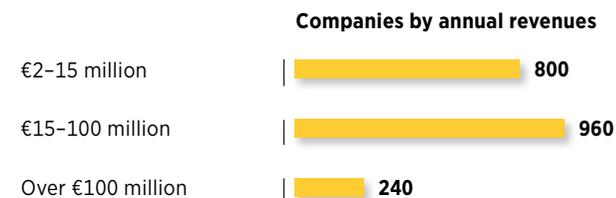
Regional segmentation

The Unternehmerperspektiven study is also representative at regional level. Individual federal states are weighted accordingly and some German states have been aggregated.

The unweighted case figures are distributed as follows:

Federal states	Companies
● Baden-Württemberg	284
● Bavaria	337
● Berlin and Brandenburg	100
● Hesse	150
● Lower Saxony and Bremen	202
● North-Rhine Westphalia	422
● Rhineland-Palatinate and Saarland	115
● Saxony	104
● Schleswig-Holstein and Hamburg	128
● Thuringia, Saxony-Anhalt and Mecklenburg-Western Pomerania	158

Study design



Figures in %, basis: n = 2,000 surveyed companies, 1,033 exporters
This enables an individual analysis of the size categories. They are weighted representatively using VAT statistics to enable statements about the total population to be made.

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Published by:

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forsa

Unternehmerperspektiven on XING

What could be better suited to the efficient management and expansion of business contacts than social media? That's why the Unternehmerperspektiven initiative is on XING, Germany's leading business network.

The Unternehmerperspektiven group offers you as a business owner and decision maker at an SME an exclusive circle where you can explore and discuss the topics of the initiative in more depth, and also consolidate your network.

As a group member, you enjoy direct access to supplementary information about the Commerzbank initiative Unternehmerperspektiven. After events, you have the opportunity to continue discussions, cultivate contacts – and gain quick access to photos of the event via a link.

Register [▶ here.](#)