

A CONTRAST BETWEEN THE GERMAN, EUROPEAN AND ASIAN ECONOMIES

Commentary from the SIIA* Global Information Industry Summit Berlin 2007

To fathom the enigma Germany and to provide a contrast between the German, European and Asian information economies, SIIA member Joachim C. Bartels, of Intrepid Explorers, Inc. a US based information consultancy, interviewed Dr. Willi Bredemeier of PASSWORD at the SIIA Global Information Industry Summit.

Joachim C. Bartels:

Dr. Bredemeier, you are regarded as the 'Altmeister' of content information in Germany. Please tell us why the German market seems to be an enigma for newcomers? Companies have come and gone. What were the inhibiting factors leading to their departure?

Dr. Bredemeier:

You call it Enigma ... perhaps. I believe it may have more to do with ignorance. Let me give two examples:

There was Westlaw: It invested heavily in German Law information, it had technologically speaking, a very good product. It exited the German market before it achieved significant revenues. What can we learn from this failure? Firstly, the peculiarities of the German market were not adequately taken into account. Secondly, we have principally a lower demand for legal information in Germany compared to the U.S. and the U.K., because our legal system is not based on case law but on Roman law. Thirdly, Westlaw entered an overcrowded market, dominated by a market leader who is privileged by the government with exclusive information, e.g., information from the Higher Courts. Fourthly, it appeared not to be here for the long haul. Westlaw was too impatient. It exited the market before we saw it was here. Perhaps Westlaw should have specialized or entered into a partnership.

Another example is Dialog: It had twice a monopoly position in Germany. When it entered the Germany for the first time there were no other suppliers. The second time, it had acquired the European market leader Data Star. For instance German clients were administered from London, leading to the question how can you act locally and flexibly if you are half a continent away? It drove the faithful clients of Data Star into despair by many takeovers, new strategies, changes in management and staff, neglecting Data Star portfolio and by even trying to give up the Data Star brand. Subsequently clients revolted successfully, and some of them left!

What can we learn from these two failures? Like in your home market, you have to do your homework. If you want to have success in Germany you have to be there and you have to be part of the German information scene.

Joachim C. Bartels:

Yes, Anglo Saxon companies seem to have a tendency to run their subsidiaries from London. Since German companies are so well entrenched in the local market, are they immune from failure?

Dr. Bredemeier:

Of course not! For example everybody knows Bertelsmann and its successes, but in the content industry it started several times, for example as an online host and as a CD-ROM-supplier, and lost. Perhaps it started too early, its market research was inadequate and as an international corporation it was too impatient for our local market. The problem with big corporations is that they always come back because they always have deep pockets to take over our successful entrepreneurs. In a second step they change them into bureaucracies with the consequence that they become – surprise, surprise – less successful!

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Joachim C. Bartels:

That sounds familiar!

Let us move from how not to do it to how to do it. What is your advice for a company wanting to enter Germany?

Dr. Bredemeier:

A company entering Germany should heed the following:

- 1) **Market entry depends on local need and product offered.** If you are in STM information, you should enter like *Thomson Scientific* with exclusive information which the scientific community urgently needs and with a good functionality. If you have law information you should restrict yourself to a small niche for the demand of international business information. If you have business information sell international business information and let the local suppliers sell their local information. This is partly the success of *Factiva* in Germany.
- 2) **Be in for the Long Haul:** If you enter the German or European markets don't get impatient. We Europeans take more time to buy your products than you are used to. However when we buy we are usually loyal customers.
- 3) **Become a part of our information scene.** Establish a local presence. Build trust by contacting and co-operating with information professionals, your competitors, the associations and the press. Your sales team and help desk should consist of native speakers. In all these respects, e.g., *LexisNexis Deutschland* is a German company.
- 4) **Decentralize and make room for local decision making.** A German office has only low value if it's only supposed to sell and is not allowed to make any decisions.
- 5) **The German user community is partly a difficult breed.** It requires high quality standards and is out for perfectionism. Its peculiar wishes concerning, e.g., content acquisition and functionality, should be heard even in a far away headquarter.
- 6) **If you can't beat the locals build alliances.** The alliance between *Chemical Abstracts Services (CAS)* and *FIZ Karlsruhe*, for example, with Karlsruhe as European sales bureau for CAS, seems to be successful.
- 7) **Our industry is not technology, but content oriented.** So publishers become more and more important for the electronic information services industry.

Joachim C. Bartels:

So your advice is: When you come to Germany you have to buy Lederhosen and be as professional as a German!

What about the Google challenge?

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Dr. Bredemeier:

Of course you are joking. Take a good look around Munich and you will hardly find any Lederhosen. We are highly Americanized, but also Romanized, in comparison to earlier decades. However you must know the German market.

In regard to Google, it is an uphill struggle. You have to persuade every user that there may be a free lunch in information on Google, but you do not get the detailed quality information you need for making business decisions.

Joachim C. Bartels:

If somebody comes to Germany and lives by your German business model, how will that fit into a European or Global business model: Is there such a thing?

Dr. Bredemeier:

Mr. Bartels you are the global expert, perhaps you will tell us. We all know Europe is a heterogeneous market by content and by country. Therefore for every country you may need a different strategy. If you segment the European countries by size, state of development and perhaps language or culture, you have one big country which is very developed in the area of Electronic Information Services (EIS) and has entered in a unique symbiosis with the U.S. That is the UK. For instance we all get our innovations from the U.S. via the United Kingdom.

There are other highly developed European markets which will easily co-operate with the Anglo-Saxons, namely the Scandinavian countries and The Netherlands. However their markets are quite small. Germany is the most interesting example for a country with a middle degree of development in EIS. You can win mostly because of the sheer size of the German market. You can also lose, because you may find a well entrenched local competitor who will be very hard to beat. France, to a lesser degree Italy and Spain are also large markets, but the difference in business culture is even bigger than in Germany for an Anglo-Saxon company!

Joachim C. Bartels:

Dr. Bredemeier, you are part of an annual effort by the German Government to measure the impact of Information and Communications Technology (ICT) on the German economy as well as its competitiveness. This is a huge undertaking. We do not have to go into details because there is an English language executive summary, which one can get on the Internet. Tell our audience what is the purpose of this study? What is the expected outcome?

Dr. Bredemeier:

Since the year 2000 TNS Infratest and my market research company, the Institute for Information Economics, have conducted a yearly report called "Monitoring the Information Economy" on behalf of the German Ministry of Economic Affairs. The purpose of the study is three fold: First, as a result of the study we have contributed remarkably to market transparency, because everybody in the ICT industry seems to download our study - even you Mr. Bartels. Second, identify the most important market drivers and bottlenecks and to advise the German Government about possible political actions. For instance: Since 2000 we have said every year that we have a qualification gap between the qualification offered and the qualification required by the industry.

Since 2001 we have identified one of the biggest bottlenecks for ICT, which is the suboptimal co-operation between suppliers of ICT and their clients.

The third important aspect of the survey is to compare the German performance in ICT with the leading countries worldwide.

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Joachim C. Bartels:

You indicated in one of your critiques that little has been done either by the industry and government to remove the bottlenecks, but Mrs. Merkel had taken up the challenge and summoned the industry to a meeting in Berlin. Did anything constructive come out of this meeting?

Dr. Bredemeier:

Yes, we have, for instance, a new program for E-Government. The concept is good; the public sector will be modernized and become an efficient partner to the private sector. We may also be able to catch up with the Scandinavian countries.

Joachim C. Bartels:

I have noticed that little credence is given to content in the report; suggesting that in technology bent Germany content may not be king. What about the value of content?

Dr. Bredemeier:

I agree with you, and we have discussed this with the Ministry. Nevertheless, EIS is a growing market, but up to now plays a small part in publishing, audiovisual media and the other media industry are not regarded as part of ICT. We will get there eventually.

Joachim C. Bartels:

Your third objective is to compare German and European competitiveness in ICT. You stated recently in an article in your publication PASSWORD that Germany and the Europeans are losing ground against Asia? I wonder why?

Dr. Bredemeier:

Since 2000 we have noticed a dramatic shift in worldwide competitiveness – all in favor of East Asia, with the exception of Japan. All world regions lost against China and the tiger states, including the USA and Japan, but Europe has lost the most. Only the Scandinavian countries held their ground. In speaking for the Europeans, I think the main reasons are: We lack innovation and with the exception of the UK, we lack a global perspective. We are intensely overregulated, thus are not moving fast enough.

Mr. Bartels, you have been working in Asia for a long time. You are also managing BIIA, an information industry association there. What is your perspective of why we Europeans are losing ground against Asia?

Joachim C. Bartels:

Generally speaking ICT and content is regarded as enormously important for political, economic and competitive reasons, all of which are interrelated: First of all Asians have not forgotten that they were once colonized, because of the lack of modern technology. In other words: Europeans had better guns. They do not want to let this happen again; therefore deploy only the latest technology in all economic sectors. They also want to be in control over the deployment of technology and content and do not want foreigners to control such important assets. As we know for instance in China and India specific sectors are still restricted for foreigners. For instance consider Financial and Credit Information:

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India is processing almost all of the world's sensitive personal credit data, but until recently foreign companies could not process sensitive credit data of Indians in India. In China, the consumer credit bureau sector is off limits to foreigners. Same applies to commercial bank information. China has severe restrictions with regards to all form of content. For China, transferring knowledge is very important, but controlling public sentiments are also primary objectives.

With regard to competitiveness, it has not escaped Asians that ICT plays a critical part in productivity and competitiveness. Therefore they see ICT as the route to value added manufacturing and competitiveness. Same applies to the service sector. They are keen to replicate our successes. May be the Chinese in particular have taken their cue from your German 'Monitoring Information Economy' report and subsequently rifled the computer systems of the German Chancellery to find further answers.

Another factor is speed of transformation: Because it is politically important they move fast: While in Western democracies there is an ongoing debate over structural reforms, in China the bulldozers are already at work in building new software and technology parks. For example: For China, *Software and Business Process Outsourcing* is far too important that they do not like to leave that sector to the Indians. China wants to surpass India in software production and business process outsourcing in the not too distant future. It has therefore decided to build 15 software parks throughout China and the bulldozers are already at work.

Dr. Bredemeier:

Coming from a heterogeneous continent of Europe, and going to a heterogeneous continent of Asia, what is your advice to a European content provider seeking success in Asia?

Joachim C. Bartels:

Cultural differences, religion, languages etc are even more pronounced than in Europe. Hence your good advice about Germany can be applied in Asia as well: Segmentation, segmentation and localization. Your German example about legal publishing holds true in Asia. If you are good in international legal information, stick to it. If you excel in international credit information, such as D&B, you should run this as a niche business. However if you want to get involved domestically you have to localize. In many markets you can't be perceived as being foreign. To succeed you need local skills and entrepreneurship. Expatriates may be necessary at the beginning, but you had better hire locally for the long term. For example Thailand: There is little room for English language services because English literacy is low and everything has to be translated into Thai. If you feel compelled to do that you need a well qualified Thai partner to be successful.

Therefore local partners are a necessity and to find the right partner is the biggest challenge, but extremely critical. Do not put all your 'eggs' into one basket, i.e. entrust it to one partner. Decentralize Asian activities so that you can enter into multiple local partnerships based on specific markets or products. Consider franchising. For instance D&B has turned many of its smaller overseas operations into franchises leaving it to a local entrepreneur to develop the domestic market and provide services for global needs. In China restrictions in publishing are severe and local partners are an essential requirement.

I hope these comments were helpful to draw some conclusions about the contrasts between German, European and Asian markets.

Dr. Bredemeier, I thank you for coming to the SIIA Global Information Industry Summit in Berlin. Your insights were of immense value to our audience.

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Background of Dr. Willi Bredemeier:

Dr. Willi Bredemeier is editor and owner of *Password*, a leading German newsletter for electronic information services – Director Institute for Information Economics (Hattingen, Germany). He holds a PhD in Economic Policy (about the German System of Collective Bargaining) at the University of Bremen.

In 1984 he founded the Redaktionsbüro Dr. Willi Bredemeier, soon specialized in the field of electronic information services. In 1986 he became editor of *Password*, the monthly newsletter for electronic information services and started in 2004 a daily online-service news service. Since 1988 he manages consultancy services in the field of market strategy and external communications for leading information suppliers on the German market and the EU-commission. In 1990 he expanded his consulting activities to include market research in the field of electronic information services, and subsequently founded in 1994 the Institute for Information Economics – Studies, i.e. in regard to market development, situation of the information professionals, information quality, information society and methodological problems

Since 2000 Dr. Bredemeier participates in important market research of the Information Economy at a whole, including telecommunication, information and communication technology and the new economy – Monitoring the German Information Economy in an international benchmark in yearly reports for the Ministry for the Economy and Technology.

Background of Joachim C. Bartels:

Joachim C. Bartels is an information specialist with over 40 years of global business experience (operations, planning, M&A, divestitures, market & key account development); of which 35 years were in business-to-business, direct marketing and business information services environments. He pioneered new information concepts, new business models and set up businesses in emerging markets with continually changing political and economic environments.

Bartels held line and staff management positions at the Dun & Bradstreet Corporation (D&B) in the USA and Europe. As senior vice president, Bartels managed D&B's business development program that spanned the globe with a particular emphasis on China, Eastern Europe, India and South East Asia.

Bartels debates on a regular basis with political and industry leaders around the world about the role of information content in national economies and business decisions. He is a regular participant in information and credit management forums working on issues concerned with the value of information in trade credit decisions. <http://www.intrepidex.com>

Background of SIIA Global Information Summit:

Following its first successful Global Information Industry Summit in Amsterdam in September 2006, the US based Software and Information Industry Association (SIIA) decided to venture further East and chose Berlin for its conference venue in 2007. While the European publishing Metropolis Amsterdam drew over 130 attendees last year, the Berlin conference was a more modest, but equally dynamic affair. Approximately 70 international information content executives from the USA, Europe and Asia gathered in Berlin to listen, learn and interact with peers how to pursue business opportunities around the globe. As the title of the conference suggested it was a global affair, however with a strong local context. Surprisingly the German content industry took little notice of the conference; neither did European and German industry associations. Only a handful of European associations supported the conference. <http://www.siia.net/content>