



**A STUDY OF THE 'MITTELSTAND' MODEL TO  
CREATE A SUSTAINABLE BUSINESS MODEL  
FOR THAILAND'S SMES**

**BY**

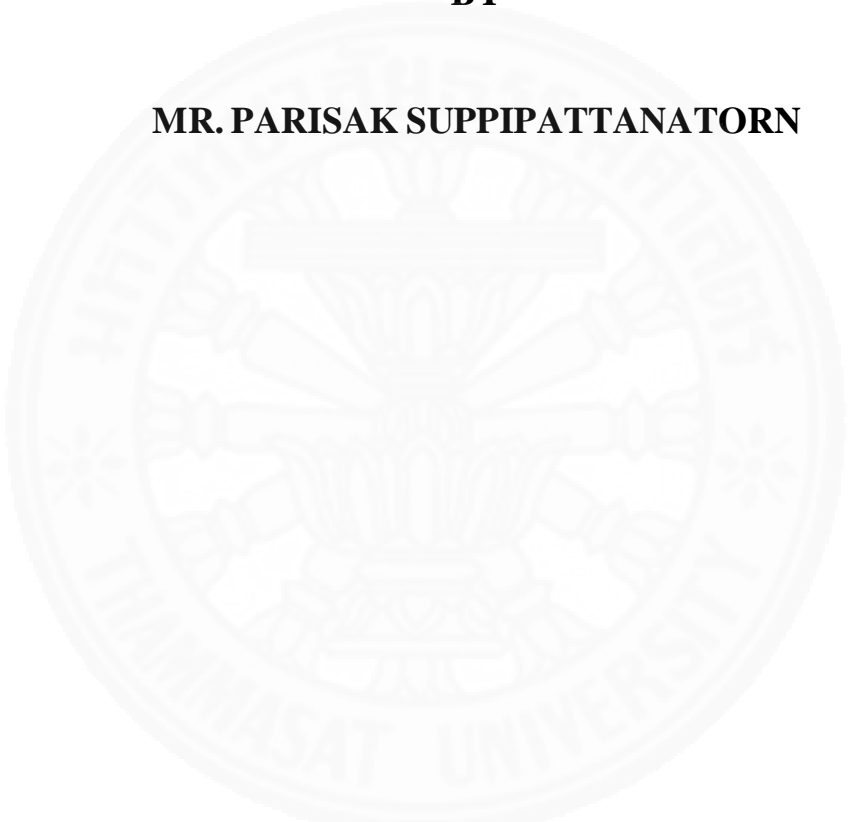
**MR. PARISAK SUPPIPATTANATORN**

**AN INDEPENDENT STUDY SUBMITTED IN PARTIAL  
FULFILLMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF  
MASTER OF SCIENCE PROGRAM IN MARKETING  
(INTERNATIONAL PROGRAM)  
FACULTY OF COMMERCE AND ACCOUNTANCY  
THAMMASAT UNIVERSITY  
ACADEMIC YEAR 2016  
COPYRIGHT OF THAMMASAT UNIVERSITY**

**A STUDY OF THE ‘MITTELSTAND’ MODEL TO  
CREATE A SUSTAINABLE BUSINESS MODEL FOR  
THAILAND’S SMES**

**BY**

**MR. PARISAK SUPPIPATTANATORN**



**AN INDEPENDENT STUDY SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE  
OF MASTER OF SCIENCE PROGRAM IN MARKETING  
(INTERNATIONAL PROGRAM)  
FACULTY OF COMMERCE AND ACCOUNTANCY  
THAMMASAT UNIVERSITY  
ACADEMIC YEAR 2016  
COPYRIGHT OF THAMMASAT UNIVERSITY**

THAMMASAT UNIVERSITY  
FACULTY OF COMMERCE AND ACCOUNTANCY

INDEPENDENT STUDY

BY

MR. PARISAK SUPPIPATTANATORN

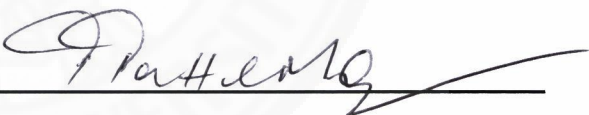
ENTITLED

A STUDY OF THE 'MITTELSTAND' MODEL TO CREATE A SUSTAINABLE  
BUSINESS MODEL FOR THAILAND'S SMES

was approved as partial fulfillment of the requirements for  
the degree of Master of Science Program in Marketing (International Program)

on..... 8 MAY 2017 .....


Chairman

×   
\_\_\_\_\_  
(Professor Paul G. Patterson, Ph.D.)

Member and Advisor

  
\_\_\_\_\_  
(Professor K. Douglas Hoffman, Ph.D.)

Dean

  
\_\_\_\_\_  
(Associate Professor Pipop Udorn, Ph.D.)

Independent Study Title	INDEPENDENT STUDY TITTLE
Author	Mr. Parisak Suppipattanatorn
Degree	Master of Science Program in Marketing )International Program(
Major Field/Faculty/University	Faculty of Commerce and Accountancy Thammasat University
Independent Study Advisor	Professor K .Douglas Hoffman, Ph.D.
Academic Year	2016

## ABSTRACT

Thailand entrepreneurs are finding ways to create sustainable companies, while most of the companies in Thailand are struggling. The word ‘sustainable’ may include the competitiveness of the company, which will be defined from a marketing positioning as creating value for customers.

One of the successful countries which has become the model of creating such a sustainable business is Germany. What the Germans call ‘Mittelstand’ represents the SMEs business in Germany, which is the heart of Germany’s economy.

This paper has researched the key factors to running a sustainable, successful Mittelstand: Vision of the management, focus on the product, creating relationships, and limiting the financial risk. These factors have been developed to find the recommendation for Thai’s entrepreneurs.

An in-depth interview has been conducted on Thailand’s entrepreneurs to find the insightful factors for how they are running their businesses. These insights have been compared and contrasted with the Mittelstand, leading to the conclusion.

The recommendation was based on the findings, culture, and norms of doing business in Thailand. These recommendations will help Thai’s SMEs and entrepreneurs to create a sustainable company with a competitive marketing positioning.

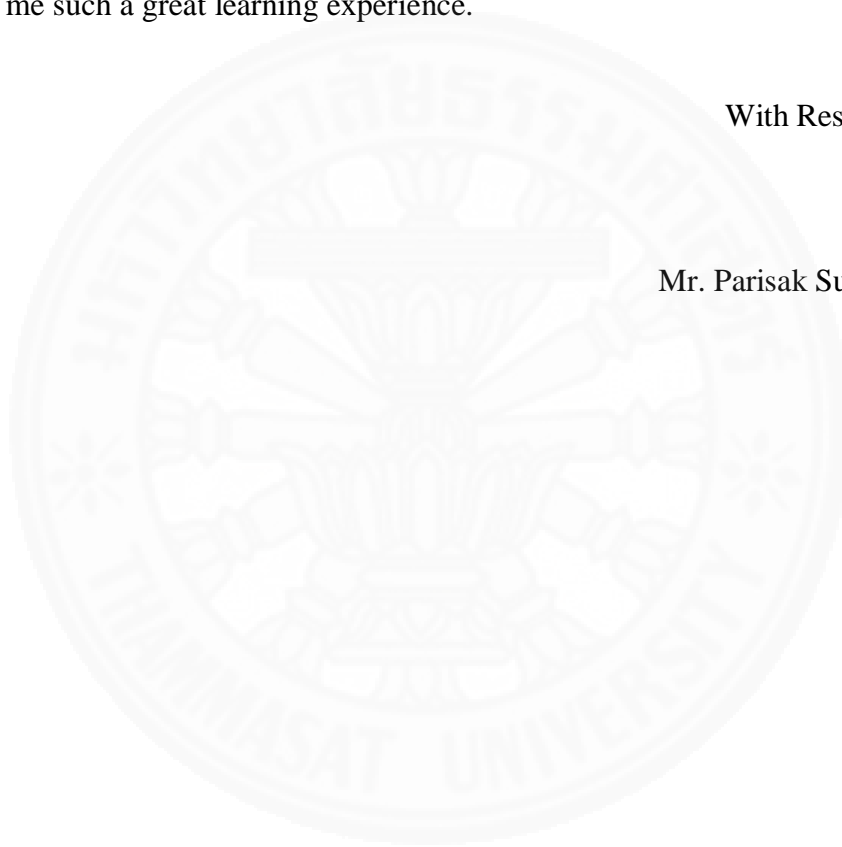
## **ACKNOWLEDGEMENTS**

This work is dedicated to my dear family, two little daughters and my wife, who sacrificed their time with me, believed in me, and supported me for the whole two years while I studied for this Master's degree.

Thanks to my friends Ajarns and all the MIM staff. Your support and knowledge has given me such a great learning experience.

With Respect and Love,

Mr. Parisak Suppipattanatorn



## TABLE OF CONTENTS

ABSTRACT	(1)
ACKNOELEDGEMENT	(2)
TABLE OF CONTENTS	(3)
LIST OF FIGURES	(5)
LIST OF TABLES	(6)
CHAPTER 1: INTRODUCTION	1
1.1 Problems Statement and Research Purpose	1
1.1.1 What is Mittelstand	1
1.1.2 Area of Study	2
CHAPTER 2: REVIEW OF LITERATURE	3
2.1 German lessons (The Economist, 2014)	3
2.2 Extreme focus and the success of Germany’s Mittelstand (Girotra & Netessine, 2013)	4
2.3 10 Lessons for UK mid-market from the Mittelstand (Bühlmann, 2015)	4
2.4 The engines of growth (Blackstone & Fuhrmans, 2011)	5
2.5 Mittelstand in Germany: well-financed, innovative, export- oriented (Lehnfeld, 2013)	6
2.6 Meet ‘The Mittelstand’ (Frangoul, 2014)	8
2.7 SMEs hold key economic to the future (Limsamarnphun, 2016)	8
2.8 Marketing management (Kotler & Keller, 2012)	9
2.9 Summary	9
CHAPTER 3: RESEARCH DESIGN	11
3.1 Research Objective	11
3.2 Research Method	14

3.2.1 Secondary research	14
3.2.2 In-depth interview	14
3.3 Sampling Procedure	15
3.3.1 Qualification of respondent for in-depth interview	15
CHAPTER 4: RESULT AND ANALYSIS	16
4.1 Vision, Business Type and Business Stages	19
4.2 Product	21
4.3 Relationship	22
4.4 Global Expansion	25
4.5 Financial	26
CHAPTER 5: RECOMMENDATION AND CONCLUSION	27
5.1 Recommendations	28
5.1.1 Focussing on the product	29
5.1.2 Relationship	29
5.1.3 Expansion	30
5.1.4 Financial	30
5.2 Limitation of study	31
5.2.1 Understand more from the Mittelstand	31
5.2.2 Time	31
5.2.3 Type of business	31
5.3 Further studies	31
5.3.1 Primary research on Mittelstand company	31
5.3.2 Quantitative research on Thailand's SMEs	31
BIBLIOGRAPHY	32
APPENDICES	34
APPENDIX A: In-depth interview questions	35
APPENDIX B: Summary of respondents' profile	36
BIOGRAPHY	37

## LIST OF FIGURES

Figures	Page
Figure 1: Source of Investment Funding of German SME	6
Figure 2: R&D Expenditures and Number of Personnel in SMEs	7
Figure 3: Marketing Mix 4Ps	11
Figure 4: 3Cs framework	12
Figure 5: Full market segmentation process	13
Figure 6: A framework developed from 'Mittelstand'	16
Figure 7: Comparison between the new framework with three basic marketing frameworks	17
Figure 8: Product Life Cycle	19
Figure 9: Three business group on a Product Life cycle stages	20
Figure10: The grey area showing the key factors to creating a unique positioning of 'Mittelstand' firms	27



## LIST OF TABLES

Figures	Page
Table 1: Key factors to achieve business sustainability	18



## CHAPTER 1

### INTRODUCTION

#### 1.1 Problem Statement and Research Purpose

The economy of the country is contributed to by small and medium-sized enterprises, or SMEs. These SMEs, which are scattered everywhere around the country, create many jobs and drive the economy.

According to Srimalee (2016), strong SMEs are crucial to sustainable economic growth, because they account for 50 percent of the country's GDP. However, most of Thailand's SMEs are currently struggling to create a sustainable business that can continue to the next generation. To answer this problem, the Mittelstand model—which is responsible for 53% of the GDP and 78.5% of the workforce and is driving the strong economy in Germany (Blackstone & Fuhrmans, 2011)—is considered to be a model for Thailand's SMEs.

##### 1.1.1 What is Mittelstand

According to the official statistical office, the definition of 'Mittelstand' is a small to mid-sized enterprise (SME) with a revenue of less than 500 million Euros and with fewer than 500 employees (Statistisches Bundesamt, 2016). However, the word also has a connotative definition that involves the subjective attitudes towards a firm.

The success of Mittelstand is based on (Kirchfeld & Randow, 2010):

- Creating value in a product
- Innovation and quality
- Keeping a local identity
- An apprentice system
- Long-term strategy

### **1.1.2 Area of the study**

How these key factors combine to create a sustainable business will be studied in this research, including both Mittelstand and Thailand's SMEs.

Furthermore, Thai SMEs business owners were asked about the factors to create a sustainable Mittelstand. The primary research has been conducted by using in-depth interviews, because the mind-set of those who are responsible for SMEs management is of interest in this study.

To conclude this study, the results from primary research has been compared and contrasted with the factors which made the Mittelstand successful. The main five questions this study will answer include:

- How does Mittelstand create value and deliver to the business?
- How has Mittelstand become successful and important to economy and society?
- How does Mittelstand develop a unique marketing positioning to stay competitive in the market?
- How should Mittelstand be applied to Thailand's SMEs for establishing a sustainable business?
- How should Mittelstand be applied to Thailand's SMEs for creating a unique marketing positioning and staying competitive in the market?

## CHAPTER 2

### REVIEW OF LITERATURE

The researcher has conducted this literature review to understand the success framework which created Mittelstand, as it is known to the world. The review includes the articles from newspapers, scholarly works and magazines around the world.

#### **2.1 German lessons (The Economist, 2014)**

Germany has the world's fourth-largest economy and is supported by the mid-sized businesses known as Mittelstand. These businesses are mostly family-owned, present in small towns, and very specialised in their products. These small and midsize companies are world-class and do not need to be big. Currently, the world is interested to learn the success of Mittelstand, as they were interested to study Toyota in 1970s, because of the economic strength in Germany and the worries of the capitalist system. Capitalism tends to create the following problems:

- Economic activity is dominant in a small number of giant companies and few megacities.
- The unemployment of young people is high.

The Mittelstand seems to answer these problems, since the number of unemployed people in Germany under 25 years of age is only 7.8%, compared to Spain at 54% and Sweden at 22.1%. Additionally, the rate workers leave companies is on average only 2.7% in Germany, compared to 30% at American companies.

However, as the article says, "The business models can never be transported lock, stock and barrel". The foundations of Mittelstand lie in Germany's delicate relationship between not only schools and companies, but also the capital and labour. It is challenging for other countries to imitate the model without the same foundation as Germany. Besides, Mittelstand firms are adapting themselves speedily in the global market to stay competitive, serving customers around the world.

Therefore, mixing and matching the ideas across the world to create the most productive combination of management without losing the root of themselves is the key to Germany's success of with Mittelstand.

## **2.2 Extreme focus and the success of Germany's Mittelstand (Girotra & Netessine, 2013)**

Highly focussed companies are really successful as a result of extremely efficiencies from a designed business model. This is not easily found in the Western world, apart from Germany's Mittelstand, the small to medium-sized enterprises. Typically, these firms are export oriented and employ over 70% of the private sectors. The mutual features of these companies include:

- Extreme focus in what they do,
- Extreme efficiency and doing exceptionally well, which makes them cost-competitive
- Simple production lines, which avoid complexities and result in very lean management hierarchies
- Improving economies of scale by going global as their market

## **2.3 10 Lessons for UK mid-market from the Mittelstand (Bühlmann, 2015)**

### 1. Embrace the long term

Company should aim for a Long-term perspective in both customer and shareholder relationships.

### 2. Build loyalty and local relationships

Good relationships with employee, suppliers, and customers will create loyalty even in a bad time.

### 3. Be open-minded in tough times

Learn from mistakes as opportunities for further and sustainable development to distinguish the company.

#### 4. Develop a shared sense of purpose

The workforce that has a long-lasting relationship with the company will help the company to overcome in difficult situations.

#### 5. Act now on demographic change

Since more people delaying their retirement, offering young people an internship early is a way to guarantee enough workforce for the company.

#### 6. Retain talent through ongoing training

Training throughout employees' careers creates a good relationship between the company and the employee, and they are more likely to stay with the company.

#### 7. Invest, invent and capitalise on your intellectual property

Mittelstand mostly have low debt and good relationships with local banks, making them able to invest in innovation and retain inventions, which allows them to get ahead in the market.

#### 8. Seize opportunities for international expansion

Specialising in a product results in easier expansion into international markets.

#### 9. Establish a community and wider sense of identity

Mittelstand has been established as a concept in Germany since 1871. It creates a sense of belonging in German community and economy.

#### 10. Make it fun!

Do it for the fun of it, not for the sake of business, and make sure that the whole company has the same sense of fun.

### **2.4 The engines of growth (Blackstone & Fuhrmans, 2011)**

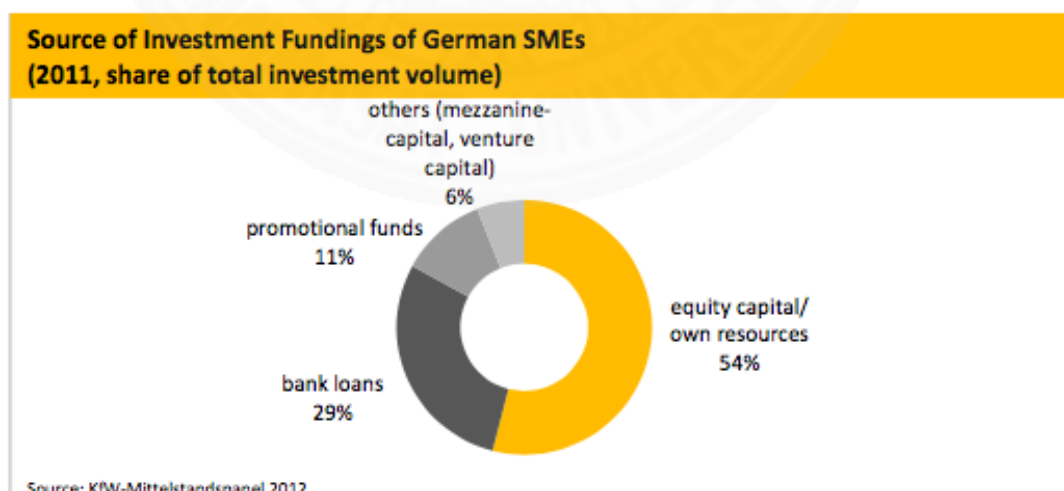
Germany's economy is powered by a legion of smaller companies. As a result, Germany was the fastest country to recovery from the global economic recession, and they have the lowest unemployment rate in twenty years. Mittelstand occupy a valuable niche market; for example, they are critical to the manufacturing process. Mittelstand provide the backbone of Germany's economy, which is the world's fourth largest economy. In Germany, 80 percent of private-sector employment and 98 percent of 350,000 companies are exporters to 16 different foreign markets.

Technological advancement is important to stay ahead in the market by constantly innovate. Moreover, staying local and building relationships within the community is important, as the family of employees can run the business down the road. Supporting students with internships ensures a steady source of skilled labour, and avoiding layoffs guarantees that skilled employees will not leave the company.

## 2.5 Mittelstand in Germany: well-financed, innovative, export-oriented (Lehnfeld, 2013)

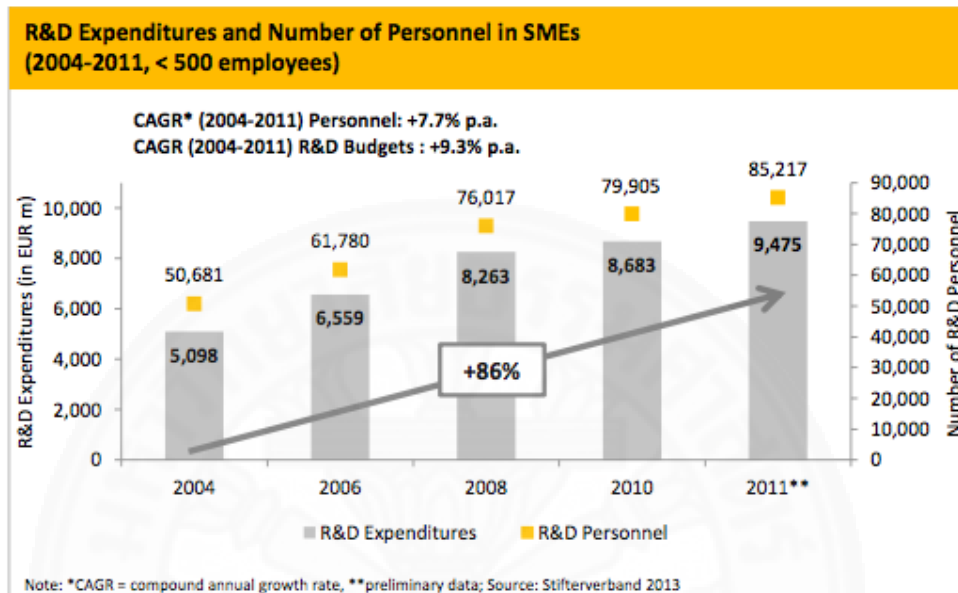
German Mittelstand secure competitiveness in the market with high equity ratios, specialisation in niche markets and strong innovation profiles. This creates a strong economy for Germany for years, and this is gradually becoming a crucial element in economic reports worldwide.

Financially, Mittelstand companies are robust, with 84 percent of companies surveyed having an equity ratio equal or better than last year, and return on sales increased to 11.4% in 2012. This strong finance means that those companies are able to avoid external capital financing, and they are also keen to invest with their own resources. The credit terms and turnaround time is only about thirteen days.



**Figure 1: Source of Investment Funding of German SMEs**

Research and development have been important parts of Mittelstand as there are a number of clusters in academic research institutions creating new products and services. Figure 2 shows R&D expenditures at 9.5 Billion Euros with 85,200 people working in these segments.



**Figure 2: R&D Expenditures and Number of Personnel in SMEs**

Germany has been the champion of the higher-profile consumer goods markets with 1,307 companies, following by USA at 366 companies. This huge gap is thanks to the contribution of the Mittelstand in the niche market.

Export is another success for the Mittelstand, who are the largest group of exporters in Germany. 345,000 German Mittelstand companies account for 97.6% of all exports, valued at 186 billion Euros in 2010. They are using the free-trade agreement (FTA) to their advantage, and they are targeting countries like India that have a high potential for growth.



## **2.6 Meet ‘The Mittelstand’ (Frangoul, 2014)**

Mittelstand firms account for more than 99 percent of all German companies, contributing 52 percent of GDP and employing more than 15 million people. The broad definition for Mittelstand describes them as private, family-run companies that specialise in one product or service, not only doing it really well but also focussing on exports across the globe. The Director General of the German-British Chamber of Industry & Commerce said, “They are less driven by capital markets, therefore their short-termism—which we often see in the Anglo-Saxon world—is less pronounced, because they invest in the longer term” (Frangoul, 2014).

A key strength of the Mittelstand is their relationship with local communities and within the company. Investing in this relationship creates loyalty and is a steady job to them. They give it back as the best in terms of products, innovation and creation.

## **2.7 SMEs hold key economic to the future (Limsamarnphun, 2016)**

In Thailand, SMEs and start-ups are crucial to sustainable economic growth, as 2.7 million SMEs provide 10 million jobs. However, approximately only 500,000 companies were registered and output about 40% of Thailand’s GDP. To make the economy grow with stability, the share of GDP needs to come from more than 50% in the SMEs industry. The government is working to “identify business models and strategies to guide SMEs, start-ups and social enterprises into a healthy long-term future” (Limsamarnphun, 2016). There is a belief that during critical times the strong SMEs and start-ups will provide a cushion to the country’s economy.

## 2.8 Marketing management (Kotler & Keller, 2012)

To develop a marketing plan for the company, the strength, weakness, opportunity, and threat (SWOT) analysis will be used to give an overview understanding of the company's external and internal marketing environment.

To develop a product, the customers need to be understood, and then a position must be crafted based on the segment and target of customer we want to sell to. This positioning (known as the STP) will create a distinctive image in the mind of targeted consumers and maximise benefits to the firm.

## 2.9 Summary

Many sources provide the information of Mittelstand as a major contributor to the Germany's economy, accounting for more than 52% of the GDP. The major characteristics can be summarised as follows:

- Long-term approach

Choosing sustainability of the business rather than short-term growth

- Specialised in their product

Focussing in on what they are doing to achieve extra advantage in the market

- Constantly innovating

To stay ahead in the market, innovation is the key to success

- Seeking opportunities in the world market

To grow the business, opportunities overseas will be one of the answers

- Provides apprenticeships

Offers internship for young people to create a future workforce for the company

- Keeps the relationship

Relationships can be handy in tough times, as a source of labour, financing, and other benefits

- Financially strong

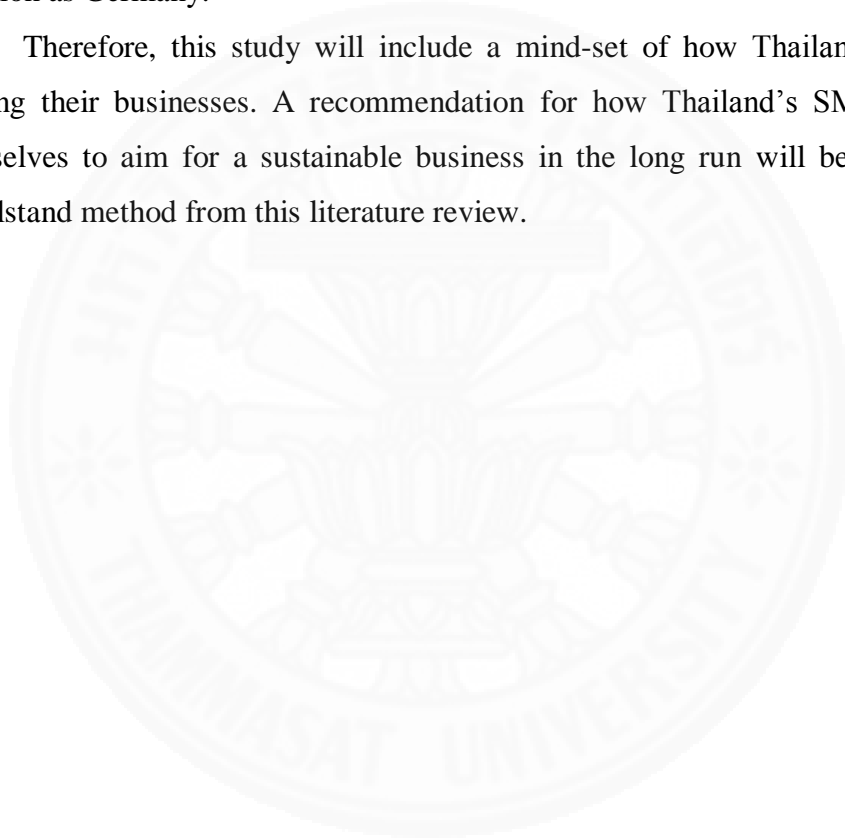
As they aim for long-term goals, most of them are more keen on self-financing than on external sources of finance

- Maintains local relationships

Local community is a source of good relationships, creating a sense of belonging to a local community and the company

If Thailand now wants to grow economically with stability, 50% contribution of the GDP should come from the SMEs segment. This is following in the same direction as Germany.

Therefore, this study will include a mind-set of how Thailand's SMEs are running their businesses. A recommendation for how Thailand's SMEs can adapt themselves to aim for a sustainable business in the long run will be based on the Mittelstand method from this literature review.



## CHAPTER 3

### RESEARCH DESIGN

#### 3.1 Research Objective

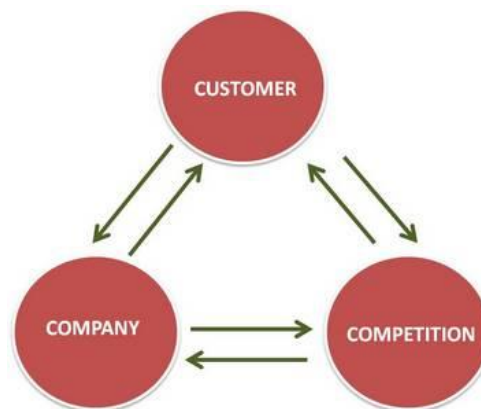
The goal of this research is to identify the crucial factors which make the Mittelstand model a success in Germany for a long-term sustainability. These identified factors have been developed into a business model framework which can help other SMEs and entrepreneurs who are currently running a business or who are planning to start a business. The framework will act as a guideline for those who aim for long-term sustainability to develop a unique marketing positioning.

To develop a positioning, the marketing framework should including the 3Cs, 4Ps, and STP.

#### 3Cs (Company, Customers, Competitors)

In this framework, developed by Kenichi Ohmae, three key factors are taken into account:

- Company — Analyse your own strengths and weaknesses to win the market.
- Customers — Analyse your customers to win the target market by knowing the needs and trends of the market.
- Competitors — Assesses your competitors to find the differentiation and use their strengths and weaknesses to develop a strategy.



**Figure 3: 3Cs framework**

### 4Ps Marketing Mix (Product, Price, Place, Promotion)

This has been defined as a “set of marketing tools that the firm uses to pursue its marketing objectives in the target market” (Kotler & Keller, 2012). The 4Ps are comprised of the four elements:

- Product
- Price
- Place
- Promotion

These elements will help to construct a company’s positioning to the target market.

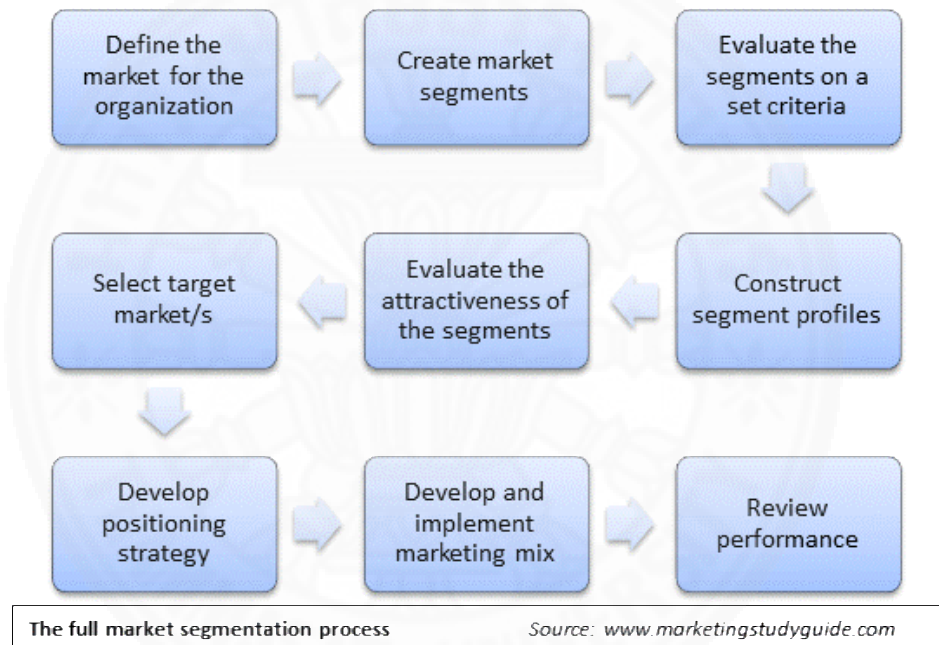


**Figure 4: Marketing Mix 4Ps**

### STP (Segment, Target, Positioning)

The process of identified the market to creating the strategy of marketing includes:

- Segmentation — Identifying the market and dividing it into smaller groups based on characteristics and needs of the customer
- Targeting — A process for selecting the most appealing group of customers (a market segment) and then focussing on serving those groups.
- Positioning — The process of creating a perception to the customers based on the key benefits and values of the product.



**Figure 5: Full market segmentation process**

#### The objectives of this research include:

1. To study how the Mittelstand model creates value to the business
2. To study how the Mittelstand model delivers value to the business
3. To study the importance of Mittelstand to the economy and society
4. To identify the core success of Mittelstand base on
  - a. Framework of marketing 3Cs
  - b. Framework of marketing 4Ps
  - c. Framework of marketing STP
5. To generate a framework business model based on Mittelstand

6. To explore the attitude of Thai SMEs and entrepreneurs for running a business
7. To understand the current Thai SMEs and entrepreneurs based on a new framework generated on objective number 5.
8. To understand the motivation behind Thai SMEs and entrepreneurs setting up a business
9. To evaluate the perception of Thai SMEs and entrepreneurs to accepting a new business model
10. To evaluate the perception of Thai SMEs and entrepreneurs of sustaining long-term business

### **3.2 Research Method**

This study used the following methods: secondary data research and in-depth interview. This is to gain the insight into the mindset of SMEs and entrepreneurs as much as possible. The questions asked to the respondents are listed in the APPENDIX A.

#### **3.2.1 Secondary research**

This method has been used to gather information about Mittelstand to find its importance for Germany as well as the key factors of Mittelstand which makes the business sustainable and made it the backbone of Germany's economy. The sources used include journals such as the Harvard Business Review, Wall Street Journal, and The Economist, as well as Germany's official data. This secondary research will provide a better understanding of the Mittelstand model, including the success and challenges.

The data gathered in this secondary research will be developed as a framework for in-depth interview later.

#### **3.2.2 In-depth interview**

After a framework is developed based on the secondary research, the framework is used as a guideline for in-depth interview. The interview has been conducted to gain insight from Thailand's SMEs and entrepreneurs. The interview is

planned to get information from 15 different companies or more, including at least one person at each company who is responsible for the direction and policy of the company (e.g., top management, owner). This is to get the background, the insight, and the mind-set of the interviewee. The result has been used to contrast with the framework of Mittelstand generated by using the secondary research.

### **3.3 Sampling Procedure**

#### **3.3.1 Qualification of respondent for in-depth interview**

The qualification of the respondents are stated below:

- The business person, the owners, the heir of the company or the entrepreneur who has been able to give directions to the company
- The size of the company is in the definition of SME, which includes
  - Number of employees
  - Revenue generated per year

The respondents were recruited by using a convenient sampling method, through personal connections.

The interviews were conducted under the conditions below:

- 15 Respondents
- Approximately 60 minutes per interview session
- Telephone and face-to-face interview were used, as requested by the respondents.
- If the face-to-face interview was used, a convenient location was used as requested by the respondents.

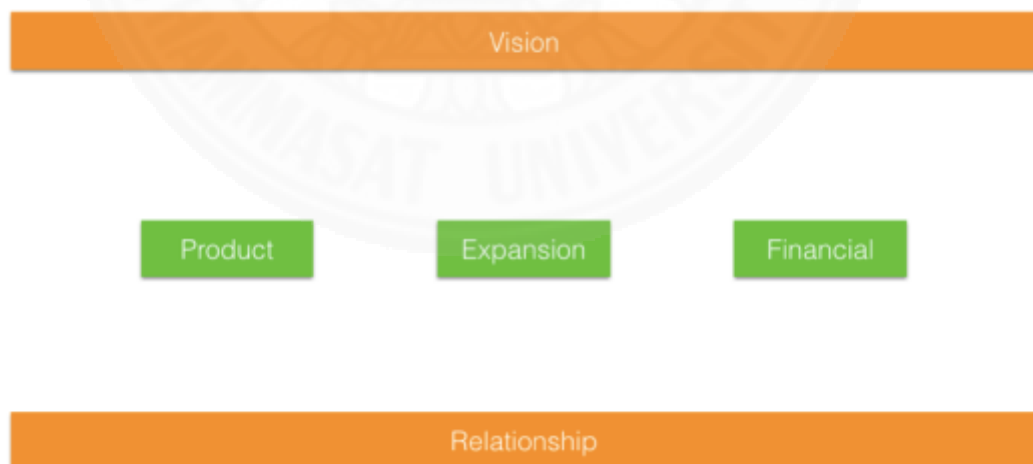


## CHAPTER 4

### RESULT AND ANALYSIS

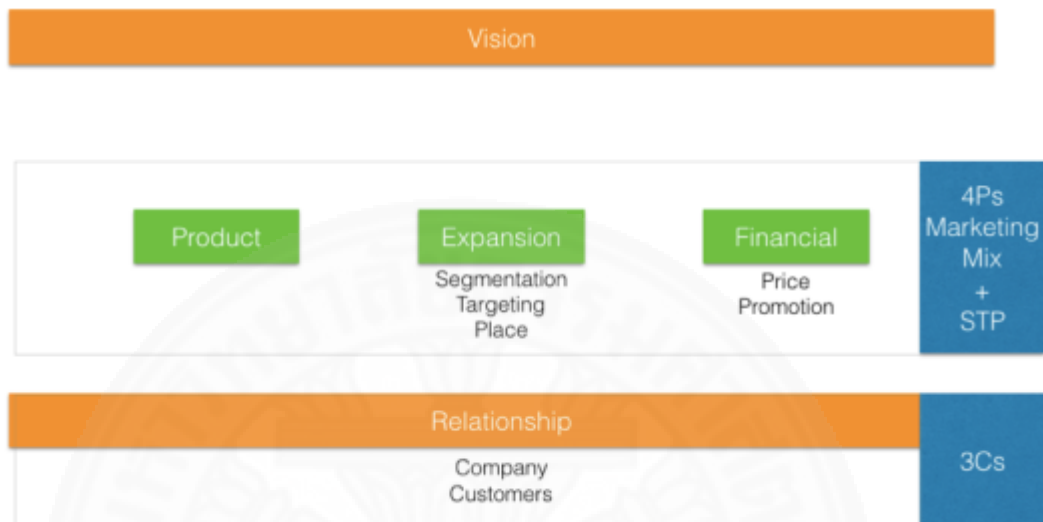
The marketing framework (3Cs, 4Ps, STP) was used as a guideline. The literature has revealed the five aspects that make the Mittelstand competitive and sustainable in business:

- Vision for running the business (Approach of running the business)
- Product
  - Specialise in the product
  - Innovate
- Relationship
  - Supplier
  - Customers
  - Inside the company (Company structure, employees)
  - Local community
- Expansion
- Financial



**Figure 6: Framework developed from Mittelstand**

The Vision and Relationship have shown a human aspect which needs to go along with the execution side of Product, Expansion and Financial. This framework has been created using the elements of three basic marketing frameworks to reveal the keys to the success of Mittelstand.



**Figure 7: Comparison between the new framework and three basic marketing frameworks**

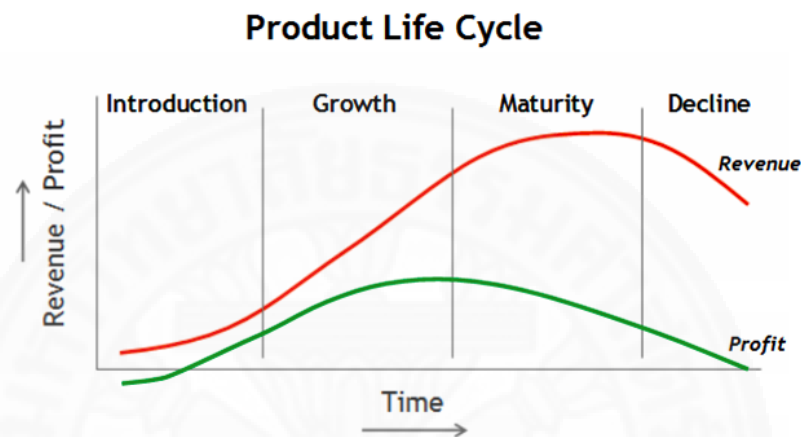
On the other hand, the in-depth interview respondents revealed that Thailand's entrepreneurs agree or disagree with parts of this framework. These can also be classified by the type of business and the stages of the business, which will be described later on in the report.

**Table 1: Key factors to achieve business sustainability**

Aspects	Hypothesis	Level of support the hypothesis	Level of existing implementation
<b>1. Vision</b>	X1: Owner's vision aiming for sustainable business	Agree	Existing
<b>2. Relationship</b>	X2: Good relationship with supplier	Strongly Agree	Existing
	X3: Good relationship with customers	Neutral	Highly Existing
	X4: Good relationship within the company	Agree	Existing
	X5: Good relationship with the community	Disagree	None Existing
	X6: Knowing the product	Strongly Agree	Highly Existing
<b>3. Product</b>	X7: Focussing on the product	Agree	Existing
	X8: Constantly innovate product	Neutral	Lightly Existing
<b>4. Expansion</b>	X9: Consider global market	Agree	Lightly Existing
<b>5. Financial</b>	X10: Self-financing rather than outside sources	Strongly agree	Highly Existing

#### 4.1 Vision, Business Type and Business Stages

The Mittelstand companies in Germany have typically been running for a hundred years, falling into the stage of a company that has been running through generation to generation. They need to constantly innovate themselves, disregarding the type of business, as shown in the Figure 8 below:



**Figure 8: Product Life Cycle**

However, from the side of the Thai SMEs, respondents are divided into three groups:

- **Family business** (10 respondents) (long-term, changing to be competitive)

For this type of business, all of the respondents aim for the long-term strategy to be pass on from generation to generation. One of the interviewees said:

“Running a family business, the business needs to be able to support myself, all of the family, the business itself, and be a foundation for the next generation.”

Natthakrit (34), Tyre Distributor

- **Fast-Moving Consumer Goods** (2 respondents) (difficult to sustain, if possible sell it)

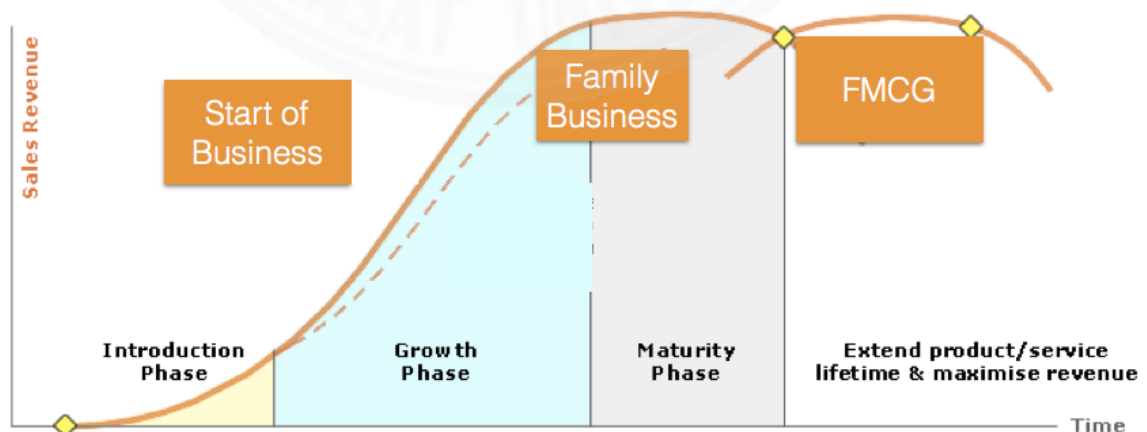
“Being in this type of business, you have to move fast, or else you would not be able to survive, and you never know the future as the trend of the fashion is changing every day. So, if someone offers me a good deal to buy a company, I’ll probably sell it and find something new thing to do.”

Phanurit (27), Fashion Jewellery

- **Starting of the business** (3 respondents) (want to be sustainable, but have a limited resource so focus on one thing at a time)

“Being small means we cannot aim for sustainable business - it’s just not possible yet. But we have to prioritise things in hand that matter the most to the business, or the business won’t be able to be born.”

Sunhaporn (26), Healthy Beverage



**Figure 9: Three business group in a product life cycle stages**

## 4.2 Product

Two aspects of a Mittelstand business model impact the product.

- **Product specialisation**

For long-term sustainability, the company needs to be focussed in what they are doing, which is suggested by most of the Mittelstand firms. The Thai SMEs think knowing the best of their products is very important, as one of the respondents stated

“To sell the products, you need to know everything about your products, find the value and sell it to the customers. Differentiate from the others by having the product that no one has, and customers will come to you. That is the key to survive in this business.”

Choke (37), Gaming Industry

- **Constantly innovate**

Nevertheless, many of the Thai SMEs are struggling to find that important differentiation.

“Everyone around the world can keep up with the technology to use in this industry, so to constantly innovative in this industry seems impossible.”

Varissara (27), Fine Jewellery

### 4.3 Relationship

Relationship management involves many parties. Mittelstand firms maintain good relationships amongst the following parties:

- **Supplier**

While all of the respondents understand that the supplier is one of the biggest costs to the company, their responses highlighted a contradiction.

One of the respondents said:

“Being in a good relationship with the supplier makes life much easier for me, as the relationship turns from a work requirement into helpfulness from the supplier and then into a business partner. These relationships give flexibility to each other, and they help think about the future market and strategies for expansion together. Without them, we would not be able to grow.”

Salinthip (29), Event Organiser

On the other hand, one of the respondents stated:

“The supplier is the biggest cost to me. We have to negotiate down the cost to the minimum as we could so that we can be competitive in the market.”

Nattakrit (34), Tyre Distributor

But after asking about the respondent’s relationship with the supplier, the response was very interesting:

“I understand the relationship with the supplier is a good thing, but so good that we can’t be competitive is not a choice. There are a lot of suppliers in the market, so if one died, another one will come to be a new supplier.”

Nattakrit (34), Tyre Distributor

- **Customers**

From the secondary research, Mittelstand firms did not state the relationship with customer is a key factor to make the business sustainable. However, the Thai SMEs approach towards relationships with the customers is a key factor for their companies.

“As my business mostly sells in the terms of B2B, the relationship with the customers is one of the crucial things for keeping the business running. The reason is, when you have a good relationship with the customers, they will keep coming back and try to sell your product for you to another person. Therefore, I will deliver the product to the shop in person to make the relationship the most beneficial.”

Sunhaporn (26), Healthy Beverage

- **Inside the company**

One of the most often mentioned factors from Mittelstand companies is the relationship within the company. However, many pieces combine in this aspect, such as company structure and the size of the company, to allow relationships to be built within the company. Nevertheless, the respondents felt strongly about the importance of relationships within the company.



“People in the company are the most valuable asset for the company. The three things that need to be changed for my company are relationships, attitudes, and environment. This will create a **sense of belonging** in the employees. At the moment, people from a new generation have a high turnover rate, which means they quit the company too frequently, and as a result we have to take more time to training new people to continue the work. These three things are the most difficult to change, especially the attitude of the employee. However, this is a main challenge to me, from the size and hierarchy of the company.”

Thitirat (27), Confectionary Industry

In addition, another of the respondent claims:

“Communication is the key to make the relationship within the company strong. It gives them openness, trust, and honesty and even creates personal relationships. These will give an extra mile for the company as everyone is involved and can make the work better and better.”

Salinthip (29), Event Organiser

From my observation, one of the challenges to creating a good relationship within the company is the **hierarchy**, which can be found in the big company.

- **Local community**

Local community from the Mittelstand side is important for securing the future, as the community will help sustain the company in tough times. The community is also the source of the future workforce that will keep the firm running.

Almost all of the respondents do not give consideration to building the relationship with the community. One respondent gave the following reasons:

“It is really difficult to reach the community. The resources are limited, and the community most of the time is not interested. Therefore, focussing on other thing that can be measured is more useful than building relationships with the local community”

Jar (30), Bioplastic

#### **4.4 Global Expansion**

Mittelstand firms can explore opportunity around the world by having a strong logistic service in their country, which allows them to serve customers globally. Furthermore, as they are serving niche markets, customers will seek out their product. What their customers want is the company’s ability to deliver the products or services on time.

Meanwhile, all of the respondents in this research want to go global, but their infrastructure is underdeveloped, especially in terms of logistics. Subsequently, not all of the respondents can expand overseas due to high cost and limited resources on hand.

“There are a lot of opportunities out there in the world. Without going too far, opportunities in our neighbour countries have an enormous potential. Conversely, to be able to serve them, you must have the knowledge the market wants. Besides, you need to weigh the resources inside the company, which are limited. Thus, going overseas is still a dream that might happen in the future, but the cost to go there is still too expensive.”

Adon (59), Construction Industry

#### 4.5 Financial

With aiming for sustainability, Mittelstand firms avoid external financing, as they would rather maintain slow growth but make a strong, sustainable business than overspend for high growth and high risk.

These seem to be aligned with the mind-set of respondents, who would rather limit their risk by bootstrapping themselves than take on loans from external financing sources. As one of the respondents declared:

“No growth or slow growth is better than making the future unsure. When loaning money from someone else, that means you need to do as they wanted, and you wake up every day with stress.”

Suweena (32), Education Freelancer

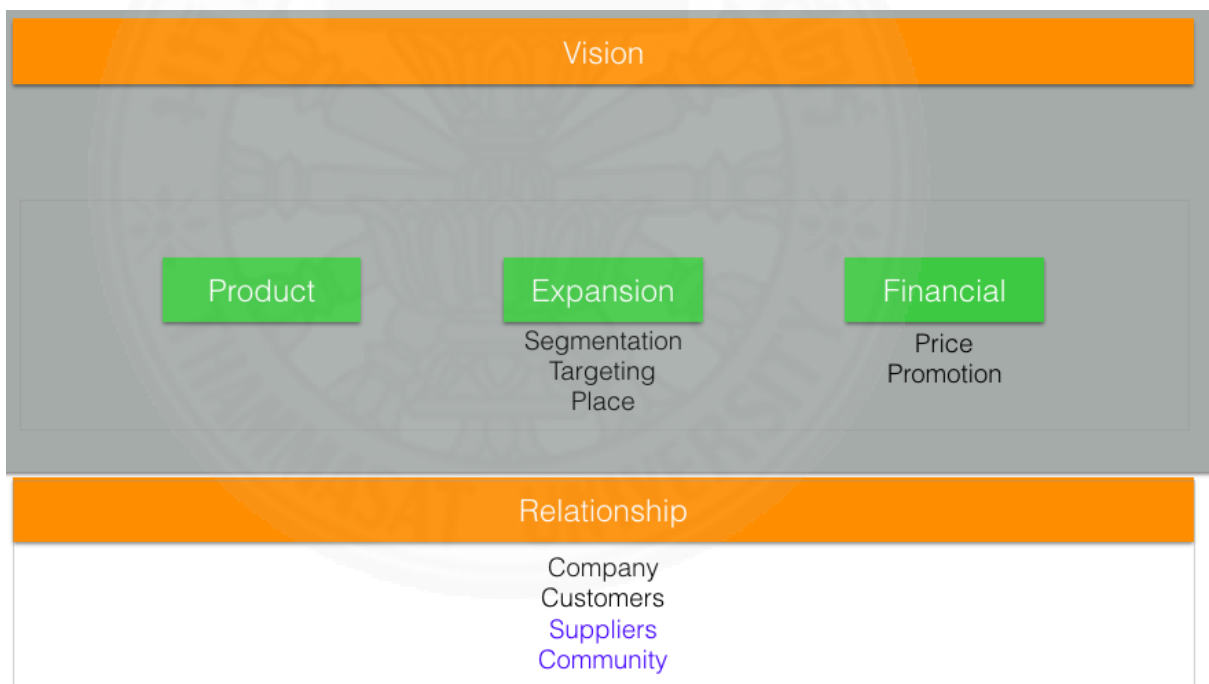
Furthermore, all of the respondents said that the starting point of the business is to make the money to support their family. They hope that the business can pass from generation to generation. The respondents welcome the new ideas to help them create sustainable businesses.

## CHAPTER 5

### RECOMMENDATION AND CONCLUSION

In conclusion, the success of Mittelstand comes from creating value and delivering to the customer by creating a unique market positioning by using the following key factors:

- Vision of the owner aiming for sustainability
- Focussing in their product to achieve high quality and innovation
- Expansion to potential markets around the world
- Financially strong by not creating a price war within the market



**Figure 10: The grey area shows the key factors to create the unique positioning of Mittelstand firms**

Moreover, these Mittelstand firms have become a core of Germany's economy as it offers employment in the community that accounts for 73% of Germany's employment and contributes 53% of Germany's GDP.

There are many similarities and differences from Mittelstand to Thailand's entrepreneurs. The key for making the business sustainable is the Vision of the entrepreneur running the company; they have to aim for sustainable business by creating value to the people in the company and supply chain.

The follow recommendation will be drawn based on the key success factors that make the Mittelstand firms able to be competitive in the long run and with regard to the insights found from the respondents, though Thai SMEs may lack the ability to create that positioning. In addition, the recommendation also considers the culture and business norms in Thailand.

## 5.1 Recommendations

One insight that makes the company sustainable is the competitive positioning, which is difficult to obtain, and most of the Thai's SME cannot easily find it. The process of creating the positioning must include:

- Knowing the market (Segmentation)

What in the market—including the different needs of the customers, the trend of the economy, the trend of the market, etc.—may require the type of the business that a company offers?

- Knowing who to serve (Target)

Who are the most suitable customers that will create value for the company? By knowing the segmentation in the market, companies can give priority to serving their target group. This is one of the most important steps in the process, and it needs to be justified without bias.

- Creating values for the customers (Positioning)

Serving value to the chosen customers by defining which values a company can provide will result in the best outcome for both customers and company. This positioning will also reflect the competitiveness of the firm.

The explanation above shows the basic process of creating positioning for the company. Creating sustainable, competitive positioning also requires other factors, as discussed below.

### **5.1.1 Focussing on the product**

Knowing the best of their product, and even knowing the product of the competitors, helps the firm better understand how to develop the product and may be the difference that allows the firm to achieve sustainable competitiveness.

Most of the Thai SMEs know and love their products, but they are undermining the product life cycle, so the product will eventually die in the future. Consequently, the company cannot stay competitive, and they are losing their ground to the competitors.

To overcome the problems, Mittelstand suggests constant innovation for their products and finding the right product for the future. Do not undervalue your product, as creating the product to serve the niche market can be sustained in the long run and can expand around the world.

When serving the niche market, another principle that should be held fast to not compromising on the quality of the product. Niche market customers are ready to pay more but need the best of the product.

### **5.1.2 Relationship**

From the insight found from the fifteen respondents, Thai entrepreneurs understand and act on the value of creating relationship in the value chains, including suppliers, customers, and people in the company. This is in accordance with the Mittelstand practice that relationships are one of the factors that make the company sustainable.

However, Thailand's companies are failing to create the relationship with the local community, as the relationship with the community will not only create the sense of belonging to the people in the community but also help the company achieve sustainable business with the help of the community. For example, supporting the community by offering a scholarship or internship to the people in the community will eventually secure the workforce for the future.

Furthermore, relationships within the company need to be reinforced, as half of the respondents thought about the relationship within the company but did not execute it yet.

The challenge to create a good relationship within company is the company structure. As the company grows bigger, hierarchy is unavoidable in the company. Hence, the spacing between the people in the company will happen. To overcome this challenge, reducing the space between people in the company by using constantly communication within the team might be the answer.

One of the insights found from the respondent is that communication is playing the key role for creating strong relationships within the company, not only within the managerial level but also down to the employee level.

### **5.1.3 Expansion**

Thai companies want to expand globally, but they are not actively finding such opportunities. Once a company has run for a period of time, the company eventually struggles to grow. With the choice of staying local in Thailand only, the total market will not be expanded as the company wishes, so finding another market is an alternative solution to grow sustainably.

One of the keys to expand to others countries successfully is a strong team which can be fulfilled by a partnership with a local company that provides an insight into the local market. This will make going overseas more likely to succeed.

### **5.1.4 Financial**

For this aspect, the researcher found a similarity between Mittelstand firm and Thai SMEs: both would rather self-finance than seek external financing.

However, companies which are still in the beginning stage sometimes need external financing, as found from the in-depth interview. The researcher suggests that the companies assess their risk by using financial modelling and limit their risk to the acceptable level. The research does not suggest the company ignore external financing options, since the benefits after seeking external financing may exceed the risks.

## **5.2 Limitation of study**

### **5.2.1 Understand more from the Mittelstand**

Since the researcher is based in Thailand, conducting primary research from the Mittelstand firms was not feasible. Therefore, only secondary research has been conducted to get the Mittelstand data.

### **5.2.2 Time**

This research was limited to be conducted over the course of five months. To shorten the overall process to fit within this timeframe, the report only reflects qualitative research.

### **5.2.3 Type of business**

From the research, it has been found that some types of business may not feasibly make it long-term. For example, Fast-Moving Consumer Goods, that cannot adapt themselves to serve the market needs.

## **5.3 Further studies**

### **5.3.1 Primary research on Mittelstand company**

To get the insight and how the Mittelstand works, researching directly is more valuable, as some of the aspects cannot be found from the secondary resources.

### **5.3.2 Quantitative research on Thailand's SMEs**

The quantitative research is suggested to be done in the future, based on the qualitative research that has been done. As a result, the recommendations from this research can be strengthened by using statistical quantitative techniques.



## BIBLIOGRAPHY

- Bühlmann, P. (2015, January 13). 10 lessons for UK mid-market from the Mittelstand. *Strategies for Growth*. Retrieved October 28, 2016, from <http://www.strategiesforgrowth.com/optimize/10-things-the-mittelstand-could-teach-mid-sized-uk-businesses/>
- Blackstone, B., & Fuhrmans, V. (2011, June 21). The engines of growth. *The Wall Street Journal*. Retrieved October 8, 2016, from <http://www.wsj.com/articles/SB10001424052748703509104576329643153915516>
- Frangoul, A. (2014, October 27). Meet 'the Mittelstand'. *CNBC*. Retrieved October 27, 2016, from <http://www.cnbc.com/2014/10/24/meet-the-mittelstand.html>
- Girotra, K., & Netessine, S. (2013, February 13). Extreme focus and the success of Germany's Mittelstand. *Harvard Business Review*. Retrieved October 8, 2016, from <https://hbr.org/2013/02/good-old-focused-strategy>
- Kirchfeld, A., & Randow, J. (2010, October 1). Germany's Mittelstand still thrives. *Bloomberg*. Retrieved October 8, 2016, from <http://www.bloomberg.com/news/articles/2010-09-30/germanys-mittelstand-still-thrivesbusinessweek-business-news-stock-market-and-financial-advice>
- Kotler, P., & Keller, K. L. (2012). *Marketing Management*. London: Pearson.
- Lehnfeld, M. (2013). *Mittelstand in Germany: well-financed, innovative, export-oriented*. Gesellschaft für Außenwirtschaft und Standortmarketing mbH Headquarters. Berlin: Germany Trade and Invest.
- Limsamarnphun, N. (2016, January 18). SMEs hold key to economic future. *The Nation*. Retrieved November 28, 2016, from <http://www.nationmultimedia.com/news/business/macroeconomics/30277081>
- Srimalee, S. (2016, January 18). SMEs hold key to economic future. *The Nation*. Retrieved October 8, 2016, from <http://www.nationmultimedia.com/business/SMEs-hold-key-to-economic-future-30277081.html>
- Statistisches Bundesamt. (2016). *National Economy and Environment*. Statistisches Bundesamt. Wiesbaden: Statistisches Bundesamt.

The Economist. (2014, July 12). German lessons. *The Economist*.





**APPENDICES**

## **Appendix A**

### **In-depth interview questions**

1. Company vision, are they aiming for long-term business model? Why?
2. What does the company think will make the company sustainable? Why?
  - a. Are they the specialist about the product? Why? How deep do they think they are?
  - b. Are they ready to adapt themselves to find the new opportunities in the market? Why?
  - c. Are they considering going to the global market? Why?
  - d. Do they value the relationship among the employee in the company? Why?
  - e. Are they considering developing people for the company? Why?
  - f. Are they considering bringing a specialist to help them develop the company? Why?
  - g. Do they value the relationship with their customers? Why?
  - h. Do they value the relationship with their local community? Why?
  - i. Are they considering external financing or prefer self-financing? Why?
  - j. Are they considering building the brand? Why?
  - k. Are they considering building the brand using their local identity or their roots? Why?
3. Are they ready to adapt themselves to try a new business model to achieve sustainability in the business? Why?

**Appendix B**  
**Summary of respondents' profile**

<b>No.</b>	<b>Name</b>	<b>Age</b>	<b>Business</b>
1.	Suweena	32	Education Freelancer
2.	Adon	59	Construction Industry
3.	Salinthip	29	Event Organiser
4.	Sunhaporn	26	Healthy Beverage
5.	Jar	30	Bioplastic
6.	Choke	37	Gaming Industry
7.	Nattakrit	34	Tyre Distributor
8.	Thitirat	27	Confectionary
9.	Varissara	27	Fine Jewellery
10.	Phanurit	27	Fashion Jewellery
11.	Wongsatorn	28	Healthy Beverage
12.	Mahasak	25	Cloud Software Platform
13.	Chattraporn	28	Software House
14.	Sukit	29	Medical Supplier
15.	Phol	40	Men's Apparel

## BIOGRAPHY

Name	Parisak Suppipattanatorn
Date of Birth	3 <sup>rd</sup> September 1986
Education	BEng Computer Systems Engineering The University of Sheffield, United Kingdom
Work Position	Business Development Manager Assistant Managing Director
Work Experiences	Co-Manager 7-Eleven store Head of Operation, Asia Venture Challenge

